EFFECTS OF MANAGERIAL SKILLS ON THE GROWTH OF INCUBATED MICRO AND SMALL ENTERPRISES IN KENYA

Ruth Wanjiru Ruhiu  
Ph.D. Student in Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, Kenya  

Dr. P. Karanja Ngugi  
Associate Chairman Entrepreneurship Department, Jomo Kenyatta University of Agriculture and Technology, Kenya  

Dr. Gichuhi A. Waititu  
Senior Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya  


ABSTRACT

Micro and Small businesses are key players in Kenya’s economy. While small businesses have been susceptible to high failure rates, there exists resurgence in the survivability of small businesses. One of the reasons for this paradigm shift can be attributed to the advent of business incubators. In Kenya business incubation is gaining prominence in Government policy, private sector and the academia. This study sought to shed light about the effects of managerial skills offered by incubators on the growth of MSES in Kenya. The research design was descriptive resulting in both qualitative and quantitative data. A sample of 128 incubatee businesses from the target population of 189 governments, private and institutional incubator businesses in Nairobi County was selected using systematic random sampling. Data was tabulated and analyzed using descriptive statistics and multiple regression analysis to show the relationship between the independent variables as well as their effects on the dependent variable. Statistical package for social science (SPSS) version 20 was used in data analysis. The study Recommendations is that many SMEs owners or managers should be given managerial training and experience as the typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. An opportunity to overcome managerial deficiencies is the option of participating in business incubator programs. The study findings show that managerial skills contribute moderately to the growth of MSEs in Kenya.  

Key Words: Entrepreneurship, Business Incubation, Managerial Skills, Growth and Micro and Small enterprises
Introduction

Studies have shown that years of formal education of the entrepreneur before starting a new firm were related to eventual venture inclination, (Hirsrich, 1989). DeTienne, and Chandler (2007), also propose that education and experience are antecedents to the decisions to start a business. Three most common skills include: human skills - the ability to interact and motivate; technical skills - the knowledge and proficiency in the trade; and conceptual skills - the ability to understand concepts, develop ideas and implement strategies. Competencies include communication ability, response behavior and negotiation tactics.

According to Katz (1974), there are three managerial skills that every manager needs. These are: Technical Skills which is the ability to perform the given job. The lower-level managers require more technical skills; Human Relations (Interpersonal) Skills or the ability to understand, communicate and work with people. Human relations skills are required by all managers at all levels of management. The reason for that is all managers have to interact and work with people; Conceptual Skills being the ability to see the big picture, to visualize the organisation as a whole. It includes analytical, creative, problem-solving skills. The top-level managers require more conceptual skills and less technical skills.

National Business Incubation Association (NBIA) defines business incubation as a program that provides “management guidance, technical assistance and consulting tailored to young growing companies as well as access to appropriate rental space and flexible leases, shared business services and equipment, technology support services and assistance in obtaining the financing necessary for company growth” (NBIA,2007). In Kenya, according to Amadi (2012), there are several Universities, Colleges, and Technical Training Institutes having technology and business incubator initiatives at different stages of development. In addition, the Government of Kenya (GoK) business incubation initiatives that include the Kenya Industrial Research and Development Institute; the Kenya Industrial Estates; and the Export Promotion Zone Authority are already in operation. Then there are also several private business incubation initiatives like the Kenya Kountry Business Incubator (KeKoBi) that nurture micro and small enterprises.

Micro and Small Enterprises (MSEs) play an important role in the development of a country and have their significant effects on the social income distribution, tax revenue, employment, efficient utilization of resources and stability of the family income (Fida, 2008). The Kenya Government has widely recognized that Micro and Small enterprises (MSE’s) play a very important role in economic growth and development of a country and contributes up to 18.4% of the country’s gross domestic product (RoK, 2005). However, in Kenya like in many developing countries, the survival rate for start-up business is only between 10-20% (Kekobi, 2005). In this connection Kenya’s vision 2030 flagship projects plans are ready to establish Konza city popularly referred to as silicon savannah to tap the innovations spin-offs from the research institutions and the academia for commercialization. In addition, 47 MSE Industrial parks and incubators will be established in all counties in Kenya to nurture the upcoming MSEs (RoK,
This study sought to find out the effects of managerial skills on growth of incubated MSEs in Kenya to inform the key players in the incubation process.

