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INFLUENCE OF FINANCIAL PROGRESS MEASUREMENT ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN MACHAKOS COUNTY

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ABSTRACT

The small medium enterprises (SME) plays an important role in availing goods and services, poverty easing, enhancing competition, promoting innovation and breeding employment among other influences in economies around the world. Due to its significant role, diverse initiatives aimed at supporting and sustaining the growth of SMEs have been put in place. Despite these initiatives, the growth of the SME businesses is still challenged and the rate of failure still high with close to half a million small enterprises not getting to celebrate their second anniversary (KNBS, 2016). Therefore, SMEs' own initiatives are needed to supplement the already existing private sector and government's initiative in an effort to grow their businesses. One such initiative is progress measurement. This study established the influence of financial progress measurement on the growth of SME businesses in Machakos County. A structured questionnaire was physically distributed to SMEs across Machakos County. 289 respondents were randomly selected from a list of registered businesses acquired from the ministry of trade and cooperatives in Machakos County and asked to fill in a structured questionnaire. The results were analyzed using descriptive statistics for normality tests and regression analysis was used to determine the relationship between the variables. The results suggested that, financial progress measurement influences the growth of SME businesses. The findings of this study showed that, SMEs measure their financial performance all year round revealing high performance ratings for SME businesses. The study also found out that successful financial performance in SMEs has a positive association with the ability to manage financial issues effectively.

Key Words: *SMEs, Financial Progress Measurement*

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INTRODUCTION

Kenya's Small and Medium Enterprises (SME) has been through one of the most trying moments recently. In addition to the well-recognized systematic growth encounters, in the recent past the list also included interest capping, drought and prolonged electioneering period which affected the growth of SME businesses and to some extent closure. This has been hurting particular because SMEs remains the Economic growth engines for Kenya (Business Daily, 2017). The sector has been acknowledged for its significant part in providing goods and services, promoting invention, employment generation and in easing poverty. SMEs constitutes up to 98% of all businesses in Kenya, creating up to 30% of all job every year, the sector also contributes up to 3% of the Gross Domestic Product (GDP) (Economic survey, 2017). Out of the 800,000 jobs created 80% were created by the informal sector which is largely comprised of the Small Medium Enterprises (SMEs) (Economic Survey, 2014). The Micro and small enterprise act, 2012, states that the annual turnover of micro enterprise in kshs 500,000 and employs 10 or less employees. Small enterprises have between kshs have a turnover of 500,000 and kshs 50 million and hires between 10-46 people. Medium enterprises employ 50-99 people and have an annual turnover of over 50 million.

According to Soko directory (2017), the high rate of unemployment in Kenya which currently stands at 39.1 % is forcing a large number of Kenyans into self-employment. This makes a large number of newly opened business to operate on low or no profits eventually closing down with others opting to operate without any return on investments, constrained growth and expansion (Soko directory, 2017). According to Soko Directory, the SME sector is the powerful force for Kenya's economic progression, employment formation, and poverty lessening. Further, the report indicates that it is sensible to assume that small businesses in Kenya will develop and prosper. On the contrary the pace at which SME businesses fail is increasing; a state associated to numerous obstacles affecting business performance. Some of these obstacles includes shortage of finances, managing inexperience, inappropriate location, unsupportive law and regulations, poor infrastructure and corruption among others. (Soko directory, 2017).

Invest in Africa (IIA) has interest in growth of SMEs by bridging the gap between the SMEs and large businesses. Invest in Africa initiative works with the private and public sector to identify and tackle the challenges of doing businesses in Africa impacting more cost efficient solution (IIA, 2016). IIA accomplishes its mission of enabling trade between larger companies by providing better access to market, enhancing SME skills and improving access to finance. The initiatives run two programs; The African Partners Pool (APP) which connects small businesses by allowing international companies to meet local contents needs as well as promoting the goods and services of local companies. The other program is the business Linkages Program that consists of SME business skills development program that ensures SMEs are trained in business skills and governance standards (IIA, 2016).

Progress measurement has a main role improving the growth of small and medium enterprises (SMEs). It provides information that is crucial for correctional decision making to salvage a business from collapsing. Progress measurement in SMEs motivates employees and employee are able to see their attributions to the achievement of a company which leads to an improved state of job satisfaction. Goal setting, results measurement and communication of the results to employees on a regular basis motivates workers who are doing well or struggling. Apart from encouraging them to work longer hours, this motivation encourages them to examine how they are performing their jobs, chart the ways to advance and originates solutions to progress output.

