Factors Affecting the Growth of Micro and Small Enterprises: A Case of Tailoring and Dressmaking Enterprises in Eldoret

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Abstract

The study was set to determine and analyze the factors that affect the growth of tailoring and dressmaking enterprises in Eldoret. The tailoring and dressmaking enterprises studied were appraised with respect to the characteristics of the owner managers and their enterprises. It revealed that most of the tailoring and dressmaking enterprises were in disengagement stage either not growing or having a slight growth. Inadequacy of availability of finances, poor business management skills, poor marketing and entrepreneurial attribute of the owner managers were found to be statistically significant in determining growth of these enterprises. The study recommends that the Government, other business support organizations and stakeholders should team up and develop training programmes aimed at providing management skills to the owner-managers of these enterprises, and help avail financial assistance which could be channeled through SME associations or groups that need to be formed to champion their common cause.

Key words: Tailoring and dressmaking enterprise, Life cycle theory, Growth, Availability of finances, Entrepreneurship

1.0 Introduction

The growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as “stepping stones” to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986).

According to OECD (2004), SMEs are known to contribute to over 55% of GPD and over 65% of total employment in high – income countries. They also account for over 60% of GPD and over 70% of total employment in low-income countries.

In Kenya, according to the 1999 Micro and Small Enterprises baseline survey, the number of enterprises in the sector had grown from 910,000 in 1993 to about 1.3 million in 1999. The survey also points out that SME contribution in terms of output product and services reached a significant 30% of the GDP in 1999 (GOK, 1999). In job creation, micro and small enterprises have been on the forefront in the absorption of ever increasing supply of young unskilled school leavers and the unemployed in general. In 1999 for instance, the sector employed 2.4 million persons. This number increased to 4.2 million in 2000 and to 5.1 million in 2002, accounting for 74.2% of the total persons engaged in employment **(**GOK, 2005). Emphasizing further on their role in employment creation, Wachira (2006) points out that 12.8% of the retrenchees who received the 'golden- handshake' in the year 2002 started their own business. This percentage grew to 19.2% and 21.4% in the year 2003 and 2004 respectively. However, despite the importance of the small enterprise and Jua Kali sector, studies reveal that most MSEs have no growth incentive and majority remain at their initial level, or choose to expand horizontally by starting other similar ventures or change to other unrelated activities (McCormick, 1993; Ng'ang'a, 2003; Pedersen, 1998).

1.2 Statement of the Problem

In general the industrial sector in Kenya is characterized by thousands of Jua Kali micro enterprises on the one hand, and fewer, often foreign owned, large scale manufacturing and processing firms on the other. What are missing are locally owned medium sized industrial enterprises (Fisher, 1999). For many countries, garment manufacturers that include tailoring, dressmaking and small clothing workshops have been the starting point for export-led industrialization (Kamau and Munandi, 2009; McCormick, 1992). However, in Kenya, despite the garments sub sector being a key vehicle for economic growth, having the potential to provide employment opportunities to the locals and having the capacity to contribute to Gross Domestic Product (GPD) as well as poverty reduction, the sector is still dogged by non-growth of its enterprises (Ibid). MC Cormick (1993) observed that instead of these enterprises growing in size they have been growing numerically.

There is a great danger of remaining small. According to K'Obonyo (1999**)** enterprises' size and failure are inversely related, with smaller enterprises facing higher risks of failure than larger ones. Stokes (1995) found that the smallest firms were most vulnerable and that those that grew were less likely to fail than those that did not.
If growth and largeness reduce failure, then there is need for concerted efforts in finding the root cause of stagnation. This will in turn help in curbing high mortality rate and therefore enhance survival. However, and most unfortunate as McCormick and Pederson (1996), Orser (2000) put it, most tailoring and dressmaking firms begin small and stay that way without any growth taking place. What factors hinder the growth of these enterprises? The current study aims at answering this perturbing question. The study hypothesizes that the factors at play include availability of finance, business management, level of marketing and character of the entrepreneur.

1.3 Objectives of the study

The objective of this study was to identify and analyze factors that affect growth of tailoring and dressmaking enterprises as well as establishing the characteristics of these enterprises and those of the proprietors.

