

An Investigation into the Effect of Management Factors on Performance of (Micro, Small and Medium Enterprises) in Kenya

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Abstract

This article forms part of the result of a doctoral study on business enterprises focusing on the Micro, Small and Medium Enterprises (MSMEs) in Kenya. The primary aim was to critically investigate the management factors affecting performance of MSMEs in Kenya. The findings reveal that the critical management factors critical to the different categories of enterprises differed in MSMEs. This creates an important beginning in policy recommendation towards economic recovery in Kenya.

Keywords: Performance, Business enterprises, Management factors, Business categories, Kenya, Micro, Small and medium enterprises

1. Introduction

1.1 The Management Concept

It is believed that management is an important activity that helps organisations achieve or pursue their goals and hence management actions are very important (Gunningham, Thornton & Kagan 2005:289 - 316). Indeed, managers and management are essential in our modern business organisations and society (Hendricks & Singhal, 2001b: 269 - 285). The activities undertaken in management, determine whether the business performs or does not perform well. For example, if a company or organisation is in financial difficulty, then cost cutting may be inevitable (Nickels, McHugh & McHugh 2007:239). The way management tackles problems determines the long-term outcome of an organisation (Balfanz D & Koelmel 2009).

The functions of management differ in different business settings. In profit making firms, the primary function of management is to satisfy a range of stakeholders. This typically involves making a profit (for the shareholders), creating valued products at a reasonable cost (for customers), and providing rewarding employment opportunities (for employees). In most models of management, shareholders vote for the board of directors, and the board then hires senior management (Peterman & Kennedy, 2003). Management also has a responsibility to innovate and make the organisation more effective. In all but the smallest organisations (micro), achieving these objectives involves a division of management labour. People specialize in a limited range of functions so as to quickly gain competence and expertise (Nabi, 2003: 371-82).

Managers require business ideas that are more than "soothing platitudes" argues Rosenzweig (2007: 2). Consultants, chief executives and owner managers, tap scientifically suspect methods to produce what Rosenzweig calls "business delusions" which implies deeply flawed and widely held assumptions tainted by the "halo effect" (Rosenzweig, 2007). Occasionally, there is a rush to attribute to the company, sweeping positive qualities borrowed from another that has achieved success. Such a rush might provide managers with a comforting story that helps them justify their actions, but it also leads them to gross simplification and to ignore the constant demands of change arising from the changing business environment, improving technologies, markets, customers and situations.

Many managers believe that their job is to resolve problems that arise (McNamara & Watson, 2005:184-19). While that is true, it is only the lesser part of their job. More importantly, a manager's job is to prevent problems.

If management does not raise support for an executed change, or if managers have not provided good leadership, then the energy is wasted (own deduction). If organisations lose their focus on service, they eventually suffer. If management influence is negative, staff morale and the organisation climate suffer. Thus, management must back up statements with positive actions. The management behaviour has to help rather than hinder. "It has to be concrete, real and positive" (Fisher 2007: 25-32).

Micro, Small and Medium Enterprises (MSMEs) like any other organisation forms, require managers and management to perform. Senior management (CEO or owner manager) has a major influence in MSME's present in every industry and all types of economy (Berger, 2005:346).

1.2 Business Management Strategies

The management strategies that influence a firm's performance can be classified as chief executive (or owner manager) characteristics, human resource management factors, technology management factors, strategic management factors, finances/capitalization factors, marketing management factors, entrepreneurial management factors, interpersonal factors, environmental factors, regulation and Policy Issues (deductions from study).

Handy (in Cole 2006:9) concludes that a manager has to grapple with people, work and structures, systems and procedures within the constraints of the goals of the organisation, the technology available and the culture of the organisation. It can, therefore, be concluded that to successfully manage, is to balance these factors in a way that meets the needs of the organisation at a particular period in time.

1.3 Organisation Performance

Performance is often defined simply in terms of output terms such as quantified objectives or profitability. Brumbach in Armstrong (2006:7) defines performance as both behaviour and results. This definition covers the achievement of expected levels as well as objective setting and review. The underlying thought behind this study is actually to investigate this relationship bearing in mind that if the behaviour of management is right, then the expected levels of output will be achieved (success) and vice versa for failure. Success and failure are taken as the two ends of the performance continuum.

