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An Appraisal of Financial Management Practices on the Growth of Micro Enterprise in Kenya

David M. Kahando[1, *], Tirus Muya Maina[2], Charity Mweru Maina[3]

[1]School of Business and Management Studies, The Technical University of Kenya, Nairobi, Kenya

[2]School of Computing and Information Technology, Murang'a University of Technology, Murang'a, Kenya

[3]Library and Learning Resource Service, The Technical University of Kenya, Nairobi, Kenya

Email address:

davidkahando@gmail.com (D. M. Kahando)

[*]Corresponding author

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Abstract: Governments in different parts of the world are increasingly promoting and supporting the growth of Micro and Small enterprises as part of their overall national development strategy. The sector plays an important role in economic development and act as vehicle for low-income people to escape poverty through market-driven, productive activities for growth of the economy. Consequently because of their role and significance to the economic development they have become a major research area in developing countries. Studies have been conducted highlighting the constraints which affect the growth of micro-enterprises with a view to bring to the solutions but with no in-depth. Most the enterprises growth still stagnate and eventually fail. Their failure rates are always attributed to lack of management skills by most owner managers. As a result, there is need to carry out studies on the management practices of micro enterprises in regard to financial practices. The objective of this study was to appraise the financial management practices on growth of Jua Kali enterprises in Kenya. The study adopted the descriptive research design to assess the growth in regards to financial practices. The target population was 150 owner managers of micro enterprises registered under Jua Kali enterprises. Considering the population was not a homogeneous, stratified random sampling technique was used as the most appropriate to determine the study sample of 50 respondents. The primary data was collected through structured questionnaires. The data was analysed using both descriptive and inferential statistics with the help of the Statistical Package for Social Sciences. Linear regression analysis was employed to determine the degree of relationship between the financial management practices and growth. The result showed that financial management practices had a strong positive relationship on the growth of Jua Kali enterprises with a Pearson correlations coefficient of 0.629 at 95 percent significance level (p=0.001). The study concluded that financial management practices have an influence on the growth of micro enterprise hence the need for owner managers to embrace appropriate management practices to grow their businesses that help spur economic development and create more employment, in line with Kenya's vision 2030.

Keywords: Employment Creation, Financial Management Practices, Micro-Enterprises Growth

1. Introduction

Micro and Small Enterprises (MSEs) are recognized worldwide for the fact that they make up the largest business sector which contribute to the economic development [1]. Governments in different parts of the world are increasingly promoting and supporting the growth of MSEs as part of their overall national development strategy. [2] Indicated that Small businesses are seen as the driving force for the promotion to economic development of every nation. A number of studies; [3]; [4]; [5] concluded that the micro and small enterprises are the sources of employment.

Kenya, like many nations, Micro Enterprises also referred to as '*Jua kali* Enterprises' are the biggest informal sector that employs over 10 million people with an increase of employment each year at an average rate of about two percent [47]. According to the [19], an annual publication of the Kenya National Bureau of Statistics (KNBS)] 693.4

thousand new jobs were created in 2014 at an average rate of about seven percent. This is a clear indication that the sector plays an important role in economic development as highlighted by Sessional paper number 2 of 2005 on development of MSEs for wealth and employment creation for poverty reduction [48]. [20] Observed that Micro enterprises make a major contribution to aggregate employment, production, and national income in Kenya, beside some constraints, hinder their participation in the global markets. Micro enterprises are also an important vehicle for low-income people to escape poverty through market-driven and productive activities.

Therefore, an understanding of the dynamics of MSEs is necessary not only for the development of support programmes for MSEs, but also for growth of the economy as a whole [7]. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the low income in the country accounting for 12-14 percent of GDP [11]. As a result Micro enterprises are the seedbed for innovation and tested management practices which are useful in enterprises.

