Role of County Government's Finance and Investment Committee on the Growth of Small and Medium Enterprises in Nakuru Town

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Abstract: ***The purpose of this study was to assess the role of finance and investment committee on the growth of SMEs in Nakuru Town. The study employed a descriptive design. The study target population was 5000 registered SMEs in Nakuru Town. The accessible population comprised of 420 SMEs and 7 members of the finance and investment committee of the County Government of Nakuru. A sample size of 87 respondents was selected through purposive and stratified random sampling techniques. Questionnaires and an interview schedule were used to collect data. The data was collected, coded, quantified and analyzed quantitatively and qualitatively. Quantitative data was analyzed by the use of descriptive statistics such as mean, standard deviations, frequencies and percentages and inferential statistics which included regression analysis. Data analysis was done with the aid of statistical package for social sciences (SPSS) version 21.0. The study concluded that an increase in budgetary recommendations led to an increase in growth of SMEs which showed a positive association between budgetary recommendations and growth of SMEs. Thus budgetary recommendations significantly influenced the growth of SMEs in Nakuru Town. The study recommends a need for the finance and investment committee to enhance its budgetary recommendations in Nakuru County in order to improve the growth of SMEs in Nakuru Town.***

Keywords: Budgetary Recommendations, Devolved Government, Finance and Investment Committee, SME Growth, SMEs

1. Introduction

Generally, Small and Medium Enterprises (SMEs) have the capacity to achieve rapid economic growth and employment creation (Reddy, 1991). Studies by Hategа (2007) underscore the importance of SMEs in both economic growth and employment creation. The importance of the sector is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people (Kauffmann, 2006). It is for this reason that there has been a growing interest and concern by governments and development agencies all over the world for the improved performance and growth of SMEs. Globally, recent empirical studies show that SMEs contribute over 55% of Gross Domestic Product (GDP) and over 65% of total employment in high-income countries such as Britain, USA, Canada and China (Asta & Zaneta, 2010).

In middle-income countries, formal SMEs contribute about 20% more to employment and GDP than the informal enterprises. Thus, in these countries, eliminating factors that discourage informal enterprises from entering the formal SME sector would also bring about gains in economic terms. This is evidenced by the fact that SMEs contribute over 3 times as much as the formal sector in both total employment (65%) and GDP (55%) in high-income countries, and that these countries are also taking initiative to bring as many informal enterprises as possible into the formal sector. In addition, SMEs are an important source of export revenues in some developing economies. An interesting observation is that SMEs contribute a larger share of manufactured exports in more industrialized East Asian economies (56% in Chinese Taipei, more than 40% in China) and in India (31.5%) compared to 1% in Tanzania and Malawi.

In some African countries, the SMEs sector is coordinated by the Ministry of Micro, Small and Medium Enterprises where the Ministry is the nodal institution responsible for policy formulation, promotion, development and protection of small scale industries. It also monitors the execution of the formulated policies to ensure their effective implementation. In South Africa, the government has formulated various policy regimes to streamline the SMEs sector in form of enabling legislation, institutional reform, leveraging financial and other forms of assistance, for small business development. In other African countries, especially in the least developed economies, notably Malawi, Kenya, Nigeria and Ghana, the contribution of SMEs to employment and GDP is less than that of the formal sector, where the great majority of the poor make a subsistence level of living (Aremu & Adeyemi, 2011). Therefore, an important policy priority in such countries is to reform the policies that divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities (Meyer-Stammer, 2004).

The Kenya situation is no different from the rest of the world in as far as the recognition and support of the small business is concerned. The Economic strategy for wealth and employment creation 2003-2007 indicates that about 25% of all households engage in some form of small business activity with the majority depending on their business for all household income (GoK, 2007). In 2012 the SME segment contributed over 80% of the country's employment with majority of new jobs being created in the sector (430,000 out of 503,000 new jobs created in 2011) and contributing about 20% to the country's GDP (GoK, 2012). In addition, the legislative support for SMEs is a common theme because Kenyan government has recognized that SMEs contribute to the national economic growth. According to the SME Baseline Survey conducted in 1999, the sector employed 2.4 million persons. This has increased three folds since then.

