

## The effects of Business Training on Performance of Micro and Small Enterprises in Murang'a Town, Kenya

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**Abstract:** This study sought to investigate how business training affects business of micro and small enterprises. Over the past decades microfinance has received much attention as an instrument to foster entrepreneurship in the MSEs sector by simultaneously tackling financial constraints. However, in Kenya, policies and strategies designed by MFIs to boost credit and finance services to the MSE sector have been formulated in the absence of reliable information such as data on magnitude of the MSEs sector, characteristics of MSE operators and factors influencing the growth and dynamics of the sector. In literature review, the study analyzed microfinance factors affecting MSEs performance. The research adopted a descriptive research survey to collect primary data to answer questions concerning the status of the issues under investigations. Stratified random sampling was used. Data analysis for this study was done using Statistical Package for Social Science Software (SPSS). The results of the study revealed that majority of the MSEs which had received credit had the entrepreneurs trained as a prerequisite for loan administration. All the respondents who had received training concurred that the training affected performance of their businesses. Based on this study, it was concluded that performance of micro and small enterprises MSEs was affected by training to improve its performance.

**Keywords:** Business Training, Performance, Micro and Small Enterprises

### INTRODUCTION

Access to finance is indisputably a vital factor for better firm performance and economic growth. Not surprisingly, financial development and economic growth across countries are highly correlated. In this respect, many scholars have ascribed the poor performance of numerous micro and small enterprises, particular in Africa, to financial constraints [1]. Financial constraints refer to the inability of firms to obtain funds for profitable investment projects and growth. They result in inefficient allocation of firm resources and hampers growth. Small enterprises often fail to invest which hampers business growth [2].

Over the past decades microfinance has received much attention as an instrument to foster entrepreneurship in the MSEs sector by simultaneously tackling financial constraints. However, in Kenya, policies and strategies designed by MFIs to boost credit and finance services to the MSE sector have been formulated in the absence of reliable information such as data on magnitude of the MSEs sector, characteristics of MSE operators and factors influencing the growth and dynamics of the sector [3].

This study seeks to investigate how business training affects performance of Micro and Small Enterprises. Research in these areas -finance,

performance and entrepreneurship- are important because entrepreneurship itself is indispensable to economic development [4]. The study focused on micro and small enterprises (MSEs) that are found in Kenya. Specifically, the study relied on data from microfinance clients that operate in Murang'a town.

### METHODOLOGY

The research adopted a descriptive research survey to collect primary data to answer questions concerning the status of the issues under investigations. A descriptive survey design allows researchers to gather information, summarize, present and interpret it for the purpose of clarification [5]. Various beneficiaries of micro finance in Murang'a Town were identified and a sample was interviewed to establish how business training affects performance of micro and small enterprises. The population for the study was the 300 MSEs in Murang'a Town which are registered at the Municipal council of Murang'a. MSE businesses in Murang'a include open air market operators, retail shop owners, metal workers, carpenters, hardware businesses, second hand cloth sellers etc. Stratified random sampling was used. The goal was to achieve a desired representation from various sub groups in the population. The study employed both primary and secondary data. Primary data was derived through administration of questionnaires. Secondary data was

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acquired from existing literature. Data analysis for this study was done using Statistical Package for Social Science Software (SPSS).

## LITERATURE REVIEW

Microfinance management Institute [6] defines training as the formal and systematic modification of behavior through learning which occurs as a result of education, instruction, development and planned experience. He further asserts that the fundamental aim of training is to help the enterprise achieve its purpose by adding value to its key resource- the people it employs. Training means investing in people to enable them perform better and it empowers them to make use of their best abilities.

The importance of training as one tool for MSEs performance and growth has been recognized worldwide. Many studies have revealed that training contributes significantly in the improvement of performance and growth of enterprises. For example, Wydick [7] established that training has significant impact on participant characteristics and final participant outcomes. Training adds to the skills of MSEs owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to perform better.

Research on the impact of BDS on MSEs is limited, and where impact has been assessed, the results appear inconclusive. Wydick [8] observes that while small business owner-managers are aware of the existence of training opportunities especially those sponsored by governments, their usage of such services has remained low. More importantly, however, none of these initiatives appears to have made a significant impact upon the skill levels and or the competitiveness of smaller firms. This may be due to a mismatch between small business training needs and the services offered by trainers. Nevertheless the necessity for enterprise support initiatives cannot be questioned.