Generally, Enterprises are categorized into three categories: micro, small and medium enterprises or businesses. The micro enterprises are the smallest among the three categories. However, the definition of a business varies from country to country in regard to sources statistics. Some of the commonly used criterions are the number of employees, total net assets, sales and investment level [8]. However, the most common definitional basis used is employment, while considering the upper and lower size limit

The Kenya National and Small Enterprise Baseline Survey of 1999 define Micro and Small Enterprises as all Enterprises employing between 1 and 50 employees. The Sessional paper number two of 2005 on development of MSEs for wealth and employment creation for poverty has adopted the definition. In practice, most Micro Enterprises known as *Jua Kali* enterprises employ less than ten employees. According to [11], the majority of the enterprises, employ less than five. The name *Jua Kali* is a *Kiswahili* word derived from two Kiswahili words '*Jua'* meaning sun and *'kali'* meaning hot which is synonymous with micro enterprise [9].

For the purpose of this study, *Jua Kali* enterprise is defined as a micro enterprise that employ between one to ten employees. Both terminologies will be used interchangeably. *Jua Kali* enterprises do not include newspaper venders, vegetable sellers and those running shops or kiosks. Small-scale enterprises are defined as enterprises that employ from 11 to 50 employees, while medium/large enterprises employ 51 and above. According to National and Small Enterprise Baseline Survey (1999), micro enterprises operate with little capital compared to their counter parts in Small and medium Enterprises who have major level of productivity. The study measured growth of enterprises in terms of changes in number of employees [12] and sales and investment level [8].

In Kenya, according to [19], over 625,000 people join the labour market annually most of who remain unemployed or end up in informal sector. Amongst these people, the micro and small enterprises absorb approximately 83 percent. However, despite the importance in employment creation, this informal sector experience growth challenges. It is estimated that Three out of five enterprises fail within the first few years of operations. The challenges are attributed to poor management practices especially in planning, inappropriate financial practices and control which are main causes of failure [14]. A simple management mistake is likely to lead to death of the enterprise [15]. Although MSEs are making positive contributions to economic growth and development in Kenya the rate of failure is higher. This creates a gap that needs to be filled if MSEs are to remain key pillars to economic development as envisaged in the vision 2030.

While the government has put good policies in place, it is imperative to note that most entrepreneurs do not take the challenges of good management practices which result into producing goods of high quality, hence their goods are rejected in preference for imported goods presumed to be of high quality [16]. Considering that finance is the most important ingredient for the survival of any enterprise [23], the major concern of this study was to assessment the management practices in regards to finance which tracks how well the enterprise runs financially.

1.1. Statement of the Problem

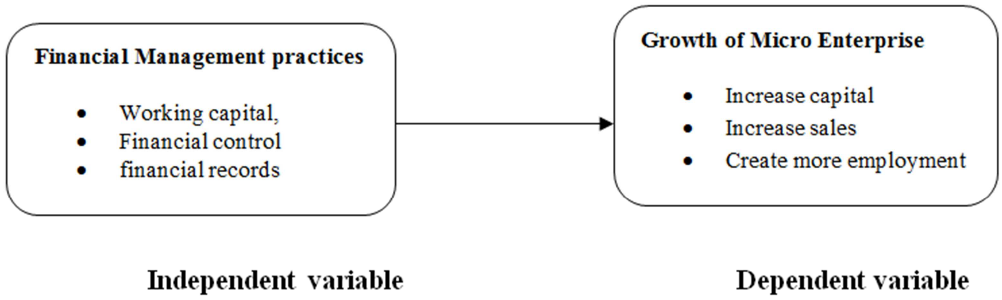
Kenya, like most third world countries, MSEs plays an important role in economic development. The sector acts as important vehicle for low-income people to escape poverty through market-driven, productive activities for growth of the economy. Various studies have been conducted highlighting on the constraints which affect the growth of Micro and Small Enterprises but with no in-depth [17]. Further studies on growth of MSEs have even been conducted with a view to find the solutions, but still stagnate and sooner or later fail [18]. In Kenya studies on financial management practices in regard to growth of MSEs are scanty. It is against this background, the researcher conducted a further research to assess the financial management practices on the growth of *Jua Kali* enterprises (micro enterprises) in Kenya.

1.2. Objective of the Study

The objective of the study was to assess the financial management practices on the growth of *Jua Kali* enterprises in Kenya.

