

**FACTORS INFLUENCING BUSINESS CHOICE BY SMALL AND MEDIUM SIZED
ENTERPRISES IN MOTOR SPARES BUSINESSES ALONG KIRINYAGA ROAD IN
NAIROBI**

BY

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DECLARATION

This Management Research project is my original work and has not been submitted for a degree in any other University

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This research Project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

This project is dedicated to my beloved parents James Mbugua and Lucy Wambui, for their unwavering commitment and support to the education and learning of their children. You always believed in me. Thank you and May the Lord bless you.

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LIST OF ABBREVIATIONS

SPSS: Statistical Package for Social Sciences

NCBD: Nairobi Central Business District

ABSTRACT

Kenyans are going into SMEs, for want of better alternatives and for higher incomes. As the economy continues to register weak signs of growth and high levels of unemployment these reasons for the start of SMEs will continue to be even more compelling. The prospects for markets in specific activities significantly affects the choice of the particular activity taken up. These signals the need to have supporting policies for the marketing of SME activities, including subcontracting, level playing in competition with imports, fairs to promote products. This therefore motivated the need to carry out this study whose aim was to examine the factors affecting the choice and growth of SMEs in motor vehicle spare parts in Kenya. The study targeted SMEs along Kirinyaga Road Nairobi due to their high preference in dealing with motor vehicle spare parts.

Fifty (50) SMEs out of 137 were purposively selected to participate in the study. Data was collected through uses of questionnaires and analysis done using Statistical Package for Social Sciences computer Software. Entrepreneurial education, demographic and economic factors, technological factors, independent lifestyles and considering entrepreneurs as heroes was found to influence choice into small and medium enterprise. Proximity to market, competition, infrastructure and operating costs was among the consideration made before locating SMEs. Resource requirement for startup capital, structure network to locate venture, market size and competition affected initiation of new business ventures.

Among the development strategies adopted by SMEs examined was opening of branches, and offering special discounts to customers in new markets .Stiff competition was as a result of larger firms, and existed among SMEs examined. Inadequate finances hindered growth of SMEs in motor vehicle parts, most SMES requires managerial skills and expertise in financial management to facilitate growth and that government did not have large influence on availability of finances to SMEs in motor vehicle spare parts.

Technology among SMEs in motor vehicle parts was an important factors in growth of SMEs, However, most SMEs were found to have slow technology adoption. Managerial training and

expertise affected sustainability of employees in motor vehicle parts business, employees understandings as a result of educational background and consequently growth of the business. Finances were found to be a large contributory factor in choice of SMEs among motor vehicle parts entrepreneurs.

Though a factor in determining choice of SMEs business the contribution of government policy in the decision was not found to be as weighty as lack of finances and technology. The researcher recommended training on SMEs owners and employees so as to increase the growth capabilities among SMEs. The government to adopt a strategy to ease lack of finances among SMEs by offering subsidized credit facilities to facilitate growth among SMEs. SMEs owners should take advantages of the enormous technology available at affordable rates to enhance their growth and efficiency.

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CHAPTER ONE

1.1 Background of the Study

Pulling together the information you will need for running your business involves researching all aspects of your business, from leasing space to what you will charge for your product or service to dealing with competitors. Researching all the aspects of your business will tell you a great deal about running a business and may provide you with specific ideas for starting your company and whether it's viable for success.

Kenyan are going into SMEs, for want of better alternatives and for higher incomes. As the economy continues to register weak signs of growth and high levels of unemployment these reasons for the start of SMEs will continue to be even more compelling. The prospects for markets in specific activities significantly affects the choice of the particular activity taken up. These signals the need to have supporting policies for the marketing of SME activities, including subcontracting , level playing in competition with imports, fairs to promote products etc. (Economic Baseline Survey, 1999).

SMEs in many countries become more efficient through the help of policies and incentives exercised in ones country. This in turn assists them to become more competitive as they seek growth outside their comfort zones. The Japanese are commonly known to have initiated the process of promoting the SMEs earlier, their high technology absorption skills has pushed them up in the value chain, which is one of the targets of these highly integrated players. In this context therefore, most SMEs are realizing that growth and value creation may be achieved through embracing cost effective technology, increasing output and curving out market \niches (Biswafit and Debdeep, 2008). For these reasons, in the motor vehicle parts, we find that some firms have curved niches through specializing in parts that are interchangeable across various vehicle makes.

1.1.1 Business Choice Mechanisms

Business analysis and choice in a single or dominant product/service businesses centre around identifying strategies that are most effective at building sustainable competitive advantage based on key value chain activities and capabilities i.e. core competencies of the firm.

A key part of such an analysis is a forecast of the attractiveness of the industry as a future domain for a lot of intensive effort. Several other aspects will also need to be studied, such as the company's relative strengths, but the nature of the industry is a good place to begin with (Thompson, Strickland and Gamble 2007).

Pearce, Robinson and Mital (2010) observe that simultaneous assessment of the external environment and the company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment. However, they must be screened through the criterion of the company mission to generate a set of possible and desired opportunities. This screening process results into the selection of options from which a strategic choice is made. The process is meant to provide the combination of long term objectives and generic and grand strategies that optimally position the firm in its external environment to achieve the company mission.

According to Mintzberg, Lampel, Quinne and Ghosal (2003), they propose that the crucial strengths and weaknesses from a strategic standpoint are the company's posture vis a vis the underlying causes of each force. Here, he highlights that one should ask questions such as where does it stand against substitutes? Against the sources of entry barriers? From then, the strategist can devise a plan of action that may include positioning the company so that its capabilities provide the best defense against the competitive force; and/or influence the balance of the forces through strategic moves hence improving the company's position; and/or participating shifts in the factors underlying the forces and responding to them, with the hope of adopting change by choosing a strategy appropriate for the new competitive balance before opponents recognizes it.

Thompson et al (2007), map out the company's five menu of strategic options. The first being the Generic competitive strategic option which include overall low cost provider, broad differentiation and focus strategies. The second set of strategic option is the Complimentary Strategic Option which include employing strategic alliances and partnership, backward or forward integration, mergers with or acquiring other companies, outsourcing selected value chain activities, initiating offensive strategic moves or employing defensive moves. The third are the Functional-Area strategies to support the above strategic choices (e.g. production, marketing, Human Resources etc), the fourth being timing a company's strategic moves in the market place while the fifth is the Website strategy to be employed.

All firms are affected in one way, or another by the environment in which they serve and depend on. The SME sector is no exception to this and hence its important for it to carefully monitor its environment and adjust appropriately to it. The SMEs have to strategically analyses and chose their business for survival within the highly competitive and volatile environment.

1.1.2. Small and Medium Enterprises (SMEs) in Kenya

The term SME has a wide range of definitions varying from country to country and the classification may be based on the size of capital investment, the number of employees, the turnover, the management style, the annual sales, the location and market share (Kasekende, 2003). The number of employees or turnover in SMEs tends to be smaller in developing countries compared to their counterparts in developed countries. FSD (2008) defines SMEs as business with 5 to 50 employees or with annual revenues of less than KShs.50 million. However, it is important to note that there is no standard definition of an SME in Kenya.

Owners of small businesses recognize that being small offers special advantages. Greater flexibility and an uncomplicated company structure allows small businesses to reach more quickly to changing market forces. Innovative product ideas can be developed and

brought to market more quickly using fewer financial resources and personnel that would be needed in a larger company. In addition, operating more efficiently keeps cost down, as well. Small companies can also serve specialized markets that may not be cost effective for large companies. Another feature is the opportunity to provide a higher level of personal service, such attention often brings many customers back to small business (Mc Daniel and Gitman, 2008).

Entrepreneurs are the ones who provide goods and services and employment for others which in turn leads to healthy and viable economic communities. SMEs are accountable for above 50 percent of manufacturing gross domestic product. It is estimated that in Kenya, small scale enterprises generate 18% of the national income (G.O.K, 2004)

Self-employment has to be viewed as a highly respectable occupation. One of the notable interventions is the publication of Sessional Paper No.2 of 1992 on Small Enterprise and Jua Kali Development in Kenya, which indicated the strategies to develop the entrepreneur and improve his image. This would include training, awards to outstanding ideas and innovations, best use of local resources, optimizing labour intensive technologies and developing the best product for either the local or export market.

In 1999, a study by the Economic Baseline Survey showed that despite the significant role played by SMEs, the sector has continued to experience many binding constraints that have inhibited its full potential. These challenges include unfavourable policies, limited access to financial services and markets, inhibitive legal and regulatory framework, inadequate access to skills and technology, transport problems, inadequate raw materials/stock, interference from local authorities, poor security and lack of work sites. Problems also vary by stratum. Location appears to be a major issue determining the nature of problems facing SMEs and the severity of each of these problems varies according to location of enterprises. For instance, problems associated with markets, lack of work sites, competition, interference from local authorities, poor security are predominantly urban, while problems related to accessing infrastructure facilities (water, roads, telephones, etc) impose constraints for rural – based SMEs.

1.1.3. SMEs Within Motor Spares Business

Historically, the establishment of motor vehicle parts business in the NCBD, Kirinyaga Road was promoted by the segregation of Nairobi resulting into this area being occupied by members of the Asian origin who resided and conducted business on the same premises. During these early days, the Asian community in Kenya had a higher financial access and knowhow on any business involving importation logistics in comparison to the indigenous population. However, with the advent of market liberalization in the early 1990s, motor vehicle parts business has drawn participants from various backgrounds.

Equally to the benefit, is the status of Nairobi as the country's capital business hub, this has managed to attract Small and Medium Enterprise firms dealing with motor vehicle parts at wholesale and retail. The increased demand for vehicle maintenance by people working within the NCBD has contributed to the establishment of vehicle service centres around the city centres, neighbourhood, in return this has attracted a motor vehicle parts SMEs in the lower part of Nairobi Central Business District (NCBD) along Kirinyaga Road. Clustering of these Business along this road seems to favour customer's convenience of one stop shopping, a concept that is cost efficient in time and price comparison. All these factors combined together seemed to favour the establishment and growth of SMEs in the NCBD.

