AN ANALYSIS OF FINANCIAL MANAGEMENT AS A CAUSE OF SMALL SCALE ENTERPRISE FAILURE IN NAIROBI: A CASE OF PRINTING INDUSTRY

By
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                      MANAGEMENT AS A CAUSE OF
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                      FAILURE IN NAIROBI: A CASE OF
                      PRINTING INDUSTRY
DEDICATION

To my husband, Samuel Gathuru Mburu who is always willing to share my dreams and hopes.
ACKNOWLEDGEMENT

I would like to take this opportunity to sincerely thank my project supervisor, Dr. Gituro Wainaina for his guidance. From the conceptualization stage through to the end of this project which was researched and written within a duration of two semesters, Spring and Summer 1997, Dr. Wainaina was inspirational, supportive, encouraging and patiently edited my paper time and time again.

I would also like to thank my family for their support and encouragement. My special gratitude to my husband, Sam for his commitment to my intellectual growth and development at any cost. Thank you for your financial and moral support and for so graciously bearing the burden. To my children, Watiri, Gathuru, Muthoni and Nyambura, thank you for your understanding.

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ABSTRACT

The purpose of the project was to analyse financial management as a cause of failure of small scale enterprises (SSE) focusing on the printing industry. Business failure is significant because it adversely affects the entrepreneur owing to loss of investment, the government in terms of loss of tax revenue and the country suffers due to unemployment.

The project data was collected from both primary and secondary sources. Primary data consisted of interviews and questionnaire responses from SSE printing firms and the secondary data was collected from previously published findings. The analysis of the findings revealed that lack of skills and experience in financial management contributed significantly to financial difficulties which threatened the survival of small scale printing firms.
CHAPTER I
INTRODUCTION

Background

Worldwide, the threat of failure confronts many small businesses particularly those that are newcomers. In Kenya, small businesses fail either at some point in the implementation stage or after implementation has been completed and operations started. The first few years of a business are especially critical.

Even in highly industrialized countries, for example, United States and United Kingdom, small scale enterprises (SSB’s) face similar problems. United States statistics show that of all new firms started, about one-third are discontinued within one year; about 50 percent are discontinued within two years; and approximately two thirds within five years. By the fifth year, most businesses have overcome the teething problems and stabilized. The failure rate then drops and chances improve if the business survives to the fifth year (Broom and Longenecker, 1971). This does not, however, mean guaranteed survival for even mature businesses do also collapse.

In Kenya, although it is evident that the small scale sector has a difficult time surviving and in most cases even fail to take off, Kenya does not have indicators
showing the number of bankruptcies and liquidations in this sector. One of the reasons is that the total number of SSE’s in the Kenyan economy is not known with certainty. The other problem is that definitions of business failure vary: ceasing to trade for any reason; sale to prevent further losses; failure to take off. However, a survey carried out in September 1995 by Kenya Rural Enterprise Programme (K-Rep) reveals six most frequently cited reasons why proprietors who previously operated SSE’s closed their businesses: financial problems (30.1 percent) marketing problems (14.2 percent), family responsibilities (12.1 percent) miscellaneous reasons (12.0 percent), health reasons (11.3 percent), and input problems (5.6 percent).

Table 1, adopted from the K-Rep report indicates the principal problems faced by the entrepreneur. Financial reasons have the highest rating. The report points out that although many problems are mistakenly identified as issues of capital, poor management of inventories, of raw material procurement, or of marketing can all appear as a credit problem. Yet, it is clear that a significant number of small entrepreneurs in Kenya see their principal difficulty as one of inadequate capital and access to credit (see table 2).
Justification

Business failure is significant for a number of reasons. First, the owner of the business that fails suffers a loss of invested capital, usually in form of lifetime savings. The creditors too lose their investment. To society as a whole, this loss of capital reduces the total sum of investment funds available to business and further incurs loss in employment.

