

## **FACTORS INFLUENCING GROWTH OF GROUP OWNED SMALL AND MEDIUM ENTERPRISES: A CASE OF ONE VILLAGE ONE PRODUCT ENTERPRISES**

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### **ABSTRACT**

Group owned micro and small enterprises (MSEs) constitute a significant proportion of the MSEs in Kenya and they are key component of the manufacturing sector. One Village One Product (OVOP), is a community centered and demand driven economic development approach whose implementation is being spearheaded by Ministry of Industrialization and aims at promoting the growth of the MSEs in selected districts nationally. The study aimed to explore the factors influencing growth of group owned MSEs with a focus on OVOP enterprises. The objectives of the study were to explore the influence of technology, product quality, access to finance and markets on growth of group owned OVOP enterprises.

The study focused on enterprises that undertook value addition under OVOP programme. The study adopted quantitative and qualitative exploratory research design. The study sample comprised 10% of 256 OVOP groups, within Yatta district. Data was collected through desk research, interview and by observation.

The results reveal that several factors related to the Ovop SMEs were associated with their influence on growth and concluded that groups intent on enhancing their growth needed to adopt technological changes, be assisted to upgrade their product standards and embrace modern marketing techniques. The study recommended that groups need be trained on emerging technologies; be assisted to get relevant machines and their growth would be accelerated if policies and programmes offered to them were to be sensitive to their needs.

**Key words** One Village One Product, community centred, Value addition, Group owned OVOP SMEs and Yatta district

## **1.0 INTRODUCTION**

### **1.1 Background Information**

#### **1.1.1 SMEs and Entrepreneurship**

The small and medium enterprises (SMEs) are businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers. The importance of small and medium enterprises has been emphasized in all development plans in Kenya since independence in 1963. These enterprises cut across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation 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 programmes, and to build institutions specifically aimed at promoting the SME Sector since independence in 1963. In Kenya, the SME sector is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population. According to the Economic Survey 2004, employment within the SME sector increased from 4.2 million persons in 2000 to 5.5 million persons 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 SME sector should, therefore, not only be seen as a provider of goods and services, but also as a driver of competition and innovation, enhancing the enterprise culture which is necessary for private sector development and industrialization (GOK, 2005).

#### **1.1.2 Groups and individual entrepreneurs**

In the SME sector, owner-manager is normally identified as the entrepreneur, because of his/her role in starting the venture, running the business, and being responsible to a large extent for its failure or success. This suggests that the fate of an SME is inextricably linked to the personality, capability, skills, and motivation of the entrepreneur in charge. Social and small business entrepreneurs have been increasingly playing an important role in complementing government in the field of poverty alleviation as well as sustainability in local rural society in developing countries (Bornstein 2007; Dees 2007; Peredo and Chrisman 2006; Torii 2009 and 2010).

When individual entrepreneurs come together and run a business in corroborated efforts, they become group. At times the groups are membership cooperatives where membership is predetermined by the groups' by-laws. Leadership and cohesion is crucial. It becomes easier to work with these members rather than in isolation. Synergy is enhanced.

#### **1.1.3 OVOP Entrepreneurship**

One Village One Product (OVOP) Programme is a community centered and demand driven regional economic development approach initiated by Oita prefecture in Japan in the 1970's regional economic development through adding value to locally available resources, through processing, quality control, packaging design and marketing promotion. Communities selectively produce goods with high added value. Kurokawa et al(2008) emphasises that One village produces one competitive and staple product as a business to gain sales revenue to improve the standard of living for the residents of that village. One Village One Product Programme promotes the OVOP concept approach of economic development at community level. The programme supports value adding technologies such as agro-processing and craft making at community level. This includes support on packaging and branding through technical assistance to various groups at the community level. OVOP also provides assistance in the areas of product quality, control and packaging, business

skills development at community level, market linkages between producing communities and domestic/international markets, financial opportunities linkages and leadership development .

