Effect of Access to Business Information on the Growth of Small and Medium Enterprises in Kenya

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Abstract

The objective of this paper was to assess the effect of access to business information on the growth of Small and Medium Enterprises in Kenya. The response rate for the survey was 92.96%. Primary data was collected using interview guides, structured and Semi structured questionnaires which were administered to the owners and managers of SMEs. Quantitative data obtained from the questionnaires was analyzed using Statistical Package for Social Sciences (SPSS) version 20. The findings from the study were presented in graphs, percentages and tables. The study found that out access to business information had a significant effect on the growth of SMEs. The study recommends that the government needs to come up with a policy on small and medium enterprises information transfer to facilitate information flow. The policy should emphasize the need for businesses to develop information departments to capture business information locally and internationally.

Keywords: Entrepreneurship, business information, Small enterprises, profitability, Growth, Medium enterprises

1.1 Background

Kenya in the year 2009, Micro, Small and Medium Enterprises (MSMEs) created 426.9 of them. This was 89.9% of the total new jobs created in Kenya that year. In the same year, the sector contributed kshs. 806,170 million of GDP which is 59 percent of the total Gross Domestic Product (RoK, 2009). The Kenya economic survey notes that this same sector generated 390.4 thousand new jobs which translated into 87.6 percent of the total jobs generated in 2009.

However, there are challenges that they face in the process of growth. It is generally recognized that Small and Medium Enterprises SMEs face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Despite the big role SMEs play in the economy past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Causes to the failure include limited market access, limited access to information, finances and technology and unfavorable policy and regulatory environment among others (ROK, 2005). Governments around the world are placing increasing importance upon the success of small business entrepreneurs and providing increased resources to support this emphasis (Burgess, 2001).

For this paper the definitions of Small and Medium Enterprises sector in Kenya are based on employment size. A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium enterprise with between 50 to 100 employees while large enterprises have over 100 employees (Louis & Annette 2005; Parker and Torres, 1994). Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya, while there are a few medium enterprises.

Small enterprises are almost non-existent. Micro-enterprises are indigenous while the medium-scale and lager manufacturing enterprises are dominated by Asian (Indian) capital. (Ubom, 2006) identified measurements or criteria for determining and classification of small and medium business as value of capital (initial capital investment, plant and machinery, inventories, work-in-progress, land and building), sales turnover, and value added (difference between sales and cost of purchased materials and supplies).

The Growth of Small and Medium Enterprises (SMEs) is a major driver for economy because SMEs contribute to employment growth at a higher rate than larger firms. This can be clearly seen when knowing that In the EU economy about 99.8 per cent of the enterprises are SMEs employing 67% of the European workforce and developing 57% of the value added (European Statistical Data Support, 2008).

Although Beyene (2002) and Mutula and Brakel (2006) argue that there is no universally accepted definition for small- and medium-scale enterprises (SMEs) in Africa definitions vary from country to country, in Uganda, SMEs are defined as business firms employing 5-50 people (small scale) and 51-500 people (medium scale) (Kasekende and Opondo, 2003; Schiffer and Weder, 2001). In Australia, SMEs are defined as enterprises employing between 5 and 199 employees (Kotey and Folker, 2007). In Indonesia, they are business enterprises with 5-99 employees (Mira, 2006). In Kenya the (MSME bill, 2009) defines SMEs in terms of employees, annual turnover, investment in plant and machinery, equipment investment and registered capital. In all the definitions described by different authors, small and medium enterprises (SME) are identified to broadly cover production, buying, selling and provision of services.

Growth is the second most important goal of a firm, the most important one being firm survival. Aversion to growth has been said to be the principal reason why most SMEs stagnate and decline (Clark *et al.,* 2001).Growth of SMEs is influence by various factors. The fierce global competition necessitates Small and Medium-Sized Enterprises (SMEs), the highly significant actors in the development of national economies, to access business information that will enable them attain a competitive edge.