Table 1: Principal Problems Faced by the Entrepreneur
(Percent of all Respondents): 1995

<table>
<thead>
<tr>
<th>Problem</th>
<th>All Enterprises</th>
<th>Enterprises that have not grown</th>
<th>Enterprises that have grown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent reporting no problems</td>
<td>6.6</td>
<td>7.7</td>
<td>5.1</td>
</tr>
<tr>
<td>Working capital</td>
<td>12.5</td>
<td>11.7</td>
<td>8.2</td>
</tr>
<tr>
<td>Fixed capital</td>
<td>11.1</td>
<td>10.8</td>
<td>11.2</td>
</tr>
<tr>
<td>Other capital</td>
<td>9.0</td>
<td>9.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>32.7</td>
<td>34.4</td>
<td>23.5</td>
</tr>
<tr>
<td>Markets</td>
<td>24.2</td>
<td>24.2</td>
<td>28.1</td>
</tr>
<tr>
<td>Tools, equipment spares</td>
<td>2.4</td>
<td>2.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Raw materials and intermediate products</td>
<td>11.3</td>
<td>12.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Subtotal</td>
<td>13.7</td>
<td>14.9</td>
<td>10.1</td>
</tr>
<tr>
<td>Government: fees, regulations, harassment</td>
<td>4.1</td>
<td>3.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Shop space</td>
<td>1.8</td>
<td>1.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Transport</td>
<td>11.2</td>
<td>11.0</td>
<td>9.5</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.4</td>
<td>1.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Other problems</td>
<td>11.0</td>
<td>8.6</td>
<td>23.4</td>
</tr>
<tr>
<td>All problems</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Secondly, the individual who fails suffers a
psychological setback to his self-esteem and the subsequent loss of self confidence. Thirdly, assuming that a real business opportunity existed, the business failure caused the elimination of a supplier of goods and services that the public needed and wanted and finally, the business that failed was a taxpayer contributing to needed government services.

Table 2: Perceived Financial Constraints: 1990

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral requirements</td>
<td>35</td>
</tr>
<tr>
<td>Unavailability of credit</td>
<td>33</td>
</tr>
<tr>
<td>Negative perception by lending institutions</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Investment Promotion Center. Informal Sector and the Constraining Factors that Affect its Growth, October 1990

Objectives

The general objective of this project was to analyze financial management in small scale enterprises in the printing industry within Nairobi city center. Its specific objectives were to:

1. Determine whether there exists a business plan among printing SSE’s;
2. Identify the financial aspects in the business plan and
3. Determine the level of financial management skills.

Methods of Analysis and Procedures

The determination of the existence of a business plan
and identification of its financial aspects was analyzed through use of questionnaires. Analytical procedures were both qualitative and quantitative and included use of spreadsheets and statistical software.

The determination of the level of management skills was analyzed through use of similar procedures and techniques as above.

**Research Design**

This subheading explains the various steps that were necessary in carrying out the study in order to satisfy its objectives. There is an estimated number of 30 registered small scale printing firms within the city of Nairobi. Due to resource constraints, a sampling of approximately 20 percent was considered adequate to represent well the characteristics of that population and provide a sample size that would enhance statistical efficiency and increase the credibility of research findings. Through a simple random sampling method, a sample size of seven small scale printing firms out of 30 was used. The sample provided the data for analysis.

**Data Collection and Description**

Both primary and secondary data were collected and analyzed. Secondary data comprised of review of relevant published material and is described below. A structured questionnaire linked to the objectives was used to collect quantitative data for this study. It was delivered by hand to each printing firm. Firm managers were instructed on
how to fill out the questionnaire and the researcher clarified or sought clarification on pertinent issues. The respondents were left with the questionnaires to fill out and collected later. Ten questionnaires were sent out and seven were returned. Appendix 1 provides a sample questionnaire with the instructions. The researcher conducted interviews with the managers to gather qualitative data to clarify and enrich the quantitative data.

**Importance of the Project**

This project will analyze financial management as a cause of failure of small scale enterprises focusing on the printing industry. Business owners, the society, the government and indeed the entire country will benefit from this study. In addition, future researchers who wish to pursue research work in the field of SSEs could use this study as part of their literature review.

**Scope of the Project**

Chapter I provided the project introduction and discussed its background, justification, objectives, methods of analysis and procedures, research design, data collection and description and explained the importance of the project. The subsequent chapters will be organized in the following way: Chapter II deals with the review of related literature. This includes various studies which have been conducted on the causes of failure of small businesses. Chapter III presents data analysis and discussions while Chapter IV describes the summary and
CHAPTER II
LITERATURE REVIEW

Previous Research and Findings

Empirical studies consistently show that smaller firms have higher failure rates than larger firms, that failure is endemic to the small firm sector. In his study on the causes of failure of companies which compulsorily wound up, Brough in Understanding the Small Business Sector (Storey, 1994) showed that whilst the official receiver regarded mismanagement as the overwhelming cause of business failure, directors of companies tended to point to insufficient working capital, insufficient capital overall, and to bad debts. Hall and Young (1991) and Hall (1992) repeated the same exercise carried out by Brough twenty years previously and also found that owners still tended to point to shortages of working capital as the prime cause of business failure.