#### **1.1.4 OVOP IN YATTA**

OVOP secretariat selected Yatta district to benefit as it had competitive advantage over others in terms of resource endowment like availability of service providers, basic infrastructure, unique products, potential for value addition, market, community empowerment and preparedness of local communities such as leadership, registered groups and projects. The district is situated in Machakos County. It is semi-arid but with great potential with vast resources.

#### **1.2 Statement of the Problem**

The growth of entrepreneurship in Kenya has led to an increase in number SMEs in Kenya. Thanks to entrepreneurship, the SMEs sector plays a key role in the economic development and contribute to a large extent to employment and poverty reduction in the country. According to the Sector Plan for Manufacturing 2008-2012 of the Kenya Vision 2030, the manufacturing sector whose major component is value adding SMEs among the key productive sectors identified for economic growth and development because of its immense potential for wealth and employment creation as well as poverty alleviation (ROK, 2007). According to Sessional Paper No.2 of 2005 on Development of Micro and Small Enterprises(SMEs) cut across all sectors of the country's economy and provide one of the most prolific sources of employment, not to mention the breeding ground for entrepreneurs in medium and large industries, which are critical for industrialization.

Group entrepreneurship gives growth to group owned enterprises. Indeed group owned micro and small enterprises (SMEs) constitute a significant proportion of the entrepreneurs in Kenya and are also key component of the SMEs in the manufacturing sector. Incognizance of the critical role group owned SMEs play in the economy of the country, the Government has over time put in place diverse interventions aimed at stimulating and sustaining entrepreneurship growth. These include development of sessional papers, enactment of legislation, creating institutions, reviewing SMEs policies from time to time and implementation of SMEs programmes by various government agencies. The last few years has witnessed increased conceptualization of MMEs programmes some of which involve collaborations between the government agencies and development partners. One such programme is the One Village One Product (OVOP), a community centered and demand driven economic development approach that promotes entrepreneurship through adding value to locally available resources. The OVOP approach encourages entrepreneurs to develop a product or an enterprise unique to their region and develop it into a nationally recognisable and, where appropriate, a globally recognisable product or enterprise. The OVOP implementation started in 2008 and is collaboration between the Ministry of Industrialization (MOI) and the Japanese International Cooperation Agency (JICA)(OVOP, 2011). JICA supports the OVOP movement in Africa as an effective tool to change the awareness of community members in Africa, promote empowerment, and reduce poverty through the improvement of income and economic growth in rural areas (JICA, 2007).

The OVOP programme is currently being implemented in twenty five districts in the country. It focuses on group entrepreneurship and therefore promotes growth of group owned SMEs that are engaged in value addition. The growth of SMEs is dependent on several factors. These include the ability of the SMEs to adopt technology, develop quality products, access to finance and their ability to access markets for their products. These are also some of the factors that OVOP has tried to address in promoting growth of group owned SMEs. Since inception OVOP has undertaken a lot of activities aimed at promoting the growth of the SMEs in the selected districts. However, there

has been little study on the impact that the OVOP approach has had on the growth of group entrepreneurship in target districts since OVOP inception.

### **1.3 Objectives of the study**

The overall objective of the study is to explore factors influencing growth of group owned SMEs under OVOP.

#### **1.3.1 Specific Objectives**

The specific objectives of the study were to seek to:

- i. To explore the influence of technology on growth of group owned OVOP enterprises.
- ii. To investigate the effect of product quality on the growth of group owned OVOP enterprises.
- iii. To evaluate the influence of access to finance on the growth of group owned OVOP SMEs.
- iv. To find out the effect of accessibility to market on the growth of group owned OVOP SMEs.

### **1.4 Justification**

Considering the significance of SMEs in Kenya, it is important to understand the growth of value addition by group owned OVOP SMEs. This will help the ministry of industrialization formulators to design effective outreach activities to potential firms capable of promoting the OVOP approach through value addition. It will also enhance the quality of competition through quality products, adoption of appropriate technology and new business marketing strategies.

