

# Marketing Support Provided In The Incubation Centres And The Survival Of Small And Medium Enterprises (SMEs) In The Renewable Energy Sector In Kenya

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**Abstract:** Small businesses including those in the renewable energy sector face many challenges putting their survival at risk. In Kenya, 3 out of 5 SMEs close within the first two years after starting operations, and to enhance their survival many small businesses have turned to incubation. Thus, the purpose of the study was to establish the effect of marketing support from incubation centers on the survival of SMEs in the renewable sector in Kenya. The study is anchored on the market orientation theory and employed descriptive research design. The 60 renewable energy SMEs from the database of the World Bank InfoDev initiative were targeted. A census study of the 60 SMEs in this database was carried out. Primary data was collected using semi-structured questionnaires that were self-administered to the SME owner and senior managers. The collected data was qualitative and quantitative in nature and it was analyzed through descriptive correlation, multiple regression and content analysis. The findings revealed that respondents agreed that marketing support influenced survival of the SMEs due to overall mean score of  $M = 3.88$ . The correlation analysis showed that marketing support and survival of SMEs in the renewable energy had positive and significant association ( $r = 0.569$ ,  $p = 0.000 < 0.05$ ). The regression coefficient showed a positive and noteworthy association between marketing support and survival of SMEs in the renewable energy based on beta findings of ( $\beta = 2.991$ ,  $p < 0.05$ ). Results also showed that 59.9% of changes in the survival of the SMEs in the renewable energy sector in Kenya could be traced to marketing support. Thus, the study concluded that survival of SMEs in the renewable energy in Kenya largely depends on accessing and participation in business incubation programs for marketing support. The study also concludes that marketing support contributes to business survival. The study recommends that SME owners should use online marketing to expand their reach to regional and global markets and also advertise and broadcast their products in trade fairs and exhibitions.

**Keywords:** Marketing support, Market information, Market linkages, market research, Access physical markets, Business survival.

## INTRODUCTION

Globally, SMEs contribute a lot in economic growth, employment and driving innovation. In the developed high-income world, they contribute 49% to the Gross Domestic Product while providing about 67% of all formal employment. In the developing and low-income countries, SMEs contribute 29% to the GDP and provide 45% of all formal employment (International Finance Corporation, 2014). Despite their significant role, the survival of small businesses is threatened and not assured as they are limited in size and resources and do not have the experience of dealing with challenges that occur in the course of starting and operating a business. They lack the key resources, financial, physical, managerial, marketing and administrative capabilities required to successfully run a business. According to Bengtsson and Johansson (2014), SMEs don't have market presence, key resources and depend on a narrow customer base. They lack money for pursuing business opportunities (Schumann, Scott, Kalinowski, Kaliski & Pragman, 2014). Small business owners face difficulties in protecting their businesses from failure due to lack of enough finance and financial support (Falkner & Hiebl, 2015).

Studies done in the United States revealed that about 20%, 45% and 65% of new businesses fail within two years, five years and 10 years after opening respectively. Just about 25% of them make it beyond 15 years (U.S. BLS, 2020). It is estimated that half of all the

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current SMES in the developing world have the likelihood to fail within six years (IEG, 2014). In Nigeria, 80% of SMEs close shop within 5 years of startup (SMEDAN, 2015). The scenario is replicated in Kenya where three out of every five SME businesses in Kenya (60%) close within the first two years of operation (KNBS, 2013). A policy brief on incubation prepared by the OECD/EU (2019) points out that businesses that are supported through incubation have a higher tendency for survival, provide more jobs and have higher revenues.

There has been growth in interest towards business incubation programs to support development of successful SMEs. Incubation provides entrepreneurs with the skills to start, grow and manage a business (ANZABI, 2019). Business incubators are known to be an effective tool for job creation and increasing the survival rate of businesses (Al-Mubarak & Muhammad, 2013). Business incubation programs assist entrepreneurs in the cost of running a start-up venture towards its survival in the first three years of operation (Kowo, Akinbola & Abeokuta, 2018). In Brazil, 80% of incubates survive compared to 50 percent of un-incubated businesses that do not service the first year (InfoDev, 2013). In Kenya, researchers have documented the role played by business incubation in promoting entrepreneurship and found a positive relationship (Omweri, 2016).