In his 1992 work, Hall examined whether there was evidence that the owners perception of the reasons for failure varied with the age of the firm. He concluded that "it would appear that owners of young firms were more likely to suffer from inadequate funding" among other reasons. For young firms, probably the most powerful influence on their survival is whether or not they grow within a short period after starting up.
A study by Broom and Longenecker (1971) showed that among the many interrelated causes of business failures, the most important basic cause is lack of skill in management. In small business especially, management seems to be number one problem of the enterprise. Other causes of failure are fraud, neglect or disaster, but the root cause is managerial incapacity manifested in various ways: lack of capital, premature expansion, inadequate sales, heavy operating costs, inventory difficulties, excessive fixed costs, bad debts, inappropriate payment of dividends, among others. Symptoms of failure are indicated as declining sales, declining profits and higher debt ratios.

Broom presented a study of case histories of small business failures, a study contrasting ten conspicuously successful and ten unsuccessful firms to determine points of contrast that might explain the failures. Amongst two other related causes, the following was rated among the highest: Records and record keeping; shipments to bankrupt customers; no payments were received within a nine month period and yet receivables were not aged.

In his work, Macfarlane (1977) independently confirmed Broom's findings, allocating the highest rating of business failure to lack of managerial experience and incompetencies. Further, Macfarlane provides evidence to show that poor management is the most significant single cause of business failure. Some 90 per cent of more than 1 million business failures analyzed over a 100 year
period were attributed to lack of managerial experience and know-how. All the bankruptcies stemmed from poor business management. Three kinds of management problems showed up repeatedly: poor financial planning; inadequate records, cumulative losses, neglected tax payments, expansion beyond resources and excessive fixed assets; poor sales management; poor general administration culminating in expenses not covered by revenues.

In his research work on setting up a small scale firm, Iyengar (1980) stated that there appeared to be a rather widespread opinion that inadequacy of capital does constitute a significant problem for small business. In particular, the need is believed to be greatest in the area of long term financing.

Starvation of capital, both to launch a company and, to a lesser extent, to fuel its growth once it is up and running, is one of the most serious problems facing small business (Oates, 1995). Lack of adequate starting capital, shortage of finance as well as inability to raise capital is a major threat of failure of small business (Prentice, 1985; Storey, 1994). Not having enough finance is one of the most common diseases in a small business, and it is often fatal (Oates, 1995).

Starting or operating business without adequate capital forces the business owner to borrow money from banks and friends with the resulting loss of profit through interest rates. And credit facilities with suppliers, although a largely acceptable means of
financing inventory, cause the entrepreneur to sacrifice profits through loss of discounts.

Lack of realistic grasp of the financial aspects of the business, the need for cost control and inadequate or lack of good record keeping is one of the major difficulties with small business owners (McMurray, 1974). When a small business owner puts excessive capital into fixed assets, the chances are that either the financing is going to come out of the working capital or it will be borrowed. When the need for more working capital arises the entrepreneur falls into trouble because he or she did not anticipate this result. According to Oates (1995), trying to support a growing turnover on an inadequate working capital invariably leads to overtrading and consequential financial distress.

Carrying an inappropriate inventory is another common pitfall (Broom and Longenecker, 1971). Most ailing small businesses are stuck with slow moving outdated, or excessive inventory which not only adds to costs but ties money which could be employed more effectively elsewhere.

The pressure to sell on credit terms is strong for the small business entrepreneur especially where competitors are granting credit. The problem arises when the small business owner lacks skills in credit granting and collecting especially when the small business is starved of cash. A small business nearly always needs additional capital to maintain comfortable operation.

Poor credit granting practices results in bad debts.
Bad debts is another failure symptom of small enterprises (Megginson et al, 1988). Many small business entrepreneurs shy away from or fail to challenge their customers to pay up. Cash flow suffers and the viability of the business is seriously undermined. Taking too much out of business for personal use jeopardises the survival of a small business.

A lot of small enterprises do not make a profit because the management has not planned ahead. Some small firms often confuse profit with cash and neglect their ongoing requirements for liquidity (Oates, 1995). In his study, Stewart (1978) concluded that profits are attained through successful management of a firm.

