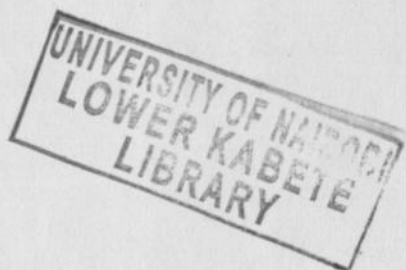


**FACTORS INFLUENCING THE GROWTH OF SMALL AND
MEDIUM ENTERPRISES IN KISUMU MUNICIPALITY, KENYA.**

BY

CHARLES RADING

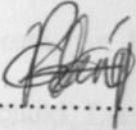


**A Research Project Submitted in Partial Fulfillment of the
requirements for the Award of the Degree of Master of Business
Administration (MBA), School of Business, University of Nairobi**

October, 2011

DECLARATION

I hereby declare that the work in this research project is my original work, and has not previously in its entirety or part been presented at any other University for the award of a degree; and that all citations and references in the text have been dully acknowledged.



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Charles Rading
REG. No: D61/70361/2008

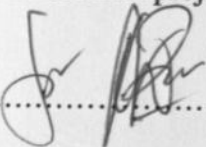
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DATE

appendices'appendices'

SUPERVISOR

This research project has been submitted with my approval a University Supervisor



.....
Jaleha Alex
Lecturer University of Nairobi
Coordinator, School of Business
Kisumu Campus

.....
26/10/2011

DATE

ACKNOWLEDGEMENT

DEDICATION

I dedicate this research project to my dear wife Joyce Akinyi.

I would wish to appreciate and acknowledge the assistance accorded to me by various people during this research and the entire study period. My supervisor, teacher and guide, Mr. Jaleha Alex, who is also the coordinator school of Business University of Nairobi, for his tireless effort in guiding during the development of this project. Dr. Machuki, Lecturer University of Nairobi for his close interest and direction; and all other lecturers who taught me during the course. I would also wish to acknowledge the ever present assistance accorded to me by my classmates and group mates for their support and encouragement.

I would wish to thank my immediate family members, especially my dear wife Joyce Akinyi for her love and patience during the whole study period. To all I say thank you very much for your motivation and may God bless you abundantly.

ABSTRACT
DEDICATION

I dedicate this research project to my dear wife Joyce Akinyi

of all business and provide approximately 52 million jobs in Africa alone. They have contributed to entrepreneurship and innovation which has made the society and economically important assets in the society (Schmitz 1995). Successful business stories around the world indicate that the best way to set a country at various economic total development is promoting domestic economic improvement through SMEs, more they are dynamic engines through which country wide development objectives can be achieved. It is against such background that this research project is conceptualized with the objective of determining the factors that influence the growth of SMEs in Kisumu municipality. The concept of business growth has been defined as increase in output, sales and income or the overall process of business development. The study is envisaged to yield data and information that will be useful in restructuring SMEs to make them more viable and better performers thus encouraging economic growth. The literature reviewed in the text has been carefully selected and collated to cover concepts like business growth and especially stages of growth of SMEs, their definitions and dimensions of operation, forms of business growth and factors that influence business growth. The study assumes a descriptive survey, targeting 79 SMEs which have been conveniently sampled. Questionnaire has been used as a tool of data collection and the data has been analysed using factor analysis. The findings have been presented in both text and figures relating to what other researchers had earlier established. The conclusion, limitations of the study and recommendations for future studies have conveniently been placed in the final chapter. There are several appendices for guiding the readers.

ABSTRACT

Small Medium Enterprises represent (SMEs) 99% percent of all business and provide approximately 62 million jobs in Africa alone. They have contributed to entrepreneurship and innovation which has made the socially and economically important assets in the society (Schmitz 1995). Successful business stories around the world indicate that the best way to set a country in motion towards total development is promoting domestic economic improvement through SMEs; since they are dynamic engines through which society wide development objective can be achieved. It is against such background that this research project is conceptualized with the objective of determining the factors that influence the growth of SMEs in Kisumu municipality. The concept of business growth has been defined as increase in output, sales and income or the overall process of business development. The study is envisaged to yield data and information that will be useful in restructuring SMEs to make them more stable and better performers thus encouraging economic growth. The literature reviewed in the text has been carefully selected and collated to cover concepts like business growth and especially stages of growth of SMEs, there definitions and dimensions of operation; forms of business growth and factors that influence business growth. The study assumes a descriptive survey, targeting 79 SMEs which have been conveniently sampled. Questionnaire has been used as a tool of data collection and the data has been analysed using factor analysis. The findings have been presented in both text and figures relating to what other researchers had earlier established. The conclusion, limitations of the study and recommendations for future studies have conveniently been placed in the final chapter. There are several appendices for guiding the readers

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CHAPTER ONE: INTRODUCTION

1.1 Background

The last two decades have generated major shifts in management due to globalization, technological advancements, changes in consumers' tastes and preferences, and the integration of business and consumer networks through the internet. These changes have created massive new opportunities and businesses now have to respond in order to maintain competitive advantage, and gain entry to new markets. Innovation is one of the main factors underlying an industry's or a firm's growth, (McCormick, 2001).

Hamel (2000) noted that growth of organizations depends on how they serve the various communities with a stake in them, and how well they respond to changes in the environment in order to grow. Pedersen (2001) points out that the greater the pace of change in the environment, the faster the response an organization has to make. Organizations that grow faster are those that anticipate environmental changes and act accordingly (Leveridge and Pitt, 2003), and managements that understand and value their products and services; have policies for developing new products and services and know their customers or clients (Heap, 2002).

In Africa, SMEs represent 99 percent of all enterprises and provide around 65 million jobs (Schmitz, 1995). They have also contributed to entrepreneurship and innovation which has made them socially and economically important assets in the society. Webster and Fiddler (1996) regard SMEs as the engines of a country's economy because they create jobs, spur entrepreneurial spirit and innovation, and foster competitiveness.

Though SMEs in Africa have faced problems of market imperfections, difficulties in obtaining capital or credit, and reduced access to new technologies, they have so far survived the odds and still remain the backbone of African economy. As Pedersen (2001) observes, market with no internal frontiers, measures that favour SMEs must be based on common standards to improve their consistency and effectiveness, and encourage competition. Successful stories around the world indicate that the best way to set a country in motion towards total development is promoting domestic economic improvement through SMEs since SMEs are dynamic engines through which society-wide developmental objectives can be achieved (Schindehutte and Morris, 2001). SMEs generate employment and incomes, and make significant output contributions to GDP (Kibas, 2004). Factors that affect growth of SMEs therefore have a direct bearing on business growth

1.1.1 Business growth

The term “growth” implies an increase in the amount of output, export and sales. Secondly, it is a process of overall business development, (Johnson, et al 2008). Growth has usually been considered as an essential objective for its contribution to SMEs’ survival and competitiveness (Rodriguez, 2003). Business growth is increased throughput through the business-system. Represented visually, business growth is acceleration clockwise around the business triangle an increase in the throughput at which products and services are developed, sold and delivered (Hisrich, et al 2008)

A successful new entry provides the opportunity for an entrepreneur to grow his or her business. For example, introducing, introducing a new product into an existing market provides the opportunity to take market share from competitors; entry into a new market

provides opportunity to service a new group of customers; and a new organization has a chance to make, and build upon its first sales. Business has to pursue growth strategies that can lead to a competitive advantage. These growth strategies are: penetration strategies, market development strategies, product development strategies, and diversification strategies. (Hisrich, et al 2008). In penetration strategy, a firm attempts to penetrate the existing market by encouraging existing customers to buy more of the firm's product. Growth can also occur through market development strategy, which involves selling a firm's existing product to new group of customers. Diversification strategy involves selling a new product to a new market. Business growth is often closely associated with firm overall success and survival (Johansson, 1993).