Kirinyaga Road, the largest motor vehicle parts business in the NCBD, is situated in Starehe Constituency near Mololine Matatu Terminus (Station). It also neighbours Muthurwa market and Industrial Area. It specializes in almost all motor parts for Toyota, Japan, Mercedes, etc. but also sells lubricant oils, battery acids and water, brake fluids, petrol, diesel etc. The business is open throughout the week from 8:00 a.m. to 6:00 p.m. including Saturdays.

1.2 Research Problem

The analytical framework in business choice isolates the three primary driving forces behind new venture creation: the founders, opportunity recognition and the resource requirements. Experience shows that these forces can be assessed and influenced to improve the chances of succeeding. The key to success in new venture creation is

continual, careful and realistic assessment of these key driving forces among other factors and the real time in which they are occurring (Timmons, 1990).

SMEs in motor vehicle business face problems in business choice due to constraints such as incompetent managements, poor financial control, failure to plan, inappropriate technology, inappropriate locations, improper managerial attitudes and inability to make the “entrepreneurial transition” (Scarborough and Zimmerer, 1996). Other problems include, law of a conducive environment due to regulatory challenges, limited management, operation capacity and challenges of access to finance and market for growth (IFC, 2000).

A number of studies have been done on Small and Medium Scale Enterprises in Kenya. Okoth (2007) looked at the factors influencing the failure of SMEs and found out that lack of markets and finance, inadequate access to technology, regulatory challenges, limited management were significant challenges facing SMEs. Mathenge (2008) sought to address the strategic responses of SMEs operating within the NCBD to changes in their environment. Njimu (2008) researched at the factors influencing the success of SMEs. Her findings were that the main attribute of success for SMEs was planning, followed by Superior Management Techniques and Involvement by the owner.

Inspite of the importance of SMEs in Kenya and the issues relating to the their performance more so in terms of their successes failures and their strategic responses to the environment, no study has been done on factors influencing business choice by SMEs more so on businesses in motor vehicle business. This study therefore aims at narrowing the existing knowledge gap. It will thus purpose to answer the question: What factors influence business choice by SMEs in motor parts business along Kirinyaga Road in Nairobi?

1.3 The Research Objective

The objective of the study is to establish the factors influencing business choice by SMEs in the motor parts business along Kirinyaga Road in Nairobi.

1.4 Value of the Study

Potential Investors/entrepreneurs will find the study very significant in understanding the dynamics of growth in the industry. This will help them in planning and strategizing on the business models and factors to consider before entering into such businesses.

The government will use information obtained from the study as a basis for policy formation on SMEs and also in the formation of strategies to promote an enabling environment for their growth into bigger firms.

The researchers, scholars and academicians will find the report valuable in understanding one of the fastest growing sectors of the economy. The findings of the report was used as a basis for further research on this subject. This research may also reduce the need to re-invent the whole wheel every time a study on motor vehicle parts business is conducted.

Finally the results of the factors influencing business choice and success of SMEs in Kirinyaga Road will form an opinion of the factors influencing the success and growth of SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1. Nature and Development of SMEs.

According to UNIDO (2008), developing countries can transform in their economies through promotion and strategic utilization of small and medium enterprises. UNIDO asserts that 97% of Japanese economy is mainly driven by SMEs. Toyota, the leading multinational corporation, does no production of parts but assembles vehicles from parts supplied by contracted SMEs. Likewise, in Nigeria, Federal office of Statistics (FOS) reveals that about 97% of the enterprises in the country are SMEs and they employ an average of 50% of the working population as well as contributing upto 50% of the country's industrial output. Economists in Nigeria believe that SMEs are the catalysts of economic growth and development, as well as the backbone of the nation (Ihua 2005).

Scarborough (2010), argues that the downsizing trend among large companies has created a more significant philosophical change. It has ushered in an age in which "small is beautiful" ... twenty five years ago, competitive conditions favoured large companies with their hierarchies and layers of management; today, with the pace of change, constantly acceleration fleet footed, agile, small companies have the competitive advantage. These nimble competitors can dart into and out of niche markets as they emerge and recede, they can make faster to exploit market opportunities; and they can use modern technology to create within a matter of weeks or months products and services that once took years and all of these resources a giant corporation could master. The balance has tipped in favour of small, entrepreneurial companies.

Howard Stevenson (as cited in Scarborough, 2010) says "why is it so easy (for small companies) to compete against giant corporations? Because while they [the giants] are studying the consequences, [entrepreneurs] are changing the world".

Small business, by definition, includes entrepreneurs because most new ventures start small. However, small business is distinguished by the nature of the enterprise or the intention of

its owner. The small business person is likely to start a venture that serves a local market with products or services without growth potential (or without the intention of growing). Many businesses are small by their nature. These include “personal service firms” such as beauty salons, medical practices, interior designers or freelance writers. Others are small by choice, such as “family business” in which ownership is retained by family members actively engaged in operating the enterprise. Many of these entrepreneurs are small by choice. They probably have opportunity to expand into new markets or to develop into larger organisations but they prefer the autonomy of a small business and subsequently avoid rapid expansion. Many restaurants, contractors, small manufacturers, and local service enterprises are family owned and operate. Small businesses may often be created through legal contracts such as, “franchises” that limit the size and scope of commercial activity. These include fast food outlets, print shops, car dealerships, distributors, retailers, convenience stores, and hundreds more. Small business is a vital sector of the American economy, and a majority of new and existing jobs exist in small business (Holt, 2004).

2.2. Business Environment

Environmental factors influencing the business environment in a host country includes many interrelated factors – political, economic, legal, technological and cross-cultural. These influence the manager’s job and the relative success of the firms operations in the global arena. These powerful and often interdependent variables play a vital role in the environment in which the managers make decisions, both strategic and operational.

2.2.1. Motor Spares Business

The SMEs in motor vehicle parts business are characterized by operating in small, semi organized, low compliance in licencing and unregulated registration from local authorities or the central government. They are more likely to engage in tax evasion practices and either operates completely outside the tax net or hide part of their business transactions (Mulei 2008).

SMEs in motor vehicle parts business are found in the informal and formal sectors. However, according to FSD Kenya (2008) informality does not mean illegality, some SMEs could be in varying levels of compliance to registration, licencing and other legal requirements in business, this can be termed as a “progression to legality”. While SMEs have their inherent challenges of growth, those in motor vehicle parts have been found to exhibit similar challenges with a varying degree. They are affected by the dynamic nature of business coupled with the rapid change in automotive technology.

Management expertise and competence has a direct link to the choice and the subsequent growth of SMEs in motor vehicle parts business. Management decisions during planning and strategy implementation act as a key determinant to the direction a firm is likely to take. Managerial expertise and competence can be operationalized through employment of qualified staff and automation of key operators like finance, inventory and sales.

Business choice and its subsequent growth is determined by influence of the links between the variables. Such as the availability of finance, government policy, technology adoption among others. For example, the line between managerial expertise and SMEs growth can be strengthened when the government provides and improves financial access to credit at a fair price.

2.3. Factors Influencing Business Choice by SMEs

Several factors are driving the boom in entrepreneurship, including: the portrayal of entrepreneurs as heroes, better entrepreneurial education, economic and demographic factors, a shift to a service economy, technological advances, more independent lifestyles, and increased international opportunities. Driven by these characteristics, entrepreneurs establish and manage small businesses to gain control over their lives, make a difference in the world, become self – fulfilled, reap unlimited profits, contribute to society and do what they enjoy doing (Scarborough, 2010)

2.3.1 Determinants of Business Choice

Zimmerer and Scarborough (2008) posits that opportunity identification and evaluation is the first step and is quite a difficult task. Most good business opportunities do not suddenly appear, but rather result from an entrepreneur's alertness to opportunities or, in some cases, the establishment of mechanisms that identify potential opportunities. Most often entrepreneurs do not have formal mechanisms. For identifying business opportunities but some sources are fruitful: consumers and business associates, members of the distribution systems and technical people. It is important for the entrepreneur to understand the cause of the opportunity i.e. is it technological change, market shift, government regulation or competition. These factors and the resulting opportunity have a different market size and time dimension.

An opportunity analysis plan includes the following: a description of the entrepreneur and the team, specifications of all the activities and resources needed to translate the opportunity into a viable business venture, and the sources of capital to finance the initial venture as well as its growth.

The resources needed to start the opportunity must be determined. This process starts with an appraisal of the entrepreneurs' present resources. Any resources that are critical most then be distinguished from those that are just helpful. Care must be taken not to underestimate the amount and variety of resources needed. The downside risks associated with insufficient or inappropriate resources should also be assessed. Acquiring the needed resources in a timely manner while giving up as little control as possible is the next step in the entrepreneurial process. An entrepreneur should strive to maintain as large an ownership position as possible, particularly in the start-up stage. As the businesses develop, more funds will probably be needed to finance the growth of the venture, requiring more ownership to be relinquished (Barringer and Ireland, 2008).

Some business requires large amounts of capital, but others do not. Typically, service businesses require less capital to launch than manufacturing or retail businesses. Start up companies often need capital to purchase equipment, buildings, technology, and other tangible assets as well as to hire and train employees, promote their products and services

and establish a presence in the market. A good feasibility analysis will provide an estimate of the amount of start – up capital an entrepreneur will need to get the business up and running. Hisrich and Peters (2000) contends that an entrepreneur should try to have an up-to-date assessment of his or her cash position.

