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## **Factors Affecting the Performance of Faith Based Small and Medium Enterprises in Kenya: A Survey of Meru County**

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### **Abstract:**

*Purpose - The role of faith based Small and medium enterprises (SMEs) has been recognized as important to a country's development as it is considered an engine for growth and poverty reduction through the creation of jobs and incomes for the people. The primary role of most faith based enterprises include promoting standard of living of underprivileged members of society; meeting their spiritual, social, and physical needs of the group's constituents. Several factors do influence the performance of these faith based Small and Medium enterprises.*

*The general objective of this study was to identify and analyze the factors affecting the performance of Faith based small and medium enterprises in Kenya and their role. The study was seeking to answer the following questions; to what extent does integration of religious values affect performance of faith based small and medium enterprises in Kenya?*

*Does access to financial resources affect the performance of Faith Based small and medium enterprises in Kenya? To what extent does entrepreneurial skills affect the performance of faith based small and medium enterprises in Kenya? How does leadership affect the performance of faith based small and medium enterprises in Kenya? And does government policies affect the performance of faith based small and medium enterprises in Kenya.*

*Design/methodology/approach -The study used exploratory approach to carry out a descriptive survey. The study population was faith based small and medium enterprises based in Meru county that have been in operation for the last three years. Out of the total number of targeted population units, the researcher identified a total of forty {40} respondents who are managers of Faith based Small and Medium Enterprises based in Meru town. The study used a well-structured questionnaire and interview schedules for data collection. This study collected both qualitative and quantitative data from both primary and secondary data sources and used statistical Package for Social Sciences Version 15 to analyze the tabulated data.*

*Findings—The study found out from a response rate of 87.8 % that performance goals and targets, set in production and low costs for the FBSMEs can only be achieved when FBSMEs are provided with good FBSME-friendly policies, conducive operating environment, improvements in infrastructure, peace and security; and have the right type of personnel, that have cooperative attitudes and spirit, good team work, high morals, high motivation, high performance goals, have the desire to achieve the company's goals and objectives and are served with good communication and religious values.*

*Practical implications -The study recommended that Government strengthens the capacity of FBSMEs and other financing windows and lower interest rates and other cost of funds and also consider the expansion, in scope and operation and enhance other sources of finance available to the enterprises*

**Keywords:** *Small and medium enterprises, performance, secular, sacred, financial resources, enterprise.*

### **1. Statement of the Problem**

Small and medium enterprises (SMEs) are generally under-capitalized due to operational difficulties in accessing credit and where available high cost of credit, high bank charges and fees More than one third of the enterprises fail due to inadequate working capital (McRoberts, 2001).

Typical owner or managers of small businesses develop their own approach to management, through a process of trial and error (Rubin, 2000). As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). At the same time majority of the lot carrying out small and medium enterprises in Kenya are not quite well equipped in terms of education and skills. A consequence of poor managerial ability and lack of appropriate skills is that small and medium enterprises (SMEs) owners are ill prepared to face changes in the business environment (Kirby, 2003).

Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, to the sustainability of Small and medium enterprises (SMEs) (Wanjohi & Mugure, 2008). Many small business entrepreneurs appear to be

unfamiliar with new technologies and if they know, it is not either locally available or not affordable or not situated to local conditions (Ferguson & William, 1999). Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information (Petraakis, 1997).

These factors affect the performance and profitability and hence, diminish their ability to contribute effectively to increasing the employment creation and economic development as well as increasing market competition and competitiveness, leading to price reductions and improvements in product quality (Goldsmith, 2002; Linthicum, 2003; Owens, 2000). It also limits faith based Small and medium enterprises (SMEs) from promoting individual collective initiative, basic social values, and which are highly viewed as a crucial tool towards achieving a social integration (McMillan & Woodruff, 2002; Warren, 2001; Kirby, 2003). These factors inevitably not only affect faith based enterprises more critically during the startup face but even during their growth period hence resulting in most them failing (Ngasongwa, 2002; Shirley, 2002).