The development plans for Kenya have consistently been putting special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 2012). Nakuru is one of the sub counties with a population of about 0.3 million people. There are about 5000 registered SMEs in the area. Of late there has been rampant demolition and harassment of SMEs operators by the county government. However, measures have been instituted to address the problem (County Government of Nakuru, 2014).

Several scholars have studied the influence of diverse factors into the growth and success of SMEs in Nakuru County. Several challenges have been noted to affect SMEs in the area. Chepkemoi (2013) has suggested that the growth of SMEs could be affected by overlap and inconsistencies in legal and sectoral policies, lack of clear boundaries in the institutional mandates, lack of a suitable legal framework; outdated by-laws; unavailability of land and worksites for business expansion, exclusion in policy development; lack of access to credit; lack of a central coordination mechanism; lack of a devolved coordination and implementation mechanism and interference by the county government authorities. Despite the numerous studies done on the SME sector, there is no study done on the role of county's finance and investment committee on the growth of SMEs. This is due to the relatively new structure of the devolved government having been enacted in 2010 and coming into effect in 2013.

1.1 Statement of the Problem

SMEs have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities. In Kenya, SMEs create about 85 percent of employment opportunities. However, the sector only contributes about 20 percent of the total GDP. This implies dismal performance of the subsector. Therefore the development of SMEs requires a system which holistically fosters its growth. The current constitutional framework and the new SME Act 2012 in Kenya provide a window of opportunity through which the evolution of SMEs can be realized through the devolution framework. Past studies have focused on factors inhibiting the growth and development of SMEs in Kenya. In addition, recent studies have not focused on the contribution of devolution on the growth of the SME sector in Kenya. The effect of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs growth in the county governments in Kenya. It is thus imperative to appraise the budgetary recommendations of the finance and investment committee on the growth of SMEs in Nakuru town.

1.2 Objective of the Study

To establish the influence of budgetary recommendations of the finance and investment committee of the county government of Nakuru on the growth of SMEs in Nakuru town.

1.3 Justification of the Study

This study may provide evidence for developing policies aimed at improving the growth of SMEs at the county level in Kenya. This may further contribute to the improvement of livelihood, resulting into poverty reduction. In addition the outcome of the study might benefit the members of the investment and finance committee in the county government of Nakuru since it will shed more light on the impact of the committee on the growth of SMEs in Nakuru town. The study may also be useful to potential SMEs entrepreneurs as the results of the study may provide credible information about the role of devolved governance on the growth of SMEs. Other researchers interested in this area may use the research outcomes for replication elsewhere. The findings of the study may also complement the existing literature on devolution and growth of SMEs at the county government level.

1.4 Scope of the Study

The area of the study was on SMEs within Nakuru town between August and October, 2014. The study focused on the role of finance and investment committee on the growth of SMEs within their jurisdiction. The SMEs were those operating legally in Nakuru town and falling within the classification of SMEs in Kenya according to the SMEs Act, 2012. The study was conducted within the proposed budgetary plan.

1.5 Limitation of the Study

The researcher encountered some challenges during the study period. First there was reluctance by some respondents in providing complete responses to some questions in the questionnaire. To counter this, the researcher conducted a pilot study to establish the possible cause of such low response rate in filling the questionnaires and adjusted the questionnaire accordingly. Also the researcher encouraged the respondents to participate in the study without holding back the information they had as the research instruments did not bear their names. Some respondents were also reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their SMEs. The researcher handled the problem by carrying an introduction letter from the University and assuring the respondents that the information they gave would be treated confidentially and it would be used purely for academic purposes.