The OVOP approach can be used as a vehicle to encourage creativity, innovation and competition in the SME sector by embracing value addition, new technology and marketing designs and incorporating it in all policies geared towards SMEs development. This is because as a base for industrial development in Kenya, SMEs must adopt the 'Schumpeterian' view of an entrepreneur that is of an innovator and understand how to promote their products' quality and marketing systems.

This study is therefore important because it will generate empirical data and information beneficial to the administration of the OVOP in terms of retargeting efforts to assist SMEs. It will provide information on problems; needs and concerns of SMEs in their quest to utilize the OVOP approach thus enable agencies concerned with promotion of SMEs design SME related strategies friendly to their situation as well as creating awareness of the importance of OVOP value addition to business. Policy makers both at Government and University level will also find the findings useful.

## 2.0 LITERATURE REVIEW

### 2.1 Theoretical review

#### 2.2.1 Endogenous Development

The one village one product (OVOP) movement aims to encourage rural development through community-oriented activities by employing local resources and knowledge. This development therefore could be viewed as having ‘endogenous’ rather than ‘exogenous’ elements as its key features ( Natsuda et al, 2011).

The original concept of an endogenous model of development appeared in the late 1970s, advocated by by Friedman and Weaver (1979) and Stohr and Taylor (1979) in association with those who researched in the ‘Third Italy’, the area centred on Bologna and famous for industrial clusters of small and medium enterprises, in particular in traditional sectors such as shoes and leather products in the 1970s (Dinis 2006; Camarero et al,2008; Piore and Sabel 1986).

Researchers paid special attention to the geographical proximity of firms, the specialization of small industries, close inter- firm relationships, their socio- cultural identities, and socio institutional system which facilitated trust, active self- help organizations, and supportive role played by the regional government (Natsuda et al, 2011).

The endogenous development theorists take the view that local economic development can be determined not by capacity of the region to attract foreign firms, but the capacity of the region to generate the conditions of transformation of its own productive structure( Dinis 2006).

#### 2.2.2 Empirical Framework

**Table 1.1 Constraints at Bvumbwe vegetable production group**

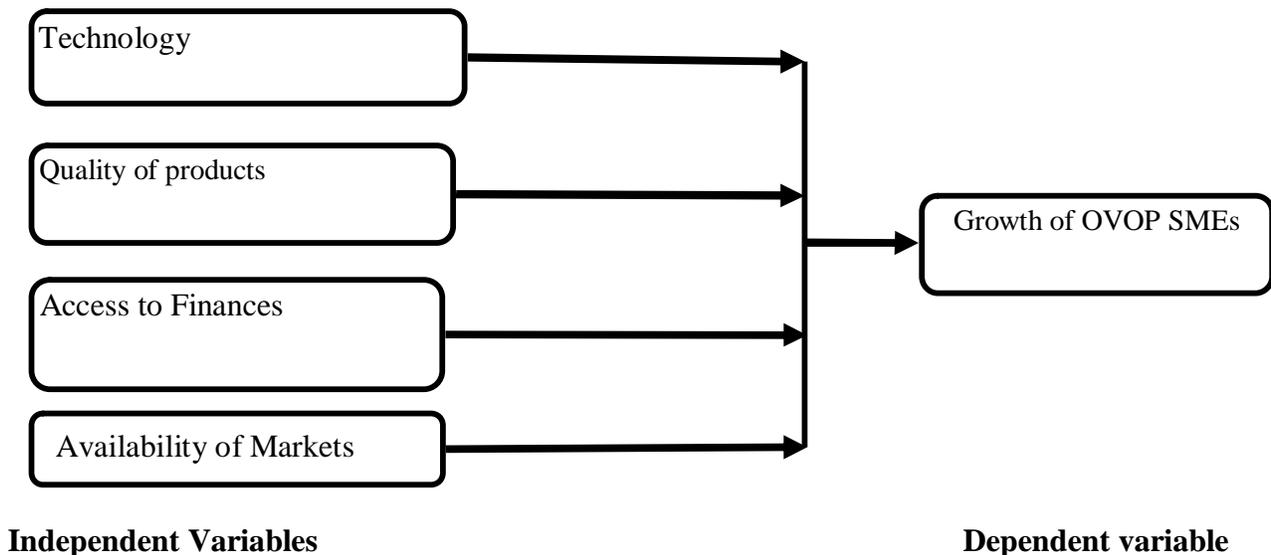
Reason	Frequency	Relative percentages
Access to market	32	80.0
Access to credit	28	70.0
Value adding technology	24	60.0
Training	22	55.0
Access to machinery	20	50.0
Storage facilities	15	37.5
Access to extension	13	32.5
Processing facilities	12	30.0
Quality control	8	20.0