Statement of the Problem

In Kenya Business incubation is regarded as an intervention measure to speed up industrialization through commercialization of inventions and innovations. The Ministry of Trade, Export Processing Zone and Department of Micro and Small Enterprise Development plan is to promote business incubation. Similarly, Kenya’s vision 2030 flagship projects plans are ready to establish ICT incubators in Konza city popularly referred to as silicon savannah. Nairobi Industrial Technology Park as a joint venture with Jomo Kenyatta University of Agriculture and Technology is also underway. In addition, 47 SME parks will be established covering the 47 counties in Kenya (RoK, 2005).

According to Kinoti and Miemie (2011), incubation services provided by incubators in Kenya fall short of incubatee firms’ expectations. Disparities of services exists form one incubator to another mainly driven by need for incubator profit. In Kenya, study show that 53.2% of incubated businesses had started from outside the incubator; 36.3% had begun as start-ups in the incubator. Further analyses of the findings, showed that at the time of the field study, 79% of the businesses were residing in the incubator (Kinoti & Miemie, 2011). This shows incubatees preference of operating within the incubator environment and hence incubation growth in Kenya has taken an upward trend. This study therefore sought to find out the effects of managerial skills offered by incubators on the growth of MSES in Kenya

General Objective

This study sought to establish the effects of managerial skills offered by incubators on the growth of MSES in Kenya.

Specific Objectives

1. To establish the effect of Training offered by incubators on the growth of MSES in Kenya.
2. To establish the effect advice offered by incubators on the growth of MSES in Kenya.
3. To establish the effect counseling offered by incubators on the growth of MSES in Kenya.
4. To establish the effect consultancy, offered by incubators on the growth of MSES in Kenya.
Scope of the Study

The scope of the study included all business and technology incubators involved in supporting MSEs in Kenya. “Small Enterprises” are those enterprises employing 1-49 workers and “Micro-enterprises” are those that employ 1-9 workers, (RoK 2005). The study considered in-house incubatees that draw services directly from the incubator. According to Lewis (2008), some incubation programs both operate “within the walls” and also deliver entrepreneurial support services to offsite client firms referred to as virtual clients. This is typically referred to as incubation “without walls” or virtual incubation. The researcher assumed that most incubatee enterprises in Kenya are mostly Micro and Small Enterprises hence the scope. The key respondents included the Incubatees who deal with the daily operations of their businesses and were useful in articulating their business growth facts emanating from incubation. The incubatees interviewed yielded information about managerial skills provided by the incubators which constitute the variables of this study.

Literature Review

Managerial skills as the ability to make business decisions and lead subordinates within a company. Three most common skills include: human skills - the ability to interact and motivate; technical skills - the knowledge and proficiency in the trade; and conceptual skills - the ability to understand concepts, develop ideas and implement strategies. Competencies include communication ability, response behavior and negotiation tactics. Studies have shown that years of formal education of the entrepreneur before starting a new firm were related to eventual venture inclination, (Hirshrich, 1989). DeTienne, D. and Chandler, G. (2007), also propose that education and experience are antecedents to the decisions to start a business. Management is a form of work that involves coordinating an organization’s resources -land, labour, and capital – toward accomplishing organizational objectives (Rue &Byars, 2004).

Rue and Byars (2004) further discuss five functions of management: Planning is deciding what objectives to pursue during a future period and what to do to achieve those objectives; Organizing is grouping of activities, assigning activities, and providing the authority necessary to carry out the activities; Staffing is determining human resource needs and recruiting, selecting, training, and developing human resources; Leading is directing and channeling human behaviour toward the accomplishment of objectives; Controlling is measuring performance against objectives, determining the cause of deviations, and taking corrective action where necessary. Managers working at different levels of management require different levels of skills. The level of importance of each skill set is directly correlated with the management level that the person has in the organization. As managers moves up in the organization, they need more conceptual skills and less technical skills. Incubatees with the three aspects of managerial skill are more likely to turn incubation services into business growth. Some of the skills like
conceptual and human skills emanate from inborn entrepreneurial characteristics and is the moderating variable in this study.

Lyles (2004), further evaluate managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience versus new venture growth. The results show that relative profits tend to be high when an entrepreneur has more education and experience in the line of business. On the other hand, profitability tends to be low when the entrepreneur has only start up and managerial experience, but lacks an educational background. Other empirical studies, such as Smallbone and Welter (2001), found that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the growth of new MSEs.

