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[*1]Ochuka Barnabas Oigo, [2]Dr. John Mbugua

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[*1]Ochuka Barnabas Oigo, [2]Dr. John Mbugua

[1]Masters Candidate, University of Nairobi

[2]Lecturer, University of Nairobi

***E-mail of corresponding author: BOchuka@kpa.co.ke**

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Abstract

The purpose of the study was to establish the cost of obtaining financial capital as a determinant of establishment and growth of Micro and Small Enterprises (MSEs) among metal fabricators in Mombasa County. The study was delimited to Micro, Small and Medium Enterprises in in Mombasa County. The study targeted a population of 240 and a sample size of 72 respondents. Descriptive research design method was applied. Data collection was done by a questionnaire with a pilot test questionnaire conducted in Shimanzi ward of Mombasa County to boost reliability of the research instrument. The study has established that high cost of obtaining financial capital negatively affects the on growth of MSEs. Therefore, the alternative hypothesis is accepted. As a result, it can be concluded that the cost of financing has a significant relationship with establishment of MSEs in Mombasa County. The study has established that high cost of obtaining financial capital negatively affects the on growth of MSEs. The study concluded that high cost of obtaining financial capital negatively affect the initiation and growth of MSEs in Mombasa County. The study recommended that to mitigate on high cost of obtaining financial capital, clear loaning policies should be adopted to avoid misunderstanding on expectations on repayment period. Additionally, the interest rate charged on the borrowed loan should be subsidized by both the national and county governments.

Keywords: *Cost of obtaining financial capital, Establishment and growth of MSEs*

1.1 Introduction

The private sector is now playing and increasingly critical role in the heavily interconnected global trade. This has been an especially new development for developing countries. Economic development in these countries is now largely driven by Micro and Small Enterprises (MSEs) (ILO, 1998 cited by Richardson, Howarth & Finnegan: 2004). MSE sector has now gained a respected position and regarded as the driver of poverty alleviation, and the path for improving the standard of living for the long impoverished citizenry in the developing nations. With this awareness, countries in developing world are starting to allocate more resources in the small and micro enterprises. The investments are in areas such as research, financing, and other support services (Chaston & Mangles, 2002).

Poverty reduction in any country can contribute grossly to the improvement of people's life and economic growth of the country (Tefera, 2013). For this requirement, industrializations is where MSEs comes into focus as one of the packages and instruments to help accelerate economic growth, socio-economic progress and then the overall reduction of poverty of the nation. There are huge rates of unemployment in developing countries. However, the MSE has played a crucial role in increasing employment rates (Diriba, 2013). MSE in the manufacturing sector have been hailed globally for their contribution to nationals and global economies reducing poverty in nations by raising employment levels. The sector has diversified output for countries that were only producing very little in very limited sectors (Umogbaiet al., 2016).

In Kenya, MSEs contribute 40% of GDP and have jobs for over 80% of the employed individuals (KNBS, 2012). MSEs contributes to Kenyan economy through payment of taxes, useful exploitation of local resources, earning and retaining foreign currency and by providing goods and services amongst others. As a source of employment, the sector helps in alleviating poverty thereby reducing crime rate and immoralities associated with poverty. According to Micro and Small Enterprise Act of 2012, micro enterprises need to have an annual turnover of about Ksh 500,000 and employ less than 10 people. Small enterprise need to have up to Ksh 5 million in annual turnover and employs 10-49 people. There are medium enterprises that are not covered by the act. They are those with an annual turnover of between Ksh 5 million to Ksh 800 million and employ between 50-59 people.

In Kenya MSEs sector is referred to as "Juakali" which is a Swahili word for hot or fierce sun, originally "Juakali" referred to people working in open air sheds and exposed to the hot sun. The Kenyan government acknowledging the importance of this sector of the economy has put measures aimed at promoting it. For example, there was introduction of "Uwezo" fund, a revolving fund aimed at expanding access to financial capital for the disadvantaged populations such as youths, women and people living with disabilities. It was not very clear how cost of acquiring financial capital determines the establishment and growth of MSEs in Kenya.