Source: survey data (April, 2006)

Table 1.1 above shows that the constraint most frequently mentioned by an OVOP group in Malawi was access to market. One of the reasons for this limitation, which is shared by many other African countries, is inadequate transport infrastructure that obstructs OVOP producers’ successful participation in national and global value chains( Kurokawa et al, 2010). A value chain includes the full range of activities required to bring a product or service from conception, through the intermediary phases of production (transformation and producer services inputs), to delivery to final consumers and ultimate disposal after use (Gereffi, 1999; Kaplinsky, 2000).

### 2.2.3 Conceptual Framework

The conceptual framework is based on four major independent variables that influence the growth of OVOP SMEs. These are technology in use, quality of the products, access to finances and availability of markets. The dependent variable will be growth of OVOP SMEs. The framework shows that the manipulation of the independent variables will lead to more or less growth of OVOP SMEs.



**Figure 1.1: Conceptual framework**

### 2.3 Technology and OVOP SMEs

Technology is path dependent, and as such any hope for improving the future technological capability of any country must be linked to the past and present activities (Rall, 1993). In essence, the continuous building of technological capability is critical to sustainable technological progress (Rall, 1993; Rosenberg, 1982; Westphal, Kim and Dhalman, 1985; Enos 1991; Abramovitz, 1986 & 1989). The increase in production of value-added products can be achieved by increasing the scale of production and increasing the use of technology (Lantz, 2003). Efforts to increase value addition can be done through the use of technology in every business activity, so the competitive advantage of the company can be formed by creating excellence in one or several chain business activities (Porter, 1990). Kenyan community owned and regional-based SMEs with technological capabilities should be nurtured so as to build the social capacity of the SME sector to absorb new technologies (Agola and Wakabayashi, 2000). According to Namusonge (2004) every application of technology begins with an investment.

### 2.4 Quality and OVOP SMEs

Quality is becoming universally important and has been described as a means to improve the competitiveness of operations in developing countries (Mersha and Merrick, 1997). Researchers have defined the concept of quality in different ways ranging from perception of value (Summers, 2006) to conformance to requirements (Deming, 1986), fitness to use (Juran, 1979) and finally to meeting customer's expectations (Oakland, 2004). Small business literature indicates that quality levels rise when the economy is opened up to the private sector (Nagabhushana

and Shah, 1999). However, research also indicates that small businesses are generally less likely to change designs in order to improve quality (Gulbro *et al.*, 2000). Supporting local, regional and national agencies dedicated in helping small business can potentially help raise quality (Watts and Dale, 1999). Quality is enhanced when there are government departments dealing with quality (Erel and Ghosh, 1997), the government promotes economic development and privatization, and it does not interfere with business activity (Mersha and Merrick, 1997). Smaller firms have a narrower base to shelter customers from errors and waste (Duffy, 2004).