Although there has been much interest in understanding faith based small and medium enterprises performance during the last ten years there is still not much of a common body of well-founded knowledge about the performance of faith based small and medium enterprises (Davidsson & Wiklund, 2000). Moreover, most available studies on faith based enterprises treat the faith based SME sector as essentially homogeneous in its characteristics (Linthicum, 2003; Chaves and Tsitsos, 2000) hence the finding are uniformly generalized to faith based Small and medium enterprises (SMEs) in developing countries (Day, 2001) thus not taking into consideration the unique environment in which religious institutions are based in Africa or other developing countries and in doing so failing to identify the factors that affect the performance of faith based small and medium enterprises in these parts of the world. Therefore, this research seeks to investigate the factors affecting the performance of faith based small and medium enterprises in Kenya

## 2. Specific Objective

The study was guided by the following specific objectives

- To examine the effect of integration of religious values on the performance of faith based small and medium enterprise in Kenya
- To assess the effect of access to financial resources on the performance of faith based small and medium enterprise in Kenya
- To establish the effect of entrepreneurial skills on the performance of faith based small and medium enterprise in Kenya
- To establish the effect of leadership on the performance of faith based small and medium enterprise in Kenya
- To establish the effect of Government policies on the performance of faith based small and medium enterprise in Kenya

## 3. Theoretical Literature

Faith-based enterprises are far from monolithic in terms of the role that "faith" plays in initiating business activities (Day, 2001). Sherman (2002) developed a helpful model for examining organizations to ascertain where they fall on a continuum from "faith background," through "faith-related" and "faith-centered," all the way to "faith-saturated." An organization at the "faith background" end of the typology probably will not require that its staff and board members share a particular faith background, nor will religious content play a part in its business activities. At the other end of the spectrum, a "faith-saturated" organization may require that its entire staff be members of its particular faith group, and will likely mandate participation in religious activities for all who benefit from its services.

According to Bartkowski and Helen (2003) what makes these small businesses faith based isn't necessarily the product or service they offer, but the fact that the business owners and management adhere to religious business principles and ethics and expect their employees to do the same. Customer find this appealing because they feel the company is more likely to deliver on its promises than secular companies (Day, 2001). When religious organizations set up businesses they imbue these enterprises with a strong sense of the sacred (Foley, John and Mark, 2001). The sacred/secular continuum helps to clarify the set of resources and constraints faced by religious organizations (Gough, 2002). The pro-enterprise Christians argue that enterprise can bring people great rewards – confidence, a sense of purpose, better income – and that the church structure provides a supportive way through which new start-ups can support each other (Jacobsen, 2001). The church membership has strong networking and outreach capability, and some of the new organizational structures such as 'cells' are quite innovative. Much of the potential of church organizations to engage in the enterprise agenda is through their congregation and its networks (Kirby, 2003).

Congregations, synagogues, mosques, and temples are repositories and stewards of significant resources – "time, talent, and treasure" (Smidt 2003) hence they are uniquely positioned to have a significant impact beyond simply proselytizing their faith (Owens, 2000). Taken together, congregations, denominational organizations, and other faith-based organizations represent the third largest component of the non-profit sector in the U.S., after health and education. Congregations collectively estimated yearly expenditures exceed \$47 billion (Hodgkinson, 1993). In recent years, policymakers have begun looking to churches, synagogues, mosques, and other faith-based organizations to play a greater role in strengthening communities through entrepreneurship and business opportunities and raising living standards of the communities (Todd, 2003).

A number of theoretical frameworks exist to evaluate how performance can be measured

### 3.1. The Goal Approach Theory

It is better fit for the Small and medium enterprises (SMEs) where targets are being set internally based on the owners-managers' interests and capability to achieve. The goal approach directs the owners-managers to focus their attentions on the financial measures.

These measures include profits, revenues, and returns on investment (ROI) (Duchesneau and Gartner 1990), returns on sales (Kean 1998), and returns on equity (Richard 2000; Barney 1997).

### 3.2. Neo-Liberal Economic Theories

They argue that Small and medium enterprises (SMEs) reflect factor endowment based comparative advantages better than larger firms, they are more market friendly and better for promoting competitive market conditions that lead to higher economic and social efficiency (Schumpeter, 1994).

