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Effect of Asset Reduction on Growth of Small Enterprises in Busia County, Kenya

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Abstract

Purpose: The primary aim of the study was to establish the effect of asset reduction on growth of small enterprises in Busia County, Kenya.

Methodology: Descriptive and explanatory research designs were used in the study. The research targeted 220 management employees of licensed small enterprises operating in Busia County in Kenya. A census was carried out on all management employees in the department because the number was small. Therefore, all 220 management employees of licensed small enterprises operating in Busia County were included in this study. The drop-and-pick method was used by the investigator to manage the surveys. The research collected primary data using a structured questionnaire. The study supervisor reviewed the instrument and suggested any required changes to ensure content validity. Reliability was evaluated using Cronbach alpha, the author evaluated the trustworthiness of the data tools. Descriptive and inferential statistics were generated. Data was captured using tables.

Results: Regression of coefficients showed that there is a positive and significant effect of asset reduction and growth of small enterprises.

Conclusion: The study recommended that small enterprises should do replacement of long-term assets since this will enhance their growth. Further, Small enterprises should ensure they often modernize their assets since this enhances the small enterprises' internal operation efficiency and growth. However, firms should not concentrate on disposal of assets since it plays no role in firm growth.

Keywords: *Asset reduction, growth, small enterprises*

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1.0 Introduction

The economic growth of a given country significantly depends on the creation of small and micro enterprises that create employment opportunities for the majority of the population of the country (Ledgerwood, Earne & Nelson, 2013). Such instances are evident more in developing nations like Kenya, where there are widespread unemployment and poverty cases. Precisely, in Busia Country, poverty and limited employment opportunities are among concerning issues inhibiting economic development in the region. Small enterprises tend to solve such problems by offering jobs with fewer ventures.

A practical and proactive approach to attaining national objectives including job creation, sectoral balance, and poverty reduction in Kenya is to support the small company sector. For

our government to realize its goal of becoming a newly industrialized country, all of this contributes to a robust national industrial basis and internal production structure (Osei, Yunfei, Appienti & Forkuoh, 2016). Many unemployed people work in small enterprises that are largely involved in commerce and services. This is because they are a valuable source of innovative, entrepreneurial, and employment skills. The promotion of small enterprises can play a significant role in creating possibilities that can foster sustainable growth given the appropriate policy environment, technical aid, and assistance (Maengwe & Otuya, 2016). However, there have been concerns over increasing challenges facing the small enterprise sector, particularly, lack of adequate finances (Lusweti & Mwasiaji, 2020).

Small business owners and entrepreneurs who have little or no access to banks and associated services can receive financial services through microfinance (Tavanti, 2013). The main instruments for the financial services delivery to such customers are connected to banking for personal tycoons and small businesses; models in an organization, when many businessmen get together to request loans and other services. Microfinance is that share of the monetary segment that includes formal and informal monetary organizations, small and big, that give small-monetary services to all sections of the urban and rural (Goswami, 2014).

One could argue that the most important indicator or benchmark of corporate performance is growth. Both accounting and non-accounting approaches can be used to measure a business's growth. Mungai (2015) identified six stages of business development: conception, life, survival, profitability/stabilization, expansion take-off, and maturity. Due to obstacles that have continued to impede and hinder their growth, the majority of small businesses in Kenya stall at the survival stage. Most small firms are unable to overcome these obstacles and go from the survival stage to the next growth stage. According to the KNBS (2007), at least 60% of small enterprises in Kenya fail during the first few months of operation.

According to Tehseen, Johara, Halbusi, Islam & Fattah (2002), the expansion of an enterprise is measured in terms of changes to its assets, growth in employment, sales, profit margins, productivity, shareholder value, net business value, return on investment, company size, service standards, clientele, innovation, and market share. Non-accounting growth indicators for a new company include job and sales growth as opposed to accounting indicators like ROI, market share, profit, and shareholder value (Fernando, Coonghe, Gunathilaka & Gunawardana, 2018).

Bulla, Maronga, and Ngacho (2019) claim that business owners frequently see turnover as a crucial performance metric. Sales growth is typically simpler than other indices and is therefore simpler to assess as a measure of business efficiency. Income is a reliable predictor of size and effectiveness and as a result, of growth. Osei, Yunfei, Appienti, and Forkuoh (2016) claim that growth over a specific period can be used to gauge the performance of small firms since it reflects the firm's long-term plan as opposed to short-term performance. Castellas, Ormiston, and Findlay (2018) measured enterprise growth in terms of managerial training, technology, and skills. Fatoki (2018) operationalized enterprise growth in terms of managerial training, access to credit, knowledge, and skills, and collateral demands. The current study adopted measurements of growth which included managerial training, access to credit, modern technology, knowledge and skills, and collateral demands as suggested by Castellas, Ormiston, and Findlay (2018) and Fatoki (2018) because they were more suitable in the case of small enterprises.

