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THE ROLE OF FINANCIAL RESOURCE SUPPORT ON GROWTH OF MICRO AND SMALL ENTERPRISES: EVIDENCE IN BOMET COUNTY, KENYA

Dennis Kipkorir Langat
MBA, University of Kabianga, Kenya
dennislangatk@gmail.com

Patricia Chepkwony, PhD
Department of Marketing, Management Science, Tourism and Hospitality,
University of Kabianga, Kenya
kokipatricia@gmail.com

Lydia Langat, PhD
Department of Marketing, Management Science, Tourism and Hospitality,
University of Kabianga, Kenya
lydchep@gmail.com

Abstract

Micro and small enterprises are considered to be the engine of growth to most economies. The Micro and Small Enterprises are believed to account for about ninety-five percent of the operating firms in the world leading to industrial development, job creation, providing goods and services to the locals and contributing to gross domestic product. Despite the great contributions by the sector, it is also faced with various challenges. In Kenya, it is said that three out of five micro and small enterprise fail in less than a year after commencement of their operations due to some constraints. It is on this basis that this study sought to investigate the role of financial resource support on growth of micro and small enterprises on growth of micro and small enterprises. The study was anchored on business incubation model. This study used a correlation research design. The target population for this study was 615 micro and small

enterprise, stratified sampling technique was used. Data was collected using primary data collection method. Collected data was analyzed using inferential statistics; regression analysis was used to establish the relationship between the research variables and correlation analysis to establish the nature of the relationship between the independent variable and dependent variable. The findings indicated that financial resource support assisted the MSEs in accessing affordable loans, friendly repayment period, sponsorship and funding as well as financial training and coaching. The study concluded that there existed positive significant role of financial resource support and growth of MSEs (Beta=0.425, P<0.05). The study recommended County government to develop financial support business incubation project since the existing have significantly contributed to MSEs growth.

Keywords: Financial support, Correlation analysis, Growth, Micro and Small Enterprises, Kenya

INTRODUCTION

For any economy to be successful, much attention has to be given to industrialization. This involves creating institutions and systematic arrangements that can help improve the process of industrialization. Business incubation is one of those systems that are aimed at accelerating industrialization by developing and creating an enabling environment for the development of MSE sector (Iyortsuun, 2017). Micro and small enterprises are deemed successful when they prosper in their operations and are self-sustaining and thus boost economic sustainability. In the modern world, business incubators play a pivotal role in shaping and nurturing businesses. Business incubators have become a trend globally for growth and development of micro and small enterprises. Business incubators have been seen as a key tool for economic development for countries such as Russia, Brazil, South Africa, and India (Bergek and Norrman, 2008).

New micro and small enterprises are established with an aim of being successful in the long run but failure is ever present due to the environment that these businesses operate in. Evolutionary theorists argue that the forces of selection that eliminate uncompetitive firms are necessary phenomena that contribute to the maintenance of healthy populations of organizations (Baraldi and Havenvid, 2016). However, the forces of selection alone cannot be allowed to determine the number of organizations operating in an economy. This has therefore, given rise to attempts at reducing the likelihood of venture failures requiring not only the development of a favorable business environment and climate, but also establishing strong institutions that would assist businesses reduce the likelihood of failure. To help venture survival, governments have developed a unique institutional arrangement called business

incubation designed to help business survive and grow in the contemporary competitive environment (European Commission, 2002).

In Asia, Pakistan's economy is growing very first and it is taken to be the second growing economy after China. This has been attributed to micro and small enterprises sector growth and development and it has proved to be the backbone of the economy. Majority of the businesses in Pakistan are made of micro and small enterprises comprising of 90 percent and they generate 40 percent of Gross Domestic product (GDP). Despite micro and small enterprise contributions to the economy, they also face a lot of challenges such as being neglected by financial institutions from granting them with financial support such as loans. This has been proved from the report which is generated from Pakistan bankers' body indicating financial ups and downs of micro and small enterprise constitute 55 percent over other challenges. Due to this financial challenge, it has impacted growth of micro and small enterprises thus relaying on internally generated funds (Sherazi, Iqbal, Asif, Rehman and Shah, 2013).