Bowen, Morara and Mureithi (2009), researched on Management of business challenges among small and micro in Nairobi Kenya. The findings of the research indicated that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs 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. He recommended that there is need to get trained in an area that is relevant to the type of business. According to Yeo (2008), Shared vision, flexible systems and team dynamics are key characteristics of organizational learning in which leadership is a crucial enabling agent. Contrary to general perception, systems development would be considered the most significant change brought about by organizational learning.

Research Methodology

This study adopted a descriptive research design which yielded both qualitative and quantitative data in order to interpret effects of managerial skills on the growth of SMEs. According to Mugenda and Mugenda (2012), research design describes how the research strategy addresses the specific aims and objectives of the study, and whether the research issues are theoretical or policy-oriented. The study Population included all Business incubators involved in MSE sector in Kenya. The target population of public incubators which includes Universities and research institutions were 67 incubatee businesses. The private incubators population comprised of 122 incubatees making the total population as 189 incubatees in Nairobi County. Population is the aggregate of all that conforms to a given specification. All items in the field of inquiry constitute a ‘universe’ or ‘population (Kothari, 2004).

In a research study, elements selected in proportion from homogeneous sub-groups helps the researcher to achieve desired representation. The actual method of sampling to attain respondents from each sub-group was finally simple random sampling. Each stratum was properly represented so that the sample size drawn from the stratum was proportionate to the stratum share of the total population as indicated in the sampling frame below. This approach is more
applicable to this research because it has a higher statistical efficiency and it is much easier to carry out, Zikmund (2010).

Primary data was obtained from incubatees owning enterprises as key informants and derive various incubator services that constitute the objectives of the study by use of semi-structured questionnaire. Secondary data sources included books, documented research, journal articles, and electronically stored information (internet). In data analysis, the questionnaires were examined, cleaned and sorted to ensure that all the relevant data is coded, categorized and stored for analysis using statistical package for social science (SPSS) version 20 computer software. Data on variables was analyzed using descriptive statistics which included measures of central tendency, measures of dispersion and measures of association. In this case measures of central tendency showed the distribution of the data around the common expected effects of managerial skills on growth of MSE’s. Analysis of Variance (ANOVA) was used to analyze the degree of relationship between the variables in the study. Relationships between variables were established through multiple regression analysis.

From the conceptual frame work, the statistical model was developed. In this case business growth being the dependent variable takes the variable \( Y \). The coefficients of the independent variables \( x_1, x_2, ..., x_4 \) are significant in showing the rate of how the independent variables affect the dependent variable. Data was analyzed using the following statistical models:

\[
Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e
\]

Where:

- \( Y \) = Growth of MSEs
- \( \beta_0 \) = coefficient of Intercept
- \( \beta_1, ..., \beta_4 \) = regression coefficients of independent variables
- \( x_1, ..., x_4 \) = independent Variables (Training, advice, mentoring consultancy and counseling)
- \( e \) = Error term.

**Results and Discussion**

All the incubatees either agreed (48.8%) or strongly agreed (51.2%) that training in managerial skills had an effect on the growth of the business.” On business counseling, 62.6% and 23.6% agreed and strongly agreed that business counseling was essential to the business. Consultancy services were helpful when it comes to running the incubation business, 63.4% agreed and 26.8% strongly agreed. Only 6.5% were not sure.
On average 0% of the respondents strongly disagreed with the statements provided on managerial skills, 5.11% disagreed, 4.41% were not sure, 59% agreed with the statements while 31.49% strongly agreed with the statements provided on managerial skills.

The study findings relate to those observed by Ahire (2001), “lack of professional managerial expertise accounts for about 90 percent of small business failures. While these skills deficiencies are ever present in new business start-ups, small business owners and managers can reduce the risk of small business failure due to managerial inadequacies. An opportunity to overcome these deficiencies is the option of participating in business incubator programs (NBIA, 2009).

Technical skills and advice, human relation training skills and managerial skills offered by incubators were found to be adequate in the running of the business. All of the respondent either agreed (over 60%) or strongly agreed (over 30%). The research found that 30.9% disagreed that analytical and problem solving skill training were adequately provided by the incubators, 17.1% were not sure while 52.1% either agreed (42.3%) or strongly agreed (9.8%).

The findings collaborate with those of Papulova and Mokros (2007) who observed that technical skills are important in businesses that relate to engineering and other technical orientations. Rue and Byers (1992) in their theory of management competencies view technical skills as very important to lower level managers. The study findings show that technical skills contribute to a moderate and to a very great extent on the growth of MSEs in Kenya.