1.4 Theoretical Framework

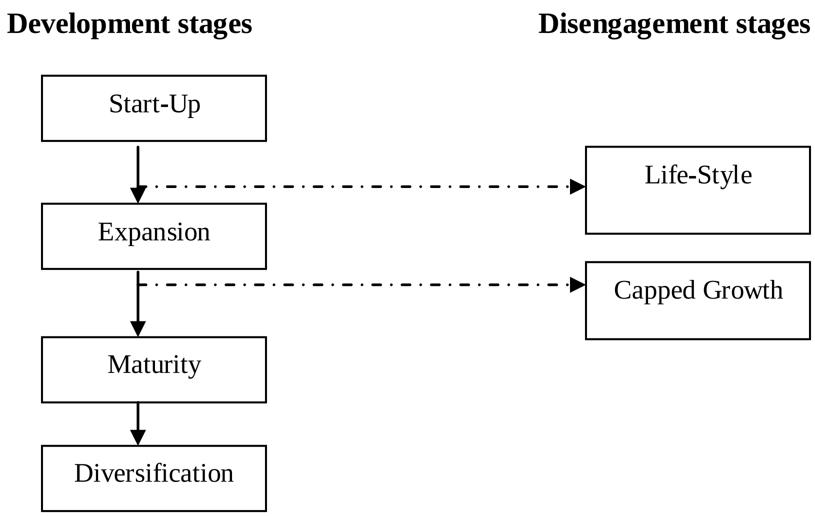
Jovanovic's Learning Effect Model (1982) asserts that firms learn about their efficiency overtime. New firms entering the market are unaware of their true efficiencies immediately but as they mature, they are able to uncover their productive efficiencies (Staines, 2005). Empirical implication derived by this model is that young firms have accumulated less information than older ones about their managerial abilities. For this reason there will be more exists among young firms than older firms.

According to entrepreneurial choice theory (Papadaki and Chami, 1982), people have certain characteristics that are associated with the propensity for entrepreneurial behaviour. Individuals who have more of these characteristics are more likely to grow faster than those who have fewer ones (Papadiki and Chami, 2002).
In other words the attitude of the individual in taking risks, motive of going into self employment, his or her managerial abilities to raise capital and perceive new markets, will determine the growth of the firm.

The life cycle models aim at explaining the growth of an enterprise using the biological metaphor of the *"life-cycle".* McMahon (1998) postulates that "*Organizations are born, grow and decline. Sometimes they reawaken, and sometimes they disappear*

The enterprise Life-Cycle Model of Hanks *et al.* (1993) as cited by Bordt *et al.* (2004) is presented in figure 1.

Figure 1: Enterprise Life-cycle model



According to this model of the enterprise life-cycle, important changes occur to firms as they grow from one level to the other. Assuming an S- shaped growth pattern depicting a slow growth in the early development followed by a rapid growth, before slowing down again (Schmitt-Degenhardt *et al.*, 2002). At each stage of the process the small firm can grow, plateau or even die (Mazzarol, n.d).

Whereas the life-cycle of the enterprises can be seen as a progression from smaller to larger firms as it passes from start-up, expansion through diverse stages, some firms do disengage from the growth trajectory of the life cycle. The two disengagement stages are lifestyle and capped growth. In the case of lifestyle firms, the concerns generally have few if any growth aspiration; they principally exist to provide their owner managers with a source of employment and income. Therefore, as long as the owner managers of these firms earn a living, there is no real reason why they should grow in size.

Capped growth on the other hand refers to those firms that do not grow to where formal organization, financing and management practices are required (SIEID, 2004). This is usually the result of a conscious and deliberate decision by the owner-manager to restrict the firms expansion out of a desire to avoid risk, minimize surrender of control, uncertainty and the general problems associated with hiring more employees, winning new markets, developing new products or securing new capital investments (Mazzarol,n.d).

2.0 Literature Review

Management

A successful manager is one who understands his business environment, both internal and external. He or she does not only understand, but is prepared, equipped and ready to handle any turbulence that emanates from the environment. These include competitors, suppliers, customers, government agencies, labour organizations, and financial institutions *etc***.** (Hisrich *et al*, 2010, Certo and Peter, 1993). What makes management of MSEs difficult is the enormity of the range of issues confronting the owner-managers, which they have to deal with personally. In his multi – functional role as a manager, he/she is in charge of planning and implementation, production, human resource (recruiting and firing of employees), marketing and finances (Stokes, 1995, Stokes and Wilson, 2010). All these demands his attention simultaneously, and in most cases he/she ends up tackling the most immediate first, which may mean overlooking a less obvious but more significant problem which has a critical impact.

Even with all these responsibilities and challenges, the majority of the owner-managers of MSEs were not trained or poorly trained or unskilled in the various disciplines. According to the training needs assessment on Jua Kali (GOK, 1997), the owner-manager were found to not only lack financial management skills but also methods of identifying staff with appropriate skills and effective decision making.

