

Strategic Factors Influencing the Growth of Small and Medium Enterprises in the Central Business District of Mombasa County

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Abstract: *Mombasa County has a number of SMEs in the Central Business District some of which have grown; others are now experiencing growth while majority have not grown. This research project sought to establish the strategic factors influencing the growth of SMEs in the CBD of Mombasa County. Specifically this study examined the extent to which the characteristics of owners and managers influence growth of SME, assessed the extent to which the characteristics of the firm influence SME growth and determined the extent to which the SME strategy adopted influence SME growth. The research design adopted for this study was descriptive cross-sectional survey. Stratified random sampling was used to select SMEs and respondents. The research utilized both secondary data from other sources and primary data collected using questionnaires to carry out the study. Descriptive statistical tools assisted the researcher in describing the data while analysis was done quantitatively by use of Ms Excel and Statistical Packages for Social Scientists (SPSS). This included frequencies, mean, standard deviations, tables and percentages. The research found out that the characteristics of the owners and managers influence growth of SMEs in Mombasa CBD, the characteristics of the firms influence SME growth and that strategic planning influences SME growth. Thus, the study recommends that business owners invest in education and training programs to improve their knowledge on business matters especially financial management, strategic planning and implementation. The study also recommends SMEs to invest in enhancing their reputation and increase their business networks and distribution channels. The study further recommends that SMEs should invest more in strategic planning as this was found to greatly enhance their growth.*

Keywords: Business growth, SMEs, CBD, Mombasa County.

1. Introduction

Small and medium enterprises in Kenya's business segment are defined as enterprises with full-time employees not exceeding 100 or annual sales turnover not exceeding Ksh 150 million. The development of resilient and competitive small and medium enterprises (SMEs) forms an integral component of Kenya's initiatives to be a globally competitive and prosperous nation with a high quality of life for its population.

The Small and Medium Enterprises are businesses in both the formal and informal sector employing between 1 – 50 workers. These enterprises cut across all sectors of employment and provide one of the most prolific sources of employment creation, income generation and poverty reduction and account for 80% of the total persons engaged in employment. Studies show that the sector's contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008.

The numerous challenges posed by new market entrants, increased liberalization, increased standards requirements and technological advancements require SMEs to raise their efficiency levels, strengthen inter-firm linkages and respond timely to market dynamics in the business environment. Additionally, greater integration into the global economy provides opportunities for SMEs to actively participate in the supply chains networks and international value chain. This will enable SMEs to move up the value chain and utilize new and useful technologies, particularly information and communication technology (ICT). Only SMEs that are capable of taking advantage of emerging technology and

knowledge to develop value-added products of high quality will be able to compete with other firms globally.

1.1 Statement of the Problem

Small and medium enterprises are the major contributors of employment creation and economic growth globally. It is observed that the health of the economy as a whole has a strong relationship with the health and nature of SMEs sector. For instance, when the state of the macro economy is less favorable the opportunities for profitable employment expansion in SMEs are minimal. The significant role of small business in the Kenyan economy suggests that an understanding of their performance is crucial to the stability and health of the economy.

Whereas starting and operating a small business includes a possibility of success as well as failure there is general consensus that smallness and newness cause immense difficulties for businesses. In Kenya today, over sixty percent of small businesses are estimated to fail annually. Judging by the performance of the informal sector in Kenya, not much progress seems to have been achieved, despite numerous government efforts to promote SMEs activity. Due to their exposure to risks owing to their location and small size, a simple management mistake is likely to lead to sure death and closure of a small enterprise hence no opportunity to learn from its previous mistakes. Hence, not many SMEs grow to significantly contribute to employment creation and economic growth. Unfortunately, there is very little information on how the small business sector is managed, regulated and structured.

The determination of growth in large corporation has been researched thoroughly, but similar research studies of small businesses are much less common in the economic and business literature. Given the importance of SMEs to the Kenyan economy and the exposure to risks owing to their location, there is need to conduct this study to investigate the strategic factors influencing the growth of SMEs in the Central Business District of Mombasa county in order to develop a deep understanding of the dynamics of SMEs not only for the development of growth strategies and support programmes for SMEs in the county, but also for the growth of the economy as a whole.

1.2 Objectives of the Study

1.2.1 General Objective

The objective of this study is to examine the strategic factors influencing SME growth in the Central Business District of Mombasa County.

1.2.2 Specific Objective

The specific objectives of this study are to:

- 1) Examine the extent to which characteristics of the owner-manager influence SME growth in the Central Business District of Mombasa County.
- 2) Assess the extent to which the characteristic of the firm influences SME growth in the Central Business District of Mombasa County.
- 3) Determine the extent to which SME strategy influences SME growth in the Central Business District of Mombasa County.

