

**EFFECT OF THE MICRO AND SMALL ENTERPRISE ACT 2012  
ON THE GROWTH OF YOUTH-OWNED SMES IN NAIROBI  
CBD, KENYA**

**BY**

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## DECLARATION

This research proposal is my original work and has not been submitted for a degree in any other University.

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Third, my family-my husband and my youthful sons and daughters for their love and encouragement and their pride in me for completing this program.

## **DEDICATION**

This work is dedicated to all the youths in Kenya who are working tirelessly to grow their businesses and the economy as a whole, and make a difference in the world because they are global.

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## **ABBREVIATIONS AND ACRONYMS**

<b>GOK</b>	Government of Kenya
<b>MSE</b>	Micro and Small Enterprises
<b>MSEA</b>	Micro and Small Enterprises Authority
<b>SME</b>	Small and Micro Enterprises
<b>YEDF</b>	Youth Enterprise Development Fund
<b>NGO</b>	Non-government Organization
<b>KNBS</b>	Kenya National Bureau of statistics
<b>KIE</b>	Kenya Industrial Estates



## **ABSTRACT**

The Micro, Small and Medium Enterprises (MSMEs) have been considered a source of employment generation, growth of the economy, and social transformation. Many of these enterprises have been formally established, though a majority of them are considered informal due to their form of ownership, size of the enterprise, location, status and the economic activity they are involved in. These enterprises are a major job provider helping in the unemployment challenge in the country. They add to the total value of the economy since they employ a large segment of the poor and middle-income populations. They are also the largest providers of good and services to this segment. To make this group of entrepreneurs included in development, the government passed the MSE Act 2012 that instituted the MSE Authority. Since its enactment in 2012, young people have continued to enjoy success while others have failed in their businesses. The study adopted a descriptive survey method. Descriptive survey provides a sound basis for solutions of problems in the business environment. It was preceded by formulation of specific research questions prior to the study. This study was carried out among youth-owned small and micro enterprises in CBD Nairobi County. The target population for the study was youth-led MSEs in different sectors of the economy such as agribusiness, construction, trade, manufacturing, catering, retail and wholesale, professional services, hospitality and the general categories.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

The Micro and Small Enterprise (MSE) Act 2012 was enacted in a bid to grow the economy through the Small and Micro Enterprise (SME) sector. The MSE Act 2012 promotes business growth in form of access to markets, resolving disputes quickly, access to credit facilities and technical skills and provision of worksite. Implementation of this Act therefore enhances a business environment that caters for the needs of young enterprises. The MSE Act 2012 seeks to improve the business environment and grow small enterprises to become more productive. The provisions provided by the Act address financial issues that affect SMEs, how to resolve disputes, in order to fairly compete in the market environment. Most developing nation's regulations are currently focused on improving various sectors of the economy with this being seen in the current enactments. This is in a bid to make a country's economy to grow in the region.

Public interest theory of regulations seeks to explain regulations made in response to public demand in order to correct the inequalities that are faced in the market. These regulations should be made for the benefit of all citizens in the economy and not for the benefit of only a few powerful individuals with vested interests (Pigou, 1932). This is important to ensure growth of small enterprises. Edith Penrose (1959) in her theory of the growth of the firm offers various principles governing the growth of firm and also the rate at which a firm can grow efficiently. Empirical research has suggested that bureaucratic regulatory regime pertaining to licensing, tax, business property registration and the long-time taken in courts to settle business disputes are

among the issues precipitating low growth and high mortality rate among MSEs (Mateev & Anastasov, 2010).

The growth of youth-owned enterprises leads to economy growth and reduction of the country's unemployment rates. The government should work on policies, strategies and programmes that should be developed and implemented to address the challenges faced by the youth. This should be made a priority for faster growth of youth owned enterprises. The economy was required to absorb about 500,000 new labour market entrants annually and most of this was envisaged to come from the informal sector, which includes the SMEs (GOK 1997 and 2002). However, the economy is not able to absorb the new entrants into the labour market into productive work (NESC, 2010). The sector remains the major employer in the country, accounting for over 87 percent of employment. In 2006, 410,000 new jobs were created, engaging 7.5 million people. According to the Private Sector Development Strategy (2008), the informal sector was estimated to comprise an estimated 1.7 million enterprises in 2007 as compared to the formal sector which comprised an estimated 35,000 enterprises. The population living in poverty has however declined due to the growth of MSEs.

### **1.1.1 Micro and Small Enterprise Act 2012**

The growth of the MSE sector has brought about the need for the government to come up with a mode of regulation. This resulted in the Micro and Small Enterprise Act 2012 that was enacted to improve the business environment and enable small business to grow and improve. The main role of the Act is to promote business growth in form of access to markets, resolving disputes quickly, access to credit facilities and technical skills. MSEs require a regulatory body to ensure fairness in the business environment so that market interests are publicly regulated instead of representing

only those that have vested interests. Private interests do not favour the growth of SMEs but the provision of the MSE Act 2012 stipulate the public interest for most of the firms. Many small enterprises are informally constituted and this makes them miss out on many opportunities that require formal registration and operational processes. Many firms operating under umbrella association are also protected under this act.

The Act provides for the establishment of the Micro and Small Enterprises Authority (MSEA) that regulates the provisions of the act. MSEA was established in 2013 as the government agency that will be regulating the operations of small enterprises. This is done with the responsible cabinet secretary who determines the fund that is availed by parliament to the authority to ensure smooth running of activities by small enterprises. It has a legal mandate to coordinate the sector and facilitate access of funds to small enterprises, access to markets, resolve disputes and facilitate growth of the sector. The roles performed by the Authority are those that were previously performed by nine government ministries meaning that the Authority has a great responsibility to streamline the sector. Since they provide goods and services to the bottom of the pyramid, their market share has a chance to grow if only they could up-scale to the consumer specific needs.

### **1.1.2 Business Growth**

The growth a business can occur in two ways; either horizontal or vertical (Liedholm, 1990). When a business grows vertically, it means it has transformed into a more modern small business, while horizontal growth is formation of more businesses at the same level that employ the same number of staff per business set up (Carter, 2002). Sessional Paper No 2 (GOK, 2005) states that only a few MSEs expand to a capacity of hiring six or more workers and life-span is short, which makes it difficult

for them to move up the scale and become medium and large scale enterprises. With the expanding population, unemployment is a major concern in developing countries and particularly in Kenya according to the Economic Recovery Strategy (2003). The number of people unemployed in Kenya stood at about 12.7 per cent of the labour force as stated by the World Bank (2007).

The economy was required to absorb about 500,000 new labour market entrants annually and most of this was envisaged to come from the informal sector, which includes the SMEs (GOK 1997 and 2002). However, the economy is not able to absorb the new entrants into the labour market into productive work (NESC, 2010). The sector remains the major employer in the country, accounting for over 87 percent of employment. In 2006, 410,000 new jobs were created, engaging 7.5 million people. According to the Private Sector Development Strategy (2008), the informal sector was estimated to comprise an estimated 1.7 million enterprises in 2007 as compared to the formal sector which comprised an estimated 35,000 enterprises. The population living in poverty has declined according to KIPRA (2009). However, the number of people living below the poverty line is estimated to have increased from 13.4 million in 1997 to about 16.6 million in 2006. Growth of the SME sector if well managed and nurtured to grow can contain the levels of poverty in Kenya.

Vertical growth plays a crucial role in the development of the SME sector as it is associated with increased potential in job creation (Liedholm, 1990). Vertical growth is, however, inhibited by lack of technical and managerial skills necessary for business expansion and diversification (Nelson, 1998). Research shows that business set-ups in Kenya continue to be established and most are unable to grow compared to their counterparts in the developed world as cited by World Bank (2007). According to the World Bank (2000), factors perceived as inhibiting business growth are

insufficient government support and promotion of the SME sector, low competition, minimal access and cost of capital. There is need to improve the sector and create a conducive environment so that it expands to absorb Kenya's labour force, which grew at about three percent in the period 1990-2005 (KIPRA, 2009).

### **1.1.3 Youth Owned SMES in Kenya**

Many economies especially in developing nations are driven by the SME sector. Outside the agriculture sector that is large in the country, SMEs constitute the major source of employment to the great unemployed youth economy. However, enterprises in Kenya have been facing several challenges with many having low survival rates especially within the first three years of operation. Minimizing such challenges is key to poverty reduction. The sector provides employment to many, and has very innovative entrepreneurs who have been able to compete for market share with large multinationals KIPRA (2002) states that SMEs consist of nearly 75 % of the entire industry, utilize 4.6 million people (30%), accounts for 87% of the creation of new employment opportunities as well as contributing nearly 18.4 % of the GDP (GOK, 2009). The government has thus started investing in the sector to develop industries and introduce development strategies to the sector (GOK, 2007).