Growth has been used as a simple measure of success in business and involves increase in market share, number of assets and number of employees, (Storey, 2000). This is the definition adopted for this study. Also, as Brush and Vanderwerf (1992) suggest, growth is the most appropriate indicator of the performance for surviving small firms.

1.1.2 Small and Medium Enterprises (SMEs)

It might seem difficult to obtain a precise definition of small and Medium Enterprise. Several writers have propounded various definitions and explanations as to what Small and Medium Enterprises are. Some have defined SMEs based on the characteristics of the business, such as size, level of operations, type of industry, assets employed, and number of employees, turnover, market, management or control of the business or several others. As has been observed from the afore mentioned, there is no consensus on the real definition of Small and Medium scale enterprises (SMEs) as can be seen that, both terms, Small and Medium are relative and they differ from industry to industry and country to

country. The difference amongst industries could be seen to be the difference in capital requirements of each business, while those among countries could arise as a result of difference in industrial organization by countries at different stages of economic development. What might therefore be defined as SME in a developed country can be regarded as a large scale enterprise in a developing country using partners as fixed investment and employment of the labour force. It is important also to recognize that definitions change over time and hence, even in a developing country, what was previously classified as SME could be regarded as a large scale industry when the quantities of relevant parameters change during the production process.

The classification may be based on the firm's assets, number of employees or annual sales. It may also be classified on the basis of initial capital outlay, sales turnover, form of ownership or number of employees (GOK, 2007). In Germany, an SME has 500 employees, and in Belgium it is 100 (Buckley, 1998; CBS, IECG & KREP Holdings, 1999). The European Union (EU) categorizes companies with fewer than 50 employees as small and those with fewer than 250 as medium (ILO, 2003; Kalleberg and Leicht, 1991; Kibas, 2004). In the United States small businesses refer to those with less than 100 employees and medium-sized businesses to those with less than 500 employees (Keats & Bracker, 1988; Kibas, 2004). However, the traditional definition is the same as that of European Union: less than 10 employees (Abuodha & King, 1992; ILO, 2003; Kayanula and Quartey, 2000; Kibas, 2001, 2004).

In Japan, companies that satisfy either benchmark of the capital and the number of employees in each business category are defined as small and medium enterprises (Hayashi, 2008). Manufacturing has capital no more than 300million Yen and no more

than 300 employees. Wholesale has capital no more than 100million Yen and no more than 100 employees. Retail has capital no more than 50 million Yen and no more than 50 employees. In developing countries, the number of employees and size of assets or turnover for SMEs tend to be much smaller compared to their counterparts in developed countries due to their relative size of businesses entities and economy,(World Bank, 2007).

1.1.3 Small and Medium Enterprises in Kisumu Municipality

In Kenya, small enterprises have from 1 to 50 workers, and "medium enterprises" have from 51 to 100 workers. Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya, while there are a few medium enterprises (Parker and Torres 1994). Kasende (2001) defines SMEs in terms of their sizes of capital investment, the number of employees, the turnover, the management style, the location and the market share. He regards small scale generally as enterprises with less than 50 workers and medium sized enterprises as those with 50-99 workers. Hayashi (2007), on the other hand, defines SMEs in Kenya as enterprises with between 1 to 50 employees, have limited fund raising capacity, low turnover and small capital investment. This is the definition adopted for the purpose of this study.

Kisumu municipality is the headquarters of Kisumu County. It is bounded by Kisumu East, Kisumu North and Kisumu West and Vihiga districts. It lies on the Equator, with a population of 1,020,256 and a growth rate of 2.0% per annum (GOK, 2010), and a Total Fertility Rate (TFR) of 5.8 children per woman. The population is mainly youthful with two thirds (67%) aged below 35 years. Those aged 65 years and above account for 3.4% of the total population. The youthful population has put pressure on the available

employment opportunities (GOK, 2002, 2008), and led to the proliferation of SMEs as alternative avenues for job creation and employment (Otunga, Opata and Nafukho-Muhia, 2001). In spite of government of Kenya having been engaged in providing support to SMEs so that they can survive onslaught posed by globalization and competition from large scale firms, the exit rate is still high. In Kisumu Municipality, there are a total of 2000 SMEs in Central Business District whose operations are licensed, with a recorded 21% exit rate in the year ending 2010 (Kisumu Municipality single business permit. 2010). There is therefore a need to support the growth of SMEs so as to enable the sector to contribute meaningfully to national economic development (World Bank, 2004).

The SMEs in Kisumu Municipality cut across all lines of business including wholesale and retail, manufacturing, education, agriculture, hospitality, building and construction, clearing and forwarding, transport Fashion and design, groceries, printing and computer bureaus among others. These are the same types of SMEs found in other areas of Kenya. Yet as compared to the smaller towns in the country, the economy of Kisumu is not as robust. Abuodha and King (1992) observe that the economy of Kisumu is much weaker than the economies of Kericho, Kisii and Eldoret which are its neighbours, yet these are much younger and smaller towns than Kisumu. GOK (2002, 2005) also point out that SMEs in Kisumu are not as vibrant as the SMEs in its neighbouring districts. This is an issue of concern especially considering that Kisumu is a major business hub west of Kenya and East African region, and the fact that it is now a home to more than 1 million people.

Despite the pressure and expectations, the growth and development of the SMEs have not been quite sustainable as compared to SMES in other regions. Despite other contributions

to employment creation and the general economy of the town, individual SMEs have not been sustainable, and this has made them ineffective in solving economic problems of the local population. The causes of apparent lack of sustainability in the growth and development of SMEs are the main concern of this study.

1.2 Statement of the Problem

Business growth is a central focus area in strategy, organizational and entrepreneurship research. Much research effort has been targeted particularly at investigating the factors affecting firm growth, but to date there is no comprehensive theory to explain which firms will grow or how they grow (Garnsey, 2000). It seems that not even very strong explanatory factors have been identified, though various explanatory approaches have been presented. For the purpose of this study, Business growth involves increase in market share, increase in total assets and number of employees. Kenya government has ratified all international charters on SMEs, and created a full ministry to deal with matters cornering SMEs. However, despite these efforts, the growth of SMEs in some regions of Kenya like Kisumu has been poor (Otunga, et al, 2001; GOK, 2007, 2008).

