

# **INFLUENCE OF REWARD PHILOSOPHY ON THE GROWTH OF MICRO AND SMALL FURNITURE MANUFACTURING ENTERPRISES IN KENYA**

**Grace Adhiambo Okello**

Doctor of Philosophy in Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, Kenya

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## **ABSTRACT**

Micro and Small Enterprises (MSEs) is an important segment of Kenya's economy. The enterprises contribute about 70% to the country's Gross Domestic Product (GDP) and over 80% of the countries employment opportunities. Therefore, promotion of MSEs and, especially of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. However, reports indicate that MSEs are ranked highest to risk exposure related to management. The higher exposure to risk for the MSEs leads to high collapse rate that contributes to loss of job and hence low economic development to the country. Reward philosophy is acknowledged as valuable mechanism to transform entrepreneurial resources into firm performance and therefore the growth. Compensation and incentive system are the most under-researched area in human resource, especially in the context of small business (Gupta & Shaw, 2014). In the context of entrepreneur approach, reward philosophy allows employee compensation to lay emphasis on innovation (Bradley, Wiklund, & Shepherd, 2011). However, there is a strong tendency that MSEs suffer from poor labor productivity even after raising wage. Therefore, this study sought to establish the influence of reward philosophy on growth of MSE in furniture manufacturing industry in Kenya. To achieve the objective of this study, the study was guided by Herzberg Hygiene Theory, Contingency Theory and Resource Based View Theory. The research design

adopted in this study was the mixed method. The target population of study was the 10,345 owner managers of furniture manufacturing MSEs in Kenya. A sample of 393 owner managers of furniture business in Nairobi were selected using stratified random sampling. Questionnaires were used as data collection tool. The researcher administered the questionnaires personally and also employed drop and pick later method in cases where it was not possible for respondents to complete the questionnaires the same day. The study generated both qualitative and quantitative data. The study used correlation analysis to establish the degree of association between the independent and dependent variables. Multiple linear regression model was also used to establish the relationship between dependent and independent variables. The study established that reward philosophy influenced growth of micro and small furniture manufacturing enterprises. The key recommendations are that entrepreneurs should be given adequate access to credit in order to realize growth in their businesses and that policies regarding training and research and development (R&D) should be put in place in order to help the entrepreneurs to innovate and to be successful in their businesses. The main limitation of the study was the unwillingness of some respondents to complete the questionnaires. However, this was mitigated by assuring the respondents that utmost confidentiality was guaranteed.

**Key Words:** *reward philosophy, growth, micro and small furniture manufacturing enterprises, Kenya*

## **INTRODUCTION**

Manufacturing sector in Kenya has been plagued with difficulties of moving from traditional production methods to flexible production methods that require just in time inventory control and new patterns of organizational layout in the global trends (Gichira 2017; Muiruri, Bwisa, Muturi & Kihoro, 2017). This study therefore sought to establish the influence of entrepreneurial management on growth of micro and small furniture manufacturing enterprises in Kenya. The study centered on Strategic Orientation, Resource Orientation, Reward Philosophy, Entrepreneurial Culture as independent variables which play a role in the growth of micro and small furniture manufacturing enterprises in Kenya.

The growth of MSEs is ideally led by dynamics of innovation, specialization, complementarity and (national or even global) value chain integration (Altenburg & Eckhardt, 2017). Aiyedun (2014), defined growth or expansion of enterprise as involving increase in size (number of employees), strength and quality, the creation of more departments, acquisition of additional branches and expansion of business network. However, Meagher (2010) argues that the indicator most frequently used to measure expansion is the change in the number of workers in the enterprise.

Controversy remains over the underlying growth assumptions, the job creation potential and the net contribution of MSEs to national employment (Ayyagari et al., 2014). Despite the long tradition of manufacturing sector in Kenya, dating back to World War II, the sector has continued to decline in investment and growth while lacking competitiveness making it difficult for it to play a larger role in the economy. Many MSEs have been established out of necessity because their owners have been unable to find employment elsewhere, hence hardly pursue a growth strategy (Grimm, Knorringa, & Lay, 2012).

