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Influence of Government Support on Performance of Women Run Small Enterprises in Kenya: Langata Sub-County

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Abstract

All over the world, it is generally accepted that women run small enterprises (SEs) are becoming increasingly important in employment, wealth creation, and development of innovation. Small Enterprises encounter many challenges one of which is insufficient government support which hinder their performance and growth. This study sought to investigate why women run small enterprises grow less rapidly and shut down more often than men run enterprises. The objective of the study was to determine the extent to which government support influence the performance of women run small enterprises operating in Langata Sub-County, Kenya. The study adopted a descriptive research design and targeted a population of 118 women run small enterprises in Langata Sub-County in Nairobi County, Kenya. To collect primary data, a sample size of 91 enterprises was randomly selected for administering of questionnaire. The ordinary least squares (OLS) regression model derived from the analysis sufficiently explained the variation in performance of women run small enterprises. The findings indicated significant positive relationship between government support and performance of women run small enterprises in Langata sub-county. The study recommends that the government should increase its support to women run small enterprises because such support would greatly improve their performance.

Keywords: Government support, Performance, Women-Run, Enterprise

1. Introduction

Entrepreneurship all over the world is emerging today as an avenue for gainful employment, a means of helping women to assert themselves in the world of work, and a way of improving both their economic and social status. Small enterprises (SEs) are viewed as a key driver of economic and social development in the global context. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. Small enterprises are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development (Zimmerer *et al.*, 2005). Most of the developing countries have witnessed an influx of the number of women venturing in the field of small enterprises in recent years. This has mainly been attributed to advocacy on women empowerment programs and policies advanced by both government and non-governmental organizations (Wanyoko, 2013). However, women fail to fully utilize government support programs including the training programs provided (Langowitz & Minniti, 2007).

1.1 Women Run Small Enterprises in Kenya

Kenya defines small enterprises (SEs) in terms of employees, annual turnover, investment assets and registered capital according to the Kenya MSME bill (2009). Small enterprises (SEs) are identified to broadly cover production, buying, selling and provision of services. According Stevenson & ST-Onge (2005), the definition used to describe the small enterprises in Kenya is based on employment size for both paid and unpaid workers at 11 to 50 workers. Session Paper 2 of 2005 has defined an MSE as an enterprise with up to 50 employees while World Bank defines it as meeting one of the following criteria; formally registered business, with annual turnover of up to KES 100 million, with an asset base of at least KES 4 million and employing up to 150 employees (GoK, 2005).

The Kenya Women Enterprise Fund (WEF) which was launched in 2007 had a principal objective to empower women economically. It was designed to address perennial challenges faced by women in their desire to venture in income generating activities and aimed at assisting the government to realize the 5th sustainable development goal (SDG) to 'achieve gender equality and empower all women and girls' (Cutura, 2007). International Finance Corporation (Cutura, 2007; UNDP, 2015), claims that in Kenya firms that are registered are much more likely to grow than those that are not but this has not been an incentive to women to formalize their business and register. This is due to lack of knowledge about the registration process and its requirements and the fact that most women don't think that the small size of their businesses warrants registration. Difficult business procedures as well as financial constraints place a particular burden for those who try to register.

Women often feel intimidated by negative attitudes and harassment of government officials but the government under the Ministry of Trade and Industry has established a gender Unit which aims at helping women in their interactions with the government and therefore encourage them to formalize their business and seek government support. The Kenyan government through the working committee on regulatory reforms for business activity in Kenya has reviewed all existing licenses and assessed whether each is legal, necessary and business friendly. The report recently recommended eliminating some licenses and simplified others (Cutura, 2007). Kenya's private sector (agriculture, industry and services) amounts to 81 percent of GDP and provides more than half of the formal wage employment argues Ongachi (2013). The small enterprises in the informal sector have created almost all of the new jobs in Kenya's economy. Most Small enterprises are disadvantaged private sector players; current relationship within the private sector must change for more productive business interaction posits Wanyoko (2013). This requires opening up of access to formal financial and non-financial services, a process of education and capacity development of small business. All this requires active facilitation and resources, and according to Wanyoko (2013), of all the small scale enterprises in Kenya, 47.75% are run by women, yet the focus on women entrepreneurship has been continuously blurred by the variety of activities undertaken by women in developing countries as well as the sheer number of obstacles they face.

