

# Influence of Education on Entrepreneurial Behaviour among Small and Medium Enterprise Owners in Nairobi CBD, Kenya

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**Abstract:** *The purpose of this paper was to examine influence of education on entrepreneurial behaviour among Small and Medium Enterprise (SME) owners in the Central Business District (CBD) of Nairobi City. The paper adopted a descriptive survey study design. The descriptive design was appropriate for this study because it is fact finding and exploratory in the capacity of establishing the truth. The research targeted small and medium enterprises operating within the Central Business District in Nairobi. The units of analysis for the study was entrepreneurs in the enterprises; small and medium enterprises. Furthermore, the study employed random sampling techniques (simple random, stratified as well as systematic random) in selecting a sample of entrepreneurs. A sample size of 97 entrepreneurs was selected. Questionnaire was the main instruments of data collection. Descriptive and inferential statistics were employed in analysing and interpreting data. The study found that education has enabled respondents to communicate effectively with their clients and that education is the key to any business enterprise; education has led to signalling of the existing productivity.*

**Keywords:** Education, Entrepreneurial behaviour, Influence, Small and medium enterprises

## 1. Introduction

Small and medium enterprises (SMEs) play a major role in economic development in every country, including in African countries. Studies indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector [1]. For African economies, the contribution of the SME sector to job opportunities is even more important. Taking into account the contribution of the informal sector, SMEs account for about three-quarters of total employment in manufacturing [1]. The growth of entrepreneurship results from certain environmental conditions and some socio-economic factor inputs. Furthermore, education is important in terms of results and behaviour of enterprise business.

Kenyan vision 2030 emphasizes the need for appropriate entrepreneurship strategy for wealth creation as one of the means to make the country a globally competitive and prosperous nation. Nevertheless, socio-cultural factors influencing entrepreneurial activities are not clear. Policy makers need to understand the factors in order to come up with viable policies and development programs to promote entrepreneurship in the country. However, social scientists have not yet agreed on the determinants of entrepreneurial behaviour yet policy makers need to know the determinants in order to come up with viable policies that create an enabling environment for innovation and business competitiveness. The establishment of validated determinants of entrepreneurship could be of much help to the government to intervene in the economic development. Based on this, the study sought to establish how education influence entrepreneurial behaviour among SMEs owners in Central business district of city of Nairobi.

## 2. Literature Review

As culture is learned behaviour, formal, non-formal and informal education plays an important role transferring cultural values from one generation to another [2]. However, according to European Commission [3], education plays a subsidiary role in promoting entrepreneurship, because entrepreneurs are born. But some researchers emphasized that “The concept of the mind” which stresses that, education is important in terms of results and behaviour of enterprise business. It is often articulated that the supply of entrepreneurs will ultimately be increased more if awareness of the feasibility and desirability of starting a business is established at a young age. Thus education system is assisted to foster support and encourage those interested in knowing what it is like to run a business. Most of the successful entrepreneurs have not gone through higher education or formal courses in entrepreneurship [3]. Studies also show that, only a few of the entrepreneurs have had family business connections at the time they started a business however prior experience and skills gains through informal learning have been useful in making a start.

Education influences the selection to become an entrepreneur through various mechanisms. More education is generally correlated with higher wealth and consequently lower start-up costs for enterprise activities. The direct impact of education might also differ across occupations and therefore influence the initial choice of occupation. If education has a higher impact on the productivity in business activities compared to other occupational choices, more talented persons become entrepreneurs. When education improves the entrepreneurial ability, but not the productivity of an individual employee – education will increase both the likelihood of becoming an entrepreneur and the performance of the entrepreneur. To the extent that education is more profitable for entrepreneurs than for wage

earners, more talented potential entrepreneurs will become entrepreneurs.

Education also influences the diversification strategies within a household (more education provides more room for diversification within the household). Education leads to diversification strategies away from farming activities [3], [4]; [5]. Hatlebakk [4] finds that persons completed primary school in Malawi generally tends to work as wage earners, but he does not find a corresponding significant impact of education on the choice to become an entrepreneur. In their review of studies from developing countries Van der Sluis et al [5] find that more educated individuals are more likely to become wage earners and/or entrepreneurs and that woman are more likely to become wage earners when education increases.

In addition to increased profits, education can have further productive effects on business performance that are more difficult to measure. Education can for instance increase the survival rate of the firm through the facilitation of improved capabilities of the entrepreneurs, including capabilities to adjust to new external conditions and to adopt new technology. Education might also reflect signalling activities by the firm. Rather than improving productivity, education is in many circumstances used to signal existing productivity. As for the human capital model, the signalling model is not able to provide policy prescriptions about the relative importance of education for various occupational groups – for instance whether entrepreneurs gain more from education than wage employees. For instance, one might claim that entrepreneurs do not need to signal their productivity as they are self-employed, but on the other hand the self-employed are also dealing with uninformed stakeholders such as clients and providers of credit and might need signalling devices. Also at this point, the theory is ambiguous and it is therefore not obviously clear that education only play a signalling role for wage earners.

Entrepreneurship requires general knowledge and the formal education system normally increase this, particularly at the lower levels that are most common in developing countries [6]. To the extent that wage earners are more specialised and general competencies do have a small impact of wage earners ability, education also has a limited impact on the selection to become a wage earner. On the other hand, the distribution of individual ability is heterogeneously distributed and there might be differences across groups - for instance that women tend to become wage earners when their education level increases.

