



**RELATIONSHIP BETWEEN OWNER MANAGER CHARACTERISTICS AND
PERFORMANCE OF SMES IN KENYA: A CASE OF NYAMIRA COUNTY**

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Abstract

The role of SMEs in the economy of the country cannot be overemphasized. Over the last decade a lot of focus and support has been given to SMEs in the country. However, despite the various efforts made especially to provide financial support to many SMEs, many of them end up failing in the first few years. This brings to attention, the need to understand other factors that may lead to this increased failure of businesses. This study focused on owner manager characteristics and how they relate with the performance of their businesses. The study was conducted in Nyamira County targeting SMEs in the area. Random sampling was used to collect data and questionnaires were used to collect the information. This study utilized data from 92 randomly sampled owner managers of SMEs across various sectors. The findings of the study reveal that education and age have a significant relationship with performance. Although there were age variations among the respondents, it was found that a specific age group ranging from 25-39 years performed relatively better than other age groups. In addition while there were many businesses performing well with little or no education it was found that additional educational skills and knowledge increases business performance. On the other hand marital status and gender had less significant relationship with business performance. The conclusion of the study is that there is a significant relationship between owner manager characteristics and business performance. The study recommends that all stakeholders interested in SMEs should prioritize owner manager characteristics to improve business performance.

Keyword: small and medium enterprises

INTRODUCTION

The Small and Medium Enterprises employing between 1 to 99 people account for about 48 percent of all businesses in Kenya (Njonjo, 2010). According to the National and Small Enterprise baseline survey (GoK, 2007) there were about 1.3 million Small and Medium Enterprises in Kenya which were employing about 2.4 million people. The Small and Medium Enterprises sector contributes over 80% of the country's employment and contributes about 20% to the GDP of Kenya (GoK, 2012). The importance of small and medium enterprises has been emphasized in all development plans in Kenya since independence in 1963. The enterprises cut across all sectors of the Kenyan economy and are an important source of income, employment creation and poverty reduction. According to the Sessional Paper No. 2 of 2005 on development of micro and small enterprises substantial funds have been spent to implement government policies and programs, and to build institutions specifically aimed at promoting the Small and Medium Enterprises sector. The Small and Medium Enterprises sector in Kenya provides income and employment to a significant proportion of the population making it a major contributor to the economy. According to the Economic Survey (2004) employment within the Small and Medium Enterprises sector increased from 4.2 million people in 2000 to 5.5 million people in 2003 accounting for 75.3 percent of the total persons engaged in 2003. The sector contributes up to 18.4 percent of the country's Gross Domestic Product. The Small and Medium Enterprises sector therefore, not only provides goods and services, but also as a drives innovation and competition, enhancing the enterprise culture which is necessary for industrialization (GOK, 2005).

It is for this reason that the Kenyan government and development agencies have shown a growing concern for the small and medium enterprises. However, despite the important role they play in the country's economy, many Small and Medium Enterprises do not survive for long and end up being wound up within the first five years of existence. According to Sessional Paper No. 2 (2005) and Ministry of Economic planning report on Small and Medium Enterprises (GoK, 2007) three out of five Small and Medium Enterprises in Kenya fail within their first three years of operation. A study by the Institute of Development Studies (2008) revealed that 57% of small businesses in central province were in stagnation and only 33% of them showed some level of growth. Some of the constraints that the Small and Medium Enterprises sector experiences include inadequate skills and technology, inadequate business skills and limited access to information (The National Baseline Survey, 1999). These business failures have also been attributed to inadequate preparation of entrepreneurs for the business world (Hisrich, 1988), managerial incompetence (Litvak & Maule, 1980; Fiber, 1986), mismanagement and lack of balanced experience (Stull & LaBonty, 1993), and poor decision-making and leadership ability (Scarborough & Zimmerer, 2000).

Business performance is indicated by sales volumes, employment growth and longevity of the business. If a business has been in existence for more than five years, has recorded positive sales volumes and has employed more people compared to the competitors of the same size and type of business, then it is considered to be performing well (Kilpatrick & Crowley 1999).