Many firms in Africa operate in an information-poor environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya and Hussain, 2007). Access to information has however not been given the same attention as other constraints to growth of SMEs like access to finance, markets, technology or training. The paper therefore seeks to assess the effect of access to business information on the growth SMEs in Kenya.

1.2 Statement of the Problem

Research in the less developed countries has clearly shown that small enterprises both in the formal and informal sectors have failed to evolve into medium-sized firms (Ferrand, 1999). Observations show that despite the many Micro and Small enterprises that start in Kenya most of them don't graduate to become medium size enterprises. Studies conducted in Kenya (Baseline, 1999) suggest inaccessibility to markets, capital, and management skills as some of the major constraints to the growth of small-scale enterprises in the country. The inability of small size enterprises to grow and graduate to medium- size has created a sectoral vacuum commonly referred to as the "missing middle". Studies have shown that many small enterprises are started but very few graduate to become Medium size enterprises as others close down. According to Monk (2000), there are many reasons that have led to the increase in failure rate of start-up businesses, including lack of sufficient working capital, poor market selection and swiftly changing market conditions. According to (Moya, 2009) more than half of new businesses will disappear in the first five years due to poor practices, poor management and shortage of funds. Although the small business sector in Kenya has been growing rapidly over the past few decades, it is widely commented on that individual enterprises have not experienced such growth (Esuha & Fletcher, 2002). Additionally while MSEs generate employment and wealth, the majority are unable to grow vertically, thus resulting in the gap between MSEs and the large enterprises, i.e. the missing middle (Moturi, 2006). The existence of this phenomenon across Africa underscores the need for further research in this area.

1.3 Objective of the Study

The objective of the study was to assess the effect off access to business information on the growth of Small and Medium Enterprises in Kenya.

2.1 Theoretical Review

2.1.1 Stochastic Theories

This model is derived from the field of economics where stochastic; models (McMahon, 1998) of firm growth have been developed. There is an emphasis on the random or stochastic nature of the process of enterprise growth. It suggests that 'many factors affect growth and, therefore, there is no dominant theory (O'Farrell and Hitchens, 1988; McMahon, 1998). The theory states that the firm growth is independent from firm size (Gibrat, 1931; Leidholm and Mead, 1999).

2.1.2 Neoclassical Theories

One of the main assumptions of the neoclassical perspective is that firms are attracted to some sort of optimal size (Coad, 2009). This optimal size is the profit maximizing level of production, in which economies of large-scale production is traded off against the total costs of coordinating large bureaucratic organizations (Coad, 2009). The optimal size theory assumes that firms grow until they arrive at an optimal size and once they have attained it, they stop to grow.

2.2 Empirical Review

The establishment of an active SMEs sector and the effective utilization of quality business information have been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries alike (Corps, 2005). Limited access to relevant business information is one of the obstacles to the competitiveness of SMEs (Hatega, 2007). In his study, Jorosi (2006) argues that the main sources of business information for SMEs include competitors, customers, business associates, government officials, broadcast media, libraries, newspapers/periodicals/magazines, government publications, trade and industry associations, and electronic sources. Entrepreneurs rely on diverse sources of information. The sources vary depending on the nature of the problem, the incentives accruing, and the constraints involved in the running and managing of business operations (Moyi, 2000).

Limited access to markets remains a severe constraint to SME growth and competitiveness in Kenya owing to a shrinking domestic market due to globalization. (GOK, 2005; KIPPRA, 2006). Limited access to market information makes SMEs less aware of opportunities in the market. SMEs also face difficulties accessing markets due to limited market information, poor marketing capacity and poor market research leading to a discrepancy between the supply and demand. (KIPPRA, 2006).

Schleberger (1998) recommended that the scope of business information services should include: Information on business trends and markets, information on business organization, advisory services on legal and regulatory aspects, business management, customer service, business expansion and diversification, new technology, identification and communication of business opportunities, providing access to linkages, finance, markets, and facilitation of business partnerships. According to Hatega (2007), obstacles that affect SMEs' ability to compete favourably include limited information on financing products and an inadequate and expensive supply of power and telecommunications. Rural enterprises are unable to interpret statistical data (Muteti, 2005) a phenomena worth noting.

