The role of business management on the growth of micro and small enterprises (MSES). A case of textile enterprises in eldoret town—kenya

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Abstract

This study was set to determine and analyze the role of business management on the growth of tailoring and dressmaking enterprises in Eldoret town, Kenya. The research was guided by Jovanovic's Learning Effect Model (1982) for enterprise. A stratified random sampling procedure was used to obtain a sample of 130 licensed tailoring and dressmaking enterprises that participated in the study. The sample was selected from those operating both within the Central Business District (CBD) and outside the CBD but within the Eldoret Municipality (OCBD) forming 22% of the target population. Questionnaires, interviews and observation checklists were used in the data collection. The collected data was analyzed descriptively and inferentially using frequency tables, Chi-square tests, simple and multiple linear regression analyses using the Statistical Package for Social Sciences (SPSS), version 17. This study revealed that most of the tailoring and dressmaking enterprises were in disengagement stage either not growing or having a slight growth. This was greatly attributed to poor business management skills that were found to affect their growth significantly. The study recommends that there is need for the Government and other business support organization such as Non-Governmental Organizations (NGOs), large scale garment producers, modeling firms and textile related industrial training institutions to team up and develop training progammes aimed at providing management skills to the owner-manager of tailoring and dressmaking enterprises in Eldoret town. This will improve the managerial efficiency and effectiveness of the owner managers and consequently resulting into growth of their enterprises.

Key words: Entrepreneurship, micro and small enterprise, business management, growth.

1. BACKGROUND TO THE STUDY

The growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of the realization of their economic contribution to Gross Domestic Product (GDP), economic growth and development. Because of the significant role MSEs play in the economic development they are no longer viewed as "stepping stones" to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986). According to OECD (2004), as a contribution to economic growth MSEs are known to contribute to over 55% of GDP and over 65% of total employment in high-income countries. They also account for over 60% of GDP and over 70% of total employment in low-income countries; contribute over 95% of total employment and about 70% of GDP in middle-income countries

There is a growing acceptance that, there exists a link between the growth of an enterprise and the development of the SME sector. For the sector to develop and yield the anticipated economic results, the micro enterprises need to grow to small and medium sized enterprises.

However, despite this notable role, the textile sector in African countries has been declining both in an absolute and a relative sense. The apparel share of manufacturing declined an average of 5.3% per year in African countries over the period from 1981 to 2000. While several explanations have been offered for the overall poor performance of African countries, including poor government policies, poor institutions, high transactions costs, poor infrastructure, uncertainty and poor social capital, it is not immediately apparent that these reasons explain why apparel production has been declining in a relative sense within these countries (Essays, UK., 2013). In Kenya, Introduction of second-hand clothing (mitumba) from early 1980s is seen as a major setback to the growth of textile and dressmaking enterprises.

As more clothing came in through charities and churches it was also given freely to the urban and rural Kenyan poor who could not afford to purchase new garments. But, by the mid-1980's, following high demand for cheap second-hand clothing, donors revised their distribution policy and started to charge for clothing items. It was at this point that it became commercialized and accessible to the whole population and directly affecting the demand for tailored apparels. (Essays, UK., 2013).

A review of the literature shows that micro and small - sized enterprises are often beset by a host of factors that curtail their survival. In the majority of Sub-Saharan African countries, the most notable obstacles to sustained growth and development are lack of access to finance, the acute shortage of entrepreneurial skills, poor infrastructural development and heavy bureaucracy coupled with legislative obstacles (Ndege, 2015). He further observed that although access to finance is critical for the growth and development of small businesses, entrepreneurial skills are equally important.

2 STATEMENT OF THE PROBLEM

The Textile and Clothing (T&C) sector, although a marginal player in the national economy – contributing just 0.6% to GDP and accounting for only 6% of the manufacturing sector – still earns 7% of total export earnings and holds tremendous economic promise. The Kenya Vision 2030 identified the T&C sector as the driver of Kenyan industrialization sector (Hivos, 2015). However, in general the industrial sector is characterized by thousands of Jua Kali micro enterprises on the one hand, and fewer, often foreign owned, large scale manufacturing and processing firms on the other. What are missing are locally owned medium sized industrial enterprises (Fisher, 1999). For instance, the sector currently comprises 192 large foreign owned companies operating in the Export Processing Zones (EPZs) and medium companies and over 75,000 micro and small companies, including fashion designers and tailoring units (Hivos, 2015).