Business growth is viewed and defined differently depending with the industry and strategic plans. Business growth is a phase where the business reaches a point for expansion and seeks extra possibilities to generate more profits. It is a function of the business life cycle, industry trends and the owner's desire for equity value creation. Business growth is the view of the owner on the business performance in comparison to the goals. Previous researches show that the growth of SMEs business is determined by the owner/Manager characteristics (personal approach) and how the strategy is approached (Managerial approach). Growth of small and medium enterprises is still low as indicated by the small percentage that have penetrated export market (Endi & Christea, 2016). According to Endi & Christea, (2016), this spectacle can be answered by understanding the aspects defining the growth of SMEs. Business growth is determined by several factors; Individual characteristics, relationships and environmental characteristics, strategy development and planning as well as organizational development (street & Cameron, 2007).

Business Growth is measured differently depending on the industry and goals that the owner plans to achieve. Different companies use different method to determine growth of their business. Use of set growth targets and objectives and measuring against them to determine the growth, measurement of operational growth by determining whether the customer base has grown, computing revenue growth, calculating workforce growth and finding your market growth. One can also choose to measure value growth which entails calculating company book value, measuring market capitalization, finding cash flow growth and calculating price earning (PE). The other methods entails measuring efficiency improvements which includes calculating gross margin, finding profit, evaluating staff and considering their level of business growth and, analyzing changes in customer acquisition.

Problem Statement

Though the Kenyan SME has faced tough times in the recent years, the sector has proven tough in comparison to larger companies with most of these companies issuing profit warning in the recent past. The state of Kenyan SME sector report (2017) reveals that, 43% of the respondents registered more than 10% revenue growth, with 70 % of the SMEs indicating that revenue growth was their major goals for 2018 (business Daily 2017). According to Global Family Business survey report, most of these businesses grew at a slower pace compared to the global average. (Pwc, 2018). In Kenya they grew by 74% as compared to a global average of 89% due to corruption and competition from multinationals that in return hinders growth of SMEs. Despite of this fact, the business operators in Kenya were optimistic that growth will quicken to surpass the global average of 16% (Pwc, 2018). Despite the confidence and growth potential of these businesses, Peter Ngahu a senior partner with PWC Kenya cautions that the growth targets are rarely achieved.

According to soko directory (2017), the high rate of unemployment in Kenya which currently stands at 39.1 % is forcing a large number of Kenyans into self-employment. This makes a large number of newly opened business to operate on low or no profits eventually closing down, with others opting to operate without any return on investments with constrained growth and expansions (Soko directory, 2017). Further the report states that it's realistic to anticipate small businesses in Kenya to grow and succeed, but on the contrary the rate at which SME businesses die is increasing, a state associated to numerous obstacles affecting business performance. Some of these obstacles include shortage of financial resources, management inexperience, inappropriate location, unsupportive law and regulations, inappropriate infrastructure, corruption among others (Soko directory, 2017).

There is optimism that the SME sector is capable of growing, Invest in Africa (IIA) has interest in growth of SMEs by bridging the gap between the SMEs and large businesses in an effort to grow the sector. In addition to these private initiatives the government is also at the forefront in ensuring that the sector gets the necessary support crucial for growth. Therefore, it is evident that there is a concerted effort to support the growth of the SME sector. Despite the private, academic and government efforts, the growth of the sector is still unsatisfactory. Revealing an existence of a gap on what will really drive the sector to achieve the desired growth. Previous studies on factors influencing growth concentrated on financing, entrepreneurial skills, government regulations, education and training, peer influence, environment and inflation; all confirming a positive influence of these factors to the growth of SME business. None of the studies have addressed the influence of Progress measurement on the growth of SMEs in Kenya. The researcher believes that progress measurement has an influence on the growth of businesses and capable of linking the gap between the present growth status and the anticipated growth in SME businesses. Therefore, this research was carried out to determine the influence of financial progress measurement on the growth of SMEs in Machakos County.

Research Objectives

The study determined the influence of financial progress measurement on the growth of SMEs in Machakos County. The study was guided by the following hypothesis;

- **H_0:** Financial Progress Measurement does not influence the growth of SMEs.