One particularly common problem of small size Kenyan firms is the inability to absorb significant losses. For example, a loss of one hundred thousand shillings due to either carrying obsolete inventory or theft may reduce or consume working capital so severely as to curtail further operations. A large lawsuit, a bad account or a loss of a key employee can do irreparable damage to a small enterprise in Kenya.

The variety of accounting procedures employed in small firms emerges clearly from the work by Nayak and Greenfield (1994). They show that in businesses with less than ten employees, formal monitoring of profits takes place in only one-third of businesses. Nayak and Greenfield examined 200 micro businesses in the West Midlands, United States, and were struck by the lack of
financial awareness of those operating these firms. Only 34 percent of firms used any form of budgeting with the most frequent strategy being to keep information in the head of the proprietor.

Several other important findings emerged from this study. The first was that firms which professed to be performing at least satisfactory were those which maintained the best records, that is, those most likely to know their profitability and to engage in regular budgeting. The second was that the single proprietor was the least likely to hold information on paper or in the computer; those businesses which had more than one proprietor were likely to keep better records. Thirdly, 16 percent of firms with debtors kept no debtor records.

The overall impression which emerges is that, whilst the majority of small business owners do maintain adequate record-keeping, there still remains a significant minority who are not concerned in this area. It is not surprising, therefore, to find high rates of business failure amongst such tiny firms, and unwillingness on the part of the financial institutions to extend them credit.

One of the most consistent themes in a great part of literature is the question of a firm's business plan. A small business owner could use a business plan to obtain loans from lending agencies. It is also a powerful money raising tool to attract venture capital. A business plan is "the road map to success" (Meggison et al, 1988). It acts as evidence to demonstrate that the entire project is
thoroughly thought through. Before approaching a bank or soliciting venture capital, a firm needs to draw up a business plan (see Appendix 2). "Trying to run your business without a plan is like floating aimlessly at sea in a fog. You will not know where you are going, any more than where you have been or where you are" (Gates, 1995).

The other continuous theme in the literature in the discussion of small business finance has been the concept of a 'gap' meaning the unwillingness on the part of suppliers of finance to supply it on terms and conditions required by small businesses (Storey, 1994). This indicates difficulties of obtaining small sums of equal capital, or the difficulties which some business have in obtaining bank finance. The seemingly perennial difficulties which characterise the relationship between small firms and their banks stem from lack of information on the part of the activities of the small business and the inability of the bank to control such activities (Storey, 1994).

Banks consider that lending to small firms is more risky than to large firms. They respond to loan requests to small firms not by raising interest rates to cover this particular risk but rather by reducing the availability of loans, that is, rationing so that even if firms are willing to pay more, they are not allowed the chance. The criticisms of banks by small firms include:
1. Bank charges are too high
2. Banks only lends against collateral
3. Banks are less willing to lend to high-risk/high-return borrowers
4. Banks close down a business far too early if it gets into difficulties
5. Banks have an 'attitude' problem and do not understand small firms.

What factors influence the survival of businesses? Raid (1991) examined, between 1985 and 1988 the progress of seventy-three small firms in Scotland. He found that fifty-four were still in business in 1988 and was interested in the factors which distinguished the survivors from the non-survivors, combining financial ratios and a number of other qualitative indices. Raid concluded that ceteris paribus, the greater the product range and the lower the levels of external borrowing, the higher the chance of the firm staying in business. He concluded, like others, that the failure of firms is particularly characteristic of the small business sector.

**Small Scale Printing Sector: Specific Case**

A point is to made that the literature available from local and foreign sources on the printing industry is very scanty. Most management literature available is not keen on categorising small scale enterprises into individual industries. Rather, management literature conveniently treats small scale business enterprises as a single economic sector with universal similarities in managerial discipline and challenges. The printing industry will nevertheless be more specifically focused on in the latter
chapters of this study.
CHAPTER III
RESULTS AND DISCUSSIONS

The purpose of this Chapter is to describe and analyse the research findings from the primary data. The information was collected using a structured questionnaire (see Appendix 1) with questions flowing from the project objectives and with instructions on how the printing managers were to fill the questionnaire. In some instances, interviews were used for clarification. The number of SSE printing firms within Nairobi city is 30. A random sampling of approximately 20 was taken and seven out of ten questionnaires sent out were returned. These provided the data for analysis.

Most of the respondents were very open in providing information and appreciated the objectives of the project. In some few cases however, the respondents perceived the questionnaire to be sensitive especially in the case of employed managers who were not as open compared to the owner-managers.