The small and medium sized enterprise sector contributes to about 80% of total job opportunities and more than 92% of jobs created in Kenya (Afande, 2015). This implies that the SMEs sector has a crucial role on improvement and growth of the economy of the country. Small enterprises in Kenya suffer various challenges that hinder their growth. These challenges include lack of financial resources, skilled human resources, lack of proper marketing strategies, and poor adoption of modern

technologies among others. These challenges have further reduced business resilience and prevent the SMEs from attaining the economies of scale.

A micro enterprise is defined as having at most 10 employees, a small enterprise with 11-50 employees, and medium/large enterprise with more than 50 employees. The micro and small enterprises (MSEs) are businesses in both formal and informal sectors employing 1-50 workers, with turnover of between Ksh 5 to 100 million and classified into farm and non-farm categories. Farm holdings are excluded except those involving some sort of value addition before marketing. The micro-enterprises are found in all sectors in the Kenyan economy and they contribute much into the economy especially reducing the rate of unemployment (Sessional Paper 2 of 2005).

## **1.2 Research Problem**

The MSE Act 2012 seeks to regulate the market environment and also contribute to the growth of small enterprise. This is evident in its provisions that provide for establishment of a fund to enable firm access funds and also setting up of a tribunal to settle disputes arising in operations. This encompasses physical infrastructure, market frameworks, institutions and regulations. The growth of youth-led enterprises since the enactment of the Act should be analysed as well as their contribution to the economy in general. Unemployment especially among the young people was seen to be a great cause of the 2007/2008 post-election violence. The growth of small enterprises is dependent on many internal and external factors but a firms' innovation strategy greatly determines its survival and growth (Howaldt and Schwarz, 2010). The government has been trying to formulate and enact regulation to combat these unemployment rates and to also encourage innovativeness in order to grow the MSE

sector. This act was meant enable this development of small enterprises but the implementation should be hastened.

Prof. Alfred Nuwagaba (2015 Vol 4 N0.4) study of Enterprises (MSEs) in Zambia observed that over 90% of SMEs operate in informal sector hence not healthy, as planning for the enterprises by the government becomes a challenge. It recommended that Government introduces a programme that compels SMEs to register. Burgess (2001) averred that economies are placing increasing importance upon the success of small business entrepreneurs through provision of increased resources to support this emphasis for accelerated income generation, employment creation and poverty reduction. This study seeks to build on local studies that focus on the growth of enterprises in Kenya. In Sharu and Guyo (2013) study on the factors influencing growth of youth owned small and medium enterprises in Nairobi County, Kenya, they recommended further studies on government policies affecting the growth of SMEs in Kenya. They observed that the growth of enterprises in Kenya has been facing several challenges with many having low survival rates especially within the first three years of operation. Research points to the importance of having specific regulation geared towards the running of MSEs due to their special needs in that they have many challenges in establishment.

A study by Kiveu and Ofafa (2013) in Kenya established that youth in business especially medium and small enterprises are affected by several challenges that are experienced by growing enterprises. These include limited access to credit facilities, lack of access to markets; no specific standards followed in the industry they operate, limited investment access such as equipment that makes technology easy to use and know-how. There have been previous studies on youth unemployment and its effect to



the economy. The impact that government regulations have on youth-led enterprises in Nairobi County remains a gap to the knowledge database hence the research gap this study aims to address. Among the most important gap is the impact of the Act on business registration, regulation and credit access adopted by SMEs of which would mitigate enterprise stagnation and or failure among the youth owned enterprises. This study therefore sought to investigate the effects the MSE Act 2012 has on youth-led enterprises in terms of growth.

### **2.2.1 Theory of the Growth of the Firm**

Edith Penrose in her theory of the growth of the firm offers various philosophies governing the growth of firm and also the rate at which a firm can grow professionally. A firm has hence been defined as a group of productive resources which can be either human or non-human that are coordinated with authoritative communication to produce goods or services that are sold to realize a profit (Penrose 1959, 1985, 2008). This theory has also been recognised to make a great contribution to the resource based theory. The theory provides for management of a firm's resources in order to ensure growth in the long term. Most young firms that have failed may have been inhibited by lack of sufficient resources to survive in the competitive business environment. Access to finances is usually the greatest challenge that most youth attribute their failure or lack of growth to. This is despite there being a big number of financial institutions in the market. There are so many requirements that need to be met and this provides a challenge to the firms at their initial stages.

Managing of a firm's resources therefore makes human resources that provide managerial roles to be fundamental to the growth of a firm. This is because any expansion activity requires planning which is specific to a firm and may not be

available in the open market. Factors that lead to a firm's growth may be either internal or external. Rugman (2012) in his analysis of Penrose work indicates that external causes such as access to financial for capital growth may not be fully understood without analysing the nature of the firm and also the industry a firm operates in. He adds that internal factors are greatly influenced by how a firm's resources are managed, how productive opportunities are explored and also how strategy is diversified. This is what gives an explanation on the causal-relationship between these resources, capabilities, competitive advantage that brings success into a firm (Rugman & Verbeke, 2002). Management works to ensure good use of available resources which results in growth of the firm but there are limiting factors to the rate at which this firm grows.

Lockett and Thompson, (2004) explains that a firm resource must be unique and rare, one that cannot be imitated by other competitors. A company's assets winning chances as well as profit growth create economic value not because a firm owns certain assets though as a result of the innovative management of resources exercised by the firm. This provides the linkage to Scumpeters Innovative theory. This theory explains the needs to exercise innovation from the early stages of a firm's development and evidence shows that such firms have a greater growth rate and acquire a greater market share early into the business existence (Mahoney, 1995). There is a difference however among dynamic resources as well as dynamic services (Loasby, 2002). In order to access the global market, most firms need to diversify the product they offer to the market due to the high competition by the many firms completing for the same market share.

Most firm incentives that lead to growth are self-driven and this has to do more with internal business growth firm. An entrepreneur need to achieve consequently

contributes to the development of the company. There is a common rule that once one sets out to execute any plan, excess resources will be required other than the ones strictly necessary for the execution. Second, once the plan has been completed, managerial resources are necessary. The results of a firm are determined therefore by how effective is time management between when a plan is made and when it is implemented. Most young entrepreneurs do not however have enough resources in order to employ excess for certain tasks in their venture. Every firm intends to achieve superior economic performance in order to become the market leader and trendsetter. A firm should strive to use the minimal resources to produce optimally in order to ensure growth, profitability and sustainability.

### **1.3 Objectives of the Study**

The common objective of this study was to find out the influence of the SME Act 2012 on the growth of youth owned SMEs in Nairobi.

### **1.4 Value of the Study**

Previous local research on MSEs has been greatly on analysing the factors that hinder access to microfinance or financial inclusion of SMEs and also operational challenges that they face in their operations. Little empirical evidence is available on what impact regulations and policies have on the growth of micro enterprises. The academic community greatly benefits from this study as it builds on the body of knowledge on business ownership. It also adds to the growth of a better theoretical models and point the way toward further study. Little study has been done around this area and this study will add on the knowledge for other researchers to undertake further research.

The Kenyan government will also benefit from this study in its quest to promote the enterprise culture especially among the youth in trying to reduce the rate of unemployment. It will help in formulating such regulatory policies that encourage development of MSEs. The study will be a pointer to youth-led enterprises of the need to familiarise on the existing government regulations before embarking on any business activity to avoid being on the wrong side of the law. Organizations working to promote youth employment may utilise these findings to formulate an appropriate training program to help their entrepreneurship students with necessary skills on business regulations and ownership.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter assesses the available theoretical as well as empirical literature that is relevant to this study and consistent with its objectives. Previous studies conducted on the study variables and their findings are discussed.

### **2.2 Theoretical Foundation**

This section discusses three theories namely; Theory of the Growth of the Firm, McClelland's Theory of Achievement Motivation and Public Interest Theory of Regulation.

#### **2.2.2 McClelland's Theory of Achievement Motivation**

Firm growth is driven by an entrepreneurs need to achieve. Entrepreneurs' personal characteristics may be determined by psychological and non-psychological motivating factors. Many entrepreneurs do have a need to achieve, a need to do well and to achieve goals that they have set to a certain standard that is specific to each person (Johnson 1994; Shanthakumar 1992; Solymossy 1998). During the early 1940s, Abraham Maslow came up with the theory of needs where he outlined physiological needs, safety needs, the need to belong, self-esteem and self-actualization. David McClelland in 1961 built on Abraham's work by explaining this theory of achievement motivation in the economic development of an individual. This need is greatly connected to how an entrepreneur is oriented (Cooper 1986). Other than the need to achieve, McClelland (1961) also explain the need for affiliation and the need for power (Sexton and Bowman 1986).