Various scholars have tried to set out a clear definition of performance (Reed, Lemark & Mero, 2000: 5-26, Ginsbert. and Venkatraman, 1985: 25-39, Chu-Hua, Madu & Lin 2001: 864-72; Terziovski. & Samson, 2000: 144-9), but this debate continues to date within the academic literature, more so regarding some aspects of terminology issues, analytical levels, and the conceptual basis for assessment. According to Ginsbert and Venkatraman (1985:25-39), "There are three different levels of performance within organisations". They are distinguished as the financial performance, business performance and organisation effectiveness, although the latter has been subsequently known as organisational performance (Chu-Hua, Madu & Lin 2001: 864-72; Terziovski. & Samson, 2000: 144-9). Performance is the key interest of every business manager or owner. The overall performance of the organisation depends on proper management at all three levels of management, namely; top, middle and lower management.

1.4 Contextualisation of MSMEs in Kenya

The number of small businesses is growing rapidly in Kenya as evidenced by the growth in the small business activities in the country (Sessional paper 2005, World Bank report). Every industry or sector of operation has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors (political/legal, economic/demographic, socio-cultural, technological and globalization) as well as internal business factors (management expertise, resources, individual characteristics, etc). In the dynamism and turbulence, small businesses are affected more than the large organisations because the response to environmental changes in small businesses is different from that of large companies (Hartshon & Wheeler, 2003: 203-320). A large company can move from one business to another and have resources and strategic choices not available to small business enterprises. It is necessary to study the management factors that are in place in the informal sector, that is, investigate individual business adjustment policies in relation to the state policies.

According to the 2006 Economic Survey, employment within the Sector accounted for 74.2 % of the total persons in employment. The sector contributes up to 18.4 % of the country's Gross Domestic Product (GDP). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization.

It is expected that by the year 2030, Kenya will be transformed into a newly industrialized nation. If the country has to make this leap, then the small enterprises are expected to play a key role in this transformation. To play

this role, the small enterprises must succeed and the failure rate characterizing the sector be minimized if not eliminated. It is also noteworthy that most of the businesses in this sector remain micro, employing less than five people and having such a high mortality rate as such, hence the firms hardly graduate into large or even medium organisations. Research findings show that many do not celebrate their third birthday (Sessional paper, 2005).

1.5 Research problem

Although a number of researches have been done on factors that contribute to success or failure of SMEs, none has focused on the critical management factors affecting the performance of micro, small and medium business enterprises in Kenya. This study therefore sought to determine the critical management factors affecting the performance of MSMEs in Kenya by looking at the process through which the factors lead to performance.

1.6 Research Objectives

The objective of this paper is to identify the critical management factors affecting the performance of MSMEs in Kenya

2. Research Design and Methodology

2.1 Design

The study is cross-sectional survey in the sense that relevant data was collected at some point in time. The reason for preferring a cross-sectional study was due to the vast nature of the project and the time limitation. Second, the researcher dealt with events that had happened and the researcher had no control over the variables in terms of being able to control or manipulate them; it was an ex-post facto design (Thietart et al., 2003).

2.2 Sample design

Random sampling design was used to assist in minimizing bias when dealing with the population. Fourteen towns were selected from the eight provinces in Kenya. Stratified sampling was used to enable the researcher to get information from different sizes of the MSMEs namely, the micro, small and medium enterprises. Within the different sizes, systematic sampling was used to arrive at the final sample.

2.3 Data Collection

The main data collection instrument was a structural interview schedule. This was administered to the top/executive manager, middle/operational Manager, lower/functional manager or the relevant manager who heads the enterprise. It was administered through interviews with managers. The interview mode of data collection was preferred due to its high response rate as compared to either mail or telephone interview. Further, the mode provides for clarification of questions. Care was taken to afford the respondent independence and avoid researcher influence (Saunders, Lewis & Thornhill 2003: 280-316).

3. Data Analysis and Discussions

3.1 The Management Functions and Business Categories

The researcher sought to establish whether there was a difference between the applications of the management functions within the business categories. The results from table1 (see appendix) indicate that the larger organizations applied the management functions more followed by the small businesses and finally the micro enterprises.

Each management function was explored. Several indicators were given and the respondents asked to tick from a likert scale ranging from 'no extent' to a 'very large extent'. The functions explored were organizing, planning, Staffing, directing and controlling. The tables of results are given in the appendixes.