2.3 Growth

Several determinants of firm growth have been suggested and researchers have been unable to achieve a consensus regarding the factors leading to firm growth (Weinzimmer, 2000). Moreover, as (Spilling, 2001) reminds us, the status of being a growth firm may be rather temporary. Profitability and sales turnover are the key measures of growth for this paper. The commonly used measures of firm growth: (employment growth, sales growth, profit, return on equity [ROE], return on assets [ROA]) and entrepreneurs' perceived growth relative to their competitors in terms of increase in company value (Leona *et al.,* 2010). Comprehensive reviews of the different indicators and formulas used when measuring growth empirically have been conducted, e.g, by (Weinzimmer, Nystrom, and Freeman 1998; Delmar, 1997). According to O'Gorman (2001) SME growth can be measured in terms of sales, number of employees, value added, and complexity of the product line, production technology or the number of locations. Bosma & et al (2000) proposed three measures of success of the entrepreneur, such as: profits of the entrepreneur, employment created by the entrepreneur, and the survival period of the firm.

2.4 Conceptual Framework

The conceptual framework summarizes behaviors and provides explanations and predictions for the majority number of empirical observations (Cooper& Schindler, 2008). Access to business information is the independent factor influencing growth of SMEs and growth is the dependent variable as measured in terms of profitability and sales turnover obtained from the SMEs. This is shown in **figure 2.1**.

3.1Research Design

The research design adopted was the mixed research design where both qualitative and quantitative methods were used in determining the relationship between access to business information and growth of SMEs. Mixed research design is preferred to using either quantitative or qualitative method alone since this can result in a tendency to overlook complexities that may only be revealed when a combination of methodologies is employed (Elliott 2004).

3.2 Target Population

The target population composed of the licensed SMEs by the the Thika Municipal Council located in Thika District as at 2011 as per the local Government ACT (CAP. 265) Municipal Council of (Thika, 2000). The SMEs for the study were those SMEs which have been in business at least for the last three years with focus on owners and managers of the SMEs. As per the registrations office the total population of SMEs in Thika as at 2011 was 1,420. Ten percent of the accessible population is enough Gay (1981), therefore the study used 142 SMEs with employees between 10-99.

3.3 Sampling Frame and Sampling Technique

This sampling frame constituted of a list of a target population of 1,420 of SMEs obtained from the Thika registrations office which keeps a list of all registered businesses in the district. The sampling technique used was stratified sampling. According to Cooper and Schindler (2008) stratified sampling is a technique used where the population is not homogeneous. The SMEs were first of all stratified according to the nature of businesses then samples selected from each stratum using simple random sampling.

3.4 Data Collection Methods

The two main methods adopted in data collection were primary and secondary. The instruments used in collecting primary data were questionnaires which were self administered to the owners and managers of the SMEs. Semis structured to open ended questions were used in collecting data. Cooper and Schindler (2006) advocates for the use of questionnaires in descriptive studies because it is less costly and participants can easily be reached. To obtain the ordinal data a 5- point Likert scale was used from questionnaires with structured questions (Kannan & Aubur, 2004). Fixed set of choices and open ended questions were also used. The interview schedule was also used to supplement information not captured in the questionnaires. Secondary data involved information collected from published materials and other sources obtained from libraries, internet, public and private organizations and largely desk review of published literature on SME growth.

3.5 Data Processing and Analysis

The analysis was directed by the objective of the study. Factor analysis for the variables was carried out to ensure the items help to measure the intended constructs. Reliability test was performed on each variable to determine the degree of consistency in scores due to random errors. Cronbach's coefficient Alpha was used to test the validity and reliability of data. Descriptive analysis was carried out and presented using percentages and tables. Pearson product moment correlation analysis was used to test the relationship between the variables. To test the hypothesis of the of the regression model, Analysis of Variance (ANOVA) was used (Cooper & Schindler, 2006). One way ANOVA was employed to test the effect of the independent factor on the growth of (SMEs). The study adopted a regression analysis to further determine the strength of the relationship between access to business information and growth of SMEs. T- test was also used to test the significance of the individual independent variables to the dependent variable.