The study can be conceptualized in a framework showing the relationship between the independent variables (financial resources, entrepreneurial skills, and leadership and Government policies) and the dependent variables (the performance of faith based small and medium enterprise). The schematic Figure 1 below shows the independent variables (factors) and the dependent variables (outcomes

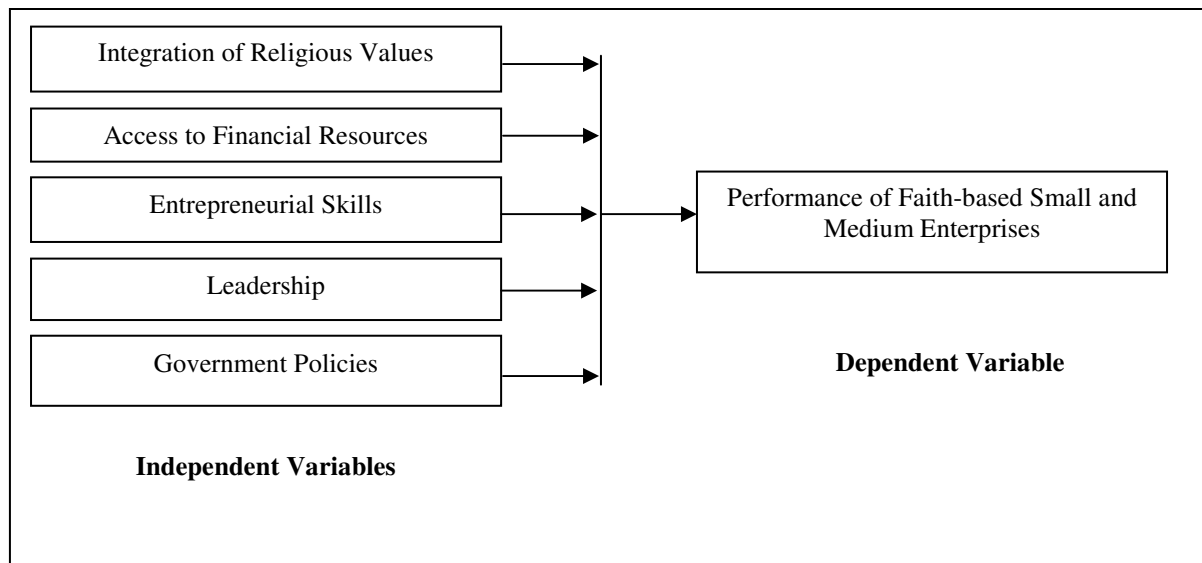


Figure 1: Conceptual Framework

### 3.3. Critical / Empirical Review

Smidt, (2003) argues that when working with religious organizations on enterprise there is a need to be a compromising of agendas, balancing the faith agenda with the business support agenda. While enterprise support agencies may want to use faith based business functions to promote messages and raise awareness of services and products, religious groups are naturally likely to want to use meetings or events to promote the religious message. However, some latitude is needed when faith based enterprises are piggy-backing parent faith networks, space and respect should be allowed for the faith message to be put across.

Hodgkinson., (1993); Chaves and Tsitsos, (2000) argue that Potential access to the financial resources of the congregation and its affiliated organizations by the faith based enterprises provide a solid advantage to these organizations in terms of its startup, operation and market performance. This advantage is very real, but it's equally true that most congregations have modest amounts of money available for business activities, and the claims against those resources are often numerous and worthy. This is especially true of congregations that are located in lower-income communities. Further, more money flows from congregations to denominational organizations than flows in the other direction.