With the right skills; the MSEs owners can gain important edges even under stiff competitive environment. Through training, the enterprise owners can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques. This because business training is mainly geared towards building entrepreneurial skills and traits of the recipients in order to better their business practices [9].

Dean and Martin [10] found strong benefits of MSEs entrepreneurs training for both the client and the microfinance institution. The client shows improved business processes and knowledge and increased sales.

The microfinance institution benefits from increased retention and repayment.

Hassan [11] asserts that limited access to soft reproductive resources particularly basic management and financial literacy can restrict the capacity of business owners to participate effectively in business activities. Microfinance programmes were introduced as a means to provide credit which is an important source of the need capital. However as argued above, provision of credit alone without business skills, it is not possible for enterprises to perform at an optimal level. Therefore, one of the objectives of this study established the effects of training MSEs owners on business performance.

Beck and colleagues [12] report a positive relationship between training, competence, and performance among SMEs involved in e-business activities. Their study used a sample of 339 SMEs drawn from three European countries, Norway, Finland and Spain. Based on their empirical analyses, the authors claim that training explains variances in e-business competences and performance in terms of efficiency, complementarities, lock-in and novelty. Atieno [13] asserts that access to affordable training is a barrier to entrepreneurial activity. The concept of microfinance, and especially when accompanied by the development of business skills, has evolved as an institutionalised response to this challenge in promoting the performance of micro and small enterprises in Kenya.

## TRAINING AND MSEs PERFORMANCE

World Bank [14] defines training as the formal and systematic modification of behavior through learning which occurs as a result of education, instruction, development and planned experience. He further asserts that the fundamental aim of training is to help the enterprise achieve its purpose by adding value to its key resource- the people it employs. Training means investing in people to enable them perform better and it empowers them to make use of their best abilities.

The importance of training as one tool for MSEs performance and growth has been recognized worldwide. Many studies have revealed that training contributes significantly in the improvement of performance and growth of enterprises. For example, World Bank [15] established that training has significant impact on participant characteristics and final participant outcomes. Training adds to the skills of MSEs owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to perform better.

Research on the impact of BDS on MSEs is limited, and where impact has been assessed, the results appear inconclusive. World Bank [16] observes that while small business owner-managers are aware of the existence of training opportunities especially those sponsored by governments, their usage of such services has remained low. More importantly, however, none of these initiatives appears to have made a significant impact upon the skill levels and or the competitiveness of smaller firms. This may be due to a mismatch between small business training needs and the services offered by trainers. Nevertheless the necessity for enterprise support initiatives cannot be questioned.

With the right skills; the MSEs owners can gain important edges even under stiff competitive environment. Through training, the enterprise owners can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques. This because business training is mainly geared towards building entrepreneurial skills and traits of the recipients in orders to better their business practices [17]. Dean and Martin [18] found strong benefits of MSEs entrepreneurs training for both the client and the microfinance institution. The client shows improved business processes and knowledge and increased sales. The microfinance institution benefits from increased retention and repayment.

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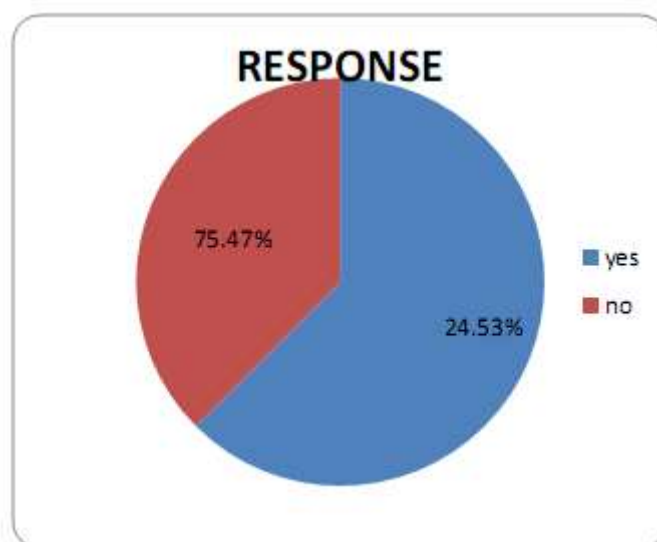
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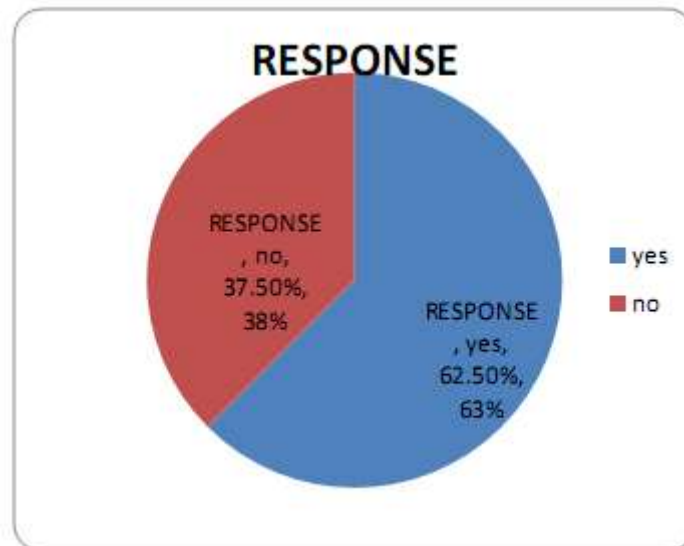
## RESULTS AND DISCUSSION