The needs explained differentiates between a successful entrepreneur and one who fails in the business venture (Miller and Friesen 1982). Need for achievement shows the individuals that with a sturdy aspiration to undertake difficult tasks well and who seek to achieve excellent private values. These individuals usually achieve advancement in the jobs or the tasks they set out to carry out. This achievement is driven by the clear goals they set to achieve and they also encourage feedback on how they perform so as to improve on any weaknesses experienced (McClelland, 1985). When choosing projects to embark on, they prefer moderate risk projects. Those with fifty percent chance of success. This is because they see low-risk projects as easily attained success that is not genuine while high risk projects as a chance outcome rather than one's own effort. Human beings differ in characteristics and different needs are the ones that condition what behaviour one will portray.

McClelland explains human motivation as being that excitement of specific reasons in a particular setting (McClelland, 1985). This theory is also related to other theories such as the Herzberg's motivation-hygiene theory. It explains that persons with high achievement motivation are not only interested in achieving but also on the motivator or the task itself (McClelland, 1975; Stahl, 1983). Many however prefer working alone as compared to working in groups. This is descriptive of young entrepreneurs who start out alone in many of their entrepreneurial activities. Self-assessment is used as a measure for success. Their achievement give them more feel of success as compared to financial gains (McClelland and Burnham, 1976; Hines, 1973). Future-oriented individuals that show dedication to their task always achieve success due to their persistence sacrificing many activities and personal time.

### **2.2.3 Public Interest Theory of Regulation**

Public interest theory is an economic theory initially initiated by Arthur Cecil Pigou (1932) that explains regulations as being made in response to public demand in order to correct the inequalities that are faced in the market. These regulations should be made for the benefit of all citizens in the economy and not for the benefit of only a few powerful individuals with vested interests (Pigou, 1932). When a regulatory body is put in place, it should represent everybody's interest in the society and not interests of those regulating it. According to Viscusi (2007), regulation is the use of legal instruments to facilitate good social-economic policy objectives. These legal instruments are characterised by having organizations or persons that are made to obey by being under penalty or sanctions. Organizations are forced to obey the regulations that are enacted by use of fines that have a negative financial implication on the businesses hence easy to attain compliance.

Viscusi (2007) mentioned among the regulated aspects as the prices of goods and services, supply of certain goods that prevents hoarding of essential goods from the market, staying out of specific market, following particular mode of processing and ensuring they pay the legal minimum wage. To ensure this is followed, fines are used, violations made are publicised, imprisonment, or the business is closed down altogether. This theory facilitate in allocation of scarce resources to individuals for collective goods. Allocation of these scarce resources is achieved through market mechanism in western economies. In theory, this is seen in various circumstances to be optimal (Arrow, 1985). But in practice, these conditions are never adhered to making it necessary for authorities to put up regulations that ensure fairness for all. Market failures and consequently government interventions therefore become fundamental in the public interest theory.

Social welfare is usually achieved through regulations (Arrow, 1970; Shubik, 1970). This theory is also explained using the private interest theory that uses interest group behaviour to explain the regulations put in place by authorities. Government regulations do overcome various disadvantages that are faced by a majority of individuals. They include unfair competition, market operation that are unbalanced, non-existence markets and unfair market outcomes. There is usually the allocation and assertion of freedom of contract and individual property rights in market for exchange of goods and production factors (Pejovich, 1979). To achieve good contracting and individuals been able to get property rights, regulations are efficiently organized collectively than individually. There are also services that are very essential to the operation of any business such as electricity, gas, transport, water, sewerage, electronic communication, airports and airlines, railways that also need protection through regulations.

### **2.3 Provisions of the MSE Act 2012**

Section 3 of the Act states the goal as well as the purpose of the Act which is to provide a legal and institutional frame work for the promotion and development and regulation of the MSEs by providing an enabling business environment. Section 4 of the Act is on appointment of Registrar of MSE responsible for registration of MSEs in agreement with the provisions of the Act, for the purpose of regulation. Section 29 is on establishment of MSE Authority whose functions include formulation and reviewing of policies and programmes for MSEs among others. Part V of the Act which is on development and promotion of MSEs through the various sections. Section 46 is advising on zoning and land, Section 47 development of infrastructure such as provision of worksites, social amenities, business information centers and



centers of excellence, Section 48 is on capacity building and entrepreneurship programs, Section 49 development of Markets and provision of market services, and Section 50 which is on technology acquisition and transfer.

As per Section 51 of the MSE Act 2012, a fund requires to be formed. This fund is called the Micro and Small Enterprises (MSE) Development Fund. The fund aids in the development of SMEs and also to assist in access of credit facilities for this small business. A fund is also important to facilitate in the capacity building of SMEs and also research. Appropriation of funds that form this MSE development fund is the role of parliament. Implementation of the Act therefore will enable small business access funds to grow their businesses and also facilitate research in order to grow their businesses. The cabinet secretary in charge determines the size of this fund. The Authority formed by this Act is responsible for managing the fund.

Settling of disputes is key to the success of any sector in the economy. The Act provides for establishment of a tribunal to hear disputes related to small business in section 54. It consists of seven professional who come from different backgrounds that hear and determine disputes that may arise in the course of business. The tribunal member's term expires after five years. As per the Act, these appointments are done through a gazette notice by the Cabinet Secretary. Disputes that are determined by the tribunal include those arising among members, between the associations and the Authority, management of any association and also when enterprises do not comply with worksite rules. The regulations made this Act provide for matters to do with fees and forms to be subjected and also licensing of service providers.

#### **2.4 Critical Success Factors for Youth-led Enterprises**

Most economies register an increase in the financial contribution of young

entrepreneurs to the economic development. There is however a number of challenges that hinders more contributions which is associated with different factors. A study by Kiveu and Ofafa (2013) in Kenya established that youth in business especially medium and small enterprises are affected by several challenges that are experienced by growing enterprises. These include lack of technical know-how, knowing how to manage and market; challenges in reaching economic gains/inadequate capital, constrained access to information as well as data; no specific standards followed in the industry they operate, limited investment access such as equipment that makes technology easy to use and know-how, insufficient goodwill of large corporates to work with domestic MSEs and seem as if they are working against them/no goodwill on the part of the government to support programs dealing to public procurement.

These challenges influence how successful a firm is. Young firms need to get solutions to these challenges so as to succeed in getting quality networking opportunities and quality awareness schemes that bring about mutual recognition across cultural barriers and different languages used. Other challenges the youth faces when starting and growing their firms include, limited intellectual property protection, international sales risks, having the same duplicated businesses competing for the same market space in foreign markets , having very complex trade documents include how commodities should be packed and labelled, and limited access to the necessary technology. Success will be determined with how the sales of a firm grow over time and the number of employment they offer to the economy. The growth of net assets differs with different firms' asset needs.

## **2.5 Phases of Business Growth**

Growth is characterised in to five stages. The first stage is the existence stage. It is the

start-up. The focus is to move from idea to implementation where the owner does everything from idea to capital source to energy. At this stage supervision, if any, is direct and protocol is not so much emphasized. Failure typically due to inability to attract customers despite excellent product plans. The survival stage cash flow remains critical – it is all about survival and generating cash for growth. At the success stage, the shift to professionalising the business without strangling the initiative and innovation is essential. Financial management and organization development issues become increasingly relevant and urgent.

The take-off stage is the fourth phase that experiences effective management practices and employee development is critical. Management skills for the owner and hired professionals hired are highly used at this stage. Ability to manage change both internally and to accommodate external change becomes a key determinant to the success of a firm at this stage. The last stage is the maturity stage. Effective utilisation and management of increasing financial resources becomes a key focus area for a maturing company. Equally important is the development of an aligned and engaging company culture together with the need for simultaneous focus and agility need to be achieved.

## **2.6 MSE Act 2012 and the Growth of Youth Owned Enterprises**

The MSE Act 2012 promotes business growth in form of access to markets, resolving disputes quickly, access to credit facilities and technical skills. Implementation of this Act therefore enhances a business environment that caters for the needs of young enterprises. Nteere (2012) averred that the high mortality rate in the first three years of operation of Micro and Small Enterprises has cause it complex for their graduation in to medium as well as large scale enterprises, thus the “missing middle”. According

to( World Bank, 2016, Wanjohi and Migure,2008, Kaufmann,2007), bureaucratic regulatory regime pertaining to licensing, tax, business property registration and the long-time taken in courts to settle business disputes are among the issues precipitating low growth and high mortality rate among MSEs.