Kisumu municipality has experienced a rather slow growth rate of SMEs as compared to other towns (Abuodha and King, 1992). The SMEs in Kisumu Municipality have generally had shorter life spans, low profits, low sales volumes, and poor infrastructural improvements, as compared to SMES in Kericho and Eldoret towns. The average lifespan of SMEs in Kisumu municipality is six months (Kisumu Municipality Single 2000) while the life span of SMEs in Kericho and Eldoret towns are 16 and 14 months respectively.

The average annual profits of SMEs in Kisumu has remained at about 12.8 percent since 2005 (GOK, 2008; Otunga et al., 2001) while the profits of SMES Kericho and Eldoret grew at 22.6 per cent and 26.2 percent respectively over the same period. The sales volumes of SMEs in Kisumu town grew at 6 percent between 2005 and 2008 (GOK, 2008) while those of SMEs Kericho and Eldoret were 14.7 percent and 16.1 percent over the same period.

Local studies have been undertaken. Mathenge (2008) studied strategic responses of SMEs operating within the Nairobi central business district, while Wasonga (2008) studied the challenges in financing SMEs in Kenya. Mwaka (2006), on the other hand, focused on financial structure and growth of SMEs in Kenya. Rukwaro (2001) examined the credit rationing aspects of financing of SMEs. Dossage (1992) studied the variables that could contribute to success of SMEs in Kenya, and Kasole (2008) focused on the challenges of financing SMEs in Kenya. While several studies have been carried out on SMES, the researcher could not locate a study on the factors influencing the growth of SMEs in Kisumu Municipality. The study will address the factors that are influencing the growth of SMEs in Kisumu Municipality. In this study, the following research question has been raised. What factors are influencing the growth of SMEs in Kisumu Municipality, Kenya?

1.3 Research Objective

To determine the factors influencing the growth of SMEs in Kisumu municipality.

1.4 Value of the Study

This study should yield data and information that should be useful in the development of proper policy frameworks and decision-making both at the municipality council and existing SMEs. Such information should be useful in restructuring SMEs to make them more stable and better performers, thus enhancing the economic growth of the town and the country.

The findings and recommendations of this study should be useful to the employees and managers of SMEs, and more so, to the owners of SMEs in Kisumu town. Henceforth, they should stop relying on haphazard personal experiences, or on tradition and fashion in their planning tasks, but base their methods, decisions and actions on concrete knowledge of issues or factors supported by research findings. Such information should improve the manner in which the SMEs in Kisumu town are managed, improve their performance and transform them into avenues of alternative employment.

The study should also be useful to the ministry of trade and Industry because it will generate information that could be used directly to improve the performance of SMEs. By focussing on the factors identified and determining the strategies to mitigate the factors that make negative contributions, the ministry could ensure the sustained growth of SMEs. The study should also be useful to the ministry of planning and national development. SMEs are the largest employers in the non- formal sector and strategies

should be found to ensure that they are stable. The study will generate this information. The ministry can use the findings of the study and its recommendations to design strategies that would ensure the sustained growth of SMEs as a way of sustaining national development.

The donors and other financiers of SMEs should also benefit from this study. With the factors and the effect known, the financiers would be able to better assess the risk factors of SMEs and determine exactly where to put their money.

The study should also form a basis for reference, not only in the management of SMEs in Kisumu town, but by extension in the Kenya as a whole. Like any other research, it should yield new information and act as resource material for other readers and researchers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Business growth

Firm growth in general refers to increase in size. In research, firm growth has been operationalized in many ways and different measures have been used. Other explanations have also been presented (Delmar et al., 2003; Davidsson and Wiklund, 2000). Business grows from Micro to Small to Medium and to large. Businesses follow various strategies in order to grow, for example penetration strategy market development strategy, product development strategy and diversification strategy. Business growth is a central focus area in strategy, organizational and entrepreneurship research. Much research effort has been targeted particularly at investigating the factors affecting firm growth, but to date there is no comprehensive theory to explain which firms will grow or how they grow (Garnsey, 2000). It seems that not even very strong explanatory factors have been identified, though various explanatory approaches have been presented. For the purpose of this study, Business growth involves increase in market share, increase in total assets and number of employees.

Firms, even very small and non-growing ones, can have different strategic roles or positions in the local economic system (Laukkanen 1999). Some are critical facilitators of other firms' growth or of their very emergence, and thus are important for job creation at the local level. In fact, previous research reveals that firm growth is a multidimensional phenomenon. There is substantial heterogeneity in a number of factors associated with firm growth and related research (Delmar et al., 2003). As Delmar et al. (2003) have shown firm growth patterns are related to the demographic characteristics of firms such

as firm's age. The most frequently used measure for growth has been change in the firm's turnover (Weinzimmer et al., 1998). Another typical measure for growth has been change in the number of employees. However, it has been found that these measures, which are frequently used in the SME context, are strongly inter-correlated, (Storey 2000). Most studies of firms' growth have focused on large companies or new venture, while the growth of established, long-lived SMEs seems to have attracted much less attention. In fact, many organizational life cycle models present growth as one stage of development in the organizational life cycle. On the other hand, it has been shown that most new jobs are created by existing, not new SMEs, (Davidsson et al, 1993). However, previous studies of SME performance have focused on the performance of new ventures rather than on existing SMEs and on the factors behind their longevity and growth (Tsai et al., 1991; Duchesneau and Gartner, 1990; Keeley and Roure, 1990). This study takes a holistic and extensive approach to factors affecting SME growth.

2.2 Small and Medium Enterprises

It is generally recognized that SMEs (Small and Medium Enterprises) face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Kale and Ahmed 2008). Although this attitude is the key strength

at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate technological change

Today, globalization is a major driver that has impact on nearly every business. The internationalization of markets for sales and purchasing at least indirectly influences every business. Examples are the entry of new competitors into formerly protected domestic markets of changes in customers' behaviours or preferences. Technological progress in logistics and distribution enables nearly every business to buy, sell and cooperate on a global scale. Similarly, customers have the chance to compare prices globally in order to find the best offer. In the result, even smaller and locally orientated businesses have to see themselves in a global context, even if they do not intend to launch their own import or export activities. Doubtless, a major strength for many SMEs is their close customer contact and their ability to maintain close customer relationships.

SMEs have some special characteristics such as: Dependence on limited number of people (often owners and managers are one and the same persons). Close relations to customers and business partners, Simple structures, and small sizes. The government is further charged with the responsibility of developing and implementing standardizing rules and procedures in the sector. This will ensure the sector operate, legally, under a regulatory environment like the formal sector. The SMEs lack this and operates in absence of benchmarks and quality control regulations (Sethurama, 1991). Other

financing agencies have focused on technology transfer through promoting innovation and adoption of appropriate technology. Key in this area is the Intermediate Technology Group (ITGD) APPROTEC, Wedco, Opportunity International and Kenya Industrial Estate which targets the area of facilitating the adoption of affordable technology by informing sector entrepreneurs (McCormick and Pedersen, 1998).

