

Factors Affecting Growth of Women Owned Small and Medium Enterprises in Kenya: A Survey of Women-Led SMEs in South Coast Ukunda

Caroline Wairimu Kamunyu¹ Dr. Fridah Simba Theuri²

¹(Human Resource Development Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya)

²(Human Resource Development Jomo Kenyatta University of Agriculture and Technology (JKUAT), Kenya)

Abstract: *Small and Micro Enterprises (SMEs) play a vital role in economic development, and in Kenya, women-owned businesses account for over 48% of them all. The purpose of the study was to establish factors affecting growth of women-owned SMEs. Four affecting factors were considered; financing option, owners' entrepreneur skills, working capital management and government regulations. Descriptive survey was adopted and the target population was 708 managers of registered women owned SMEs in Ukunda, Kwale County. A sample of 45 respondents was acquired through stratified sampling technique. The data collected was analyzed to provide both descriptive and inferential statistics with the aid of SPSS Version 21. The results indicated that inadequate capital, lack of business skills and lack of access to credit facilities were the main factors affecting the growth of women owned SMEs as well as. The study concluded that financing options and owners' entrepreneur skills had a positive influence on growth of women led SMEs. The study recommended that commercial and social lenders and even government institutions funding SMEs should comprehensively train the owners and managers before providing loans. For further research, the study recommended that studies should be conducted on the micro and macro environment factors affecting SMEs.*

Key Words: *Entrepreneurship, Entrepreneur, Growth, Small and medium enterprises.*

I. Introduction

The definition, conceptualizing and composition of what SME is in different countries are a fluid concept which attracts a variety of ideas. The definition varies from one country to another. In Europe, they are considered as institutions which have a workforce of less than 250 employees and the United States define them with employees less than 500 (Natarajan & Wyrick, 2011). In Kenya, SMEs are defined in many ways. For example, a national baseline research by MSEs conducted in 1999 revealed that a small enterprise is defined through employment of 6-10 people, and a medium enterprise has 11-100 employees (CBS et al., 1999). Nonetheless, it is clear that SMEs are defined as small businesses all over the world.

The role of Small and Medium Enterprises in the development of an economy and contribution to wealth generation and taxes cannot be gainsaid, both in developing as well as in developed countries (Tambunan, 2008). In developing countries, the role of SMEs is considered crucial as they have the potential to improve income distribution, reduce poverty, create employment, and grow their exports. Besides, it leads to the development of entrepreneurship, industries and the rural economy. While the number of SME's is growing on the continent, the environment where they are nurtured varies greatly. Government's policy towards SMEs is one important factor to take into consideration when looking at the barriers hindering growth of SMEs. In some countries, Governments have created barriers to SME development in the form of excessive regulation and red-tape. According to The World Bank Doing Business Report 2012, Chad was named the most difficult sub-Saharan African country to operate and make profit, (Agbim, 2013). However, while countries like Chad and Eritrea face high levels of regulatory and institutional barriers hindering growth and development of SMEs, others like Mauritius, Ghana, South Africa, Botswana, Rwanda and Tanzania have made significant improvements to easing the cost of doing business.

Although the importance of SMEs has been globally acclaimed, scholars and organizations have also been apt in capturing the constraints to their growth. Orser (2000) noted that unavailability or lack of information concerning the alternative sources of finances as well as the inability of SMEs to evaluate their financing options were some of the major challenges facing entrepreneurs. A study by Mugo (2012) to investigate factors affecting women entrepreneurs' performance in Central Business District (CBD) of the city of Nairobi. The study identified the factors affecting performance of women entrepreneurs as, lack of entrepreneurial training and education, outdated technology on women, poor access to markets, mismanagement of resources by women, lack of management skills and fraud. The study identified finance as the major impediment affecting performance of women entrepreneurs. Kinyua (2014), researched on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya and the findings

indicated that access to finance had the potential to positively affect performance of SMEs, management skills positively and significantly affect performance of SMEs, macro environment factors significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. The study results also indicated that as number of years in operations increased the performance of SMEs.

The focus of women role in developing the country has evolved over a long period of time. In the past women have been viewed as home makers who have no control of resources and dependence. Kenya has so far made milestones with many reforms having been made to see that women actively take up roles in the society that were previously viewed as male dominated. One of the milestones is Kenya's Vision 2030 and the New Constitution enacted in 2010 has spelled out clearly the role of women. According to Mbogo (2011), women in the sector face a number of serious obstacles. Among these are: gender-blind or gender-insensitive macroeconomic policies, complex tax policies and compliance procedures, gender-based inequalities in employment policies and regulations, complex business registration and licensing procedures for the smallest micro-enterprises (where the majority of women are found), lack of cultural acceptance for the role of entrepreneurship for women, limited access to appropriate business premises, limited access to BDS (business development services), lack of collateral due to property ownership practices, lack of access to term loans and sufficient working capital to meet their needs (the gap between the micro-finance ceiling, and the minimum loan requirements of banks); and the limited organizational and management capacity among women's advocacy groups s, (Adigwe,2012).