2. Literature Review

2.1 Theoretical Review

2.1.1 Stochastic Models of Firm Growth

Developed mainly in the field of economics, Stochastic Models of Firm Growth suggests that many factors affect the growth of a firm and that there is no dominant theory. Based on this model, devolution of the governance system is perceived to be one of the factors influencing the growth of SMEs. Stochastic firm growth theories emanate from Gibrat's (1931), whose law of proportionate effect postulates that the proportionate growth rate of a firm is completely randomly determined and hence independent of systematic factors such as previous growth rates. In other words, factors that influence firm growth, such as growth of demand, managerial talent, innovation, organizational structure and legislation are distributed across firms in a manner which cannot be predicted from information about firm' s previous growth performance (Goddard *et al*., 2001). O'Farrell & Hitchens (1988) cite empirical evidence which upholds the view that firms' growth may be dependent on interrelated factors. Stochastic Model may apply in the context of SMEs as it highlights the factors that may influence the growth of a firm which is the subject of this study.

2.1.2 Life Cycle Development Model

The firm life-cycle theory has been widely used to investigate the conceptual domains of business strategy entrepreneurship and firm growth (Lester, Parnell & Carraher, 2003). The firm life-cycle theories have their origins in the field of economics according to which SME growth is viewed as a series of phases of development through which the business may pass as an enterprise life-cycle. This is the most prevalent explanatory device employed by researchers for explaining growth in SMEs. The stages of Lester, et al (2003) model consisted of existence, survival, success, renewal and decline. These stages are very similar to the general scheme of life-cycle stages proposed by other authors, and can be identified with the general pattern of birth, growth, success, decline and death. Unfortunately, over time there have been a great many stage models of growth proposed in the literature, and there is a bewildering range from which to choose for the purposes of research. The number and nature of growth or development stages in these models vary widely from author to author, as do their emphases (O'Farrell & Hitchens, 1988).

2.1.3 Budgetary Recommendations on SMEs Growth

According to Republic of Kenya (2012) the committee should strive to incorporate the views of all stakeholders in the county especially from the business sector regarding the county's budgetary allocations. The county led legislations imply that the participation of citizens including SMEs in the respective counties is mandatory. The county representatives provide an oversight provision of services, deliberate on proposed annual budget estimates and development plans, monitor development activities and receive presentations, including feedback on issues raised by the county citizens. In the context of the growth of SMEs, the work of the committee can enhance the activities of SMEs if the committee creates linkages between the various county structures and ensures that the structures link up with SMEs subsector through the various county service departments during budget preparation.

Given the new structure of governance, the county led SMEs policies in the proposed SMEs legislation are aligned to the trade, industrial department and regulation service departments. The extent to which the new county system contributes to SMEs development in the respective counties depends on how best the current SMEs Act, 2012 is restructured to factor in the administrative changes as outlined in the current administrative structure. There is thus need for the committee members to ensure that the county assembly develops SMEs policies based on the local needs and such policies should indicate how the institutional and regulatory framework links up with the governance structure at the county level under the current constitution to promote the growth of SMEs (Chepkemoi, 2013).

2.1.4 Growth of SMEs

The current constitution provides for the establishment of counties and by extension, County led business institutions and regulations. Within the county government there are the finance and investment committees that are charged with overseeing the county's development agenda. According to Kiveu and Ofafa (2013) the county governments finance and investment committees have a role to play in promoting the development of each county. This implies that the county's FIC is instrumental in resource allocation and planning for the development of SMEs in each county. This is because the overall role of FIC is planning the development of the county. According to the County Governments Act (2012), the duties of this committee include preparation of the county budget, review of requests for bond issues, and appropriations of county monies prior to any action by the full Board. The committee studies and recommends taxes and other means of financing the county's programs and handles the sale of delinquent property. The committee is composed of seven (7) members. According to Chepkemoi (2013) the committee is capable of effectively discharging its mandate if its members are conversant with international, national and local business environment. This is because FIC usually reviews the County's investment portfolio and makes recommendations on any changes in investments to the relevant organs. The committee is also responsible for establishing basic standards of risk to direct the operations of entrepreneurial activities in the county as well as making recommendations on each county's depository.

