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Influence of Firm Characteristics on Performance of Youth Led Micro and Small enterprises in Kenya

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Abestract :- Micro and small entreprises are viewed as a key driver of economic and social development in the African context. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. The Kenyan government is aggressively encouraging Kenyans to take up entrepreneurship as a way of reducing unemployment, especially among the youth. This paper examines the influence of firm characteristics in terms of size of the firm, ownership and type of product on performance with a focus on youth in the agricultural sector in Kenya. Data was collected through structured questionnaires administered face-to-face to 247 youth running their own enterprises in the Kenyan agricultural industry. From the findings of the study, the relationship between firm characteristics and performance was found to be negative since as firm characteristics increased, the performance of the agribusiness went down.

Keywords: *Entrepreneurship, Firm size, Ownership, Performance, Type of Product***.**

I. INTRODUCTION

MSEs are hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development. The contribution of MSEs to the economies of the countries where they operate is very significant in terms of GDP and employment generated (1). In Kenya, the small business sector has both the potential and the historic task of bringing millions of people from the survivalist level including the informal economy to the mainstream economy. Recognizing the critical role small businesses play in the Kenyan economy, the Government through Kenya Vision 2030 envisages the strengthening of MSEs to become the key industries of tomorrow by improving their productivity and innovation (2). The small enterprises play an important role in the Kenyan Economy. According to the Economic Survey carried out in 2006, the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (3). While little evidence exists that these small firms grow into medium-size firms (employing 50 to 100 workers), many of these small firms have the potential to grow and add one to five employees (4). MSE's in the agribusiness sector have been recognized worldwide for their role in stimulating economic growth, creating jobs, alleviating poverty and uplifting living standards, (5). The sector is an efficient producer that constitutes an important dynamic force in the economy as it requires little capital and is labor intensive. Youths in Kenya are expected to be the major players in the sector as they are energetic, ready to work, educated but idle due to high unemployment levels in the country. However, studies have shown that 80% of these enterprises fail within their first three years after start up due to various factors, some marketing, resource, firm and entrepreneur related (6).

MSE's play an important economic role among the youth in Kenya. Like the rest of the world, the Kenyan government has now embraced youth entrepreneurship development through formulation of policies favorable to development of small enterprises, particularly in the recent years. Such efforts included development of the youth enterprise fund in 2007 promoting Youth-owned Micro and Small Enterprise projects, promoting thriftiness and self-reliance among the youth, promoting, an entrepreneurial culture among the youth, and promoting marketing of Youth Products and Services (7). Most recently, it launched the women enterprise fund and the uwezo fund in 2014. As highlighted by Okeyo, (8) and Schaper & Volery, (9) in their studies, youth led MSE's, especially those in the agribusiness sector have to brace themselves with marketing, resources, firm and entrepreneur issues. The authors identify inadequate marketing strategies resources, firm and entrepreneur characteristics and the influence of entrepreneurship (culture) as major gaps for performance in the subsector. This is particularly of great importance since their performance is influenced by the above unique characteristics, thus this paper focused on the influence of firm characteristics on the performance of agribusinesses in Kenya.

