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Improving Performance among Small and Medium Enterprises through Managerial Training and Savings Mobilization: Evidence from MSMEs in Kenya

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Abstract
Kenyan microfinance has shown resiliency despite local droughts and high inflation rates that afflicted the nation in 2008 and 2009. With the Kenyan government and the Central Bank of Kenya emphasizing financial access as a key to modernizing the economy, the sector has been strengthened by progressive policies and innovative approaches to delivering financial services. Based on a study conducted in Githurai Market, situated in Kiambu County, this paper examines the effects of managerial training and savings mobilization on the performance of micro, small and medium enterprises in Kenya. The study utilized an explanatory research design. The target population was the 429 MSMEs registered by the Kiambu Municipal Council. Of these, a sample of 270 SMEs was selected for the purposes of the study using stratified sampling technique. The study utilized multiple regression analysis set draw inferences on the study using Eviews statistical package. From the study findings, savings mobilization portfolio was also significant at 99% confidence level in determining MSMEs performance in Kiambu County, Kenya ($t=3.715$, $p=0.000$). The study also found managerial training to be statistically significant in determining MSMEs' performance in the County (t values=0.109, $p=0.004$). It was thus concluded that training in micro enterprise investment as a component of micro finance helps clients in business management and minimizing transaction related risks. The study recommends that microfinance service providers and policy development partners could consider including a micro-insurance scheme in the micro finance package.
Keywords: Improving Performance, Small, Medium Enterprises, Managerial Training, Savings Mobilization, Kiambu County, Kenya

1. Introduction

1.1 Managerial Training and Performance of MSMEs

Many MSE owners or managers lack managerial training and experience. 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 (Hill, 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises (King & McGrath, 2002).
As is evident from the international experience, globalisation raises the need for what has been termed "learning-led competitiveness" (King & McGrath, 2002). It is argued that to respond to the challenge of competitiveness under

conditions of globalisation, important elements of response both for countries and enterprises are effective "strategies to improve individuals' and enterprises' level of knowledge and skills" (King & McGrath, 2002). The role of training and skills development is thus seen as essential for MSME enterprises for them to 'learn to grow' (King & McGrath, 1999) as well as to 'move up the value chain' (Kraak, 2005). That said, it is cautioned also that "skills are not the only, nor even the main, answer to the challenge of small enterprise development" (McGrath, 2005a).

Over the past decade, there has appeared a number of research contributions on training and skills development linked to the MSME economy in South Africa as a whole. At the broadest level, there are a suite of investigations, which confirm that a large segment of South Africa's MSME entrepreneurs have very limited skills and correspondingly of the importance of training and the acquisition of skills for business development. Several studies show a pattern that the most successful, adaptive and innovative MSMEs are those in which entrepreneurs (and often also the workers) have good to high levels of education, technical/managerial skills and training. In the Global Entrepreneurship Monitor, Orford *et al.* (2003) find that education, training and experience are key elements in successful enterprise creation. Perks (2004) and Smith and Perks (2006) differentiate four different categories of skill as necessary for start-up of a micro-enterprise, viz: personal skills, technical skills, business operation skills and management skills. McGrath (2005b) examines the question of national policy development to address the skills development of MSMEs.

In a recent investigation concerning the 'business success factors' of MSMEs in Gauteng, it was revealed that lack of technical and managerial skills impacted in a highly negative fashion on business development (Ligthelm & Cant, 2002). In the case of the clothing industry of inner-city Johannesburg the success of businesses run by immigrant entrepreneurs as opposed to the survivalist character of parallel businesses run by South African entrepreneurs can be accounted for, to a large extent, in terms of factors of skills and training (Rogerson, 2004b). Within a number of studies it is disclosed that lack of management skills and training is one of the most prevalent causes of general business failure amongst MSMEs in South Africa. In a survey conducted by Radipere and Van Scheers (2005), it was found that 90% of a sample of 1000 entrepreneurs "believe that small businesses fail due to a lack of managerial skills". Despite the significance of skills in determining the success or failure of MSMEs in South Africa, a consistent and remarkable finding in many studies is that entrepreneurs often "see little need for skills training" (McGrath, 2005a).

In the findings of a 2006 World Bank study in which respondents were asked to indicate demand for particular support programmes offered through DTI, it was concluded "that training did not figure as prominently as expected" (World Bank, 2006). This situation accounts for the relatively low proportion of small business owners who have had any specific business training. In the FinMark Trust (2006a) study of 2001 small business enterprises in Gauteng, it was concluded that "only 12.5% have had any specific business training". Among the most significant and richest current national research on skills development and skills training in MSMEs is the group of studies undertaken by Martins and van Wyk (2004), Martins (2005) and McGrath (2005a,b). The core focus in all these investigations is on meeting the skills needs of the category of "very small and micro-enterprises" or VSMEs. This category straddles both formally registered as well as informal enterprise (McGrath, 2005a).

Furthermore, important insight on training is offered in the World Bank (2006) assessment of government MSME programmes. The results of this investigation are highly critical of the effectiveness of existing government training systems in supporting MSME development. Overall, the study reached the evaluation that "results suggested that government programmes to encourage training have not been successful" (World Bank, 2006).