1.2 Statement of the Problem

MSEs have played a crucial role in national economy, job creation and poverty alleviation in Kenya. In 2015 of all jobs created, 80% were attributed to MSEs. Of all businesses in Kenya, 98% of them are within the informal sector, contributing 30% of jobs and 3% of the nation's GDP. Nonetheless there is no well-maintained record of MSEs in Kenya. Estimates place the number of MSEs in Kenya at 7.5 million contributing approximately 44% of the GDP in 2017 alone. Past studies indicated that the MSE sector in Kenya was characterized by high

mortality rate (RoK, 2005); Out of every five enterprises, three collapsed in the first few months of starting (Bowen, Morara & Mureithi, 2009; RoK, 2013). Over 60% failed to reach one year and most did not survive to their third anniversary (Ngugi, 2013). Many MSMEs were generally of low performance, "copycat" businesses that had survival as their sole drive (The Guardian, 2014).

A report by Deloitte illuminating Kenyan economy in 2016 observed that growth of MSEs sector in Kenya was hampered by factors such as inadequate access to capital funding. The Government of Kenya has made strides in addressing this challenge by establishing funding initiatives for MSEs such as Uwezo fund to access cheap finances to enterprises. Though Kenya scores much better than many other countries in Sub Saharan Africa as far as MSE support and growth is concerned, the sector face some challenges. This is especially so in the financing aspects. Many studies have been done on MSEs but only a few have captured the effect of financial factors on establishment and growth of MSEs in Kenya. This being the situation, it was worthwhile to conduct this study to bridge the existing empirical gap.

1.3 Objectives of the study

The general objective of the study was to establish the cost of obtaining financial capital as a determinant of establishment and growth of Micro and Small Enterprises (MSEs) among metal fabricators in Mombasa County.

1.4 Research Hypothesis

H_{a1}: Cost of obtaining financial capital has no statistical significance with determinants of establishment and growth of Micro and Small Enterprises (MSEs) among metal fabricators in Mombasa County.

2.0. Literature Review

2.1. Theoretical Review

2.1.1. Agility, Flexibility Theory

This theory was advanced by Gerwin (1987) and D'Souza and Williams (2000). Trade and commercial agility is a concept of modern managers to cope with competition, corporate structure and business practices in the 21st century. The agility of the firm is established by various factors such as its dynamic capabilities, orientation to the market, strategic flexibility and absorptive capacity. A business needs to have varied ways to respond to the environment, as varied as the variables in the environment. Nawier (2009) states that agility is the ability to do well when there is intense competition in an operational environment and ability to respond quickly to rapidly changing business environment. Global markets are highly dynamic and highly interconnected making only the agile organizations survive. There is a high demand for quality products at competitive prices (Nath, Nachiappan and Ramanathan, 2010).

Jua Kali Garages and repairers are responsive to internal and external competition as they have to manage business in commercially viable ways to survive. In motor vehicle manufacturing sectors environmental influences include the economic determinants of the product and service provided. Technological changes are critical in determining the direction of an enterprise. Others are strategic partners, geographical considerations and competitor directions. For efficiency and effectiveness, enterprises must demonstrate flexibility (Jones & George, 2008). The theory therefore points out the need for responsive tactical promotion

approaches for effective growth of *Jua kali* sheds in Kenya. This may be spurred by presence of ideal cost of finances obtainable for enhancing growth of enterprises.

2.1.2. Theories on Micro and Small Enterprises

There are two theories proposed on the development of MSEs at different times. These are the classical and the modern theories. Classical theory states that poverty and the importance of MSEs development correlate positively. During periods of high rate of economic growth, the economic share of MSEs normally declines; while those of large and medium enterprises dominate the economy. In other words, the higher the proportion of people living in poverty, the more is the contribution of MSEs in reducing poverty (Tambunan, 2006). The theory highlighted the association between levels of income and the growth of MSEs. Because of these short coming of the theory, the modern view was developed in 1980s.