LITERATURE REVIEW

Theoretical Review

Goal Setting Theory

This theory was developed by (Locke & Latham). It is based on an observation that a human being who is conscious is purposeful and is controlled by distinct purposes. According to this theory, goal directness indicates the engagements of all living organisms. The theory centers on the query as to why some people's outcome are better compared others. Their inquiry settled that when these people are equal and ability but their outcome is different than the differentiating factor is motivational. The emphasis of the theory centers on the account by Ryan, of discrete variations in task Performance (Ryan 1970). The theory holds that the humblest and the simplest motivational account as to why some people perform better than others is because they have distinctive Performance objectives.

This theory is of great importance to this study as it elaborates a crucial aspects of progress measurement which is goal. Progress measurement can never be effective without a goal that has been set as per the guidelines of goal setting theory. Goals that are specific, attainable, and measurable. It is the set goals and growth targets that every SME would try to ascertain the extent of achievement when measuring progress. This theory acts as the basis and foundation of progress measurement. It is the desire to achieve the set goals that the SME would be motivated to measure the extent of achievement as an expression of commitment to the goals set. On the other hand, according to the goal setting theory feedback is an important aspect of any goal. As such, progress measurement is a source of feedback data whose effect on action depends on how it is appraised and what decisions are subsequently made with respect to the goal setting theory provides a platform and parameter that needs to measure.

Empirical Review

Margaret Spencer (University of Sydney and a contributor writer of "Fundera", an organization that exists to economically empower entrepreneurs of every size and shape), writes about SB finance and is involved in financial enablement of small business owners across industries. She also offers passionate insights on accessibility and communication to help entrepreneurs grow. She describes the top indicators of business growth in her July 14, (2018) article. This study adopted these indicators to measure growth of the business as described by Spence includes; Demand, profits, Revenue, Sales, Personnel and market share.

According to spencer (2018), small businesses just like human beings do not essentially need to grow spontaneously and as many measures are used to

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demonstrate the growth of a person, business growth can be appraised by use of both outward and inward factors like customer demand, sales trend, financial records, employee headcount and company culture. There are different pointers of business growth all of which affords an individual with shot of one facet of business. These growth pointers afford a compound opinion of how a company is doing and where it's projected to go. According to spencer, defining the extent of business growth at whatever rate is very crucial.it improves the accuracy of financial projection and informs the business budget. A firms' understanding of business growth to date helps set goals for future growth and better allocate resources and spending areas that needs more attention.

According to Spencer (2018), a comprehensive assessment of the business from day to day operations to annual revenue should indicate how much the business is growing which help the business owner should identify how patterns in demand and spending. Once a business owner sees an indicator of business growth, then he should act quickly to capitalize on that growth at the same time removing any inhibiting factors like bad hires and unnecessary spending (Spencer, 2018).

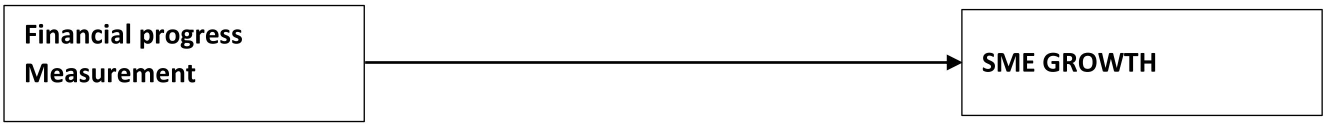
According to a report by BIS (2012) smaller businesses reported more obstacles with business growth .In its finding BIS, 2012 found out that in instances where businesses disclosed obstacles there was a strong inverse relationship between their competencies and there being an obstacle. In their paper , Alkasim S. Bello, Haim H. Abdullah and Abdul M .bin Bohari (2017) , Manufacturing SMEs lacks capabilities with regards to strategic choice, which leads to SMEs losing their confidence in both domestic and international market resulting to high importation , decreasing sales, market shares and customers loyalty as well as managerial vulnerability and environment complexity. This makes it complex for SMEs to control and direct the firm resources in the right direction. In their findings they proposed a framework that will improve SMEs strategic competencies to regain their customers' loyalty and increase competitive advantage, and maintain superior performance through market penetration, market development and product development strategy. Enterprise growth is determined not only by the traditional characteristics of size and age, but also by other enterprise – specific factors such as indebtedness, future growth opportunities, process and product innovation, and organizational changes. Alkasim S. Bello, Haim H. Abdullah and Abdul M .bin Bohari (2017)