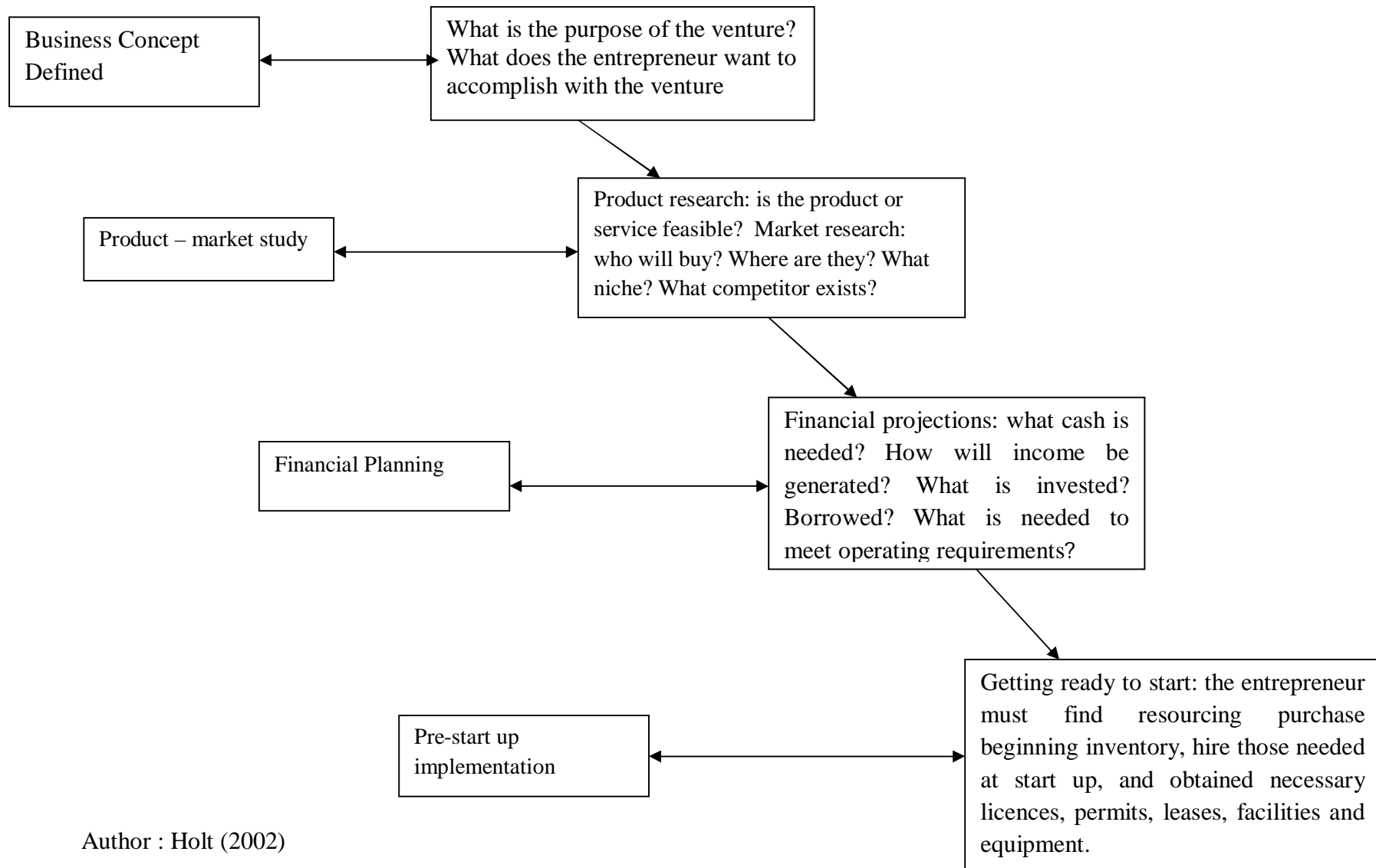
Hisrich and Peters (2002) argue that in addition to producing an estimate of the start-up company's capital requirements, an entrepreneur also should forecast the earning potential of the proposed business.

An entrepreneur should identify the new venture's competition. Failing to assess competitors realistically makes entrepreneurs appear to be poorly prepared naïve or dishonest, especially to potential lenders and investors. An analysis of each significant competitor should be presented. The focus should demonstrate that the entrepreneur's company has an advantage over its competitors. Who are the company's key competitors? What are their strengths and weaknesses? What are their strategies? What images do they have in the market place? How successful are they? What distinguished the entrepreneurs produce or service from others already in the market and how will these differences produce a competitive edge? The firm's strategy should be customer focused (Clark, 2003).

Every entrepreneur must describe the company's target market and its characteristics. Defining the target market and its potential is one of the most important and most challenging – parts of building a business plan. Creating a successful business depends on an entrepreneurs ability to attract real customers who are willing and able to spend real money to buy its products or services

Hisrich and Peters (2000) contend that it is important for the entrepreneur to understand some of the major legal concerns surrounding the proper business and its operations. E.g. intellectual property. It is important for the entrepreneur to seek legal advice in making any intellectual property legal decisions such at patents, trademarks, copyrights, and trade secrets. Lawyers have specialties that can provide the entrepreneur with the most appropriate advice under the circumstances. Licencing is a viable means of starting a business and the entrepreneur should understand the terms and conditions of such a

formality before entering into business. It is also an important strategy that an entrepreneur can use to expand the business without extensive risk or large investment.



Author : Holt (2002)

Figure 1. A model for New Venture: Feasibility Planning

2.4. The Idea of Positioning

Wickham (2006) posits that the idea of positioning provides a powerful tool to aid entrepreneurial decision making. Positioning provides a framework for locating the venture in relation to its competitors. Positioning the venture means locating it in relation to a market gap such that it can exploit that gap in a profitable way. This involves structuring the business so that it can serve the requirements of a particular market niche better than existing competitors. An effective positioning means that the business was able to develop a competitive advantage in serving this niche. This makes the niche defensible against competitors.

2.4.1. The Location Decision

Scarborough (2010) posits that the location decision of a firm has far reaching and often long-lasting effects on a small company's future. Entrepreneurs who choose their locations wisely – with their customers preferences and their companies' needs in mind can establish an important competitive advantage over rivals who choose their locations haphazardly. The location decision is of such importance as it can influence the growth rate and ultimate success of a company. The secret to selecting the ideal location lies in knowing the factors that are most important to a company's success and then finding a location that satisfies as many of them as possible, particularly those that are most critical.

The criteria for a good location depend on the nature of the business (Scarborough and Zimmer, 1996). Factors that make an area most suitable for starting and growing small companies include locating near markets and customers you plan to serve, an ample supply of skilled workers and raw materials access to roads and railroads, a favourable regulatory climate surrounding the business, a secured trading area, adequate space and size and an aggregate of low or affordable total costs of operating a business. For some retailers it makes sense to locate near competitors because similar businesses located near one another may serve to increase traffic flow to all. This location strategy serves well for products for which customers are most likely to comparison shop. For instance, in many cities, auto dealer locates next to one another in “motor mile” trying to create a shopping magnet for customers, (Scarborough, 2010)

2.5. Common Pitfalls in Business Choice

Uncertainty bearing is one of the chief characteristics of entrepreneurship. The road to success is fraught with pitfalls all of which cannot be anticipated or foreseen. Here, are the most common ones in relation to business choice. They are discussed with the sole intention of creating awareness so that one can be guard as far as practicable.

2.5.1 Lack of managerial expertise and training/experience

Mutsuddi (1996) has commented that entrepreneurs lacking in experience will land into trouble. It may affect every aspect of business activity production, management, marketing etc. For this reason, it is expected of you to gather reasonable experience as an employee or apprentice in a similar concern. Else, you will have to collect first-hand information about sources of raw materials and machines, methods of manufacture, marketing etc. Do not start with over enthusiasm, without knowing much about the business. Make sure you know every aspect of business operation so that the labour or other employees may not cheat you at any stage.

An entrepreneur should be able to proactively manage changes in the business environment while also adopting the appropriate technology for the firms growth. Studies have shown majority of entrepreneurs who run SMEs are people with low educational background. Hence they may be unequipped to carry out managerial routines for their enterprises. Studies show those with higher education and training have better chances of success in the SME sector (King and McGrath, 2002). As such, for SMEs to perform well, their managers and owners need to be well informed in terms of skills and modern management practices.

2.5.2 Inadequate Market Survey

The survey may not be conducted properly. Outwardly it may appear to have been done very systematically. In actuality it might have been done in a casual manner. The data collected or the observations made might have been influenced by personal bias, resulting in overestimation of demand, or a wrong selection of the product or market segment. Ensure that the survey corresponds with the real situation. It should not be confused with the intuitive decision mentioned earlier. If your mind is so trained that normally your judgment turns out to be correct even an intuitive decision apparently taken without much

formal study may become workable. In such cases, intuition is the product of mental processing of external information fed through observation (Mitsuddi, 1996).

2.5.3 Wrong site selection.

The site selected out of enthusiasm or over confidence without due consideration of sources of raw materials and marketing outlets may, in most cases, bring about failure. Due consideration for selection of site must hence be given priority (Mitsuddi, 1996).

2.5.4 Restricted access to finance

SMEs are known to be typically “owner-manager” businesses hence lending institution leverage the available credit bureau information about the owner and the business. An SME baseline survey done by USAID, the government of Kenya and K-Rep bank in 1999 showed that out of the estimated 1.3 million, SMEs, less than 5% had access to credit from the formal financial institutions. The reasoning attributed to this was their high mortality rate, limited availability of data and low potential of long term profitability among others (FSD, 2008).

Lack of finances affects all the operations of an SME by limiting the number of choices it can make in every move, for example in causes SMEs to use into appropriate technology because any other option could be unaffordable.

One of the interventions made by the government in the 2010/2011 budget was the introduction of a KShs.3.8 billion SME revolving fund (SMEF), though a credit agreement to the banks for onward lending to SMEs, through their agencies. The agreement includes the maximum chargeable interest to an SME. However, the caveat remains that a budgets’ success depends on its execution. Despite being considered the engines of economic growth, SMEs have complained of the limited government support and access to credit with most studies showing SMEs die by their third year of operation (Mulupi, 2010).