Asset reduction is a strategy for reducing assets so that they can be modified at runtime (Morrow Jr, Johnson, and Busenitz, 2014). The benefits of an asset reduction strategy entail a

reduction in customer complaints, increased customer value, improved efficiency by understanding equipment utilization, ensuring compliance with regulations and accreditations, and reduction in loss and theft prevention (Gârleanu and Pedersen, 2018). Asset management contributed significantly to firm performance (Mwaniki and Omagwa, 2017). However, Djordjevic and Djukic (2018) argue that there is a high probability that downsizing is a failed strategy for the company and therefore it will reduce the company's reputation. It is important to consider the need for such a decision before making a downsizing decision. Lima, McMahon, and Costa (2021) measured asset reduction using a disposal strategy. A study by Kuntze, Wu, Wooldridge, and Whang (2019) used modernization as an indicator of asset reduction. Ogunbayo, Ohis Aigbavboa, Thwala, and Akinradewo (2022) centered on replacement as a way of reducing assets. In the current study, asset reduction was measured using disposal, modernization, and replacement as described by Lima et al. (2021), Kuntze et al. (2019), and Ogunbayo et al. (2022).

Small enterprises in this country are expanding daily, and they are not only innovative but also unsure about their day-to-day operations. Small enterprises make up the majority of small enterprises, accounting for 95 percent of all businesses in most nations. Small businesses contribute to the creation of jobs, as well as the creation and support of major firms in an innovative manner. According to the Kenya Agribusiness and Agroindustry Alliance report from 2018, most small businesses have not yet reached their optimal growth rates due to a variety of challenges such as a lack of management training, adequate funding, and limited credit options, rapid technological challenges, and new laws and regulations, and inadequate knowledge and skills.

1.1 Problem Statement

Small enterprises are a significant economic pillar in Kenya because they provide income and employment to a large proportion of the population. The Kenya Economic Survey report of 2018 indicated that 79.8% of Kenya's new jobs were contributed by small enterprises. Additionally, small enterprises contribute more than 20% of Kenya’s GDP as per the Kenya National Bureau of Statistics report of 2018.

Despite the importance of small enterprises in Kenya's economy, the KNBS reported in 2016 that 2.2 million small enterprises had closed. The industries that have suffered from failure include wholesale and retail, as well as auto and motorcycle maintenance, which accounted for almost 73.5% of total closures. The report further indicated that within the first three years of operation, three out of five small enterprises failed. Small enterprises started within the last two years accounted for 61.3% of the total closed businesses. The challenges associated with growth problems of small enterprises included managerial training, access to credit, modern technology, knowledge and skills, and collateral demands according to Kenya Agribusiness and Agroindustry Alliance report of 2018. This research aimed to fill the gaps in knowledge by analyzing the effect of asset reduction on small company growth in Kenya's Busia County.

2.0 Literature Review

2.1 Theoretical Review

The study was anchored on Agency cost Theory. Jensen and Meckling's organization cost theory, published in 1976, outlines the definition of ownership in general. The theory depicts that owners will delegate what they are supposed to do to their agents. There is an impact that agency costs have on the firm’s capital structure. The authors also depicted that whoever manager has claims on the organizational outcome; the manager tries to budget a larger amount of corporation resources that will be in form of benefits.

Jensen and Meckling (1976) highlighted conflicting areas that this theory depicts. These two conflicting areas are between the owners and creditors. The other one is the owners and managers. At any time that the firm's operation is profitable then the firm can be able to service its debt which may include an investment schedule, Jensen (1986) also indicated that debt could force the organization to consider using cash to service its operation. This shrinks free cash flows that were available for the manager to use.

The agency cost principle applies to the current survey because it explains the various relationships that exist in an organization. Some of these include investor-managers, debtors-managers, and manager-employee relationships. Microfinance practices including asset reduction are critical in shaping various relationships.

2.2 Empirical Review

Morrow Jr, Johnson, and Busenitz (2014) evaluated the influence of cost and asset reduction on business output. This research develops and tests the argument that strategies to reduce costs and/or assets have different effects on firm performance in an environment of increasing and decreasing competition. In developing industries, cutting assets is positively associated with efficiency gains, but cutting costs is not. In a declining industry, cost reduction is positively associated with better yields, while asset reduction negatively affects firm performance. The study found that asset retrenchment or reduction had varying effects on firm performance in different industries. The current study used descriptive and explanatory research designs, whereas the study used descriptive research designs. The current study found that there is regular disposal of assets that do not contribute to returns of the enterprise.