Bouba Ismaila (2011) carried out a study on financial performance measurement of manufacturing small and medium enterprises in Pretoria. Just like the other researchers, Bouba acknowledges the important contribution by SMEs in the economies all around the word. In his study, Bouba Ismaila (2011) sought to describe the financial performance measures that are currently being used by manufacturing SMEs. The findings revealed that most SMEs use ratios but to a limited extent and the bankruptcy prediction models was not being used. Bouba recommended that SMEs should often use ratios that have been proven to be the best for financial measurement. Bouba recommends staff training on the bankruptcy prediction models and financial software packages in an effort to improve financial measurement in businesses (Bouba Ismaila 2011).

Jacobs (2001) in the art and science of managing money; financial performance management is essential in business management field and financial measurement is vital for the endurance of businesses. Huck and McEwen (1991), Schwenk and Shrewder (1993), McMahon and Davies (1994) states that Successful financial performance in SMEs has a positive association with the capacity to manage financial issues effectively. According to Jacobs (2001), there is evidence of a positive association between financially related activities and the successful performance of SMEs. (2009), Christian (2008) and Mbonyane (2006), unveils that lack of managerial experience and training is one of the most widespread roots of general business failure for SMEs.

Laurence M. Crane (2015) in Measuring Financial performance as critical tool key to risk management in any business, points out that financial information and performance measures are utilized by SMEs and other stake holders to define the wellbeing of any business. According to Laurence, by conducting regular checks on financial condition and performance, the business owner will probably address the cause instead of the problem only. Financial statements help to assess the financial wellbeing of the overall business (Lawrence Crane, 2015). According to Lawrence, to understand the business overall financial situation, enterprise relationship key financial documents are required. These documents include, balance sheet, Income statement report and cash flow statement. Primary intentions of financial record keeping and analysis is to enhance business decisions. (Laurence Crane). Other benefits include, identifying emergent hitches and originating opportune curative action as well as detecting possible openings for improved profits (Lawrence Crane, 2015).

In brief, financial measures are envisioned to assist business owners to examine their firm's happenings from a financial point of view and offers beneficial info desirable for good management decisions. However, financial measures alone do not offer answers without a review in relation to each other and to other business' non-financial activities. To be noted is that all the information that may be ideal in decision making might not be available but the decision making process can only be improved by use of the available information in addition to effective financial planning and analysis (Laurence Crane, 2015).



Independent Variable **Dependent Variable**

Source: Author 2019

METHODOLOGY

Descriptive survey design was used whereby representative SMEs were visited and data collected using a structured questionnaire. The targeted group was all SME businesses in Machakos County. The targeted population was 5,629 registered SME businesses as indicated on the list obtained from the Trade, industry and Co-operatives offices. A pilot test was conducted before the major data collection. The pilot study was conducted to generally test, on a small scale, the steps previously out lined in the research plan that was prepared and approved before proceeding to the field for data collection. Primary data was collected by delivering a questionnaire to the SME business premises where the manager filled and returned it to the researcher the same day; apart from a few which were collected later. Statistical Package for Social Sciences (SPSS) version 26.0 was used to code, enter and analyze the data. Regression analysis was used to analyze the edited and grouped data. The regression analysis was preferred because it enables the researcher to test the nature of the relationship between the dependent and the independent variable.

RESULTS AND DISCUSSION

Financial Progress Measurement

The respondents were asked to indicate the period within which they measured financial progress in their businesses. 5 respondents measured their financial progress on a weekly basis which was 4.5%, 31 do their measurements on a monthly basis which represents 28.2 %, 31 measure on a quarterly basis translating to 28.2%, 26 of the

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respondents measure their financial progress on a half yearly basis which is a 23.6% and 17 respondents do their measurements on a yearly basis which is 15.5%.