Consumers are increasingly demanding International Standards Organizations (ISO) certification since they act as signals for quality, health and safety, and environment best practices (GoK 2007).

### **2.5 Finance and OVOP SMEs**

Access to finance helps all firms to grow and prosper. Furthermore, firms with greater access to capital are more able to exploit growth and investment opportunities (Beck *et al.*, 2006). Lack of access to credit is a major impediment inhibiting the growth of micro enterprises (GOK 2005). There is no structured institutional mechanism in Kenya to facilitate the flow of financial resources from the formal sector through micro finance institutions to such enterprises. SMEs inadequate access to credit is a major problem facing micro, small and medium enterprises. Generally, such enterprises operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit. They are often unable to procure adequate financial resources for the purchase of machinery, equipment and raw materials as well as for meeting day-to-day expenses. This is because, on account of their low goodwill and little fixed investment, they find it difficult to borrow at reasonable interest rates. As a result, they have to depend largely on internal resources. The problem is even acute in rural areas where banks branches are far apart or non-existent (GOK, 2005).

To meet their credit needs the SMEs need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money lender. The traditional source of lending in the formal sector i.e., public sector banks have been extending support to these businesses (Sabharwal, 2000).

### **2.6 Market access and OVOP SMEs**

Sessional Paper No.2 of 2005 on Development of SMEs for Wealth and Employment Creation for Poverty Reduction has recognized the marketing constraints faced by the sector as: Lack of access to information on the existing market opportunities and in exports, poor quality products and poor product design and differentiation, and lack of promotional activities, both locally and internationally. Overall, aggregate demand is low, markets are saturated due to dumping and overproduction, and in many cases markets do not function well due to lack of information and high transaction costs (GOK, 2005). Most SMEs lack the access to sufficient market information since most of the information is designated for the large and well-established businesses. This makes the SMEs unable to plan their sales since the market turn up is unpredictable. It is important that businesses look beyond their local catchment area (Ronge *et al.*, 2002). Mbugua (1999) attributes this problem to low technological sophistication and lack of responsiveness to market trends. He advocates increased assistance to SMEs to come up with effective marketing and sales channels and techniques if they are to grow.

### **3.0 MATERIALS AND METHODS**

#### **3.1 Research Design**

The study adopted a descriptive research design. This design determined and reported the way things are and attempted to describe such things as possible behaviour, attitudes, values and characteristics (Mugenda & Mugenda (2003).

#### **3.2 Target Population**

The study will be conducted in Yatta district. It will focus on group enterprises undertaking value addition under the OVOP programme. Population will therefore comprise all the OVOP groups in yatta district. There are 256 OVOP groups in Yatta district. This will be the population of the study.

#### **3.3 Sampling Frame**

According to Griffiths (2009) a sample is a selection of items taken from a population and is chosen so that it is fairly representative of the population as a whole; it is a representative subset of the population. The sample will be drawn from the population which in this case will be the OVOP groups in yatta . The sampling frame will therefore be the list of OVOP groups in yatta that are registered with the OVOP secretariat at the Ministry of Industrialization Headquarters. The sample size will be 10% of the population which in this case will be 25 groups out the 256 OVOP groups in yatta.

#### **3.4 Data collection**

The study applied a series of data collection tactics that included desk research, interview and observations. Structured questionnaire with closed and open-ended questions was used to collect primary data. The face to face interview enabled the researcher to make observations and seek clarification. The desk research involved studying previous research and literatures related to OVOP and entrepreneurship. Secondary data was collected from journals, articles, websites, and any other relevant information.

#### **3.5 Pilot Testing**

A pilot study to test the reliability of the questionnaire was undertaken before the main study. This was to help the researcher to get an understanding of the environment in yatta and also gauge the suitability of the questionnaire. The pilot testing questionnaires were administered to a few respondents drawn from the OVOP groups in yatta. The findings of the pilot survey were used to improve the questionnaire and also assist to draw a realistic workplan.

