

# Promoting Sustainable Small and Medium Textile Manufacturing Enterprises in Kenya

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## Abstract

The Small and Medium Textile Enterprises (SMTE) in Kenya play a pivotal role in contributing to the national economy through creation of employment arising from its labour intensive nature. In addition, the textile industry cuts across diverse sectors of manufacturing. However, SMTEs have not fared well in terms of the rate of growth and transition to medium and large manufacturing industries. This paper investigates the problems that prevent their growth, transition and survival rates. The findings point to pertinent challenges such as access to capital, low skills level, lack of technological know-how, access to markets and low level of inter-firm linkages. The paper recommends specific strategies such as access to affordable capital, human capacity enhancement through training and skills upgrade, adapting dynamic marketing strategies that are responsive to changing market patterns.

**Key words:** SMTE's, linkages, competitive, skills upgrade, capital

## 1. INTRODUCTION

The government of Kenya identified the textile industry as one that could help bring about rapid economic development in Kenya. As such, the textile sector was granted official government protection through drafting of policies that among other measures restricted importation of textile products into the country [1]. On account of these policies, the number of established textile mills in the country rose rapidly from six at independence in 1963 to fifty two by 1983, with an installed capacity of 115.0 million square meters per annum of textile fabric. Moreover, the number of registered large scale garments manufacturing reached a peak of 110 enterprises by early 1990's. This made the sub-sector the second largest manufacturing activity after food processing [1]. However, in the 1980's and early 1990's, used garments from developed countries such as Europe and United States of America was channelled through Kenya as aid for refugees hosted in Kenya fleeing civil strife in their countries. In time though, part of the cheap used textile garments found their way into the Kenyan market. This stifled the growth of the textile sub-sector, due to

flooding of the market with cheap imports. This resulted in the closure of established textile firms and a near collapse of small and medium industries [2]. Liberalisation of the economy and implementation of the Structural Adjustment Programmes (SAPs) in the 1990's precipitated further collapse of the textile sub-sector with influx of cheap imports from Asian countries such as India, Pakistan and China. This is further coupled by the following factors [3]

- i) Improper or non-payment of import duty on imported textile goods.
- ii) A weak and unstable value of the Kenya shilling.
- iii) Inequitable import duty tariff structure.
- iii) High cost and irregular supply of electricity.
- iv) High cost of fuel oil.

The overall effect of these negative factors has been: (i) Reduction in the installed industrial capacity utilization from an average of over 70% to 40-50%; (ii) Loss of over 70,000 jobs in the textile and garment-making sub-sector; (iii)

Loss of government revenue through tax evasion through illegal importation of used garments; and (iv) Loss of investor confidence in the textile sub-sector. Indeed, the textile industry has made a sizeable contribution to income generation in rural areas by providing a market for locally grown cotton. The cotton sub-sector has significant linkages with not only the textile processing and manufacturing industry but also with the cottage industries specialising in the manufacture of soaps, animal feeds, fats and oils.

This study was designed to evaluate the role of the small and medium textile manufacturing enterprises on the Kenyan economy with respect to their growth, potential constrains and thus recommend improvement actions. The study adopts Kenya's' guidelines that define micro-enterprises as those having 10 or fewer employees and small enterprises as having up to 50 employees and medium enterprises as having up to 200 employees [4].

**2. METHODOLOGY**

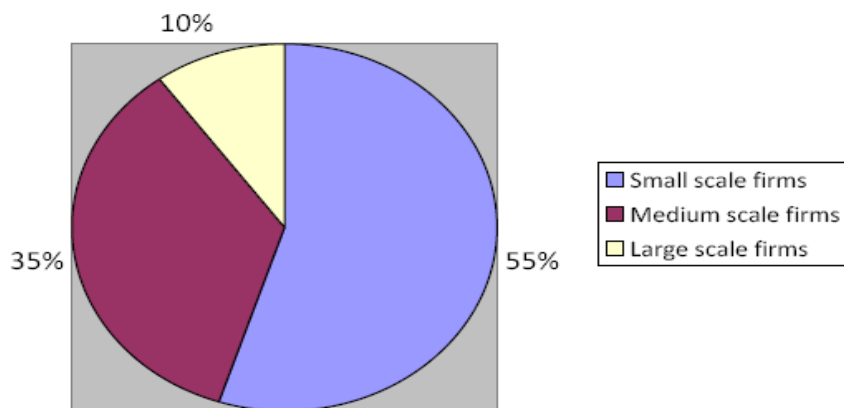
Information was collected from 20 select industries through questionnaires with both open and close ended questions to obtain specific information relating to the broad objectives of the survey and the data obtained from the interviewees was analysed. Here, two approaches are considered. First, qualitative techniques such as exploratory study were applied when analysing the open ended

questionnaires. For the close ended questionnaires, quantitative statistical approaches were applied. This involved coding the answers such that quantitative statistics is obtained. Moreover, ordinal numbers were applied, e.g. 1-5 for evaluating phenomena such as importance. The survey was structured to answer specific questions in a leading way as follows: -