Despite the enactment of the Act in 2012, youth owned enterprises still have not achieved the expected high growth rates. Many do not survive with 60 percent of failures being experienced especially in the first three years in operation. This has greatly affected the SMEs contribution to the country's GDP with much being expected from this sector. For their growth and maturity, MSEs are supposed to be in a better position to compete with the large corporations. Access to global markets increases their rates of increase in profitability and sustainability. The Act provides that these enterprises be specially regulation for their own needs so as to increase their access to market in the competitive environment. Many SMEs that are governed through associations also get protection through the established authority.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research methodology that was used in the study. It consists of the research design, population of the study, sampling procedure, data collection methods and methods of data analysis.

### **3.2 Research Design**

The study adopted a descriptive survey method. Descriptive survey provides a sound basis for solutions of problems in the business environment. It was preceded by formulation of specific research questions prior to the study (Shajahan, 2009). While describing past or existing phenomena, descriptive method is used (Wilson, 2010). The method also allows generalizations of data to be made (Mugenda, et al. 1999).

### **3.3 Population of the Study**

This study was carried out among youth owned small and micro enterprises in Nairobi County. The target population for the study was youth MSEs in different sectors of the economy such as agribusiness, construction, trade, manufacturing, catering, retail and wholesale, professional services, hospitality and the general categories. According to the MSE Authority directorate (2015), there are over 2000 registered in their database.

### **3.4 Sample Size and Sampling Design**

A sampling frame was prepared using a list of all youth MSEs from the County. The enterprises were from different sectors thus stratas were made according to the number of sectors. They were divided into 9 strata and stratified random sampling

method used to come up with sample size. From each stratum, informants per MSE were purposively and randomly selected.

**Table 3.1 Sample framework**

<b>Type of enterprise</b>	<b>Number of MSEs</b>	<b>Sample size</b>
Agribusiness	30	10
Construction	83	10
General category	1169	20
Hospitality	12	10
Events organization	28	10
Information communication and technological services	151	20
Manufacturing category	10	5
Professional services	323	20
Retail and whole sale	93	10
<b>Total</b>	<b>2013</b>	<b>125</b>

Source: Research data 2017

### **3.5 Data Collection**

Primary data provided data sources for this study. Data was collected using semi-structured questionnaires. A questionnaire is defined as an outline comprising of a set of questions meant to generate data that facilitate in achieving the aims of the research objectives (Wilson, 2010). They provide cost effective means of gathering feedback from respondents. The informant included managers and firm owners who are involved in day to day operations of the business. The questionnaires were hand-delivered to respondents and others emailed, to those who were expected to read and

understand the question and write down the responses in the appropriate spaces provided.

### **3.6 Data Analysis**

During data analysis, completeness was checked with the data been coded and complied. Different tools and methodology were used to generate frequencies and percentages as descriptive statistics is applied. Inferential statistics were also used on the properties of the samples to make generalizations about the populations from which the samples were drawn. This was by the use of regression analysis to find out the correlation between the dependent as well as the independent variable. Presentation of the data took the form of pie charts, bar graphs, frequency tables as well as percentages for ease of presentation and understanding.

#### **3.6.1 Analytical Model**

The researcher applied the following multiple regression model. The model below defines the relationship between economic, social and legal parameter and the growth of a micro and small enterprises

$$Y = C + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + e$$

Where:

Y=Growth

C=Constant

X<sub>1</sub>, X<sub>2</sub> X<sub>3</sub>,X<sub>4</sub>,X<sub>5</sub>=Regression coefficients

X<sub>1</sub>-Access to credit

X<sub>2</sub>-Managerial skills

X<sub>3</sub>-Business training and capacity building program

X<sub>4</sub>-Marketing

X<sub>5</sub>-Public Policies



## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter contains the results and presentation of findings of the study. The study aimed at establishing the effect of the micro and small enterprise act 2012 on the growth of youth-owned SMEs in Nairobi CBD, Kenya. The findings were presented based on the study research objective.

### **4.2 Response Rate**

As indicated in chapter 3, the research method used was questionnaires which were dropped and later picked from the selected SMEs in Nairobi CBD. Out of 125 questionnaires distributed, a total of 96 were responded to. This is a 76.8% response rate which is a good percentage to conclusively achieve the research objectives.

**Table 4.1: Respondents Response Rate**

<b>Status</b>	<b>Frequency</b>	<b>Percentage</b>
Response	96	76.8%
Non-response	29	23.2%
<b>Total</b>	<b>125</b>	<b>100%</b>

*Source: Research findings (2017)*

The table 4.1 above shows that 96 respondents sampled responded to the questions administered. The response rate was high as they were randomly sampled and questionnaires were easy to understand and respond to since they were semi-structured. The non-response rate does not have a major effect on the outcome of the analysis.

### 4.3 Demographic characteristics

This study presents the demographic characteristics which included age, level of education, sector of activity, length of period in business, their source of capital, number of staff they employ and form of business they operate.

#### 4.3.1 Age of Respondents

The study collected data on the age of the youths who took part in this study. Age was an important aspect of the study which focused on youth-led businesses. The respondents who participated in the study by filling the questionnaires were of different ages as highlighted in table 4.2.

**Table 4.2 Age of respondents**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Below 20 years	12	13%
21 – 30 years	51	53%
31 – 40 years	28	29%
Above 40 years	5	5%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

The table above indicates that 53% of the respondents were between 21 to 30 years. In Kenya, the youth are defined as those people between 18 to 35 years (World Bank, 2010). This means that respondents in the study for highly targeted being a study on youthful business owners. 29% were between 31 to 40 years, below 20 years the respondents reached were 13% while those above 40 years were 5%. This indicates

that over 90% of the respondents of this study were youths who were the main target for the study.

#### 4.3.2 Level of Education and training

The study collected data from the respondents on their level of education. The level of education was important for this study as it demonstrated whether respondents had the adequate level of education to understand the concept and language of the study and also to sufficiently run the business. The findings are as shown in table 4.3 below.

**Table 4.3: Level of education**

Category	Frequency	Percentage
Cannot read and write	0	0%
Up to standard 8 level	5	5%
Form four level	34	35%
Certificate	28	29%
Diploma	17	18%
Degree and above	12	13%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

Table 4.3 indicate that most of the respondents only had attained form four as their highest level of education. This was at 35%. 29% had attained certificate level, 18% diploma level and only 5% had attained class eight level of education. All the respondents could read and write. This shows that most of the respondents had a relatively good level of education. This shows that the respondents had good level of education that is necessary to grow an enterprise in this competitive market and also

to interpret and understand government policies so as to use them to their advantage.

### 4.3.3 Type of Enterprise

The study sought to establish the type of activities the respondents engaged in. Most businesses require start-up capital which the youth may not have, and this would influence the kind of activities they engage in, among other factors. The findings on the sector of activities were as presented in the table 4.4.

**Table 4.4 Type of business operated**

Category	Frequency	Percentage
Retail business	29	30%
Agri business	2	2%
Service business	36	37%
Transport	15	16%
Other	14	15%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

Table 4.4 above shows that the large number of MSEs that the respondents are involved in are in the service sector at 37%. The least of them, 2%, are in the agri-business sector being MSEs in the urban center. Retail business are carried by 30% of the respondents, 16% in the transport sector while 15% indicated to be involved in other types of businesses. Most of young people in the urban centers are engaged in businesses that are in the service sector due to low capital requirements. This is confirmed by the respondents with the retail sector also having a large number of respondents.

#### 4.3.4 Number of Employees

This study sought to establish the number of staff that youth-owned enterprises employ. This is important to determine whether a firm is a micro, small or medium enterprise. The findings are as presented in table 4.5.

**Table 4.5 Number of employees**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5	15	16%
6 - 10 people	54	56%
11 - 15 people	21	22%
More than 15	6	6%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

Table 4.5 above shows that 56% of the respondents employed between 6 to 10 people in their firms. Only 6% employed more than 15 people, 16% employed less than 5 people and 22% employed 11 to 15 people. A micro enterprise is defined as having at most 10 employees, a small enterprise with 11-50 employees, and medium/large enterprise with more than 50 employees (Cooper 1986). This shows that most of the respondents firms were small and micro enterprises targeted in the study.