Bullock *et al* (2004) found that informal management structure and the owner – manager's personal control of strategic and operating decisions hinder MSEs output growth significantly. He further found that MSEs that adopted a more less formal structure and those that were more innovative depicted higher rate of growth and more especially where the entrepreneur of such firms had undertaken formal training. Orser (2000) further found a positive correlation existed between performance and high level of management skills.

Finances

All business ventures regardless of size require finances from inception and throughout their life cycles. The amount invested will influence greatly the size of the venture, which in turn determines the early survival of an enterprise if other factors are held constant. The entrepreneur will require seed capital to start the business, to operate and manage the business enterprise.

Orser (2000) noted that unavailability or lack of information about alternative sources of finances and inability of SMEs to evaluate financing option were some of the major problems facing the SMEs. Mambula (2002) singled out lack of access to finances as the main bottleneck facing MSE growth which was similarly echoed by Florida *et al*, (1996) and Livard Pang (2006) who found that start-up capital is a barrier to entry in most entrepreneurial activities and that lack of capital was cited by 80% of all respondents as the greatest start-up problem.

Market and Marketing

Demand for a product establishes a market for it. If the demand is high, the market becomes vibrant. The converse also applies. A decline in demand may result to shrinking market. Demand for different products will affect other products depending on the nature of their relationship whether complimentary or substitute. If they are complimentary, then an increase in demand for one product will cause an increase demand for the other. If they are substitutes, an increase in demand for one causes a decline in the other.

Tailoring business faces stiff competition from imported ready - made garments and second hand (mitumba) clothes which are substitutes to it (Kamau and Munandi, 2009). A market like that of tailoring and dressmaking enterprises that is highly competitive besides being relatively small requires adequate marketing strategies for the firms to survive or grow. These ideas were echoed by Stauart H. Britt (n.d) who said:

> *"Doing business without advertising (read marketing) is like winking at a girl in the dark. You know what you are doing but nobody else does"*

Today's marketing has shifted from *"hunting*" to "*gardening"* (Kotler, 2003 and Morgan 1991). In other words the purpose of marketing is not to find the right customers for your product but the right product for your customers making innovation and creativity a key component in the success of tailoring industry

Mogano (1991) asserted that effective marketing was vital to the future growth of any business and stated that - *if any one wanted to make the business better - then one needs to get better at marketing*. However, as Gichira and Dickson (1987**)** found, majority of Kenyan MSEs owner managers had little or no understanding of marketing principals and its importance.

Characteristics of the Entrepreneur

Entrepreneurs enter into business with different motives. Some will enter because they have identified a market opportunity and there is need to utilize their skills, others to generate income, while others will enter into business because of the desire for independence to be one's own boss (McCormick and Pedersen, 1996; Dutta, 2009).

Other factors that may attract or pull an entrepreneur into business are financial incentives, a hobby, previous work experience and family culture acting as a role model (DATI, 2000). On the other hand Shapero postulates that factors such as lack of employment, retrenchment, retirement or death of a breadwinner are likely to 'Push' one into business.

The characteristics of the entrepreneur are widely accepted as vital ingredient that influences growth. Research indicates that particular characteristics of the entrepreneur that are associated with growth of the enterprise include motivation, previous management experience and demographics of the entrepreneur (age, education).
If the entrepreneur's reasons for starting the business originated in pull or opportunity driven motivates rather that 'push' or necessity driven motivates, the resulting enterprise is more likely to grow.

Research in developed countries has shown that an entrepreneur's level of education may be associated with MSEs' characteristics, such as growth and performance. This is because higher levels of education are associated with greater verbal communication and comprehension skills, all of which are important in business decision making and management (McCormick and Pedersen, 1996).

Previous experience from an entrepreneurial activity or occupation is considered to be an incentive for one to become a successful entrepreneur. McCormick and Pedersen (1996) found that entrepreneurs with no previous occupation began firms which were relatively small and remained in the smallest category. On the other hand it was found that the largest enterprises were almost entirely set up by entrepreneurs with previous experiences either in manufacturing or in the retail trade.

3.0 Research Design and Methodology

Tailoring and dressmaking enterprises employing less than 50 employees and licenced to operate in Eldoret town were targeted in this study. They included those operating in the Central Business District (CBD) and those outside the CBD but within the municipality. A sample of 25% on each stratum was randomly selected to participate in the study

Questionnaires which comprised both structured and unstructured questions were the main instruments of data collection, supported by interviews and observation checklists. Out of the 148 sampled enterprises, 130 were returned completed satisfactorily. This gave an 87.2% successful return rate.