- a) What are the characteristics of SMTEs with reference to the size of the enterprise, the age distribution of firms, educational background of the operators, and the site characteristics of their business operations?
- b) What are the main sources of funding?
- c) Are the characteristics of the various informal sector industries similar enough for the industries to be treated by policy makers as a single sector?
- d) How have government policies affected the development of STMEs in Kenya?

**2.1. Sampling Criteria**

Sampling of the SMTE's was limited to 20 representative firms selected for the purpose of this study. The mode of sampling was based on accessibility, concentration and locality. The distribution as a percentage of the nature of the industries sampled is illustrated in Figure 1.



**Figure 1: Proportional representation of surveyed firms**

From Figure 1, the proportion of small scale enterprises is rather large, and represented 55% of industries sampled. The remaining proportion 455 is dominated by both medium and large textile enterprises.

### 3. RESULTS AND DISCUSSION

From the collected information, the major factors that tend to affect sustenance and stifle growth and as a result transition of SMTE's to medium and large manufacturing enterprises are further discussed.

#### 3.1. Capital Acquisition by SMTE's

Upon analysis of the information collected (see Figure 2) from the questionnaires administered, the effect of capital acquisition

trends on the small and medium textile enterprises in Kenya has a significant impact on the growth and transition to medium and large textile enterprises. For instance, it was observed that 95% of STMEs obtain their funding from own savings, 55% of the firms had borrowed money from family members and friends while only 10% access loans from financial institutions. Lastly, 5% of the firms had obtained their capital from non-governmental organizations. Considering that Kenya is a low-income country, generally start-up entrepreneurs tend to rely on personal savings and loans from family and friends. As such, without access to sufficient capital injection to invest in critical aspects such as infrastructure, machinery, and personnel training, the growth of micro and small scale textile enterprises is impacted negatively.