According to Gittell and Vidal, (1998) congregation volunteers represent more than "free labor." They are consistently characterized as good-hearted, generous, committed people who come to their volunteer activities with energy and a positive attitude. However, they may not necessarily have the technical and financial expertise needed for business operation activities such as skill on financial management and record-keeping

Tambunan (1999) found that pastors having entrepreneurial values such as creativity, integrity, achievement, among others, were more likely to initiate and facilitate the effective management of faith based business ventures and are likely to achieve superior business performance. However, the creativity of any leader depends on the environment in which he or she operates from which might be constraining thus hampering the creativity and the ability to initiate project or business activities

Policies to address market failure (and other) issues should be demand driven and market conforming, such that they help, rather than substitute, the market mechanism. As such debate fails to address exactly and precisely what problems are to be addressed, for what purpose and how, the role of Small and medium enterprises (SMEs) in addressing market failure, or the set of policies to address market failure that prevents Small and medium enterprises (SMEs) from developing, become blurred if not entirely ideological. It is not surprising, thus, that many SME support programs are directed at firms that have a history of relative success, know what they need, and have the means to share a significant part of the cost of the supporting activity. These are not starting, sunrise businesses, nor adjusting, sunset ones. While private enterprise supports programs, mostly directed at Small and medium enterprises (SMEs), usually lack clear industrial strategies and clear sets of priorities in capacity building.

#### 4. Methodology

The study used exploratory approach to carry out a survey of religious congregation perceptions on faith based small and medium enterprises in Kenya. Exploratory research is useful where the problem is relatively new and in studies where a little is known (Rubin, 2001). It has a specific purpose of exploring and gathering new facts. According to Neuman (2006) the descriptive research design aims to facilitate the description and the exploration of new issues, and to explain why something happens.

A descriptive survey was used because it provides an accurate portrayal or account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group (Burns & Grove 2003).

#### 5. Research Findings and Discussions

##### 5.1. Introduction

This chapter analyzes factors affecting the performance of Faith based small and medium enterprises in Kenya with Meru County as geographical location of reference. The chapter brings out the nexus between financial resources, entrepreneurial skills, leadership, government policies, religious values and performance of faith based SMEs. The presentation and analysis has been arranged into sections and sub-sections into which the information will achieve the objectives of the study. The presentation and analysis are in form of tables, pie charts and thematic format. The use of qualitative data obtained from interviews and own observation are used to give as much insight as possible.

##### 5.2. Response Rate

Figure 4.1 illustrates the response rate of the respondents that participated in the survey. Out of the 47 questionnaires administered, 42 were filled and returned. Therefore, the response rate was about 90 %. This fare response rate can be attributed to the data collection procedure, where the researcher pre-notified the potential participants of the intended survey, personally administered questionnaires and waited for the respondents to fill, and picked the filled questionnaires. This is in line with Cohen, Manion & Morrison, (2007) who argue that a high response rate ensures that survey results are representative of the target population and that access of the sample needs to be researched before the survey commences.

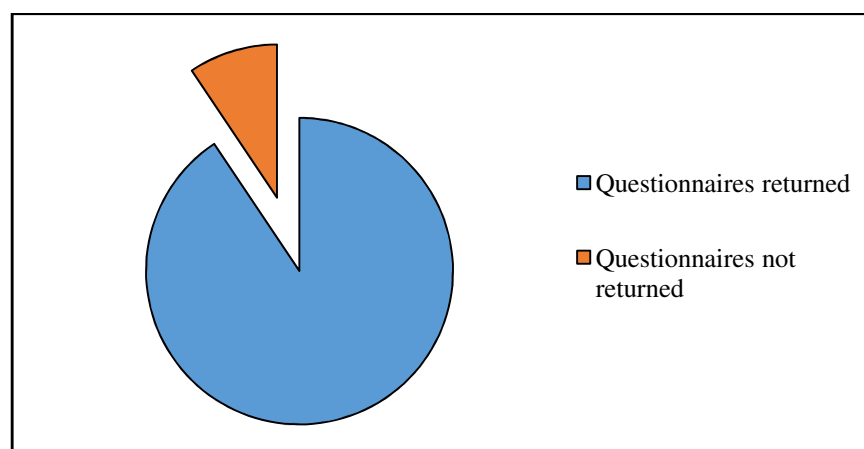


Figure 2: Response Rate Results

##### 5.3. Reliability of Results

Table 4.0 shows the results of the reliability analysis. For results to be considered reliable, composite reliability coefficients (Cronbach alpha) were to be at least 0.6 and above. Reliability of the scale for the constructs describing the variables of the study was found to be sufficient since composite reliability coefficients of all the items were above the acceptable minimum of 0.6 (Nunnaly, 1978).