Mwaniki and Omagwa (2017) looked into the connection between financial success of companies listed on the Kenyan Stock Exchange (NSE) in the trade and services sector and wealth structure. The purpose of this study was to collect secondary data from the annual report of the company. The asset structure is studied in relation to the independent variable, which is made up of property, plant, and equipment, current assets, intangible assets, long-term investments, and money. The results showed that the asset structure and the financial outcomes had a statistically significant link. The study concluded that while current assets and intangible assets are not particularly relevant, fixed assets, investments, and long-term assets have a statistically significant impact on financial results. The current study concludes that companies need to increase allocation of funds for investment and long-term funds and make efficient use of available resources in terms of fixed assets. The current study's independent variables were management reorganization, investment, financial restructuring, and asset reduction. The current study results showed that there was modernization or upgrade of the enterprise's assets.

Djordjevic and Djukic (2018) analyzed the effect of size reduction on a company's reputation. The importance of the company's reputation as one of its most valuable intangible assets is emphasized in the study. This kind of resource can give a business a significant competitive edge. According to the study's conclusions, there was a high likelihood that downsizing would prove to be a bad strategy for the business and damage its reputation. It is important to consider the need for such a decision before making a downsizing decision. The current study established that there was a replacement of old assets with new assets.

Njoki (2018) investigated how organizational downsizing affected worker performance at several commercial banks in Kenya's Nyeri County. The study found that workers always felt part of the banking family and wanted to work longer hours at the same bank. Employees are satisfied with annual raises, according to the survey, though some believe they are insufficient in comparison to their daily contributions. Employees feel secure in their current positions,

according to the survey. According to the poll, banks have the chance to promote outstanding performers. Banks, on the other hand, were discovered to offer employment enrichment opportunities regularly to improve efficiency. The study discovered that firms are continually assessing their training needs to enhance outcomes and that banks provide possibilities for creative and demanding work. The study variables were downsizing and employee performance. The current study's variables were microfinance practices and growth of enterprises. The current study's findings showed that modernization or upgrade of the enterprise assets affects its growth of small enterprises.

3.0 Methodology

Descriptive and explanatory research designs were used in the study. The research targeted 220 management employees of licensed small enterprises operating in Busia County in Kenya. A census was carried out on all management employees in the department because the number was small. Therefore, all 220 management employees of licensed small enterprises operating in Busia County were included in this study. The drop-and-pick method was used by the investigator to manage the surveys. The research collected primary data using a structured questionnaire. The study supervisor reviewed the instrument and suggested any required changes to ensure content validity. Reliability was evaluated using Cronbach alpha, the author evaluated the trustworthiness of the data tools. Descriptive and inferential statistics were generated. Data was captured using tables and graphs.

4.0 Results and Discussion

4.1 Descriptive Statistics

The respondents' degrees of agreement with various managerial competence assertions were asked for on a five-point Likert scale, and this information was gathered as descriptive data. The data was further categorized, with 3 being designated as neutral, 4 and 5 as agree, and 1 and 2 as disagree. Table 1 presents the results.

Table 1: Descriptive Statistics for Asset Reduction

Statement	1	2	3	4	5	Mean	Std.Dev
There is regular disposal of assets that do not contribute to returns of the enterprise.	12 (7.3%)	14 (8.5%)	5 (3%)	68 (41.2%)	66 (40%)	3.98	1.2
There is modernization or upgrade of the enterprise's assets.	9 (5.5%)	8 (4.8%)	7 (4.2%)	73 (44.2%)	68 (41.2%)	4.11	1.07
There is a replacement of old assets with new assets.	9 (5.5%)	13 (7.9%)	6 (3.6%)	74 (44.8%)	63 (38.2%)	4.02	1.11
Disposal of assets that do not contribute to returns of the enterprise affects its growth.	4 (2.4%)	11 (6.7%)	6 (3.6%)	74 (44.8%)	70 (42.4%)	4.18	0.96
The modernization or upgrade of the enterprise assets affects its growth	10 (6.1%)	23 (13.9%)	11 (6.7%)	72 (43.6%)	49 (29.7%)	3.77	1.19
The replacement of old assets with new assets affects the enterprise's growth.	10 (6.1%)	17 (10.3%)	7 (4.2%)	62 (37.6%)	69 (41.8%)	3.99	1.19

Results showed that 134(81.2%) of respondents agreed that there was regular disposal of assets that do not contribute to returns of the enterprise (mean of 3.98) though with little variance (standard deviation of 1.12). Findings revealed that 141(85.2%) of respondents agreed that there is modernization or upgrade of the enterprise's assets (mean of 4.11) hence little variation (standard deviation of 1.07). Results showed that 137(80.0%) of respondents agreed that there was replacement of old assets with new assets (mean of 4.02). There was little variation (standard deviation of 1.11).