1.1 Savings Mobilization and Performance of MSMEs

Initially, microfinance was called *microcredit* and lending was their main focus (Morduch, 2005). The transition from microcredit to microfinance has brought a change of outlook, a growing realization that the low income households can profit trough a broader set of financial services than just credit. Notably, new initiatives are underway to create deposit accounts with terms and features that appeal to the low income customers (Murduch, 2005).

Savings mobilization has long been a controversial issue in microfinance. In recent years, there has been increasing awareness among policy makers and practitioners that there is a vast number of informal savings schemes and MFIs around the world (in particular, credit union organisations) have been very successful in mobilizing savings. These developments attest to the fact that *low-income clients can and do save.* The World Bank's *Worldwide Inventory of Microfinance Institutions* found that many of the largest, most suitable institutions in microfinance rely heavily on savings mobilization. In 1995, over $19 billion are held in the surveyed microfinance institutions in more than 45 million savings accounts compared to nearly $7 billion in 14 million active loan accounts. Often neglected in microfinance, deposits provide a highly valued service to the world's poor who seldom have reliable places to store their money or the possibility to earn a return on savings (Ledgerwood, 2002).

Over the years, following numerous studies and models, it has become clear that the poor are actually bankable.

They are able to save and repay loans; thus the microfinance industry today forms an integral part of the formal financial sector in many countries around the world. By 2006, there were more than 133 million microfinance clients, 70% of whom were among the world's poorest people (Campion *et al.*, 2008).

A strong culture of savings has meant that MFI outreach to depositors has far outweighed outreach to borrowers, although overall loan portfolio and total deposits have both increased steadily since 2008. High product-line diversification has allowed MFIs to evolve to meet customer needs, although growth has primarily targeted an urban clientele. Deposits account for nearly 70% of the funding base for the sector, with the savings of micro-depositors contributing the majority of these funds. Kenyan microfinance also benefits from the confidence of many international lenders, although the largest national source of microfinance credit is Kenya itself.

1.1 Statement of the Problem

The purpose of the study was to assess the contribution of microfinance institutions to the growth and success of the economically active low income traders in Githurai Market, Kiambu County, Kenya, through delivery of microfinance products and services. As with many developing countries, there is limited research and scholarly studies on the contribution of the MFIs to the growth of the economy. The primary role of MFIs is to provide financial intermediation. It is generally recognized that small businesses face unique challenges in their financing and management structure, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development (Mead, 1998).

Downscaling of commercial banks, up-scaling of microfinance institutions, innovation, regulation, seem to divert the attention of the financial players from poverty alleviation to more of profit maximization therefore failing to deliver on the original goal of poverty alleviation. This has therefore created a vacuum in the successful delivery of financial services to the low income traders. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was a need to conduct an empirical study to investigate the effect of micro-financing services on micro enterprises in Githurai Market in Kiambu County. The study targeted delivery of microfinance products to those considered poor but economically active within Githurai Market Market in Kiambu County with the sole aim of improving their livelihoods by improving the delivery of financial services to ensure they contribute to the growth of the economy.

2. Materials and Methods

This study adopted explanatory research design. The study focussed on the SMEs operating within the Githurai Market in Kiambu County, Nairobi. The sampling frame comprised of the 429 SMEs registered with Kiambu Municipal Council and operating within the Githurai Market. The SMEs in Githurai Market largely deal in shoes, new clothes, Mitumba (imported used cloths), green vegetables, various accessories, fruits and consumables. Stratified random sampling technique was used in deriving the desired sample from the population. The population was stratified into five homogeneous sub groups which included those who dealt in shoes, new cloths, Mitumba, various accessories, fruits and consumables. From these, a sample of 270 SMEs was obtained. This sampling method was used because it represented the various population characteristics under study.

The study relied on primary sources of data in order to achieve the set objectives. Consequently, 270 structured questionnaires were administered in order to collect the prerequisite data of the study. The structured questionnaires were self-administered to owners of the SMEs to gather primary quantitative data. Descriptive and inferential statics were used in data analysis. Descriptive statistics was in form of indices that described the sample and include measures of central tendency, frequency tables a coefficient and a correlation table.

3. Results and Discussion

3.1 Managerial Training

Table 1 shows distribution of level of satisfaction in achievement of business skills after participating in micro enterprise investment training. In terms of achievement of capital investment decisions, 107 respondents reported most satisfactory, 103 reported very satisfactory while 21 indicated satisfactory. Eight of them expressed moderate satisfaction and only 4 expressed less satisfaction. This translated into a weighted mean score of 4.2 on the scale. The finding also indicated that 59 respondents expressed most satisfaction with achievement of basic business skills, 61 were very satisfied, 120 were satisfied while 3 were moderately satisfied.

None of the respondents expressed less satisfaction thus translating to a weighted mean score of 3.73 on the scale. These results show that the majority of the respondents were very satisfied with the achievement of capital investment and basic business skills after training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the youth entrepreneurs to use funds and hence impacts on business performance (Webster & Fidler, 1996). These results also agree with those of Bowen (2009) where 50% of the entrepreneurs who were trained in their areas of business expressed satisfaction and reflected in terms of business performance.