Growth of SME's has presented a lot of concern not only to the owners and managers of firms but also to the policy makers globally (Fairoz et al., 2013; Xavier, Kelley, Kew, Herrington, & Vorderwülbecke, 2012; St-Jean, et al., 2014). Mohamed et al. (2012), in their study observed that there was a serious lack of entrepreneurial management among owner/managers of small businesses in Malaysia resulting in poor production methods, products and services and lack of competitiveness which resulted into slow economic growth of the SMEs. The situation was worsened by the absence of government instituted policies to guide the entrepreneurs.

## **STATEMENT OF THE PROBLEM**

UNDP Report (2015) pointed out that MSEs in Kenya have low managerial ability and thus poor performance reflected in their high failure rates and stagnant growth. The inability to match production of furniture to demand by MSEs is a serious threat to the performance, survival and growth. Aylin et al. (2013) highlight that lack of management skills is a barrier to growth and is one of the factors that can lead to failure A report by Kenya National Bureau of Statistics (2017) indicates that 3 out of 5 businesses fail within the first few months of operation and those that continue 80% of them fail before the fifth year. This high failure rate

has a direct impact on the National GDP and also contributes to unemployment. MSEs create employment for 50% of the working population and contribute 18% to the Gross Domestic Product (GDP) (KIPRA, 2013). In 2013, the furniture market in Kenya stood at approximately US\$496 million in sales, with a Compound annual Growth rate (CaGr) of 10% over the past 5 years. Furniture imports stood at US\$66 million and constituted 13% of the total market. Imports of furniture grew at a CaGr of 24% from 2011 to 2015, while exports grew more slowly at a 10% CaGr. Ngaruiya (2014) notes that while furniture manufacturing in Kenya drops, furniture demand in Kenya is increasing due to increased purchasing power, population and growing urbanization. Therefore, it is clear that there is an opportunity for the furniture business in Kenya, yet, the business still struggles with stagnated growth and failure to meet the market demand. Ngaruiya (2014) describes the entrepreneurs in MSEs as lacking creativity and vision, resources and people who enter the business only to meet their immediate financial need. A number of studies have been done in this area. Bendixen and Migliorini (2017) did a study on entrepreneurship and women: The making of a business plan for the creation of a distribution business in Denmark. Hortoványi (2013) did a study to assess entrepreneurial management in Hungarian SMEs. However, no study either local or international has been conducted to establish the effect reward philosophy on growth of MSE in furniture manufacturing industry in Kenya. Therefore, this study sought to fill the gap in establishing the relationship between reward philosophy and growth of MSE's.

## **GENERAL OBJECTIVE**

The study sought to establish the influence of reward philosophy on growth of micro and small furniture manufacturing enterprises in Kenya.

## **THEORETICAL LITERATURE REVIEW**

### **Herzberg Hygiene Theory**

Herzberg et al. (1959) moved on from Maslow's hierarchical needs to examine what they termed "motivators" and "hygiene factors" in the workplace, postulating that where job satisfaction was high there would be correspondingly high motivation. Robbins (1998) believes that the recent growth of worker participation in planning and controlling their work is due to Herzberg et al.'s (1959) recommendation that those factors which they find intrinsically rewarding (achievement, recognition, the work itself, responsibility and growth) should be emphasized. Nevertheless, if one follows Herzberg et al.'s thinking to its logical conclusion, no matter how much emphasis is placed upon factors that staff find intrinsically rewarding, such as worker empowerment, supportive management, team work, delegated authority and responsibility, if hygiene factors, such as low pay, are not addressed their full effect will not be felt.

The interdependence of intrinsic rewards with extrinsic rewards with consequences for motivation has also been postulated (de Charms, 1968). However, it would appear that there is limited applicability of this cognitive evaluation theory in the world of work and that

further research is required. Herzberg Hygiene Theory will be used in the study to describe the reward philosophy in MSEs and how it motivates the employees for enhanced performance. This eventually results in growth of the organization.

