

# INFLUENCE OF KENYA INDUSTRIAL ESTATES SERVICES TO THE GROWTH OF MICRO AND SMALL ENTERPRISES IN KENYA

**Nahashon Mbugua Gitau**

Jomo Kenyatta University of Agriculture and Technology (Kenya)

Email: [nmgitau2005@gmail.com](mailto:nmgitau2005@gmail.com)

**Daniel M. Wanyoike**

School of Human Resource Development,

Jomo Kenyatta University of Agriculture and Technology (Kenya)

Email: [danwanyoike@gmail.com](mailto:danwanyoike@gmail.com)

## **Abstract**

*The purpose of this study was to access the influence of Kenya Industrial Estates services to the growth of Micro and small Enterprises in Kenya. The researcher employed descriptive research design and quantitative methods to examine the performance of the Kenya Industrial Estates in provision of financial services and incubation program service. The target population comprised 106 staff members who work in the Kenya Industrial Estates head office. From this population, a sample of 83 respondents was randomly chosen. Structured questionnaires were used to collect data from the sampled respondents. Data was processed and analyzed using the Statistical Package for Social Science (SPSS). Both descriptive and inferential statistical analyses were employed in the data processing and analysis. It was established that financial factors such as access to finance, interest rates and financial management were strongly correlated to Micro and Small Enterprises Growth. Therefore, these factors were found to enhance the growth of Micro and Small Enterprises. It was established that incubation services such as; Networking, New product development and stimulating innovation returned strong correlation when correlated against Micro and Small Enterprises growth. This implied that the factors had great influence on the growth rate of Micro and Small Enterprises.*

**Key words:** Incubation services, Financial services, Micro and Small Enterprises

## **1.0 Introduction**

Businesses are mainly categorized into four; that is micro, small, medium and large scale enterprises with the former two normally considered together as Micro and Small Enterprises. According to Sleuwaegen and Goedhuys (2002), insufficient capital or lack of financial sources is the major obstacle for Micro and Small Enterprises and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand their operations, since the internal financial sources are normally insufficient.

Research on small-businesses' development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwa, 2002). Explicably, Micro and Small Enterprises in developing countries generally do not get access to formal bank loans (Nichter & Goldmark, 2009) because

of perceived high risk of default, low profitability and incapability to demonstrate required physical collateral (Harvie, 2005).

Many countries across the world have used Micro and Small Enterprises as a tool of achieving economic growth and development. New Zealand government established Small Business Unit within the Ministry of Economic Development in 2003 and a Minister of Small Business was appointed, indicating the importance of Micro and Small Enterprise in the economy.

Prior to 2007, the Malaysian Micro and Small Enterprises was guided by two organizations: Small and Medium Industries Development Corporation (SMIDEC) charged with developing capable and resilient Malaysian Micro and Small Enterprises and National Micro and Small Enterprises Development Council charged with coordinating task and making policy. In 2009, the Micro and Small Enterprises corp Malaysia was established in order to coordinate small business programs across all related Agencies and Ministries and with formulating the overall policies and strategies for Micro and Small Enterprises. This organization works towards the growth of Micro and Small Enterprises through; implementing Micro and Small Enterprises policies and programs, provision of advisory and information services, management of data, dissemination and research on Micro and Small Enterprises and provision of business support services.

For the interest of ensuring growth of Micro and Small Enterprises in Tanzania, the government of Tanzania formed Small Industries Development Organization (SIDO) as a parastatal organization, also the Women Entrepreneurship Development program (WED) was formed in 2004 by United Nations Industries Development Organization (UNIDO) in order to promote women's development and gender equality within the food processing industry. The scheme has experienced success and is currently operating in 21 regions of Tanzania. The South African government has prioritized the promotion of Micro and Small Enterprises since 1994. The government's main aim is to ensure that Micro and Small Enterprises play a major role in growth and performance of South African economy. As a result of government initiatives in South Africa, the number of Micro and Small Enterprises has increased from just over 1.2 million in 2003 to 2.5 million in 2009. The Umsobomvu Youth Fund (UYF) was created in 2001 to link youth-owned Micro and Small Enterprises to procurement opportunities and offering funding and loans to approximately 20,000 young people each year to start or expand businesses.

Kenya government has played a great role in coming up with different initiatives to support Micro and Small Enterprises. The effects of such initiatives on the growth of Micro and Small Enterprises cannot be underestimated in the growth of Kenyan economy. Improved Micro and Small Enterprises competitiveness could obviously contribute to socio-economic development and poverty reduction. While the contributions of Kenyan government towards small and micro businesses' development are generally acknowledged, small and micro businesses face many obstacles that limit their long-term survival and development. The main problems facing Micro and Small Enterprises that have challenged the Kenyan government to create institutions that support Micro and Small Enterprises include lack of financial resources, lack of management experience, poor location, laws and regulations, general economic conditions, as well as critical factors such as poor infrastructure, corruption, low demand for products and services, and poverty.