America has estimated that incubators have supported more than 27,000 new MSEs with yearly income of about $17 billion (Knopp, 2014). According to Pappas (2003), the incubation program is one of the most dynamic programs aimed at developing and supporting new commercial businesses. Incubators have the ability of nurturing new MSEs by helping them to survive during their startup stages and maintain a sustainable growth thereafter. Most importantly, helping new firms survive during their startup stages is the most crucial function of business incubators owing to the fact that, at this particular period, newest firms are vulnerable to failure and collapse. Additionally, business incubators are important in providing hands-on management practices, provision of the necessary resources, and orchestrated exposure to business strategies on critical thinking, and provision of the most important technical support for business success. Furthermore, business incubators are useful in providing new MSEs with the facilities to share office services, easy access to business equipment, and expandable space.

In Africa, studies on business incubation have been done in various countries for instance, South Africa. Incubation in South Africa started in 1990's which has given to the rise of industries. Masutha and Rogers (2014) in their study in south Africa on business incubation, identified that MSEs requires finance and ready market for them to grow as well they require management skills for proper management of the enterprise. According to him, management skills involved having skills on developing a business plan, record keeping, network with viable markets, developing trainings and lastly, skills of acquiring capital.

According to Kenya Micro and Small Enterprises(MSE) Act, 2012 states that micro enterprise is a firm, service, trade, industry, or a business activity which employs less than ten people and with an annual turnover of less than Kshs 500,000. On the other hand, Sessional Paper Number 1 of 2005 on Small and Micro enterprises in Kenya, Micro Enterprises are those firms with employees between 1 and 9 while small Enterprises have 10 to 49 employees (GOK, 2015).

In Kenya, 75 percent of businesses are micro and small enterprises which have created around 4.6 million jobs which is 87 percent. MSE contribute 18.4 percent of the gross domestic product (GOK 2015). Government of Kenya consider MSE sector as a pillar to industrial development and the government has come up with policies and strategies on how increase their growth and self sustainability (Kiveu and Ofafa, 2013).

Global statistics indicate that more than 50 percent of small businesses die within the first five years of commencement, and 20 percent fail within one year. In developing countries such as Kenya, it is estimated that MSE fail between 70 percent and 80 percent this indicate clearly that many MSE do not attain their potential and fail to grow of which it hinders the growth of the economy as well (Arasti, 2014). According to Bowen, Morara and Mureithi (2010), Mortality rate of MSEs in Kenya remains high within the first few months after establishment.

Micro and small enterprise in Kenya play a key role in economic development through creating job opportunities which alleviates poverty and MSEs also act as intermediaries in trade. In developing countries Kenya included, between 70 percent and 80 percent Micro and small enterprises fail before they reach at their potential. However, three out of five micro and small enterprise in Kenya fail in less than a year after they commence their operations. Several challenges have been associated with this high rate of start-up failure in the country among them lack of finance, lack of adequate business skills, lack of technological skills, poor business networking and poor market access. This has contributed to the challenges that impede their growth. If much is not done to Micro and small enterprises about business incubation, then there are high chances that the percentage of businesses failure would continue to increase tremendously. From the other reviewed studies much has not been talked about the roles of business incubators on growth of micro and small enterprises.

Therefore, the study sought to investigate the role played by business incubators on the rapid growth of MSEs in Bomet County. This provided useful information that could assist in making them more profitable and sustainable. The study sought to answer the following research hypothesis.

$H_0$1 There is no significant role of financial resource support on growth of micro and small enterprises in Bomet County

LITERATURE REVIEW

Theoretical Framework

Business incubation model was first proposed by Costa-David, Malan and Lalkaka (2002). According to them, business incubators operations are illustrated by looking at the inputs and outputs. Inputs is scenario where business ideas, management resources and stakeholders' ideas are delivered by the entrepreneur, while the output is where the incubate graduates from training where he or she acquires entrepreneurial knowledge on how to create wealth that can be felt locally and nationally in form of economic development. The success of business incubators depends on the support accorded in order to provide a successful incubate. The model suggests that for entrepreneur to be picked should have met some set requirements. First they are required to have passed through pre-incubation process which entails a mixture of business planning and training before being admitted to the incubator. According to Rouwmaat Reid and Kurik (2003) described the services of pre-incubation by technology, business training, business mentorship and financial support as the core services equipped to entrepreneurs before commencing an enterprise.