Since the small and medium sized sector gained recognition by the ILO in 1972, many donor organizations, NGOs, Government of Kenya, Churches and Private Sectors have offered support to the sector in varied forms (ILO, 2003). The ILO for instance has focused its efforts towards capacity building of the sector entrepreneurship training promotion. Its training courses emphasis on how to improve business and facilitate entrepreneurship development. The World Bank and government of Kenya voucher training programme directed towards skills building for the sector entrepreneurs has also useful gesture for the sector. Development agencies have also played the role of market promotion for many informal sector craft entrepreneurs. This role goes together with facilitating skills building in the sector to improve on product quality and reach out to a wider market.

2.3 Growth of Small and Medium Enterprises

Small and medium businesses depend on the owner for growth and development. The owner is the business, performs the entire task and is the major supplier of energy, direction and capital. (McDaniel and Gilmon, 2008). According to McDaniel and Gilmon, (2008) growth of SMEs goes through five stages of growth, namely: Stage 1:

Existence, Stage 2: Survival, Stage 3: Success, Stage 4: Take-off, and Stage 5: Resource maturity.

Existence Stage: At this stage, small business owners are most concerned about finding and signing up customers, and being able to deliver their products and services. They are grappling with the question of whether they will get enough customers and deliver enough products/services to become a viable business; and whether they have the financial resources-cash to meet all start-up requirements. Therefore, having the sufficient financial resources and the adequate physical resources to deliver enough products is critical. The organization is a simple one: the manager does everything and directly supervises subordinates. System and formal planning are almost non-existence. The company' strategy is just to keep alive. The owner is the business, performs the entire task and is the major supplier of energy, direction and capital. (McDaniel and Gilmon, 2008).

Survival Stage: At this stage, (McDaniel and Gilmon, 2008) argue that businesses have proven their basic business plan premise and have a true operating concern. The focal point at this stage is the relationship between revenues and expenses. Owners are evaluating whether they can generate enough cash to break even and cover the repair/replacement of basic assets; whether they can get to cash flow break-even; and whether they are be able to finance growth in order to earn an economic return on assets and labour. The organization is still simple. The company may have a number of employees supervised by a sales manager or a general foreman. Systems development is minimal. Formal planning is, at best, cash forecasting. The major goal is still survival and

the owner is still synonymous with the business. In this stage, the key resources are still the financial and physical resources. (McDaniel and Gilmon, 2008).

Success Stage: This is a pivotal point for owners in that the business has reached economic health, and the owners are debating whether to leverage the company as a growth platform, or to consider the company as a means of support for them as they embark on disengaging from the company. Thus, there are two sub-stage tracks to the Success stage. In the Success-Growth sub-stage, the owner pulls together all resources and risks them, to some degree, with the intent of financing growth. If this is the direction, they are focused on the basic business staying profitable while the company enters into a parallel strategic planning and execution phase. In the Success-Disengagement phase, the company should be able to maintain itself indefinitely, barring external environmental changes. Managers take over the owner's operational duties, and the strategy is essentially to maintain a status quo. The owners either benefit from the cash flow from operations 'indefinitely', or prepare for sale or a merger, (McDaniel and Gilmon, 2008).

Take-off Stage: According to McDaniel and Gilmon, (2008) what owners face at this juncture is how to grow quickly and how to finance their growth. Both operational and strategic planning is being actively done, with managers having very real responsibilities. Owners then grapple with structural organizational issues of how to construct the enterprise, how to delegate to these managers, and in what way. The organization is decentralized and, at least, divisionalized. The key managers must be very competent to handle a growing and complex business environment. The systems are becoming more

refined and extensive. The owner and the business have become reasonably separate. (McDaniel and Gilmon, 2008).

Resource maturity Stage: At this point, the company has the staff and financial resources to engage in detailed operational and strategic planning. It has a decentralized management structure with experienced, senior staff and all necessary systems are in place. The owner and the business have separated to a large degree, both financially and operationally. The systems are extensive and well- developed. The company, in this stage, has the staff and financial resources to engage in detailed operational and strategic planning. If the company can continue as it has, and maintain its entrepreneurial spirit, it has a strong probability of continued growth and success. The key is to maintain a nimble culture that pays attention to environmental and market changes, and has the organizational structure and incentives that reward adaptation, (McDaniel and Gilmon, 2008). During these stages of growth, a business can pursue certain growth strategies. Businesses therefore, grow from Micro Small to Medium to large.

2.4 Forms of Business Growth

According to Hisrich (2008), there are four forms of business growth which are also referred to business growth strategies. These include: Penetration, Market development, Product development and diversification. In Penetration strategy a firm grows attempting to penetrate the existing market by encouraging existing customers to buy more of the firm's product. Marketing is effective in encouraging frequent repeat purchases. This growth strategy does not involve anything new for the firm, but relies on market share from competitors and expanding the size of the existing market. Growth can also occur

through market development strategy, which involves selling a firm's existing product to new group of customers. New groups of customers can be categorised in terms of geographical or demographics basis of new products use. Product development: This involves developing new product features. Experience with customers is a source of knowledge on the problems customers have with existing technology and ways in which they can be served better. Diversification strategy involves selling a new product to a new market. Includes, Backward integration, Forward integration and Horizontal integration. Backward integration refers to taking a step back on the value – added chain towards the raw materials and the firm supplies its own raw material (Hisrich, 2008). In forward integration, the firm becomes its own buyer. While in horizontal integration, a firm makes a complimentary product. For example, a shoe maker may make shoe polish. These integrations provide businesses with opportunities to expand and grow. Business growth can also be looked at in terms of increase in assets, increase in number of employees and increase to capital employed, (Hisrich 2008).

2.5 Factors influencing business growth

As other authors have noted, there is no single theory which can adequately explain small business growth, neither there is much likelihood of such a theory being developed in the future (Gibb and Davies, 1990). This is partly because of the heterogeneity that exists in the various types of SME, but also because of the range of factors that can affect growth. In some circumstances, the factors may interact with each other in different ways in different circumstances. Therefore, it may be possible to identify key success factors that affect the growth of SMEs by combining different research approaches. These factors

include: Financial resources, Physical resources, Human resources, technology, Brand, Relationships and Culture.

Financial resources: According to Oswald (2003), the importance of financial resources for SMEs is obvious: it helps to retain profits, grants, loans and equity, obtained from a range of sources including self, banks, venture capitalists, government agencies and so on. Vargas and Rangel (2007) argue that, even though the financial resources are important for a firm to leverage performance, it was found that the development of internal capabilities has been more important than limited financial resources in order to develop competitive advantages, to compete with larger and multinational competitors. It has also been argued that putting more money into start-ups is more costly than helping established SMEs to grow faster (Storey, 2000).

Physical resources: The location of the company is important. For instance, many industrial clusters are located in the economic and export processing zones of the coastal areas (Johnson, 2008). The growth issue also could be influenced by the plant and equipment the company owned. As a part of a cluster, the competitiveness of a firm can be enhanced by the external features of the cluster, e.g. cost advantages due to the location, access to competent personnel, information and joint marketing, as well as connections to institutions and public goods (Porter, 2000).