Recognizing the indispensable role of Micro and Small Enterprises in general economic development, many countries have instituted enterprise support networks and structures to boost the growth of these enterprises. Kenya is no exception. At various times since 1963, the Kenyan government has designed and introduced measures to promote development of Micro and Small Enterprises. These measures include creation of institutions that offer financial support, incubation and business development services to the Micro and Small Enterprises. Several developmental institutions were established to aid these enterprises. These institutions include Kenya Industrial Estate (KIE) which offers financial, incubation and business development services

to Micro and Small Enterprises across the country. In the light of these support and incentive programs, it would seem reasonable to expect that small businesses would grow and flourish in Kenya.

## **2.0 Literature Review**

Finance plays a critical role for the development and growth of Micro and Small Enterprises. Previous studies by Ligthelm and Cant (2003) highlighted the limited access to financial resources available to Micro and Small Enterprises compared to large organizations. Micro and Small Enterprises development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. The International Finance Corporation (IFC) (2011) identified various challenges faced by Micro and a Small Enterprise, among the challenge that was identified by the report was lack of access to credit. Lack of access to finance is almost universally identified as a key challenge for Micro and Small Enterprises (Wanjohi & Mugure, 2008)

Factors which have led to limited finances for Micro and Small Enterprises include poor management and accounting practices which have hampered the ability of Micro and Small Enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). Information asymmetry is another factor that has led to limited access to finance by Micro and Small Enterprises. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to Micro and Small Enterprises. Most formal financial institutions are also reluctant to lend to Micro and Small Enterprises as the lack proper collaterals, they are also discouraged from accessing credit facilities from formal financial institutions due to high interest rates that are charged.

Due to the persistent gap in financing Micro and Small Enterprises, many interventions have been launched by the government and development partners to stimulate the flow of financing to Micro and Small Enterprises over and above what is available from existing private sector financial institutions. Temtime and Pansiri (2004) postulated that governments and private enterprises of developing countries are doing much to facilitate participation for all in terms of establishing and support for Micro and Small Enterprises, but economic forces are negatively influencing these efforts and cannot be easily controlled.

In Kenya, it is posited that the small business enterprises have both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. Recognizing the crucial role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages the strengthening of Micro and Small Enterprises to become the key industries by improving their financial access, productivity and innovation (Kiraka, Kobia, & Katwalo, 2013). Lack of access to finance is almost universally identified as a key challenge for Micro and Small Enterprises in Kenya (Wanjohi & Mugure, 2008). The scholars, in their study, further argued that the success of Micro and Small Enterprises, especially the lower values ones that many entrepreneurs operate, is in their ability to apply finances appropriately to support innovative initiatives that can grant them a competitive edge in the market, thereby spurring their growth. In a study of credit and employment growth among small enterprises in Kenya, Moyi (2013) alleged that policy makers in Kenya expect Micro and Small Enterprises to provide the bulk of new jobs created in the economy yet these enterprises face significant credit constraints.

Developing of incubation centres is an important segment of the support of Micro and Small Enterprises for business start-ups. Business incubators are defined as special facilities intended to provide new developing Micro and Small Enterprises with office space, infrastructure and a comprehensive range of services and amenities to enhance their business skill during the early period of their development. Since 1980s business incubators have become a popular policy instrument to foster entrepreneurship, innovation and regional development (OECD, 1997). The continued growth in the number of incubators worldwide demonstrates

their perceived value. Incubators act as catalyst to accelerate the entrepreneurial process systematically, thereby institutionalizing the support of venture with potential for high growth.

The primary function of incubation is to address market failures, which limit the ability of start-ups to overcome uncertainty and obstacles associated with early stages of firm development (Siegel et al, 2005). Incubators can impact on an individual tenant through improving its growth. This growth can last beyond incubation period through enhancing growth in productivity and employment of its tenants both during and after incubation process which in turn has impact on the wider business environment. For incubated firms, the empirical evidence would suggest that incubatees who interact with incubator (both in terms of other companies and support staff) have a stronger learning (Scillitoe & Chakrabarti, 2010).

Incubators provide benefits to incubatees along four broad dimensions which are development of credibility, shortening of the entrepreneurial learning curve, quicker solution of problems and access to an entrepreneurial network (Smilor, 1987). To enable success of incubation process, incubators programs should not be predetermined but should be evaluated depending on the changing needs of tenants (Ratinho & Henriques, 2010). According to Teece et al. (1997) prescriptive strategy enforced through a rigid monitoring can erode the ability to apply lessons learnt and adapt to the changing conditions. To succeed in incubations, incubators must therefore have the ability to learn and adapt to the changing needs of their tenants.

