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Nexus between Demographic Characteristics of Micro and Small Enterprises Owner-Managers and their Perceptions of Risk in Bungoma County, Kenya

Nexus between Demographic Characteristics of Micro and Small Enterprises Owner-Managers and their Perceptions of Risk in Bungoma County, Kenya

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Abstract
This paper explores demographic characteristics that define Micro and Small Entrepreneurs often overlooked by business development services based on the hyped perception that the entrepreneurial process can be actualised by all and sundry if they have the push and pull to take risks. The author argues that despite the contributions made to the global economies in terms of Gross Domestic Product and employment creation, demographics associated with successful entrepreneurial process based on perception and assessment of risk among entrepreneurs remain unaddressed, yet a close interrogation of critical demographics may influence accurate packaging of business development services. The discussion is based primarily on a systematic literature review of entrepreneurial traits, and demographic characteristics and analysis of a survey finding carried out on MSEs in Bungoma County. The theory and model reviewed to reflect past studies and form part of the study's theoretical underpinning were the theory of firm formation by Kihlstorm and Laffont together with the model of entrepreneurial choice by Jovanovic. A mixed methods research design was employed. The study concludes that there is a need for business development services to be aligned along the four critical demographic characteristics: age; ethnic background; training and education to empower Micro and Small Enterprises on risk perception and assessment together with coping skills so that their failure rates are minimised. This will avert mass unemployment that has reached disaster proportions in entrepreneurial hubs of Kenya arising from MSEs' high failures within their first year of establishment. Resultant MSEs' sustainability will complement government efforts on unemployment and livelihood options for the masses.

Introduction
Disasters are increasingly driven by human-induced activities rather than natural forces as they were decades ago. These activities constitute a dynamic manifestation of ongoing processes of risk building, which can erase decades of hard- earned development gains and push countless households into poverty and debt burdens (Jha & Geddes, 2013). Micro and Small Enterprises (MSEs) have been praised as avenues of livelihood opportunities globally, significantly boosting various countries' Gross Domestic Product and reducing poverty (ILO, 2013; Dalberg, 2011; Ayyagari, et al., 2005). In many developing countries and transition economies, including Kenya,

MSEs contribute between 35% and 50% to the Gross Domestic Product (Emine, 2012; Kithae et al., 2012; Ayyagari, et al., 2005). In terms of employment and livelihood opportunities for millions, MSEs provide a workforce of between 70% and 89% of total employment supported by transition economies and developing economies, especially in Sub- Saharan Africa (Lieshout, et al., 2012; ILO, 2012; KNBS, 2012). Ironically, MSEs not only operate in resource- sensitive and emission- intensive sectors but also locate their businesses in risky areas due to a lack of space (UNFPA, 2012). Examples of such engagements include metal and wood works, leather tanning, printing and dyeing, brewing, and food processing. Others are fish farming, public transport services, cereal farming, and fast foods (Mputhia, et al., 2012; Nganga, et al., 2011). The significant contribution of MSE to individual countries' economies globally is further reinforced by what drives them. Their work is strongly customer- oriented and rooted in creativity, innovation, and entrepreneurial spirit, which relate to their demographic characteristics (OSCE, 2006; ROK, 2005; Alesch, et al., 2001). Factors like entrepreneurial risk, stress, and ego, which can lead to failure and destructive entrepreneurial behaviour among MSEs, have not been adequately addressed by current interventions for MSEs' sustainability (Stokes & Wilson, 2006; Kuratko & Hodgetts, 2004; Rwigema & Venter, 2004). Destructive entrepreneurial behaviour makes entrepreneurs vulnerable to sociological disasters that characterise entrepreneurial hubs (NACADA, 2012; 2010 a; 2010b; IFRC, 2008). The prevalence of sociological disasters causes a progressive loss of cultural heritage (knowledge, beliefs, and value systems); this is known to influence people' s daily choices and behaviours while also promoting sustainable development and the well- being of communities (UNISDR, 2013). There is limited empirical information on how demographic characteristics could influence MSE owner- managers' perception of risk.