### Business Training by Microfinance Institutions

This research established that out of the 53 respondents, 75.47% had received credit while 24.53% had not received credit from microfinance institutions. Out of the 40 respondents whose business had received credit from MFIs, 62.50% had received training while 37.5 % had not received training. The results are as shown in the figures 1 & 2.



**Fig-1: Respondent Benefits on Microfinance Credit**  
Source (Survey 2011)



**Fig-2: Training as a Prerequisite for Loan Award**  
Source (Survey 2011)

### Effects of Business Training on Business Performance

**Table 1: The respondents' response on the effect of business training on their business performance**

Level of effect of Training	Frequency	Percentage
No effect	0	0%
To a low extent	3	10%
To a great extent	18	60%
To a very great extent	9	30%
Total	30	100%

Source (Survey2011)

The analyzed data present above indicate that all respondent who had received training concurred that training affect their business performance. Indeed, 90% agreed that training affect performance to a great or to a very great extent. Only a meager 10% felt that the effect was to a low extent. The contention by the entrepreneurs that training affects business performance is fully in line with the reviewed literature. Hassan [22], points out that through training, MSEs owners can gain important edges even under stiff competitive

environment. The enterprise owners can acquire network, transfer technology, develop commercial entities and acquire new and better management techniques.

Responding to how training offered help to improve the performance of the business, the respondents who had received training gave their responses as presented in the table below.

**Table 2: Measures of How Training Improve Business Performance**

How Training Helped Improve Performance		Frequency	Percentage
Valid	Acquired Business management skills	21	23.6%
	Proper Loan Utilization	22	24.7%
	Marketing of Business Products	8	9.0%
	Keeping Business Records	8	9.0%
	Total	59	66.3%
Missing	System	30	33.7%
Total		89	100%

Source (survey 2011)

On training and MSEs' performance, the study established that majority of the MSEs which had

received credit had the entrepreneurs trained as a prerequisite for loan administration. All the respondents

who had received training concurred that the training affected performance of their businesses. Concerning how training improved MSEs' performance majority of the respondents noted proper loan utilization and management skills as the main indicators of how training improved MSEs' performance.

## CONCLUSIONS

Based on this study, it was concluded that performance of micro and small enterprises MSEs was affected by training to improve its performance. Most of the respondents interviewed agreed that training affected performance of their business to a great extent. Entrepreneurs who got training acquired business management skills and were able to utilize their credit well by investing in growing their businesses.

## RECOMMENDATIONS

Microfinance institutions should enhance provision of financial services to MSEs. The fact that a number of MSEs shy away from micro-credit scheme offered by microfinance institutions is an indication that a number entrepreneurs have a negative attitude towards them. Microfinance institutions should lower interest rates on micro-credit in order to encourage microcredit borrowing. Concerning training and MSEs' performance, training should be geared to meet the various needs of MSEs owners. For example, very few respondents were trained on book keeping and simple accounting. Future training should lay emphasis on these aspects. On the other hand, micro and small enterprises should take advantage of the microfinance products and services. For example they should apply for new credit and micro-insurance products being offered by microfinance institutions in the recent times.

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