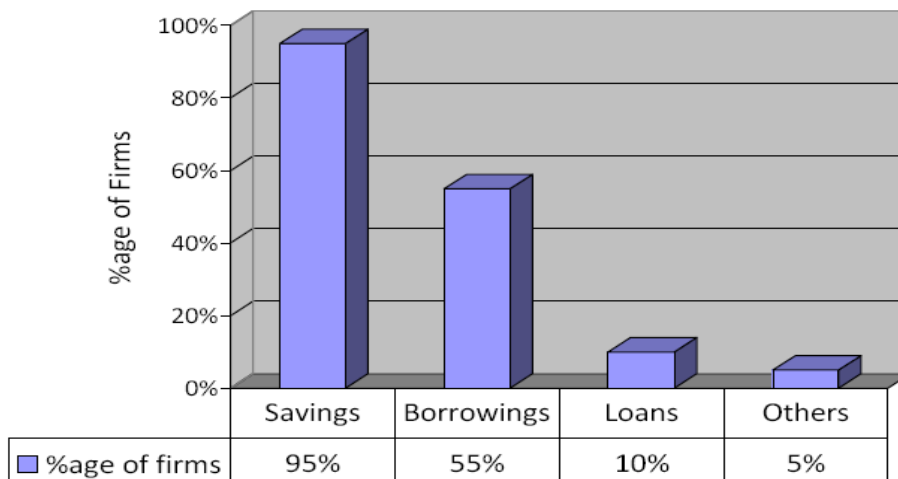


Figure 2: Sources of capital acquisition by textile enterprise

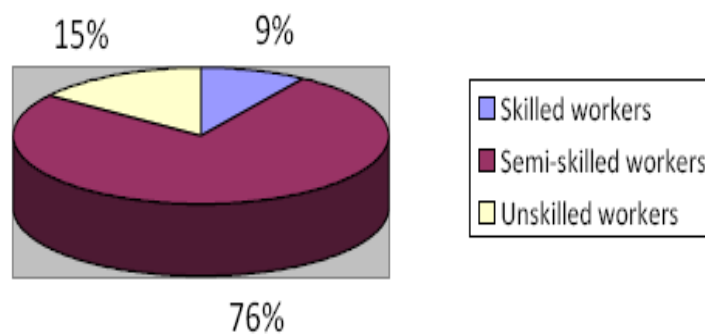


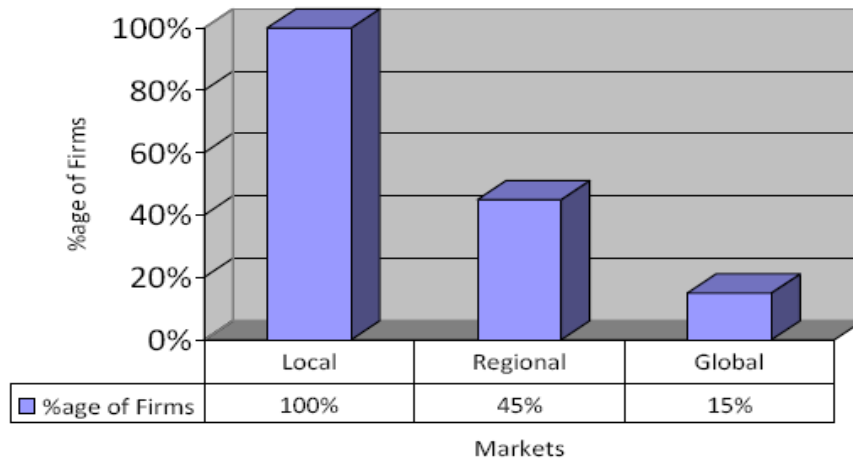
Figure 3: Skills level of workers employed in textile enterprises

**3.2. Skill level of workers**

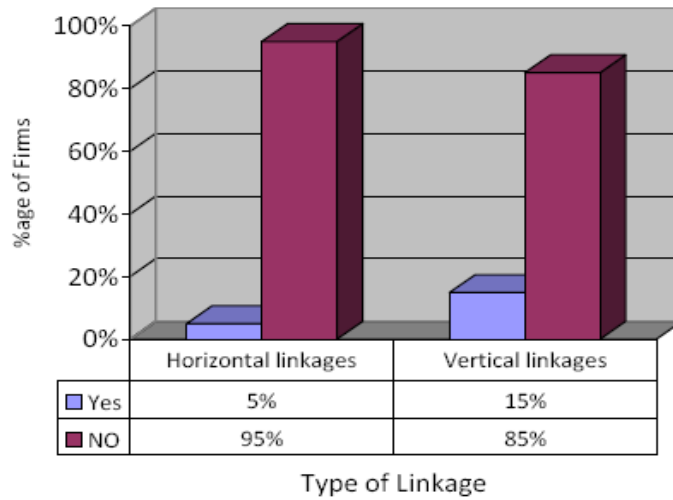
The human resource skill capacity available in the surveyed firms (see Figure 3) shows the level of skills of workers in the SMTEs is rather not well developed. For instance, 15% and 76% of total workforce is either unskilled or semi-skilled. Indeed, only a proportion of 9% is skilled. This indicates inadequate skills with respect to textile manufacturing and value addition amongst small and medium scale enterprises. Of course this negatively impacts growth through low levels of product innovation and diversification. Indeed, a keen look at existing small and medium enterprises highlight this crucial gap in knowledge making it difficult to compete with small and medium enterprises in emerging economies, e.g. China and India.

**3.3. Target markets**

In Figure 4, the market outreach for the SMTE's products is shown. Here, one can see that only 15% of the firms target the global market as a potential market for their products. Moreover, a proportion of 45% of the firms target the local and regional markets i.e. East and Central Africa. All firms interviewed target the local market. From the statistics, one can conclude that the existing small and medium enterprises lack the outreach necessary to reach the global market. Of course, this is influenced by a multiplicity of factors such as product quality, marketing strategy(s) employed and low levels of innovation. The product quality is indeed important when a company wishes to tap into the global market. But, the product quality is as good as the technology applied in manufacturing. However with many firms relying on outdated and obsolete technologies, reaching acceptable product quality standards is not straightforward.



