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Short Communication

Financial characteristics transforming financial performance of SMEs in Africa

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Abstract
This current study aimed to bring in a better and elaborate clarification and understanding on financial performance of SME's in Africa and Kenya being a case study with more interest on financial characteristics that are contributing to better financial performance of the SMEs in Africa. The current study developed a few and common financial characteristics for robustness purposes. World Bank's data base was used identify key data for better analysis. The current study examined the financial characteristics that have transformed and will further transform financial performance of SMEs in Africa. The study found out that transformation of financial performance in Africa is influenced mainly by ownership structure, regulations, size of the organization and experience of the top management, the finding of this study therefore have important implications for policy in SMEs existing in African countries.

Keywords: Financial characteristics and financial performance.

1 Introduction

A number of development studies in SMEs sector has given too much attention on the effect of SMEs developments to living standards and economic growth in Africa. There are challenges faced by financial institutions more especially small and medium size enterprises (SMEs) (Musah, Daniel, & Joseph, 2015),(Ackah, Vuvor, & Lovstal, 2011) .There is a view that several obstacles including those created by commercial banks and other financial institutions and SMS themselves in Africa have contributed to poor performance of SMEs in Kenya (Dalgleish & Williams, 2007). According to Mano, Iddrisu, Yoshino and Sonobe (2012) there is still a pervasive, requiring further scrutiny given economic developments in African countries.

The need to finance the development and growth of SMEs in Africa is of more paramount taking into account the increase in population especially in sub Saharan African countries (Mano & Iddrisu, 2017). Most of the SMEs have characterized by insufficient funds and inability to develop a strong asset base that will provide collateral for raising additional funds in Africa, in addition small scale farmers and manufacturing firms in Africa are the backbone to employment creation as a result there is more income generation, increased earnings and ultimately poverty eradication as suggested by Mano and Iddrisu (2012). However transformation of financial performance of African SMEs is achievable once the needed finance is available for investment to propel growth and employment (Mano & Iddrisu, 2017).

SMEs financial performance is clear and important characteristic of a developing nation like the African nation at large. Most of the organization in African countries are SMEs and more so most of financial institutions including commercial banks developed from being SMEs (Maduku & Mpinganjira, 2016), this means that SMEs in Africa have been a breeding ground for the best entrepreneurs and as well contributing to employment creation without forgetting the aspect provision of markets for small scale producers and consumers (Maduku & Mpinganjira, 2016). There is a big achievement of SMEs in Africa countries (Abrhám & Strielkowski, 2016), that they have managed to identify the fact that innovation in technology is a major boost to development is SMEs in Africa. According to (Andrews, Bare and Bentley, 2016) workforce of employees from large financial institutions are easily reinstated to various positions through the development of SMEs.

Andrews et al., (2016) Performance of SMEs has been constrained by internal factors, such as resources and strategic choices and external factors, such as the carrying capacity of the environment or competition. Access to financial provision has been highlighted as one of the major constraints affecting the performance and development of SME/SMIs in Africa. SME in Africa still experiences some financial issues that is hindering developmental growth, particularly in financing. The current study descriptively and conceptually considers its financial characteristics that is influencing or hindering transformation of financial performance for SMEs in Africa.

A group of low-income countries have continued to experience difficulties in managing and servicing their huge stocks of external debt. Most of these countries including Kenya are in Sub-Saharan Africa and belong to the Heavily Indebted Poor Countries (HIPC) class (Kobey, 2016). The relatively high level of Kenya's external indebtedness and rising debt burden has serious implications on the country's development and debt sustainability initiatives. While the economic performance continue to deteriorate, there has been significant decline and Kenya, East African nation, has worked for economic stability since its independence from Britain in 1964. Despite efforts of the Government and Central Bank the country remains in a pattern of external debt and domestic deficits, with sluggish Gross Domestic Product (GDP) growth. This sluggish growth pattern, coupled with low domestic savings and world market factors, has prevented Kenya from repaying its external debt, maintaining and expanding domestic infrastructure and fully funding Government-Sponsored Social Programs.

Public debt is one of the main macroeconomic indicators, which forms a countries‟ image in international markets (Égert, 2015). It is one of the inward foreign direct investment flow determinants. Moreover, since governments borrow mainly by issuing securities, their term, interest rates and overall costs of debt financing has significant impact on the economy, the future of the enterprises and social welfare for not only present, but also future generations. Higher taxes result in lower present consumption, which may mean a slowdown of the Economic Growth (Kourtellos et al., 2013). According to Matiti (2013), Public Debt can also serve as means of delaying taxation, that way reducing current distortions. Thus, government has two choices for covering financial needs (budget deficit). First, one implies a taxation system. Second, one borrows money on the (international) market. But debt-financing puts pressure on future generations and their ability to maintain economic and financial stability.