3.2 The Management Organizing Function

The respondents were asked to indicate the extent to which the following activities related to the management's way of allocating resources, assigning tasks, and the way they went about accomplishing goals with respect to current business processes. The responses are narrated as follows: most respondents (175) said that managers arrange a framework (organizational structure) that links all workers, tasks, and resources together so that business goals can be achieved. The mean was 4.05 with a standard deviation of .970 while the business emphasizes on its organizational structure usually shown by an organizational chart available to all employees was mentioned by 176 respondents with a mean of 3.96 and standard deviation of .970. The business has an organizational chart that depicts the structure of the business showing the positions in the business, the choice of structure is important for the type of business, its clientele, and the products or services provided.

The respondents mean score for 'managers arrange a framework (organizational structure) that links all workers,

tasks, and resources together so that business goals can be achieved' and 'the choice of structure is important for the type of business, its clientele, and the products or services it provides was 4.05. The mean score for 'the business has an organizational chart that depicts the structure of the business showing the positions in the business was 4.03 and that for 'the business emphasizes on its organizational structure usually shown by an organizational chart available to all employees was 3.96. The mean score out 5.00 was quite high indicating that the organization function was well applied.

The planning function of management was well-applied in the MSMEs in Kenya with a mean score of 3.51 to 3.79. The highest mean indicators referred to the statements mentioned below. 3.79 referred to 'resources are needed and must be acquired in order to implement the business strategies', 3.78 to 'the business plan has given the business its goals and the procedures to reach them', 3.77 to 'the current business venture prepares a sequence of action steps to achieve some of its specific goals' but a high standard deviation of 1.064, 3.76 to 'contingency planning allows for alternative courses of action when the primary plans that have been developed don't achieve the goals of the business' and 3.75 to 'the managers in the business venture develops strategies for achieving the goals of the business'. Overall, the planning function was well-applied.

3.3 Management Directing and Staffing Functions

The mean score for all the indicator statements 'range between 3.50 and 3.77. The highest mean score (3.77) was in respect of 'supervising, or leading having enabled workers to accomplish the goals of the current business venture'. This was followed by the statement that 'empowered workers in the business have the support of managers who assist them to make sure that goals of the organization are being met with 3.74. The third statement with a score of 3.72 was 'there is a prevailing climate conducive in the business for work and a culture compatible with the nature of the business's objective' but it had a standard deviation of 1.046. The fourth score was 3.71 which stated that 'directing in the current business venture involves making assignments, assisting workers to carry out assignments, interpreting organizational policies, and informing workers of how well they are performing'. On average the managers indicated that the directing and staffing functions are well applied in the MSMEs.

In Table 4 an exploration of the managements controlling function is done. The researcher separated the results into the three categories under study for comparison purposes. The mean score for micro enterprises range from 3.33 to 3.62, then score for the small businesses range from 3.63 to 3.90 and those for medium enterprises range from 3.81 to 4.11. Incidentally the statement rated lowest by the micro enterprises is rated highest by the medium enterprises (i.e. after the standards have been set and communicated, it is the business managers responsibility to monitor performance to see that the standards are being met). In general from the table it can be inferred that the medium enterprises are better at controlling than either small or micro enterprises. Similarly the small businesses are better than the micro enterprises.

4. Conclusion and Recommendations

4.1 Conclusion

This study sought to identify critical management factors affecting the performance of MSME's in Kenya by looking at the management process. The study established that the planning function is well applied. Nonetheless, the managers reported that resources would be required in order to implement the strategies. The organizing function was established in the majority of businesses ascertained by the presence of organization charts. The structure in micro businesses was not as elaborate as in the small or medium enterprises. The directing and staffing functions were applied on average in all MSMEs. The business categories displayed a major difference in controls. The medium firms had the highest ratings followed by the small firms. The micro enterprises had the lowest levels of controls.

4.2 Recommendation

It was found that there are differences in areas of emphasis between the three different categories of businesses especially in regard to controlling function. Based on the fact that the Kenyan government has ministries monitoring MSEs (Micro and Small businesses) and SMEs (Small and Medium enterprises) it is suggested that policies be specific to each category of business especially in regard to management and control to enhance MSMEs performance.

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Appendix 1: The tables

Below each management function is explored per category in table 1.