II. LITERATURE REVIEW

2.1 Performance of Youth Led MSE's

The performance of the MSE can be seen from the satisfaction of the owner / manager on profit, turnover and business development. Firm performance is usually measured as financial and nonfinancial performance measures. Financial performance comprises of financial efficiency measures such as return on investment and return on equity, and profit measures such as return on sales and net profit margin (10). Nonfinancial measures include customer satisfaction, sales growth, employee growth and market share. Some of the nonfinancial measures are end performance measures such as market share and share growth, while some of them may serve as leading indicators of end-result financial performance. MSEs often measure their performance by turnover growth and employment growth (11).Some of the core measures of performance are profitability, turnover, market share and growth in the labor force. The most significant factors that affect the performance of MSEs are: MSEs characteristics, customers, market, the way of doing business, external environment, resources and finance (12). Scholars have theorized that the incidence of firm-level entrepreneurial behaviors will be positively associated with organizational profitability and growth (13; 14; 15). In an era of dramatic social and technological change, one approach for firms seeking growth is to establish and sustain long-term customer relationships through Entrepreneurial Marketing driven by a four-pillar framework comprising of entrepreneurship, resources, processes and actors (16).Employees, who are often referred to as human resources are one of the most important resources of a business organization (17). The performance of a business may sometimes be measured using the number of employees. An increase in the number of personnel may be a signal for the growth and development of a business entity and it might also be indicative of the level of success and how well the business is performing (18). An important part of managing a small business effectively therefore is to hire the right people, train them, do regular reviews of their work and decide how each person‘s performance can be improved. Employees must be encouraged and rewarded to keep them motivated to do exceptional work. There is nothing that contributes extensively to profits as competent and self- motivated employees (19).

2.2 Firm Characteristics

MSEs are mainly sole proprietorship or family businesses and are not very dominant in their line of business. Many are started to earn a livelihood as opposed to those started to earn profits but they evolve and possibly grow to earn profits. Some of the characteristics of the MSEs are that; they are labor intensive in terms of production and they are common where capital is scarce, which is the case in developing countries. This is important in labor surplus societies with few employment opportunities and limited alternative sources of income (20).

Firm size is one of the most acknowledged determinants of a firm’s profits. Firm size can be an important determinant for firm performance and for networking inside and outside the MSE network (21). The causal relationships between size and profitability have been widely tested with ambiguous results. Although some studies did not find significant relationship between size (measured as the number of employees) and performance (22), several studies suggest that a positive relationship exists between company size and profitability (23; 24; 25; 26). McMahon (27) found that enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success (28).

A positive relationship between firm size and profitability was found by Vijayakumar & Tamizhselvan (29). In their study, which was based on a simple semi-logarithmic specification of the model, the authors used different measures of size (sales and total assets) and profitability (profit margin and profit on total assets) while applying model on a sample of 15 companies operating in South India. Papadognas (30) conducted analysis on a sample of 3035 Greek manufacturing firms for the period 1995-1999. After dividing firms into four size classes he applied regression analysis which revealed that for all size classes, firms’ profitability is positively influenced by firm size.

Small size firms solely depend on product quality, prices (28) and customer relations as a way to market their products rather than relying on proper advertisement (31). To them satisfied customers will promote or recommend their friends and families to buy the product at the same place they had bought before. Indirectly, marketing occurs between the customers and future customers through “word-of-mouth”. Without advertisement and planning promotion, they can still maintain and sustain their business. This is because they are able to maintain the quality of product and customer service continuously (32).