#### 4.3.5 Sources of Start-up Capital

The study sought to establish where the respondents source for capital for their businesses. In order to grow their enterprises, young people need financial support and especially from government institutions that offer subsidized credit. The findings are as shown in table 4.6 below.

**Table 4.6 Sources of start-up capital**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Personal savings	45	47%
Borrowings from relatives or friends and other money lenders	16	17%
Micro-finance institutions	14	15%
Assistance from NGO's	6	6%
Borrowed from Bank	12	12%
Others	3	3%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

Base on the results, most of the business owners, 47%, started their business using their personal savings. 15% took loans from micro-finance institutions, 17% borrowed from relatives and friends, 12% from banks and 3% from other sources such as 'chamas'. 6% indicated to having received assistance from Non-governmental institutions. The respondents targeted are young people, and from the study it shows they have a low intake of loan from financial institutions from the country. The MSE Act 2012 enacted in relation to young enterprises should address the issue of credit access to start-ups, taking into consideration their unique financial needs.

#### **4.3.6 Forms of Business Ownership**

The study sought to establish the form of business registration that young people carried out. There are different forms of registration that are influenced by the potential of each business person and various statutory obligations. The outcomes are as shown in table 4.7 below.

**Table 4.7 Business Ownership**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Partnership	20	21%
Sole proprietorship	26	27%
Family owned business	12	13%
Cooperative	0	0%
Other	38	40%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

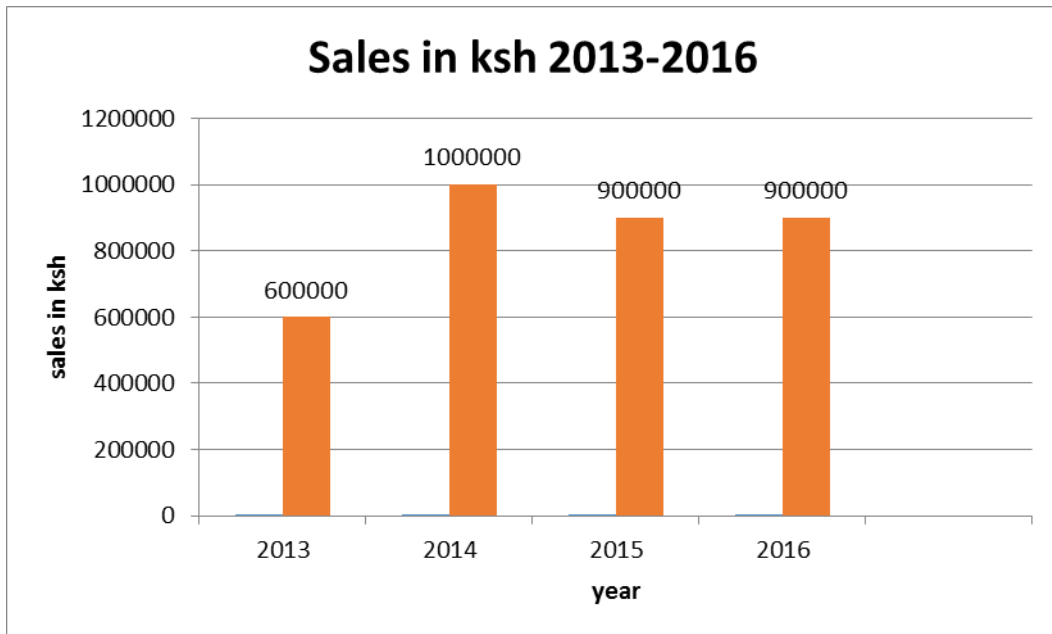
According to table 4.7 above, 21% of the firms were owned as partnership between the youths. 27% are sole proprietorship, 13% owned by family while 40% represented others such as private limited companies and those not registered. Young people usually run firms that are not registered mostly due to the protocol that is followed during registration and licencing. This study indicates that most do not formally register their enterprises while others run private limited companies. With the many government business and tenders in the Counties and National government, young people need to formally register their enterprises and especially as companies so that they can easily trade with the government.

#### **4.4 Growth of youth-owned SMEs**

The study aim to establish the growth of the enterprises that were involved. MSEs face many challenges such as scarce input in form of raw material and other that require a high amount of capital, and the relevant technology required for production (Brusco and Righi 1989).

Many small businesses require high capital to set which often is not available to the enterprise owners. The findings on growth are as shown in figure 4.8.

**Table 4.8 Sales 2013 – 2016**



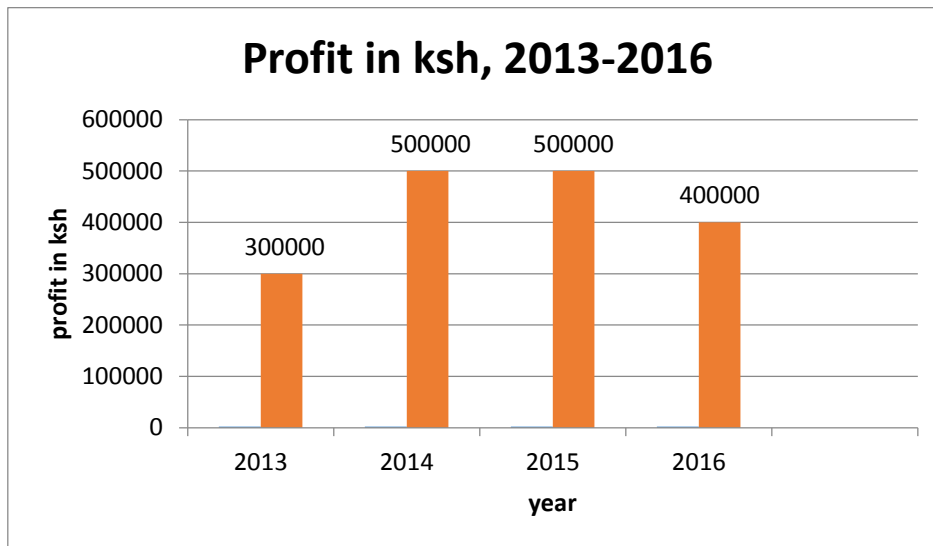
*Source: Research findings (2017)*

Table 4.8 shows the average performance in growth over a period of four years, 2013 to 2016. 2014 shows the highest record of turnover. 2013 indicates low average sales among the youth-owned enterprises. Kiveu and Ofafa (2016) illustrated the growth seen in the Kenyan economy. Kenya's sustained economic expansion performance was accredited to various features. KNBS reports that growth rate in 2014/2015 (5.3 in 2014 and 5.5% 2015 KNBS) was underpinned by developments in the performance of key sectors such as agriculture, construction, transport and storage, real estate, and financial services. With election period in 2016- 2017, the economy saw a drop as some investors withdrew their investments due to the unpredictable stability of the country during elections as seen in the previous years.



The recurring outcomes that elections have on Kenyan economy, and the aftershocks felt by the business environment due to the long-lasting period of extreme political activity, have slowed down the economy.

**Table 4.9 Profit 2013 - 2016**



*Source: Research findings (2017)*

Table 4.9 shows that year 2014 and 2015 recorded the highest profits while 2016 recorded low profits. The two tables above, 4.8 and 4.9 show the rate of growth in terms of sales and profits. From the year 2013, the firms showed a consistent growth that started to decrease in the year 2016. Findings showing growth are meant to indicate whether youth-owned enterprises have been growing since the enactment of the MSE Act in 2012. Though there are other factors that influence growth, findings in this study show the influence of the most common factors to the growth of an enterprise such as access to credit, marketing and government support. The Kenyan economy has been experiencing low growth especially in the election year and the year preceding the election year (Kiveu & Ofafa 2016).

This are the times that inflation is on the rise. The year 2016 was also hit by drought whose greatest effect was felt up to the year 2017.

#### **4.5 Micro and Small Enterprise Act 2012 impact on youth-owned enterprises**

Implementation of the Micro and Small Enterprise Act 2012 enhances a business environment that caters for the needs of young enterprises. Many young people in Kenya run small enterprises while many senior youth are running medium enterprises due to their exposure, experience and networks. The Micro and Small Enterprise Act 2012 therefore should be fully implemented to enable the young business owners to have a conducive environment to run business and grow the economy of the country. Market access and financial assistance are the major concerns for most youth-owned enterprises as indicated in the study findings. The table 4.10, below shows the average of the responses.