The respondents were asked to rate their financial performance against their targets in terms of percentage. The analysis of the primary data reviewed that, performance of 6 SMEs was rated at 20 %, one was at 40 %, eleven were at 50%, forty-one were at 70% while forty-nine of them were at 80% and only 2 were at 100% performance. This reveals that a good percentage of SMEs were performing well, their performance being at 50%, 70 %and 80%. The analysis of the primary data reviewed that a big number of SMEs agreed that measurement of financial progress helped them in resource distribution with 17.3%, 64.5% and 5.5% strongly agreeing, agreeing and slightly agreeing respectively.4.5% of the respondents slightly disagreed, 5.5% disagreed while only 2.7% of the respondents completely disagreed.

39.1% of the respondents strongly agreed that measurement of financial progress helped them in reviewing their strategy to make necessary changes in order to grow their businesses. 31.8% agreed while 20.0% slightly agreed. 6.4%, and 2.7% disagreed and strongly disagreed respectively.

The respondents were asked to what extent that financial progress measurement motivated them. 33.6% indicated that it was to a great extent while 54% and 11.8% indicated that it was to some extent and somehow respectively.

The researcher wanted to find out from the respondent's whether measurement of financial progress had any effect on their hard work. 26.4% strongly agreed, 51.8% agreed while 19.1% slightly agreed. 0.9% slightly disagreed while 1.8% mostly disagreed. None of the respondents completely disagreed.

The respondents were asked to indicate to what extent financial progress measurement influenced the overall growth of their businesses. 45.5% had financial progress measurement influencing the growth of their businesses to a great extent, 46.4% to some extent while 7.3% had their businesses influenced slightly. Respondent indicated that financial progress measurement had no influence on the growth of their businesses at all.

Table 1: Financial Progress Measurement Mean and Std. Deviation

Statistics					
	Financial progress measurement and resource distribution	Financial progress measurement and strategy change	Financial progress measurement and motivation	Financial progress measurement and hard work	Financial progress measurement has improved the overall growth
N Valid	110	110	110	110	110
Missing	0	0	0	0	0
Mean	2.25	2.03	2.84	2.00	2.46
Std. Deviation	1.135	1.137	1.548	.813	1.186

Source; Primary data 2019

Growth Indicators

The respondent was asked to indicate how they rated the growth of their profit within the year under review. 9% of the respondents rated their profit growth below 25%, 21.8% of the respondents' profit growth being between 26% -50%, and 55.5% of the respondents grew their profits being between 51% -75% and 21% of the respondents grew at 76%-100%. The results indicated that each of the respondents grew their profits at a certain

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percentage. Most of the respondents grew their profit between 51%- 75%.

The researcher sought to find out from the respondents the rate of growth of their workforce. 52.7% grew their workforce between 26% -50%, 43.6% grew at 25% & below and 21.8% grew between 51%-75%. 61.8% grew between 26%-50%, 34.5% grew at 25% and below while 3.6% grew at 51% -75%. Revenue growth analysis from the primary data collected from the respondents revealed that 14.5% grew at 25% and below, 46.4% grew within 26%-50%, 36.4% grew at 51%-75% and 2.7% grew within 76%- 100%. Most of the businesses grew their revenue within 26% – 50%. The analysis of the primary data received from the respondents revealed that 3.6% grew their sales at 25% and below, 4.0% at the respondents grew within 26%-50% while 51.8% of the respondents grew within 51%-75% and 4.55% grew within 76% - 100%. Most of the revenue growth was within 51%-75%.

On cost reduction, 45.5% reduced their costs at a rate of 25% and below, 49.1% reduced their cost at rate of 25% 50% and 5.5% reduced their cost at the rate of 51% -75%. The analysis shows that most of the SMEs were keen to manage their cost in order to improve their profits.

On overall business growth, the least number of SMEs grew their businesses from the previous year by 25% and below while the largest number of SMEs grew their businesses by between 50% -75%. Around 30% of the respondents grew their businesses between 26%-50 % and less than 20 respondents grew between 76%-100%.

The researcher sought to find out from the respondents whether the government of Kenya was offering the necessary support needed by small medium enterprises in order to grow. 5.5% mostly agreed, 17.3% slightly agreed, 24.5% slightly disagreed while 30% mostly disagreed. 22.7% completely disagreed that the government of Kenya was offering any support to the Small Medium Enterprises for their growth. The analysis of the primary data collected from the field showed that most of the SMEs felt that the government of Kenya was not giving them the required support for them to grow.