### **Contingency theory**

Contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions (Burns & Stalker, 1961). Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Contingency theory depicts about every strategic orientation type and states that there is a manner that fits a firm's traits which lead to enhanced performance of the firm (Morgan, 2007). The objective of this study that is the illustration of a thorough model of strategy formulation along with the relation between entrepreneurial management and growth of MSE in furniture manufacturing industry in Kenya. These patterns depict various interconnected and reinforcing traits of the organization that are imperative to the materialization of organizations strategic goals. Strategic fit is the prime concept of strategy formation on the grounds of normative models; trivially this concept has been restricted to optimum performance (Seyranian, 2012). This discussion can be aptly concluded by describing capability and performance that goes along the reward philosophy. The research question of this discussion is what is the relationship between reward philosophy and growth of MSEs?

### **Resource Based View Theory**

Resource-based view (RBV) theory is used to provide a theoretical foundation to explore the antecedents that affect system quality and service. This theory suggests that organizational resources that are costly or hard to imitate help organizations retrieve competitive advantage. In the case of this study, competitive advantage is looked at in terms of growth of furniture manufacturing enterprises in Kenya. One resource-based research stream explained how resources are channeled and utilized to bring competitiveness (Ravichandran & Lertwongsatien, 2013). This stream argues that resource availability determines organizational growth (Ray, Muhanna & Barney, 2010).

Several authors when referring to the Resource- Based View (RBV) do it more in a strategic context, presenting resources and capabilities as essential to gaining a sustained competitive advantage and, consequently, to a superior performance and hence growth of an organization (Janney & Dess, 2010; Runyan et al., 2009; Teece, 2009). The foci of RBV are competitive advantages generated by the firm, from its unique set of resources. According to RBV a firm's internal strengths and weaknesses rest on two fundamental assumptions. First, building on Penrose (1959), this work assumes that firms can be thought of as bundles of productive resources and that different firm possesses different bundles of these resources. This is the assumption of firm resource heterogeneity. Second, drawing from Selznick (1957) and Ricardo (1966), this approach assumes that some of these resources are either very costly to copy or inelastic in supply. This is the assumption of resource immobility.

Basically, RBV describes a firm in terms of the resources that the firm integrates. Frequently, the term resource is limited to those attributes that enhance efficiency and effectiveness of the firm for enhanced growth. A general resources' availability will neutralize the firm' competitive advantage. Once, for a firm to take high levels of performance and a sustained competitive advantage, it needs to acquire heterogeneous resources that should be difficult to create, to substitute or to imitate by other firms.

Resources can be tangible or intangible in nature. Tangible resources include capital, access to capital and location (among others). Intangible resources consist of knowledge, skills and reputation, entrepreneurial management among others. Resources are insufficient for obtaining a sustained competitive advantage and a high performance as well (Teece, 2009; Newbert, 2010). Being so, firms must be able to transform resources into capabilities, and consequently achieve growth. Firms reach a superior performance, not only because they have more or better resources, but also because of their distinctive competences (those activities that a particular firm does better than any competing firms) allow to do better use of them.

According to the Resource Based View Theory, competitive advantage stems from a firm's unique resources that are valuable, rare, and inimitable (Barney, 1991). Firm resources include both assets and capabilities. Assets are observable and can be valued, such as spatial preemption, brand equity, and patents. In contrast, capabilities are not observable and difficult to quantify; they are the glue that brings the assets together and deploys them advantageously (Makadok, 2013). Because capabilities are deeply embedded in organizational routines, they are idiosyncratic and difficult to imitate or duplicate, which makes them the most likely sources of competitive advantage.

According to RBV capability can transform firm assets into superior performance (Hult, Ketchen & Slater, 2012). Therefore, in relation to this study, these specific capabilities roots from the capacity of employees, resources available to the firm for enhanced product quality as well as level of employee motivation. Further, capabilities touches on the intricate aptitude for the firm to develop new products to match customer needs and expectations. This to a great extent would enhance performance of the firm. Resource Based View Theory will be used in the study to support the resource orientation. Resource Based View Theory describes the usage of various valuable tangible or intangible resources at the MSE's disposal to enhance its growth. This study therefore utilizes the theory to assess how reward philosophy leads to growth of MSEs

## **EMPIRICAL REVIEW**

Entrepreneurship management involves development of strategies aimed at improving organizational performance. There is positive relationship between reward philosophy and firm performance. Wei, Frankwick, and Nguyen (2012) highlight that participatory-based rewards has significant and indirect effect on firm performance. Ferguson and Reio (2010) indicates that payment system and other human resource practices have significant

relationship with organizational and financial performance. Firm performance springs from reasonable incentive compensation (Ferguson & Reio, 2010; Bradley et al., 2011).