The ownership structure of a firm can be investigated from a number of alternative dimensions. Most commonly, ownership structure refers to the ownership by different groups of shareholders. Another dimension of ownership structure is ownership concentration. When it comes to ownership concentration, previous empirical studies have yielded conflicting results on the relationship between ownership concentration and performance. Demsetz & Villalonga (33) found no statistically significant relationship between ownership concentration and firm performance, while several studies have found a positive association between ownership concentration and profitability (34; 35; 28). Therefore, we expect that ownership concentration is negatively related to growth and positively related to profitability. Family ownership positively affects firm performance. An increase in family ownership enhances firm performance, thereby driving family ownership even higher. The concentration of family ownership in Taiwan indicates that the wealth of a family is closely related to firm performance, in which the family has stronger incentive to maximize firm performance. With regard to family-ownership levels that are most beneficial to firms, the profitability of a firm (ROA) initially increases with an increase in family holdings, and reaches its peak when family ownership is approximately 30 per cent. However, profitability begins to decline when family ownership increases further. Therefore, if family ownership is maintained at approximately 30 per cent, the alignment between family interests and firm profitability reaches its highest level. At this point, family members have greater incentive to maximize the profitability of the firm through supervision and management, but fewer motives to entrench the profitability of the firm for the benefit of the family (36).Innovative product, quality, cost, reliability, and services are the key strategic dimension in business success. Innovative product gives added value to the customer and it is important to achieve a suitable balance between product quality and costs (28). Small-business owners must have a missionary zeal about their products or services, be willing to be personally involved in it, be willing to stick with the business, be able to define the market clearly and pay attention to details and proactiveness (37).A firm's performance is based on its market position regardless of its size and its industry. Even when an MSE has a limited scope of products and served segments, it still needs to sell their products or services in a quantity that is sufficient to go beyond break-even-point and to create profit. Therefore, an MSE needs to offer products or services that are sufficiently innovative relative to its competitors. Failure to achieve this relative competitiveness will result in low or even negative financial performance (38). Due to the heightened level of competition and shortened product life cycles, firm ability to generate innovations may be more important than ever in allowing firms to improve performance and maintain competitive advantage (39). For this reason, in today's intense competitive environment it is not surprising to see that innovation has become a requisite objective for all firms (40). The existing products are vulnerable to changing customer needs and tastes, new technologies, shortened product life cycles, and increased international competition. Therefore it is generally accepted that all firms should innovate regardless of their size or sector in order to compete and survive in the market. It should also be noted that firms and countries that continuously innovate contribute significantly to economic growth (41). The argument of Krammerer (42) is that green products which besides their public benefits have private environmental benefits for the customer will generate stronger consumer demand, leading to better firm performance.Therefore, based on the literature presented above, the study tested the following hypothesis: H_{A3}: There is an influence of firm characteristics on performance of youth led micro and small agribusinesses in Kenya.

III. METHODOLOGY

3.1 Data CollectionPrimary data was collected from the youth running MSE's that were agriculture based in Kiambu county under each of the 12 constituencies. This was done through the use of a well structured, self administered questionnaire aimed at capturing the various variables under the study. In a self-administered questionnaire the respondents have the advantage of asking the interviewer to clarify a question when it is not clear to them.

3.2 Empirical findings on Firm characteristics

The study sought to find out how long the respondents had been operating their agribusinesses. From the findings, it was seen that on average, the businesses had been operational for 5 years with the minimum number of years a business had been operational being 1 year and maximum being 16 years. In terms of the legal form of ownership of the agribusinesses, figure 1 indicates that 68.16% of the businesses were sole proprietorships, 15.51% of were are youth groups while 13.88% of them were partnerships.

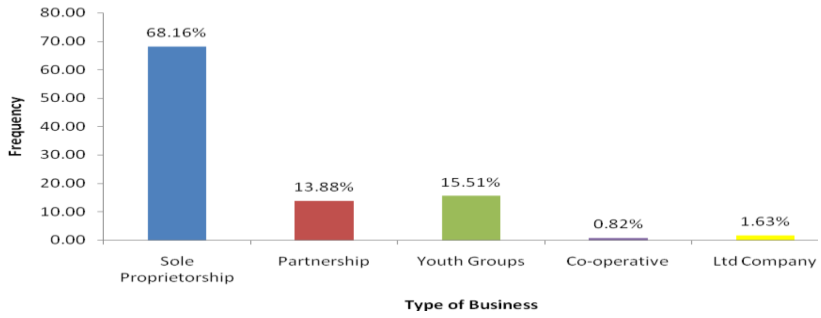

Figure 1: Legal Form of Ownership of the Business

The study also sought to establish the number of employees the respondents had in their agribusiness both permanent, seasonal contract and daily casual employees. The Table 1 gives a summary of the number of employees at these levels.

Table 1: Summary of Number of Employees in the Business at Different Levels

	Number of permanent employees	Number of seasonal employees	Contract employee less than 2 months	Contract employee 2-6 months	Contract employee over 6 months	Daily casual employees
Mean	5	5	6	6	3	5
Minimum	1	1	2	2	2	1
Maximum	20	20	12	17	3	20

Based on the findings represented in table 1 above, on average, 5 people were employed on permanent, seasonal and casual basis. 6 people were employed on contracts less than 2 months and between 2-6 months while 3 people were employed on contracts over 6 months. From these results, it can be seen that the agribusiness are creating employment to the people within their locality.The study aimed to establish the activities carried out by the respondents in their line of business they were operating. As presented in figure 2 majority (37.25%) of the respondents were engaged in dairy farming, 30.77% were engaged in crop farming, 17.41% were engaged in poultry farming, and minority about 0.81% were engaged in bee keeping . These results indicate that most of the respondents who participated in the study were involved in rearing of domestic animals and crop farming.