In order for these micro tailoring and dressmaking enterprises together with other SMEs to effectively mobilize the needed resources to develop the economy, provide employment opportunities and also improve the standard of living in the society, they require growth not only numerically but also in terms of size of the firms. Mason et al. (2009) noted that firms with high growth usually have a direct contribution to nation development through the poverty alleviation and provision of employment. Research in the less developed countries has clearly shown that small enterprises both in the formal and informal sectors have failed to evolve into medium sized firms (Ferrand, 2013). There is a great danger of remaining small. According to K'Obonyo (1999) referring to Aldrich and Arsten (1986) enterprises' size and failure are inversely related, with smaller enterprises facing higher risks of failure than larger ones. The majority of them bleed to death: depending on the industry, only 37 – 54% of new firms survive the first year (Podoynitisyna, 2008).

If growth and largeness reduce failure, then there is need for concerted efforts in finding the root cause of stagnation in a bid to helping in the growth of SMEs and in particular tailoring and dressmaking enterprises. This will in turn help in curbing high mortality rate and therefore enhance survival. Bullock *et al* (2004) asserts that if factors that affect growth could be identified, then they might serve as a guide to actions that could reduce the ineffective use of resources and reduce the probability of failure due to internal management problems.

While previous studies undertaken by McCormick et al (2013), Ekanem, 2010 and Nyang'au (1999) among others, were crucial and valid for the establishment of the challenges to growth of MSEs, or causes of their failure, the literature reviewed indicated that there is need to undertake more studies in different sub sectors in various parts of the country to enhance concreteness of these findings. The substantiality of such findings will be attained when the factors that affect growth of each sub sector are identified.

Theoretical framework

The determinants of growth models of MSEs argue that their growth is affected by internal (firm-specific characteristics) and external (industrial-specific or macroeconomic) factors. One of the approaches is the Jovanovic's Learning Effect Model (1982) who asserts that firms learn about their efficiency overtime. New firms entering the market are unaware of their true efficiencies immediately but as they mature, they are able to uncover their productive efficiencies (Staines, 2005). The entrepreneurs are said to learn about their abilities over time by observing how well they perform in a tough business world. During this learning process inefficient firms are forced to exit due to their inability to cope up with competition in the industry. Only the efficient firms do survive and grow. Empirical implication derived by this model is that young firms have accumulated less information than older ones about their managerial abilities. Consequently, younger firms have more variable growth rates than older firms because they have less precise estimates of their true abilities (Papadiki and chami, 2002). For the same reason it follows that there will be more exits among younger firms, but also that among surviving firms, younger firms will grow faster than older firms (ibid).

3. ENTERPRISE MANAGEMENT

A successful manager is one who understands his environment, both internal and external. He or she does not only understand, but is prepared, equipped and ready to handle any turbulence that emanates from the environment. These include competitors, suppliers, customers, government agencies, labour organizations, and financial institutions (Certo and Peter, 1993). To achieve this, they opined that there will be need of preparing a strategic

plan, which will encompass environmental analysis, goal setting, and identification of objectives, strategy formulation, implementation and control.

As a manager, he or she is therefore expected to perform the management roles. The managerial picture that is painted by most of the entrepreneurs or owner-managers of small enterprises is however of great concern as it falls below expected standard (Bullock et al, 2004). Stokes, 1995 postulated what makes management of SMEs difficult is the enormity of the range of issues confronting the owner-managers, which they have to deal with personally. In his multi – functional role as a manager, he/she is in charge of planning and implementation, production, human resource (recruiting and firing of employees), marketing and finances

All these demands his attention simultaneously, and in most cases he/she ends up tackling the most immediate first, which may mean overlooking a less obvious but more significant problem which has a critical impact. Ironically, besides the fact that he/she has to handle issues simultaneously, small enterprises are faced by numerous problems and influence, which according) include small management team, lack of specialized personnel or support functions. (Setsoafia and Aboah, 2015; Stokes, 1995)

4. STUDY DESIGN.

The research design is descriptive in nature and followed a systematic sequence of events. A descriptive study involves the systematic collection and presentation of data to give a clear picture of a particular situation (Varkevisser et al, 1988). It is concerned with describing the characteristics of a particular individual or of a group and generally takes into account all the steps involved in a survey concerning a phenomenon or phenomena to be studied (Kothari, 2003). This design was suitable to the current study since it was an investigation into factors that affect growth of tailoring and dressmaking enterprises in Eldoret town. It also aimed at determining the impact of these factors on the growth of the enterprises.