2.5.5. Slow adoption of Technology

Information and communication technology is more relevant to business growth while also recognizing that motor vehicle industry is one of the biggest showcases of product

technology at work. SMEs in this industry are straddled between the choice of catching up or silent participation. Similarly the impact of technology has been of growing concern to SMEs, some of which are unfamiliar with the changing technologies. The fewer who are aware of the need to adopt technology, find it unaffordable or inappropriate to their needs, as a result foreign firms still remain ahead in accessing the new technologies.

2.5.6. Lack of strategy

Thompson et al. (1997) emphasize that strategy is the most important determinant of business choice and its subsequent growth. Empirical findings show that most SMEs have no strategies in place, instead they are managed through gut feelings of the owner or the managers in charge, this creates room for more adhoc decisions which can save or haunt the firm. In some cases casual observation suggests that crisis management is the order of the day in some SMEs. SMEs operated with gut feelings fail to realize the benefits of external cooperation because of their egostic tendencies.

Strategies could be in form of expansion, products/market differentiation, alliances or joint venture. Strategies on the market are more focused on three approaches; market penetration, market development and moving into the market with new product.s For a long lived SME, it is able to review opportunities for new markets in a diversification strategy. Lack of planning in small firms affects the growth of market share, slows down opening of new markets and delays the development of products that are of potential interest to customers (Kotler and Keller, 2009). The three strategies are illustrated below.

Current Products New products

Current markets	1. Market – penetration strategy	3. Product development strategy
New markets	1. Market– development strategy	Diversification strategy

Sources: Kotler and Keller (2009)

Figure 2: Three intensive growth strategies – Ansoff’s Product Market Expansion Grid.

Empirical studies seem to have focused more on new venture context by McDougal and Robinson (1990), with no reflection on long lived SMEs. The success of strategy in the growth of a business is also not automatic but highly dependent on the owner’s aspirations.

2.5.7 Stiff competition

The sighting of competition as a top challenge is expected as most SMEs, tend to cluster in dense markets and overcrowded cities (National Baseline Survey, 1999). This would suggest lack of information on their markets and innovation, as most of them continue to duplicate what others are already doing. The competition in crowded markets (Red Ocean) fails to create new demand in areas that are ripe for growth (Blue Ocean). Blue Ocean strategy by Kim and Mauborge (2010) believe competition can be made irrelevant by creating opportunities in the uncontested ocean. In the red oceans, industry boundaries are defined and accepted, the rules of competitions are also well known. Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth.

Although competition is viewed as the most pressing it is ranked differently by each SME, this indicates it is not the same to all. It is also possible that SME, embrace competition as a way of doing business in a free market while others fear it.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter sets out the research methodology to be adopted so as to meet the objectives stated in Chapter one of this study. The research setting, the population of interest, sample data collection, instruments and data analysis is discussed.

3.2. Research design

The design of this research was a descriptive survey research. This design described the characteristics of the population or phenomenon. Facts were generated from experiences and observations. The design is deemed to portray clear pictures of the factors that influence the choice of SMEs in motor vehicle parts business as well as those that affect their growth.

3.3. The Population

The population of this study comprised of SMEs selling motor vehicle parts along Kirinyaga Road. The sampling frame was obtained from Nairobi City Council Licensing Office (2011) and formed a total target population of 137 SMEs.

3.4. Data Collection

Primary data was used in this study. Both structural and unstructured questionnaire instruments was used to collect the data. The questionnaire contained the questions which were both closed ended and also a few open ended. These type of questions was accompanied by a list of possible alternatives from which respondents was required to select the answer that best describes the situation.

The questionnaires were administered through drop and pick to 50 who were purposively selected from a population of 137 SMEs and located in Nairobi Central Business District (NCBD, Kirinyaga Road

3.5. Data Analysis

The collected data was well examined and checked for completeness and comprehensibility. The data will then be summarized, coded and tabulated. Descriptive

statistics such as means, standard deviation and frequency distribution was used to analyze the data. This was used to perform the analysis as it aids in organizing and summarizing the data. Data presentation was done on pie-charts, bar charts and graphs, percentages and frequency tables. This will ensure that the gathered information is clearly understood by describing what the respondents are saying.

CHAPTER FOUR
RESEARCH FINDINGS, CONCLUSION AND RECOMMENDATIONS

4.0 Introduction

This study was carried out to examine the factors influencing business choice by SMEs in motor parts business along Kirinyaga Road in Nairobi. The chapter represents the study findings and discussion under the following subsections; General information, factors influencing choice and growth of small and medium enterprises (SMEs) in motor vehicle parts business.

4.1 General information.

4.1.1 Response rate

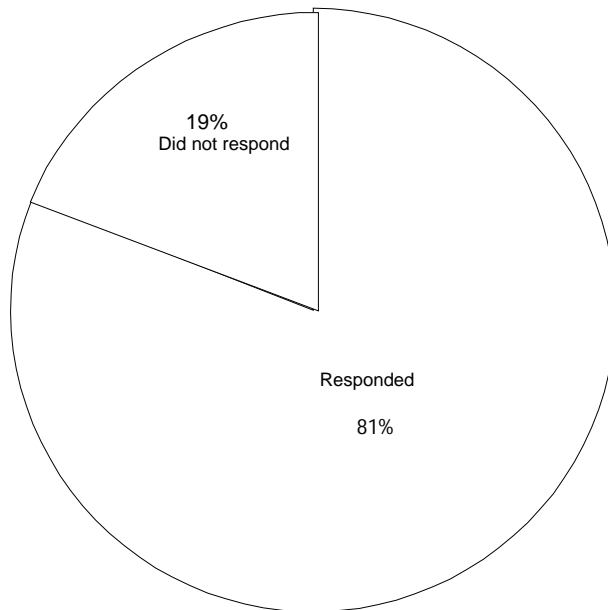


Figure 3: Response rate

Out of 50 respondents targeted in this study, 42 of them responded representing a response rate of 81% .The response rate was above 50% hence adequate enough to examine he study phenomenon.

4.1.2 Respondents gender

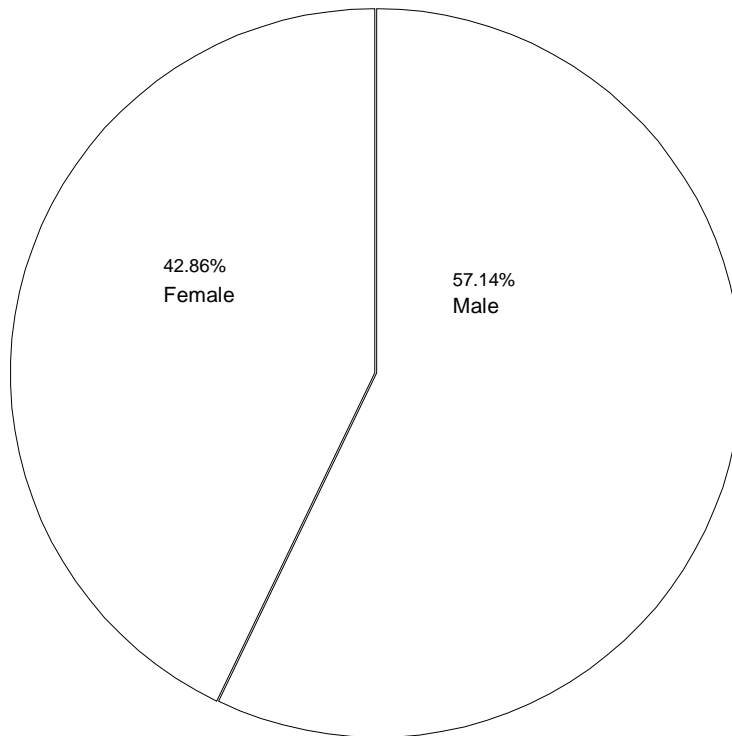


Figure 4: Respondents Gender

Analysis of gender representation of the respondents revealed 57.15% male representation and 42.86% female representation. The research findings represented both male and female respondents according to their population in SMES examined. Thus study finding were not biased towards a particular gender.

4.1.3 Education level

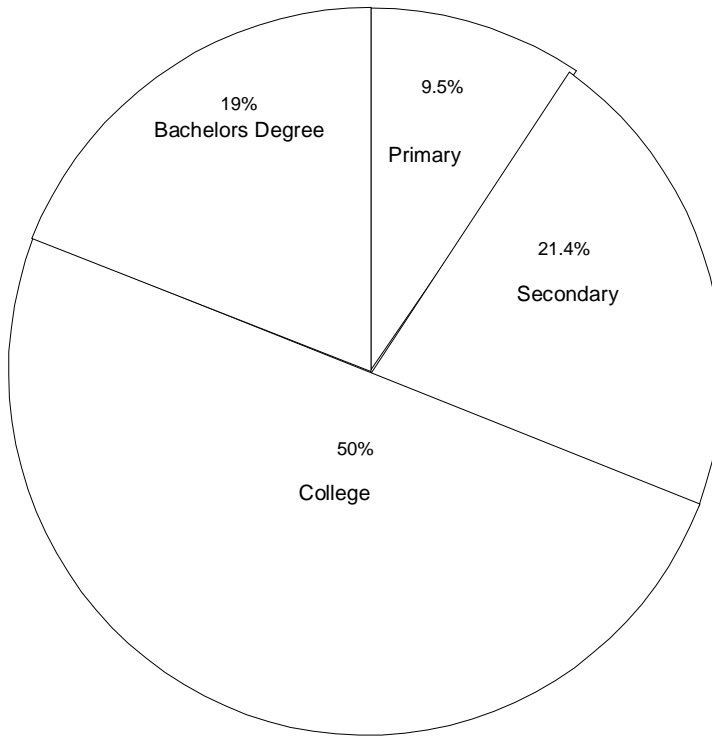


Figure 5: Respondents' education level

Educational levels for respondents examined ranged from primary, secondary, college and bachelor degree. 50% of the respondents had college education level, followed by those with secondary education.