The challenges of poor management of SMEs, lack of capital, a dearth of management skills and general lack of collective and mainstreamed growth path of the SMEs has attracted the intervention of the government through policies and establishment of revolving funds like Youth Enterprise Development Fund and Women Enterprise Development Fund. The government involvements to aid the SMEs also include policy interventions in the public procurement process to allot the Youth and women who run SMEs 30% of public tenders and cushion them from the constrains to benefiting from public tendering like bureaucracy and convoluted administrative issues in tendering, e-procurement systems, technical cancellation of tenders and exclusive contract conditions (Kihimbo, et al., 2012). Entrepreneurship training has been found to be a major determinant in the growth of enterprises. The development of these enterprises has been blamed on the entrepreneurs' lack of the entrepreneurship skills to steer their business to growth. Limited studies have been done on entrepreneurship training and development in Kenya.

However, there has been limited appraisal of the effectiveness of these interventions on the actual performance of women led SMEs with existing literature still painting a grim picture of the state of the SMEs in Kenya. This study was to fill this research gap by establishing the factors affecting the growth of women owned SMEs by assessing the situation in Ukunda. Ukundais a coastal town in the southern part of Mombasa mainly inhabited by the Mijikenda (the nine tribes) from the coast of Kenya. It paves way into Diani Beach a major tourist attraction. It is located in Kwale County, Coast Province, adjacent and to the immediate west of Diani Beach, along the Indian Ocean, close to the International border with the Republic of Tanzania. It is located approximately 32 kilometres (20 miles), by road, south of the port city of Mombasa, the nearest large urban area

Objectives

The general objective of the study was to determine the factors affecting growth of women owned Small Medium Enterprises in south coast Ukunda, Kenya

- i. To determine effects of financing option on growth of women owned Small Medium Enterprises in South Coast Ukunda.
- ii. To establish effects of owners entrepreneur skills on women owned Small Medium Enterprises in South Coast Ukunda.
- iii. To establish the effect of working capital management practices on growth of women owned Small Medium Enterprises in South Coast Ukunda
- iv. To assess existing government regulations on growth of women owned Small Medium Enterprises in South Coast Ukunda.

II. Literature Review

2.1 Theoretical framework

Theories guiding the study include: Financing-advantage theory of trade credit based on the availability of credit and the Biological Theory of Entrepreneurship founded on entrepreneurs decision-making on business financing, investment and growth. Both theories focus on financing and management practices of an enterprise. They relate to how women make financial decisions on sources of finance, and the latter further delves into the skills level of women to make financial decisions for the development and growth of their businesses. Powell and Ansic (1997) studied business decision-making and their research suggested that women prefer lower riskier ventures than men, especially in financial contexts. Women are also less likely to apply for a loan and are more likely to use personal assets to finance the enterprise or as collateral (Van Auken, 1999). In

Kenya women are also more comfortable with the merry-go-round funding and micro-financing as opposed to borrowing from commercial banks as this is perceived to be less risky. They might not explore other means of financing which may be more suitable for their businesses.

2.2 Growth of women owned SMEs

Zolin, Stuetzer and Watson (2013) argue that although there is a lack of official data, available statistics show the importance of SMEs is on the rise in most economies, and worldwide we can observe an increase in women owned enterprises, although there are great geographical differences. Overall, most studies of the influence of gender on business performance and growth from western economies conclude that women-owned businesses perform less well. It also appears that under-resourcing at start-up contributes to this situation. Women tend to have fewer resources to start up business, which is manifested in personal savings being less available; women are investing less in their businesses; women often also appear less successful in the achievement of their business goals, in business performance and growth (Marlow & McAdam, 2013).

2.3 Financing Options

Thompson Jones-Evans and Kwong (2010) reported that SMEs rely primarily on personal savings of owners, and sometimes business profits, if any, for their financial needs. They have little or no access to formal external credit. Traditional financial institutions regard SMEs as high risk and high default rate businesses. As a result, the financial needs of SMEs are not considered in the lending policy formulation of banks and most of them are denied access to financial assistance from traditional financial institutions. A study done by Kihimbo, et al (2012) affirmed the significant of formal financial source to the business operations. The study concluded that there is nexus between sources of finance and business' performance and from the overall coefficient regression results, it shows that formal source of finance is the most significant independent variables that is enhancing SMEs' performance in Ado-Ekiti metropolis.

Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, obtaining sufficient finance to sustain business growth is another problem. Studies undertaken by Mbugua (2014) on factors affecting the performance of small and micro enterprises in Limuru town market of Kiambu confirm access to finance and availability of management experience are the key socio-economic factors affecting the performance of businesses in Limuru Town Market. The problem related to finance includes lack of information on where to source finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs.

2.4 Owners Entrepreneur Skills

Marlow and McAdam (2013) posits that education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Studies suggest that those with more education and training are more likely to be successful in the SME sector (Thompson et al., 2010). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management.

Mahmoud (2011) study on market orientation and business performance among SMEs in Ghana articulated that there is a significant and strong relationship between managerial skills and involvement in business. Managerial skills have major effect in enhancing the involvement of entrepreneurship in Malaysia. The study of Kamunge, Njeru and Tirimba (2014) found out that availability of managerial skills and experience affects businesses to a great extent while the respondents felt that training on managerial skills are required in the businesses to a great extent.

However, Mwania, (2011) study on the effect of Biashara Boresha Loan (BBL) on Performance of Micro and Small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch customers found out that besides BBL, there are other factors believed to have an effect on business performance. The results showed no conclusive results on the relationship between entrepreneurs' level of education and business performance. Of the 51% respondents who received training in their areas of business, 49.5% reported that their businesses were performing well, showing that the appropriate training can produce positive results in the performance of businesses.

2.5 Working Capital Management Practices

According to Kinyua (2014), Working Capital Management (WCM) is a fundamental part of any firm's overall corporate strategy to create value, to ensure financial health and provide competitive advantage. WCM is also vital for the success and survival of businesses and for enhanced performance and contribution to economic growth. In this sense, it is possible to regard working capital as the lifeblood of a firm. The goal of

WCM therefore, is to ensure that the firm is able to continue in its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

Mugo (2012) concluded that corporate firms need proper management of cash so that they possess enough money for carrying out transactions. To him, cash transactions sometimes enable the firm to enjoy cash discounts which automatically increases the Cash flow of the firm during the financial year. Therefore for easy transactions proper cash management should be maintained in these firms. Poor management of operational costs can reduce Cash flow since a large proportion of funds are tied up in current assets. However, the results could also be positive.

2.6 Government Regulatory framework.

Kenyan women running SMEs can be enabled to grow their businesses through formalization of their businesses through registration which is a key step. According to Kazemy et al (2011), registration seems to be an epoch in the life-cycle of informal firms and is crucial for firm graduation. There are two forms of business registration in Kenya; in addition to the complex business-licensing businesses also need to be registered under either the Registration of Business Names Act² or the Companies Act.³

Although the registration fee is relatively modest, the requirement to personally attend to the process, which can take several days, means that the process is cumbersome, bureaucratic, and costly, especially for small businesses. It is even more likely to be a burden for women, with their multiple responsibilities. Findings in the study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of SMEs. Unpredictable government policies coupled with 'grand corruption,' high taxation rates all continue to pose great threat, not only to the sustainability of SMES but also to the Kenyan economy. The Kenyan government has already taken the driver's seat in championing SME sector as key to shaping the Kenyan's vision 2030.

2.7 Study Gap

A lot of research has been carried out locally and internationally reviewing small and micro enterprises. Most of these research concentrate on businesses in the cities and urban centres. They also concentrate on their study areas based on their own objectives. There is scarcity of literature touching on the women traders. Therefore, the study built on the local literature on factors that affect growth of women owned small and medium traders. Similar studies have focused on the challenges faced by women SME traders but this study concentrated on what affects their growth. This study concentrated mainly on the factors that affecting the growth of women owned small and medium enterprise in South Coast Ukunda.

III. Methodology

The study adopted the descriptive survey design and targeted 708 managers of women owned SMEs, who have a running enterprise that is more than a year old, regardless of the number of employees as long as it is located in South Coast, Ukunda. South Coast. Data was collected from a sample of 71 respondents being 10% of the total population.

IV. Research Findings and Discussion

The data was collected through a questionnaire administered to of women owned enterprises in South Coast, Ukunda. A total of 70 questionnaires were successfully completed out of a sample size of 71 drawn. This represents a commendable response rate of 98.6%.

To establish the degree of influence of the various indicators of growth of women owned small and medium enterprises in Kenya, regression analyses were conducted among the variables, with the assumption that: variables are normally distributed to avoid distortion of associations and significance tests, which was achieved as outliers were not identified; a linear relationship between the independent and dependent variables for accuracy of estimation, which was achieved as the standardized coefficients were used in interpretation.