The regression model used is as follows:

$Y = \beta_0 + \beta_1 X_1$

Where

Y = Dependent variable (Growth)

β_0 = Growth which is insensitive to the independent variable (access to business information)

$\beta_{1,}$ = Change in growth Due to unit change in access to business information.

X_1 = Independent variable (Access to business information)

The model hypothesis:

H_0= The regression coefficient (β_1)   is equal to Zero

H_1= The regression coefficient (β_1)   is not equal to Zero

Test statistics was used to guide inferences at 5% level of significance.

Research Findings and Discussion

4.1 Response Rate

There was a response of 92.96% response which according to punch, (2003) 80 to 85% response is good for face to face survey.

4.2 Reliability Test

A reliability test was performed on access to business information to test for the consistency and validity and the results showed a Cronbach's alpha value of 0.752 which is above 0.7 and therefore the results are acceptable.

4.3 Factor Analysis

The results from the factor analysis indicates that the factor loadings were good with the highest being on Access to information on business risks has an effect on growth with a loading of 0.777, access to information on distribution channels with 0.720, access to information on competitor strategy had 0.670, access to information on new markets had 0.669, access to information on pricing strategies at 0.642, access to information on affordability and quality suppliers at 0.467 and the lowest on access to information on new sources of finances with a loading of 0.434 which is also above the required level 0.4. In general   the factor analysis on all the variables indicated that the factor loadings were good and therefore results acceptable.

4.4 Descriptive Statistics

The mean and standard deviation was computed to show how the respondents strongly agreed, agreed as to whether access to business information affected the growth of SMEs according to the likert scale of 1-5. The results were presented by the means and the standard deviation. The results shows that the mean for majority of the responses on the various aspects of access to business information were above 4.0 and therefore respondents agreed that access to business information has an effect on the growth of SMEs. This is shown in table 4.1.

4.5: Correlation Analysis for Access to Business Information

A Pearson product moment correlation coefficient was computed to assess the relationship between access to business information and growth of SMEs. The results showed a positive correlation between the variables, r= 0.360, n=132, p= 000. P value p= 0.00 is less than p=0.05 level of significance which implies that access to business information is a very significant factor in the growth of a business and has a positive influence on growth. This is supported by Chyau (2005) who asserts that empowering SMEs to participate in the knowledge economy by facilitating connectivity; helping to create and deliver products and services on a global scale and providing access to new markets leads to SME growth. This is shown in table 4.2.

4.6 Regression Analysis for Access to Business Information

The regression results in table 4.3 shows that access to business information has a positive influence on the growth of SMEs. The R^2 tells us how well the regression line fits the data. It is also an important indicator of the predictive accuracy of the equation (Cooper & Schindler, 2006). The R= 0.360 and R^2 value of 0.130 or 13% shows that 13% of the variation in growth of SMEs is explained by variation in access to business information. 87% of variation in the growth of SMEs is explained by other factors not in the model or by chance.

The study sought to test the following hypotheses:

H_0 : Access to business information has no effect on the growth of SMEs

H_1 : Access to business information has an effect on the growth of SMEs

From the results of analysis of variance in table 4.4 the p value (0.000) is less than the level of significance (0.05) implying that the model is significant. Additionally, the F computed 19.386 is greater than the F-critical (3.84) which implies that the model $Y = 13.055 + 0.422X_3$ in table 4.5 is significant and therefore good for prediction. This is consistent with Haynes (2010) that if the P- value is less than 0.05, then one should consider the overall model to be significant. Access to business information therefore has a significant influence on the growth of SMEs. This therefore means we reject the null hypothesis that access to business information has no influence on the growth of SMEs.