Several scholars have studied the influence of diverse factors into the growth of SMEs in Kenya. Chepkemoi (2013) summarizes the challenges facing SME at the county level include overlap and inconsistencies in legal and sectoral policies; lack of clear boundaries in the institutional mandates; lack of a suitable legal framework, outdated policies, exclusion in policy development; lack of access to credit; lack of a central coordination mechanism and lack of a devolved coordination. In Nakuru town, a number of SMEs growth indicators have been observed including the number of business enterprises, number of business activities, increase in market for the production, increase in employment absorption rate, overall economic growth and increased rate of investment in real estate by SMEs entrepreneurs. Preliminary studies show that the new constitutional dispensation and the institutional framework proposed under the new SME Act and the mandate given to the finance and investment committee are important developments that can help the evolution and success of SMEs. There is a wide range of programmes in diverse areas of SME development, where the committee can make recommendations such as financing, technology, innovation, managerial ability, market information, and developmental assistance, aimed at improving the working environment for SMEs. Thus, what might be considered as a great contribution to the growth of SMEs is the role of finance and investment committee.

According to a report by the Republic of Kenya (2012) several initiative recommendations should be undertaken by the committee to enhance the growth of business opportunities at the county level. These include county consultative meetings, explicit and open policy development processes and transparent county government activities. Supportive county government institutions evidenced by an operational public-private dialogue framework would provide avenues through which the SMEs associations can present their interest at the county level through the county assemblies.

According to Iorpev (2012) these initiatives are tasked with ensuring that SMEs produce quality products that meet both local and international standards, while enhancing consistency and cooperation with other sectors. Recent studies show that some county governments have started upgrading the SME products, building capacity to manufacture upgraded products, promoting innovation and technology transfer, instilling a culture of quality and standardization and promoting the use of intellectual property as a tool of trade and business. A study by Kiraka, Kobia & Katwalo (2013) found out that these initiatives have recorded encouraging results in some counties including training over 1,000 SMEs on mass production of quality products while diversifying on their portfolios. The result has seen the growth of many SMEs especially those in the manufacturing and telecommunication sectors.

3. Research Methodology

3.1 Research Design

The study used a descriptive research design because such a design allowed simultaneous description of views, perceptions and beliefs of the respondents at any single point in time. This technique was appropriate for obtaining factual and attitudinal information for research questions about self report, beliefs, opinions and characteristics of the respondents' behaviours. The target population for this study was about 5000 legally registered SMEs in Nakuru Town and members of the finance and investment committee of the County Government of Nakuru. Purposive sampling technique was used to select the 7 members of the finance and investment committee in the county government of Nakuru. Stratified sampling method was used to obtain a sample size of 80 respondents from SMEs in Nakuru Town. This constituted a total of 87 respondents. The researcher used the questionnaire and the interview schedule to collect data. The data was coded to enable the responses be grouped into various categories. A descriptive analysis was employed. Descriptive statistics was used to summarize the data. This included percentages and frequencies. Tables were also used to present the data collected for ease of understanding and analysis. Regression analysis was used to establish the association between the independent and dependent variables.

4. Results and Discussion

4.1 Budgetary Recommendations on the Growth of SMEs

The study examined the effects of budgetary recommendations of the finance and investment committee on the SMEs growth in Nakuru Town. This was done by asking the respondents to indicate their level of agreement or disagreement with different statements relating to budgetary recommendations. Table 1 presents results obtained from the study.