All the respondents of the printing SSEs had a business plan. In all cases except two, the business plans were developed before commencement of business operations and mainly covered profit and cash projections. Half of them included financial and other requirements (see table 3). The standard deviation in all financial aspects
of the business plan with the exception of profit and cash projections indicated slight variation. Two SSEs used the plan to obtain starting capital from the bank.

With the exception of one printing SSE, all the others raised their starting capital from personal savings in addition to bank credits which supported half of the SSEs under review (see table 4). The standard deviation in all cases except for the sale of personal assets indicate little variation.

Table 3: Business Plan and Financial Aspects: July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical financial results</td>
<td>6</td>
<td>1.8</td>
<td>0.41</td>
</tr>
<tr>
<td>Profit and cash projections</td>
<td>6</td>
<td>2.0</td>
<td>0</td>
</tr>
<tr>
<td>Sensitivity analysis</td>
<td>6</td>
<td>1.8</td>
<td>0.41</td>
</tr>
<tr>
<td>Financial requirements</td>
<td>6</td>
<td>1.5</td>
<td>0.55</td>
</tr>
</tbody>
</table>

a For full listing of responses, see Appendix
b Std.Dev. = Standard deviation
Source: Primary Data.

Table 4: Methods of Raising Capital: July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal savings</td>
<td>6</td>
<td>1.2</td>
<td>0.41</td>
</tr>
<tr>
<td>Sale of personal assets</td>
<td>6</td>
<td>2.0</td>
<td>0</td>
</tr>
<tr>
<td>Bank credit</td>
<td>6</td>
<td>1.5</td>
<td>0.55</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>1.3</td>
<td>0.52</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Half of them had approached banks for either working capital or for financing purchase of machinery and
equipment (see table 5) and most of them obtained the credit needed. Standard deviation in this respect except in the case of business premises show slight variation.

Majority of the printing SSEs had most of their cash tied in fixed assets and receivables. In addition, half of them bought their printing materials on cash basis.

Table 5: Credit Requirements: July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>4</td>
<td>1.3</td>
<td>0.50</td>
</tr>
<tr>
<td>Business premises</td>
<td>4</td>
<td>2.0</td>
<td>0</td>
</tr>
<tr>
<td>Machinery/equipment</td>
<td>4</td>
<td>1.5</td>
<td>0.58</td>
</tr>
<tr>
<td>Expansion</td>
<td>4</td>
<td>1.8</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Source: Primary data.

On credit management, the SSEs extended credit to their customers and they all had a criteria for awarding credit. Nearly 50 percent of the SSEs offered discount incentives to motivate early or timely settlement while the rest did not as indicated in table 6. The table also indicates that buying on credit and provision for discount incentives had identical standard deviation which reflected little variation.

Table 6: Credit Management : July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing on credit</td>
<td>7</td>
<td>1.4</td>
<td>0.53</td>
</tr>
<tr>
<td>Selling on credit</td>
<td>7</td>
<td>1.0</td>
<td>0</td>
</tr>
<tr>
<td>Credit criteria</td>
<td>7</td>
<td>1.0</td>
<td>0</td>
</tr>
<tr>
<td>Discount incentives</td>
<td>7</td>
<td>1.4</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Source: Primary Data.
With respect to the operating budget, 50 percent of the SSEs did not have one but all of them kept a cash book for recording cash disbursements. Two SSEs lacked an imprest system. This information is indicated in table 7 on cash management.

Table 7: Cash Management: July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating budget</td>
<td>7</td>
<td>1.4</td>
<td>0.53</td>
</tr>
<tr>
<td>Cash book</td>
<td>7</td>
<td>1.0</td>
<td>0</td>
</tr>
<tr>
<td>Imprést system</td>
<td>7</td>
<td>1.3</td>
<td>0.49</td>
</tr>
<tr>
<td>Record of payables and receivables</td>
<td>7</td>
<td>1.0</td>
<td>0</td>
</tr>
<tr>
<td>Ageing of receivables</td>
<td>7</td>
<td>1.1</td>
<td>0.38</td>
</tr>
<tr>
<td>Bank reconciliation</td>
<td>7</td>
<td>1.1</td>
<td>0.38</td>
</tr>
</tbody>
</table>

Source: Primary Data.

All the SSEs kept a record of payables and receivables and all except one aged their receivables and conducted regular bank reconciliations (see table 7). Except for cash book and record keeping, standard deviation indicated little variation.