A number of factors were associated with business failure. While there are many factors associated to this, there are some that are considered to be the major causes of business failure. The researcher sought to find out from the respondents the factors that were most likely to cause the business to fail. The researcher presented four factors considered to cause business failure for ranking. These factors included, lack of finances, lack of understanding of markets, poor working conditions, lack of understanding of customers and poor customer service. Lack of finance was rated as the most likely cause of business failure, lack of understanding of the markets being rated as the second cause of business failure, lack of understanding of customers being rated as the third likely cause and poor working condition as the less likely cause of business failure.

The respondent was presented with four types of support that if offered to the SMEs would help the growth of Small Medium Enterprises in Kenya. The respondent was asked to rank the support in the order of priority. From the analysis of the primary data collected from the respondents, availing business finance was ranked as the first priority, followed closely by ease of cost of doing business. Regulation of market was ranked 3rd while core business training came as the 4th kind of support the SMEs businesses need.

CONCLUSSION AND RECOMMEDATIONS

The findings of the study showed that, SMEs measure their financial performance all year round revealing high performance ratings for SME businesses. There was a strong agreement among the SME business owners that, financial progress measurement helped in resource allocation by providing timely information that acts as a basis for decision making. Further there was a strong agreement that it helped in overall strategy management. It motivates the group and encouraged hard work translating to overall business growth. Baoba and Ismaila (2001) on financial performance measurement by manufacturing SMEs in Pretoria reveals that SME used ratio but to a limited extent. Jacobs (2001) in the art and science of managing money, financial performance management forms an important part of business management where financial management is crucial for business survival.

Successful financial performance in SMEs has a positive association with the ability to manage financial issues effectively. McMahon& Davis (1994), There a evidence of positive association between financially related activities and successful performance of SMEs (Jacobs2001). In this study the researcher shared the same view that financial progress as part of financial management which eventually lead to better decision in finance function in SME business which eventually influences the growth of a business. Therefore, financial progress measurement helps the SME business owners to analyze their firm's activities from financial standing point and provide useful information needed to make good management decision that are geared towards growing the business.

This research was conducted to find out the influence of progress measurement on the growth of SMES. The Kenyan SME has remained resilient over a period despite of many challenges that hinder their growth.43% of the Kenyan SME registered more than 10% revenue growth (Business daily 2017). According to Global Family Business survey report, most of these businesses grew at a slower pace compared to the global average (PWC, 2018). Despite of the challenges facing SMEs, the business operators in Kenya were optimistic that growth will quicken to surpass the global average of 16% (pwc 2018).

However, despite this optimism Peter Ngahu a senior partner with PWC Kenya cautioned that the growth targets are rarely achieved. Invest in Africa (IIA) has interest in the growth of SMEs by bridging the gap between the SMEs and large businesses in an effort to grow the sector. In addition, the government is also at the forefront in ensuring that there is a concerted effort to support the growth of SME sector.

This study revealed that financial progress measurement influences the growth of SMEs business in Kenya. Financial progress measurement provides information that helps them to make timely decisions that are aimed at growing their business. Financial rogress measurement reveals any existing gaps between achieved against the set targets which enables the SME to take correctional measures to ensure the gaps are closed. Information from financial progress measurement helps the SMEs to change strategy, allocate resource, acts as a motivator and pushes SME to work more hander eventually leading to business Growth.

This study acted as a basis for further and future studies. Financial progress measurement and growth of SMEs business is under researched because very few studies have been done on this area. A study done by Aspen Network of Development Entrepreneurs (ANDE 2017) which revealed that measurement practices are rapidly evolving in small and growing businesses (SGB) and businesses might feel overwhelmed while trying to keep up with the trends and best practices in measurement.

Areas of further research

Further studies were suggested on simplified technologically enabled form of record keeping at SME level, what is really the reason why record keeping in SME businesses is very poor or it's not being done? How can the governments, both national and county support SMEs in this area? What is the role of the accounting body in developing simplified accounting formats for the Small Medium enterprises? These are some of the suggested areas for further research because progress measurement or measurement in general is based on existing records. This makes the data collection at SMEs level difficult yet they are the back bone of worldwide economies and creates employment. According to National Economic survey, 2017), SMEs constitute up to 98% of all businesses in Kenya creating up to 30% of jobs annually.

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