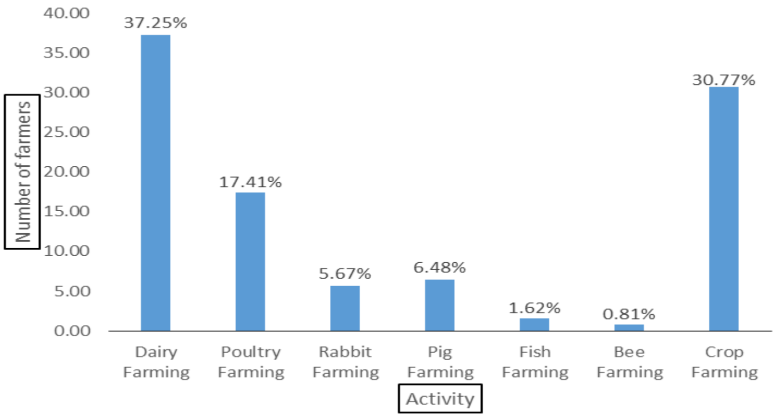

Figure 2: Activities carried out in the Business

The study aimed to establish the reasons as to why the respondents decided to venture in the business they were operating. As presented in Table 2 majority (38.1%) of the respondents started the business to earn income or a living from it, 32.4% due to other reasons such as passion for the business, 11.3% as a source of employment as they as they were unemployed and could not find any meaningful employment, and 10.9% started the business due to the market demand for the product they were dealing with. These results indicate that income was the main drive for starting the business.

Table 2: Reasons for Venturing into the Current Business

	Frequency	Percent	Valid Percent
Income/earn a living	94	38.1	38.1
Employment	28	11.3	11.3
Family/friends influence	18	7.3	7.3
Market demand	27	10.9	10.9
Others	80	32.4	32.4
Total	247	100.0	100.0

3.3 Analysis on the interaction between firm characteristics and performance

The objective of the study was to find out the influence of firm characteristics on performance of youth led micro and small agribusinesses in Kenya. This is further explained from the analysis below:

Table 3: Coefficient table for Firm Characteristics and Performance of Agribusiness

	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	2.102	.154	13.623	.000
X_3	-.724	.109	-6.660	.000

a. Dependent Variable: Y

The relationship between performance and firm characteristics was found to be explained by the model $Y = 2.102 - 0.724X3$, where X_3 represents firm characteristics and Y represents performance of the agribusiness. From the model, for every unit change of firm characteristics, there is a decrease in performance by 0.724 times.

Table 4: Model Summary for Firm Characteristics and Performance of Agribusiness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.153	.150	.17450

a. Predictors: (Constant), X3

The R square value shown in the model summary Table 4. suggests that 15.3% of performance of agribusiness was explained by firm characteristics. There is a linear relationship between performance of agribusiness and firm characteristics. The relationship is also negative since as firm characteristics increase, the performance of the agribusiness goes down.

Table 5: Correlations Between Firm Characteristics and Performance

		Performance	Firm characteristics
Performance	Pearson Correlation	1	-.392**
	Sig. (2-tailed)		.000

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

Table 5 shows correlation coefficient between firm characteristics and performance. The results show that the correlation coefficient between performance and firm characteristics is -0.392 which is a negative relationship. Also the relationship is significant since it has a p-value of 0.000 which is less than 0.01 the significance level. Hence it can be concluded that there is a negative relationship between firm characteristics and performance of the agribusiness.