The main drivers of Small and Medium Enterprises performance are the owners of the businesses. If the business owner managers possess the requisite skills to manage their business well, then the business are likely to be successful. According to Nyaga (2013) the business owner's characteristics are among the nonfinancial factors that hinder or foster the growth of an Small and Medium Enterprises. The Small and Medium Enterprises owner manager has considerable personal influence over the business's strategies and operations and the general success of the business. As a result, decision making in Small and Medium Enterprises is mostly centralized around the owner of the business. The characteristics of the owner manager therefore have a decisive influence on whether the business grows or not (Scarborough & Zimmerer, 2000).

The owner manager's characteristics are often quoted as one of the most important factors related to the performance of Small and Medium Enterprises. According to Litvak *et al.*, (1986) business owners are a product of the socio-economic characteristics that they possess. This influences their ability to perform their managerial role. Some of these socio-economic characteristics that have been found to influence the business performance are educational level, age, gender and marital status. According to Kilpatrick & Crowley (1999) these factors are beyond the entrepreneurs control but greatly influence their aspirations and business decisions. Scarborough & Zimmerer (2000) argues that human capital such as gender, age, education level and experience have an influence on one's decision to become a business owner.

Education level of the business owner is likely to hamper or increase the chances of success of the business. In a study of the effect of education on business ownership in the United States of America (USA), Dolinsky, Caputo, Pasumarty & Quazi (1993) found that the chances of business survival increased with increased education levels of the business owners. While Loscosso, Robinson, Hall, & Allen, (1991) opine that women-owned businesses have lower incomes and sales volumes compared to their male counterparts. This implies that women owned business are likely to perform poorly compared to those owned by men. The age and marital status of the business owner is also likely to influence the business decisions that are made on the business. Businesses owned by older people are likely to succeed compared t those that are owned by younger people. This could be because of the experience gained in working in a particular business industry and the ability to make more mature and informed decisions. (Dolinsky *et al.*, 1993). The marital status is deemed to lower with business performance because of the interference from family responsibilities (Bula, 2012).

In Kenya, despite the substantial investment of the government in Small and Medium Enterprises development, there is still a high rate of Small and Medium Enterprises failures. Many Small and Medium Enterprises are performing poorly despite the availability of financial support through banks and other organizations. This brings to question whether this poor performance of Small and Medium Enterprises could be because of the characteristics of the owner managers.

According to Odhaimbo (2013), lack of managerial skills is attributed to failure of many youth owned enterprises. Njoroge and Gathungu (2013) also studied Small and Medium Enterprises in Githunguri district and predicted that the businesses that were owned by people who lacked managerial skills were likely to fail within the first five years. The studies however, do not indicate how the socio-economic characteristics of the business owner managers impact the business performance. This study therefore sought to fill this gap by establishing the relationship between the socio-economic characteristics of the business owners and the performance of their enterprises.

Statement of the Problem

The Small and Medium Enterprise sector is increasingly growing in size and its importance in the Kenyan economy cannot be overstated. Small and Medium Enterprises are currently responsible for 80 % of new jobs and 20% of the Gross Domestic Product (GDP). The government and other stakeholders have invested substantially in providing financial support to the Small and Medium Enterprises to ensure they grow their business. However, there is still a high number of Small and Medium Enterprises that collapse within the first few years despite the efforts to provide financial support to the Small and Medium Enterprises owners.

This calls to question the role of the socio-economic characteristics of the business owners in business growth in the country. While literature acknowledges the challenges that Small and Medium Enterprises owners face in the country, it lacks any solid evidence to link socio-economic characteristics of Small and Medium Enterprises owners with business performance. The literature has focused more on the non-personal factors that hamper business growth. However, little has been done to understand how the owner managers' characteristics relate with the performance of their business. Business owner characteristics have been touted as a key element in performance of Small and Medium Enterprises hence there is need to understand how it relates to business performance in the Kenyan context. This study therefore sought to fill this gap by establishing if indeed the owner manager's characteristics influence the performance of their business.