#### **3.6 Data Analysis**

Various methods of analyzing data were used on the raw data collected to make it meaningful. Data analysis was both qualitative and quantitative. Qualitative analysis consisted of examining, categorizing, tabulating and recombining evidences to address the research questions. According to Mugenda and Mugenda (2003) data obtained from the field in raw form is difficult to interpret unless it is cleaned, coded and analyzed. Qualitative data was grouped into meaningful patterns and themes that were observed to help in the summarizing and organization of the data. This involved the identification, examination, and interpretation of patterns and themes in an effective manner. Quantitative analysis was done using descriptive statistics i.e. frequency counts, percentages, graphs to describe distributions, pie charts to show differences in frequencies and bar charts to display nominal or ordinal data, while the mode was used to show the category or observation that appears most frequently in the distribution or the category containing the largest number of responses. Statistical Package for Social Sciences (SPSS) was used.

## **4.0 RESULTS AND FINDINGS OF THE RESEARCH**

### **4.1 Profile of respondents**

The OVOP group members had a minimum age of 21 and a maximum of 72 years. 88% of the OVOP members were aged between 21 and 50 years, while only 12 % had their age above 51 years. While as indicated above, the majority of the OVOP members were relatively younger, less experienced in management and therefore tended to participate more in programs such as the OVOP. OVOP programme is relatively new in Kenya having been introduced in 2007 as a pilot project (JICA, 2007)

### **4.2 Effect of technology on OVOP SMEs**

#### **4.2.1 Computer usage among OVOP groups**

The research revealed that majority of the OVOP groups do not use computers. Only 3 groups had computers comprising 12% while 22 groups did not have computers comprising 88% of the groups studied. This showed that most of the OVOP groups are not computer compliant.

#### **4.3.2 State of technology**

Findings from the research confirmed that significant number of groups used obsolete technology. Only 12% of the groups were using latest model of technology, 32% were using modern technology while 56% of the groups were using obsolete technology.

This collaborates the findings of Moyi & Njiraini (2005) who found out that much of the existing technology available to SMEs in Kenya is either insufficiently productive to create secure livelihoods with the available resources or cannot produce goods of a quality or the type that enables them to break into new, expanding or demanding markets.

#### **4.2.3 Technology efficiency**

The findings showed that 64% of the respondents used home grown type of technology while 36% use the imported type of technology. The findings agree well with Van Dijk (2001) that technology is a resource that can be useful if adapted by firms to improve their efficiency.

### **4.3 Products Quality**

#### **4.3.1 Types of products**

The study revealed that OVOP groups were producing different types of products which could be classified as either primary agricultural products or value added products. 28% of the groups were engaged in production primary agricultural products without any value addition while 72% of the groups are engaged in value addition of their products.

#### **4.3.2 KEBS certification**

A overwhelming majority of products made by various groups were not certified by KEBS. Thus a majority of the products made by the OVOP groups do not meet the prescribed quality standards set by the standardization body, KEBS.

#### **4.3.3 Type of products**

The findings confirmed that majority of the OVOP groups at 72% dealt with value added products while 28% dealt with agricultural raw products. OVOP programme is concerned with value addition.

#### **4.4.5 OVOP improvement on efficiency**

The study revealed that 60% of OVOP group's respondents confirmed that OVOP did actually have an impact on improvement in efficiency in the group, while 40% of the respondents indicated that it did not have an effect on efficiency improvement. These findings agreed well with Van Dijk (2001) that technology is a resource that can be useful if adapted by firms to improve their efficiency.

#### **4.3.4 Quality and the effect of quality on marketing**

The research revealed that good quality products had positive effect on marketing of the products. 17 Group owned OVOP SMEs agreed that good quality products had great effect on marketing.

#### **4.3.5 The effect of product quality on OVOP group growth**

Product quality is important on the growth of group owned OVOP SMEs. The study confirmed that there was a high effect of group product quality on the growth of the groups.