Table 6: ANOVA for Firm Characteristics and Performance of Agribusiness

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.351	1	1.351	44.362	.000[a]
Residual	7.460	245	.030		
Total	8.811	246			

a. Predictors: (Constant), X_3

b. Dependent Variable: Y

The ANOVA Table 6 indicates that the model fitted is significant since p = 0.00 is less than 0.05, hence it was concluded that there is a significant effect between firm characteristic and performance of the agribusiness, and thus the alternate hypothesis was accepted. 3.4 Discussion on findings on Firm Characteristics and Performance

The following section discusses the research findings presented in the previous section and on the study objective that focused on the influence of firm characteristics on performance of youth led micro and small agribusinesses in Kenya.MSEs are mainly sole proprietorship or family businesses and are not very dominant in their line of business (20). This was reflected in the study since of the 247 enterprises involved in this study, 68.16% were sole proprietorships, most of whom cited competition from "larger businesses" as a challenge to their performance. Many of these enterprises are started to earn a livelihood as opposed to those started to earn profits but they evolve and possibly grow to earn profits (20). The findings of this study concur with this as majority (38.1%) of the respondents started the business to earn income or a living from it. It was found that on average, the businesses have been operational for 5 years with the minimum number of years a business has been operational being 1 year and maximum being 16 years. The study found that the respondents hire employees to help them in their agribusiness ventures and majority of these employees have been engaged on a seasonal or contract basis, with an average of 5 employees being employed on a permanent basis. This shows that many of these small firms have the potential to grow and add one to five employees according to Fadahunsi (4). The following alternate hypothesis was developed to test the relationship between firm characteristics and performance: H_{A3}: There is an influence of firm characteristics on performance of youth led micro and small agribusinesses in Kenya. A linear relationship was found between performance of agribusiness and firm characteristics. This relationship was found to be negative since as firm characteristics increase, the performance of the agribusiness goes down. According to Chigunta (20), MSEs are mainly sole proprietorship or family businesses and are not very dominant in their line of business. This concurs with the findings of this study as 68% of the agribusinesses were sole proprietorships. Many are started to earn a livelihood as opposed to those started to earn profits (20). From the results of this study, 38% of the respondents started their agribusinesses to earn a living from it while 11% started them as they were unable to find meaningful employment. If an enterprise is to be successful, there needs to exist some kind of drive or passion for the business that propels the entrepreneur towards good performance and profitability. From the results of the study, the more the enterprises are started to earn a living and not because of passion for the enterprise, the worse they perform.
Hence it is concluded that there is a significant influence between firm characteristic and performance of the agribusiness, and thus the alternate hypothesis is accepted.

IV. CONCLUSIONS AND RECOMMENDATIONS

Firm size is one of the most acknowledged determinants of a firm's profits. Firm size can be an important determinant for firm performance and for networking inside and outside the MSE network (21). The causal relationships between size and profitability have been widely tested and Lee & Giorgis, (23) suggest that a positive relationship exists between company size and profitability. They found that enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success as opposed to smaller ones. As firm characteristics increased, the performance of the enterprises was seen to decrease. That is, the smaller the enterprise, the less employees the enterprise had and the fewer the number of years of operation of the enterprise, then the worse the performance. The reverse was found to be true in that the larger the enterprise was, the more employees the enterprise had and the longer it had been in operation, the better its performanceInnovative product, quality, cost, reliability, and services are the key strategic dimension in business success. Innovative product gives added value to the customer and it is important to achieve a suitable balance between product quality and costs (28). Most of the products that the enterprises were producing were similar to other enterprises and not very innovative. The major challenge that the enterprises faced was outbreak of diseases which destroyed their crops, killed their animals and lowered the quality of their produce. With their produce thus affected, their performance was not as good as they had anticipated. These findings are in line with those of Neshamba, (31) that small size firms solely depend on product quality, affordable prices and customer relations as a way to improve the performance of their enterprises. To them, satisfied customers will promote or recommend their friends and families to buy the product at the same place they had bought before due to quality. However, should the quality change, the customers will not purchase, leading to poor performance of the enterprise.

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