**Figure 4: Potential target markets**



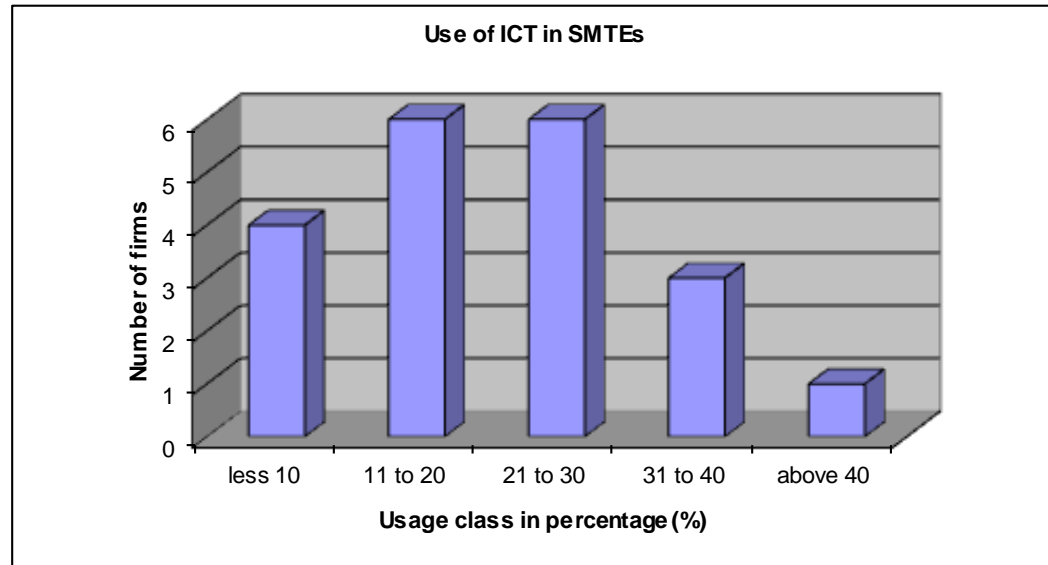
**Figure 5: Vertical and horizontal firm linkages**

**3.4 Vertical and horizontal production and manufacturing linkages**

Another important factor considered was the manufacturing and production linkages between firms. Of the total firms interviewed, 85% do not practice horizontal firm linkages as shown in Figure 5. A horizontal firm linkage is where small firms cooperate with one another to produce common goods. This happens in a case where a customer places an order of a large volume of goods beyond its existing production capability. One small firm might take a very long time to satisfy the customer order. As such, it is often advisable for small firms to pool production resources so as to satisfy customer’s demand and meet production schedules and agreed deadlines.

**3.5 Vertical and horizontal inter-firm linkages in marketing**

As shown in Figure 5, a proportion of 5% of the firms interviewed practice horizontal inter-firm linkages in marketing their products. Horizontal linkage in marketing involves implementing a strategy where firms with the same production and marketing capacity collaborate to produce and jointly market their goods. By doing so, the firms take advantage of economies of scale both in terms of production and marketing. This is often achieved through local and international exhibitions and trade fairs. Furthermore, 85% of the firms interviewed don’t collaborate with firms with larger manufacturing and marketing capacity (vertical linkages) thereby limiting access to potential foreign markets. As such, this inhibits their chances for growth and expansion.



**Figure 6: Level of ICT usage in production and marketing**

### 3.6. ICT level of usage in production and/or marketing

Information and communications technology is considered the state-of-the-art additional value to manufacturing, marketing, management and logistics in today's competitive world. For the firms that participated in the survey, their level of ICT usage is depicted in Figure 6. Here, participating firms are classified into clusters with a class interval of 10 according to their respective percentage usage of ICT. From the results, it's quite clear that the proportion of ICT usage among SMTE's is rather low with the majority of firms indicating usage level below 40%. Indeed, with regards to ICT usage in production, only one garment branding firm applies a computerised manufacturing process where labels are generated through computer imagery and exported to production equipment.

The low ICT usage extends to marketing where overall, 80% of the firms interviewed indicated ICT usage of below 30%. This shows that there is still much to be done in terms of improving on ICT usage in production, sales and marketing. Indeed, more improvement needs to be done in terms of enhancing personnel and database management which allows operational analysis and as such influence the level of operational efficiency. With respect to usage in marketing, use of the internet as a tool for

marketing may further widen the marketing scope of Kenyan SMTE's.

### 3.7. Proposed interventions

Based on the findings highlighted in the preceding sections, it is observed that the following key factors negatively influence the growth and participation of SMTE's in the local, regional and global textile sector. These include the following:

#### a) Lack of financial access

There is need to improve access to the much needed capital to enable expansion of facilities, acquisition of new production technology, implementation of financial monitoring, enhance expertise and ICT technologies, and deploying systems and structures that guarantee sound quality management. The recent emergence of microfinance institutions and banks willing to lend credit both for start-up and relatively more established firms is quite encouraging. Moreover, implementation of sectorial friendly policies by the Kenyan government is seen as a positive influence to SMTE growth. However, the need for collateral by financial institutions prior to lending remains a major challenge to SMTEs seeking capital. Government guarantees through schemes such as the women and youth development fund together with schemes by individual

banks that allow funding on the basis of local purchase orders is seen as a big impetus to SMTE's seeking capital for expansion. However, the current level of collateral and guarantees by the government is rather low and much remains to be done. Moreover, there is the need for a better policy framework targeting government rebates and tax exemptions for imported manufacturing equipment. This is not the case currently.