Modern Theory postulates that the major reason for the emergence of the notion of flexible specialization was the long raging debate on the way to interpret novice global patterns of production that have been necessitated by globalization and which have forced the industry to restructure. Hence according to (Tambunan, 2006), in the modern theory three characteristics exist that define this notion; flexible and specialization, high level of competitive innovation and high level of cooperation. The flexible specialization means MSEs grow at a faster rate than large organizations. Small enterprises tend to innovate faster, and operate efficiently under limited resources. Hence in the courses of development, the economic share of MSEs becomes increases and contribute a lot for poverty alleviation; while, it declines in the classical theories (Tesfaye, 2010). Presence of affordable source of financing increases this phenomenon. Therefore, the theory is relevant and applicable in this study.

2.2. Empirical Review

Kebiro and Muturi (2017) studied on factors influencing growth of SMEs in Bobasi Sub County, Kisii County. Descriptive Survey research design was used in this study. In answering the `why' questions, the study was involved in developing causal explanations. This design was chosen because it applied closely to the research objectives of this study. For this study, the 163 small and medium scale enterprises in Bobasi Sub County were targeted. Simple random sampling was used to select 116 SME. Findings revealed that most of the studied enterprises did not use computers in their business operations nor use mobile technology such as Mpesa to improve business performance. There was limited use of internet to connect with clients and suppliers. There was need to invest in technology for enhanced business performance. The research was centered on the four variables: (technological innovation, marketing innovation, entrepreneurial training and product/service quality). They failed to cover cost of obtaining capital as a variable. The current study covered the relevant indicators such as bank interest rates and collaterals.

Kamunge, Njeru and Tirimba (2014) studied on factors affecting the performance of small and micro enterprises in Limuru Town Market of Kiambu County, Kenya. The study employed a descriptive research design to achieve the objectives. The target population under study was the 965 licensed SMEs by Limuru sub-county operating in Limuru Market in 2014. The study used a questionnaire to collect the required data from a sample of 274 SMEs. The data collected was coded, quantified and analyzed quantitatively and qualitatively. This study found that poor access to finance and managerial incompetence affected performance of SMEs. The study was limited to access to information, finance, managerial experience and access to infrastructure. This study was intended to lay more emphasis on rapid technological

changes particularly on invention and innovation. The study failed to focus on cost of access to finances as pertinent contributor to growth of MSEs which was a limitation.

Mong'are (2017) studied on factors influencing growth of SMEs in Nairobi County. The study adopted a descriptive correlational research design. The population comprised of one thousand five hundred and thirty nine (1539) owner managers of SMEs in different trade areas that had been operating for the last five years in Nairobi County at the time of the study. A stratified random sampling technique was used to select a sample of three hundred and eighteen (318) SMEs from the total population. The data collection instrument used in this study was a structured questionnaire. The study analyzed data using descriptive and inferential statistics. The descriptive statistical analysis included frequencies and percentage distributions, mean and standard deviation while the inferential statistical analysis included Pearson Correlation, One Way Analysis of Variance (ANOVA) and Regression analysis. The findings established that strategic positioning led to growth of SMEs. The researcher here narrowed down only to three variables (enterprise strategic positioning, entrepreneurial competency and access to finance), in this case the study failed to capture the very serious variables in the Kenyan set up involving MSEs.

2.3. Conceptual Framework

The conceptual framework is based on the relationship between cost of obtaining capital and establishment and growth of Micro and Small Enterprises among metal fabricators in Mombasa County. Cost of obtaining capital is assessed through indicators such as interest rates and collaterals. Establishment and growth of MSEs is measured through increased sales and customer levels. Therefore, the relationship between cost of obtaining capital and establishment and growth of Micro and Small Enterprises among metal fabricators in Mombasa County is indicated.

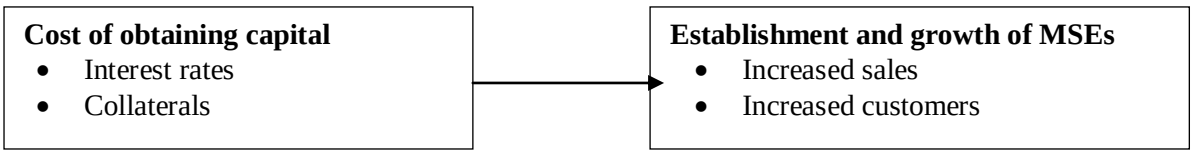

Figure 1: Conceptual Framework

3.0. Research Methodology

This study employed descriptive research design. The study targeted a population of 120 welding shed owners, 60 Managers and 60 first line supervisors all totaling 240; the people with firsthand information on the operations of MSEs. A random sampling of the target population was considered as it gives room for flexibility and focuses on the objects of interest for generalizing conclusions. The target population of 240 was categorized into three stratums shed owners, shed managers and supervisors giving a sample size of 72 participants.