As table 8 shows, most printing managers had attained high school level of education and in half of the cases had business management training to college diploma level and in four cases at the University level. However, majority of them had relatively minimal relevant working experience in the printing industry before joining the printing business. This experience in most cases covered business managerial skills in planning, supervision, controlling and marketing. Standard deviation indicated slight variation in all relevant cases.
Printing managers considered certain key managerial areas most problematic. From table 9, on the average, the most common problem was inadequate sales and inadequate working capital followed by marketing difficulties, bad

Table 8: Manager’s Skills and Experience in the Printing Industry: July 1997.

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 year</td>
<td>7</td>
<td>1.3</td>
<td>0.49</td>
</tr>
<tr>
<td>2 years</td>
<td>7</td>
<td>2.0</td>
<td>0</td>
</tr>
<tr>
<td>3 years and above</td>
<td>7</td>
<td>1.9</td>
<td>0.38</td>
</tr>
<tr>
<td>Planning</td>
<td>6</td>
<td>1.3</td>
<td>0.52</td>
</tr>
<tr>
<td>Organizing</td>
<td>6</td>
<td>1.5</td>
<td>0.55</td>
</tr>
<tr>
<td>Controlling</td>
<td>6</td>
<td>1.5</td>
<td>0.55</td>
</tr>
<tr>
<td>Supervision</td>
<td>6</td>
<td>1.3</td>
<td>0.52</td>
</tr>
<tr>
<td>Marketing</td>
<td>6</td>
<td>1.2</td>
<td>0.41</td>
</tr>
</tbody>
</table>

Source: Primary Data.

Table 9: Most Problematic Managerial Areas: July 1997

<table>
<thead>
<tr>
<th>Response</th>
<th>Sample size</th>
<th>Mean</th>
<th>Std.Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate working capital</td>
<td>6</td>
<td>1.3</td>
<td>0.52</td>
</tr>
<tr>
<td>Access to credit</td>
<td>6</td>
<td>1.7</td>
<td>0.52</td>
</tr>
<tr>
<td>Inadequate fixed assets</td>
<td>6</td>
<td>1.7</td>
<td>0.52</td>
</tr>
<tr>
<td>Excessive fixed assets</td>
<td>6</td>
<td>1.8</td>
<td>0.41</td>
</tr>
<tr>
<td>Inadequate sales</td>
<td>5</td>
<td>1.2</td>
<td>0.45</td>
</tr>
<tr>
<td>Heavy operating expenses</td>
<td>5</td>
<td>1.4</td>
<td>0.55</td>
</tr>
<tr>
<td>Receivables</td>
<td>5</td>
<td>1.4</td>
<td>0.55</td>
</tr>
<tr>
<td>Inventory</td>
<td>5</td>
<td>1.8</td>
<td>0.45</td>
</tr>
<tr>
<td>Record keeping</td>
<td>5</td>
<td>1.8</td>
<td>0.45</td>
</tr>
<tr>
<td>Marketing</td>
<td>5</td>
<td>1.4</td>
<td>0.55</td>
</tr>
<tr>
<td>Bad debts</td>
<td>5</td>
<td>1.4</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Source: Primary Data.

debts, receivable difficulties and heavy operating expenses. In a few cases, inadequate or excessive fixed assets was a problem as well as inaccessibility to
capital. Standard deviation in all cases indicate slight variation.
CHAPTER IV
SUMMARY AND CONCLUSIONS

Summary
In Kenya, the threat of failure confronts many small scale enterprises particularly during the first few years. Surveys that were carried out previously cited reasons why entrepreneurs closed their businesses and financial problems had the highest rating. The surveys further pointed that problems relating to sales, receivables or procurement of raw materials have been mistakenly identified as issues of capital rather than poor management. Yet most SSEs in Kenya perceive inadequate capital and access to credit as their principal problem.

The objective of this project was to analyze financial management as a cause of SSE failure. Due to resource constraints, the project focused on the SSE printing firms within the city of Nairobi where 30 of them are located. Business failure is significant because it is a loss of investment on the part of the business proprietor and the creditor. It is a loss to the government in terms of tax revenue and it is a loss to the country because it contributes to unemployment.

The researcher developed a structured questionnaire which addressed the project objectives: to determine the existence of business plans amongst the printing SSEs and
analyse their financial aspects and also to determine the level of business skills of the managers. 20 percent population sample size was taken and through a simple random sampling method, a sample size of seven printing SSEs was selected. The data for analysis was provided by that sample.