RESEARCH DESIGN

Research Design

The study adopted both cross-sectional survey and correlational design. A cross-section of the Small and Medium Enterprises owners in Nyamira County shall be used to provide data and the data shall be collected only once. Correlational design shall be used to establish the relationship between the variables. Data was collected on educational level and gender of Small and Medium Enterprises owners and performance of their business in order to test the nature and extent of their relationship.

Target population

The target population was all the Small and Medium Enterprises conducting business in Nyamira town. There are 1050 Small and Medium Enterprises in Nyamira according to the report from the ministry of trade Nyamira.

Sampling techniques

Stratified random sampling technique was used to select the required sample. A proportionate stratification that was to be based on the stratum's share of the total population was used to come up with the sample in each stratum. The Small and Medium Enterprises was grouped according to the industries they belong (service, production and manufacturing industries). Random sampling was used to select a representative sample for each the groups. This shall ensure that each member of the target population had an equal and independent chance of being selected.

Research Instruments

The study used questionnaires and interview method to collect information from the respondents. The questionnaires were used to get specific information in line with the objectives while the interview was used to help the researcher to clarify questions to the respondents and translate the questions to respondents who may be semiliterate. The questionnaire and interview asked questions related to educational level of the Small and Medium Enterprises owners and success of their business.

Validity

For face validity, the questionnaire was piloted amongst 20 entrepreneurs in Kisii town which is a neighboring county which has similar demographics to Nyamira County. This aimed at examining responses and correcting any ambiguity in the questions.

RESEARCH FINDINGS AND DISCUSSION

Owner Manager Characteristics versus Performance

Performance of an enterprise can be determined in many ways. Some of them include determination of the sales volume, revenues, and profit margins among others. In this study, one of the strongest indicators of performance among these Small and Medium Enterprises is the average profits realized over the course of the month.

Relationship between age of owner manager and business performance of Small and Medium Enterprises

In investigating the relationship between the age of the owner manager and business performance of Small and Medium Enterprises, the following result was obtained.

Table 1: Model Summary

Model	R	R Square	Adjusted Square	RStd. of Estimate	Error the R Change	Statistics SquareF Change	df1	df2	Sig. Change	F
1	.635 ^a	.404	.397	91830.616	.404	60.943	1	90	.000	

a. Predictors: (Constant), Age

According to the model summary table above, the coefficient of correlation (the adjusted R square) is 0.39, suggesting that 39% of age value is significant enough to affect business performance.

In a correlation table below, at a significance level of 0.001, the effect of age increment on business performance is positive. Other than experience, a percentage increase in age of the owner manager of Small and Medium Enterprises increases the profit realized per month by 0.063%.

Table 2: Correlations

	Age	Average Profit Per Month
Age	Pearson Correlation 1	.063**
	Sig. (2-tailed)	.000
	N	92
Average Profit Per Month	Pearson Correlation .063**	1
	Sig. (2-tailed)	.000
	N	92

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

The above results indicate that age significantly affect performance of Small and Medium Enterprises among the respondents.

Relationship between gender of owner manager and business performance of Small and Medium Enterprises

In investigating the relationship between the gender of the owner manager and business performance of Small and Medium Enterprises, the following result was obtained.

According to the table below, the mean of the average profit per month of the respondents is Kshs. 86782.61, which is a combination of the male kshs. 78412.70, and 104965.52 for female of average mean score for the monthly profit. The implication is that averagely, women in businesses of this nature makes higher profits per month comparatively higher than men are when certain factors are held constant.

Report

Table 3: Average Profit Per Month

Gender	Mean	N	Std. Deviation
Male	78412.70	63	138723.516
Female	104965.52	29	48455.047
Total	86782.61	92	118269.744

Table below shows that there is a positive relationship between gender and business performance in terms of average profit per month. Based on the table, using single tailed significance level, the rate of average monthly profit increases as one is a female. Since the 0.160 is closer to 2 than 1, it can be deduced that when the owner manager of Small and Medium Enterprises, the possibility of the business being profitable increases. Thus, female businesspeople perform better than male businesspeople.