The small enterprises (SEs) play an important role in the Kenyan Economy. According to the Kenya Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five small enterprises businesses fail within the first few months of operation (Kenya National Bureau of Statistics (KNBS), 2007). One of the most significant challenges is the negative perception towards small enterprises. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. More often than not, larger companies are selected and given business for their clout in the industry and name recognition alone posits Ongachi (2013). In Kenya, the small business sector has 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 critical role small businesses play in the Kenya economy, the Government through Kenya Vision 2030 envisages their strengthening to become the key industries of tomorrow by improving their productivity and innovation (GoK, 2007).

The Kenyan government has adopted a number of strategies since independence to enhance economic development and the need to integrate women in the development process observes Atieno (2001). The Kenya Demographic and Housing Survey (KDHS, 2003) revealed that 75% of women receive cash for their work, while almost 5% of the total number of women are engaged in unpaid entrepreneurial activities. The role played by women in the small enterprises sector in Langata sub-county in Nairobi is significant. More than 32% of households are headed by women (Ongachi, 2013), and many of whom are beginning to venture into some form of small scale activities or self employment out of necessity. The participation of women in the informal sector of the economy is probably a great deal higher than this statistic indicates. Small and Medium Enterprises constitute over 70 per cent of manufacturing firms in Kenya. The Private Sector Development Strategy (PSDS) report (GoK, 2005) cited lack of access to markets and finance as the major constraints facing micro, small and medium enterprises (MSMEs). The other factors were noted as; interference from local authorities, insecurity, lack of physical facilities to put up their premises, and lack of access to clean water. Simple business regulatory reforms have had positive outcomes in terms of increasing business and job creation (World Bank Doing Business Report 2013). Based on these findings, the proposed points of intervention to support growth in this sector include; provision of adequate good quality infrastructure for MSMEs, reducing legal, regulatory and administrative barriers to trade and enforcing anti-corruption measures to reduce harassment of MSMEs (Kenya Economic Survey, 2013).

1.2 Statement of the Problem

It is generally accepted that small enterprises are becoming increasingly important in terms of employment, wealth creation, and the development of innovation as observed by previous studies (Hassan & Mugambi, 2013; Kenya Economic Survey, 2013; Ongachi, 2013). The many problems encountered by small enterprises result in many of the firms performing dismally and failing to grow. There is high mortality rate of SEs within the first two years, meaning, most of them fail immediately after they start.

The Organization for Economic Cooperation and Development (2004) notes that women entrepreneurs have 'untapped source of economic growth, create new jobs for themselves and others, provide society with different solutions to management, organizations and business problems and exploit entrepreneurial opportunities'. Despite these encouraging remarks about capacities of women enterprises to boost local economy, it is clear that women run small enterprises grow less rapidly and are likely to shut down more often than men run enterprises (Hassan & Mugambi, 2013). The gap identified by this study is failure by women run small enterprises to withstand start up shocks due to lack of sufficient support by the government. The study therefore sought to establish the extent to which government support influences the performance of women-run enterprises in Kenya with specific focus on Langata sub-county in Nairobi County.