1.3. Conceptual Framework

A conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate the same [41]. The research conceptual framework was based on the main objective; an assessment of Financial Management Practices on the Growth of Micro Enterprise in Kenya where, financial practice tracts how well the organization is doing on finance [23].



Source: the researcher's conceptualization

Figure 1. *Conceptual framework.*

The study conceptualized that the growth of the enterprise depends on the owner-manager's effectiveness and efficiency in managing the enterprise while focusing on good financial management practices. Consequently, the enterprises would create more employment, increase capital, and increase sales. The conceptual framework showed that there was great relationship between the dependent (enterprise growth) and independent (financial management practices) variables as shown in figure 1.

2. Literature Review

2.1. The Micro and Small Enterprise Growth in Kenya

The MSEs play an important role in the Kenyan Economy. According to [19], the informal sector which constituted 82.7 per cent of the total employment, created 693.4 thousand new jobs in 2014 despite the challenges that threaten their survival and the growth. Past statistics indicate that three out five nascent enterprises fail within the first few months of operation [20]. Hence there is need for strategies by the stake holders to look for a lasting solution to revitalise growth of micro enterprises.

According to [21], growth of micro and small scale enterprises depends on the changing industry patterns and management and the strategic decisions taken by the owner/manager. They are generally regarded as the driving force of economic growth, job creation and poverty reduction in developing countries. [11], reaffirms that micro and small scale enterprises are engaged in a number of business activities characterised by the economic and political environment existing in the country. Micro enterprises therefore are the means through which accelerated economic growth and rapid industrialization is achieved.

One of the main findings by [22] was that growth and development of micro and small enterprises in developing countries were mainly inhibited by access to finance, poor managerial skills, and lack of training opportunities and high cost of inputs. Micro and Small scale are generally distinguished by the nature of their production and management arrangements, trading relations, financial practices and internal competence features that characterized small businesses include the following: Small units often rural-based and family owned, small independent enterprises, standing alone and producing for a well-defined market, low capital formation, flexible and often small production runs, rely on low cost raw materials, low energy costs, low labour costs, low division of labour and largely labour intensive units with low-level technologies.

Starting and operating a micro enterprise includes a possibility of success as well as failure. [22] indicated that Lack of planning, improper financing and poor management have been the main causes of failure of micro enterprises. However [24] observes that the health of the economy has a strong relationship with the health and nature of growth of micro and small enterprise sector. When the state of the macro economy is less favourable, by contrast, the opportunities for profitable employment growth in micro enterprises are limited. Hence, the growth of micro and small enterprises is part and parcel of a dynamic growth process in the corporate sector [22].

The characteristics of most micro enterprises are such that most of them, involve only the owner as the manager, some family member(s) and at the most one or two paid employees. Hence the enterprise has less than ten employees. Most of them have a limited capital base and only basic technical or business skills among their operators. [22] indicate that most micro enterprise lack basic data on management which hampers any attempts to undertake serious empirical work on measuring the characteristics of small scale enterprises and explaining the behaviour of these enterprises.

It is generally recognized that small scale enterprises faces unique challenges, which affect their growth and profitability and for this reason diminish their ability to contribute effectively to sustainable development. The challenges include; Lack of managerial training and experience. The typical owners or managers of the micro businesses develop their own approach to management through trial by error. As a result, their management style is more concerned with day to day operations than long term issues, and more opportunistic than strategic in its concept. According to [15], education and skills are needed to run micro and small enterprises. Undoubtedly, those with more education and training are more likely to be successful in the small scale enterprise.

Most studies measure micro and small enterprises growth by sales, employees, assets, profit, equity [25]. [17] argue that there is little agreement in the existing literature on how to measure growth of a business, However, [17] confirm that sales and employees growth is an acceptable measure of enterprise growth. This study measured growth on the improvement in sales and increase in the number of employees since most owner managers of micro-enterprises do not keep proper records. Despite the challenges on growth, the economic survey of 2015 indicates that the sector contributes up to 18.4% of country gross Domestic product. This is however far from the expectations on the growth of micro enterprises for Kenya in realisation of vision 2030.