4.1.4. Business years of operation

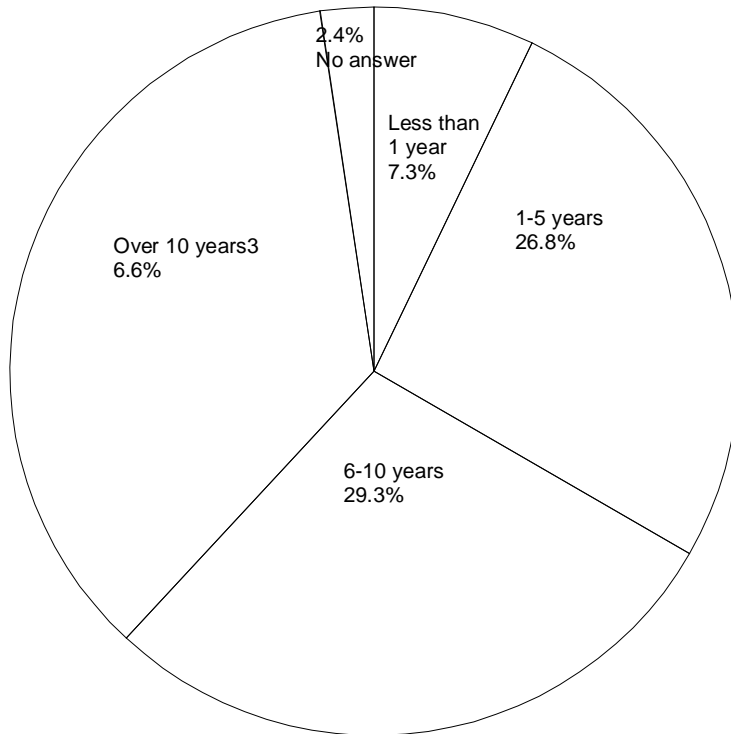


Figure 6: Business' years of operation

An analysis of business experience for SMES examined revealed a distribution of less than I year to over 10 years experience in business. Majority (36.6%) of the respondents indicated over 10 years experience in business, closely followed by those with over 6-10 years in operation. This indicated that most SMEs at Kirinyaga road had sustainable business strategies, which among them choice of business and location. It also indicated a knowhow from the respondents as to what factors contribute to choice and growth of SMEs.

4.1.5 Respondents position in business

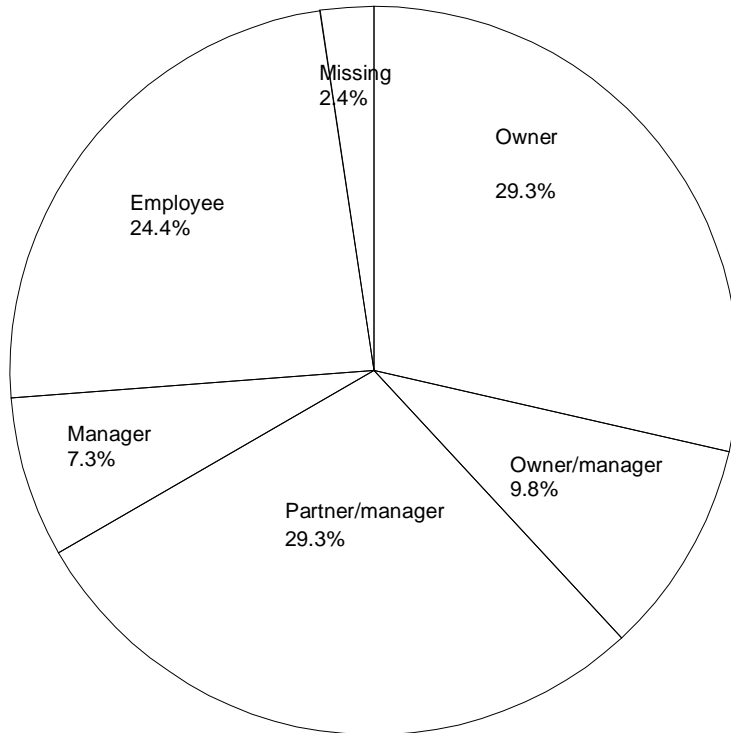


Figure 7: Respondents position in the business

Respondents' position in business was distributed in owner, Owner / Manager, partner / manager and employee. Majority (29.3%) of the respondents revealed that they were owner/ partner or owner of business/ managers. This indicated that that most of the SMEs along Kirinyaga road had grown as a result of managerial input of the business owners.

4.1.6 Number of employees in business

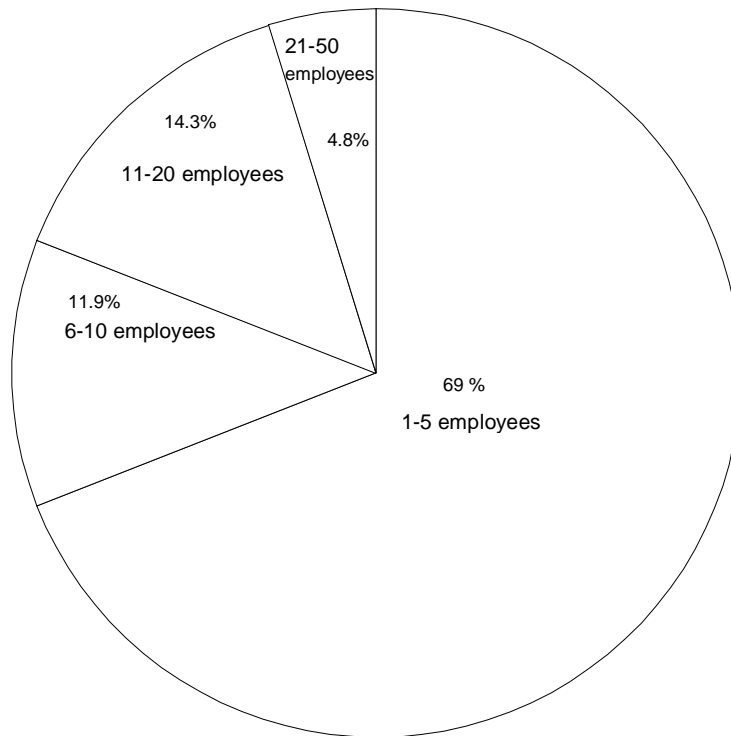


Figure 8: Number of employees in the business

The number of employees for the SMEs examined ranged from 1-50 employees, however majority (69%) of respondents said that their SMEs had 1-5 employees. This indicated that SMEs at Kirinyaga Road had not grown to a level of having many employees. This could explain slow growth or limited capability to expand.

4.2 Factors influencing the choice and growth of Small and medium enterprises (SMES) in motor vehicle parts

The factors influencing the choice and growth of small and medium enterprises (SMES) in motor vehicle parts was examined under the following : Extent to which entrepreneurial education , demographic and economic factors , technological advances , independent lifestyles and enteprenuoos heroes influenced business choice into medium and small enterprises, Extent to which proximity to market and raw materials , completion, government policy , appropriate infrastructure , cost of utilities/ operating influenced location decision of SMEs, extent to which resource requirement for startup ,

structure network to locate the venture , sources of investment capital, size of potential market and rate of competition affected initiation of new business ventures, Expansion strategies adopted by SMEs, effects of stiff competition , effects of inadequate finances , effects of slow adoption of technology and effects of managerial training and expertise on growth of SMEs in motor vehicle industry .

4.2.1 Business choice into small and medium enterprises

Table 1: Factors that influence choice into SME

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
Entrepreneurial education	3.45	1.31	4.8%	19%	19%	40.5%	16.75
Demographic and economic factors	4.07	0.87	52.4%	19.5%	43.9%	34.1%	0.0%
Technological advances	3.05	1.3	9.5%	26.2%	31.0%	16.7%	16.7%
Independent lifestyle	3.19	1.23	4.8%	28.6%	33.3%	9.5%	23.8%
Entrepreneurs heroes	2.19	1.52	52.4%	14.3%	9.5%	9.5%	14.3%

Entrepreneurial education was found to affect choice into SME to a large extent by majority of the respondents. Demographic and economic factors were found to affect choice into SMES to a fairly large extent by 43.9% majority of the respondents. Technological factors were found to affect choice into SME by 31% majority of the respondents to fairly large extent. The effect of independent lifestyle found to affect choice into SME to a fairly large extent by 33.3% majority of the respondents. Majority (52.4%) of the respondents indicated that entrepreneurial heroes did not at affect choice into SME.

4.2.2 Factors that affect location decisions for small and medium enterprises

Table 2 : Location decisions for SMEs

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
Proximity /nearness to market and needed materials	4.12	1.1	4.8%	2.45%	16.7%	28.6%	47.6%
Competition	3.67	1.2	4.8%	14.3%	21.4%	28.6%	31.0%
Government policy/ local law as and regulations	2.24	1.3	33.3%	19%	26.2%	14.3%	7.8%
Appropriate infrastructure	3.5	1.4	4.8%	31%	7.1%	23.8%	33%
Cost of utilizes / operating cots	3.4	1.43	14.3%	11.9%	23.8%	16.7%	33.3%

The factors that influenced location decision of SMES were examined under , proximity / nearness to market and need raw materials , competition , government pilot / local and regulation , appropriate infrastructure and cost of utilities . Proximity / nearness to market and needed materials was found to affection location decion of SMEs by 28.6% majority of the respondents with a mean of 4.12. Competition was found to influence location decision by to a large extent by 28.6 % majority of the respondents. Government policy, local laws and regulations was not found to affect location decision of SMES as indicated by 33.3% of the respondents, appropriate infrastructure / roads / working space was found to influence location choice of SMEs as revealed by 33.35 majorities of the respondents. Cost of utilities was found to influence choice of SME

location to a very large extent by 33.3% majority of the response. Study finding indicated that proximity to market, completion, infrastructure and operating costs was among the consideration made before locating SMEs.