Variable	Cronbach alpha	Items
Access to Finance	0.760	23
Leadership Style	0.695	5
Entrepreneurial Skills	0.458	9
Government Policies	.745	8
Integration of Religious Values	.809	6

Table 1: Scale Reliability Results

5.4. Access to Finance and Performance of Faith Based SMEs.

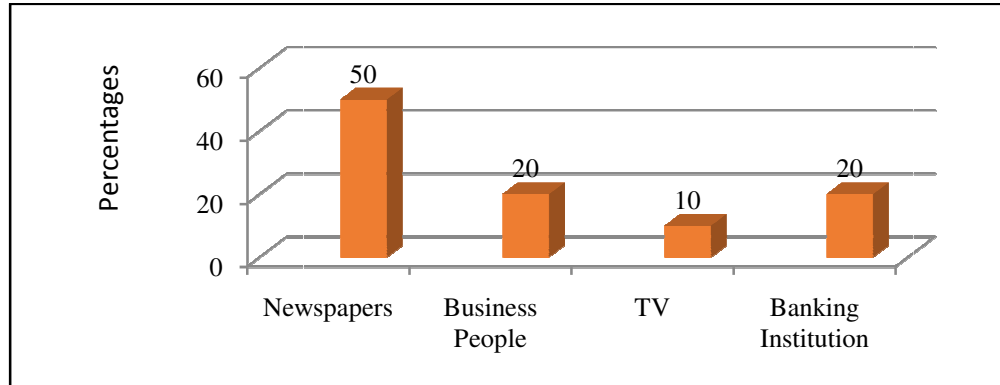


Figure 3

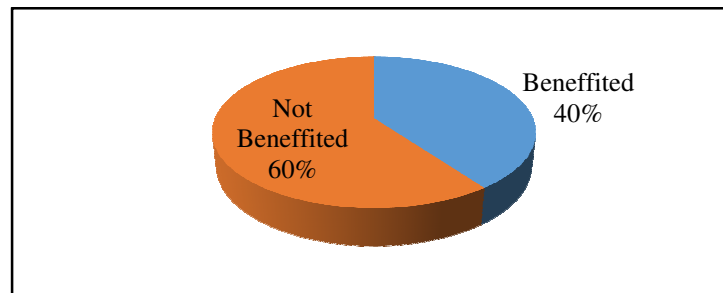


Figure 4: Sources of Business Financial Information for FBSME  
Source: Field Data

5.5. Faith Based SMEs that have benefited from Financial Services

5.5.1. Relationship between Access to Finance and Performance of Faith based SMEs

Further to the factor analysis, in order to establish the association between access to finance and performance of FBSMEs, bi-variant Pearson Correlation coefficient was computed and tested at 5 percent significant level. The results as tabulated in table 4:1 indicate that there is a strong and positive relationship ( $r= 0.760$ ) between access to finance and the performance of FBSMEs. The relationship was found to be statistically significant at 5 percent level ( $p=0.000, <0.05$ , meaning that the sample results happened by chance but did exist in the population of the study. The effects of access to finance were determined by  $r^2$ , which was found to be 59.29 percent, holding other variables constant.

	REGR factor score: Access to finance
REGR factor score: performance of FBSMEs Sig. (2-tailed)	.760**

Table 2: Correlations between Access to Finance and Performance of FBSMEs

\*\* Correlation is statistically significant at 5 % (two-tailed)