**Regression Analysis**

**Table 1:** Model of growth of MSEs / Managerial skills offered by incubators

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.496a</td>
<td>.246</td>
<td>.240</td>
<td>3.70626</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MANAGERIAL SKILLS

**Table 2:** ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>542.085</td>
<td>1</td>
<td>542.085</td>
<td>39.464</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1662.097</td>
<td>121</td>
<td>13.736</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2204.182</td>
<td>122</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MANAGERIAL SKILLS
b. Dependent Variable: GROWTH
Table 3: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>7.722</td>
<td>1.774</td>
<td>4.353</td>
<td>.000</td>
</tr>
<tr>
<td>MANAGERIAL SKILLS</td>
<td>.783</td>
<td>.125</td>
<td>.496</td>
<td>6.282</td>
</tr>
</tbody>
</table>

Table 1 present a summary of regression model results. The value of R and R2 are .496 and .246 respectively. This shows that there is a positive linear relationship between managerial skills offered by incubators and growth of MSEs in Kenya since it is positive. The R2 indicates that explanatory power of the independent variables is 0.246.

Table 2 shows the results of ANOVA test which reveal that Managerial skills offered by incubators have significant effect on growth of MSEs. Since the P value is actual 0.000 which is less than 5% level of significance.

Table 3 shows the results of Coefficients which helps to generate the model. Managerial skills and growth Y = 7.722 + 0.783X + e which implies for every unit measure of managerial skill offered by incubators to the Incubatee it leads to increase in growth of the business by a rate of 0.783. Incubators offered consultancy services, technical and counseling services which enhanced the human relation skill, analytical and problem solving skills of the incubatees. Smallbone & Welter (2001) and Hisrich & Drnovsek (2002), find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the growth of new MSEs. Research carried out by Bowen et al. (2009) found that the absence of management training is responsible for poor performance of MSEs. The findings of the research indicated that over 50% of MSEs continue to have a deteriorating performance with 3 in every 5 MSEs 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 growing.

Summary of the Findings

The study found that Many SMEs owners or managers attribute their business growth managerial training and experience during incubation. All the incubatees either agreed (48.8%) or strongly agreed (51.2%) that training in managerial skills had an effect on the growth of the business.” On business counseling, 62.6% and 23.6% agreed and strongly agreed that business counseling was
essential to the business. Consultancy services were helpful when it comes to running the incubation business, 63.4% agreed and 26.8% strongly agreed.

While these skills deficiencies are ever present in new business start-ups, small business owners and managers can reduce the risk of small business failure due to managerial inadequacies. An opportunity to overcome these deficiencies is the option of participating in business incubator programs. Management competencies view technical skills as very important to lower level managers. The study findings show that technical skills contribute to a moderate and to a very great extent on the growth of MSEs in Kenya.

Conclusions and Recommendations

The study concludes that many SMEs owners or managers lack managerial training and experience and their management style is likely to be more intuitive than analytical, with more concern on day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. The study further concludes that lack of professional managerial expertise accounts for about 90 percent of small business failures and stagnation. While these skills deficiencies are ever present in new business start-ups, SMEs can reduce the risk of small business stagnation due to managerial inadequacies through incubation. An opportunity to overcome these deficiencies is the option of participating in business incubator programs. Management competencies view technical skills as very important to lower level managers. Based on the findings on managerial skills learnt and their impact on business growth, the study concluded that the majority of the respondents learnt the business plan and human capital development skills. This is in congruence with the need to develop clear and concise business plans to facilitate not only funding, but also business efficiency.

The study recommends that the Kenyan government supports SMEs development through provision and dissemination of relevant industry data and publications that enhance innovation in the industry. The study findings show that technical skills contribute to a moderate and to a very great extent on the growth of MSEs in Kenya. In addition the Business Incubators should act as entrepreneurship and managerial training hubs and consider themselves as service providers. The incubators should further be important partners with the academia, NGOs, churches and youth entrepreneurship programs that should act as the pre-incubator phase in the incubation process.

In addition, the Kenya Government should come up with a business incubation policy and encourage involvement of all relevant actors in the process of development of business incubators including existing big companies in operations and exchanging management experiences. Collaboration which enhances interaction between entrepreneurs and universities/research institutions to train fundamentals of management and entrepreneurship should be encouraged to enhance the growth of MSEs.
References