**Table 4.10: Marketing linkage and financial support**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	6	6%
Agree	10	10%
Undecided	15	16%
Disagree	28	29%
Strongly disagree	37	39%
<b>Total</b>	<b>96</b>	<b>100%</b>

*Source: Research findings (2017)*

The findings of this study show that 39% of the respondents strongly disagree that that the MSEA have contributed much to the financial and market linkages that

ensures growth of their firms. Only 6% strongly agree and 10% agree with this marking the implementation of the MSE Act 2012 as lacking proper impact to the youth-led businesses.

#### **4.6 MSEA support on the youth enterprises**

The components economic parameters, social business environment and legal and administrative issues were evaluated. A five point likert scale was used where 5=strongly agree 4=agree 3=undecided 2=disagree 1=strongly disagree. Averages of the parameters adopted were established in order to provide generalized feelings of the respondents. Means less than 1.5 implied that respondents strongly disagreed with the MSEA support on their economic parameters. Means more than 1.5 but less than 2.5 implied that the respondents disagree with the support. Means greater than 2.5 but less than 3.5 implied that respondents had an indifference response that shows they are not sure whether the support they get is due to the establishment of the Authority or not. Means greater than 3.5 but less than 4.5 implied that the respondent agree that their enterprise growth has been influenced by the implementation of the MSE Act 2012 by MSEA and means greater than 4.5 implied that respondents strongly agree. The distribution of the responses in relation to the mean is represented by the standard deviation. When the standard deviation is greater than 1 it indicates that there is no consensus on the responses acquired, while less than 1 indicates that there is consensus on the response obtained. A low standard deviation demonstrates that the information guides slants towards being close to the mean, while selective necessity deviation shows that the information is spread out over a broad extend of characteristics. The responses have been analysed as shown in table 4.10 below.

#### 4.4.1 Economic Parameters

**Table 4.11 Economic parameters**

<b>Economic parameters</b>	mean	standard deviation
Financial institutions and other lending institutions are more willing to offer financial assistance. They have given me access to micro-credit enough to run my enterprise and see to its growth. The MSE Authority has facilitated access to funds through intermediaries	3.82	1.05982
I face no major challenges while marketing my products. The MSE Authority has developed markets linkages, conducted market surveys, organized trade fairs and shows to promote our products.	3.701	1.06
Different business trainings and capacity building programmes have been made accessible to me through the MSE Authority as a result of enactment of the MSE Act.	3.04	2.79428
The premises/worksite I use for my business and the social amenities there in were availed and developed by the MSE Authority.	2.92	2.819929
There is a lot of business information that I get form the MSE Act and MSE Authority that helps me run my business well and exploit business opportunities	3.413	1.903943
My managerial skills are excellent as a result of trainings facilitated by the MSE Authority.	3.12	1.082
I face no stiff competition in the course of my business as fairness and an enabling environment has been created by the MSE Act through regulation and addressing the inefficiencies in the market	3.46	1.03

*Source: Research findings (2017)*

According to the table above, respondents agreed that the MSEA has been supporting them in their enterprise growth. Financial assistance had a mean of 3.82 which is greater than 3.5 while marketing had a mean of 3.7 which shows that they agree with that too. The respondents were however indecisive on the trainings offered by the

MSEA and disagreed on the providence of business premises. On the information that they get from the authority, the respondents were indecisive and also on the managerial skills offered to them. There was also indifference on the assistance of the authority on the creating an enabling environment that assist in competing with other enterprises. From the findings, youth-owned enterprises do not have the necessary assistance from the Authority to grow their profits. Since the enactment of the MSE Act in 2012, implementation has not been rolled out fully to reach as many enterprises as possible.

#### 4.4.2 Social Business Environment

**Table 4.12 Social Business Environment**

<b>Social business environment</b>	<b>Mean</b>	<b>standard deviation</b>
I have grown major networks with people outside my business through the, associations and umbrella bodies registered by the Registrar of MSEs, and market linkages and trade fares/shows facilitated by MSE Authority.	3.76	1.05
Trainings received from the MSE Authority enhanced my entrepreneurial culture.	3.23	1.021

From the above analysis respondents agreed with the support of major networks offered to them by MSEA shown by a mean of 3.76 and there was indifference on the training on entrepreneurial culture accorded to them shown by a mean of 3.23. The social business environment is key to the growth of an enterprise. The role of the government is also important to enable the environment to be favourable for business to thrive. The Authority that is put in place needs to enable business owners access the

needed trainings, and organise many forums where young entrepreneurs can be mentored by other established business owners and also provide opportunities for networking and for new sales.

#### 4.4.3 Legal and administrative issues

**Table 4.13 Legal and administrative issues**

<b>Legal and administrative issues</b>	mean	standard deviation
Government bodies have accorded me the necessary business assistance and support. The Micro and Small Enterprise Act 2012 has provided an enabling business environment.	2.812	1.92
Establishment of Micro and Small Enterprises Authority in 2012 has promoted/boosted my business through trainings, provision of worksite and market linkages.	3.54	1.897
Disputes among association members and with other stakeholders are timely resolved by the MSE Authority Dispute Resolution Tribunal whenever they occur.	2.313	1.3672
Policy makers are accessible in my area	3.412	1.031

*Source: Research findings (2017)*

Table 4.12 above indicates that most of the respondents disagree with legal and administrative support from the MSEA authority. There is an indifference of accessibility of the policy makers in their areas with a mean of 3.412. They disagree with the support on conflict resolution with a mean of 2.313. As many micro and small enterprise owners find difficulties paying legal fees, the Authority has not provided for a legal desk from which they can seek assistance. The enterprise owners

have not been involved in the implementation of the MSE Act 2012. Their contribution could add value to the services they acquire from this government institution.

#### **4.7 Relationship between MSEA support and Growth of Enterprises**

As earlier discussed, growth of micro and small enterprises is dependent on so many factors and implementation of various provisions of the MSE Act 2012 by MSEA highly determines if youth-owned enterprise will growth or fail. The relationship between the various factors and how they relate to growth is summarized in table 4.14 below:

**Table 4.13 Model of Summary**

Model	R	R Square	Adjusted Square	R Std. Error of the estimates
1	.512	.629	.804	.395

a. Predictors (constant), Access to credit, Managerial skills, Business training and capacity building programs, Marketing, Public policies

The independent variables in study influenced 62.9. % of the growth of youth owned enterprises as represented by R square.

**Table 4.14 Coefficient of determination**

Coefficients					
Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std Error	Betta		
(Constant)	4.585	.154		.453	.001
Access to credit	.069	.120	.098	.234	.003
Managerial skills	.095	.212	.073	.386	.722
Business training and capacity building programs	.445	.156	.186	.103	.446
Marketing	.106	.122	.211	.214	.027
Public policies	.269	.187	.054	.303	.032

*Source: Research findings (2017)*

The regression equation is of the form  $Y = C + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + e$  becomes

$$Y = 4.585 + 0.069X_1 + 0.95X_2 + 0.445X_3 + 0.106X_4 + 0.269X_5$$

Thus the coefficients for the regression line are in the 'B' column above.

From the findings in tables 4.14; access to credit ( $p = 0.003$ ), marketing ( $p = 0.027$ ), and public policies ( $p = 0.032$ ) were statistically significant to growth as  $p < 0.05$ . Business trainings ( $p = 0.446$ ) and managerial skills ( $p = 0.722$ ) were not as significant to growth as the  $p > 0.05$  although they are also important.

#### **4.8 Analysis of Variance (ANOVA)**

Analysis of Variance (ANOVA) was used to determine whether a significant relation



exists between variables (dependent and independent variables). The ANOVA results are presented in the table below:

**Table 4.15 ANOVA**

ANOVA <sup>a</sup>						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	12.370	5	1.237	1.242	.012
	Residual	56.748	90	.996		
	Total	69.118	95			

*Source: Research findings (2017)*

From the ANOVA analysis output, assessing if a statistically important variation exists between the group means, it is obvious that there is a statistical significance disparity involving the group means. It is evident that the importance values are .012 ( $p=0.012$ ), as it is less than 0.05. The values show a statistical significance between economic, social and legal parameter and the growth of a micro and small enterprises.

#### **4.9 Discussion of Findings**

The purpose of this research was to establish the consequence of the Micro and Small Enterprise Act 2012 on the growth of youth-owned SMEs in Nairobi. The focus therefore was on enterprises owned by the youth, with the age of youth defined as between 18 to 35 years (World Bank). Article 260 of Kenya's Constitution defines a Youth as a person aged between eighteen (18) years and thirty four (34) years. From our respondents, over 90% were youthful entrepreneurs. Most of the youth running MSEs had not pursued the highest levels of education. Most of them have been driven into self-employment by lack of employment due to a weak education background. Michael et al (2009) observed that the level of education only had impact if one did not complete the lower levels meaning that many enterprises grew even if one did not

have a degree.