2. Theoretical and Empirical Review

Theoretically, entrepreneurship theories and research remain important to the development of the entrepreneurship field as noted by Kwabena (2011). Several theories have been put forward by scholars to explain the multidisciplinary nature of the field of entrepreneurship. These theories have their roots in economics, psychology, sociology, anthropology, and management. The opportunity-based theory is anchored by Peter Drucker and Howard Stevenson; they argue that entrepreneurs do not cause change (as claimed by the Schumpeterian or Austrian school (Schumpeter (1934) but exploits the opportunities that change (e.g. in technology and consumer preferences) creates (Drucker, 1985). What is apparent in Drucker's opportunity construct is that entrepreneurs have an eye for more possibilities created by change than the problems. Stevenson *et al.* (1990) extends Drucker's opportunity-based construct to include resourcefulness. The small Women- run enterprises may tap opportunities (either from the government or the private sector) as they arise to enhance their performance. On the other hand, the sociological theory focuses on the social context. In the sociological theories the level of analysis is traditionally the society (Landstrom, 1998). Reynolds (1991) has identified social contexts that relates to entrepreneurial opportunity. The fourth social context; population ecology is that environmental factors play an important role in the survival of businesses. The political system, government legislation, customers, employees and competition are some of the environmental factors that may have an impact on survival of new venture or the success of the entrepreneur.

Empirically, the issue of women entrepreneurship is becoming increasingly popular across the globe. The participation of women is being viewed as one of the prime contributors to economic growth. Irrespective of their involvement in small/medium-scale enterprises or in the informal/formal sectors, their contribution to output and value addition is substantial. Women entrepreneurship is not only necessary for their economic survival but also for strengthening the social system argues Verheul *et al.* (2006). Small-scale enterprises have a great capacity to alleviate unemployment and to contribute to the economic growth of the country according to Andualem (2003). Small and micro enterprises have widely been recognized as a major source of employment for many households in developing countries. Sonobe *et al.* (2012) alludes to the fact that small/micro enterprises have the potential to expand and grow in size to the level of creating significant impact to the growth of economies and thus reducing poverty levels. Millions of women of all income levels in developing economies are venturing in the field of entrepreneurship. According to Gikonyo *et al.* (2006), some case studies indicate that the number of women entrepreneurs setting up small enterprises is outnumbering men who have dominated the venture for many years. The literature reviewed indicates that some of the outstanding factors that can be attributed to either low or high performance enterprises run by women in Sub-Saharan Africa include insufficient government support.

2.1 Influence of Government Support on Performance of Women Run Small Enterprises

The Kenyan government has focused on supporting women entrepreneurs and to this end has provided the women empowerment and development initiative which is a joint public private women's empowerment fund. The initiative focuses on empowering women entrepreneurs in terms of funding (Women Entrepreneurs in Kenya, 2008). Marongiu and Ekehammar (2009) argue that women are increasingly venturing into business in African countries, particularly Kenya. There is also growing membership of African Federation of Women Entrepreneurs (AFWE) in Addis Ababa, Ethiopia which reflects increasing entrepreneurial activities among women in African continent due to government funding efforts (Kottis, 2003; Lahtinen & Wilson, 2004). Harper (1984) observes that governments that are concerned with the promotion of small enterprises should examine the impact of its policies and programs on the small businesses. Mann *et al.* (1989) makes similar observation that government regulation about wages, taxation, licensing and others are among the important reasons why informal sector business develops.

According to Strauss (2006), without careful attention, government policies could crush the small business sector of any economy. It is therefore the government's responsibility to ensure that its policies are helping and not hurting enterprises, creating conditions for the small business to flourish. Licensing, permits and business regulations for instance are major challenges facing small enterprises. While commenting on the need to slash some council licenses Kenya's Ministry of Trade and Industry observes that many costly permits hamper private sector growth and competitiveness. Some permits and licenses exist for historical reasons while others exist for reasons that are no longer valid (GoK, 2005). Boeri (2009) also identifies inappropriate standards and legally imposed regulations, which apply to product specification, buildings and environment as some of the other problems facing small entrepreneurs. Boeri also notes that such standards are adapted from industrialized countries and for big enterprises hence inappropriate for the small business sector.