Source: S.P.S.S computation

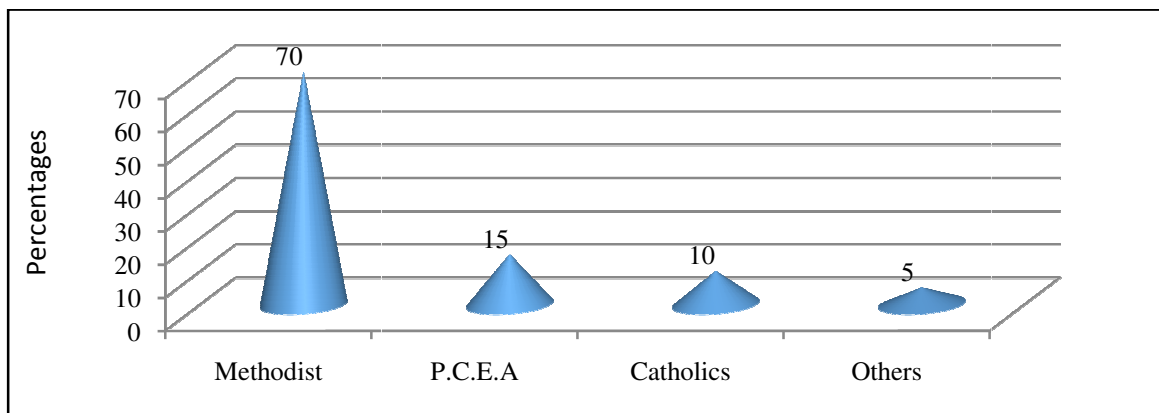


Figure 5: Owners/Sponsors of FBSMEs

5.5.2. Relationship between Leadership and Performance of Faith based SMEs

To indicate the relationship between leadership of FBSMEs and their performance a bi-variant analysis was done and Pearson Correlation Coefficient computed and test at 5 percent significant level. The results in table 4:2 indicates that there is a strong and positive association ( $r= 0.695$ ) between leadership and performance of FBSMEs. Further, the relationship was found to be statistically significant at 5 percent level ( $p=0.006, <0.05$ ), meaning that the sample results did not occur by chance but existed in the population of the study. The influence of leadership on the performance of FBSMEs is determined by  $r^2$  which 45.6 percent holding other variables is held constant.

	<b>REGR Factor score: Leadership</b>
REGR factor score: performance of FBSMEs	-. 667**
Sig. (2-tailed)	.006

Table 3: Correlation of Leadership and Performance of Faith based SMEs

\*\* Correlation is statistically significant at 5% (two-tailed)

Source: S.P.S.S computation

Policy Variable	Response rate in Percentages	
	YES	NO
Access to credit	40%	60%
Fairness of Custom duties	40%	60%
Affordability of interest lending rate	40%	60%
Fairness of exchange rate	50%	50%
Fairness of Custom duties	40%	60%
Licensing process	30%	70%
Access to foreign exchange	50%	50%
Industrial peace/Labour Relations	70%	30%

Table 4: Satisfactions with Government Policies

Source: Field Data.

	<b>REGR Factor score: Government Policies</b>
REGR factor score: performance of FBSMEs	0.458**
Sig. (2-tailed)	

Table 5: Correlations between Government Policies and Performance of Faith based SMEs

\*\* Correlation is statistically significant at 5% (two-tailed)

Source: S.P.S.S computation.

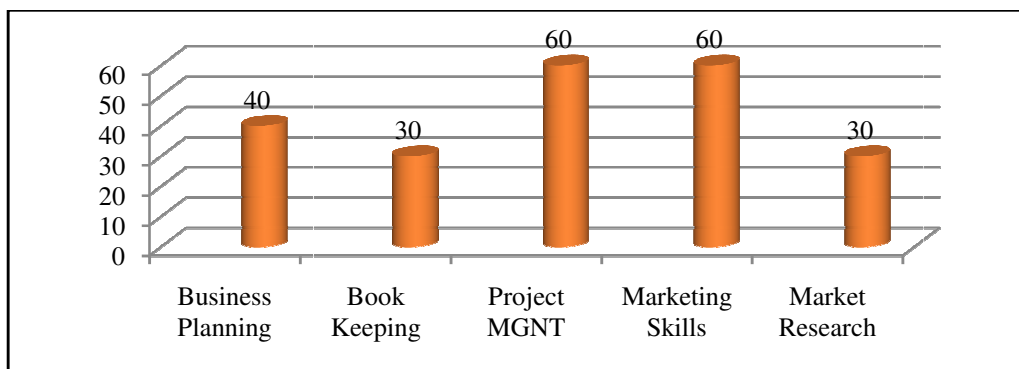


Figure 6: Entrepreneurial Skills and Performance of Faith based SMEs Performance

Source: Field Data

6. Summary, Conclusion and Recommendations

6.1. Introduction

This section gives summary of the study and the key findings that came out of the study. Conclusions based on the objectives of the study and recommendations for future actions are also elucidated in this section.