Studies by National Business Incubation Association (NBIA) showed that business incubation reduce the risk of small businesses failures. NBIA member incubators report 87% of all firms that graduate from incubators are still in business. The NBIA also reports that start-up firms served by NBIA member incubators, annually increased sales by \$240,000 each and added an average of 3.7 full and part time jobs per firm. Kiraka, Kobia and Katwalo (2013) in their study of micro, small and medium enterprise (MSME) growth and innovation in Kenya observe that a business incubation centre for women entrepreneurs need to be set up with the object of offering support and developing innovative business ideas.

### **3.0 Objective of the Study**

To establish influence of Kenya Industrial Estates Services to the growth of Micro and Small Enterprises in Kenya.

### **4.0 Methodology**

This study adopted descriptive research design. According to Bickman and Rog (1998), descriptive study which essentially employs descriptive research design can answer “what is?” and “what was?” questions. Descriptive studies are used to show relationships between variables. Under descriptive research design, the researcher intended to use a cross- sectional design. This design optimized the collection, processing and analysis of data.

The data was collected through the survey method because it was largely numerical and as such could be quantified. The decision to use survey method was guided by the reason that survey provides a quick, efficient and accurate means of assessing information about population (Thomas, 2003). Olsen and George (2003) also argue that social surveys are often viewed as prime examples of quantitative research and are evaluated against the strengths and weaknesses of quantitative methods. Thus, conducting a survey was the most appropriate to gain information about the aforementioned variables.

The population of this study constituted all members of staff (employees) in Kenya Industrial Estates (KIE) across all Kenya Industrial Estates departments and branches in Kenya. The rationale of the Kenya Industrial Estates employees constituting the study population is due to the fact that they are privy with the support offered to the Micro and Small Enterprises by the Kenya Industrial Estates and also the data

pertaining the success or growth rate of the enterprises that get Kenya Industrial Estates support. The research study took place at the Kenya Industrial Estates s head offices. Records from human resources department indicated that there were 106 staff members across the 13 departments at Kenya Industrial Estates head offices at the time this study was being undertaken. Therefore, the target population comprised 106 prospective respondents.

The accessible population that comprised the sampling frame was approximately 83 respondents from the Kenya Industrial Estates Head Office. This was the precise number of respondents to whom the questionnaires were issued. In order to obtain reliable data about influence of Kenya Industrial Estates services towards the growth of Micro and Small Enterprises, a random sample from the population was selected. With this approach, efforts were made to approach respondents who fitted the objectives of the study .The study sample only comprised of individuals who possessed the data that the researcher intended to collect. In this study the researcher intended to examine the relationship between Kenya Industrial Estates services and Micro and Small Enterprises' growth, so the respondents were staff and managers of different departments in Kenya Industrial Estates.

## 5.0 Results and Discussions

### i. Financial Factors' Influence on Micro and Small Enterprise Growth

The researcher based his study on three financial factors that influence the growth of Micro and Small Enterprises. These are interest rate, financial management skills, and access to finance. The analysis findings of the three factors were presented in the following Table.

**Table 5.1 Influence of Financial Factors on Micro and Small Enterprises growth**

	Interes t Rate	Financial Management Skills	Access to Finance
Less Important	1.4	0.0	2.8
Neutral	11.2	15.5	8.5
Important	42.3	28.2	32.4
Most Important	40.8	52.1	54.9
No Response	4.2	4.2	0.0
<b>Total</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>

Cumulatively, 83.1% of the respondents stated that interest rate as an aspect that influences growth of Micro and Small Enterprises was either important (42.3%) or most important (40.8%). More than half the number of respondents (52.1%) said that financial management skills are most important at influencing performance of Micro and Small Enterprises s. Notably, none of the respondents believed this factor to be less important since none alluded to that as the same table illustrates.

54.9% of the respondents at the time of study believed that accessibility of finance to be most important in influencing Micro and Small Enterprises' performance. A whopping 87.3% returned a verdict of important and above. Generally, according to all financial aspects aforementioned that is, interest rate, financial management skills, and access to finance, the researcher established that growth of Micro and Small Enterprises is greatly influenced by them. It is, therefore, very rational to note that financial factors play at least an important role in determination of the growth of Micro and Small Enterprises in Kenya.