The analysis involved descriptive statistics such as frequencies, mean, mode, median, and percentages. Chi-square tests were performed to investigate the existence of association between the variables in the study while regression analyses were conducted to measure the degree of association between the variables. Increase in the number of workers employed was taken to be the dependant variable while business management, marketing, availability of finances and the characteristics of entrepreneur attributes were taken as independent variables. All the inferential statistics were tested at 0.05 level of significance.

4.0 Results

Demographic Variables

Tailoring and dressmaking business in Eldoret is dominated by men as evidenced by the finding that out of the 130 responses that were received, 76 entrepreneurs accounting for 58.5% were male against 54 responses representing 41.5% of the total respondents who were female.

The highest percentage of the respondents were aged between 20-29 years (36.9%) and 30-39 years 44.6% suggesting that owner manages of tailoring and dressmaking enterprises are young people.

Formal Education and training

The study results showed a fairly well educated class of entrepreneurs with most of the respondents (69.2%) having attained secondary school education, about 25% had primary level while 8 entrepreneurs accounting for 6.2% had obtained either college or university education.

Majority of the respondents had not acquired any management training as out of the 130, only 44 (33.8%) had received training at certificate or diploma level. The probable explanation being that tailoring and dressmaking is yet to be regarded by many as a formal business that required managerial skills like any other business. Whereas in other sub sectors, the entrepreneur will go for an in- service or a refresher course or attend seminars/workshops, the interview revealed that most tailors and dressmakers were not keen on the same.

Age of Business

Most tailoring and dressmaking enterprises in Eldoret town are fairly young as their age fell below 10 years. The mean business age was 3.5 years while the largest category accounting for about 45% were actually between 2 and 5 years. Only 12 enterprises were over 10 years accounting for only 9.2% .The mean age of the enterprises of 3.5 years compared well with the number of years the respondents had been in self employment whose mean was 4.0 years. This had a strong inference that most of the tailors and dressmakers were having their first experience in enterprise ownership. However, a few owner-managers and especially those in the "over five years" category were in their second enterprises having closed down their first enterprises. After closing down they were briefly employed elsewhere before starting the current enterprises.

Source of Capital for Starting the Business

Out of 130 respondents only 6 entrepreneurs were funded by a bank/financial institution to start their businesses. All the others got seed capital from either friends/relatives or by own equity through saving or sale of personal assets.

Business Competitors

Second hand clothes topped the list of main competitors with 61.5% while new imported ready-made garments were second with 24.6%. The first two accounted for as high as 86.1%, leaving the remaining 13.9% to be shared by competitors from "other small" and "large sized" tailoring and dressmaking enterprises.

By reducing the market share for the tailoring and dressmaking products, second hand clothes and imported ready – made garments has affected the growth of the tailoring and dressmaking enterprises. It was however noted that those enterprises that dealt more with Africans designs popularly known as "*Vitenge*" faced less competition from both second hand clothes and the imported ready - made garments, emphasizing further the need for uniqueness through creativity and innovation in the industry.

Testing of Hypotheses

Business management

All those who had undergone some business management training save for only 5 had the number of their employees increase in the last three years. This is to say, about 89% of the total number that had trained registered some growth. The relationship between management training and growth of the enterprises was evidenced by the Chi- square results, which yielded a value of 34.238 at 2 degree of freedom and a significance value of $p < 0.05$.

Level of marketing

The Chi–square results similarly indicated a significant relationship between marketing and the growth of the enterprises with a value of $\chi^2 = 18.479$, df = 4 and $p < 0.05$.

Despite there being a significant relationship, the entrepreneurs were found not to be keen with marketing. Most of the owner managers interviewed said that they relied on the quality of their products as their marketing tool. This however, was faced with lack of consistency as a result of high turnover of employed tailors and dressmakers. Those that registered growth cited some innovativeness in their marketing method. They had endeavored to risk in becoming leaders in fashion by being "fashion pioneers in Eldoret". They bought the latest fashion charts from Nairobi or Kampala, choose a fashion or two and design the garment for display purpose.

Availability of finances

Ninety eight percent of those who received additional capital had an increase in the number of their employees while only about 2% of those who received did not register increase in employment. The Chi- square results of $\chi^2 = 70.624$, df = 2 and $p < 0.05$ at a level of significance of 0.05, revealed the existence of a significant relationship between the availability of finances and the growth of the enterprises. With simple linear regression analysis, the availability of finances as an indicator for enterprise growth was further found to positively influence the growth of the enterprises with a Pearson's correlation coefficient of 0.671 and a beta weight of $\beta = 1.058$.