Financial Resource Support and growth of micro and small enterprises

A research was conducted by Bagh, Arif, Liaqat and Razzaq (2017) on the effect of financial constraints and development of small and medium enterprise in Sialkot Pakistan. The study adopted descriptive research design and the study targeted 150 MSEs who were used to provide data for the study. Data collected was analyzed by use of SPSS with the support of descriptive analysis and correlation test. Data collected was analyzed using quantitative analysis method which determined the relationship which existed between the variables. The study findings indicated MSEs who borrowed money from banks and other financial institutions had limited chances to be granted financial assistance unlike big companies. This hindered the growth of the MSEs in Sialkot.

Peter, Adegbuyi, Olokundun, Peter, Amaihian and Ibidunni (2018), conducted a research study to determine the effect of financial support on MSE performance in Nigeria. The study adopted mixed methods where semi-structured interview and survey approaches were used. The respondents were selected through simple random and stratified sampling techniques. Semi-structured interview was administered to 20 respondents and on the other hand 400 questionnaires were also administered to respondents who were owners and managers of MSEs. Multiple regression and descriptive statistics were used to analyze quantitative data while qualitative data was analyzed by use of thematic analysis. From the study it was revealed financial support had positive significant effect on MSEs growth. The study only focused on

financial support and ignored other factors. Therefore, there is need to do further research on factors hindering the growth of MSEs in Nigeria.

Osano and Languitone (2016) did a study in Mozambique on factors determining the access of finance by MSEs. The study targeted 2725 comprising of 20175 staffs of Standard Bank, BCI Bank and BIM bank and also it included 650 MSEs who were picked from Maputo Central Business District. The study adopted inferential and descriptive research design. The study adopted simple random sampling techniques where 324 sample sizes of employees were selected from the banks and 242 MSEs were also selected. Primary data was collected by use of structured questionnaires. It was clear from the study that there existed a relationship between funding awareness and access of funds by MSEs, and there was significant role existing on support of small business and MSEs access to finances. The study failed to include other financial institutions which could lend money to MSEs and therefore there is a need to do the same study but focus on Micro finance institutions who also lend money to MSEs.

In Kenya, Caroline and Patricia (2021) sought to determine on how business group factors influences informal micro retail enterprise financial performance in Nairobi, Kenya. The study adopted experimental and exploratory research design. Random sampling technique was used to obtain 116 groups retail enterprises and 116 non group retail enterprises were also obtained. Quantitative data was obtained through the use of primary data collection method and secondary data collection methods. The study findings indicated that financial factors showed negative insignificant relationship with financial performance of the retail enterprise. In conclusion it was revealed that financial book keeping, group based loans and group financial training was the major challenges for micro retail enterprises. Therefore, there was a need for the county government to come up with training programmes that will educate and sensitize the retail enterprises on financial book keeping, group based loans and group financial training.

Mwangemi, Wilson and Mung'atu (2017) investigated influences of finances access and government policies on small and micro-enterprises growth in Kenya. Descriptive cross sectional research design was employed. Stratified sampling technique was employed to arrive at 395 MSEs. Questionnaires were used to collect primary data and they were administered to managers of MSEs and owners. Statistical Package for Social Sciences (SPSS) was used to summarize data after it being coded. The significant relationship between the variables was tested by Chi-square test at a level of 5%. It was established that growth and development of MSEs relied on the access of finance. The study also revealed government policies were insignificant to the growth of MSEs. Therefore, more studies can

be done by adopting correlation research design and primary sources can be used to collect data. Comparison of the findings between the two studies can be done.