Human resources: It is argued that entrepreneurs are the key resources of small firms (Keasey et al 1994), Entrepreneurs have individual assets that can help them recognize new opportunities and assemble resources for the new ventures (Alvarez and Busenitz,

2001). The entrepreneur of any single SMEs is one key and unique resource that can be especially influential on the organization (Dalton, 2000). One relevant major finding is the experience, skills, knowledge and leadership ability of the entrepreneur are important resources and capabilities of the small firms (Miller & Toulouse, 1996). According to Scotter et al (2003), recruiting, training, appraising and rewarding are the most important factors for SMEs.

Technology: Rothwell (1999) believes that the innovative advantages of small firms are derived from their flexible managerial structures, which are more responsive to changes in the market place. Freeman (2002) pointed out that the innovation is the range of organizational activities associated with moving from the conception of an idea to a product or service offered for sale in the marketplace. Storey(2000) pointed out that “for every Racal, Sinclair, etc., there are probably several thousand small firms who have no wish to innovate, and a great deal more who are incapable of doing so” (Storey, 2000). Fast-growth firms are started and run by motivated and capable entrepreneurs, or fliers, while a low-performance firm is conversely associated with trundlers (Storey 2000). According to Steward and Gorrino (1997), SMEs are always highly dependent on external knowledge sources, and technological innovation is important for a small firm.

According to David and Foray (2003), quality of the small-firm owner-manager's

Brand: Brand image has long been considered as a resource (Barney, 1991). It is important for a firm to differentiate with others (Ji, 2005). Small business managers generally accept that a good corporate reputation is important to receive legitimization from different stakeholders (Goldberg, Cohen & Fiegenbaum, 2003). Berthon, et al

(2008), in their research, found that high-performing SMEs implement key brand management to a greater extent than low-performing SMEs. Brand-focused SMEs are able to achieve a distinct performance advantage over rivals by essentially getting back to the “branding basics”, that is: understanding customers’ needs and brand perceptions, creating relevant and valued brands, supporting the brand consistently over time and so forth.

Relationships: It has been argued that, strong relationships between suppliers and their business clients may have advantages for both. Advantages for the sellers include the ability to maximize profits by reducing risks, improving information flows, increasing customer satisfaction and enhancing loyalty (Binks and Ennew, 1997). Advantages for the buyers consist of greater access to supply, favourable rates, higher perceived quality of service, reduced stress, avoidance of switching costs, and increased convenience (Binks and Ennew, 1997). Relationships with customers, as well as the supplier, are also critical for the companies’ reputation. Relationships between local consumers and small firms are referred to as reciprocity. This is a “network” in which each member has something to provide to the other (Tsai and Ghoshal, 1998). Close relationships can create trust and obligations, and define expectations among trading partners (Gulati, 1995). According to David and Krsto (2003), quality of the small-firm owner-manager’s network of relationships, and how the owner-manager learns from and manages those relationships, is important for a SMEs’ growth. **Culture:** Barney (1986) identifies organizational culture as a firm’s resource of great strategic importance, which is potentially very valuable. The discussion on corporate culture, and the question of

whether culture has an effect upon organizational development, has largely concentrated on the large corporate and organizational sectors.

There is a clear gap by the lack of reference as to the effects of organizational culture on the development of SMEs (Choueke and Armstrong, 2000). In their investigation about SMEs' culture, they concluded that, in the majority of cases, respondents who identified unique "culture" in their organizations believed that those "cultures" had a positive effect on the performance of their companies. This effect was even more clearly articulated by those respondents who perceived their companies to be "growth orientated". Yan (2008) argues that culture impacts SMEs' growth in three ways: improve the core-competitiveness, improve the management and improve the corporate image. The resource-based view provides a unified approach to the conceptualization of the resource analysis of the small firm. The growth stage model helps to position SMEs in different growth stages. By the analysis of firm resources (both tangible and intangible), and the stages the firms have reached, the SMEs can identify key factors for their growth.

3.3 Sampling Design

The sample consisted of 79 respondents selected from a list of registered retailers in Nakuru, Kenya. 79 is 10% of the total population. Geo and Ogun (2008) recommended that a sample of 10% of the population is adequate. The study used convenience sampling techniques to select the SMEs. Anon (2003) points out that convenience sampling technique enables the researcher to pick the respondents who are available and willing to provide information. Geo and Ogun (2008) define convenience sampling as technique where a sample is selected from the subjects who happen to be available, until the desired number is achieved.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A descriptive survey was undertaken. According to Oso and Onen (2008) a survey is a present oriented methodology used to investigate populations by selecting samples to analyze and discover occurrences. A survey generally explains events as they are, as they were, or as they will be (Cohen, 1988). Cohen explains that when a researcher wants to simply describe events or opinions without manipulating variables, then survey is the best design.

3.2 Population

This study was carried out within Kisumu Municipality. The target population comprised 792 SMEs registered with the Municipal council. (Kisumu Municipal single business register, 2010).

3.3 Sampling Design

The sample consisted of 79 respondents selected from a list of registered businesses in Kisumu municipality. 79 is 10% of the total population. Oso and Onen (2008) recommend that a sample of 10% of the population is adequate. The study used convenience sampling techniques to select the SMEs. Amin (2005) points out that convenience sampling technique enable the researcher to pick the respondents who are available and willing to provide information. Oso and Onen (2008) define convenience sampling as technique where a sample is selected from the subjects who happen to be available, until the desired number is achieved.

3.4 Data Collection

The study used primary method of data collection which involves questionnaire to collect data. The questionnaire sought information on those factors that are responsible for the growth of SMEs in Kisumu Municipality. The questionnaires were administered to the owners or their representatives.

3.5 Data Analysis

Data was analyzed using both descriptive statistics and factor analysis. Descriptive statistics were used for averaging findings for easy comparison. Factor analysis is a technique used when there is a systematic interdependence among a set of observed or manifest variables, and when there is need to find out something more fundamental or latent which creates the commonality (Amin, 2005; Kothari, 1990). The factors generated by the staff of the SMEs will explain common variables which will be used to determine communality among the factors.

Gender	Frequency	Percentage
Male	15	26.53
Female	16	28.47
Total	45	100

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Response Rate

Only 49 out of the 79 targeted Small and Medium Enterprise holders responded representing 74.68%. This is above the average mark: this is consistent with Gay (1981) argument that where there is minimal discrepancy in characteristics between the target group the actual number of respondent then 10% of the data is considered reliable.

4.2 Respondent Profiles

This information which includes age and sex, are considered in the study as independent variables that influence growth of SMEs. They were compared to performance of the SMEs, measured by turn over of the business, number of employees and the number of years that the respondent has been in business. The findings indicated that 73.47% of the respondents are male, while 26.53% are female.

Table 1: Showing distribution of the respondent by gender

Gender	Frequency	Percentage
Female	13	26.53
Male	36	73.47
TOTAL	49	100

The modal age is 18 – 29 years with 58.7% of the respondents and 16.9% of this group have been in business for 1 – 3 years, while 26% have survived in business for over

5years. Only 14% of the respondents are the age group 40 – 49 years and all have been in business for over 5years. These findings indicate therefore that there is no relationship between the age of the business person and the growth of the business measure by the time the business has been in operation. Curiously only 10% of the respondents could determine whether there businesses had grown, plateaued or dropped in performance. Out of this only 2% could identify the margin of chance in the business performance by using stock turn over or any other means. This could be an indicator of general ignorance or poor methods of keeping business records. 56% Of the SMEs used in the study are in the food industry, 20% in the electronics and communications industry while the rest 34% were categorized as general merchandise or dealers. All the respondents had 1 -10 employees and 35% had trained employees.