The African Development Bank describes incubation as the training of entrepreneurs on business skills and business plan development, mentoring and linking them to markets and finances, provision of better interaction, networking and exchange of innovative ideas amongst entrepreneurs, and dissemination of information on markets and financial services products (AFDB, 2017). Entrepreneurs join incubation in order to gain multiple skills for business and get assistance with a wide range of activities (Lose & Tengeh, 2016). It is achieved through a variety of activities that provide financial and physical services including business mentorship, marketing support, business training, administrative and secretarial services, access to finance, networking, working space, business address, and shared offices and equipment (Afriana, 2018; OECD/EU, 2019). Marketing support comes in the form of creation of synergies with the local business environment so that incubated businesses can access markets. SMEs are also supported with developing effective marketing strategies for their products/services (Lesakova, 2012).

Business survival is a set of entities that keep a company in business five years after it started (Lopez, O'Farrill, Perez & Velasquez, 2017). A firm's survival is based on performance of its business activities which is critical for its growth and sustainability (Shin, Park, Choi & Choy, 2017). Both financial and non-financial indicators are used by small businesses to measure performance, with profit margins, sales growth, operating income and cash flows most popularly used. These performance indicators help in assessing the chances for survival or failure of business units. This article measures business survival in terms of growth strategy, employee growth, innovation and business lifespan.

SMEs make up the vast majority of firms, and in Kenya they represent about 98% of all businesses (International Trade Centre, 2019). In 2016, Kenya had 1.56 million SMEs with licenses and 5.85 million without, both in the formal and informal sectors, out of which, 92% are micro businesses, 7% are small businesses and 1% are medium sized businesses (KNBS, 2016). Despite the important function handled by SMEs towards the social and economic development of Kenya, the sector continues to encounter many limitations that have created obstacles against realizing its full potential and eventually inhibiting SME survival. The SMEs faces constraints such as legal and regulatory framework that is inhibitive, unfavorable policy environment, restricted access to financial services, restricted access to infrastructure (power and water supply) and restricted access to markets. These challenges have led to closure of the SMEs largely due to restricted market access and lack of access to market information. The study will focus on SMEs in the renewable energy, since these enterprises face limited market access due to inflexibility of the energy sector to cater for the market needs of small-scale energy producers thus discouraging them from starting and expanding their investment in renewable energy (Fischer, Lopez, & Suh, 2012).

### **Statement of the Problem**

Despite renewable energy SMEs in Kenya playing a key role for green growth, job creation and bridging the energy gap, 46% of them close shop in less than a year of starting, and another 15% in the second year. The key reasons identified for closure of these businesses include limited market access and market information and limited access to affordable capital, as well as unfavorable government regulations (CBK, 2018). KIPPRA (2018) further indicates that on average, Kenyan startups have an average lifespan of 3.8 years, with 80% of these businesses closing before they get to their 5th year of operation.

In a monitoring and evaluation survey conducted by the Kenya Climate Innovation Center (2016) to collect information on their incubation clients in the renewable energy sector, they found that 69% of their client businesses had been in operation for less than 5 years i.e. 41% were 1-2 years old, 28% were 3-5 years old, 13% were 6-10 years old and 18% were older than 10 years. The findings of this survey further support the reported short life of small businesses in the RE sector and the problem of small business failure.

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Thus, the research focused on examining the effect of market support provided in the incubation centres on the survival of small and medium enterprise in the renewable energy sector in Kenya.

### **Study Objective**

- i. To examine the effect of marketing support provided in the incubation centres on the survival of SMEs in the renewable energy sector in Kenya.