## ii. Incubation Program's Influence on Micro and Small Enterprises growth

Table 5.3 shows how incubation programs provided by the Kenya Industrial Estates assist Micro and Small Enterprises in areas of networking with other entrepreneurs, stimulating innovation, improving management capacity and new product development. In the analysis as shown in the same table the researcher coded "minor influence" and "major influence" were coded as "0" and "1" respectively. From the analysis, all the means are above 0.5 with the lowest being 0.57 and the highest 0.68. The means are inclined towards 1.00, that is, towards major influence. As such, therefore, incubation programs were noted to have a major influence on all aforementioned spheres of Micro and Small Enterprises which in turn influence the growth of Micro and Small Enterprises.

**Table 5.3: Influence of Incubation Programs in Assisting Micro and Small Enterprises**

	N	Min	Max	Sum	Mean	Std. Deviation	Variance
Networking with other Entrepreneurs	71	0	1	47	.68	.469	.220
Stimulating Innovation	71	0	1	46	.67	.475	.225
Improving Management Capacity	71	0	1	45	.65	.480	.230
New Product Development	71	0	1	45	.65	.480	.230
Valid N (listwise)	71						

## 6.0 Correlation Analysis

### i. Correlation between Micro and Small Enterprises Financing and Micro and Small Enterprises Growth

The researcher wanted to find out how Micro and Small Enterprises' financing was associated with Micro and Small Enterprises' growth. The findings are as shown in Table 6.1. It was established that of access to finance was the most strongly correlated ( $r = 0.625$ ) to Micro and Small Enterprises' Growth. Therefore, the Kenya Industrial Estates financing was found to enhance the growth of Micro and Small Enterprises. Interest rates and financial management skills were also found to be strongly correlated meaning that they both enhance the growth of Micro and Small Enterprises.

**Table 6.1: Relationship between Micro and Small Enterprises' Financing and Micro and Small Enterprises' Growth**

Micro and Small Enterprises' Financing		Micro and Small Enterprises Growth
Interest Rate	Pearson Correlation	.582
	Sig. (2-tailed)	.003
	N	71
Access to Finance	Pearson Correlation	.625
	Sig. (2-tailed)	.002
	N	71
Financial Management Skills	Pearson Correlation	.564
	Sig. (2-tailed)	.004
	N	71

\*. Correlation is significant at the 0.05 level (2-tailed).

## ii. Correlation between Incubation Services and Micro and Small Enterprises Growth

The study also sought to investigate whether incubation services provided by the Kenya Industrial Estates affect the growth of Micro and Small Enterprises. The results of the findings are as indicated in Table 6.2. Networking, New product development and stimulating innovation returned the highest correlations ( $r = 0.777$ ,  $r = 0.623$  and  $r = 0.564$  respectively) when correlated against Micro and Small Enterprises growth. This implied that the factors had great influence on the growth rate of Micro and Small Enterprises. On the other hand improving management capacity was found to be weakly correlated with the Micro and Small Enterprises' growth. It was argued that the Kenya Industrial Estates input in regard to the aforementioned aspect resulted in minimal or negative consequences on Micro and Small Enterprises growth. Generally, it was observed that the incubation services provided by the Kenya Industrial Estates had positive effect on the growth rate of the Micro and Small Enterprises.

**Table 6.2: Relationship between Micro and Small Enterprises' Incubation Services and Micro and Small Enterprises' Growth**

Micro and Small Enterprises' Incubation Services		Micro and Small Enterprises Growth
Networking with other Entrepreneurs	Pearson Correlation	.777**
	Sig. (2-tailed)	.000
	n	71
New Product Development	Pearson Correlation	.623**
	Sig. (2-tailed)	.002
	n	71
Improving Management Capacity	Pearson Correlation	.190
	Sig. (2-tailed)	.139
	n	71
Stimulating Innovation	Pearson Correlation	.564**
	Sig. (2-tailed)	.003
	n	71

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

## 7.0 Recommendations

From the study it can be deduced that great opportunities for growth of Micro and Small Enterprises exist at Kenya Industrial Estates in terms of financing and incubation services. Micro and Small Enterprises are urged to seek incubation and financial services from the Kenya Industrial Estates to enhance their growth since there are very minimal bottlenecks that can hinder them from qualifying for such services.

The researcher further recommends that in-depth research should be carried out by interested scholars and/or policy makers on how the Micro and Small Enterprises spurning across Kenya employ the funds given to them by the Kenya Industrial Estates. Also, a study on comparison between the effects of financing rendered by the Kenya Industrial Estates and the mainstream financial institutions is recommended to be carried out and the research findings correlated. This is bound to bring out a clearer picture of the extent of the essence of the government intervention through the Kenya Industrial Estates in promoting the Micro and Small Enterprises in Kenya.

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