Reward philosophy is acknowledged as valuable mechanism to transform entrepreneurial resources into firm performance and therefore the growth. Compensation and incentive system are the most under-researched area in human resource, especially in the context of small business (Gupta & Shaw, 2014). In the context of entrepreneur approach, reward philosophy allows employee compensation to lay emphasis on innovation (Bradley, Wiklund, & Shepherd, 2011). However, there is a strong tendency that MSEs suffer from poor labor productivity even after raising wage.

On the other hand, the workers in MSEs also suffer from poor human resource system. In Indonesia context, the informal workers comprise 70% of workforces. They work with a very low wage, irregular working time, and no social security (BPS Statistics Indonesia & Asian Development Bank, 2010). Reward philosophy is one of the most critical issues for competitive advantage of the firm. This concept lays emphasis on innovation. Firms provide greater reward for innovative employees, which becomes direction of strategic of the firm (Puranam, Alexy, & Reitzig, 2013). This allows reward philosophy with entrepreneurial context to be aligned with business strategy. However, increasing compensation may bring a tight compensation budget for the firms. This raises debates on the degree of match between firms and their employees through improvement in effort-reward balance.

The challenges come to transformation process of such resources into performance, especially since it is embedded in employees. To understand the complex relationship among performance, reward philosophy and entrepreneurial management, it may be useful to consider networking as a mediating variable; especially from the role of product development and marketing (Qureshi & Kratzer, 2012). Firms with greater entrepreneurial management (EM) and reward philosophy may fail to achieve their target unless they gain greater marketing capability (MC) through networking.

## **RESEARCH METHODOLOGY**

### **Research Design**

Saunders, Lewis and Thornhill (2012) and Creswell (2014) define research design as a framework for the collection and analysis of data to answer research question and meet research objectives providing reasoned justification for choice of data sources, collection methods and analysis techniques. The research approach adopted in this study was a mixed method. The research design was a causal, non-experimental and cross-sectional. The design also takes on a confirmatory element as it is based on priori hypotheses deduced from existing theories and empirical studies. As in this study, a causal research seeks to determine the cause effect relationship between the independent and the dependent variable. This study seeks to explore the cross-sectional non-experimental causal effect between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya.

## **Target Population**

Target population in statistics is the specific population about which information is desired. According to Hanlon & Larget (2011), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. According to Cooper and Schindler (2008), population refers to an entire group of objects/individuals having common observable characteristics. It is also described as an aggregate of all that conforms to a given specification (Kothari, 2008). The target population of study were 10,345 owner managers of Furniture manufacturing MSEs in Nairobi (Nairobi City County, 2017).

## **Sample Frame**

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the samples were selected (Cooper & Schindler, 2003). According to Alan Bryman (2012), sampling frame describes the selection of the units from which the sample is selected. Kombo and Tromp (2013) indicated that a sample is a finite part of a statistical population whose properties are studied to gain information about the whole. Sample was selected from the population of 10,345 owner managers of furniture business. Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. The sampling frame describes the list of all population units from which the sample is selected (Cooper & Schindler, 2003). From the above population of 10,345 owner managers of furniture business, a sample from within each group were taken using stratified random sampling which gives each item in the population an equal probability chance of being selected.

## **Sampling Size**

To determine the sample size of the owner managers of furniture business in Nairobi, the researcher used a formula by Saunders, Lewis, and Thornhill (2012) for sample size determination.

$$n = \frac{\chi^2 NP(1 - P)}{\sigma^2(N - 1) + \chi^2(1 - P)}$$

Where: n = required sample size; N = the given population size from the sampling frame; P = Population proportion, assumed to be 0.50; 2 = the degree of accuracy; p value is 0.05

The sample size was 373 owner managers of furniture business in Nairobi (132 from Micro enterprises and 241 from Small enterprises). The sampled respondents were deemed knowledgeable on subject matter and therefore, they are in a better position to provide credible information as sought by the study. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper & Schindler, 2003). Therefore, the choice of 373 respondents were adequate for generalization.