The purpose of the capital investment decisions includes allocation of the micro enterprise capital funds most effectively in order to ensure the best return possible. The decisions of capital investment often suffer from a number of constraints. The amount of capital that an entrepreneur collects is limited and it brings down the constraint on the choice of the enterprise over various project investments. The basic business skills enable the micro entrepreneurs independently carry out economic activities, widen their horizons of business transactions and generally manage the day to day business challenges.

In terms of business risk management, only 3 respondents reported most satisfaction, 47 were very satisfied while 40 were satisfied, 150 expressed moderate satisfaction and 3 reported less satisfaction. With a weighted mean of 2.4 it shows that most of the respondents were moderately satisfied in terms of achievement of business risk management skills. This implies that majority of the micro entrepreneurs were unable to adequately deal with business risks and therefore in the event such risks occur, their micro enterprises are significantly affected (Mochona, 2006).

3.2 Savings Mobilization

Table 2 shows the distribution of level of satisfaction with attributes of savings mobilization. The table indicates that 77 respondents reported that they were most satisfied with the savings services offered by the micro finance institutions, 103 were very satisfied, 60 were satisfied while 3 were moderately satisfied with the savings services. None of the respondents reported less satisfaction with the savings services. This translated into a weighted mean score of 4.03 on the scale. Therefore, the general view is that majority of the respondents were very satisfied with the savings services provided by micro finance institutions. Hence, it can be assumed that savings mobilization services provided by the micro finance institutions aims at alleviating the deficiency of savings facilities which create problems at three levels: at the individual level, at the level of the financial institution; and at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor. Micro finance programmes play a significant role to foster savings mobilization for the micro entrepreneurs.

In terms of frequency of savings deposits, 102 respondents reported most satisfactory, 100 indicated very satisfactory while 30 indicated satisfactory, 7 of the respondents expressed moderate satisfaction and only 4 expressed less satisfaction with the frequency of savings deposits, giving a weighted mean score of 4.13 on the scale. The findings also indicated that 80 of the respondents were most satisfied with the use of savings pattern by MFIs in assessing credit worthiness. A hundred and ten were very satisfied, 40 were satisfied while 11 expressed moderate satisfaction. Only 2 reported less satisfaction, resulting in a weighted mean score of 4.04 on the scale. This implies that majority of the respondents were very satisfied with the frequency of savings deposits and the use of savings patterns of clients in assessing their credit worthiness for grant of subsequent loans. It is therefore likely that the subsequent loans secured would be a product of a client's historical savings behaviour and in a way encourages entrepreneurs to be disciplined and remain consistent in making savings deposits. In support to the finding of the study, Aczel (2000) found that micro finance savings services provides supporting micro entrepreneurial endeavor as they assure future financial needs for investments.

Savings mobilization approach in encouraging clients to postpone consumption in favor of savings is to provide the much needed financial resources for micro enterprise growth. Such savings accumulate into a lump sum in the future and act as retained earnings. The retained earnings are used for refinancing or reinvestment in the business. They can be used to expand the enterprise by acquiring additional income-earning assets that result in increased income in future years

4. Conclusion and Recommendations

These results show that the majority of the respondents were very satisfied with the achievement of capital investment and basic business skills after training in micro enterprise investment. This implies that majority of the micro entrepreneurs were unable to adequately deal with business risks and therefore in the event such risks occur, their micro enterprises are significantly affected.

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Training in micro enterprise investment as a component of micro finance help clients in business management and minimizing transaction related risks. However, many unfortunate events affecting micro enterprises negatively impacts on their performance. To withstand such unfortunate events where limited asset bases of clients shake when they face risks, the study recommends that microfinance service providers and policy development partners could consider including a micro-insurance scheme in the micro finance package.

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Table 1. Distribution of Level of Satisfaction in achievement of Business Skills after Participating in Micro Enterprise Investment Training

Skill	**Frequency**					**Σfi**	**Σfiwi**	**Σfiwi/Σfi**
	Most satisfied	**Very satisfied**	**satisfied**	**Mod. satisfied**	**Less satisfied**			
	5	**4**	**3**	**2**	**1**			
Capital inv decision	107	103	21	8	4	243	1030	4.22
Basic business skill	59	61	120	3	0	243	903	3.7
Business risk decision	3	47	40	150	3	243	626	2.4

Source: Field survey, 2013

Table 2. Distribution of Level of Satisfaction with attributes of Savings Mobilization

Attribute of savings mobilization	**Frequency**					**Σfi**	**Σfiwi**	**Σfiwi/Σfi**
	Most satisfied	**Very satisfied**	**satisfied**	**Mod. satisfied**	**Less satisfied**			
	5	**4**	**3**	**2**	**1**			
Savings services	77	103	60	3	0	243	983	4.04
Frequency of savings deposits	102	100	30	7	4	243	1004	4.13
Use of savings pattern for credit worthiness was assessed	80	110	40	11	2	243	984	4.04

Source: Field survey, 2013