5. TARGET POPULATION

The target population of this study comprised of tailoring and dressmaking enterprises employing less than 50 employees and operating in Eldoret town. During the time the study was undertaken there were 594 licensed tailoring and dressmaking enterprises operating in Eldoret town. This formed the target population (N=594). Out of the target population of N=594, 286 enterprises were found to be operating in the Central Business District (CBD) while the remaining 308 tailoring and dressmaking businesses were situated outside the CBD but within the municipality.

6. SAMPLE SIZE AND SAMPLING PROCEDURE

Kothari (2003) suggests that as a general rule, the sample should be of an optimum size. It should neither be excessively large nor too small. It should be large enough to reproduce the salient characteristics of the accessible population to acceptable degree but small enough to allow for intensive study method. According to Varkevisser et al (1988) the eventual size is usually a compromise between what is desirable and what is feasible. Feasible sample is determined by the availability of resources: - Time, manpower, transport and money. Kothari (2003) further pointed out that a small sample could be adopted if the population is homogenous, while a larger sample will be required when the population is heterogeneous.

The researcher ensured that the sampling frame used for the study (the list of licensed tailoring and dressmaking enterprises) was complete, hence accurate so that the findings from the study would be generalized beyond the sample or the sampling frame from which the sampling was drawn. A sample of 25% on each stratum was obtained respectively such that 71 enterprises from the CBD and 77 from those outside the CBD but within the municipality were sampled. In total therefore, a sample of 148 enterprises was selected to participate in the study. Stratified sampling method was adopted because it ensured that the proportion of individuals with certain characteristics (within the CBD and outside) in the sample was the same as those in the whole population. A simple random sampling was then used to choose the individual enterprises from each stratum based on random digits obtained from research books.

7. DATA COLLECTION INSTRUMENTS

The researcher used three instruments. These were questionnaires, interviews and observation checklists. The questionnaires were the main instruments of data collection, supported by interviews and observation checklists. The study questionnaires comprised of both structured and unstructured questions. Whereas definite responses were obtained from the structured questions, the unstructured questions allowed the respondents to express themselves and share their views or suggestions on particular issues. The research questionnaires were administered by the researcher himself. The questionnaires were left with the owner-managers of the sampled

enterprises to be collected later. However, some owner-managers preferred the questions read aloud to them and

the researcher to fill the questionnaires on their behalves. This category of owner-managers had the best response during the interview, which was done the same time or later depending on the convenience of the respondent.

The second data collecting method used was interview method. According to Fraenkel & Wallen (2009) and Varkevisser, et al (1988), an interview is a data-collecting technique that involves oral questioning of respondents, either individually or a group. In this study interviews were conducted to the owner-managers of the tailoring and dressmaking enterprises. With the prepared interview schedules the researcher was able to capture the feelings, personal attributes and other underlying issues of the respondents that could not be captured in the questionnaires. The researcher booked for the interviews the same time the questionnaires were being administered and where possible the interviews were scheduled to coincide with the date of collecting the questionnaires.

The third method of data collection used in this study was observation checklist method. Varkevisser, *et al* (1988) defines observation method as a technique that involves systematically selecting, watching and recording behaviour and characteristics of living beings, objects or phenomena. Observation serves as a source of additional or accurate information where some questions were not asked in the questionnaires/interviews or where the respondent forgot or was unwilling to mention certain things (Varkevisser, et al (1988). Guided by the prepared observation checklist, the researcher was able to check off each item in the schedule as it occurred. This was done immediately after the interview session. The researcher was thus able to make independent decision on the type and condition of machines available, books of accounts, current number of employees among other issues.