The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where: Growth of Women owned SME's = Constant + Financing option+ Entrepreneur skills + Capital management practices+ Government regulations +Error term.

Ordinal regression was carried out to test the relationship on influencing factors to citizen participation in financial management at county government. Ordinal regression was used because all the variables were categorical variables. The results of the regression analysis are presented in the table 4.15. Before the main analysis, data was subjected to a thorough screening procedure where key diagnostic tests were also conducted in order to assure that the data sets met the general assumptions for conducting the regression analysis, a key analytical model that the study sought to develop. The results of the normality test indicated that the data was normal since the significance was greater than 0.05.

Table 4. 1 Test of Normality

Kolmogorov-Smirnov			Shapiro-wilk test		
Statistic	Df	Sig.	Statistic	df	sig.
0.377	64	0.061	0.867	64	0.072

Table 4. 2 Model Fit Results

Model Fitting Information				
Model	2 Log Likelihood	Chi-Square	f	Sig.
Intercept Only	133.355			
Final	87.360	44.334	11	0.0377

Table 4. 3 Results of the R²

Model	R	R Square	Adjusted Square	R	Standard Error of Estimates	Durbin- Watson
1	.928 ^a	.674	.633		.1026780	2.285

a. Predictors: (Constant), b. Dependent Variable: curbing non-performing loans

R Square, also called the Coefficient of Determination stands at 0.674 as stipulated in table 4.13 above. This implies that 67.4% of the variation in growth of Women owned SME's (the dependent variable) is explained by variability in the independent variables i.e. financing option, Entrepreneur skills, Capital management practices and Government regulations. To this effect, only 32.6% of the variation in the growth of women owned SME's is explained by other variables not included in the model. Therefore, guided by Seber & Lee (2012), it was concluded that at least one of the variables under assessment were useful predictors of growth of women owned SME's.

Regression analyses produced the coefficients of determination and Analysis Of Variance (ANOVA). Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables. The ANOVA was conducted at 95 percent confidence level. According to Katz (2006) Regression analysis generates an equation to describe the statistical relationship between one or more predictor variables and the response variable.

Table 4. 4 Anova Test Results
ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	15.639	2	3.910	14.060	.000 ^b
Residual	13.324	50	.278		
Total	28.962	52			

a. Dependent Variable: Growth of Women owned SME's

Table 4.5 Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.237	2.536		1.276	.207
1. financing option	.364	.164	.235	2.225	.030
owners entrepreneur skills	.311	.082	.606	3.806	.031
working capital management practices	.102	.137	-.142	-.741	.462
government regulations	.253	.092	.337	2.747	.139

a. Dependent Variable: Growth of Women owned SME's

The P-value of 0.000 implies that the completion duration of road construction projects has a significant joint relationship with, financing option, owners entrepreneur skills, working capital management practices and government regulations factors which is significant at 95 percent confidence level. This implies that the regression model is significant and can thus be used to assess the association between the dependent and independent variables. The regression coefficients further reveal both positive and negative associations between the Growth of Women owned SME's and the predictor variables. It was further revealed that both working capital management practices and government regulations factors do not significantly influence Growth of Women owned SME's, based on the levels of significance both at 0.462 and 0.139 confidence intervals, and were thus dropped from the model.

The established regression equation was thus:

Growth of Women owned SME's = $3.237 + 0.364$ (Finance options) + 0.311 (owners entrepreneur skills) + 2.536
The other two factors were left out as they had a significant value greater than 0.05. A unit change in Finance would thus lead to a 0.364 increase in Growth of Women owned SME's ceteris paribus and a unit change in owners entrepreneur skills would lead to a 0.311 increase in Growth of Women owned SME's ceteris paribus.

V. Conclusion

Given the findings of the study financing options and owners' entrepreneur skills had a positive influence on growth of women owned SMEs. Though most of the women regularly seek credit facilities from banks, Saccos, shylocks and government funds, they greatly relied on personal savings as capital. Further, working capital management practices and government regulations did not have a significantly positive influence on growth of women owned SMEs in South Coast Ukunda.

VI. Recommendations

Based on the study findings, it is recommended that commercial and social lenders and even government institutions funding women owned SMEs should comprehensively train them before providing loans. Also the government affirmative action on 30% of tenders to youth and women should be accompanied by comprehensive training on government regulations and business skills. Importantly, the study found out that the government levies and rates do not consider the capitalization levels and harms the small ones and thus it should base the fees on levels of capitalization. Lending to women owned SMEs should also be regulated according to sector of operations and owners to avoid exploitations of women owned SMEs by lenders. A centralized body should regulate and accredit women owned SMEs on counties depending on their performance to ease access to credit for women owned SMEs.