RESEARCH METHODOLOGY

The study used Correlational research design. The target population for this study is 615 registered MSEs. The study adopted primary data collection method. Primary data was collected using structured questionnaires with both open and closed ended questions. Stratified sampling as well purposive technique was employed in this research. The study used a sample size of 242 respondents for the purpose of achieving the results of objectives under study. Data collected were analyzed using inferential statistics; regression analysis were used to establish the relationship between the research variables and correlation analysis to establish the nature of the relationship between the independent variables and dependent variable.

RESULTS AND DISCUSSIONS

Financial resource support was investigated using frequency tables, mean and standard deviation. These were represented in table 1 which revealed the area where funds were invested in the MSEs while table 2 are descriptive statistics.

Table 1: Area that financial funds support the enterprise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Expansion	49	23.0	23.0	23.0
	Human resource	5	2.3	2.3	25.4
	Marketing	52	24.4	24.4	49.8
	Capital investment	98	46.0	46.0	95.8
	Production	9	4.2	4.2	100.0
	Total	213	100.0	100.0	

Table 1 indicated financial resource support where the results revealed that majority of funding support were used in capital investment 98(46.0%). This was followed by investment in marketing and expansion with 52(24.4%) respectively. However, production and human resource was the lowest financial funds support with 9(4.2%) and 5(2.3%) respectively.

Table 2: Descriptive statistics for financial resource support

	N	Minimum	Maximum	Mean	Std. Deviation
Am able to acquire Loans at a lower interest rate and friendly repayment period through business incubators and other financial partners.	213	1.00	5.00	4.6761	.82602
Business incubator financial management support has contributed to the growth of my business enterprise	213	1.00	5.00	4.1315	.70148
The business incubator gives me sponsorship and funding and thus boost the growth of my business	213	1.00	5.00	4.5728	.84150
A business incubator provides me with financial management training and Coaching which is helpful to the growth of my business enterprise.	213	1.00	5.00	4.5211	.79252
Business incubators financial trainings have helped me to acquire combination of many skills such as budgeting, ability to plan, organize and proper management of financial resources available.	213	1.00	5.00	4.5446	.82080

Table 2 indicated that the entrepreneurs were sufficiently able to acquire loans at a lower interest rate and friendly repayment period through business incubators and other financial partners (mean of 4.6761). Variation in accessing loans was low, hence majority of the business benefit from low interest rate and friendly repayment (standard deviation of 0.82602).

Business incubator financial management support had sufficiently contributed to the growth of my business enterprise (mean of 4.1315). Variation in business incubators financial management support was low in opinion (standard deviation of 0.70148).

The business incubator gave adequate sponsorship and funding and thus boost the growth of the business (mean of 4.5728). The spread of opinion in boosting growth was low implying most funds boosted growth (standard deviation of 0.84150).

A business incubator provides me with financial management training and coaching which is helpful to the growth of my business enterprise (mean of 4.5211). The variation was found to be low training and coaching opinion (standard deviation of 0.79252).

Business incubators financial trainings greatly assisted the entrepreneur to acquire combination of many skills such as budgeting, ability to plan, organize and proper management of financial resources available (mean of 4.5446). It variation was low which show that there was similar opinion that business incubators financial trainings increased entrepreneurs' skills (standard deviation of 0.82080).

Similar, findings were obtained by Peter, Adegbuyi, Olokundun, Peter, Amaihian and Ibidunni (2018) where financial support assisted growth of MSEs. However, the study was done in Nigeria. Osano and Languitone (2016) also concurred with current study that financial support must include funding awareness which assist in accessing by MSEs.

Table 3: Contribution of business incubators to growth of the enterprise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	199	93.4	93.4	93.4
	No	14	6.6	6.6	100.0
	Total	213	100.0	100.0	

According to table 3 their results indicated that business incubation contributed to 199(93.4%) of growth of enterprise while 14(6.6%) did not. This revealed a high contribution of growth in enterprises.