In Kenya, government support has been offered to women in the recent years in the form of Women Funds e.g. Uwezo Fund and Women Enterprise Fund. The government has in the recent past launched the Constituency Development Fund that has successfully supported the lives of women in entrepreneurship (Kenya Economic Survey, 2013). These funds have been important in boosting the livelihoods of women because they are able to put up small enterprises through low or non interest loans (Kenya Demographic & Health Survey, 2003). The support that government offers is never adequate according to MItullah (2005) (as cited in Osoro *et al.*, 2013) due to the absence of a conducive legal framework. Businesses operate under the various county government laws which are restrictive and non responsive to the emerging contributions of small enterprises. The provisions of some county Governments Acts stand in conflict with the National Government policy of encouraging the growth and development of SEs and supporting informal workers. Wanyoko (2013) notes that reforms should focus on business licensing geared towards improving the situation of small enterprises.

Despite these progressive steps, government support has not been adequate to the women entrepreneurs due to cases of corruption, poor allocation as well as inadequate funds being allocated by the government to women activities. Apart from weak market linkages in the context of income-generating activities, there are also a few other concerns in relation to women's empowerment, in terms of capacity building notes Kithae *et al*. (2012). Therefore, adequate government support in terms of funding, appropriate and easy policies as well as affordable licensing can assist in boosting the performance of women run small enterprises in Kenya.

3. Methodology

This study adopted a descriptive design because it sought to describe variables in a population. The instruments for data collection were tested for validity and reliability which is necessary for descriptive studies as recommended by Kothari (2007). The unit of analysis was an enterprise and the time perspective was cross-sectional. The population of interest for this study was women run small enterprises in Langata sub-county in Nairobi Kenya. This study adopted the criteria used by the national MSE Baseline Survey in arriving at the population. According to the survey, there are about 1.3 million MSEs in Kenya; the total number of enterprises per 1000 residents of the population is approximately 43 MSEs (CBS, K –Rep & ICEG, 1999). Langata Sub-County has a total of 176,314 residents according to Kenya National census of 2009 (KNBS, 2009), this works out to be about 7,582 MSEs in the sub county. According to the national MSE baseline survey (CBS, K –Rep & ICEG, 1999), 52% of MSEs in urban areas are run by women. Applying this percentage to the total population of 7,582 MSEs gave 3,942 women run enterprises in Langata sub-county which formed the total population of this study. According to the baseline survey (CBS, K –Rep & ICEG, 1999), 97% of MSEs in Kenya are micro and 3% are small enterprises, this translates into a total of 118 small enterprises in Langata sub-county as the target population.

The sample size was picked through simple random sampling, to make it representative as recommended by Cooper and Schindler (2008). The scientific guideline for sample size decision and sample criteria to determine the appropriate sample size was considered and applied (Israel, 1992). The level of precision or sampling error was taken as ±5% and the level of confidence is 95% which is within two standard deviations of the true population value. The degree of variability was a proportion of 50% (P-value = 0.5) which indicated the maximum variability in a population (Yamane, 1967). The scientific guideline recommended a sample size of 91 firms for a population of 118 small entrepreneurs at ±5 percent level of precision. A questionnaire was used to collect primary data from the respondents. A questionnaire was chosen because it is the most appropriate instrument for collecting large amount of information in a reasonably quick span of time according to Kothari (2007). Prior to administering the questionnaire to the whole sample, a pilot study was conducted to test the research instrument on nine respondents as recommended by Grove *et al.* (2014) and Mugenda and Mugenda, (2003). The respondents who participated in the pilot testing of the research instruments were exempted from being respondents in the main study to eliminate biasness in the research results based on prior knowledge of the contents in the research instrument.