4.3 Factors Influencing the Growth of SMEs

The objective of this study was to determine the factor that influence the growth of SMEs in Kisumu Municipality. The study took a selective approach to factors influencing SMEs growth and all the data analyzed has been carefully subdivided to relate to common factors which include financial resources, physical resources, human resources, technology, brand, relationships and culture. The responses on factors influencing growth of SMEs were recorded on a five point likert scale ranging from 1 = Not at all to 5 = very large extent. For clear and accurate description the factors have been collapsed into lesser extent (LE), neutral (N) and large extent (LG). The mean (MEAN) response rate represents the aggregated summation of the responses divided by the total. The standard

deviation (SD) represents the extent to which the responses deviate from the mean and is used in the factor variable analysis as a comparative indicator.

4.3.1 Influence of Relationship and Culture on Growth of Business

Table 2: Showing summary responses on relationship in business

Statement	Lesser Extent %	Neutral %	Larger Extent %	MEAN	SD
Relationship with supplier influences business growth	23.72	0	76.22	4.27	00
Relationship with customers	0	0	100	4.83	0.39
Cultural factors	42.83	32.20	24.97	2.74	1.364

The finding indicated that 76.22% of the respondents agree to large extent that relationship with the suppliers contribute to their business growth. None is moderate over the issue while a paltry 23.72% feel that relations with suppliers affects there business to a lesser extent, this represents a high a mean of 4.27, and this indicates that how SMEs value relationship with suppliers as a factor that contributes there growth. The difference in response could be because of different business growth strategies that are being pursued by the entrepreneur. This confirms Hisrich (2008) assertion that, a business is pursuing a penetration strategy by encouraging existing customers to buy more of its properties then such business keep closer ties with suppliers to ensure suppliers quality inputs, in order to have consistency in quality of production. On the other hand an organization pursuing diversification strategy which involves a new product then relationship with suppliers is not emphasized. From simple logic on the findings however it can be concluded relationship with supplier is vital for business growth and it does influence business development. This finding is in agreement with the assertions of Binks and Ennew (1997) that strong relations between suppliers and businesses have advantage

for both, the business enjoys good reputation and regularity while the supplier enjoys huge and sustained turn over.

The finding also indicated that all 100% of the respondents value to a very large extent their relationship with customers and this influences the growth of their business to a very large extent this response constitutes a high mean of 4.86, this underlines the respondents strong view that relation with customers is key to the growth of there business. Out of this 16.9% agree to a very large extent that position and cordial relationships with customers do influence the growth their business. This finding is in agreement with Mc Daniel and Crilmon 2008), assertion that all business survive because of the consumers of their products who provide the money and much needed profits. At all stages of growth the customer is key component of the growth but more so at the existence stage when the small business owners are most concerned about finding and signing up customers and being able to deliver their products. The finding are also in line with Binks and Ennew (1997) assertion that both the business and the customer stand to gain; the business maximizes profits by reducing risks, improving information flow and increasing customer satisfaction and therefore enhancing customer loyalty.

The respondents showed mixed feeling about the influence of cultural factors about the influence of cultural factors on business growth. 25.93% feel that culture does not at all influence the growth of their business. This could be proof of Choueke and Armstrong (2000) observation that, the discussion whether culture has effect on organization development has largely concentrated on large corporate bodies and less on S.M.E. This is further reinforced by a majority of the respondents i.e. 32.20% who feel that cultural

factors here moderate influence to growth of their business, while (6.9% feel that culture does influence growth of business to a very large extent.

4.3.2 Influence of Financial Resources

Table 3: showing averaged responses to influence of finances

Statement	Lesser Extent %	Neutral %	Larger Extent %	MEAN	SD
Financial resources play a major role in business growth	0	8.47	91.53	4.76	0.5
Availability of credit facilities in Kisumu municipality	25.42	33.89	40.69	2.98	0.876
Cost of credit in Kisumu is affordable	33.8	49.15	17.05	2.7	0.958

The findings indicated that 91.53% of the respondents feel that financial resources to very large extent play a major role in the growth of their businesses, the response rate to this question was 4.76 reflecting the high regard that SMEs holders have for financial resources and how they contribute to business growth. This is conformity with Oswald (2003) claim that the influence of financial resources for SME is obvious in that they help retain profits, grants, loans and equity. However despite this finding another 8.47% of the respondents think that finances have moderate influence on the growth of this business. This category of respondents could be arguing in line with Verges and Rangel (2007) conclusion that even though financial resources are important for the firm to Leverage performance development internal capabilities is more important than finances. It is important to note that finances still play a very important role in business growth including being the main measure of business growth; however putting more money into start ups is more costly than helping established SME to grow faster.

A majority of the respondent i.e. 33.89% are moderate on the issue of availability of credit facilities in Kisumu municipality only 5.08 of the respondents feel to every large extent that there are many organization in Kisumu municipality that offer credit facilities to SMEs. Name of the respondents on the other facilities to businesses in Kisumu City is not affordable and manageable. These findings confirm that there exist a few organizations that offer S.M.E financing and business leverage in Kisumu, but the cost high and not manageable. On the issue of a very large extent that credit is affordable in Kisumu Municipality.

4.3.3 Influence of Infrastructure and Location on Business Growth

Table 4: Illustrating responses on effect of infrastructure and location

Statement	Lesser extent %	Neutral %	Larger extent %	mean	SD
Requirements for stating a business are easy	16.9	50.84	16.3	2.69	
Infrastructural facilities	23.76	16.9	59.32	4.29	
Physical location is important for growth	0.0	15.25	84.74	4.84	

From the findings 16.3% of the respondents feel that the requirements for one to start a business in Kisumu city influences business growth to a large extent, 16.9% however do think that the requirements do not at all inhibit growth or influence growth of SMEs. This could be a pointer to the fact that the municipal council has less stringent approach to the control. This finding is conformity with World Bank (2004) recommendation that there if need to support the growth of SMEs as to enable the sector to contribute meaningfully to national economics development. Findings also established that 84.74% of the respondents (owners) of SMEs believe that the physical location of the business plays an

important role in the business growth of their business. Another 15.25% think that it influences growth but just to a large extent. No respondent are of the view that the physical location is less important. This finding is agreement with Johansson, (2008) observation that the location of a company is important and that competitiveness of the firm can be enhanced by external features including location, access to competent personnel information and the market. 59.32% are of the opinion that infrastructural facilities influence the growth of their businesses to a very large extant. While it was not within the mandate of this study to establish which infrastructure aspect contrivances more than the others, its in a fact to conclude that all means of transport and communication, and availability of energy to power the transport and communication as well as the business are all important factor combination that can influence the growth of business.