In East Africa, youth entrepreneurship is still in its infancy stage (Rajender, 2012). Most of the youth in East Africa are mainly involved in informal, small scale businesses that hardly meet the definition of entrepreneurship (Ikiara & Macormick 2011). This is due to the fact that most of the youth venture into entrepreneurship not as a business but a form of livelihood to escape from poverty. As such, they don't learn how to effectively run business ventures and how to develop products that are market ready. It is therefore the norm that most of these youth -led enterprises are not formalized.

Micro and Small Enterprise Act 2012 provided for the institution of MSE Authority that has been working with young people for business growth. According to the findings, majority agree that the Authority has been working to support the youth-owned business. This has been in form of facilitating linkages with financial institutions, NGOs and other bodies that have enabled them get capital to start their businesses. There have also been business networking events that also assist the young access the market, suppliers and other aspects of business that the authority feels need for. Respondents indicated no assistance in conflict resolution from the Authority. This is important to young firms that cannot afford legal services.

It has been seen through the previous records that the Kenyan economy declines during elections period by about 1.2 to 1.4 percent. Through Data it is clear that in every three out of five multiparty elections Kenya has held since 1992, the economy either slowed down or failed to grow. In 1992, the economy shrunk by 0.8 per cent and only grew by a paltry 0.47 in 1997 and 0.55 percent in 2002. In the run up to 2007 election, it grew by an impressive 7 percent (the highest in the last 20 years) before

tumbling to a measly 0.25 percent in 2008 as a result of post-election violence. In 2013 growth remained steady at 5.69 percent, 5.3% in 2014, 5.6% in 2015, and 5.8% in 2016 (KNBS, World Bank). The cyclic effect that elections have on Kenya's economy is evident as illustrated. Low consumption and investment, and travel advisories due to perception of insecurity drag down economic growth during these politically charged events.

Inflation has a major impact on economic growth in Kenya and this affects small enterprises as much as it affects the large enterprises. Kenya's highest ever inflation rate of 46 per cent was recorded in 1993 just after the 1992 general elections, when the country first embraced multi-party politics. The high inflation rate was attributed to dramatic political reforms as the country shifted to a new political order. This was accompanied by ethnic clashes in some parts of the country that led to a fall in the agricultural output particularly for basic commodities such as maize. Out of the five polls held since the dawn of multiparty politics, only for 1997 election year did the country register a decline in inflation to 6.3 percent in 1998 from 11.4 percent in 1997 (KNBS). Inflation averaged 6.3 per cent in 2016. Sogwe, Gicharu & Mahea (2011), in a research namely 'A study on youth and women entrepreneurs' preparedness in Kenya, observed that most young firms that have failed may have been inhibited by lack of sufficient resources to survive in the competitive business environment. Access to finances is usually the greatest challenge that most youth attribute their failure or lack of growth to.

From the ANOVA findings it exist a correlation between the variables in the study and growth of youth-owned enterprises.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary, conclusions as well as recommendations of the study in accordance with the objectives of the study.

### **5.2 Summary of the Study**

Base on the outcomes of the study, there has been a significant growth of young people owning business, that is, those between 18-35 years. However, many young people prefer to own sole proprietorship type of business majorly because they believe in working individually and with few employees if any. They should get more involved in companies as these are easy to trade with government and other large corporations. Many young entrepreneurs are in the service sector which most of the time, does not require much start up capital. Many youths in the study have not attained high levels of education. This however does not greatly affect their business growth but it determines the type of enterprise they run. Those with high levels of education were involved in companies while those who had just completed standard eight and form four were operating sole proprietorships, while others were not registered.

The young enterprise owners have recognized the importance of the MSE Authority in assisting them to grow their business. Trade fairs and exhibitions both local and international are assisting the youth in marketing and networking with the vast business community and especially with the large firms. There is a significant growth in sales and profits over the years since the Micro and Small Enterprise Act 2012 was enacted but not the majority of the growth can be attributed to the Act. The

respondents' highest level of education was the fourth form and this could be a contributing factor to most not being aware of the new Act and what benefit it could have on their businesses. The growth of youth-led enterprises also lack a subsistence relationship with the Authority owing to the fact that Micro and Small Enterprises Authority (MSEA) may not have sufficient recognition because it has not fully implemented the capacity building programme.

SMEs play a pivotal role of job creation, economic growth and social transformation. In order to facilitate enterprise development and competitiveness in the sector, there is need to enhance inter and intra county trade fairs and exhibitions.

### **5.3 Conclusion of the Study**

Performance of youth-led and operated economic enterprises in general are of great importance in achieving high gross domestic product (G.D.P) in many countries. Young people form the foundation of a society's future. Business linkages are programmes that offer particular opportunities for linkage of small and medium enterprises to existing companies and markets. The enactment of the law in December 2012 to guide the promotion, development and regulation of Micro and Small Enterprises (MSEs) in Kenya was a big policy achievement. However, it is clear that the requirements of that law have not been fully implemented, as the relevant Regulations have not been enacted.

The parliament is responsible for ensuring the full compliance with all the provision of the Act. The Executive is also involved in ensuring this compliance and especially to ensure availability of resources required to set up the MSE Fund. The board of directors of Micro and Small Enterprises Authority (MSEA), on the other hand bears responsibility to see to it that the Tribunal is constituted as per the Act to hear and determine issues/disputes whenever they occur for the smooth running of the

businesses under the various Associations and Umbrella bodies, and for harmonious relationship of these bodies with the Authority.

Appointment of technical officers commenced and is ongoing. The new Registrar reported to work in early November 2017. Processes such as hiring competent staff and other necessary activities need to be completed. The Authority needs to ensure that there is a database of all Associations and SMEs owned by individuals, and also start capacity building, build and improve infrastructure, develop access to markets according to Part V of the law, in a bid to regulate, develop and promote Micro and Small Enterprises. The regulator therefore should ensure that its work plan is published, combined with other associations schedules. This is in consultation with the registered associations to schedule capacity building activities that are relevant to registered associations and members in various regions within Kenya.

#### **5.4 Limitation of the Study**

The study mainly focused on enterprises owned by the youth. This focused mainly on the business owners and no responses were directed to the MSEA. The responses could have greatly varied had we received feedback from the Authority. The responses could also have been targeted at people that are involved directly with these enterprises such as the workers, suppliers, customers and also auditors to measure any influence the Micro and Small Enterprise Act 2012 may have on their growth.

#### **5.5 Contribution to policy and practice**

From the study, it is evident that Micro and Small Enterprise Authority is yet to fully establish a presence in the in the MSE sector. The study recommends that the young enterprise owners should make effort to access government services that will enable

growth. Many implementations that have been done by MSEA are not yet known by many business owners such as organized trade fairs. Siwadi (2010) notes that government services reach those that seek them more and they are accessible.

This study also recommends the Authority to spread its operations to as many enterprises as possible in order to reach many young business owners in all sectors and not only the manufacturing sector. The role of the Authority and its functions to businesses in Kenya is still an on-going process which has had varied impact on many youths. The envisaged effectiveness and improvement among the youth is far from being achieved. A number of gains and challenges have been identified. To strengthen the process and further continuously empower the youths, the following recommendations were made in view of the study findings.

1. There should be an effective SME data-base containing all business contacts, maintained and updated by MSEA, for all the diverse firms and individuals registered with it for ease of access to information, and to facilitate effective development, promotion and regulation of Micro and Small Enterprises in its mandate. This will be possible once the Registra's office is fully operational.
2. High cost of credit is a major challenge to youth-led enterprises. The study recommends the fast-tracking of the MSE fund by the relevant Ministry and Parliament that will address the unique financial needs of the diverse groups in the MSE sector. Most of these businesses cannot qualify for loans in financial institutions. The establishment of the fund is important so that the youths can venture into diverse activities that require more money and sustain their activities. These measures would greatly reduce possibilities of failure in their businesses due to lack of funds.
3. There should be information sharing between the Authority and enterprise owners. Msea has a lot to do to make their presence felt and this requires a lot of

publicity and sensitization of SMEs business owners. The upcoming trade fair in Bujumbura is not known by most of the respondents as was indicated during the study.