Table 1: Budgetary Recommendations of FIC and SMEs Growth

Statements	*SD*	*D*	*N*	*A*	*SA*	*N*	*Mean*	*SDev*
SMEs are satisfied with the budgetary recommendations of investment and finance committee in the county	7	13	10	14	36	80	3.74	0.67
budgetary recommendations made by the finance and investment committee benefit your SME	8	11	9	14	38	80	3.79	0.87
SMEs views are incorporated in the county's budgetary allocations.	9	10	9	20	32	80	3.70	0.63
Participation of SMEs operators is mandatory in budget making	11	7	20	7	35	80	3.73	0.59
There is provision of feedback on issues raised by the county SMEs	17	10	10	16	27	80	3.34	0.45
The work of the committee enhances the activities of SMEs by creating linkages with various county structures	10	17	10	16	27	80	3.41	0.47

The study sought to establish the extent to which selected attributes of the budgetary recommendations of the finance and investment committee affected growth of SMEs in Nakuru Town. From the findings, higher response rate was reported in regard to budgetary recommendations made by the finance and investment committee benefiting SMEs, SMEs were satisfied with the budgetary recommendations of the investment and finance committee, participation of SMEs operators being mandatory in budget making, SMEs views being incorporated in the county's budgetary allocations in Nakuru Town suggesting a significant effect on SMEs growth with a mean effect of 3.79, 3.74, 3.73 and 3.70 and standard deviation of 0.87, 0.67, 0.59 and 0.63 respectively. These findings are supported by a recent survey on 117 SMEs in which 111 SMEs reported that their growth had increased due to favourable county government budgets (Kaplan & Schultz, 2006). Of these, 32% increased their sales volume by more than 50%. The results also show relatively higher response rate in regard to the effect of the recommendations of the FIC as enhancing the activities of SMEs by creating linkages with various county structures and there being a provision of feedback on issues raised by the county SMEs in Nakuru Town as indicated by a mean of 3.41 and 3.34 with a standard deviation of 0.47 and 0.45 respectively. The findings agree with that of Chen (2005) who investigated the relationship between favourable legislation on financial growth of SMEs and found out that more than 60% of internal growth in SMEs was linked to favourable business environment.

Qualitative data from the interview with the finance and investment committee members showed that the finance and investment committee made budgetary recommendations that enhanced the growth of SMEs in the county. This is in agreement with the ROK (2012) which states that the finance and investment committee can recommend the incorporation of the views of all stakeholders in the county especially from the business sector. The qualitative data also shows that the finance and investment committee provides an oversight provision of services, deliberate on proposed annual budget estimates, develop plans, monitor development activities and receive presentations, including feedback on issues raised by the county citizens. This is similar to the observation by Chepkemoi (2013) that the committee members' role is to ensure that the county assembly develops SMEs policies based on the local needs and such policies should indicate how policy framework links up with the governance structure at the county level under the current constitution to promote the growth of SMEs.

4.2 Growth of SMEs in Nakuru Town

The study examined the extent of growth of SMEs in Nakuru Town. This was done by analyzing various indicators of SMEs growth. The findings obtained are presented in the subsequent sections.

4.3 Classification of SMEs Growth According to the Number of Employees

The study sought to establish the number of employees in the various SMEs investigated. The findings obtained are presented in Table 2.

Table 2: Classification of the SMEs According to the Number of Employees

Number of Employees	*Frequency*	*Percentage*
Less than 10 Employees	24	30
Between 10 to 20 Employees	15	19
Between 21 to 30 Employees	25	31
Between 31-40 Employees	8	10
Between 41-50 Employees	5	6
Above 50 Employees	3	4
Total	**80**	**100**

As shown in Table 2, 31 % of the SMEs had between 21-30 employees while 30% had less than 10 employees. It is also shown that SMEs with between 10 and 20 employees were 19% compared to 10% of the SMEs with between 31-40 employees. The SMEs with between 41-50 employees were 6% as compared to 4% of the SMEs with over 50 employees.

4.4 Description of SME Growth Strategy

The study also sought to determine the growth strategy employed by the SMEs. The results obtained are presented in Table 3.

Table 3: SMEs Growth Strategy

Growth Strategy	*Frequency*	*Percentage*
Increasing the revenue	35	44
To expand the business	30	38
To hire more employees	15	18
Total	**80**	**100**

The findings presented in Table 3 reveals that majority (44%) of the respondents' emphasized increasing revenue as their growth strategy while 38% focused on business expansion. Slightly less than 20% emphasized hiring of employees.