2.2. Financial Management Practices on the Growth of Micro and Small Enterprises

Although, lack of financial resources is the biggest hurdle in constituting a new firm and running it from inception and throughout its life cycles [26]; [27], good financial management practices are most important [28]. Financial management is that managerial activity which is concerned with the planning and controlling of the enterprise's financial resources. Since most owner/manager of micro and small businesses lack the financial management skill, they operate on the routine finance functions (RFF) which does not require a great managerial ability since it is clerical in nature and are incidental to the effective handling of the managerial finance functions [29]. This section covers working capital, financial record keeping, and financial control as financial practice variables.

2.2.1. Working Capital

Working capital (WC) is a part of an enterprise's current assets. Depending on the source, working capital can be defined in different ways. Working capital is defined as a company's total investment in current assets or assets that a company expects to be converted into cash within a year or less [30]. For the purpose of this study, WC is defined as the amount of funds necessary to cover the cost of operating micro-enterprises enterprises, normally recurring in nature and can be easily converted into cash within a period of one year. WC therefore is part of the capital which is needed in every micro enterprise for meeting day to day requirement of the business concern [31]. For example, payment to creditors, salary paid to workers, purchase of raw materials etc. Working capital, being one of the most important parts of financial management, [44] indicates that its objectives therefore should be consistent.

According to [32], the first problem for an MSE is to ensure the availability of the appropriate amount and type of funds. The next step is to optimize the use of those financial resources by effectively planning and control. [44] allude to the fact that small business is likely to be confronted by a variety of financial problems as it advances through its life cycle; especially in the early stages due to lack of track record which can hinder the required capitalization, and lead to undercapitalized business. MSEs therefore need working capital to bridge the gap between when they have to pay their suppliers and their overhead costs when they are due to stimulate growth of the enterprises.

2.2.2. Financial Records

In every enterprise, financial records are important tools that facilitate growth. Financial management for the owner-manager and, indeed, for the most modest of small businesses, starts with the management of cash flow. Cash flow is critical to survival, representing the livelihood which enables all the activities of a firm to be undertaken. It is easy for the delicate cash resources of a small business to become locked up in unproductive areas, such as debtors, work in progress and finished stocks. Any areas where funds can become locked-up require effective management by keeping good financial records to minimize the extent of lock-up [32].

Owner/manager of the micro enterprise, need to consider a good financial record keeping at all times with minimal cost in controlling loss of funds Studies have shown that managerial skills in form of operational managerial requirements like production, sales, and finance are the most important constraints faced by small business [33]. Hence every enterprise requires proper financial records to propel growth.

2.2.3. Financial Control

Financial control is a comparison between the real amounts of money spent in enterprises and the budgeted amounts. The controls in place to uphold expenditure management are very important, and can be used as a basis for determining the process of budgetary control on the route to accomplishing a desired goal, which can be linked to a certain outcome [32]. Control is a process of monitoring and evaluating to ensure that resources are obtained and utilized economically, efficiently and effectively, the latter implying a strong commitment by entrepreneurs to ensure not only that output is achieved, but integrated outcomes as well effectiveness [34]. [35] defines control as a set of mechanisms designed in order to motivate individuals to attain desired objectives.

Fast-growing micro enterprises have particular problems in controlling their finances. Growth brings frequent change to the internal structures and external environment of a micro enterprise. It is often difficult to ensure that financial control systems keep pace with the changing circumstances especially debtors. According to [36], debtors can hurt micro enterprise in two major ways. First, they absorb cash and effectively increase the funding requirement. Second, the longer a debt is unpaid, the greater the risk of a bad debt. This impacts on the enterprise and can be disastrous, even causing the failure of the business. Financial management is therefore about balance, and the optimization of resources for the growth of a micro and small enterprise.