6.2. Summary

The summary of this study can be summarized as follows:

#### 6.2.1. Summary on Access to Finance and Performance of Faith Based SMEs.

It was evident from the study that respondents had information on access to financial services from various institutions such as banks and other macro financial institutions. However, the study found out that the level of take-up of the loans was still very low. A paltry 40 percent of the institutions interviewed have accessed financial services from financial institutions. Due to lack of financial assess, 60 percent of the respondent from the FBSMEs reported that their enterprises have been performing poorly. They reported that in most cases their enterprises suffer from financial problems, such as late payment of bills and lack of access to loan financing, they find it difficult to adapt to the changing markets and they lack the capability to attract new financial resources.

#### 6.2.2. Summary on Leadership and Performance of Faith Based SMEs

The study established that 90 percent of the FBSMEs were founded by a given faith based institution. While 10 percent were started by individuals but are now being sponsored by a mother faith based institution. The study found out that the sponsors/owners of FBSMEs are sponsored by the Methodist, Catholic Church and the P.C.E.A. One interesting finding was that all the FBSMEs that were started by a given faith based institution had more founders and had more founders still involved in the firm at the time of the survey than those that were started by individuals but are now being sponsored by a faith based institution. The study established that leadership in FBSMEs is drawn from church congregation and is always based on best values like honesty, integrity and fear of God. It was also evident from the study that leadership has been structured. Most FBSMEs in Meru County had a clear organizational structure.

It was evident that the good leadership has enhanced the performance in terms of productivity and management in most FBSMEs thus most of them have been able to exist for longer periods in the market.

#### 6.2.3. Summary on Government policies and Faith based SMEs Performance

The survey result from the 47 FBSMEs in Meru County indicated that 30 percent are satisfied with current policies and incentives for the FBSMEs and that they are adequate to propel growth and development of the sector. 70 percent of the companies, on the other hand, submitted that the present policies and incentives are insufficient to propel growth and development of their companies or the FBSMEs sub sector. Each of the two parties gave reasons for its positions. Evidence from the FBSMEs surveyed suggests that during the period under review, the FBSMEs are satisfied with their access to credit facilities especially from commercial and other lending agencies. On the other hand, a level of 60 percent dissatisfaction expressed by the 47 FBSMEs surveyed with import and custom duties is a reflection of their anger with the effect of low import duties on the importation of cheap foreign products which in turn affect the marketability of their products. The survey result also shows 60 percent level of dissatisfaction of FBSMEs with the rate of interest/lending rates charged by banks. Indeed, even though bank interest/lending rate during the period hovered around 18 percent, it is nonetheless higher than FBSMEs preferred rate of 6-10 percent interest rate per annum. From the survey result, 70 percent of the companies expressed satisfaction with the atmosphere of industrial peace and good labour relation that existed during the year. This implies that peaceful labour relations had positive and significant impact on the performance and conditions of the FBSMEs.

#### 6.2.4. Summary on Entrepreneurial Skills and Performance of Faith based SMEs Performance

The study found out that the level of training was low among the lower cadre of officers in most FBSMEs. The level of training in management is much needed in FBSMEs in Meru County. Methods of training favored by the respondents varied from on-the-job training to graduate courses in management, record keeping. Other respondents (40 percent) preferred workshops. It was self-evident from the study that lack of entrepreneurial training had affected the performance of most FBSMEs in terms of quality of products and efficiency in production this in the long run had lowered profits thus hindering growth and development.

#### 6.2.5. Summary on Integration of Religious Values and Performance of Faith Based SMEs.

According to the finding of the study, respondent reported that Catholicism, Islam and Protestant ethics emphasized the duty to be diligent, thrift, prudent and sober. This according to the respondent guides the performance of FBSMEs in Meru County. According to respondents, the FBSMEs role is to contribute to community living and therefore fostering self-reliance. Respondents reiterated that their enterprises are founded on the concept "help thy neighbor".