4.2.3 Factors that influence the way a new venture can be initiated

Table 3: Initiation of new business ventures

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
Resource requirement for start up	3.21	1.7	26.2	16.7%	7.1%	9.5%	40.5%
Structure network to locate venture	3.0	1.6	23.8%	28.6%	4.8%	16.7%	26.2%
Sources of investment capital	4.17	0.9	2.4%	28.6%	19.0%	50%	0.0%
Size of market	4.07	1.0	9.5%	19%	26.2%	45.2%	0.0%
Rate of competition	3.4	1.2	7.3%	14.6%	26.8%	34.1%	17.1%

The factors that influence the way a new venture can be initiated in this study was revealed to be resource requirement for start up that influenced to a large extent as revealed by 40.5% of the respondents, structure network to locate venture to a very large extent as revealed by 26.2% respondents, sources of investment to a large extent as revealed by 50% of the respondents, market size to a large extent as revealed by 45.2% of the respondents and rate of competition to a large extent as revealed by 40% of the respondents.

4.2.4 Expansion into new regions as a development strategy

Table 4: Regional expansion of business as a development strategy

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
Open branches in other towns	3.86	1.2	4.8%	9.5%	23.8%	19.0%	42.9%
Offer services to existing customers moving to new towns	3.2	1.1	2.4%	31.0%	26.2%	26.2%	14.2%
Offer special discounts to new customers in new towns	2.95	1.2	9.8%	31.7%	24.4%	22%	12.2%
Open new branches outside Kenya	3.4	0.9	0.0%	19.0%	38.1%	26.2%	16.7%

The study examined the extent to which respondents agreed with various assertions related to expansion to new regions as a development strategy among SMEs. The findings were presented on table 4.4 above. Majority (42.9%) of the respondents agreed to very large extent with the assertion that opening of branches in other towns within Nairobi was a way of market development strategy , 31.% majority agreed to a less extent with offering of services to existing customer moving to new towns , 31.7% agreed to a less extent with offering special discounts to customers in new markets , while 38.1% majority agreed to a fairly large extent with opening new branches outside Kenya .

4.2.4 Effects of stiff competition

Table 5: Stiff competition among SMEs dealing with motor vehicle spare parts

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
Stiff competition is caused by large competitors firms	3.68	1.3	4.9%	19.5%	17.1%	19.5%	39.0%
No stiff completion for SMEs in mortar vehicle spare parts	1.59	0.86	63.4%	17.1%	17.1%	2.4%	0.0%
Stiff competition is healthy for SMEs in motor vehicle parts business to grow	3.54	1.2	2.4%	22.0%	19.5%	31.7%	24.0%
Competition in motor vehicle part business is unfair	2.32	1.3	36.6%	19.5%	24.4%	14.6%	4.9%

Respondents were asked to indicate their level of agreement with various assertions related to effect of stiff completion on SMES dealing with motor vehicle business parts. The findings revealed that 39% majority of the respondents agreed with the assertion that stiff completion was caused by large competitor firms, 63.4% majority of the respondents did not at all agree with the assertion that there was no stiff competition in motor vehicle spare parts. 31.7% majority of the respondents agreed to a large extent with the assertion that stiff competition is healthy for SMEs in motor vehicle parts business growth. 36.6% competition in motor vehicle parts business unfair. Respondents commended that stiff competition had affected their businesses through changed prices, and loss of customers.

4.2.5 Effects of inadequate finances

Table 6: Finances and growth of SMEs

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
SMEs in motor vehicle parts fail to grow due to lack of adequate finances	3.86	1.1	0.0%	16.7%	19.0%	26.2%	38.1%
SMEs use of finances for growth requires managerial skills and expertise in motor parts business	4.3	0.9	2.4%	2.4%	14.3%	26.2%	54.8%
Inadequate finances by SMEs in motor vehicle parts favours large firms in the business	2.83	1.5	21.4%	31.0%	11.9%	14.3%	21.4%
Availability of finances to SMEs is influenced by Government policy	2.6	1.3	16.7%	33.3%	28.6%	11.9%	9.5%

An analysis of the respondents response on the extent of their agreement with the assertion various assertion relating to effects of inadequate finances revealed that 38.1% majority agreed to a very great extent that SMEs failed to grow due to lack of adequate finances , 54.5% majority agreed to a large extent that SME use of fiancés for growth required managerial skills and expertise in motor vehicle parts business , 31% majority agreed to a less extent that inadequate finances by SMEs in motor vehicle industry favoured large firms , and 33.3% majority agreed to a less extent that availability of finances to SMES is influenced by government policy . The study findings revealed that inadequate finances hindered growth of SMEs in motor vehicle parts, most SMES requires managerial skills and expertise in financial management to facilitate growth and

that government did not have large influence on availability of finances to SMEs in motor vehicle spare parts.

4.2.6 Technology adoption and growth of SMEs

Table 7 Effects of slow technology adoption

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
SMEs in motor vehicle parts business are slow in adoption of technology	3.38	1.4	11.9%	16.7%	19.0%	26.2%	26.2%
For SMEs in motor parts business to grow they must keep up with the pace of technology	3.6	1.3	9.5%	7.1%	26.2%	23.8%	33.3%
Technology required for SMEs in motor vehicle parts business to grow is readily available	3.3	0.9	4.8%	11.9%	45.2%	26.2%	11.9%
Slow adoption of technology by SMEs in motor vehicle parts has favoured large firms in the business	3.1	1.5	19.0%	21.4%	16.7%	16.7%	26.2%

An analysis of the respondents' extent of agreement with various assertion related to technology adoption among SMEs in motor vehicle industry revealed that 26.2% majority of the respondents agreed to a large extent and very large extent that SMEs in motor vehicle parts are slow in technology adoption , 33.3% majority agreed that SMEs in motor vehicle parts have must keep up with pace of technology for them to grow , 45.2% majority agreed to a large extent that technology required for SMEs in motor vehicles parts business is readily available , 26.2% majority of the respondents agreed to a very great extent that slow adoption of technology by SMESs in motor vehicle parts

has favoured large firms in business. Study findings revealed that technology among SMEs in motor vehicle parts was an important factor in growth of SMEs, However, most SMEs were found to have slow technology adoption which could be attributed to lack of finances or adequate technical knowhow. Though technology was confirmed to be fairly available, its was found that slow adoption of technology among SMEs, gave large firms a competitive advantage and thus this could explain slow growth among them.

4.2.7 Effects of Managerial training and expertise on choice and growth of SMEs

Table 8: Managerial training and expertise

Factor	Mean	STD	Not at all	To a less extent	To a fairly large extent	To a large extent	To very a large extent
SMES in motor vehicle parts manage to sustain skilled employees for longer periods as compared to unskilled employees in the same business	3.88	1.3	2.5%	17.5%	17.5%	15.0%	47.2%
Lack of managerial skills has affected the growth of SME's in motor vehicle parts business	3.8	1.2	0.0%	20.0%	17.5%	30.0%	32.5%
Most employees of SMEs in motor parts business have a low education background	3.4	1.2	0.0%	20.0%	17.5%	30.0%	32.5%
Lack of training employees of SMEs in motor parts business, affects the growth of their business	3.55	1.2	2.5%	22.5%	17.5%	32.5%	25.0%

An analysis of the respondents extent of agreement with various assertions related to effects of managerially training revealed that 47.5% majority of the respondents to a very large extent with the assertion that SMEs in motor vehicle parts managed to sustain their skilled employees for longer periods compared to unskilled employees , 32.5% agreed to a very large extent that lack of managerial skills had affected growth of SMEs in motor vehicle parts business , 32.5% majority agreed to a fairly large extent that most employees in motor vehicle business had low educational background , while 32.5% majority of respondents agreed to a large extent that lack of training in motor vehicle parts business affected growth of their business .Study findings revealed that managerial training and expertise affected sustainability of employees in motor vehicle parts business ,employees understandings as a result of educational background and consequently growth of the business .

4.3 Factors that affect choice of SME in motor vehicle industry.

4.3.1 Inadequate finances

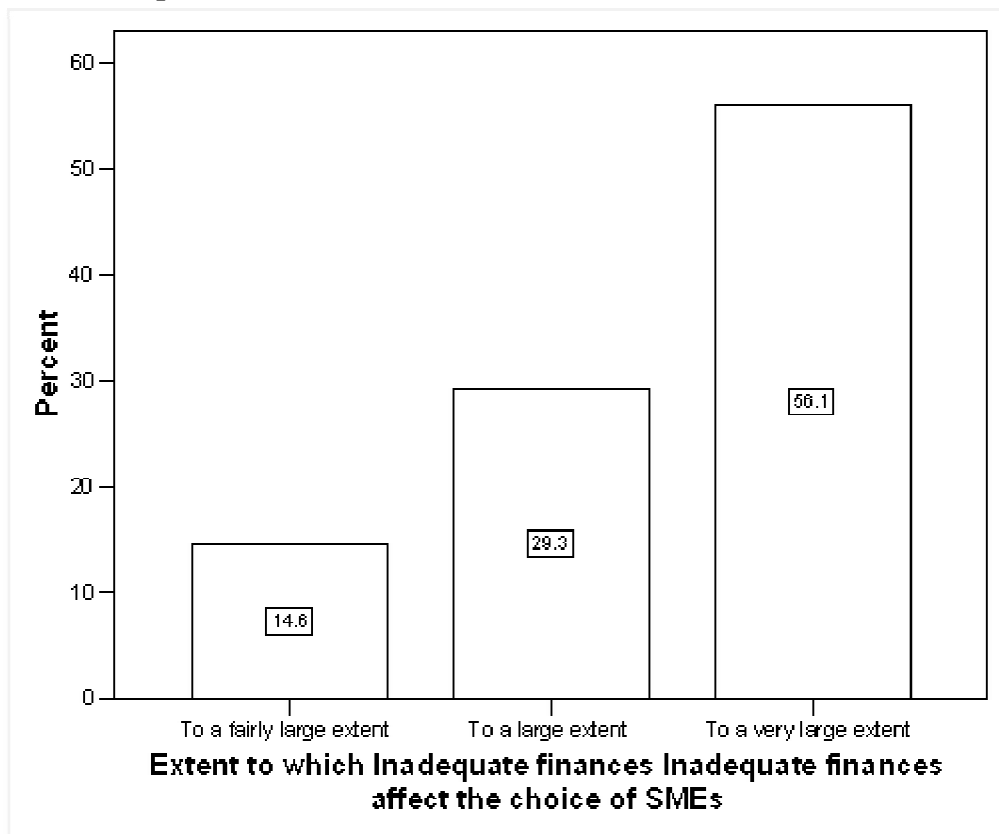


Figure 10: Effect of inadequate finances

An analysis of the extent to which inadequate finances affected choice of SMEs was found to be a very large extent by 56.1% of the respondents, to a large extent by 29.3% of the respondents, and to a fairly large extent by 14.6% of the respondents. Finances were found to be a large contributory factor in choice of SMEs among motor vehicle parts entrepreneurs.