*b) Human capacity enhancement:*

The role of human resource expertise both managerial and technical cannot be underrated if improvement of efficiency of operations and management is to be achieved. Partnership between the SMTEs and institutions of higher learning would be a good strategy towards improving access to specific skill requirements and technology transfer. This would go a long way in improve competitiveness across the board. Initiation of apprenticeship and on-the-job training programs will greatly improve technical skills of entrepreneurs and workers. Conference and exhibitions currently being organized in Kenya by universities, non- governmental institutions and agencies play a pivotal role in bringing together SMTEs, and in so doing facilitate technology transfer among the various participants.

*c) Marketing strategy*

Access to market by the SMTE's is a key factor towards the sustenance and growth of the enterprises. However, such access is dependent on varied dynamics such as consumer preferences and quality requirements. The absence of quality measures, standards, and systems especially for textile products produced by the cottage industries greatly hinders access by smallholder enterprises to the regional and international markets. Visibility of the SMTEs would be key to penetrating the international market. Thus there remains a need to put in place programs and policies targeting development of quality measures and standards, accreditation and/or ISO certification programmes. Such targeted programs invariably enhance the effectiveness and competitiveness of the SMTE's in both local and international markets.

*d) Linkages in manufacturing and marketing:*

Due to the nature of their production levels and market outreach, SMTEs should embrace the strategy of horizontal inter-firm linkages for both production and marketing. However, the prospect of working with a multitude of small suppliers immediately raises the concern regarding communication, quality management, and unit production cost. Small firms that operate individually lack the benefits of economies of scale in production and marketing. However, as organized group(s), the SMTEs can harness economies of scale more like larger business enterprises. Additional advantages include; improved market position, increased efficiencies through joint production, shared technology and equipment, collective access to markets, and enhanced access to funding by financial institutions. Existence of these benefits within the SMTEs should be ensured through educational and promotional forums to eliminate resistance and suspicion that hinder linkages among firms.

Vertical linkages (the relationships between buyers and their suppliers) are critical to the long-term competitiveness of SMTEs in the value addition chain networks. These linkages are often the primary mechanism through which SMTEs learn about market dynamics. In the process, benefits like subcontracting, outsourcing and other agreements in the value chain are established. SMTEs typically do not have the capability or resources to capitalize directly on the global market. However, opportunities presented through vertical linkage will allow SMTE's such access.

*e) Embracing ICT*

The ICT sector is opening up in both Kenya and worldwide. The technology is proving to be a basic tool for future business engagements and expansion. With laying of optical fibre cable networks for broadband data transmission in the country, opportunities for participating in local and international business transactions has been greatly enhanced for SMTEs. Indeed, access to export opportunities through online sourcing and advertisement, cross border trading could go a long way in stimulating market diversity, growth and expansion. Capacity building in ICT among stakeholders

is also importance to focus on. Indeed, as the business environment becomes increasingly competitive, the survival of SMTE's is hinged in implementing ICT as a competitive advantage.

#### 4. CONCLUSION AND RECOMMENDATIONS

Small, medium textile enterprises have high growth potential due to the nature of their operations, need for low capital investment, skill and managerial expertise. The sector includes the cottage industries such as carpet weaving, yarn spinning, garment making, and other garment finishing processes. However the sector has not fared well in the past with sustenance, growth, and progression ratios being low. For this reason, a survey was conducted the SMTE's. The survey highlighted several improvement areas. These include the improved access to capital through policy guidelines, funding schemes, capital oriented government incentives, and establishment of microfinance institutions. Secondly, there is the need to upgrade the level of technical and managerial skills through partnership with institutions of higher

learning and established organizations tasked with standardisation. Third, increased access to market by putting in place marketing and production collaborations, enhancing technology transfer through horizontal and vertical linkages, and exploring joint-production and marketing activities (e.g. outsourcing and sub-contracting opportunities) may further enhance expansion. Forth, there is the need for shifting from dependence on local markets and focus more on access to international markets. This may be achieved through enhancing product quality, improving operational knowledge and developing requisite human capacity and technological infrastructure. Lastly, there is the need to urgently embrace ICT as it offers unlimited opportunities for business operations through networking. Benefits accruing from implementation of the above measures will benefit the sector greatly, through poverty eradication, creation of employment, improved revenue collection, and foreign exchange earnings. Further continual research targeting the sector should be carried out so as to identify more improvements.

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