## **LITERATURE REVIEW**

### **Theoretical Framework**

#### ***Market Orientation Theory***

Kohli and Jaworski (1990) developed the market orientation theory defining it as broad generation of market intelligence by an organization, and sharing and responding to it across the organization, in order to create value for the customer (Berkowitz, Kerin, Hartley & Rudelius, 2000). It is documented that market orientation came from the theory of marketing (Felcman, 2012), from which several orientations or concepts were developed (Kotler, 2012). Berkowitz, *et al.* (2000) advanced similar insights which are very close to the holistic marketing concept of Kotler and Keller (2012). From their findings some of the main areas to be included as part of the firm's marketing action -plan include integrated, internal, relationship and performance marketing.

The main feature of this theory in relation to marketing support given during business incubation is that the theory postulates attaining of the goals of the firm is determined by the needs of its target markets through effective integration of its marketing activities (Kotler, 1999). Komen and Kagiri (2018) used the market orientation theory to explain the adoption of mobile banking in Equity Bank and how it is affected by effects marketing strategies. This theory was also applied by Mwiru (2018) and Tarpeh (2017) in conducting market orientation and environmental scanning practices respectively.

With reference to the current study, the theory is relevant as it acknowledges the role of business incubation in providing marketing information, market research and consumer analysis to SMEs so that they are able understand their customers, competitors and environment. This enables them to effectively market their products, meet their customer needs and deliver superior value for competitive advantage and eventual survival.

### **Empirical Literature**

SMEs face severe marketing challenges when trying to pursue growth and survival including lack of knowledge in marketing their products and insufficient funds for marketing activities. If left to face these challenges alone, SMEs will fail at a high rate and encounter slow growth. Support is therefore provided by governments and donor organizations in accessing finance, markets, capacity building among others (Osei, Shao, Forkuoh & Osei, 2016). Marketing support comes in the form of creation of synergies with the local and international business environment so that incubated businesses can access markets. SMEs are also supported with developing effective marketing strategies for their products/services (Lesakova, 2012).

In Kenya access to markets and marketing information has been identified as a major limitation to SME development and competitiveness. These constraints include poor quality products and services, low access to physical markets, limited market research and analysis, poor linkages with export markets and narrow product diversity among others (GOK, 2005, KIPPRA, 2006). This causes SMEs to only trade within saturated local markets thus missing key opportunities in the global markets that are necessary for their survival and expansion, (Kimuru, 2018).

Akwalu (2014) investigated how access to markets affected the performance of youth-owned SMEs in Maara Sub-County, Tharaka-Nithi County. 147 youth owned enterprises were selected using purposive sampling from a study population of 230 youth owned SMEs, and concluded that accessing to markets improved the performance of the youth-owned businesses. There was a relationship between the extents to which the respondents think that the market access influences performance.

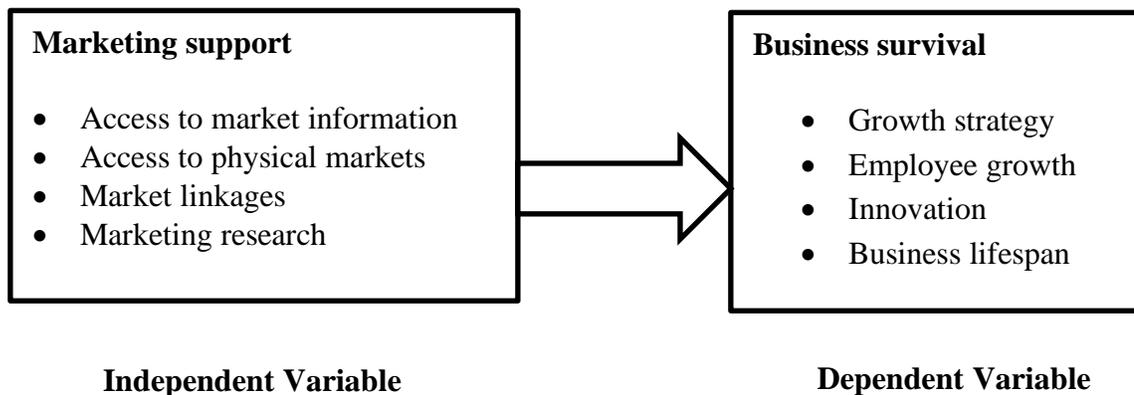
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Njoroge (2015) conducted a study of 86 SMEs in Matuu town Machakos County, Kenya establishing a positive association that marketing strategies had with the performance of SMEs. The study differs from the current study as it looks at the effect of marketing from the perspective of strategies while the current study looked at its effect from the perspective of marketing support provided during incubation.