4.3.2 Slow adoption of technology

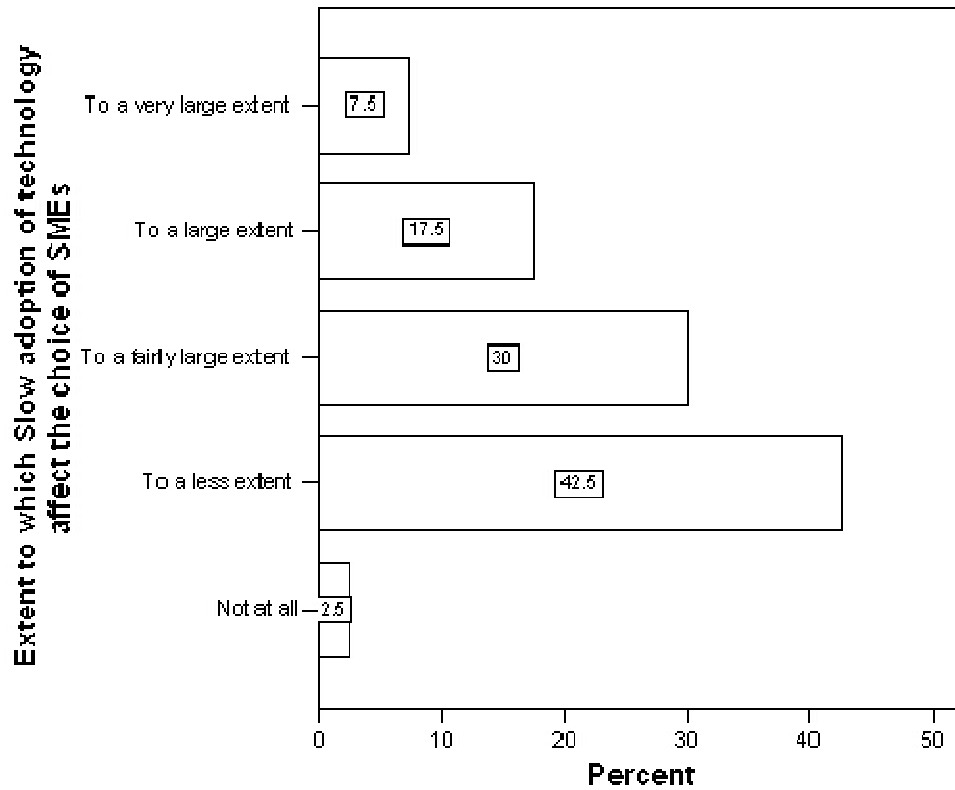


Figure 11: Effect of Slow technology adoption

Motor vehicle business requires players in the business to be well versed with technology. An examination of slow adoption of technology affected choice of SMEs among the respondents revealed that slow adoption of technology was found to affect choice of SMEs to a very large extent, 17.5% said it affected to a large extent, 30% said that it affected to a fairly large extent, 42.55 said that it affected to a less extent while 2.5% said that it did not affect at all. The study findings revealed that though technology

considered an important factor in motor vehicle industry , it did not have much contribution on the choice of SMEs among the respondents examined .

4.3.3 Competition

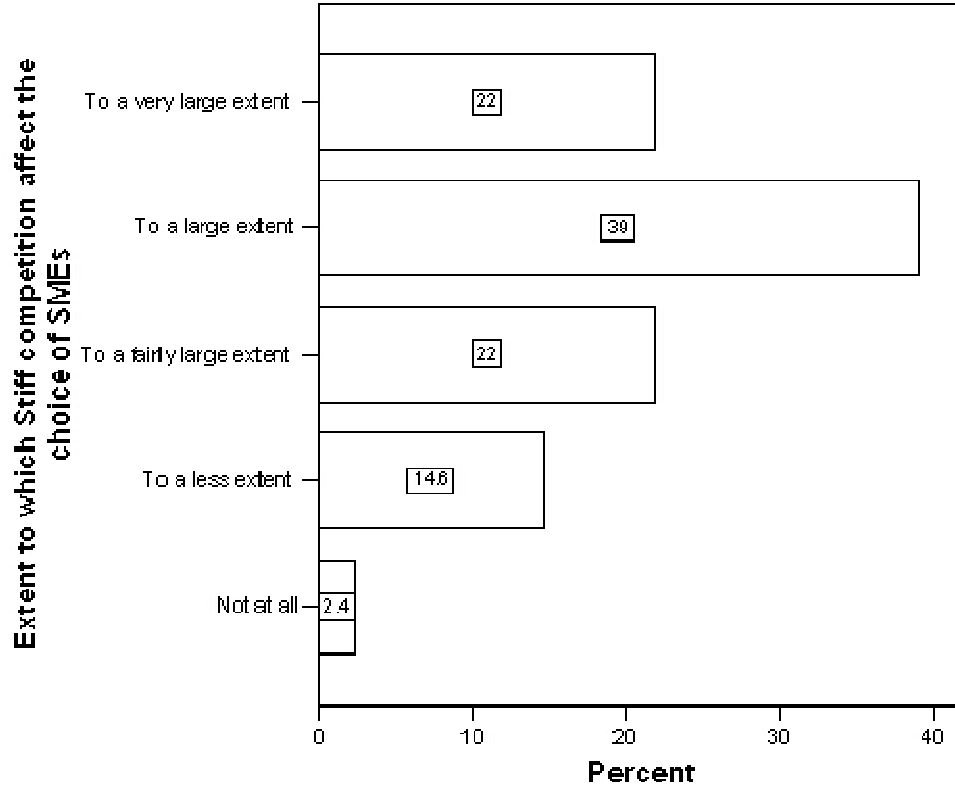


Figure 12: Effect of stiff competition

Management is deemed an important factor in the choice of business ventures. An examination of the extent to which stiff competition affected choice into SME revealed that 22% of the respondents said to a very large extent , 39% said to a large extent , 22% said to a fairly large extent , 14.6% said to a less extent while 2.4% said it did not affect at all . Majority of the respondents indicated that stiff completion affected choice into SME to a large extent. This therefore indicated that stiff competition was determinants factor in decisions the kind of SMEs business to venture in.

4.3.4 Government policy

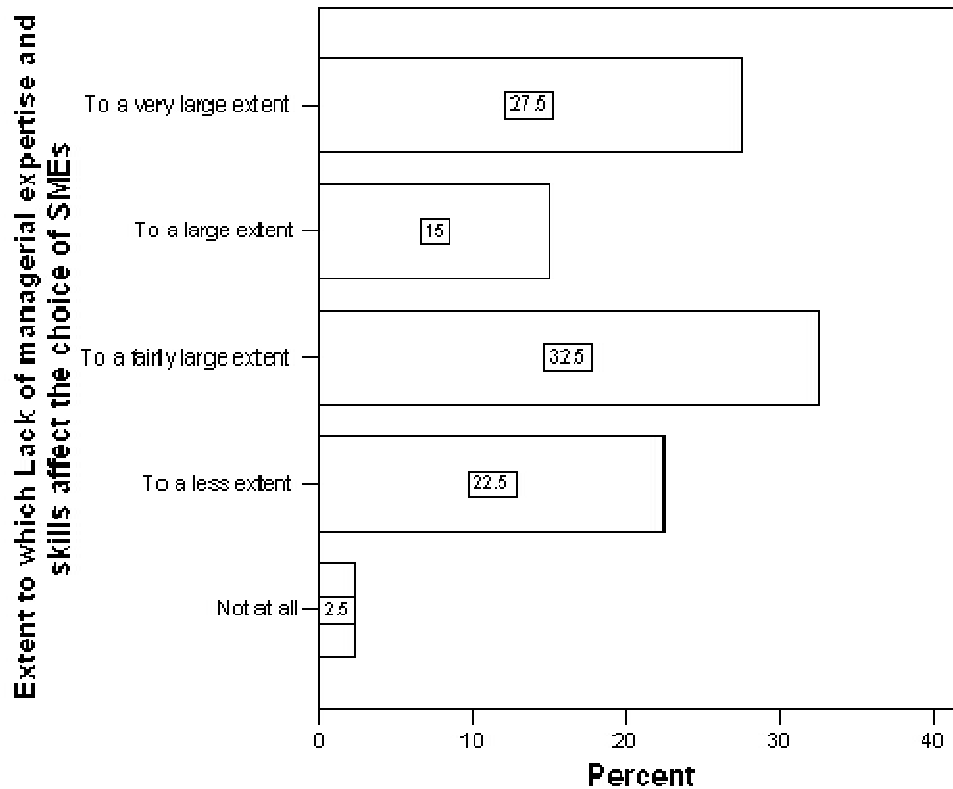


Figure 13: Effect of government policy

The extent to which government policies affected choice of SMEs was indicated to a very large extent by 27.5% of the respondents, to a large extent by 15% of the respondents, to a fairly large extent by 32.5% of the respondents, to a less extent by 22.5% of the respondents and not all by 2.5% of the respondents. Majority (32.5%) of the respondents indicated that government policy affected the choice of SMEs to a fairly large extent. Though a factor in determining choice of SMEs business the contribution of government policy in the decision was not found to be as weighty as lack of finances and technology.