2. Literature Review

2.1 Storey's SME Growth Model

With regards to the review of recent SME growth literature, SME growth is clearly influenced by a wide range of factors. Some of these factors are internal, and within the competence of owner-managers to control or at least influence. The others, such as economic factors, are external to the firm and beyond the control of owners and managers. Storey has extended this broad view of internal influences on company growth and concluded that the growth process in small firms was driven by a combination of the three basic components. These components include: the characteristics of the entrepreneurs/owner-managers, the characteristics of the small firm and the range of business development strategies associated with growth that are adopted by the firm. Within each of these three sets of factors, Storey summarized the individual elements which other researchers have shown through various surveys to have had an impact upon firm growth. Note that Storey's criterion for including a study in his review was that they might have used quantitative (preferably multivariate) analysis. The studies considered were mostly those from different areas in the United Kingdom and the United States of America.

Experience is one characteristic of the type of entrepreneur or owner-manager who can be associated with the growth of a firm. The middle-aged entrepreneur is more likely to have better experience, better energy, better credibility and easier

access to resources, hence is more likely than younger counterparts to own or run a growing business. It is also expected that entrepreneurs with better growing firms would have better levels of management experience and more educational background. Previous experience in the sector prior to establishment of their businesses, rather than setting up a business without such experiences, is related positively and significantly to small firm growth prospects. There is some evidence from previous research that firms still being run by their founders grow faster and that businesses run by more than one individual are more likely to grow faster than single person-owned firms.

2.2 Resource Based Theory

Resource-based theory aims to explain the internal sources of a firm's sustained competitive advantage over other firms in the industry. Initially Penrose established the foundations of the resourced-based view as a theory and provided a logical explanation to the growth rate of the firm by clarifying the causal relationships that exist among firm resources, performance and production capability. The main concern was the efficient and innovative use of scarce firm resources. She claimed that bundles of productive resources owned and controlled by firms could vary significantly, that firms in this sense are fundamentally heterogeneous even if they are in similar industries. A resource perspective analyses antecedents of products and ultimately organizational performance and believed that "resources and products are two sides of the same coin" and that firms diversify pegged on available resources and continue to accumulate through aggressive acquisition behaviours. The knowledge based literature of the firm strengthens and develops the resource based theory in that it considers knowledge to be the most complex of any organization's resources.

2.3 Discrepancy Theory

This is a well-established body of literature in organizational and industrial psychology that addresses the determinants of small firm growth. One of the explanations suggests that firm growth performance is determined, in part, by the 'gap' between an individual's personal standards of comparison and the actual experiences they encounter. These cognitive comparison processes are referred to as discrepancy theory. Previous research extensively found that most of the studies investigating the existence of discrepancy theory reported finding significant relationships between the individuals' characteristics and the firm's performance, and some types of perceived 'gap' between what they currently have and what they want to have. These findings provide strong support for the discrepancy theory explanations of the determinants of growth in small firms.

There are two main types of discrepancy theory in research: One is the 'goal-achievement gap theory', and another one was the 'expectation-reality gap theory'. 'Goal-achievement gap theory' looks into the discrepancies between the initial goals of the individual and the actual outcomes which are realized, whereas, 'expectation-reality gap theory' looks into the perceived gap between the situation that is achieved now, and what the individual expected it to be. This paper is

concerned with small firm growth; the perceived factors were expected as the determinants in affecting its performance. We put these two theories into practice to clarify the differences, by matching the initial estimation against the specific outcome, or by matching expectation against its real situation, coming to a result of either positive or negative affection.

2.4 Summary of Literature review

In summary, the above literature review portrays various scholars arguments that the strategic factors that influence growth of SMEs in the Central Business District of Mombasa County are the characteristics of entrepreneurs or owner-managers which include (qualification and prior experience), characteristic of the Small and Medium Enterprise such as (firm size and legal status), and the strategy adopted by the Small and Medium Enterprise (Strategic planning and Information Communication Technology). These factors when effectively managed can enable a firm gain competitive advantages over their industry competitors in the long run.

2.5 Research Gap

The literature reviewed includes Storey's SME growth model, the Resource Based Theory, and the Discrepancy theory. All these theories adequately explain the strategic factors influencing SME growth in the developed world since the data collected and analyzed was from different areas in the United States of America and the United Kingdom. Thus, it is important to note that all these studies were conducted in countries outside the African continent and as such do not sufficiently capture the unique social, political and economic concerns that budding entrepreneurs have to encounter each day to ensure growth and sustainability of their ventures. Therefore, in this study we shall focus on strategic factors influencing growth of SMEs in the Central Business District of Mombasa County, Kenya. It is of much interest and importance for researchers to carry out investigations in this grey area.

3. Research Methodology

3.1 Research Design

This is a descriptive study concerned with finding out the strategic factors influencing the growth of SMEs in the Central Business District of Mombasa County, Kenya. The study will be descriptive in nature since descriptive surveys are generally superior in answering the questions: What? Who? When? And How? On a topic and elicits qualitative data. A cross-section of the target population was surveyed to collect information that represents the views of the whole community or group. Descriptive cross-sectional survey method was suitable because the population targeted is quite big and SMEs are scattered in different areas of the Central Business District of Mombasa County. Survey method ensures that the samples studied represent the whole population. The survey will yield quantitative data, which will be analyzed using descriptive statistics. The use of this survey will be appropriate because it is fast, inexpensive and provides a higher response rate.