4.0. Results and Discussion

4.1.1. Bi-variate Linear Relationship between Study Variables

Before running regression analysis, researcher tested correlational matrix to establish whether association existed between Cost of obtaining financial capital and Establishment and growth of MSEs as shown in Table 1.

Table 1: Linear relationships of variables

		Cost of obtaining financial capital	Establishment & growth of MSEs
Cost of obtaining financial capital	Pearson Correlation	1	.451**
	Sig. (2-tailed)		.000
	N	72	72
Establishment & growth of MSEs	Pearson Correlation	.398**	1
	Sig. (2-tailed)	.000	
	N	72	72

**. Correlation is significant at the 0.01 level (2-tailed)

The study results from Table 1 revealed that cost of obtaining financial capital was positively and significantly associated with establishment and growth of MSEs. (r = 0.451, p<0.05). The correlations were significant at the level of significance of 0.05. The results implied that increasing cost of obtaining financial capital would lead to increase in establishment and growth of MSEs.

4.2. Diagnostic Tests

4.2.1. Multicollinearity

This study carried out a test for multicollinearity by computing the Variance Inflation Factors (VIF) and its reciprocal, tolerance. Multicollinearity was performed on the data by examining VIF (Variance Inflation Factor) and assessing the tolerance (1/VIF). Independent variables are considered collinear if the value of VIF exceeds 3. Table 2 presents the multicollinearity results.

Table 2: Multicollinearity

		Collinearity Statistics	
Model		**Tolerance**	**VIF**
1	(Constant)		
	Cost of obtaining financial capital	.499	1.513

a. Dependent Variable: Establishment and growth of MSEs

Table 2 presents VIF values that was 1.513 implying that multicollinearity was not a problem in the data

4.3. Factor Analysis

Factor analysis was carried out before analysis of the results to describe variability among the observed and check for any correlation with the aim of reducing data that was found redundant.

4.3.1. Factor Analysis on Cost of Obtaining Financial Capital

Exploratory factor analysis was used to refine the constructs.. The results are shown in Table 3.

Table 3: Factor analysis

Statistic		Value
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.881
Bartlett's Test of Sphericity	Approx. Chi-Square	2133.101
	Df	311
	Sig.	.000

The results from Table 3 showed that Kaiser Meyer-Olin Measure of Sampling Adequacy) KMO Measures of Sampling Adequacy of manifest variables was 0.881 which was above the threshold of 0.6 and p-values for Bartlett's test of Sphericity (χ^2 =2133.101, p=0.00) was significant (below 0.05). This implies that data was adequate to run factor analysis and correlation patterns were close thus factor analysis would yield reliable and stable results.

4.3.2. Homoscedastic Test

The study used Breusch-Pagan and Koenker test to estimate Heteroscedasticity as shown in Table 4.

Table 4: Test of Homogeneity of Variances

	LM	Sig
BP	.711	.321
Koenker	.734	.343

Null hypothesis: heteroscedasticity not present (homoscedasticity)
If sig-value less than 0.05, reject the null hypothesis

The results from Table 4 presented the significant values more than 0.05 indicating that Heteroscedasticity was not a problem.

4.3.3. Normality Test Using Kolmogorov-Smirnov Test

Skewness and kurtosis are used to measure normality test as presented in Table 5. Normality of the variable is assumed if its skewness and kurtosis have values between the range of -1.0 and + 1.0.