4.5 Measuring SME growth in Nakuru Town

The study sought to establish how growth was measured among SMEs in Nakuru town and the results obtained are presented in Table 4.

Table 4: How Growth is measured by SMEs in Nakuru Town

Measuring SME growth	*Frequency*	*Percentage*
By using income	27	34
By using sales	27	34
By using business partners	4	5
By using how regional the company is	7	9
By using the number of employees	15	18
Total	**80**	**100**

As revealed in Table 4, majority of SMEs in Nakuru town measure business growth by the use of both income and sales as pointed out by 34% of the respondents respectively. Similarly 18% of the SMEs measure growth by the use of the number of employees while 5% and 9% of the SMEs measure growth by the use of business partners and regional presence of the business respectively.

4.6 Indicators of SME Growth

This section presents results on the indicators of growth as obtained from the study findings.

Table 5: Responses on the Indicators of SMEs Growth

Measuring SME growth	*Frequency*	*Percentage*
Sales Volume	16	20
Assets	12	15
Employment Growth	10	13
Market Share	12	15
Profits	20	25
Investment from Returns	10	13
Total	**80**	**100**

The analysis of results in Table 5 shows that ways of measuring growth were as follows: sales volume 16(20%), Assets 12(15%), Employment growth 10(13%), Market share 12(15%), profits 20(25%), investment on returns 10(13%). From the above description, it can be revealed that profit was the major indicator of growth of the SMEs in Nakuru town.

4.7 Regression Analysis

This section presents the findings on the relationship between the role of finance and investment committee and growth of SMEs in Nakuru Town. The indicator of finance and investment committee was budgetary recommendations while the indicators of growth of SMEs were sales volume assets, employment growth, market share, profits and investment on returns. The relationship was established through regression analysis whose summary is presented in Table 6.

Table 6: Regression Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R^2 Change	F Change	df1	df2	Sig. F Change
1	.887a	.787	.619	1.2467	.787	65.76	1	79	.000

The results in Table 6 show that there is a positive relationship between the role of finance and investment committee and the growth of SMEs (R= 0.787). The adjusted R squared in the model in Table 6 is the coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables. As shown the value of adjusted R was 0.619 indicating that there was variation of 61.9% of growth of SMEs in Nakuru Town due to changes in budgetary recommendations at 95% confidence interval. This shows that 61.9% changes in growth of SMEs could be accounted for by budgetary recommendations of the finance and investment committee of Nakuru county government. As presented in the model, R is the correlation coefficient which shows the relationship between the study variables. Therefore from the findings shown in the Table 6 there was a strong positive relationship between the study variables as shown by R= 0.887.

Table 7: Coefficients

Model 1		Unstandardized Coefficients		Standardized Coefficients	F	Sig.
1		B	Std. Error	Beta		
	Constant	.417	.341	.559	1.638	.003
	Budgetary Recommendations	.439	.365	.305	1.673	.004

From the data in Table 7 the established regression equation was: $Y = 0.417 + 0.439X_1$

From the above regression equation it was revealed that holding budgetary recommendations to a constant, growth of SMEs would be 0.417. It also shows that a unit increase in budgetary recommendations would lead to increase in growth of SMEs in Nakuru Town by a factor of 0.439. The significance of the variables was supported by the F values whose significance values were less than 0.05 which indicates that the variables were statistically significant in influencing growth of SMEs in Nakuru Town.

5. Conclusion and Recommendations

From the findings, the study found that budgetary recommendations affected the growth of SMEs in Nakuru town. The study revealed that a unit increase in budgetary recommendations led to an increase in growth of SMEs. This relationship indicates that budgetary recommendations significantly influenced the growth of SMEs in Nakuru Town. The study concludes that there was a strong relationship between the growth of SMEs and budgetary recommendations of the finance and investment committee of the county government of Nakuru. Based on the findings, the study recommends a need for the finance and investment committee to enhance its budgetary recommendations to the county government of Nakuru so as to improve the growth of SMEs in Nakuru Town.

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