## **Data Collection and Data Collection Instruments**

The study collected both primary data and secondary data. Secondary data was collected from books, journals and publications. The study used a questionnaire to collect primary data. A questionnaire is a tool of data collection in which each person is asked to respond to the same set of questions in a predetermined order (Bryman & Bell, 2011). Questionnaires were used because they enable a researcher to reach a large group of respondents within a short time and with less cost. They also help to avoid or reduce the biases which might result from personal characteristics of interviewers and since respondents do not indicate their names, they tend to give honest answers. The questionnaire contained closed-ended questions. Closed –ended questions guide respondents and restrict them to only specified choices given (Bryman & Bell, 2011).

## **Data Collection Procedure**

The researcher informed the respondents that the instruments being administered will be for research purpose only and the responses from the respondents will be kept secret and confidential. The researcher obtained an introductory letter from the university to collect data from the furniture businesses then personally deliver the questionnaires to the respondents. The researcher administered the questionnaire individually to the selected sample. The researcher issued the questionnaires and waited for the respondents to fill them then collected. However, where it was difficult for the respondents to fill in as the researcher waited, a drop and pick later method was employed where the questionnaires were given out to the respondents and then collected later. To ensure high response rate, follow up calls were made to remind the respondents to complete the questionnaires. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received, therefore, the researcher maintained a register of questionnaires given out and the ones returned.

## **Data Analysis and Presentation**

The study generated both qualitative and quantitative data. There are three main objectives for analyzing data. The objectives include: getting a feel of the data, testing the goodness of the data and testing the hypothesis developed for the research (Sekaran, 2006). The feel of the data gave preliminary ideas of how good the scales were, how the coding and entering of data has been done. Testing of the goodness of data was accomplished by submitting data to factor analysis, obtaining the Cronbach's alpha reliability of the measure as stated earlier. Also conceptual content analysis was used for analysis. Content is defined by Creswell (2013) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends. According to Mugenda and Mugenda (2003), the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. According to Kothari (2000), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. The study used correlation to show the degree of association between the independent variables and the dependent variable. Correlation is used

when a researcher wants to predict and describe the association between two or more variables in terms of magnitude and direction (Oso, 2009). Quantitative data collected through the questionnaires was checked for completeness and accuracy and usability. Descriptive statistics and content analysis were used to analyze the data collected. Closed questions were analyzed through the help of the Statistical Package for Social Science (SPSS) computer software by assigning numbers to responses for analysis of qualitative data as it is efficient and give straight formal analysis. The researcher further employed a multivariate regression model to study the relationship between reward philosophy and growth of MSEs in the furniture industry in Kenya on the other. The researcher deems regression method to be useful for its ability to test the nature of influence of independent variables on a dependent variable. Regression is able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable. The researcher used multiple linear regression analysis to analyze the data. The regression model will be as follows:

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

Where: Y = Growth of MSEs;  $X_1$  = Reward Philosophy;  $\beta_0$  = Constant  $\beta_1$  = the regression equation coefficients for the independent variable, and;  $\varepsilon$  = error

## **RESEARCH RESULTS**

This study's objective was built on the hypothesized statement that reward philosophy significantly improves growth of micro and small furniture manufacturing enterprises in Kenya. The study findings rejected the null hypothesis and established that growth of micro and small furniture manufacturing enterprises in Kenya was significantly influenced by reward philosophy positively. The results reveal that a majority of the respondents indicated that promoting employees is a critical component of employee retention. The respondents recognized that promotion at work often makes employees feel recognized, valued, and engaged which is one way to ensure the micro and small furniture manufacturing enterprises keep valuable employees. In addition, the findings indicated that a majority of the enterprises that participated in the study indicated that compensation of employees based on the value they add to the business was recognized as a move adapted by the enterprises to reward employees.

## **CORRELATION ANALYSIS**

The data presented on growth of micro and small furniture manufacturing enterprises and reward philosophy was computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. Generally, correlation is a bivariate analysis that measures the strengths of association between two variables and the direction of the relationship. In terms of the strength of relationship, the value of the correlation coefficient varies between +1 and -1. When the value of the correlation coefficient lies around  $\pm 1$ , then it is said to be a perfect degree of association between the two variables. As the correlation coefficient value

goes towards 0, the relationship between the two variables will be weaker. The direction of the relationship is simply the + (indicating a positive relationship between the variables) or – (indicating a negative relationship between the variables) sign of the correlation.