Osei, Shao, Forkuoh and Osei (2016) assessed a marketing support on a selected group of retail SMEs in Ghana. The aspects of marketing looked at included training and access to global markets and marketing services such as trade fairs and exhibitions. 500 entrepreneurs were selected using purposive sampling and carried out the research using quantitative and qualitative research design. They found that the highest positive impact to SME growth was realized from participation in trade shows and exhibitions. Access to international markets and training came second and third respectively

Kimuru (2018) looked at youth owned small businesses in Kenya employing a descriptive research design on 127 SMEs that were randomly selected. The study found that access to markets was part of key factors and reasons for growth of the SMEs. The research used growth as its dependent variable while the current study used survival.

### Conceptual Framework



## RESEARCH METHODOLOGY

### Research Design

The study employed the use of the descriptive research design that entailed gathering of data that is illustrative of the events under study, and then arranging the data into tabulations, depictions and descriptions (Yuko & Onen, 2011). The descriptive research design became appropriate, since this study was determined to examine how marketing support provided in the business incubation centers affected the survival of SMEs, by seeking to acquire knowledge on the past and current status.

### Target Population, Sampling Technique and Sample Size

60 incubated renewable energy SMEs in Kenya drawn from the database of the World Bank-InfoDev initiative (World Bank, 2020) was the target population in the current study. The unit of observation consisted of all the 60 business owners of these RE businesses. The study used census method since there are only 60 incubated renewable energy SMEs in the database of the World Bank InfoDev initiative, allowing all of them to be considered in the study.

### Data Collection Instrument, Procedure and Analysis

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The study collected both primary and secondary data. Semi-structured questionnaires were used for collecting primary data and secondary data was collected from official company information and was gathered from company reports, company strategies and publications from incubation centers. A pilot test was conducted using 6 owners of renewable energy SMEs and results showed the questionnaire was valid and reliable based on Cronbach Alpha overall score of .803. The questionnaires were self-administered through physical distribution, private electronic means i.e. emails and followed up through telephone calls. The collected data was treated using content analysis that uses meanings and implications from respondents and documented data was used to analyze data from the open-ended questions. The collected quantitative data from the closed-ended questions were analyzed using the SPSS and MS Excel. Means, standard deviations, percentages and frequency distributions were obtained and the information was presented in the form of charts, graphs and tables. The effect of each independent variable on the dependent variable was established by conducting correlation and regression analysis. The following equation indicates the multi-linear model of regression that was used in this study:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

## FINDINGS AND DISCUSSIONS

### Descriptive Analysis

The researcher conducted descriptive analysis to get means and standard deviation on the responses on each of the statement. The analysis was done on Likert scale where 1= not at all 2= strongly disagree 3=disagree 4=agree 5=strongly agree

**Table 1: Marketing Support**

Statement	Mean	Std. Dev.
Because of the support, we are now aware of the opportunities in trading in Kenya	4.068	0.997
Because of the support, we were able to develop a marketing strategy for our business	3.795	0.904
The support provided opportunities to showcase my products/ services in trade fairs and exhibitions	3.977	0.976
The programme gave our business access to market information	3.931	0.949
The programme gave our business access to physical markets	3.84	1.055
The programme gave our business links to international markets	3.704	1.047
The programme enabled us to conduct market surveys	3.864	1.025
The programme enabled us to conduct competitor analysis	3.863	1.091
<b>Overall score</b>	<b>3.880</b>	<b>1.005</b>