8. RESEARCH FINDINGS

8.1 Characteristics of Owner Managers of Tailoring and Dressmaking Enterprises

Out of the 130 responses that were received, 76 entrepreneurs accounting for 58.5% were male while 54 were female representing 41.5% of the total respondents. On the attribute of age, the study agreed with most literature that MSE sector was characterized by fairly young entrepreneurs. This study found that entrepreneurs in the tailoring and dressmaking business in Eldoret town had a mean age of 30 years.

The level of formal education of owner manager may affect the growth and performance of the enterprise (McCormick and Pederson, 1996) and especially in terms of Management, productivity and sustainability of the enterprise. This is so because higher level of education is associated with greater verbal communication and comprehension skills, which are important in business decision-making and management. The results show a fairly well educated class of entrepreneurs with most of the respondents (69.2%) having attained secondary school education while 8 entrepreneurs accounting for 6.2% had obtained either college or university education. 24.6% had primary education.

8.2 Hypothesis testing

H_{o:} There is no significant relationship between business management and growth of tailoring and dressmaking enterprise.

It was beyond the scope of a single study like this one to investigate all management problems at all levels and types of owners' management skills (Orser, et. al., 2000). In the context of this study Business management was confined to management training, banking behaviour of owner manager and keeping of books of accounts.

The study begins by having a look into the impact of management training on the growth of the enterprises. Since banking behaviour of an entrepreneur and keeping of financial and transaction records could serve as indicators of management efficiency, their impact on the growth of the enterprises was therefore considered. The three components of business management were analyzed separately. Table 1 gives a descriptive summary of the findings of the impact of business management training on the growth of the enterprises.

Table 1: Business Management Training (BMT) and Growth of Enterprises.

Impact on Growth BMT	Growth	No growth	Total
Trained	39 (88.6%)	5 (11.4%)	44
Not trained	30(34.9%)	56(65.1%)	86
Total	69	61	130

All those who had undergone some business management training save for only 5 had the number of their employees increased in the last three years. In other words, about 89% of the total number trained registered some growth. The relationship between management training and growth of the enterprises was evidenced by the Chisquare results, which yielded a value of 34.238 at 2 degree of freedom and a significance of p < 0.05. The null

hypothesis was hence rejected at level of significance of 0.05 signifying that the results did not support the null hypothesis. It was therefore concluded that business management training caused growth of enterprises. Similarly, those who practiced some business management practices such as keeping books of accounts or banking, even if they had no prior management training, recorded some growth. For instance, 76.2% of those who keep books of accounts and 77.4% of those who do some banking similarly registered growth as shown below in tables 2 and 3. Table 4 further indicates that the higher the degree of banking the lower the failure rate of the enterprises. For instance only 30.9% of those who did not do banking grew while 100% of those who banked always registered growth. Tables 2 and 3 give a summary of the findings on how keeping of books of accounts and banking behaviour of the Owner managers impacted on the growth of the enterprises.

Table 2: Association of Keeping Books of Accounts (KBA) and Growth of Enterprises.

Impact on Growth	Grow	No growth	Total
Do not keep	16 (18.2%)	72(81.8%)	88
Do keep	32(76.2%)	10(23.8%)	42
Total	48	82	130

Chi-square Degree of freedom Significance $\chi^2 = 29.589$ df = 2 p = 0.00

Table 3: Banking Behaviour (BBO) and Growth of Enterprises.

Impact on Growth	Grow	No growth	Total		
No banking	21 (30.9%)	47(69.1%)	68		
Moderate banking	30(71.4%)	12(28.6%)	42		
Regular banking	8(80%)	2(20%)	10		
Always	10(100%)	0	10		
Total	69	61	130		