Characteristics of the entrepreneur

To test hypothesis four, three variables were considered namely; number of years the owner-manager had been in self-employment, reasons of going into self-employment and marital status of the owner-managers.

(a) Number of years in self-employment

Higher non-growth rates were registered on both ends of the number of years in self-employment. Those with less than two years in self employment and registered no growth accounted for 54.4% while those with more than five years and similarly registered no growth accounted for 53.3%. Those with less than two years in self-employment, likely this being their first enterprises, were yet to establish their own market niche and had no regular customers while the high percentage of non-growth of entrepreneurs with more than five years in self employment could be an early sign of despair or business failure. The category that had 3-5 years in self-employment registered the highest growth rate of 66.7%. With $\chi^2 = 8.951$, df = 4 and $p > 0.05$ it was however evidenced that there was no significant relationship between the number of years an entrepreneur was in self employment and the growth of the enterprises.

(b) Motive of going into self-employment

The reasons of going into self employment were fairly spread across the respondents, with the desire for independence having the most at 33.8% and raising extra income having the least at 18.5%. However, those who went into self-employment because of need for independence and having lost their previous employment depicted less growth, with only 31.8% and 47.1% respectively registering growth. This may be explained by possible fear of engaging in risky expansions that might make them loose what they already have. On the other hand, those who entered self-employment with an aim of raising extra income or having sighted a market opportunity seemed confident with themselves and aimed at growth objectives. These categories registered growth with 70.8% and 78.6% of those whose reasons were raising extra income and market opportunity respectively indicating growth. The study found there was a positive significant relationship between the motive of going into self-employment as a variable of entrepreneurial attributes and growth of the enterprises ($\chi^2 = 21.229$, df =6, $p < 0.005$). With a beta weight of $\beta = 0.192$.

(c) Marital status of the Owner Manager

Out of 42 entrepreneurs who were single, 28 of them accounting for 66.7%, registered growth, while 33.3% attained no growth. This percentage reduced when it came to those married and widowed or separated. Only 48.8% of enterprises owned by married entrepreneurs indicated growth while all the four enterprises operated by widows failed to grow. This trend could be explained by the high level of dependency attributed to the married and the widowed. The chi-square test results of $\chi^2 = 11.662$, df = 4 and $p < 0.05$ showed a significant relationship between marital status and growth of enterprises. However, a further analysis under multiple linear regression produced a beta weight of $\beta = -0.347$, indicating an inverse relationship between marital status and growth of enterprises.

Rate of enterprise Growth and factor contribution

In estimating how well the independent variables predicted the dependant variable, multiple linear regression analysis was conducted. The results produced adjusted R^2 values of 0.082, 0.130, 0.328 and 0.446 for marketing, characteristics of an entrepreneur attributes, business management and availability of finances respectively. This suggested that 8.2% of the variation in the growth of the enterprises was predicted by marketing whereas about 45% was explained by availability of finances. On the other hand 13% of the variation in the growth of the enterprises was predicted by entrepreneurial attributes while business management explained about 33% of the variation. In this case therefore, it was found that the availability of finances was the most dominant factor that determined growth of tailoring and dressmaking enterprises in Eldoret.

A further analysis done on all factors using multiple linear regression analysis produced an adjusted R-square value of 0.582 suggesting that the independent variables under study were able to explain 58.2% of the total variation in the growth of the enterprises.

Table 1: Regression of growth of enterprises against the determinants of growth

(a) Model summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Change Statistics				
					R Square change	F change	df 1	Df 2	Sig. F Change
1	0.780	0.608	0.582	0.50156	0.608	23.422	8	121	0.000

5.0 Conclusion and Recommendations

This study revealed that most tailoring and dressmaking enterprises in Eldoret experienced minimal or no growth despite their potential of being a crucial tool with which to reduce poverty and create employment. A majority of the enterprises were found to be still at start-up stage, mainly due to luck of finances while others have disengaged themselves from the growth trajectory as a dictation of their owner – managers' lifestyle. The study therefore recommended as a precursor to improving the tailoring and dressmaking enterprises in Eldoret town and by extension all micro enterprises, the government together with other stakeholders should help in training and funding of these enterprises on one hand and put in place policy measures to protect the entrepreneur from unwarranted competition.

6.0 Suggestion for Further Research

The final model was able to explain 58.2% of the total variation of growth of tailoring and dressmaking enterprises. This means that the model might have missed out some important factors influencing growth. To get a more explanation of growth of these enterprises, other variables and growth indices should be identified and included in future research.

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