The validity of the research instruments was tested through the content-related method as recommended by Huber (2004) and Kothari (2007). The test of validity method was selected because it was consistent with the objectives of the study. Expert opinion from two experts in entrepreneurship was sought for and adopted. Reliability was upheld by pre-testing the questionnaire and obtaining Cronbach's alpha (α) reliability coefficients of the research instrument. The acceptable alpha is 0.7 which is widely offered as a rule of thumb (Nunnally & Bernstein, 1994). The respondents were women owner/managers of small enterprises in Langata sub-county to whom the questionnaires were administered. Data collected was analyzed both descriptively and inferentially. Descriptive data was analyzed by use of mean and standard deviation and the scale was likert. Inferential statistics was analysed using correlation since the relationship between the variables was taken to be linear.

3.1 Model

The study applied ordinary least squares (OLS) regression analysis to explain the relationship between the variables i.e. performance of women run small enterprises (explained) and government support (explanatory). The OLS model is shown below;

$$Y = \beta 0 + \beta 1X1 + \varepsilon$$

Where Y is the dependent variable (performance of women run small enterprises), β0 is the regression constant, β1 is the coefficient of the independent variable, X1 (government support) and ε is the error term. The direct relationship between the independent variable (X1) and dependent variable (Y) was determined. The dependent variable (performance of women run small enterprises in Langata sub-county) was measured in terms of sales growth rate. Ease of access to selected aspects of government legal framework (i.e. licencing and taxation) and accessibility to government funding was used to measure the independent variable (government support). The explanatory ability of the model was tested through R^2.

4. Results and Findings

The study targeted a sample size of 91 respondents from which 69 filled in and returned the questionnaires; this was a 75.8% response rate. According to Mugenda and Mugenda (2003) a response rate of 70% and over is excellent. Based on this assertion, the response rate was therefore excellent for analysis. The respondents were asked to indicate their age bracket, and from the research findings, most of the respondents were aged between 26 to 35 years at 44.1%, 32.4% of the respondents were aged between 36 to 45 years, 10.3% of the respondents were aged below 25 years while 13.24% were above 45 years. This implies that respondents were well distributed in terms of age.

The respondents were asked to indicate their level of education and from analysis 15.6% had post graduate level of education, 53.1% graduate and 29.7% tertiary level. The findings imply that most of the respondents had high level of education which could have contributed to accurate responses. The research findings showed that most of the enterprises had operated for more than 6 years. 40.6% of the enterprises were in operation for a period of between 6 and 10 years, while 27.5% had operated for over 10 years. However, 31.9% were in operation for less than 5 years. The findings indicates the enterprises were in operation for a considerable time and therefore competent to offer the sought for information. The research sought to identify the legal status of the enterprises sampled. According to the findings, 36.2% were sole traders, 39.1% were in joint ownership while 24.6% were registered as limited companies. The study sought to find out the number of employees in each of the enterprises sampled. The majority of enterprises had between 1 and 10 employees representing 60.9%. 34.8% of the enterprises had between 11 and 50 employees while 4.3% had between 51 and 100 employees. The findings imply that a substantial number of the enterprises were in the category of small enterprises widely seen as having between 10 and 50 employees.

The respondents were asked to indicate the enterprises' annual turnover, 19.1% of the enterprises indicated an annual turnover of KES 500,000 (US$ 5,000) and below, 67.6% had an annual turnover of between KES 500,000 (US$ 5,000) and KES 5 million (US$ 50,000), while 13.2% had an annual turnover of between KES 5 million (US$ 50,000) and KES 800 million (US$ 8,000,000). The findings imply that the sample was within the small enterprises categorization based on annual turnover (GoK MSME bill, 2009). The respondents were asked if they had benefited from any form of government support within the previous year. Most of the respondents indicated they had not benefited from government support at 69%; however 31% had benefited. Moreover, the most respondents (95.6%) indicated that their enterprises had not benefited from any government support but which they felt would have led to better performance. These findings were in agreement with Kithae *et al.* (2012) and MItullah (2005) but in departure from government of Kenya report (GoK, 2005).