### 3. Methodology

Due to the purpose of this paper, the survey design was suitable for data collection and the ability to understand the nature of the situation, as it was presented at the time of the study. The researcher used a questionnaire to gather information. The target population for the study was Small and Medium Enterprise owners in the Nairobi Central Business District. From the local government statistics of 2011, there are a total of 66531 licensed SMEs in the CBD of the City of Nairobi. Simple random, systematic and

stratified sampling techniques were adopted. A sample size of 97 entrepreneurs was used. Data was collected through questionnaire using survey methodology. Data analysis was quantitative which involved a summary description of the findings which was presented using matrix tables, charts, percentages and frequencies. Both descriptive and inferential statistics were handy during data interpretation.

### 4. Presentation of Findings

In order to determine whether education influences entrepreneurial behaviour among SME owners in Nairobi CBD, six variables were developed as shown in Table 1. Due to the importance of education on entrepreneurial behaviour, Likert scale was used for answering (1 = strongly disagree, 2 = disagree, 3 = Not sure, 4 = agree, 5 = strongly agree). Thus, this question was analyzed by using the mean to identify the rank of each attribute.

**Table 1: Education and Entrepreneurial Behaviour**

<i>Education and Entrepreneurial Behaviour</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Rank</i>
Education has enabled me to communicate effectively with my client	4.56	1.54	1
I believe that education is the key to any business enterprise	4.33	1.34	2
Due to education, I have been able to signal the existing productivity	3.75	1.32	3
Education has enabled me to increased my enterprise survival rate	3.67	1.28	4
I chose to start this business because I had knowledge and skills of how to operate	3.53	1.23	5
Entrepreneurship knowledge has enabled me to run the business with little problems	3.20	1.32	6

In relation to education and entrepreneurial behaviour, it was established that education having enabled respondents to communicate effectively with their clients was ranked first (4.56); respondents believing that education is the key to any business enterprise was ranked second (4.33); due to education, respondents having been able to signal the existing productivity was ranked third (3.75); education having enabled respondents to increase their enterprise survival rate was ranked fourth (3.67); respondents choosing to start their business because of knowledge and skills of how to operate was ranked fifth (3.53) and entrepreneurship knowledge having enabled respondents to run the business with little problems was ranked the least with a mean of 3.20 from the Likert scale.

As a result, it is clear from the study findings that education is vital for the prosperity of any business. Respondents agreed that education has enabled them to communicate effective with their clients. In any business enterprise, communication between the entrepreneur and clients/customers is very vital because it contributes to the sustainability of the clients. Once there is clear and effective communication, a client may feel safe, confident and satisfied which will enable the entrepreneur to secure such clients as regular customers while at the same time attract more clients.

The study further established that education has enabled entrepreneurs to increase their enterprise survival rate. Through education, an entrepreneur is can acquire knowledge, skills and experience that enable him/her to sustain the business for long time as well as expanding it. This therefore, improves the survival rate of the business. Furthermore, respondents also stated that they chose the kind of businesses that are operating because of the knowledge they had in relation to the business. This therefore enables them to carry out their businesses in a professional manner due to possessing the required knowledge in the business.

However, respondents were not sure whether entrepreneurship knowledge has enabled them to run their businesses with little problems. This is attested by the statement having a mean of 3.20 from the Likert Scale which stands for 'not sure'. Despite the fact that an entrepreneur has knowledge and education of what he/she is doing, challenges are inevitable. Different clients have different levels of satisfaction, understanding and even communications. This therefore poses a challenge to any entrepreneur.

From the study findings in table 4.1, it can be deduced that respondents were in agreement with statements ranked 1-5 having means of 4.56-3.53 respectively which stands for 'agree'. On the other hand, they were not sure with statement ranked sixth.

A close scrutiny of the findings indicate that education has enabled respondents to communicate effectively with their clients; education is the key to any business enterprise; education has led to signalling of the existing productivity; education has enabled entrepreneurs to increase their enterprise survival rate and entrepreneurs chose to start their business because of knowledge and skills of how to operate them.

Education is factors that can be make some changes in business field. Education is main factor of changing value system of a person. Hence Learning and application of modern business practices is up to some extent depend on level and type of education and qualification of entrepreneurs. The table revealed two special characteristics of this sector. First factor is more educated people are not remaining this business sector and the businessmen who have secondly the businessmen who have medium level education perform fairly better than other people.

**Table 2:** Relationship between Education and Entrepreneurial Behaviour (ANOVA)

	Sum of squares	df	Mean square	F	Sign.
Between groups	3175.6	2	1587.8	21.275	0.000
Within groups	14703.2	120	74.6		

Findings from Table 2 indicate there is a relationship between education and entrepreneurial behaviour since the F value (21.275) is significant (0.000) at 0.05. Thus, it can be concluded that education influences entrepreneurial behaviours among scale and mediums owners. In relation to

the descriptive study findings, majority of the respondents stated that education influences entrepreneurial behaviour. This confirms to the significance test from the ANOVA.

**5. Conclusion**

This paper has revealed that as part of entrepreneurial behaviour, education plays a significant role. For instance, after the ANOVA test was carried out, it was established that there is a relationship between education and entrepreneurial behaviour. This finding coincides with those of Hagen (1962) who found that education plays a subsidiary role in promoting entrepreneurship, because entrepreneurs are born. However, it contradicts with the findings of van der Sluis et al (2008) who did find that education does not influence the choice to become an entrepreneur.

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