3. Research Methodology

3.1. Research Design

The study adopted a cross-sectional survey. In a cross-sectional survey, data is collected at one point in time from a sample to depict a population [38]. This supported by [37] who argued that cross-sectional survey is useful to identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomena. Thus using the survey design, statistical tools we can be used to test the relationship between the study's independent variables and growth of *jua kali* enterprises [39]. This research will be survey designs that will provide a quantitative or numeric description of trends, attitudes, or opinion of a population by studying the sample of the population. The study adopted the descriptive research design to assess the efficiency and effectiveness of Jua *Kali* enterprises operations on the growth in regards to financial management practices

3.2. The Target Population

The term target population refers to the group of individuals, objects or items that have at least one thing in common from which samples are taken for measurement [39]; [41]. According to [42], a population is the entire set of individuals of interest to the researcher. The target population of this study comprised 150 owner managers whose population was distributed between six business areas namely; the motor vehicle repair services, metal fabrications, motor vehicle panel beating and painting, carpentry and joinery, Dressmaking and tailoring, and motor spare shops.

3.3. Sample Size and Sampling Technique

The study adopted the probability sampling which is commonly associated with survey-based research [40]. The sample size of 50 respondents was obtained from a target population of 150 using the coefficient of variation of 30% which is appropriate for a survey research. A similar method was applied by [46] in their studies. To determine the sample size from each of the six business areas, Stratified random sampling was used as the most appropriate technique since the population comprised heterogeneous group. To ensure that the sample accurately reflected the six sub-populations according to their trade areas (strata) stratified sampling formula, $i = n\ (N/P)$, [43] was used to calculate sample from each stratum. A proportionate sample size of 50 respondents from the six strata was thus obtained.

3.4. Data Collection Instruments and Procedure

The study employed quantitative research method to collect primary data through a structured questionnaire and secondary data accessed from the findings stated in published documents and literatures related to research problem. Both the primary and secondary data was used in the study. The primary data was collected from owner/managers in their enterprises by the researcher using structured questionnaires. The secondary research data were used to confirmed survey results through statistical reports and research findings from other researchers.

3.5. Data Analysis and Presentation

The data was analysed using descriptive and inferential statistics with the help of the Statistical Package for Social Sciences (SPSS) software which offers extensive data handling capabilities and numerous statistical details as accented by [45]. Descriptive statistics involved use of percentages, means and measures of dispersion which simplified the interpretation of data. Inferential statistics involved use of correlation and regression analysis. Pearson correlation coefficient was used to show how financial management practices (independent variable), relates with the growth of the enterprise (dependent variable). Further linear regression analysis was employed to determine the degree of relationship between the two variables. The general Regression model equation was used to describe how the mean of the dependent variable changes with changing conditions in the form, $Y=\beta_0 + \beta_1 X_1 ..+ \varepsilon$.

4. Discussions and Findings

The study found that 82 percent of the capital was sourced internally; respondents' Personal savings 48 percent, family 30 percent and friends' 4 percent. Only 18 percent sourced externally from financial institutions. [44] agree with the findings that potential source of capital may be from personal savings, extended family networks, community savings and credit systems. With good financial management practices, the capital would be enough to run an enterprise and realise growth.

On adequacy of start-up capital, that the respondents had diverse reaction, 48 percent feel that the start-up capital was not adequate while 44 percent indicated that funds to start and run the business were adequate without any leverage from the bank or any external sources. The two scenarios are attributed to the type of enterprises. Those who felt the capital is not adequate operate capital intensive businesses. For example, metal fabrication and spare shops. While panel beaters and motor vehicle repairs require only initial capital to buy the tools and some equipment. In this type of business, customers are requested to buy the spares by the mechanics and only charge for labour. This shows that capital was a hindrance to most owner managers of the *Jua Kali* enterprises to be able to manage growth. [44] supported the research finding by indicating that shortage of capital hinders development of micro enterprises. About 80 percent of owner managers of Jua *Kali* enterprises spent their surplus on domestic use, while the rest was spent on miscellaneous and very little if any on business improvement. This shows that the owner managers of the enterprises put more emphases in domestic chores which is detrimental to the growth the enterprises.