The research methodology had its limitations. There could be, for example, any number of reasons that cause business failure such as personal characteristics of the manager or his or her leadership style. Due to resource limitations, this study focused only on financial management and related managerial skills.

The literature review was conducted and focused on the previous research and findings on factors that caused SSE failure. The findings pointed to shortage of capital as the prime cause of SSE failure. The literature available specifically on the small scale printing sector was scanty. However, the research findings in the SSE printing sector revealed that they experienced problems similar to those encountered by the SSEs in general. But it was found that printing SSEs had business plans which articulated financial and other relevant aspects and the business plans assisted some of them to raise starting capital. Others raised capital from personal savings.

Most SSEs in the printing industry had most of their cash tied in excessive fixed assets and receivables and experienced difficulties in sales and marketing. This
currently deployed as working capital. This results to loss of revenue, reduced profitability and possible risk of business failure.

In some cases under review, the credit policy was vague: purchasing of printing materials was carried out on cash basis and absence of credit policy offering incentives to recover receivables promptly was lacking. This obviously created a cash flow and liquidity problem, a clear manifestation of managerial incompetence. A strategic credit policy should have ensured that printing materials were purchased on the best possible credit terms. Even though this might reduce discounts available, it would have been more than made up by prompt settlements of receivables.

The problem of liquidity was further punctuated by the absence of an operating budget reported in nearly half of all the cases under review and in some cases lack of an imprest system. The absence of a budget complicated liquidity in that disbursements were likely to be made in an unprioritized and haphazard manner. A budget provides a plan for expenditure and in certain stipulated time and duration such that it acts as a tool for financial control. Budgetary changes are to be more of an exception than the rule otherwise the control tool could be rendered incompetent.

The reported receivable difficulties were serious in terms of growth, profitability and eventual success or failure of the printing business. The issue of
receivables is tied to credit policy. Due to the high risk of failure of SSEs, the printing SSEs should tighten their credit policy with regard to their customers, for example, by requiring them to place a downpayment of 60% and only 40% should be subject to credit considerations, and even in this case, payment should be made within a maximum period of 30 days. Scrutiny of customers and justification for awarding credit must be rigidly exercised at all times. In time, delayed receivables become bad debts whose accumulation and magnitude cause business failure.

With respect to record keeping, the conclusion from the survey is that SSE printing firms are good in this aspect as no difficulties were reported in this area. This effort should be maintained since the literature review revealed cases where business failure resulted from poor or absence of good record keeping.

Although the printing managers had attained adequate educational and training levels, they lacked experience in the printing industry. The difficulties of heavy operating expenses and inventory also emanated from inexperience and could have been avoided by either owner-managers possessing relevant experience or employing managers with adequate experience in the printing industry. Heavy losses are normally incurred where the manager lacks knowledge of the printing process, the nature of materials required, supply sources and job costing.
For entrepreneurs interested in going into printing business, they should first seek employment in a printing firm. This could reduce the learning curve in their own businesses and help them to avoid the usually heavy start-up losses.
REFERENCES


APPENDICES

Appendix 1

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QUESTIONNAIRE

Introduction

I am a post graduate student at the United States International University-Africa and I am conducting research on the causes of failure of small scale enterprises in Nairobi focusing on the printing industry. This exercise is a requirement for my attainment of Masters degree in Business Administration.

Instructions

I would appreciate it if you would complete the attached questionnaire. It takes approximately 15-20 minutes to complete and it is divided into four sections as follows:-

SECTION 1. GENERAL QUESTIONS
SECTION 2. BUSINESS PLAN
SECTION 3. FINANCIAL MANAGEMENT
SECTION 4. MENAGERIAL SKILLS.

Please answer all questions as completely and as clearly as possible by ticking or writing your response as appropriately as possible.

Please feel free to comment on any portion of the questionnaire or the project. Thank you for your
participation.