Table 4: Descriptive statistics of growth of enterprises

	N	Minimum	Maximum	Mean	Std. Deviation
Business incubators contributions have led to consistent increase in our monthly profits.	213	1.00	5.00	4.7653	.65251

Business incubators involvement has led to increase in the number of employees.	213	1.00	5.00	4.0892	.73749
Business incubators role in the macro and small enterprise has contributed to the increase of the net income.	213	1.00	5.00	4.5540	.69577
Business has expanded in terms of increase in market share and increase in number of customer served due to business incubators involvement.	213	1.00	5.00	4.3944	.70334

Table 4…

Table 4 results further revealed that business incubators contributions adequately led to consistent increase in our monthly profits (mean of 4.7653). The results indicated low variation in opinion in profit increment (standard deviation of 0.65251).

Business incubators involvement greatly led to increase in the number of employees (mean of 4.0892). Variation was low which meant that majority of employees increase as result of business incubators (standard deviation of 0.73749).

Findings further revealed that business incubators role in the macro and small enterprise sufficiently contributed to the increase of the net income (mean of 4.5540). Its variation was low which implies most of MSEs had increased in net income (standard deviation of 0.69577).

The findings further revealed that business had significantly expanded in terms of increase in market share and increase in number of customer served due to business incubators involvement (mean of 4.3944). Low variation also revealed that majority of the enterprise has expanded (standard deviation of 0.70334).

The study in general revealed there was increase in monthly profits, increase in the number of employees, the increase of the net income, increase in market share and increase in number of customer to business incubators. These findings concur with the findings of Dobrovic, Lambovska, Gallo and Timkova (2018) which indicated that business incubators influenced growth of MSEs in terms of increase in profits, increase in number of employees, increase of net income, and lastly business expansion.

Correlation analysis was conducted between financial resource support and growth of MSEs. Pearson correlation and significant test were used to test the relationship between the variables.

Table 5: Correlational analysis

		Financial Resource Support	Growth of MSEs
Financial Resource Support	Pearson Correlation	1	.879**
	Sig. (2-tailed)		.000
	N	213	213
Growth of MSEs	Pearson Correlation	.879**	1
	Sig. (2-tailed)	.000	
	N	213	213

Table 5 represent the correlation relationship between financial resource support and growth. The growth of MSEs revealed as strong positive relationship with financial resource support (R=0.879, P<0.05).

Table 6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.002	.183		.012	.991		
	Financial Resource Support	.425	.057	.481	7.507	.000	.214	4.670

a. Dependent Variable: Growth of MSEs

Table 6 reveals that financial resource support had positive significant relationship with growth of MSEs (Beta=0.425, P<0.05). This implies that a unit increase of financial resource support had 0.425-unit increase on growth of MSEs.

$H_0$1 *There is no significant role of financial resource support on growth of micro and small enterprises in Bomet County.*

The result from the study revealed that there existed positive significant relationship between financial resource support and growth of micro and small enterprises in Bomet County (Beta=0.425, P<0.05). The null hypothesis was reject and alternative accepted. Financial

support was the highest contributing factor in business incubation that assisted MSEs to grow. These results concur with Peter, Adegbuyi, Olokundun, Peter, Amaihian and Ibidunni (2018) that financial support has significant relationship with the growth of MSEs despite the study being conducted in Nigeria.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that there existed positive significant role of financial resource support on growth of MSEs. The funds assisted mainly in capital investment, marketing and expansion of MSEs. This was possible through affordable loans, friendly repayment period, sponsorship and funding as well as financial training and coaching provided to MSEs assisted in the growth. This has boosted growth of business as well as assisted the MSEs to budget, plan, organization and manage financial resource give to them. The business incubators have played an important role in improving the MSEs by providing financial solutions.

The study recommends the County government to develop financial support business incubation project since the existing have assisted the MSEs to grow. The County government can channel their funds allocation to business incubators as well as extent the human resource attached to the department to ensure that there is sustainable growth in the entire MSEs sector. The study also recommends that National government through existing funds strategies to adopt financial support business incubation project that can be affordable loans, friendly repayment period, sponsorship and funding to MSEs.

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