4.3.4 Influence of Effective Management on Business Growth

Table 5: showing summary responses on management skills

Statement	Lesser Extent %	Neutra l %	Larger Extent %	MEAN	SD
Effective management skills influence business growth	8.47	6.77	84.76	4.52	0.943

The responses showed that 84.76% i.e. large majority believed that to very large extent that effective management skills were essential and influenced the business growth the factor posted a mean response rate of 4.52; this underlines the importance attached to management to business growth. This is in line with Dalton (2000) observation that the entrepreneur of any single SMEs is one key unique resource that can be especially

influenced on its growth. 72% of the 76.27% who responded to this question have been in business for some time this confirm as Miller and Tourism, (1996) assertion that experience skills, knowledge and leadership ability of the entrepreneur are important in determining the growth rate o the business. In this agreement experience has been equated to the time that the SME has been in existence.

4.3.5 Influence of Technology on Growth of Small Medium Enterprises

Table 6: Summary of responses on technology and growth of SMEs

Statement	Lesser Extent %	Neutra l %	Larger Extent %	MEAN	SD
My business growth is influenced by technological factors	25.42	33.89	40.6	3.15	1.068

From the findings summarized in the table, this variable recorded a mean of 3.15 and standard deviation of 1.068. 33.89% are moderate on the extent to which technology influences the growth of there business. 40.6% on the other hand think that technology influences growth of business to a large extent. This modesty in response on this factor to the type of business that SMEs deal in, however no purposed effort was taken by the researcher to technology, type of business and growth of the business; the findings however confirm Storey (2000) observation that there are probably several thousands small firms who have no wish to innovate, and to a great deal.

4.3.5 Influence of Brand Image on Business Growth

Table 7: Summary of responses on contribution of brand image

Statement	Lesser extent %	Neutral %	Large extent %	MEAN	SD
Brand image contributes to my business growth	16.94	8.47	74.56	3.83	0.47

The findings on this variable indicated that 74.56% of the respondents viewed the brand image of the SME and the products they provided to the customers as being of influence to a larger extent, 8.47% are neutral, while 16.94% think image influences business growth to a lesser extent. This finding is in agreement with (Barney, 1991) claim that brand image has long been considered as a resource; the findings also compliment the conclusion of (Ji, 2005; Goldberg, Cohen and Fiegenbaum, 2003) that it is important for a firm to differentiate with others, and small business managers generally accept that a good corporate reputation is important to receive legitimization from different stakeholders. Berthon, et al (2008), in their research, also found that high-performing SMEs implement key brand management to a greater extent than low-performing SMEs. Brand-focused SMEs are able to achieve a distinct performance advantage over rivals by essentially getting back to the “branding basics”, that is: understanding customers’ needs and brand perceptions, creating relevant and valued brands, supporting the brand consistently over time and so forth.

4.4 Factor Variable Comparative Analysis

Table 8: Showing comparative responses on factors used in analysis

Key

LE – Lesser Extent; **N** – Neutral; **L** – Large Extent; **M** – Mean; **SD** – Standard Deviation

Factor	LE %	N%	L%	M	SD
The requirements for one to start business.	32.15	50	16.8	2.69	1.01
Financial resources	00	8.47	91.5	4.76	0.5
Availability of organizations that offer credits to SMEs	25	34	41	2.98	0.876
The cost of credits to SMEs in is affordable and manageable	33.8	49	17.2	2.7	0.958
Influence of technological factors.	25.4	34	40.6	3.15	1.068
Effective management skills	8.47	6.7	84.7 4	4.52	0.943
Physical location	00	00	100	4.84	0.0
Relations with my suppliers	8.47	15	76.2 2	4.27	0.0
Relationships with my customers.	00	00	100	4.83	0.39
Infrastructural facilities	8.47	16. 9	74.6 1	4.25	0.72
Brand image	16.9 4	8.4 7	74.5 6	3.83	0.47
Cultural factors	42.8 3	32. 2	25.3 7	2.74	1.364

From the findings all the variables or the factors used in the research posted a mean response rate this was used to compute the standard deviation which is the standardized factor strength or score. The findings indicate that the factor with the least standard

deviation from the mean is factor of the relationship with suppliers which posted SD of 0.0; this means that there was strong agreement on this factor. This factor shares the same ranking with physical location; this finding is in line with (Porter, 2000) argument that as a part of a cluster, the competitiveness of a firm can be enhanced by the external features of the cluster, e.g. cost advantages due to the location, access to competent personnel, information and joint marketing, as well as connections to institutions and public goods. Relationship with the buyer or the customer was ranked second with a mean response rate of 4.83 and standard deviation of 0.39. These findings relate to David and Krsto (2003) observation that, quality of the small-firm owner-manager's network of relationships, and how the owner-manager learns from and manages those relationships, is important for a SMEs' growth.

The factor of financial resources and its roll in influencing business growth is ranked third with a mean response rate of 4.76 and standard deviation (SD) of 0.5, this shows that the respondents are spread equal in agreement and disagreement over the influence of finances on business growth. This spilt response could be confirmation of Vargas and Rangel (2007) who argued that, even though the financial resources are important for a firm to leverage performance, it was found that the development of internal capabilities has been more important than limited financial resources in order to develop competitive advantages, to compete with larger and multinational competitors. It has also been argued that putting more money into start-ups is more costly than helping established SMEs to grow faster (Storey, 2000). This factor can be contrasted with mean response rate and SD of the statement on organizations that offer credit facilities in Kisumu Municipality which

posted mean of 2.98 and standard deviation of 0.876, this shows that while respondents agree that there are adequate organizations that offer credit within the Municipality, they are not exploited to the maximum probably due to the sceptism over influence of finances on business growth. The cost of credit to business in Kisumu Municipality as a factor influencing business growth posted a mean response rate of 2.7 and SD of 0.956, this wide deviation from the mean shows that as a factor the cost of credit is not strongly considered equally by all business people. This could be because of varied sources of finances available including savings, salaries, gifts and credit trading facilities among others.

The findings indicated that 84.74% of the respondents to large extent feel that effective management skills contribute to the growth of there businesses, the standard deviation is high 0.94 this puts management as the most disfavoured factor from the responses, this could be because the factor is subjective in nature and individual SME managers could not carry out a self evaluation to determine whether there management skills could be affecting there businesses the finding is contrary to (Miller & Toulouse, 1996) assertion that the entrepreneur of any single SMEs is one key and unique resource that can be especially influential on the organization and (Dalton, 2000) finding that one relevant major factor is the experience, skills, knowledge and leadership ability of the entrepreneur. In conclusion, just like other authors have noted, there is no single factor or theory which can adequately explain small business growth, neither there is much likelihood of such a theory being developed in the future (Gibb and Davies, 1990). This is partly because of the heterogeneity that exists in the various types of SME, but also

because of the range of factors that can affect growth. In some circumstances, the factors may interact with each other in different ways in different circumstances.

Summary

It is important to note that there is no clearly cut factor that influences the growth of small medium enterprises. There is a total interplay of the main factor at varying degrees.

Other financial factors for example availability of capital and affordable credit are also important. It is however clear that the human factor seems to influence the growth and sustainability of viable SMEs more than any other factor.