Wanjiru Mburu
(USIU-A Student Identification No.121425)

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SECTION 1

GENERAL QUESTIONS

1.1 What is the name of your business?---------------------

1.2 When did the business start operating?---------

1.3 Is your business a sole proprietorship or a partnership?

Sole proprietorship------

Partnership-------------

1.4 If Partnership, how many partners?---------

1.5 Is the business managed by owner or by employed manager?

Owner-manager------

Employed manager-----

SECTION 2

BUSINESS PLAN

2.1 Does your firm have a business plan?

Yes -----

No -----

2.2 If yes, was the business plan developed before or after starting business:

Before -----

After -----

2.3 What financial aspects are covered in the business plan?
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2.3.1 historical financial results
2.3.2 profit and cash projections
2.3.3 sensitivity analysis
2.3.4 financial requirements
2.3.5 Other (specify)

2.4 What was the business plan used for?
2.4.1 To obtain starting capital from
the bank
2.4.2 To obtain working capital for
ongoing business
2.4.3 To obtain funds for expansion
2.4.4 To obtain venture capital
2.4.5 Other (specify)

SECTION 3
FINANCIAL MANAGEMENT

3.1 How was the starting capital raised?
3.1.1 Personal savings
3.1.2 Sale of personal assets
3.1.3 Bank credit
3.1.4 Other (specify)

3.2 Have you approached a bank for financing the
ongoing business? Yes
No

3.3 If yes, what was the credit needed for?
3.3.1 working capital
3.3.2 business premises
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3.3.3 machinery/equipment
3.3.4 expansion
3.3.5 other (specify)---------------------

3.4 Was the credit obtained? Yes -----
                                  No -----

3.5 If no, why was the credit denied?

3.5.1 Absence of business plan
3.5.2 Lack of or inadequate collateral
3.5.3 Inadequate duration of current account
3.5.4 Inadequate cash flow to meet repayments
3.5.5 Other (specify)---------------------

3.6 Where is most of your business money tied?
                                        Fixed Assets/Receivables
                                        Other (specify)--------

3.7 Are printing materials bought on credit business or on cash basis? Credit/cash
3.8 Does your business give credit to its customers? Yes-----
                                                  No -----

3.9 Do you have a criteria for awarding credit facility to customers? Yes-----
                                                                  No -----

3.10 Does your firm offer discount incentives to motivate prompt early or timely settlement? Yes-----
                                                                                           No -----

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3.11 Do you have an operating budget? Yes-----
No -----

3.12 Do you keep a cash book for recording cash disbursements? Yes-----
No-------

3.13 Do you have an imprest system Yes-----
No ----- 

3.14 Do you have a record of payables and receivables? Yes-----
No ----- 

3.15 Are the receivables aged? Yes-----
No ----- 

3.16 Does the company conduct regular bank reconciliation? Yes-----
No ----- 

3.17 Does the firm have a specified salary for the owner-manager? Yes-----
No ----- 

3.18 If the firm is a partnership, does it have a clear profit/loss sharing and reinvestment policy? Yes-----
No ----- 

SECTION 4
MANAGERIAL SKILLS

4.1 What is the level of education of the manager?

4.1.1 High school or below ------

4.1.2 College Diploma ------

4.1.3 University Degree ------
4.2 What level of business and management training does the manager have?

4.2.1 High School level

4.2.2 College Diploma level

4.2.3 University Degree

4.3 What was the total cumulative relevant experience in the printing industry did the manager have before starting/doing business?

4.3.1 0-1 years

4.3.2 2 years

4.3.3 3 years and above

4.4 What areas of business managerial skills were covered in that experience?

4.4.1 Planning

4.4.2 Organizing

4.4.3 Controlling

4.4.4 Supervision

4.4.5 Marketing

4.4.6 Other (specify)

4.5 What areas do you consider most problematic for your firm in order of significance:

4.5.1 Inadequate working capital

4.5.2 Access to credit

4.5.3 Inadequate fixed assets

4.5.4 Excessive fixed assets

4.5.5 Inadequate sales
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- 4.5.6 Heavy operating expenses  ----  --------
- 4.5.7 Receivable difficulties  ----  --------
- 4.5.8 Inventory difficulties  ----  --------
- 4.5.9 Record keeping difficulties  ----  --------
- 4.5.10 Marketing difficulties  ----  --------
- 4.5.11 Bad debts  ----  --------
4.5.12 Other (specify)  ----  --------
Appendix 2
Business Plan

- Executive Summary
- The Business
  - history and current status
- Product description
  - regulatory requirements
  - research and development
- Production process
  - techniques,
  - location,
  - supplies,
  - capacity
- Sales and Marketing
  - market size
  - competition
  - sales analysis by product and customer
  - market techniques
- Management and Organization
  - Management team with full CVs
  - organization chart
  - remuneration policies
- Financial Information
  - historical results
  - profit and cash projections
  - sensitivity analysis
  - financial requirement
- The Future
  - future prospects
  - exit routes for the investor

Source: Compiled by KPMG Peat Marwick (Oates, 1995).