With respect to access to government support in the performance of the business enterprise, most of respondents indicated that they were aware of the available financial support from the government at 83% while 17% were not. The respondents were further asked if the government tax filling process contributed towards a favorable environment in the running of their enterprises. Out of the total respondents 50.8% indicated that they were not aware of the contribution of tax filling process in betterment of their enterprises, 38.1% were aware while 11.1% were uncertain. The respondents further agreed that the requirements for government licencing are conducive in running of enterprises at 52.4% while 39.7% disagreed. However 7.9% of the respondents were uncertain. Concerning the influence of access to government services on performance of enterprises, the respondents indicated that licencing at 88% greatly influenced performance. Funding was picked by 62%, filling tax returns by 45% as influencing performance of enterprises. The mean perception was that government support influences the performance of women run enterprises at a mean of 2.4 with a minimum of 1.5 and a maximum of 3.5 agreeing. The findings were in agreement with observations of previous studies (Osoro *et al.*, 2013; Wanyoko, 2013).

The Cronbach's Alpha for this study was 0.692 ≈ 0.7 implying that the research instrument had internal consistency and was reliable for data collection. The study used ordinary least squares (OLS) regression analysis to model the relationship between performance of women run enterprises (dependent variable) and the independent variable (government support). The R Squared was 22.2% while R was 47.1% as shown in table 1. This implies that the model accounted for 22.2% of the variance in performance of enterprises.

The model derived from the study is as follows;

$Y= 0.933+.0299X_1$

Where; Y= Performance of women run small enterprises, X_1= Government Support

Subsequently performance of women run small enterprises amounted to 0.933 other factors held constant. A unit increase in government support led to a further increase in performance by 0.299 units and was found significant with 0.011 at 5% level of significance. Analysis of variance (ANOVA) assessed the overall significance of the model; the findings was that P<0.05 (i.e. 0.003) as shown in table 2, therefore the model sufficiently explained the variation in performance of women run small enterprises in Langata Sub-County.

5. Conclusions

The research findings indicated that the model accounted for 22.2% of the variance in performance of enterprises. This implies that other factors outside the model accounted for 77.8% of the variance. The findings further indicated that there was sufficient evidence that the model explained the variation in performance of women run small enterprises in Langata Sub-County at 5% level of significance with a P value of 0.003. A positive relationship was found between government support and performance of women run small enterprises.

The respondents alluded to the fact that government licencing and taxation rules though favorable are still a hindrance to starting and growing small businesses which is in agreement with studies elsewhere by Harper (1984); Mann *et al.* (1989) and Strauss (2006). The government support offered to women run SEs is never adequate as noted by Kithae *et al.* (2012); however the little support received was found to be influencing performance of SEs in Langata sub-county positively. This study further found that performance can be adversely affected by absence of a conducive legal framework and specifically for SEs which agrees with the findings of MItullah (2005). In conclusion, the findings of this research are in agreement with opportunity based resource theory which argues that entrepreneurial management is the pursuit of opportunity; the women run small enterprises were found to seek for these opportunities from government and elsewhere regardless of the constraints faced. This study found that government legislation has an impact on survival of new ventures and the success of the entrepreneur. The study therefore agrees with critics of liquidity theory that financial capital is not significantly related to the probability of being nascent entrepreneurs.

The recommendations of this study were derived from the conclusions that government support had a positive relationship and positively influenced the performance of women run small enterprises in Langata sub-county. This study recommends that government should increase support to small enterprises through legislation, friendly tax requirements and outright funding because such support greatly improves their performance. Finally the study suggests that further research be conducted in other sub-counties of Nairobi County and Kenya at large to establish whether government support consistently influences performance of women- run enterprises in those areas.

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Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.471[a]	.222	.173	.4844

Table 2: ANOVA Test Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.275	4	1.069	4.554	.003[b]
	Residual	15.019	64	.235		
	Total	19.293	68			