Entrepreneurs are hardworking individuals because running a business requires the ability to work long hours when necessary, to work intensely in spurts, and to cope with less than a normal amount of sleep (Xavier, et al., 2012; Bosman, et al., 2012; Kuratko & Hodgetts, 2004; EU, 2004). Self-confidence is equally necessary for success, as entrepreneurs must believe in themselves and their ability to achieve their set goals. Furthermore, entrepreneurs possess foresight, as most successful business people can establish realistic goals or targets and work with determination to achieve them (Boston, et al., 2008; Manu, et al., 2005; Rwigema & Venter, 2004). Despite these strengths that characterise entrepreneurs, all businesses face problems, uncertainties, and disappointments (ISO, 2009). The drive to persist in solving these challenges and to cope with failure and uncertainty is crucial for being a successful entrepreneur (Boston, et al., 2008; Kim & Mauborge, 2005; Richardson, et al., 2004). However, coping with failures as entrepreneurs involves recognising these setbacks, learning from them, and seeking new opportunities. This characteristic has enabled many to endure in the business world despite numerous odds (Kaplan & Mikes, 2012; FEE, 2004; Alesch et al., 2001), equated to resilience from a disaster risk perspective. The study aimed to establish any link between the demographic characteristics of owner-managers of MSEs in the study area and their perception of risk (Olawale & Garwe, 2010; Minniti et al., 2006). Gaomab (2004) reports that the failure rate of MSEs in Africa is 85%. However, the majority of MSEs are characterised by a lack of awareness regarding the environmental and socio-economic impact of their products along the supply chain, which could pose a risk to business sustainability (Bhattacharjee & Iftikhar, 2011; Buckley et al., 2011). This study sought to investigate the existence of a nexus between the demographic characteristics of MSEs Owner-Managers and their perception and assessment of risks that might impact their business sustainability, using Bungoma County, Kenya, as a case reference. The author notes that while Business Development Services (BDS) activities have traditionally been aimed at assisting MSEs in overcoming internal and external constraints to their start-up and continuity, evidence suggests that the main focus has been on their social capital and enhanced

capabilities through training, counselling, and advice. However, limited studies exist on how the demographic profiles of owner-managers influence their risk perception, analysis, assessment, and preparedness for threats to their business survival. The ability of entrepreneurs to identify risks and implement control measures reduces failure rates and enhances the identification of opportunities. These factors contribute to the continuity of businesses despite numerous challenges (Kaplan & Mikes, 2012; Bosman, et al., 2012). This is similarly equated to resilience from a disaster risk perspective. This study aimed to explore the role of the demographics of MSEs owner-managers in risk-based decision-making. The overall objective of the study was to determine the demographic characteristics that influence owner-managers' perception and assessment of disaster risk likely to impact on MSEs' sustainability over the 2007-2014 periods in Bungoma County, Kenya.

Conceptual Framework

The theory of firm formation by Kihlstorm and Laffont, along with the model of entrepreneurial choice by Jovanovic and the Disaster Crunch Model, forms the conceptual underpinning of this study (Bowen, 2001; Wennekers, et al., 2006; Cramer, et al., 2002; Wisner, et al., 2003). The theory of firm formation by Kihlstorm and Laffont (1979), as cited by Bowen (2001), Wennekers, et al. (2006), and Cramer, et al. (2002), addresses the entrepreneurial process by focusing on firm formation under uncertainty. Risk is considered in terms of more risk- averse and less risk- averse individuals. Entrepreneurs can choose to operate a risky firm or seek riskless wage employment. This entrepreneurial decision is influenced by their ability, skill, access to capital, and attitude towards risk. According to Bowen (2001) and Cramer, et al. (2002), the attitude towards risk is analysed in terms of the firm's size (with survival probability increasing alongside firm size and age), while risk aversion is seen as key to the growth and sustainability of MSEs. Shyti (2013) highlights overconfidence as a factor that influences entrepreneurial choice during periods of uncertainty. Furthering empirical evidence on firm formation under uncertainty, Shyti (2013) conducts a study on overconfidence and entrepreneurial choice under ambiguity, demonstrating that overconfidence contributes to high business failure rates within the $3\ ^1/_2$ years following a start-up. According to the Jovanovic model of entrepreneurial choice (1982), as cited by Bowen (2001), risk arises because business activities are inherently risky, and individual entrepreneurs are often uncertain about their management abilities. Similar to the theory of firm formation by Kihlstorm and Laffont, the Jovanovic model also concentrates on intentions and the nascent and new phases of the entrepreneurial process. In the framework of Jovanovic (1982), as cited by Stam, et al. (2006) and Bowen (2001), the management abilities of individual entrepreneurs improve through experience gained from doing business, education, and training, and social- demographic variables such as age, gender, and culture have been shown to influence this experience.