4. Further training for the youths be conducted for sustainability of their businesses and continuous improvement in their lives to further empower them.
5. Provide technology facilities such as internet to enable ease of carrying out business in the various worksites.
6. All the MSEA stations/worksites should be accessible to the enterprise owners and buyers.
7. The enterprise owners (SMEs) to take a keen interest in the role of MSEA and get involved in the implementation of the MSE Act 2012. Their contribution could add value to the services they acquire from this government institution that was specifically formed to look into their unique business needs.
8. There is duplicity of roles in terms of funding, capacity building and mentoring by the various government organizations and programmes such as MSEA, Youth Fund, Women Fund, Uwezo Fund, Kenya Industrial Estates(KIE),because they all target the same group-SMEs. There is need for collapsing all these into one stop-shop/body for identification, assessing, processing and channelling of funds for and on behalf of all these diverse groups, be it the youth, women and all the SMEs.
9. There is need for the National and County governments to work together in the same sphere so that roles are defined, and that the National government doesn't fund same projects that are being funded by counties.

## **5.6 Areas for further Studies**

The study was conducted in Nairobi County. The cases and phenomenon could be



different in other counties. It is therefore recommended that other similar studies be done in other counties with a view of understanding better the impact of the Micro and Small Enterprise Act 2012 in all youth owned enterprises.

The study also focused on youth-led enterprises. The findings could be different for other enterprises owned by people of all ages. It is therefore recommended that other studies be done on other clusters such as those over 35 years, or women- owned and various other clusters, and all business under the mandate of MSEA, with a view to establishing the of the influence of Micro and Small Enterprise Act 2012 on Micro and Small Enterprises, once the Micro and Small Enterprise Act 2012 is fully operational.

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## **APPENDICES**

### **Appendix I: Letter of Introduction to the Respondents**

Milgo Evelyne,  
University of Nairobi,  
P.O Box 30197,  
Nairobi.

Dear respondent,

#### **RE: DATA COLLECTION**

I am a post graduate student in the school of business, at the University of Nairobi. I am carrying out a research on effect of the Micro and Small Enterprise Act 2012 on the growth of youth owned SMEs in Nairobi County. Kindly assist me in this venture by completing the attached questionnaire. The information you provide will be treated with utmost confidentiality and it will be used for the purpose of this study only. Your assistance towards this is highly appreciated.

Yours faithfully,

Milgo Evelyne,  
University of Nairobi.

Dr Florence Muindi,  
Supervisor  
University of Nairobi

## Appendix II: Questionnaire

This questionnaire is designed to collect data on effect of the Micro and Small Enterprise Act 2012 on the growth of youth- owned SMEs in Nairobi County. The data collected shall be used for academic purpose only, and thus shall be treated confidentially. Your participation in facilitating this study is highly appreciated. Kindly answer the following questions by ticking in the appropriate box.

### PART A: Demographic Information (*Tick in the appropriate box*)

1. What is your age?

- |   |   |
|---|---|
| <input type="checkbox"/> Below 20 years | <input type="checkbox"/> 31-40 years    |
| <input type="checkbox"/> 21-30 years    | <input type="checkbox"/> Above 40 years |

2. What is your level of education and training

- |   |   |
|---|---|
| <input type="checkbox"/> Cannot read and write  | <input type="checkbox"/> Certificate      |
| <input type="checkbox"/> Up to standard 8 level | <input type="checkbox"/> Diploma          |
| <input type="checkbox"/> Form four level        | <input type="checkbox"/> Degree and above |

3. How long have you been running your enterprises?

- |   |  |
|---|--|
| <input type="checkbox"/> Less than 1 year | <input type="checkbox"/> 6 – 10 Years          |
| <input type="checkbox"/> 1 – 5 Years      | <input type="checkbox"/> Greater than 10 years |

4. What is the type of business do you operate?

- |   |  |
|---|--|
| <input type="checkbox"/> Retail business  | <input type="checkbox"/> Agri business |
| <input type="checkbox"/> Service business | <input type="checkbox"/> Transport     |
| Other .....                               |  |

5. In which sector is your business operating?

- |                                     |                                     |
|-------------------------------------|-------------------------------------|
| <input type="checkbox"/> Trade      | <input type="checkbox"/> Production |
| <input type="checkbox"/> Hand-craft | <input type="checkbox"/> Services   |
| <input type="checkbox"/>            |                                     |

Other (specify) \_\_\_\_\_

6. How many staff have you employed in your enterprise?

Less than 5

6 - 10

11 – 15

More than 15

7. Where did you acquire the initial capital to start your business?

Personal savings

Borrowings from relatives or friends and other money lenders

Micro-finance institutions

Assistance from NGO's

Borrowed from Bank

Others (specify) \_\_\_\_\_

8. How is your business been registered in legal business ownership status?

Sole proprietorship

Partnership

Family owned business

Cooperative

Other (specify) \_\_\_\_\_

9. What motivated you to start your enterprise?

Family traditions

Little investment is required

For self-employed

Lack of alternative for incomes

To generate high income

Others (Specify) -----

10. Who initiated and started the running of the enterprise?

Myself

Family was involved

Friend/partner assistance

other (specify)

**PART 2: SMES GROWTH PARAMETERS THAT ARE AFFECTED BY THE PROVISIONS OF THE MSE ACT 2012 .**The MSE Act 2012 was enacted

in December 2012 to promote, develop and regulate the Micro and Small enterprises Sector in Kenya. The MSE Act 2012 commenced in January 2013 purposely to see to the growth of Small and Micro enterprises.

Employment created and total sales are the most common indicators of firm growth used in empirical analysis. Kindly provide on the table below the indicators of growth for your firm/enterprise for the year 2013 - 2017.

	2013	2014	2015	2016	2017
Sales in ksh					
Profit in ksh					
Assets acquired in number and their value					
No of employees engaged					
Market share-%					

11. The MSE Act was enacted in December 2012 to promote, develop and regulate the Micro and Small enterprises Sector in Kenya. The MSE Act seeks to improve the business environment and grow small enterprises to become productive. Please state the extent to which you feel/agree the MSE Act 2012 has impacted on your business through various parameters/provisions.

Majority of the parameters that enhance growth of youth owned businesses are listed below. Read carefully each of them, make an evaluation basing them on how you run your enterprise and how each has enabled your business to grow, and then put a tick mark under the choices you pick below.

5=strongly agree 4=agree 3=undecided 2=disagree 1=strongly disagree



ITEM	Agreement scale				
Economic parameters	1	2	3	4	5
Financial institutions and other lending institutions are more willing to offer financial assistance. They have given me access to micro-credit enough to run my enterprise and see to its growth. The MSE Authority has facilitated access to funds through intermediaries					
I face no major challenges while marketing my products. The MSE Authority has developed markets linkages, conducted market surveys, organized trade fairs and shows to promote our products.					
Different business trainings and capacity building programmes have been made accessible to me through the MSE Authority as a result of enactment of the MSE Act.					
The premises/worksite I use for my business and the social amenities there in were availed and developed by the MSE Authority.					
The premise I use is mine					
There is a lot of business information that I get from the MSE Act and MSE Authority that helps me run my business well and exploit business opportunities					

My managerial skills are excellent as a result of trainings facilitated by the MSE Authority.					
Technologies used in my enterprise are easily accessible and acquired					
I face no stiff competition in the course of my business as fairness and an enabling environment has been created by the MSE Act through regulation and addressing the inefficiencies in the market					
There is adequate infrastructures available in the location I work in					
Raw materials and other business inputs are easily accessible					
<b>Social business environment</b>					
I am highly sociable					
I have grown major networks with people outside my business through the,Associations and umbrella bodies registered by the Registrar of MSEs,and market linkages and trade fares/shows facilitated by MSE Authority.					
I do not discriminate my customers					
There is positive attitude towards my services/goods by the society. Trainings received from the MSE Authority enhanced my entrepreneurial culture.					

All my staff members have a positive attitude towards my business					
There are no conflicting gender roles in my business environment					
I do not face any cultural influences in the course of my business					
Gender inequalities do not affect how I run my enterprise					
<b>Legal and administrative issues</b>					
Government bodies have accorded me the necessary business assistance and support. The MSE Act 2012 has provided an enabling business environment. Business development services easily available and promotion of entrepreneurial culture is on the rise.					
Registration of MSE in accordance with MSE Act is facilitated by the Registrar of MSEs					
Establishment of Micro and Small Enterprises Authority in 2012 has promoted/boosted my business through trainings, provision of worksite and market linkages.					
Disputes among association members and with other stakeholders are timely resolved by the MSE Authority Dispute Resolution Tribunal whenever they occur.					

Policy makers are accessible in my area					
I do not need collateral or other titled assets to acquire finances from the banks					
Micro finances and other lending institutions give reasonable interest rates through government's regulatory initiative					
I have been benefiting from government incentives that have seen my enterprise grow,					

**Thank you for your cooperation**