

FACTORS INFLUENCING PERFORMANCE OF YOUTH OWNED MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) IN KENYA

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ABSTRACT

The study purposed to investigate the factors that affect the performance of youth owned micro, small and medium enterprises (MSMEs) in Kenya. MSMEs owned by youths in Kajiado North Constituency was chosen as a case study. The study sought to inquire illustrate if the following independent variables had on the performance of youth owned MSMEs: entrepreneurship training, leadership style used, use of social networks and the business owner or leader's managerial skills. The research used a descriptive survey, and primary data was obtained through questionnaires targeting 43 MSMEs owned by youths in the target area. The field investigation revealed that all these factors under study had an effect on the overall entrepreneurial venture at various degrees. However, managerial skills were realized to be the most significant variable in this study followed by networking, then entrepreneurial training and lastly leadership skills employed. Based on these results the study recommended that there is a need to develop more supportive systems and structures, including training programs to business entrepreneurial skills, programs to enhance leadership styles for greater performance and to enhance managerial skills for these youth owned enterprises in order to improve their performance. There is also need to put in place support systems that would allow youths to interact with fellow youths in business, business professionals as well as other key stakeholders who will aid them in achieving their

goals. It thus recommends that for greater performance of youth owned MSMEs, there is critical to place these supportive systems. These aspects will have a tremendous impact on the performance and growth of these youth owned MSMEs in Kenya.

Keywords: *youth, entrepreneurship, MSME, Kenya, performance*

Introduction

The study focused on the Micro, Small and Medium Businesses (MSMEs), which are generally regarded as the backbone of the economy (Welter and Smallbone, 2011). Performance in such ventures should thus be of key interest to each and every business manager or owner, as it includes a possibility of success as well as failure, (Frese, 2000). In Kenya today, business enterprises employing between 1 to 99 people account for about 48 percent of all businesses in Kenya; with a majority of these being owned or managed by young people between 25 and 34 years of age, (Njonjo, 2010).

Statistics however show that in Kenya, three out of five of these businesses fail within the first three years of operations (ROK, 2007), and those that continue 80 percent fail before the fifth year. This failure of business performance is marked by discontinuance of a business for any reason, or through formal bankruptcy proceedings, (Saleemi, 2009). Having noted how vital the contribution of MSMEs sector in Kenya despite the high failure rate, performance by youth business leaders must be increased to effectively respond to the challenges of creating productive and sustainable employment opportunities in the country amongst this group of Kenyans, (Kariuki, 2010; Saleemi, 2009).

Statement of the problem

The study focused on the youth Kenya who have come out in great numbers to change their current unemployment situation by establishing or working in MSMEs. Despite this initiative, it

was revealed that the established enterprises have a very low survival rate, with serious challenges leading to 60 percent failures in performance within the first three years of operation, (Njonjo, 2010, ROK, 2007). This poor performance has hampered their ability to contribute to the growth of Kenya's GDP as required. It also makes them unable to compete with other larger businesses including multinational corporations, or take full advantage of the economy and access the global markets for profitability and sustainability, (Njonjo, 2010).

This business failure rate of youth owned MSMEs is quite alarming and unjustified. Thus, the lack of concrete knowledge on the factors influencing this dismal performance will limit the design of policies and strategies that can support improved performance. It is critical therefore to research and identify these to get information that will provide the best support to youth entrepreneurs and enable them participate effectively in meeting Kenya's vision 2030.

General objective

The main objective of this study was to investigate the factors that influence the performance of youth owned MSMEs in Kenya, with specific interest in Kajiado North constituency in Nairobi.

Specific objectives

The specific objectives were to:

- i. To determine if training influences the performance of youth owned MSMEs
- ii. To establish if the leadership styles influences the performance of youth owned MSMEs
- iii. To investigate if networking influences performance of youth owned MSMEs
- iv. To examine influences of managerial skills on the performance of youth owned MSMEs

Literature Review

Entrepreneurship training

Training and entrepreneurial learning has widely been understood as how people acquire knowledge and enact new behaviors in the process of recognizing and acting on opportunities and of organizing and managing ventures. McClelland theory of acquired needs advocates that increasing level of need-achievement in a society through modeling and learning such behavior stimulates entrepreneurship and economic growth (Islam and Mamun, 2000). This need is inculcated through child rearing practices, which stresses standards of excellence, material warmth, self-reliance, training and low father dominance, (Saleemi 2009). Entrepreneurial education based on solid learning theory can thus explain the need to develop entrepreneurs by increasing business knowledge, and promoting characteristics associated with entrepreneurs, (Leintz and Rea, 2012).

Leadership styles

The leadership theories developed between the 1940s and 1950s state that behaviors of effective leaders are different than the behaviors of ineffective leaders, (Kozlowski and Salas, 2010; Barman, 2009). The theories have been broadly categorized under the leadership styles model, Trait approach, Behavioral approach, and Situational approach amongst others, (Derue, Nahrgang, Wellman, and Humphrey, 2011; Lussier and Achua, 2007).