Table 1. The management functions in business categories

	N(Micro)	Mean	SD	N(Small)	Mean	SD	N(Medium)	Mean	SD
Planning	82	3.83	1.174	45	4.07	.780	36	4.28	.566
Organizing	82	3.98	1.006	45	4.13	.815	36	4.25	.649
Staffing	83	4.25	3.253	46	4.04	.868	36	4.25	.937
Directing	83	3.86	1.072	47	4.32	.755	36	4.50	.655
Financial control	83	3.99	1.099	47	4.13	.824	37	4.57	.603

Several indicators were given and the respondents asked to tick from a likert scale ranging from 'no extent' to a 'very large extent'. The functions explored are organizing, planning, Staffing, directing and controlling. The results are given in the tables below.

Table 2. The Management Planning Functions

Planning functions	N	Mean	Std. Deviation
The current business venture prepares a sequence of action steps to achieve some of its specific goals	175	3.77	1.064
The current business's effective planning can reduce the necessary time and effort of achieving a goal	177	3.59	1.047
It is much easier to adjust the current business plan to avoid or smoothen a coming crisis, rather than to deal with the crisis when it comes unexpected	176	3.57	1.119
Planning in the business occurs in different ways and at all levels	177	3.67	.997
The business plan has given the business its goals and the procedures to reach them	177	3.78	1.001
planning in the business is usually done by higher level managers in the business venture	177	3.51	.966
The managers in the business venture develops strategies for achieving the goals of the business	177	3.75	.908
resources are needed and must be acquired in order to implement the business strategies	175	3.79	.930
the managers/planners must determine the standards, or levels of quality, that need to be met in completing the business tasks	176	3.66	1.013
Tactical planning is done for the benefit of lower level managers in the business	178	3.58	.978
Contingency planning allows for alternative courses of action when the primary plans that have been developed don't achieve the goals of the business.	178	3.76	.951

Tables 2 shows the popularity of planning in MSMEs

Table 3. The Management Directing and Staffing Functions

Staffing & directing functions	N	Mean	Std. Deviation
Supervising, or leading has enabled workers to accomplish the goals of the current business venture	179	3.77	.966
Directing in the current business venture involves making assignments, assisting workers to carry out assignments, interpreting organizational policies, and informing workers of how well they are performing	178	3.71	.935
All managers in the business have leadership skills which get the workers to perform their tasks effectively	175	3.50	1.022
Some workers in the business direct by empowering managers	177	3.62	.940
Empowered workers in the business usually work in teams and are given the authority to make decisions about what plans will be carried out and how	177	3.69	.993
Empowered workers in the business have the support of managers who assist them to make sure that goals of the organization are being met	176	3.74	.924
Workers who are involved with the decision making process in the current business venture feel more of a sense of ownership in their work, take more pride in their work, and are better performers in their work	177	3.66	1.049
There is a prevailing climate conducive in the business for work and a culture compatible with the nature of the business's objective	172	3.72	1.046

Table 3 indicates the extent the MSMEs have used both the staffing and directing functions of management

Table 4. The Management Controlling Function

Controlling function	N	Mean	N	Mean	N	Mean
The management sets performance and takes corrective action whenever actual performance deviates from expected performance	82	3.52	49	3.90	36	4.06
There are evaluation activities that managers must perform in the business	81	3.49	49	3.59	36	3.03
The managers have systems of determining if the business goals and objectives are being met	82	4.60	49	3.63	36	3.81
The managers corrects situations in which the goals and objectives are not met	82	3.56	49	3.76	36	3.86
Managers must first set standards of performance for workers in the business	83	3.60	45	3.78	36	3.97
The standards set by the managers are the level of performance that should be met; that must then be communicated to managers who are supervising workers, and then to the workers know the expected	82	3.44	49	3.76	37	3.97
After the standards have been set and communicated, it is the business managers responsibility to monitor performance to see that the standards are being met	80	3.33	48	3.81	36	4.11
Once the problems are analyzed and compared to expectations, then managers do something to correct the results	82	3.48	48	3.79	37	4.24
The business managers take corrective action by working with the employees who are causing the problem	81	3.59	49	3.86	36	3.81
Top management expects to control everything, making all decisions, while middle and lower managers implement decisions, and production workers operate only as instructed	83	3.57	48	3.65	37	3.86
top management does not decide the "right" way to do something, and lower level staff becomes involved in decision making processes	82	3.62	49	3.61	36	3.89
The business managers use "slopey should syndrome" style management, where people will take credit for when things go right	83	3.43	48	3.81	36	3.83

Table 4 shows the responses and the differences in controlling functions within the Micro, Small and medium Enterprises.

Appendix 2: Map of Kenya in provinces