2.0 Literature review

2.1 McClelland's Theory of Achievement

McClelland (1965) concerned himself with economic growth and the factors that influence it. He wanted to find the internal factors, that is, the human values and motives that lead men to exploit opportunities and take advantage of favourable trade conditions. His theory on achievement motivation is regarded as the most important psychological theories of entrepreneurship. According to McClelland, individuals whose need for achievement is high will have the drive to excel and win. They will take personal responsibility for solving problems and was high achievers. In view of the inner urge for personal achievement they will always try to be better than others.

McClelland (1965) stressed that the need for achievement is the directly relevant factor for explaining economic behavior. People having high need for achievement are more likely to succeed as entrepreneurs. McClelland (1965) explains that entrepreneur's interest in profit growth in terms of sales is an expression of their need for an achievement. McClelland applies his n-achievement approach to study the relationship that exists between n-achievement scores and economic development. The n-achievement approach suggests promotion of achievement-oriented ways of thinking to hasten the economic development in underdeveloped countries. McClelland (1965) says that high level of n-factor will motivate an entrepreneur to take on greater responsibility and also to take bigger risks. They prefer to shoulder tasks that involve real challenges. Some of the main psychological traits identified in entrepreneurship literature are need for achievement, locus of control, willingness to take risk and innovativeness.

2.2 Institutional Theory

Institutional Theory is traditionally concerned with how groups and organizations better secure their positions and legitimacy by conforming to the rules (such as regulatory structures, governmental agencies, laws, courts, professions, and scripts and other societal and cultural practices that exert conformance pressures) and norms of the institutional environment (Scott, 2007). According to institutional theory external social, political, and economic pressures influence firms′ strategies and organizational decision-making as firms seek to adopt legitimate practices or legitimize their practices in the view of other stakeholders. Institutional Theory can be used to explain how changes in social values, technological advancements, and regulations affect decisions regarding 'green' sustainable activities (Ball & Craig, 2010; Rivera, 2004) and environmental management (Fowler & Hope, 2007; Tate et al., 2010).

Delmas and Toffel (2004) draw on institutional theory to examine how different organizational strategies lead to the adoption of environmental management practices. Key drivers in instigating green changes in rules include a core company within a supply chain (Hall, 2001) and government regulation (Rivera, 2004). Institutional Theory describes three forms of drivers that create isomorphism in organizational strategies, structures and processes. These drivers are coercive, normative, and mimetic. Coercive occurs from influences exerted by those in powerful positions, in this case within the dairy supply chain. Coercive pressures are crucial to drive environmental management and hence sustainability (Kilbourne et al., 2002).

The benefits and costs of regulation may be distributed unevenly. When discussing the effect of regulation on employment it is important to balance this specific effect with other potential impacts (such as improved health or environmental outcomes). An increase in the cost of doing business as well as rising uncertainty may in turn cause firms to hire less people, lowering the overall level of employment. From a dynamic point of view, regulation may effect economic growth and employment through such areas as international competitiveness, entrepreneurship, the ability to develop and market new products, or productivity growth (Hall, 2013).

3.1 2.3 Empirical Review

According to Dandago and Usman (2011), a successful management of SMEs needs a combination of policies and institutions: economic policies on the one hand that have the critical role and the other hand the institutions should play their role for the promotion and encouragement of SMEs. Government regulation is a key external factor of strategic options of SME which has a comparative advantage in manufacturing process. Government policy, positions and guidelines of government, schemes and incentives and support systems for the private sector, and particularly for the small and medium enterprises (SMEs) (Dandago & Usman, 2011). Government policy can behave an entrepreneurial role to impact the creation of a sustainable market factors. It also can act an entrepreneurial role to impact the creation of a land infrastructure conditions to support SMEs (USAID, 2011).

Walker (2011) found that overall employment in the more regulated sectors fell by about 15 per cent (relative to areas with less regulation) following the imposition of new clean air designations. Using other data and a different study design, Greenstone (2012) found a decrease on average of about 40,000 jobs per year in facilities located in non-attainment areas. The average number of procedural steps needed to start a business in the sample by Djankov et al. (2012) was 10.48, taking at least 47.4 business days. These costs of regulation have been found to reduce the rate of new business entry. Regulation increases costs for the business and this leads to an increase in prices that the business charges to customers. In general, an increase in price will lead to a decrease in demand for the business goods and services. This leads to decreased revenue and lower production, and this leads to lower employment.