Table 3: Correlations

		Average Profit PerGender Month	
Pearson Correlation	Average Profit Per Month	1.000	.105
	Gender	.105	1.000
Sig. (1-tailed)	Average Profit Per Month	.	.160
	Gender	.160	.
N	Average Profit Per Month	92	92
	Gender	92	92

Relationship between marital status owner manager and business performance of Small and Medium Enterprises

In establishing the relationship between marital status of the owner manager and business performance of Small and Medium Enterprises, the following result was obtained.

In table below, those married are more (1.86 can be rounded off to 2) compared to other marital statuses.

Table 4: Descriptive Statistics

	Mean	Std. Deviation	N
Average Profit Per Month	86782.61	118269.744	92
Marital Status	1.86	.566	92

However, the model summary table below shows that the relationship between marital status and the average monthly profit is less significance. The coefficient of correlation (the adjusted R Square) between these two variables is 0.067. The value suggests that a shift in the marital status affects the performance of the business, but on a very small scale.

This means that on average terms, the status of the owner manager of Small and Medium Enterprises is less significant in explaining business performance of Small and Medium Enterprises.

Table 5: Model Summary

Model	R	Adjusted Square	R Square	Std. Error of the Estimate	Change Statistics				
					R Change	Square Change	F	df1	df2
1	.278 ^a	.077	.067	114234.831	.077	7.542	1	90	.007

a. Predictors: (Constant), Marital Status

b. Dependent Variable: Average Profit Per Month

The correlation table shown below supports the above result whereby under the significance level of 0.01 of the correlation, changing the marital status to being married is a significantly small percentage change (0.007) to the performance of the business.

Table 6: Correlations

		Average Profit Marital Status Per Month	
Average Profit Per Month	Pearson Correlation 1		.278**
	Sig. (2-tailed)		.007
	N	92	92
Marital Status	Pearson Correlation	.278**	1
	Sig. (2-tailed)	.007	
	N	92	92

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

Relationship between educational level of owner manager and business performance of Small and Medium Enterprises

In investigating the relationship between the level of education of the owner manager and business performance of Small and Medium Enterprises, the following result was obtained.

On average, as was determined in the descriptive analysis above, most of those running the Small and Medium Enterprises have diploma certificates, also as shown in the table below.

Table 7: Descriptive Statistics

		Mean	Std. Deviation	N
Average Profit Per Month		86782.61	118269.744	92
Education		3.87	1.121	92

However, the level of education is significant to some level of performance as shown by the coefficient of correlation (Adjusted R Square) value in the model summary table below.

Table 8: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Change Statistics	F	Change	df1	df2	Sig. Change	F
1	.255 ^a	.650	.656	114981.013	.065	6.280	1	90	.014		

a. Predictors: (Constant), Education

b. Dependent Variable: Average Profit Per Month

According to the table above, educational level can significantly explain an increase in performance of an enterprise. The coefficient of correlation is 0.656, suggesting that 65.6% of the performance of an enterprise can be explained by the level of education, thus making education very critical in running Small and Medium Enterprises.

Table 9: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1	(Constant)	-17447.188	43285.018		
	Education	26935.790	10748.481	.255	2.506

a. Dependent Variable: Average Profit Per Month

When other factors are held constant, a single step higher in education level of the owner manager increases the performance of an enterprise by a value of 0.255.

CONCLUSION

In this section, the results of the analysis were illustrated, presented, and discussed in terms of answering of the questions. The following chapter concludes the research based on the results presented above and the implications and issues for further researched are determined thereof.