Most leadership theories show that the leadership style adopted has a significant relation with the organizational performance, and different leadership styles may have a positive correlation or negative correlation with the organizational performance, (Brown, 2007; Lussier and Achua, 2007).

Networking

Coleman (1988) as cited by Tripp (2009) links social capital to social structure and relationships, and to the achievement of goals that could not be gained in its absence. He further highlighted that social capital is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure. These resources are viewed as finite, and therefore people must compete for them since the better connected people enjoy higher returns, (Tripp, 2009).

The theory argues that roles played by these social networks in grooming and supporting the development of businesses cannot be taken for granted (Barlow & Thomas, 2010). These networks also play a huge role in helping entrepreneurs overcome obstacles related to transaction costs, contract enforcement, and regulation. Entrepreneurs often take advantage of opportunities to invest in social networks when there is an apparent payoff in terms of MSME growth, (Barlow & Thomas, 2010). In this regard, some young leaders would not have learnt enough not management skills through experience, and would benefit much from the guidance of these networks, (Tripp, 2009).

Managerial skills

Robert Katz identified that all managers at all organizational levels need three basic types of skills in performing their work; the technical, conceptual and human skills (Koonz and Wehrich, 2006; Saleemi, 2009). Katz also stressed that different levels of management in the organizational structure also require different types of management skills (Koonz and Wehrich, 2006), however, human skills also known as interpersonal skills tend to be required in similar proportions across all management levels (Shane & Venkatraman 2000).

Saleemi (2009) argues that in addition to the three managerial skills proposed by Katz as conceptual skill, technical skill and human relations skills, managers need to have communication skills, computer skills, and time-management skills to be an effective manager.

Research Methodology

This study used the descriptive survey, and adopted a case study of these MSMEs led by youths in Kajiado North Constituency. Descriptive studies are undertaken to answer the 'why' and 'how' about a phenomenon. Therefore this research approach was deemed appropriate for the study.

The study focused on MSMEs owned by youth in Kenya. This formed the target population, since they constituted the entire world of items in the field of inquiry, (Sekaran&Bougie, 2010).

The researcher intended to study 43 of these youth owned MSMEs at OngataRongai area of Kajiado North Constituency, chosen through a simple random sampling method to give all youth owned MSMEs along Magadi road an equal chance of participation.

The research study utilised primary data, which was obtained directly from the sample population. The researcher established in advance the kind of information to answer the research questions. Based on this, these questionnaires and interviews guides were drawn and used to collect the data. The questionnaire was pilot tested and adjusted to ensure internal validity and enhance its reliability.

Data analysis was analyzed using descriptive statistics. The Statistical Package for Social Sciences (SPSS) package was used to analyze and summarize the data. To evaluate the effects of various factors under study, on the performance of MSMEs, inferential statistics was used.

Results

The respondents were asked their opinion whether training on business skills had an influence on performance. The data was analyzed to confirm views from those with formal education as well as those without formal education. In total, 90% of respondents confirmed that they needed training to enhance their business performance, 7% did not need training, while only 3% was not sure. This just confirms the fact that training has a great influence in business performance.

Respondents were asked whether they thought that the style of leadership adopted had an influence on business performance. From the data, an overwhelming majority (90%) reported that leadership style affects performance, and hence the study can conclude that these leaders may have adopted the styles they thought were more conducive for greater performance.

The questionnaire sought to inquire if the respondents considered networks as important or not. Findings from the study confirmed that majority (76%) of the respondents agreed that these social networks, whether formal or informal in business was critical for their performance output.

Respondents were asked to rate the importance of the 3 managerial skills to the influence on business performance. Results from the study revealed that Human Relations was considered the most critical (49%), followed by conceptual skills (32%) then technical skills (24%). The study also concludes that these skills scores are not significantly dispersed, and that the three skills vary depending on the industry the business firm engages in.

Conclusions

This study investigated if training, leadership style, networking and managerial skills had an influence on performance of youth owned MSMEs in Kenya. The study revealed and concluded that these are all critical factors in the performance of MSMEs. There is therefore a need to develop more supportive systems and structures, including training programs to business skills,

leadership quality and to enhance managerial skills to improve them. There is also need to put in place support systems that would allow youths to interact with fellow youths in business, business professionals as well as other key stakeholders who will aid them in achieving their goals. However, managerial skills were realized to be the most significant variable in this study followed by networking, then entrepreneurial training and lastly leadership skills employed.

Recommendations

Based on the findings, the following conclusions can be made:

1. There needs to be data available on the performance of MSMEs in terms of turnover as well as profitability in order to get solid data on performance of MSMEs in Kenya.
2. Realizing the importance of training in order to achieve their business objectives, the youth owned MSMEs have indicated the need for training. There should be a way of creating training programs, especially to help sort out the problems they currently face in order to perform as required.
3. Since networking was considered the most critical variable, support systems need to be in place to allow youths to interact with fellow youths in business, business professionals as well as other key stakeholders who will aid them in achieving their goals.

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