Key factor. The research findings that SMEs operated by women tend to last longer could form a platform for considering women as being better SMEs managers.

Other women owners of SMEs did not state well in their self evaluation of the reasons for failure because they all abstained from responding.

Key factor, relationship between business and customer and supplier is very important. It is such important that it gives rise to business culture of location of the business.

It could be stated as the third most influential factor on the growth of businesses. Other factors like management skills, financial resources, relationship with suppliers and customers.

The research found high mean response rates underlining how SMEs owners hold their own views on the success of their business.

Conclusion

There is no single factor or theory which can adequately explain small business growth. There is much likelihood of such a theory being developed in the future but this is not

what is intended by Gilad and Davies, (1990). This is partly because of the heterogeneity that exists in the various types of SME, but also because of the range of factors that can affect

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

It suffices to note that there is no clearly cut out factor that influences the growth of small and medium enterprises. There is a total interplay of the entire factor at varying degrees. However financial factors for example availability of capital and affordable credit facilities seem to influence the growth and sustainability of viable SMEs more than any other single factor. The research findings that SMEs operated by women tend to last longer could form a platform for considering women as being better SMEs managers. However women owners of SMEs did not feature well in their self evaluation of the performance because they all abstained from responding.

The age factor, relationship between business and customer and supplies is very important. It is such important that it gives rise to business culture of location of the business could be ranked as the third most influential factor on the growth of businesses. Essential factors like management skills, financial resources, relationship with suppliers and customers posted high mean response rates underlining how SMEs business holders value them in their growth of their business.

5.2 Conclusion

There is no single factor or theory which can adequately explain small business growth; neither there is much likelihood of such a theory being developed in the future just like it was noted by (Gibb and Davies, 1990). This is partly because of the heterogeneity that exists in the various types of SME, but also because of the range of factors that can affect

growth. In some circumstances, the factors may interact with each other in different ways in different circumstances. The measures of business growth that have been applied in this research are not standard or equally used by all businesses.

However each business requires proper management skills and personal commitment of the entrepreneur for it to grow. Such factors are subjective and do differ from one individual to another. They have not been operationalised for this study. Leverage and credit facilities are very important, but the mean response rate of 2.98 indicates how lowly the respondents regard the credit facilities this could be attributed to high cost of the credit facilities which equally posted a response rate of 2.7. The stage of growth of the business also does influence the growth rate, while the research did not factor in this, it is important that readers and users of this project paper consider it as a factor of application.

5.3 Limitations of the study

Convenience sampling targets respondents that are selected from the subjects who happen to be available until the desired numbers achieved. This may have omitted the number who could be having other more relevant information. Each factor has been considered independently and the researcher has not made efforts to relate the factors that influence growth of S.M.E in Kisumu. The research carries with it all inadequacies and biases of the researcher and this major limitation.

5.4 Suggestions for Further Research

Future researchers exploring subjects related to factors influencing the growth of small and medium enterprises should try to examine how each factor impacts on the SME and use of data collection techniques that would bring out salient issues that relate to growth of SMEs. Researchers could also examine how same factors influence growth of business in other geographical locations apart from Kisumu Municipality and compare impact in each factor per region. The stage of growth of the business also does influence the growth rate, while the research did not factor in this, it is important that readers and users of this project paper consider it as a factor of application and research in future.

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Dear Sir/ Madam: CHARLES RADING, I am a student of University of Nairobi undertaking a research degree in Business Administration in Strategic Management. The purpose of this study is to identify the factors that influence the growth of SMEs in Kisumu Municipality, with a view of evolving structural and operational changes that will enhance the growth of all SMEs and improve their performance and be overall beneficial to the Municipality. Your views as a manager or as a staff of one of the SMEs are crucial part and parcel of the study. Kindly provide accurate information on the following issues to the best of your ability following the instructions given after each item, and return your completed questionnaire to the researcher. Your cooperation will be highly appreciated and all the data is strictly private and confidential and shall not be used for any other purpose whatsoever other than for this study. Thank you in advance.

Yours Faithfully,

Charles Rading

APPENDICES

Appendix 1: Letter of Request

Charles Rading

Tel : 0714701182

C/o University of Nairobi

Kisumu Campus, School of Business

To The Respondent;

Dear Sir/ Madam,

REF: REQUEST FOR YOUR ASSISTANCE IN RESEARCH AS A RESPONDENT

My name is CHARLES RADING. I am a student of University of Nairobi undertaking a Masters Degree in Business Administration in Strategic Management. The purpose of this study is to identify the factors that influence the growth of SMEs in Kisumu Municipality, with a view of evolving structural and operational changes that will enhance the growth of all SMEs and improve their performance and the overall employment in the Municipality.

Your views as a manager or as a staff of one of the SMEs are considered part and parcel of this study. Kindly provide accurate information on the following issues to the best of your ability following the instructions given after each item, and return your completed questionnaire to the researcher. Your cooperation will be highly appreciated and all the given is strictly private and confidential and shall not be used for any other purpose whatsoever other than for this study. Thank you in advance.

Yours Faithful

Rading Charles

Appendix ii: QUESTIONNAIRE FOR STAFF AND MANAGERS OF SMES IN KISUMU MUNICIPALITY

PART A: BACKGROUND INFORMATION

Indicate the following information about your business (Please, tick (☐) the appropriate choice or fill in the blanks accordingly).

Gender: Male []

Female []

Age: 18 – 29 [] 30 – 39 [] 40 – 49 [] 50+ []

1. For how long have you been in this business?.....

2. What exactly does your business deal in?.....

3. In your view has your business: **Grown** [] **stagnated** [] **dropped** []

3 What is your overall rating of the performance of this business in the last one year
2010 - 2011?

0 – 20% 21 – 40 % 41-60% 61-80% Over 80%

5. How many employees do have? **1 – 10** [] **11 – 30** [] **30+** []

6. Have your employees been trained for the job? **YES** [] **NO** []

7. What in your view is the approximate turnover of your business?

PART B: FACTORS WHICH INFLUENCE BUSINESS GOWTH.

1. Below are the factors that may influence the growth of SMEs in other parts of the country. Please indicate if they are applicable to your business. Mark by putting a tick in the appropriate box which corresponds to the statement.

Key: **1 = Not at all; 2 = lesser extent; 3 = moderate ; 4 = larger extent; 5 = very large extent**

Statement	1	2	3	4	5
Relationships with my customers (buyers) influence my business growth					
Relations with my suppliers contribute to my business growth.					
Financial resources plays major role in my business growth.					
The cost of credits from the lending to SMEs in Kisumu city is affordable and manageable to me.					
There are many organizations in Kisumu that offer credits to SMEs like this one.					
Physical location plays an important role in the growth of my business.					
Infrastructural facilities influence my business growth					

The requirements for one to start a business in Kisumu city are easy to manage.					
Effective management skills contribute to my business growth					
My business growth is influenced by technological factors.					
Brand image contribute to my business growth.					
cultural factors influence my business growth					

In your opinion, provide other factors you think are important in influencing growth of SMEs in Kisumu Municipality.

Thank you for your cooperation

Appendix iii: List of SMEs Used in the Study