3.2 Sample and Sampling Techniques

Stratified random sampling technique was used to select SMEs and respondents. Proportionate stratified random sampling is a modification of random sampling where the population is divided into two or more relevant and significant strata based on one or more attributes. Stratified random sampling is preferred because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across the different strata. Stratified sampling advantages include its ability to ensure inclusion of subgroups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population. A stratum is defined as a subset of population that shares at least a common characteristic. Researchers recommend a sample size of more than 30 and less than 500 as appropriate for any social science research. Generally, the size of the sample in each stratum is taken in proportion to the size of the stratum i.e. proportional allocation.

3.3 Data Collection Procedure

For the purpose of this study both primary and secondary data was used. The primary data was collected from respondents in the SME sector by use of questionnaires which will be administered by the researcher using the drop and pick method. On the other hand, secondary data was collected from government reports, official statistics from the Municipal Council of Mombasa, past publications, previous research projects, historical data and web information.

The structure of the questionnaire is clear, easy to understand and straightforward to ensure that the respondent answer the questions with ease. The data collection instruments are developed and organized on the basis of the research questions and specific objectives to ensure relevance.

3.4 Data Processing and Analysis

Data collected from this research was summarized and analysed using descriptive statistics as a method of analysis. These included description of the mean and standard deviation of variables. The data collected will then be presented in tables extracted from both MS Excel and Statistical Package for Social Studies (SPSS) software tools. Inferential statistics will be used to describe and summarize the findings in order to draw conclusions from the data collected and analyzed to show the significance of the study. These attempted to answer various questions such as the relationship between two or more variables, the differences between responses from one SME to another, and how the samples compares to the general population.

4. Research Findings

The study found that most of the respondents agreed that their firms offered suitable business timing ($M = 2.10$, $SD = 0.21$) and a wider variety of products/services than their competitors ($M = 2.52$, $SD = 1.02$). The results further showed that the respondents agreed that the characteristics

of the owners and managers influenced the growth of SMEs in Mombasa County CBD ($M = 1.58$, $SD = 1.71$).

The study found that most of the respondents agreed that they had distribution channels to reach their clientele ($M = 1.21$, $SD = 0.41$), their prices were flexible/ negotiable ($M = 1.41$, $SD = 1.17$), their reputation gave them a competitive advantage over their competitors in the market ($M = 1.96$, $SD = 1.85$), and that they had mutually beneficial links with other firms and financial institutions for better operation ($M = 2.11$, $SD = 1.14$). The respondents also agreed that the characteristics of the firms influenced SME growth ($M = 1.25$, $SD = 0.25$).

The study found that most of the respondents agreed that they scan the business environment before choosing competitive strategy ($M = 2.15$, $SD = 1.11$), actions are usually taken to ensure all activities conform to the set plans ($M = 2.45$, $SD = 1.52$), they undertake strategic planning for future activities ($M = 2.69$, $SD = 1.07$). The results also show that most of the respondents agreed that strategic planning influence SME growth ($M = 2.20$, $SD = 1.46$).

5. Conclusions and Recommendations

5.1 Conclusions

The study found that the owner characteristics influence SME growth in Mombasa County. This suggests that a number of owner characteristics such as education and prior experience of owners/managers of SMEs in Mombasa County influence the growth of their businesses. It is therefore concluded that the growth of SMEs in Mombasa County is dependent on the characteristics of their owners/managers.

The study found that the characteristics of the firms influenced SME growth in Mombasa County. This suggests that a number of SME business characteristics such as size and legal status which impact on distribution, pricing, reputation and networks influence the growth of their businesses in Mombasa County. It is therefore concluded that the growth of SMEs in Mombasa County is dependent on the characteristics of the firms.

The study found that strategic planning has a strong influence on the growth of SMEs in Mombasa County. This suggests that strategic planning influences the growth of SMEs in Mombasa County. It is therefore concluded that the growth of SMEs in Mombasa County is dependent on the strategic planning by the SMEs.

5.2 Recommendations

The study recommends that since owner characteristics influence growth of SMEs, there is need for the business owners to invest in education and training programs in order to improve their knowledge on business matters especially financial management, strategic planning and the implementation process.

The study also recommends that since firm characteristics are instrumental in the growth of SMEs, there is need for SMEs to invest in enhancing their reputation and increasing

their networks as well as the marketing distribution channels. Such would improve the reach of SMEs and therefore lead to better revenues. The study further recommends that SMEs should invest in more in strategic planning as this was found to enhance growth of SMEs. SMEs therefore need to scan their environment to check for opportunities as well as threats. They need to do more competitive intelligence in order to be competitive in their industries and fields of operation.

5.3 Suggestions for Further Research

SME growth is a major concern in the country at large; which comprises of forty seven county governments. I recommend that similar studies be carried out in other counties countrywide so as to gain crucial knowledge regarding SMEs that will inform investments, policy making and research. For instance, scholars, academicians and institutions of higher learning in the Machakos County in Kenya can embark on studying the strategic factors influencing the growth of SMEs in their County.

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