In regards to financial control, 76 percent of owner/ managers of *Jua Kali* enterprises were in charge of keeping and controlling their own enterprises, while only 14 percent employed the services of qualified accountant or a consultant. Surprisingly, the rest had no idea of business records keeping. This can be inferred that most respondents operate and keep their business records while others depended on their memory as far as business records were concerned which is detrimental to the growth of any enterprise. [32] feel that if records are not kept it is easy for the cash resources of an enterprise to become locked up in unproductive areas, such as debtors, work in progress and finished stocks. To unlock, effective financial records and control is necessary.

Correlation Analysis Between Financial Management and Enterprise Growth

The result of the relationship between financial management practices and growth of the enterprise show that financial management practices had a strong positive significant relationship on the growth of *Jua Kali* with a Pearson correlations coefficient (r) of 0.629 at 95 percent significance level (p=0.001), table 1.

Table 1. *Correlation analysis between financial management and enterprise growth.*

Variable	Growth of Enterprises
Financial management practices Pearson Correlation	0.629
Sig. (2-tailed)	0.001
N	50

This is an indication that a unit of the level of operation of financial management practices results to 62.9 percent changes in the enterprise's growth.

In order to show how the financial management practices affect the growth *of Jua Kali* enterprises regression Analysis was computed to test the strength of relationship between the two variables. The enterprise growth became the dependent variable and financial practices as the independent variables. Regression model equation was used to describe how the mean of the dependent variable changes with changing conditions in the form $Y=\beta_0 + \beta_1 X_1 + \varepsilon$.

Where: Y= Growth of *Jua Kali* enterprises; X_1= Financial management practices;

β= constant coefficient; β_1 = Regression Coefficient; ε = standard error

The explanatory variables that were used in this study were; the enterprise growth (EG), dependent variable and financial practices (FP). Table 2 summarises the regression equation thus $Y=\beta0 + \beta1\ X1+ + \varepsilon$, explained as EG = 0.512 + 0.591FP $+\varepsilon$.

Table 2. *Coefficients of independent variable.*

	Un-standardized Coefficients		Standardized Coefficients		
Model	**B**	**Std Error**	**Beta**	**T**	**p-value**
(Constant)	0.512	0.445		1.321	0.019
Financial management practices	0.591	0.152	0.629	2.181	0.001

The result indicate that there is a strong correlation between the financial management practices and the growth of *Jua Kali* enterprises (R=0.746, p=0.001) which is significant at 5 percent. The adjusted R Square=0.557 value tells us that the model accounts for 55.7 percent of variance in the growth of *Jua Kali* enterprises. The predictor as indicated by the study variable influences the growth by 55.7 percent (p-values <0.05), as shown in table 3.

Table 3. *Results of regression between variables.*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	**F Change**	**df1**	**df2**	**Sig. F Change**
1	.746	.557	.555	.43829	.975	109.110	3	47	.001

This implies that financial management practices have a strong influence on the growth of *Jua Kali* enterprises.

5. Conclusions and Recommendations

The objective of the study was to assess the financial management practices on the growth of *Jua Kali* enterprises in Kenya. Studies have been conducted highlighting the constraints which affect the growth of micro-enterprises with a view to bringing to light the solutions but with no in-depth [17]. Based on The result of the study, it was possible to conclude that financial management practices had a strong positive significant relationship between the growths of *Jua Kali* enterprises. A similar finding by [44], confirmed that financial management practices affected micro and small enterprises growth. Therefore, enterprises should embrace proper financial management practices to enable them start and retain a working capital by keeping proper financial records and control of stock which eventually spur growth.

Though there was a positive significant relationship between financial management practices and a measure of enterprise growth, most of the owner/ managers of the enterprises have challenges in financial management skills especially in control, record keeping and business management skills in general which are detrimental to the growth of *Jua Kali* enterprises. Based on this study, the following recommendations were made In order to improve on *Jua Kali* enterprises management skills; first, the government conduct a training need assessment to identify the specific area of deficiency for training, and secondly, develop sandwich management training programmes through the relevant organs which are relevant to the owner/manager of enterprises.

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