Methodology

Research design

The study was conducted using mixed methods research approaches, comprising concurrent triangulation and correlation design to address the study objective. This design allowed the researcher the freedom to utilise all possible methods to address the research problem under investigation, particularly by discussing and reporting a complete picture of how entrepreneurial traits and demographic characteristics influence risk perception. The well-being of MSEs' Owner-Managers, in functional terms, is a resource that permits them to lead productive lives: individually, socially, and economically (Uy, et al., 2012; Volery & Pullich, 2009; Ahmad &Salim, 2009). Stable well-being must be safeguarded to enable MSEs' Owner-Managers to cope with entrepreneurial stress through disaster risk management (Jha & Geddes, 2013; IFRC, 2012d; 2007; Enderwick, 2006). This will stabilise their coping ability and resilience and forestall failure rates.

Study area

The study area was Bungoma County, Kenya. Practical considerations dictated the selection of this area. It is distinctive because it represents a hybrid of rural and urban entrepreneurship, and various hazards and disasters affecting MSEs are prevalent. The study was conducted among owner-managers of MSEs in Bungoma County.

Sampling strategy

Regarding sampling, a combination of purposive, stratified, and multi-phase approaches was utilised as the sampling strategy. Purposive sampling targeted the County of Bungoma and its respective urban centres/localities, namely: Kimilili, Bungoma, Malakisi, and Kapsokwony. Multi-phase sampling was applied to select MSEs' Owner-Managers and segment activities. The use of stratified sampling at the stage of selecting MSEs further enhanced precision. The criteria guiding this selection included the scale of entrepreneurial activities and urbanisation (KNBS & SID, 2013). Enterprises in the four urban centres were stratified based on firm size; thus, MSEs were targeted. An approximate ratio of 7:3 was used to randomly select MSEs, given that the majority of entrepreneurs operate on a micro-scale. The sample of 384 used in this study was based on inference from a sample determination table used in social sciences (Cohen, et al., 2005). It was considered sufficiently large to yield adequate statistical power and to avoid issues of representation. Additionally, based on the researchers' judgement and insights from other senior researchers, the sample was regarded as fair enough to minimise sampling error. Although a response rate of 75% was anticipated, the actual response rate varied between micro and small entrepreneurs across the four urban centres. Validity and reliability were ensured through the adequacy of the sample, expert input on instruments, the use of the triangulation technique, corroboration of findings, and Cronbach reliability analysis.

Data collection and Analysis

Data collection methods blended questionnaires, document analysis, and observation. This was intentionally done to capture vital information. The instruments used in primary data collection included questionnaires, document analyses, and direct observations. The questionnaire served as the principal instrument for primary data collection. Owner-Managers of MSEs were identified as the main respondents from whom the following primary data was sought: socio-economic and demographic characteristics, types of hazard/disaster risks in the study area, information needs, and their perception and assessment of risks. Both inferential and descriptive statistics were used to analyse the data. The analysis involved cross-tabulation, Chi-square, and simple regression analysis.

Table 1: Study Unit of Analysis and Sampling methods

Study Unit of Analysis		Sampling Method	Sample Size
County		Purposive	1
Urban Centre/Town		Purposive	4
MSEs as economic units		Multi-phase	384
Owner- managers of MSEs		Multi-phase	384
Types of hazards and disasters		Purposive	23
MSEs Sector	MSE	Multi-phase	268
	SSE	Multi-phase	116

Source: Researcher, 2014

Legend: MSE= Micro- Enterprise (employs: 0>5); SSE= Small- Enterprise (employs: 5 < 50).

Note: MSEs Sector activities are classified into commerce, Manufacturing and Services.

Results and Discussion

The researcher explored the nexus between the demographic characteristics of MSEs owners-managers and their perceptions of risk. This was aided by identifying MSEs' scales of business and the extent of engagement within the three main categorisations of business activities: commerce, manufacturing, and service, either singularly or as a blend. This assessment was critical because the scale of business and level of diversification speak to owner-managers' perceptions of risk and are also influenced by demographics such as age, gender, and level of education. Table 2 is a cross-tabulation of the types of business engaged in by scale of the business and the gender of owner-managers.