Costs also take the form of allocative inefficiencies, where as a result of regulation, businesses change their behaviours and organize their factors of production to reduce costs while maintaining low prices for their goods and services (Lewis, Richardson & Corliss, 2015). Even when in some special circumstances regulation may lead to increased employment there are other potential economic losses to regulation (Hall, 2013). Regulation may still lead to a net benefit to society if the improved outcomes from regulation are greater than the aforementioned deadweight losses. This study focuses on the effects of taxation, licensing and training and development on the performance of SMEs in Nairobi County.

One of Africa's greatest limitations to economic development can be ascribed to its lack of entrepreneurs. The ratio of entrepreneurs to workers in Africa is approximately 1 to 52, while the ratio in most developed countries is approximately 1 to 10 (Acs & Armington, 2014). Furthermore, their research presents disturbing findings which shows that young Africans believe significantly less in themselves as business starters, compared with similar developing countries such as Argentina, India, Brazil, and Mexico. Harrison and Leitch (2010) have noted that researchers, governments, and policy makers are recognizing the significant role that the education sector in particular must play in economic development. The need for more entrepreneurship in particular has been noted as important. Initially, Small Business Centers were attached to seven technical training institutions to promote linkages between education and business and to facilitate entrepreneurship development at the local community level. One of the primary objectives was to assist people in initiating entrepreneurial activities. It was expected that Small Business Centers would be created in all technical training institutions in Kenya.

In 2007, the government of Kenya started laying more emphasis on youth and women affairs and started two major funds namely Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF). WEF website reports that the fund which is channelled to target beneficiaries through financial intermediaries and direct through constituency women enterprise schemes is expected to play a catalytic role in mainstreaming women in the formal financial services sector (Women Enterprise Fund 2012), Youth enterprise development fund is an strategy by the government to address increasing youth employment and poverty levels by mainly focusing on enterprise development to stimulate economic opportunities for and participation of Kenyan youth in nation building The fund facilitates youth employment through enterprise development and structured labor export. One of the mandates of the fund is to offer entrepreneurship training to the youth across the country with the aim of empowering them.

3.2 2.5 Financial characteristics in SMEs

This issue of financial characteristics of financial performance is brought into the perspective of SMEs for various reasons, for instance Financing of SMEs, collaterals, financial initial costs, contingent liabilities of legal costs and transaction costs. This paper centres its financial characteristics on SMEs' financial performance, because of Africa's financial institutions framework as show-cased by Kenya. Further central bank in Kenya changed their requirements on lending of financial institutions. These regulation adjustments led closure or financial crisis in those SMEs with small membership, Further as noted by (Eniolaa & Entebanga, 2015) SMEs in Africa have collateral challenges as a financial characteristics in accessing finance, this is not only the collateral from their own customers for lending but also assets available for them to borrow externally. Further it has been argued by different authors that, rural areas in Africa lag behind their urban centres due to the un availability of adequate financing for various individual projects resulting from inability of financing from SMEs due to their performance, Un availability of sufficient collaterals and high un affordable transaction costs within financial institutions.

3.3 3.0 Conclusions

From the empirical review in cases of where SMEs are supposed to meet financial initial cost of settling legal claims, they were highly challenged by high costs of legal claims resulting to legal losses which also claimed part of their revenue as losses. The analysis revealed some of the business were badly affected because of requirement of numerous licenses denied the accumulation of cash to help boost business performance still, licenses negatively affected SMEs from realizing return on investment considering that major resources were channelled towards meeting such requirements.

From the empirical other government support network was considered the best in administration and enhancing business performance in Africa. It was further noted that a consideration that government sponsored incubation centres were found to instil entrepreneurship skills that helped to improve how SMEs were driven towards success in Africa. The analysis confirmed from those who rated great extent that entrepreneurship education boosts entrepreneurial orientation of firms hence, enabling SMEs owners to understand how to introduce new business lines in the market. It was concluded that in licensing, in the cases where SMEs are supposed to meet cost of settling legal claims, they were highly challenged by high costs of legal claims resulting to legal losses. It can be concluded that business are usually badly affected because requirement of numerous licenses denied the accumulation of cash to help boost business performance in Africa. As a result legal cost is classified as a financial characteristics affecting the financial performance of SMEs in Africa.

4.0 Recommendations

The study was about the effects of government policies, however, in order to have a conclusive research, there is need to address other effects that would arise when the government get involved in regulating business activities. This is because, tax, licenses and training may not necessarily be the only effects.

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