### **4.5 Access to finance for groups**

- (a) Sources of finance for groups were primarily accessed from the government while commercial banks were not popular as a source of finance for the groups.
- (b) Financial support from the micro- finance, government and personal savings were sources of group finance that were inadequate but those from Commercial banks were adequate.
- (c) Majority of the OVOP groups were unable to undertake group activities due to lack of funds.
- (d) OVOP product quality had an influence on their marketing activities. For instance, Te Velde et al (2005) provides evidence that lack of market and contacts are important barriers for selling and exporting products such as non-timber forest products.
- (e) Majority of buyers for OVOP products were the retailers
- (f) The quality of products had great effects on their marketing
- (g) Groups growth were influenced by the availability of markets.

## **5.0 CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Conclusions**

The conclusions were based on the four objectives of the study:

- i. Results on technology use by the OVOP groups confirmed that they were using obsolete and inefficient technology thus adversely affecting the development of group owned OVOP SMEs. They were not were also not computer compliant confirming the objective of the study.
- ii. Results strongly confirmed that groups with KEBS certification tended to elicit good comments from customers. This indicated that groups with KEBS certification were ranked highly because of the quality of their products and this had a high effect on the growth of the groups. Majority of the groups are engaged in value addition of their products. Thus, the objective had been achieved.
- iii. OVOP groups accessed finances from various sources most of them accessing finances from government and majority of the groups got their financial support from commercial bank finances which were adequate. Their group activities were however low due to lack of funds thus strongly confirming achievement of the objective..

- iv. Group owned OVOP SMEs' growth was influenced by the availability of markets. Markets are available for good quality products which had a positive effect on marketing of their products.

## **5.2 Recommendations**

The following recommendations were based on the findings of the study:

- i) Group owned OVOP SMEs to be entrenched in the local SMEs sector there is need for concerted efforts by relevant stakeholders. These include relevant government ministries and agencies, UNIDO, KAM, JICA, large manufacturers, and MSEs.
- ii) There is need for proper and concerted effort to popularize the essence of producing standardized and certified products. This will enhance marketing of their products. This will make it possible for the group owned OVOP SMEs to penetrate the international markets. Therefore, they need to embrace fully the KEBS certification so that their products would be of approved standard.
- iii) They should be lent after evaluation by the the gender and social services office who may know the for years. The Kenya Chambers of Commerce and Industry could assist these group owned OVOP SMEs to obtain access to finance on the condition, for example that the borrower group attends training courses or seminars including quality control. This could be a starting point for group owned OVOP SMEs for the chamber to show confidence in these SMEs.
- iv) There is need for OVOP programme, government and other stakeholders to share information on access to market by exposing these SMEs in the urban centers and holding exhibitions and trade fair hence gaining exposure to other potential buyers for their products. Thus a group of activities as relates to building capacity in the area of standards, metrology, testing and certification to overcome constraints related to market access need to be undertaken.

## **5.3 SUGGESTIONS FOR FURTHER STUDY**

The findings of the study revealed other areas for further research. It is recommended that further research be carried out in the following areas:

- i) The study was carried out to explore on factors influencing growth of group owned OVOP MSEs to in Yatta district of Machakos County. Yatta district is located in Machakos County in the South East of Nairobi City on the edge of Yatta plains. The researcher suggests that similar studies can be carried in other towns in which most group owned OVOP MSEs are operated so as to know why most group owned OVOP MSEs do not grow to the next level of enterprise.
- ii) This study concentrated on group owned OVOP SMEs. It is recommended that further research on the subject be carried out in other SMEs not in the OVOP programme
- iii) This study focused on technology, product quality, access to finance and availability of finance and their effect on the growth of group owned OVOP SMEs. It is recommended therefore that further research be carried out to establish whether there are other factors that affect the growth of group owned OVOP SMEs in the country.

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