Summary of the Research Objectives

A qualitative and quantitative study was undertaken of the relationship between the owner manager characteristics and performance of Small and Medium Enterprises in Nyamira County. The objectives of this research were:

- i. To describe the relationship between gender of owner manager and business performance of Small and Medium Enterprises
- ii. To find out the relationship between educational level of owner manager and business performance of Small and Medium Enterprises
- iii. To evaluate the relationship between age of owner manager and business performance of Small and Medium Enterprises
- iv. To determine the relationship between marital status of owner manager and business performance of Small and Medium Enterprises

Based on these objectives, research questions were formulated. The analysis above answers the questions as summarized below:

1. What is the relationship between gender of owner manager and business performance of Small and Medium Enterprises?

In the contemporary business world, gender is a growing business factor that many analysts view in various perspectives. As argued by Verheul, et al., (2002), the female entrepreneurs are likely to have different management styles that are related to differences in personality and background. Males are more likely to perform a directive management style, while women have a preference on using more collaborative approach to leadership. However, according to this study, women in businesses of this nature makes higher profits per month comparatively higher than men are when certain factors are held constant. In this case, therefore, this study conclude that it is true there is a significance relationship between gender of owner manager and business performance of Small and Medium Enterprises, especially with respect to Nyamira County.

2. What is the relationship between educational level of owner manager and business performance of Small and Medium Enterprises?

Educational level of an individual is also another important factor of an individual that have an impact on the performance of an enterprise. According to Rosa & McAlaine (1991), those most likely to become self-employed upon leaving the universities or colleges are those trained in professions where self-employment is the normal organizational form. This was supported by the results showing that education does have a significant relationship with entrepreneurial performance. Although to a high degree, business skills are learnt and made practical after attaining some education. However, running Small and Medium Enterprises requires real life skills and operational etiquette far more than just attaining a college education. This study found out that education is an important factor that when well used, has a positive relationship with the performance of Small and Medium Enterprises. Thus, a business owner manager of Small and Medium Enterprises with education in addition to business experience is a better performer than uneducated.

3. What is the relationship between age of owner manager and business performance of Small and Medium Enterprises?

Age is an important factor in running small and Medium Enterprises in Nyamira County. The average age that proved active in operating successful small and medium scale enterprises in Nyamira County was between the age 25years and 39 years. According to the model summary table 6, the coefficient of correlation of age and performance showed 39% of age value is significant enough to affect business performance. As argued Taylor by (1975), running a business requires a high degree of comprehensiveness and integration. Older owner managers are expected to be less sophisticated in their planning endeavors as they tend to do less well in integrating information and in evaluating a variety of options when arriving at a decision. This

may be far reached experience that comes by age and valuable expectations, determinations, and perceptions that are attached to this age brackets.

4. *What is the relationship between marital status owner manager and business performance of Small and Medium Enterprises?*

In business, marital status is not a curse neither is it a gift. Yet, the status may have advantages best known to the business owner. However, according to this study, the analysis shows that the relationship between marital status and business performance is less significance. The value of the coefficient of correlation suggests that a shift in the marital status affects the performance of the business, but on a very small scale.

This means that on average terms, the status of the owner manager of Small and Medium Enterprises is less significant in explaining business performance of Small and Medium En

This study sought to answer the questions concerning the relationship between owner manager characteristics such as age, gender, education, and marital status and performance of Small and Medium Enterprises. This research also sought to answer the question of contribution of these characters to entrepreneurial performance for Small and Medium Enterprises. It was shown that some of these factors did potentially related to entrepreneurial performances and that certain owner manager qualities were associated with entrepreneurial performance.

This study addressed a deficiency in the literature, in those entrepreneurial traits explainable to performances, was extended into, and was investigated in the County context. The research findings support the conclusion that an increase in knowledge and experience are very vital in running small and Medium Enterprises, not the value of the amount invested initially in the business. Determination, hard work, and focus to growth are some of the critical characteristics of a manager required in running these Small and Medium Enterprises.

The findings show that anybody can successfully run Small and Medium Enterprises. The national government and other stakeholders that have an interest in Small and Medium Enterprises growth might be able to enhance performance through increased provision of training courses more especially on business succession and financial literacy they should also give educational opportunities.

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