Chi-square Degree of freedom Significance $\chi^2 = 40.040$ df = 6 p = 0.00

The Chi - square test for keeping books of accounts yielded a value of 29.589 at 2 degrees of freedom and a significance level of p < 0.05 while that of banking behaviour of the owner-managers yielded a value of 40.04 at 6 degrees of freedom and a significance level of p < 0.05. In both cases the results led to the rejection of the null hypotheses at the level of significance of 0.05 and hence concluding that there exists a significant relationship between the two variables and the growth of enterprises. This hypothesis was further explored by conducting a multiple linear regression analysis. In this regard, the Pearson's correlation coefficient between the dependant variable (Number of employees added) and the banking behaviour of the Owner manager, use of books of accounts and management training was 0.492, 0.451 and 0.481 respectively. This was significant at p < 0.05, indicating further that the hypothesis that the correlation was 0 (no linear relation between the variables) was rejected. The beta weight values were 0.288, 0.228 and 0.393 respectively. From this result there is evidence that the three attributes of business management as indicators of enterprise growth positively accounted for the growth of the enterprises.

9. DISCUSSION OF FINDINGS ON RELATIONSHIP BETWEEN BUSINESS MANAGEMENT AND GROWTH OF TAILORING AND DRESSMAKING ENTERPRISE

Consistent with other studies on SMEs growth, the growth of tailoring and dressmaking enterprises in Eldoret town was found to be minimal and in most cases none. Business training with its related practices was found to affect the growth of the enterprises positively. The questionnaires provided three measures of managerial abilities. The first was more direct and was whether the entrepreneurs had undergone any managerial training. The second and third measures were based on managerial practices thus: whether the owner manager does banking and whether he/she keeps books of accounts. The results were consistent with the previous literature (Orser, et al, 2000; SIEID, 2004), in that, most of the entrepreneurs who did either one or more of the business management measures, registered at least some degree of growth. It is encouraging to learn that although most of the entrepreneurs had not attained any formal training in management matters, a number had developed some managerial skills while in business and this had seen them grow however marginal.

The results further indicated that the management factors influenced the growth of tailoring and dressmaking enterprises. Chi-square tests at 0.05 level of significance validated these results. Management training yielded a χ^2

value of 34.238 at 2 degrees of freedom and had a significance of P < 0.05 while banking behaviour and keeping of books of accounts respectively yielded $\chi^2 = 29.589$, df = 2, p < 0.05 and $\chi^2 = 40.04$, df = 6 and p < 0.05. This implied that business management was an important determinant of the growth of enterprises. Subsequently, minimum amount of management acumen needs to be attained for an enterprise to move beyond each growth stage threshold.

Therefore, this comes out as an appeal to the relevant authorities charged with the development of SMEs, to organize on how management skills, however basic but practically oriented, could be passed on to existing entrepreneurs and especially those in the tailoring and dressmaking enterprises.

10. CONCLUSION

This study has clearly revealed the characteristics of the tailoring and dressmaking entrepreneurs as well as those of their enterprises. It is also in agreement with Ondiege and Dondo (1999), among others on the area of the factors that determine growth SMEs. Using several growth indices such as sales, employment, profit, business savings and labour productivity, Ondiege and Dondo (1999) found that the most significant factors were management, marketing and entrepreneurial attributes/personality in that order of dominance. The current further reveals that most of the tailoring and dressmaking enterprises experienced minimal or no growth despite their potential of being a crucial tool with which to reduce poverty and create employment. A majority of the enterprises were found to be still at start-up stage, due to management problems among other factors and to others as a dictation of the lifestyle of the entrepreneur.

11. RECOMMENDATIONS

In line with the findings and conclusion of the study, the following recommendations should be considered, as a precursor to improving the tailoring and dressmaking enterprises in Eldoret town and by extension all micro enterprises:

- 1. The Kenya Government in conjunction with other large scale garment producers, modeling firms and other training institutions should work out training programs in favour of micro sized tailoring and dressmaking enterprises. The training programs could incorporate short term courses on tailoring and dressmaking or refresher courses/workshops on issues such designing, marketing, managerial issues and customer care. Similar suggestions had been raised elsewhere (Wambugu, 2002). In so doing the government and those concerned should aim at equipping the entrepreneurs with managerial skills as well as technical skills so as to enhance the quality and quantity of their products
- 2. There is need to revive the village polytechnics and other tertiary institutions so that many school leavers and others could easily acquire some technical training in various disciplines including tailoring and dressmaking. This will also give room for in-service training for those on the job and allow training in new skills, creativity and innovation development.

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