In addition, findings indicated that 144(87.2%) of respondents agreed that disposal of assets that do not contribute to returns of the enterprise affects its growth (mean of 4.18) whose variation was low (standard deviation of 0.96). Further results showed that 121(73.3%) of respondents agreed that the modernization or upgrade of the enterprise assets affects its growth (mean of 3.77). This infers that small enterprises that modernize assets enhance their growth (standard deviation of 1.19). Results showed that 131(89.4%) of respondents agreed that replacement of old assets with new assets affects the enterprise growth (mean of 3.99). Growth varied slightly (standard deviation of 1.19). The study finding is similar to results of Morrow Jr, Johnson, and Busenitz (2014) who established asset reduction has a significant effect on firm performance in an environment of increasing and decreasing competition. The findings are similar to those of Lima, McMahon, and Costa (2021), and Kuntze, Wu, Wooldridge, and Whang (2019) study findings which showed a substantial link between asset reduction and growth of enterprise.

Table 2: Descriptive Statistics for Growth of Small Enterprises

Statement	1	2	3	4	5	Mean	Std. Dev
Managerial training is essential for the growth of the enterprise.	7 (4.2%)	13 (7.9%)	7 (4.2%)	68 (41.2%)	70 (42.4%)	4.10	1.08
The growth of the enterprise is affected by access to credit.	13 (7.9%)	12 (7.3%)	11 (6.7%)	59 (35.8%)	70 (42.4%)	3.98	1.22
The enterprise has adopted the use of modern technology and this has affected its growth.	8 (4.8%)	15 (9.1%)	7 (4.2%)	65 (39.4%)	70 (42.4%)	4.05	1.13
The personnel knowledge and skills have expanded and affected the growth of the enterprise.	6 (3.6%)	16 (9.7%)	4 (2.4%)	63 (38.2%)	76 (46.1%)	4.13	1.09
The collateral demands determine the growth of the enterprise.	9 (5.5%)	13 (7.9%)	10 (6.1%)	65 (39.4%)	68 (41.2%)	4.03	1.13

Results showed that 138(83.6%) of respondents agreed that managerial training is essential in the growth of the enterprise (mean of 4.20). This infers that training managers lead to varied growth of small enterprises (standard deviation of 1.08). Results indicated that 129(78.2%) of respondents agreed that growth of an enterprise is affected by access to credit (mean of 3.98). This implied that small enterprises experience variation in growth due to access to credit (standard deviation of 1.22). Furthermore, 135(83.6%) of respondents agreed that the enterprise

has adopted the use of modern technology and this has affected its growth (man of 4.05) with little variation (standard deviation of 1.13).

In addition, 129(84.3%) of respondents agreed that personnel knowledge and skills have expanded and affected the growth of the enterprise (mean of 4.13). Growth of Small enterprises changed slightly (standard deviation of 1.09). Further results showed that 133(83.6%) of respondents agreed that the collateral demands determined growth of the enterprise (mean of 4.03). It showed that collaterals demanded by the financial institutions played a great role in the growth of small enterprises (standard deviation of 1.13). The findings are similar to the work of Castellas, Ormiston, and Findlay (2018) who found that managerial training was essential in the growth of the enterprise. The results also mirror the findings by Fatoki (2018) who observed that knowledge and skills are critical in enhancing enterprise growth.

4.2 Regression Analysis

Regression analysis was done to determine the relationship between microfinance practices and the growth of small enterprises. Table 3 presents regression coefficients.

Table 3: Analysis of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.923	0.264		-3.494	0.001
Asset Reduction	0.424	0.052	0.389	8.151	0.000

There is a positive and significant effect of asset reduction and growth of small enterprises ($p=0.000<0.05$). A one-unit increase in asset reduction would result in a 0.424 unit increase in small business growth. The results of the study corroborate those of a 2017 study by Mwaniki and Omagwa, which found a statistically significant relationship between asset decrease and financial performance.

5.0 Conclusion

The study found that asset reduction significantly and favorably impacted small business growth. In addition, modernization of assets enhances the operations efficiency and furthers the firm growth. Further replacement of old assets with new assets enhances efficiency of the firm. However, disposal of assets does not have any influence on growth of the small enterprises.

6.0 Recommendations

The study recommended that small enterprises should do replacement of long-term assets since this will enhance their growth. Further, Small enterprises should ensure they often modernize their assets since this enhances the small enterprises' internal operation efficiency and growth. However, firms should not concentrate on disposal of assets since it plays no role in firm growth.

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