Tables 1 contains the results of the questions related to the variables (mean = 3.880, std dev = 1.005) showing that the study respondents had agreed that marketing support had helped their enterprises to survive for longer. The findings echo what Akwalu (2014) found that accessing the markets influences the performance of youth-owned SMEs. Osei, *et al.* (2016) revealed that trainings, access to global markets and other marketing services like exhibitions and trade fairs improves SME growth, and that marketing services helped the growth of retail SMEs through accessing information and participating in trade fairs and exhibitions. Kimuru (2018) argues that Kenyan SMEs inability to access export markets, inaccessibility to physical markets and even global markets hamper their quest for survival and expansion. Njoroge (2015) shared that the presence of marketing strategies through marketing support from incubations improved performance of SMEs.

### Correlation Analysis

**Table 2: Correlation Analysis**

		Survival of SMEs	Marketing Support
Survival of SMEs	Pearson Correlation	1	
	Sig. (2-tailed)		

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Marketing Support	N	44	
	Pearson Correlation	.569*	1
	Sig. (2-tailed)	.000	
	N	44	44

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

The results also show that marketing support had strong and positive affiliations to survival of the SMEs as based on these results ( $r = 0.569$  and  $p = 0.000 < 0.05$ ).

### Regression Analysis

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.647 <sup>a</sup>	.465	.599	1.69454

a. Predictors: (Constant), Marketing Support

Table 3 means that 59.9% of changes in the survival of the SMEs in the renewable energy sector in Kenya can be attributed to marketing support. The results also indicate presence of a residual effect of 40.1% of elements that lead to survival of SMEs that are outside the scope of the current study.

**Table 4: ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	215.017	1	215.017	36.143	.000 <sup>b</sup>
	Residual	249.846	42	5.949		
	Total	464.863	43			

a. Dependent Variable: Survival of SMEs

b. Predictors: (Constant), Marketing Support

The ANOVA test was done at a significance level of 0.05 and the  $F_{\text{calculated}}$  is found to be 36.143 which is greater than the  $F_{\text{critical}}$  found to be 4.073 such that ( $7.745 > 4.073$ ) an indication that the model is ideal and can be used in the current study

**Table 5: Regression Coefficient**

Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	14.981	1.327		11.289	.007
	Marketing Support	2.991	.858	1.652	3.486	.000

a. Dependent Variable: Survival of SMEs

Table 5 shows that marketing support had positive and noteworthy association with survival of SMEs based on ( $\beta = 2.991$ ,  $p < 0.05$ ). Similarly, Akwalu (2014) who found that accessing of markets by enterprises is linked to performance of youth-owned business SMEs. Furthermore, Njoroge (2015) found positive relations that marketing strategies had on performance of SMEs.

### Discussions

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The research sought to find out what influence marketing support has on survival of SMEs in the renewable energy sector in Kenya. The study participants showed that marketing support provided during business incubation made them aware of trading opportunities that they could explore and improve their chances of survival. The study participants strongly agreed that showcasing their products in trade fairs, accessing marketing information on both physical and online markets as well as local and international markets expanded the places to market and sell their products, improving their sales earnings and thus survival rates. Furthermore, with knowledge on how to conduct market surveys and competitor analysis, product positioning became easier leading to more sales and continuity in operations

## CONCLUSIONS AND RECOMMENDATIONS

The study findings indicate that marketing support contributes to business survival. It can thus be concluded that when business owners and entrepreneurs get access to market information, physical and international markets, it contributes significantly to their survival as showcasing their products and services in trade fairs and exhibitions helps them to gain more sales and sustain their operations.

The study recommends that the SME owners and managers seek means of broadcasting their products in different markets. They should be engaged in trade fairs, exhibitions and set strategies to expand their market reach through online marketing, and expanding to regional and global markets. The study also suggests that managers learn different marketing strategies that they can implement.

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