The study sought to establish the relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises. A Pearson Correlation was performed and the result of the Pearson Correlation test as presented in Table 1 show a correlation ( $r(319) = 0.263$ ;  $p < 0.001$ ) between the reward philosophy and growth of micro and small furniture manufacturing enterprises. This implies that the reward philosophy is positively correlated to the growth of micro and small furniture manufacturing enterprises. In addition, the correlation between these two variables were significant, that is  $p < 0.001$  implying a linear relationship between the reward philosophy and the growth of micro and small furniture manufacturing enterprises. This shows that reward philosophy had a significant impact on the growth of micro and small furniture manufacturing enterprises.

The study findings are consistent with previous research. There is positive relationship between reward philosophy and firm performance. Wei, Frankwick, and Nguyen (2012) highlight that participatory-based rewards have significant and indirect effect on firm performance. Ferguson and Reio (2010) indicate that payment system and other human resource practices have significant relationship with organizational and financial performance. Firm performance springs from reasonable incentive compensation (Ferguson & Reio, 2010; Bradley et al., 2011).

**Table 1: Pearson Correlation between Reward Philosophy and Growth of Micro and Small Furniture Manufacturing enterprises**

Independent Variable		Growth	Reward Philosophy
Reward Philosophy	Pearson Correlation	.263	1
	Sig. (P-value)	.000	
	N	319	

\*. Correlation is only significant at the 0.01 level

## **REGRESSION ANALYSIS**

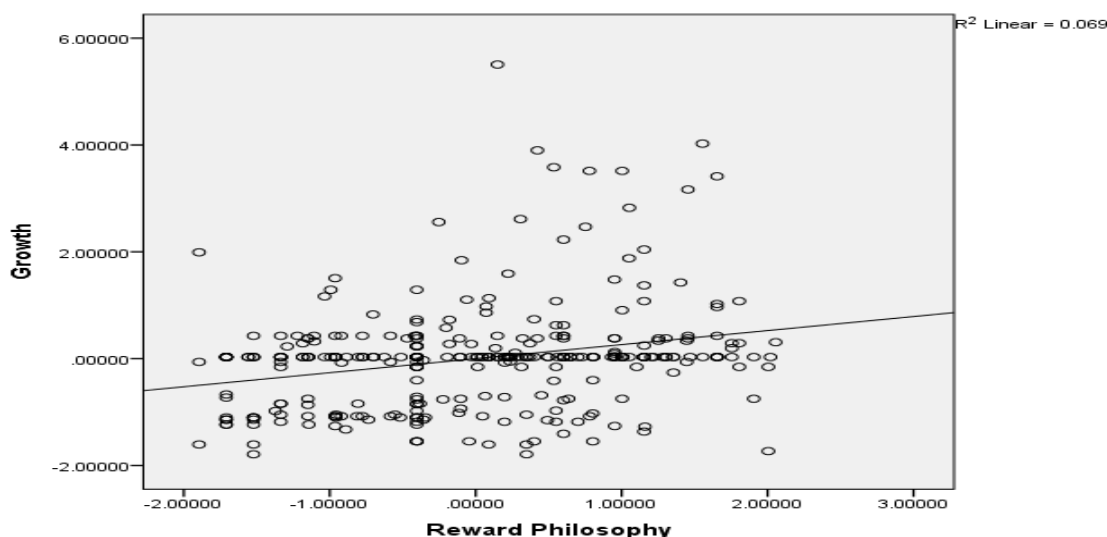
Regression analysis is a statistical process for estimating the relationships among variables. With this analysis, one is able to understand how the typical values of the dependent variable change when one of the independent variables is varied, while the other variables are held constant/fixed. For this study, a multiple regression model was applied to identify the impact of reward philosophy on growth of micro and small furniture manufacturing enterprises. The variables were measured using the responses on each of the variables obtained from the respondents. The collected data satisfied the assumptions for multiple linear regression as shown in the diagnostics test above.

The initial effort to examine the relationships proposed by the research model involved conducting multiple regression analysis. Bivariate regression analysis is used to analyze the relationship between a single dependent variable and single predictor variable (Hair et al.