VII. Recommendations for Further Studies

The study proposes the following areas for further studies on women owned SMEs.

- i. Studies should be conducted on the micro and macro environment factors affecting women owned SMEs.
- ii. Studies should be done on effects of specific skills on success of women owned SMEs like inventory management practices.
- iii. Comprehensive studies should be done on aspects that inform the cost of doing business for women owned SMEs across Kenya.

References

- [1]. Natarajan, G.S. & Wyrick, D.A. (2011) *Framework for implementing sustainable practices in SMEs in the United States*. Proceedings of the World Congress on Engineering, 1.
- [2]. Tambunan, Tulus. (2008) SME development, economic growth, and government intervention in a developing country: The Indonesian story, *J In tEntrepr* 6: 147–167
- [3]. Orser, B. J., Hogarth-Scott, S. and Riding, A.L., (2000). "Performance, firms size and Management problem solving (x)". *Journal of small Business Management* 38.4 (2000)
- [4]. Mugo, W. L., (2012) *Factors Affecting Entrepreneurs' Performance in Kenya: A Case of Nairobi Women Groups in the Central Business District*, University of Nairobi, 2012
- [5]. Kinyua, A. N., (2014). *Factors Affecting the Performance of Small and Medium Enterprises in the Jua Kali Sector In Nakuru Town, Kenya*. Egerton University Nakuru.
- [6]. Mbogo, M. (2011). Influence of Managerial Accounting Skills on SME's on the Success and Growth of Small and Medium Enterprises in Kenya. *Journal of Language, Technology and Entrepreneurship in Africa*, 3(1). 15
- [7]. Adigwe, P.K. (2012). Project Finance for Small and Medium Scale Enterprises (SMEs) in Nigeria. *An International Multidisciplinary Journal Ethiopia*, 6(1), 91-100
- [8]. Kihimbo, B. W., Ayako B. A., Omoka, K. W. & Otuya, W.L. (2012). Financing of Small and Medium Enterprises (Smes) in Kenya: A Study Of Selected SMES in Kakamega Municipality. *International Journal of Current Research*, 4(04), 303-309.
- [9]. Powell M and D Ansic (1997) Gender differences in risk behaviour in financial decision-making: An experimental analysis. *Journal of Economic Psychology* 18(6): 605–628.
- [10]. Van Auken, H. (1999). Obstacles to business launch. *Journal of Developmental Entrepreneurship*, 4(2), 175-187.
- [11]. Zolin R, Stuetzer M and Watson J (2013) Challenging the female underperformance hypothesis. *International Journal of Gender and Entrepreneurship* 5: 116–129.
- [12]. Marlow, S., and McAdam, M. (2013) Gender and entrepreneurship: Advancing debate and challenging myths; exploring the mystery of the under-performing female entrepreneur. *International Journal of Entrepreneurial Behaviour & Research* 19: 114–124.
- [13]. Thompson P, Jones-Evans D and Kwong CCY (2010) Education and entrepreneurial activity: A comparison of White and South Asian men. *International Small Business Journal* 28: 147–162.
- [14]. Kinyua, A. N., (2014). *Factors Affecting the Performance of Small and Medium Enterprises in the Jua Kali Sector In Nakuru Town, Kenya*. Egerton University Nakuru.
- [15]. Mahmoud, M.A. (2011). Market orientation and business performance among SMEs in Ghana. *International Business Research*, 4(1), 241-251.
- [16]. Kamunge, M.B., Njeru, A Tirimba O.I., (2014) Factors Affecting the Performance of Small and Micro Enterprises in Limuru Town Market of Kiambu County, Kenya *International Journal of Scientific and Research Publications*, Volume 4, Issue 12 SSN 2250-3153
- [17]. Mwanja, M. (2011). *The effect of BiasharaBoresha Loan on Performance of Micro and Small enterprises owned by KCB Ruiru branch customers*. Unpublished Thesis.

- [18]. Kazemy, M., Yaghoubi, N.M., Ghodsi, F. &Saghafi, H. (2011). Evaluating the Effective Factors on Survival of SMEs: Case Study of Iran. *American Journal of Scientific Research*, 30. 141-150.
- [19]. Wanjohi, A. &Mugure, A. (2008). Factors Affecting the Growth of Mses in Rural Areas of Kenya: A Case of ICT Firms in Kiserian Township, Kajiado District of Kenya