Table 2: Type of Business Engaged in by Scale and Gender of Owner-Manager

Scale of Enterprise	Gender of Owner-Manager	**Type of Business:** *1= Commerce, 2 = Manufacturing, 3= Service, 4=Combination of 1&3, 5=Combination of 2&3, 6= Combination of 1&2,7=Combination of 1,2&3*							
		1	2	3	4	5	6	7	Total
Micro	**Male**	23(19)	14(11)	33(27)	38(31)	2(2)	11(9)	1(1)	122(46)
	Female	65(44)	3 (2)	3(2)	67(46)	0(0)	8(6)	0(0)	146(54)
Sub-Total		88(33)	17(6)	36(13)	105(39)	2(1)	19(7)	1(1)	268(100)
Small	**Male**	2(3)	3(4)	6(9)	16(26)	24(35)	13(19)	4(6)	68(59)
	Female	2(4)	0(0)	1(2)	28(58)	6(13)	11(23)	0(0)	48(41)
Sub-Total		4(3)	3(3)	7(6)	44(38)	30(26)	24(21)	4(3)	116(100)

Note: The figures in parentheses are percentage frequencies; n=384. Source: Field Data, 2014

As indicated in Table 2, among the entrepreneurs involved in micro-scale businesses, 19% of males and 44% of females participated only in commerce; 11% of males and 2% of females engaged solely in manufacturing, while 27% of males and 2% of females focused exclusively on services. However, several blended their activities into four combinations: commerce and service; commerce and manufacturing; service and manufacturing; along with commerce, manufacturing, and service. From the table, it is evident that the combination of commerce and service attracted the highest participation, at 31% for males and 46% for females among micro entrepreneurs. In the small-scale category, more entrepreneurs chose to blend their activities. For instance, 26% of male and 58% of female small entrepreneurs combined commerce and service, while 35% of males and 13% of females blended manufacturing and service. Additionally, 19% of males and 23% of females focused on a mix of commerce and manufacturing. Overall, micro entrepreneurs generally preferred commerce only at 33% or a blend of commerce and service at 39%. For small entrepreneurs, many favoured a combination, with 38% opting for commerce and service, 26% for manufacturing and service, and 21% for a blend of manufacturing, service, and commerce. Collectively, 52% of micro

entrepreneurs leaned toward singular activities: 33%, 6%, and 13% for commerce, manufacturing, and service, respectively, while 12% of small entrepreneurs preferred singular activities: 3%, 3%, and 6% for commerce, manufacturing, and service, respectively. The study revealed a significant difference in the level and nature of diversification between genders in micro and small-scale enterprises. Female micro entrepreneurs primarily engaged in commerce only or a combination of commerce and service, totalling 90%, whereas the majority of those in small-scale enterprises participated in a mix of commerce and service or commerce and manufacturing, aggregating at 81%. From Table 2, female small entrepreneurs demonstrated greater diversification at 94%, compared to 52% of female micro entrepreneurs. Male micro entrepreneurs predominantly engaged in services only or a blend of commerce and service, totalling 58%, while in the small-scale category, the majority were involved in combinations of manufacturing and service or commerce and service, totalling 61%. As posited by the Disaster Crunch Model (Wisner et al., 2003), applied in this study, limited resources and lack of skills exacerbate vulnerability. The blending and singularity of activities may serve as coping strategies for entrepreneurs based on the resources at their disposal and their capacity to manage a diversified business portfolio. Interviewed MSEs owner-managers indicated that some of them engaged in singular activities as a survival mechanism, enabling them to quickly mobilise their limited resources in the event of a disaster, compared to when they were involved in a wider range of activities and were unsure where to start. Conversely, those participating in blended activities did so to retain part of their business resources during a disaster. This behaviour aligns with the entrepreneurial process trends proposed by Kuratko and Hodgetts (2004) and supported by Xavier et al. (2012) regarding entrepreneurial attitudes and perceptions.