2006). The study used linear regression analysis to test the study’s null hypothesis. Linear regression is an approach to modelling the relationship between a scale of variable Y or more variables denoted as X. The F-test was used further to determine the validity of the model while R squared was used as a measure of the model goodness of fit. The regression coefficient summary was then used to explain the nature of the relationship between the dependent and independent variables.

**Research Hypothesis (H<sub>a</sub>): Reward Philosophy significantly improves growth of micro and small furniture manufacturing enterprises in Kenya**

The study findings presented in Figure 1 show that most of the scatter dots fell within the line of best fit and, therefore, the study concluded that the variables were drawn from a normally distributed population. Further, the figure shows that the scatter dots fall within a linear line which implies that there exist a positive linear relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya. The figure presents that all the plots that appear in the line of best of fit indicate an estimate line that is increasingly positively upwards. Therefore, the findings, observed a positive linear relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya. The study findings are in agreement with the findings by Wei, Frankwick, and Nguyen (2012) who highlight that participatory-based rewards have significant and indirect effect on firm performance. Ferguson and Reio (2010) indicates that payment system and other human resource practices have significant relationship with organizational and financial growth. Firm performance springs from reasonable incentive compensation (Ferguson & Reio, 2010; Bradley et al., 2011). Entrepreneurship management involves development of strategies aimed at improving organizational growth. There is positive relationship between reward philosophy and firm growth.



**Figure 1: Reward Philosophy and Growth Scatter Plot**

The study’s objective sought to assess the influence of reward philosophy on the growth of micro and small furniture manufacturing enterprises in Kenya. The coefficient of

determination (R squared) of 0.069 shows that 6.90% of growth of micro and small furniture manufacturing enterprises can be explained by reward philosophy. The adjusted R-square of 6.6% indicates that reward philosophy in exclusion of the constant variable explained the change in growth of micro and small furniture manufacturing enterprises by 6.60%. The remaining percentage can be explained by other factors excluded from the model. The R of 0.263 shows that there is positive correlation between growth of micro and small furniture manufacturing enterprises and reward philosophy. The standard error of estimate (0.966) shows the average deviation of the independent variables from the line of best fit.

The result of Analysis of Variance (ANOVA) for regression coefficient as shown in Table 3 revealed that there exists a significant relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises ( $F=23.548$ ,  $p$  value  $< 0.001$ ). This is means that the coefficient of reward philosophy in the model is at least not equal to zero. The study hypothesized that reward philosophy significantly improves growth of micro and small furniture manufacturing enterprises in Kenya.

The study findings indicated that there was a positive significant relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya ( $\beta=0.263$  and  $t=4.853$ ) which has a ( $p$ -value  $<0.001$ ). Further, the linear regression analysis coefficients shows that the model  $Y= \beta_0 + \beta_1X_1$ , is significantly fit. The general form of the equation was to predict growth of micro and small furniture manufacturing enterprises in Kenya from  $X_1=$  Reward philosophy; becomes  $= 0.263X_1$ . This indicates that growth of micro and small furniture manufacturing enterprises in Kenya =  $0.263*$ Reward philosophy. The model growth of micro and small furniture manufacturing enterprises in Kenya =  $\beta$  (reward philosophy) holds as suggested by the test above. This confirms that there is a positive linear relationship between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya. Therefore, a unit increase in use of reward philosophy index led to an increase in growth of micro and small furniture manufacturing enterprises in Kenya index by 0.263. Since the  $p$ -value was less than 0.05 as shown in Table 3, the null hypothesis was rejected and alternative hypothesis accepted then concluded that reward philosophy significantly improves growth of micro and small furniture manufacturing enterprises in Kenya.

The regression analysis revealed that reward philosophy had an influence on growth of micro and small furniture manufacturing enterprises in Kenya. For every unit increase in reward philosophy, there was a corresponding increase by 0.263 in growth of micro and small furniture manufacturing enterprises in Kenya. The Pearson product moment correlation coefficient revealed a moderate, positive and significant correlation between reward philosophy and growth of micro and small furniture manufacturing enterprises in Kenya ( $r = 0.263$ ,  $p$ -value  $< 0.001$ ) significant at 0.05 level of significance. Use of reward philosophy was positively and significantly associated with other entrepreneurial management which influenced growth of micro and small furniture manufacturing enterprises in Kenya as revealed by the results of the correlation matrix on Table 4.