It was reported by respondents, that some religious values have affected the performance of FBSMEs. For instance, one respondent observed that some religious values of service transmitted by churches to their congregation have created a dependency syndrome and making the people to continually depend on FBSMEs.

### *6.3. Conclusion*

In conclusion, it is imperative to realize that performance goals and targets, set in production and low costs for the FBSMEs can only be achieved when FBSMEs are provided with good FBSME-friendly policies, conducive operating environment, improvements in infrastructure, peace and security; and have the right type of personnel, that have cooperative attitudes and spirit, good team work, high morals, high motivation, high performance goals, have the desire to achieve the company's goals and objectives and are served with good communication and religious values.

Governments at all levels and other stakeholders have indeed not folded their arms and watch the FBSME being overtaken by constraints and problems. Doubtless, the government fully appreciates the contributions of FBSMES to employment generation, economic growth and development of the country. This explains why the government has established various support institutions and

relief measures specially structured to render assistance to FBSMEs. As a testimony to this, the present government has since made the development of SMEs in general a primary focus of its reform programme by enshrining it in the Vision 2030 document.

#### 6.4. Recommendations

The factors discussed in the study greatly affected the performance of FBSMEs and partly explain the reasons behind the not-so-good performance recorded by some FBSMEs during the period of the study. The following actions are therefore suggested to be taken by Government and other stakeholders to improve the performances of FBSMEs in Meru County and Kenya in general.

Since Government policy measures influence the environment under which these enterprises operate, deliberate policy is needed on the part of Government to create climate that is conducive and favorable to the growth, development and profitable operation of small and medium sized enterprises. Accordingly, it is recommended that Government strengthens the capacity of FBSMEs and other financing windows and lower interest rates and other cost of funds and also consider the expansion, in scope and operation and enhance other sources of finance available to the enterprises. The FBSMEs could also establish a fund to finance their working capital and medium term loans and make the best use of hire purchase options rather than outright purchase. There is also the need to give adequate publicity to schemes that are intended to benefit the FBSMEs.

Improvements in infrastructures such as constant supply of electricity, water and transportation systems are quite necessary. This will reduce initial and operating costs to the enterprises. Thus, unless the situation of power and alternative energy supplies are addressed, the, small, medium and large enterprises, will continue to experience severe constraints in operation and their products will ever remain less qualitative and uncompetitive. Also, Government has to take quick actions to improve the security and road network conditions because these infrastructures are also central to business operations.

The serious nature of managerial problems calls for a provision whereby loan facilities from banks and other funding schemes carry with them the necessity of providing managerial assistance to the FBSMEs in order to upgrade their financial management function and to improve their management and technical skills. Training of staff is also important. The training should not only seek to improve the staff knowledge and skill but must affect his attitude and behaviour towards costs. Governments at all levels need to provide policies, incentives, conducive and enabling environment that are FBSME-friendly for business to grow; more so that FBSME need all the pampering, support and encouragement to solve for the Governments the vexed issue of unemployment in the Counties and the country generally. Since management is a prime-limiting factor to growth and profitability, it is recommended that any attempt to develop the Government-controlled small and medium sized industries must also focus on ways of securing and retaining personnel with right qualification, experience and skills within the industries.

Religious values should be blended with the objectives and the visions of FBSMEs. This should ensure that the functions of the FBSMEs are not compromised. Archaic values that stifle FBSMEs growth and development should be discarded.

Management should, through the budgeting, participation process, and the assignment of responsibility, create an environment which allows the workers to develop their full potentiality and to exercise responsibility through self-control. There is the need for faith based small and medium sized enterprises to introduce incentive schemes that secure workers' commitment towards achieving minimum costs to the organizations.

Kenyans are called upon to be patriotic and patronize products made by FBSMEs.

#### 6.5. Area of Further Research

There is need for further research be undertaken to determine the extent of effect of the component factors underlying the main factors (variables) that influence the performance of faith-based SMEs in Kenya and their role in the economy. Hardly any literature is available on research done in Kenya on faith based Small and Medium Enterprises.

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