Tables 3, 4 and 5 capture the inferential results based on Chi-square tests and simple regression analysis. The Chi-square tests results in Table 3 show that, there is a statistically significant relationship between perceptions of disaster risks and four demographic characteristics of owner-managers. These are age (χ^2= 27.23, df=4, p<0.05); ethnicity (χ^2= 45.26, df=7, p<0.05); training (χ^2= 22.18, df=3, p<0.05) and education (χ^2= 19.04, df=3, p<0.05). However, there was no statistically significant relationship between perceptions of disaster risks and two demographic characteristics of owner-managers; namely gender (χ^2= 2.10, df=1, p<0.05) and experience (χ^2= 5.54, df=2, p<0.05). On the basis of these tests, it can be interpreted that age, ethnicity, training and education are useful predictors of micro and small entrepreneurs' perception of disaster risks as opposed to gender and business experience. This finding aligns with previous studies on perceptions of risks, albeit from developed economies (Wachinger &Renn, 2010; Falkner & Hiebl, 2015; Kim & Vonortas, 2014).

Table 3: Results of Chi-square tests on the association between Perceptions of Disaster Risks and Demographic Characteristics of Owner-Managers

socio-economic characteristics	Chi-square	df	Sig
Gender	2.10	1	0.17
Age	27.23	4	0.00
Ethnicity	45.26	7	0.00
Experience	5.54	2	0.08
Training	22.18	3	0.00
Education	19.04	3	0.00

Source: Field Data, 2014 **Total cases = 384**

As indicated in Table 4, simple regression analysis revealed that R^2_{adj} was 0.02, F = 9.58, p< 0.05; beta weight = 0.16. By examining the beta weight in Table 4, it is evident that the variance in perception was significantly accounted for by type of training as a demographic characteristic of the owner-managers. While the result depicts a weak relationship based on the conventional decision criterion of coefficient range 0.3 to 0.7, the author opines that given the impact of knowledge, often from experience, formal education and informal education through social capital, training and varied capacity building on information seeking behaviour that influences risk perception and assessment, the strength in relationship is still communicative about how aspects of demographics positively influence perception of risks among MSEs.

Table 4: Regression of Perception of disaster risks against Training variable as Demographic Characteristics of Owner-Manager

Single R		0.16			
Adjusted R square		0.02			
Std. Error		0.18			
	df	**Sum of squares**	**Mean square**	**F**	**Sig. of F**
Regression	1	0.31	0.31	9.58	0.02
Residual	12.25	12.25	0.32		
Variables in the Equation					
Variables	**B**	**Standard error of B**	**Beta**	**t**	**Sig. of t**
Type of Training for owner-manager	0.01	0.01	0.16	3.10	0.00
Constant	7.93	0.04		226.07	0.00

Source: Field Data, 2014. **Total cases= 384.**

Further, as indicated in Table 5, R^2_{adj} was 0.19, F = 87.72, p< 0.05; beta weight = 0.43. By examining the beta weight in Table 5, it is evident that the variance in perception was significantly accounted for

by education level as a demographic characteristic of the owner-managers. The beta weight value reveals a moderate relationship that fits within the decision criterion of the coefficient range 0.3 to 0.7. It is evident and therefore conclusive that education level positively influences the perception of risks among MSEs. This finding agrees with previous studies on demographics influencing the perception of risks (Kelly et al., 2011; Kunreuther, 2002).

Table 5: Regression of Assessment of disaster risks against Education variable as Demographic Characteristic of Owner-Manager

Single R		0.43			
Adjusted R square		0.19			
Std. Error		0.39			
	df	**Sum of squares**	**Mean square**	**F**	**Sig. of F**
Regression	1	13.63	13.63	87.72	0.00

Residual	382	59.36	0.16		
Variables in the Equation					
Variables	**B**	**Standard error of B**	**Beta**	**t**	**Sig. of t**
Education Level of owner-manager	0.19	0.02	0.43	9.37	0.00
Constant	3.81	0.05		74.38	0.00

Source: Field Data, 2014 **Total cases = 384.**

Conclusion

Demographic characteristics significantly influencing micro and small entrepreneurs' perception of disaster risks include age, ethnicity, training, and education. Risk prevention and management in the informal sector and coping with business stress remain grey areas that have received scant attention. There is a need for a tangible policy targeting MSEs to raise awareness, particularly on the link between the sustainability of enterprises, owner-manager characteristics and traits, and the management of risks within the business environment.

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