The regression coefficient B indicates the amount of change in response per unit of the predictor variable in the dependent variable Dallal (2012). The B value of 0.422 in table 4.5 is significant at p value (0.000) since it is less than the level of significance of (0.05). Additionally, the T computed (4.403) is more than the T-critical (1.96) which implies that the predictor variable is significant. This therefore implies that access to business information is a good predictor and has a significant influence on the growth of growth SMEs.

5.1 Conclusions

The study concludes that access to business information has a significant influence on the growth of SMEs. Access to business information facilitates access to information on new markets which leads to market power that accelerates growth (Becchetti & Trovato, 2002). According to Ladzani (2001), the priority ranking of the SMEs needs, clearly puts information provision at the top of the list of services to be provided. SME owners should therefore endeavor to access quality information that will help in exploiting available business opportunities and realize growth.

5.2 Recommendations

There is need for the government to put in place a legal framework that strengthens information transfer and exchange between SMEs, research institutions and government sources that support SME growth. There is need for the government to establish information centers to enable SMEs have easy access to business information. SMEs should also participate in forums that facilitate information exchange in order to learn and bench mark with other SMEs and improve their performance. They should also invest in information access and exchange programmes to facilitate access to information.

5.3 Areas for Further Research

The study recommends that further research be conducted on the role of the Government and research institutions in business information transfer and exchange to SMEs in Kenya.

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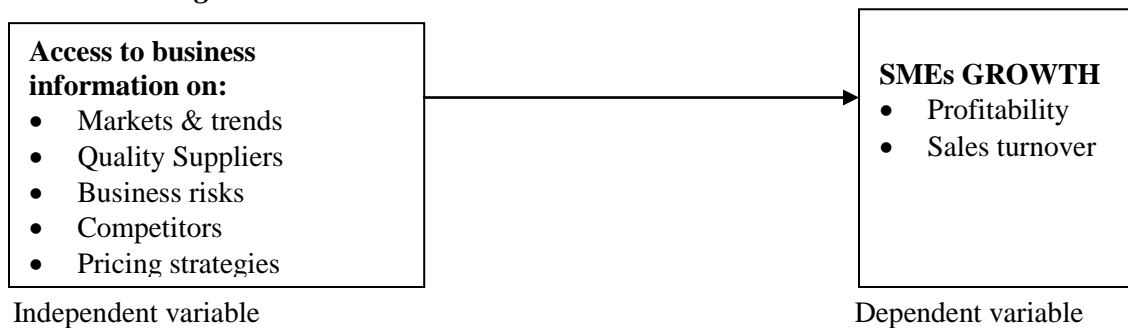
Tables and Figures

Access to business information on: • Markets & trends • Quality Suppliers • Business risks • Competitors • Pricing strategies	→	SMEs GROWTH • Profitability • Sales turnover
Independent variable		Dependent variable

Figure 2.1 Conceptual Framework

Table 4.1: Descriptive Statistics for Access to Business Information

Aspects of access to business information	Mean	Std. Deviation
Access to information on new markets	4.53	.725
Access to information on new sources of finances	4.11	.822
Access to information on better quality services	4.34	.663
Access to information on competitor strategy	4.14	.848
Access to information on affordability and quality suppliers	4.26	.888
Access to information on business risks	3.92	1.009
Access to information on pricing strategies	4.20	.878
Access to information on new distribution channels	4.19	.892

Table 4.2: Correlation Coefficient for Access to Business Information and Growth

Variable	Statistic	Growth	Access to Business Information
Growth	Pearson Correlation	1	.360[**]
	Sig. (2-tailed)		.000
	N	132	132
Access to Business Information	Pearson Correlation	.360[**]	1
	Sig. (2-tailed)	.000	
	N	132	132

Table 4. 3: Regression Results

R	R Square	Adjusted R Square	Std. Error of the Estimate
.360	.130	.123	4.46806

Table 4. 4: ANOVA for Access to Business Information

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	387.023	1	387.023	19.386	.000
Residual	2595.267	130	19.964		
Total	2982.290	131			

Table 4. 5: Correlation Coefficients

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	13.055	1.841		7.091	.000
Access to Business Information	.422	.096	.360	4.403	.000