These results are consistent with previous studies investigating the influence of reward philosophy and growth manufacturing enterprises. Entrepreneurial management involves development of strategies aimed at improving organizational performance. There is positive relationship between reward philosophy and firm performance. Wei, Frankwick, and Nguyen (2012) highlight that participatory-based rewards have significant and indirect effect on firm performance. The study findings concur with that of Ferguson and Reio (2010) that payment system and other human resource practices have significant relationship with organizational and financial performance. Firm performance springs from reasonable incentive compensation (Ferguson & Reio, 2010; Bradley et al., 2011).

The findings of the study support the notion that reward philosophy is acknowledged as valuable mechanism to transform entrepreneurial resources into firm performance and therefore the growth. Compensation and incentive system are the most under-researched area in human resource, especially in the context of small business (Gupta & Shaw, 2014). In the context of entrepreneur approach, reward philosophy allows employee compensation to lay emphasis on innovation (Bradley, Wiklund, & Shepherd, 2011). However, there is a strong tendency that MSEs suffer from poor labor productivity even after raising wage.

Similarly, the study findings confirm the assertion by Puranam, Alexy, & Reitzig (2013). They established that the workers in MSEs also suffer from poor human resource system. In Indonesia context, the informal workers comprise 70% of workforces. They work with a very low wage, irregular working time, and no social security (BPS Statistics Indonesia & Asian Development Bank, 2010). Reward philosophy is one of the most critical issues for competitive advantage of the firm. This concept lays emphasis on innovation. Firms provide greater reward for innovative employees, which becomes direction of strategic to the firm (This allows reward philosophy with entrepreneurial context to be aligned with business strategy. However, increasing compensation may bring a tight compensation budget for the firms. This raises debates on the degree of match between firms and their employees through improvement in effort-reward balance. The challenges come to transformation process of such resources into performance, especially since it is embedded in employees. To understand the complex relationship among performance, reward philosophy and entrepreneurial management, it may be useful to consider networking as a mediating variable; especially from the role of product development and marketing (Qureshi & Kratzer, 2012). Firms with greater entrepreneurial management (EM) and reward philosophy may fail to achieve their target unless they gain greater marketing capability (MC) through networking.

**Table 2: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.263a	.069	.066	.966

**Table 3: ANOVA**

Sum of Squares	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.989	1	21.989	23.548	.000b
Residual	296.011	317	.934		
Total	318.000	318			

**Table 4: Coefficients**

	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	7.923	3.053		2.595	1.000
Reward Philosophy	0.263	.054	0.1571	4.853	.000

## CONCLUSIONS

The research concluded that there was a significant but positive association between reward philosophy and growth of the micro and small furniture manufacturing enterprises. The study found the reward philosophy is one of the most critical issues for competitive advantage of the micro and small furniture manufacturing enterprises and we can conclude that it lays meaningful emphasis on innovation. Firms provide greater reward for innovative employees, which becomes strategic to the firm.

## RECOMMENDATIONS

In view of the findings made and conclusions drawn from the study, the following recommendations are provided to help enhance an accelerated and sustained growth in the micro and small furniture manufacturing enterprises in Kenya. Access to credit is important for the growth and development of micro and small furniture manufacturing enterprises in Kenya. However, access to credit is still a challenge to most micro and small furniture manufacturing enterprises in Kenya, especially those in developing economies, and it is also still a key issue both within the private and public sectors There is need for the government and other partners to facilitate the accessibility of credit to micro and small furniture manufacturing enterprises in Kenya .

A policy should be developed to ensure that entrepreneurs engaging in micro and small furniture manufacturing enterprises undergo some training before they are issued with a business license. This will assist the micro and small furniture manufacturing enterprises in Kenya to possess a little of technical/ entrepreneurial knowledge on enterprise initiation and growth. The training will be important in aligning the skills of owner managers of micro and small furniture manufacturing enterprises with technological advancements and new business developments that require employees to have new or improved skills.

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