Table 5: Kolmogorov-Smirnov Test of Normality

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Cost of obtaining financial capital	72	.712	.188	.611	.384
Establishment and growth of MSEs	72	.443	.188	-.126	.384

The results from Table 5 shows that all the items in the study measured values of skewness and kurtosis between 1 and -1. Thus, normality was realized

4.4. Influence of Cost of Obtaining Financial Capital on Establishment and Growth of MSEs

The study conducted univariate regression analysis to test the relationship between cost of obtaining financial capital and establishment and growth of MSEs when other factors are held constant.

4.4.1. H_{a1}: Cost of obtaining financial capital has statistical significance on establishment and growth of MSEs

a) Cost of Obtaining Financial Capital on Establishment and Growth of MSEs

The model summary results are shown in Table 6.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.801[a]	.663	.631	.41332

a. Predictors: (Constant), Cost of Obtaining Financial Capital

The findings of the model summary from Table 6 indicated that, R^2 realized 0.663 indicating existence of strong association of cost of obtaining financial capital and establishment and growth of MSEs. The findings demonstrated that cost of obtaining financial capital shares a variation of 66% of establishment and growth of MSEs.

b) Cost of Obtaining Financial Capital on Establishment and Growth of MSEs ANOVA

. The results of ANOVA are shown in Table 7.

Table 7: ANOVA of Cost of obtaining financial capital

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	72.121	2	18.541	101.224	.000[b]
	Residual	22.123	141	.167		
	Total	94.244	143			

a. Dependent Variable: Establishment and growth of MSEs

b. Predictors: (Constant), Cost of obtaining financial capital

The findings of ANOVA from Table 7 showed F-value=101.224 and p-value of 0.000<0.05 which indicated that the model used to link cost of obtaining financial capital and establishment and growth of MSEs had a goodness of fit. Therefore cost of obtaining financial capital significantly predicted establishment and growth of MSEs

c) Regression Coefficients of Cost of obtaining financial capital

. The regression coefficient results are shown in Table 8.

Table 8: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.206	.032		7.671	.000
	Cost of obtaining financial capital	.641	.071	.370	5.552	.000

a. Dependent Variable: Establishment and growth of MSEs

The findings from Table 8 showed the regression coefficient weight for cost of obtaining financial capital was positive and significant (β= 0.641, t= 5.552, p<.05). Therefore, the null hypothesis was rejected at p<0.05 level of significance implying that cost of obtaining financial capital has a significant influence on establishment and growth of MSEs. The regression estimate for cost of obtaining financial capital was 0.641; this indicates that a unit increase in cost of obtaining financial capital would result in 64% increase in establishment and growth of MSEs

4.5. Hypotheses Testing

The testing was done based on the findings of Chi-square analysis and was tested at the level of significance of 0.05.

H_1: There is a significant relationship between cost of obtaining financial capital and establishment and growth of MSEs

Table 9: Chi-square test

F	f_e	$(f-f_e)$	$(f-f_e)^2$	$\{(f-f_e)\}^2/f_e$
19	8.6	10.4	287.04	33.38
13	8.6	4.4	95.04	11.05
2	8.6	- 6.6	69.96	8.13
4	8.6	- 4.4	57.96	6.74
5	8.6	- 3.6	48.96	5.69
			$\Sigma\{(f-f_e)\}^2/f_e$ =	64.99

Degrees of freedom = 4
Level of significance at 0.05 = 9.488
Calculated chi-square value = 64.99
The results from Table 9 showed that chi square had a value of 64.99 which is larger the critical value. Therefore, the alternative hypothesis is accepted. As a result, it can be concluded that the cost of financing has a significant relationship with establishment of MSEs in Mombasa County. The study has established that high cost of obtaining financial capital negatively affects the on growth of MSEs. The findings are in tandem with Mong'are (2017) who states that financial capital is important in enhancing growth of MSEs in Kenya.

5.1 Conclusions

The study has established that high cost of obtaining financial capital negatively affects the on growth of MSEs. The study concluded that high cost of obtaining financial capital negatively affect the initiation and growth of MSEs in Mombasa County.

6.1 Recommendations

The study recommended that to mitigate on high cost of obtaining financial capital, clear loaning policies should be adopted to avoid misunderstanding on expectations on repayment period. Additionally, the interest rate charged on the borrowed loan should be subsidized by both the national and county governments.

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