4.3.5 Effect of Managerial expertise and skills

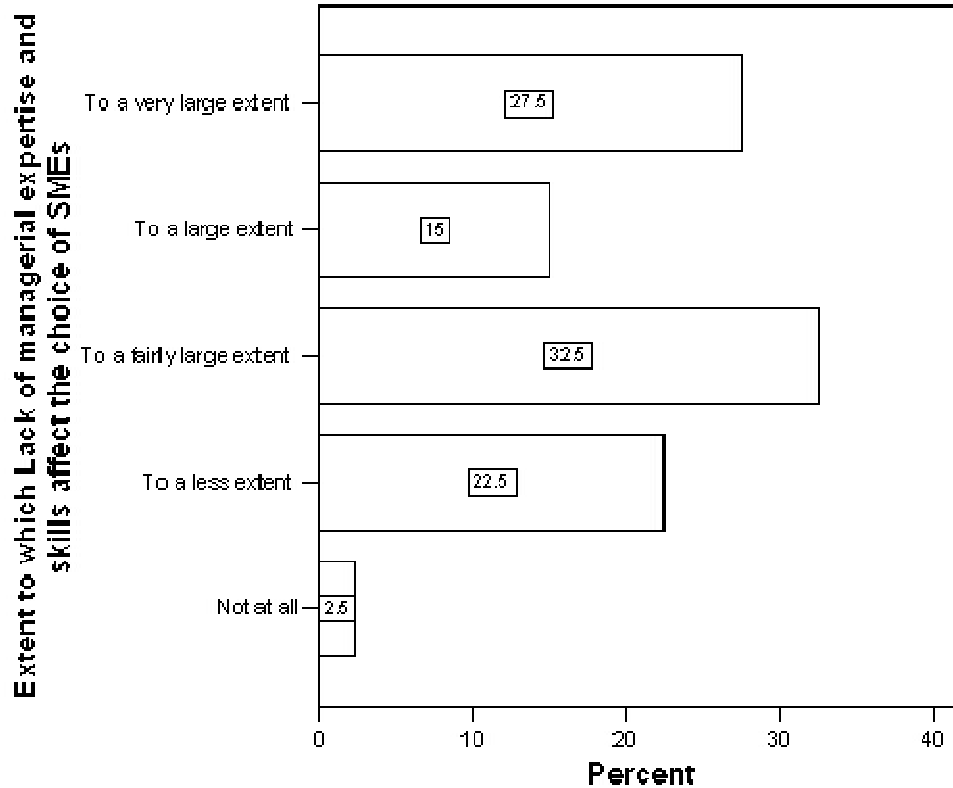


Figure 14: Effect of managerial training and expertise

The extent to which managerial expertise and skills affected choice into SME revealed was indicated to a very large extent by 27.5% of the respondents, to a large extent by 15% of the respondents, to a fairly large extent by 32.5% of the respondents, to a less extent by 22.5% of the respondents and not at all by 2.5% of the respondents. Managerial and expertise skills was found to affect choice of SMEs to a fairly large extent.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter has discussed the study findings into summary of the findings into factors affecting choice and growth of SMEs. The summary of findings have been derived from the study findings in chapter four.

5.1 Summary of finding

The summary of findings was discussed under background information, choice location, new business ventures and development strategy, effects stiff competition, inadequate finances, slow adoption of technology, managerial training and factors affecting SME growth . The summary was derived from the study findings in chapter 4 above.

5.1.1 Background information

Out of 50 respondents targeted in this study, 42 of them responded representing a response rate of 81%. The research findings represented both male and female respondents according to their population in SMES examined. Thus study finding were not biased towards a particular gender. Educational levels for respondents examined ranged from primary, secondary, college and bachelor degree with 50% majority of the respondents having college education level, followed by those with secondary education. Majority (36.6%) of the respondents indicated over 10 years experience in business, closely followed by those with over 6-10 years in operation. Respondents' position in business was distributed in owner, Owner / Manager, partner / manager and employee. Majority (29.3%) of the respondents revealed that they were owner/ partner or owner of business/ managers. Majority of SMEs examined (69%) had 1-5 employees.

5.1.2 Choice, location, new business ventures and development strategy

Entrepreneurial education was found to affect choice into SME to a large extent by majority of the respondents. Demographic and economic factors were found to affect choice into SMES to a fairly large extent by 43.9% majority of the respondents.

Technological factors were found to affect choice into SME by 31% majority of the respondents to fairly large extent. The effect of independent lifestyle was found to affect choice into SME to a fairly large extent by 33.3% majority of the respondents. Majority (52.4%) of the respondents indicated that entrepreneurial heroes did not affect choice into SME.

Proximity / nearness to market and needed materials was found to affect location decision of SMEs by 28.6% majority of the respondents. Competition was found to influence location decision by to a large extent by 28.6 % majority of the respondents. Government policy, local laws and regulations was not found to affect location decision of SMES as indicated by 33.3% majority of the respondents, appropriate infrastructure / roads / working space was found to influence location choice of SMEs as revealed by 33.35% majorities of the respondents. Cost of utilities was found to influence choice of SME location to a very large extent by 33.3% majority response.

The factors that influence the way a new venture can be initiated in this study was revealed to be resource requirement for start up that influenced to a large extent as revealed by 40.5% of the respondents , structure network to locate venture to a very large extent as revealed by 26.2% respondents , sources of investment to a large extent as revealed by 50% of the respondents , market size to a large extent as revealed by 45.2% of the respondents and rate of competition to a large extent as revealed by 40% of the respondents

Majority (42.9%) of the respondents agreed to very large extent with the assertion that opening of branches in other towns within Nairobi was a way of market development strategy , 31.% majority agreed to a less extent with offering of services to existing customer moving to new towns , 31.7% agreed to a less extent with offering special discounts to customers in new markets , while 38.1% majority agreed to a fairly large extent with opening new branches outside Kenya .

5.1.3 Effects of stiff competition

The findings revealed that 39% majority of the respondents agreed with the assertion that stiff competition was caused by large competitor firms, 63.4% majority of the

respondents did not at all agree with the assertion that there was no stiff competition in motor vehicle spare parts. 31.7% majority of the respondents agreed to a large extent with the assertion that stiff competition is healthy for SMEs in motor vehicle parts business growth. 36.6% competition in motor vehicle parts business unfair

5.1.4 Effects of inadequate finances

The study findings revealed that inadequate finances hindered growth of SMEs in motor vehicle parts, most SMES requires managerial skills and expertise in financial management to facilitate growth and that government did not have large influence on availability of finances to SMEs in motor vehicle spare parts.

5.1.5 Effects of slow technology adoption

Study findings revealed that 26.2% majority of the respondents agreed to a large extent and very large extent that SMEs in motor vehicle parts are slow in technology adoption , 33.3% majority agreed that SMEs in motor vehicle parts have must keep up with pace of technology for them to grow , 45.2% majority agreed to a large extent that technology required for SMEs in motor vehicles parts business is readily available , 26.2% majority of the respondents agreed to a very great extent that slow adoption of technology by SMESs in motor vehicle parts has favoured large firms in business.

5.1.6 Effects of managerial training

47.5% majority of the respondents to a very large extent with the assertion that SMEs in motor vehicle parts managed to sustain their skilled employees for longer periods compared to unskilled employees , 32.5% agreed to a very large extent that lack of managerial skills had affected growth of SMEs in motor vehicle parts business , 32.5% majority agreed to a fairly large extent that most employees in motor vehicle business had low educational background , while 32.5% majority of respondents agreed to a large extent that lack of training in motor vehicle parts business affected growth of their business .

5.2 Factors affecting growth of SMEs

An analysis of the extent to which inadequate finances affected choice of SMEs was found to be a very large extent by 56.1% of the respondents, to a large extent by 29.3% of the respondents, and to a fairly large extent by 14.6% of the respondents.

Motor vehicle business requires players in the business to be well versed with technology. An examination of slow adoption of technology affected choice of SMEs among the respondents revealed that slow adoption of technology was found to affect choice of SMEs to a very large extent, 17.5% said it affected to a large extent, 30% said that it affected to a fairly large extent, 42.55 said that it affected to a less extent while 2.5% said that it did not affect at all

An examination of the extent to which stiff competition affected choice into SME revealed that 22% of the respondents said to a very large extent, 39% said to a large extent, 22% said to a fairly large extent, 14.6% said to a less extent while 2.4% said it did not affect at all. Majority of the respondents indicated that stiff completion affected choice into SME to a large extent.

The extent to which government policies affected choice of SMEs was indicated to a very large extent by 27.5% of the respondents, to a large extent by 15% of the respondents, to a fairly large extent by 32.5% of the respondents, to a less extent by 22.5% of the respondents and not all by 2.5% of the respondents.

The extent to which managerial expertise and skills affected choice into SME revealed was indicated to a very large extent by 27.5% of the respondents, to a large extent by 15% of the respondents, to a fairly large extent by 32.5% of the respondents, to a less extent by 22.5% of the respondents and not at all by 2.5% of the respondents.

5.3 Conclusion

This study was carried out to examine the factors affecting choice and growth of small and medium enterprises (SMEs) in motor vehicle parts. The study examined the factors that affecting choice into SME and those that affected growth of SMEs. The background of the study participants showed that most SMEs at Kirinyaga road had sustainable

business strategies, which among them choice of business and location. It also indicated a knowhow from the respondents as to what factors contribute to choice and growth of SMEs, evidenced by their years of operation. Most of the SMEs along Kirinyaga road had grown as a result of managerial input of the business ownersthough majority had few employees ranging from 1-5.

Entrepreneurial education, demographic and economic factors, technological factors, independent lifestyles and considering entrepreneurs as heroes was found to influence choice into small and medium enterprise. Study finding indicated that proximity to market, competition, infrastructure and operating costs was among the consideration made before locating SMEs.Resource requirement for startup capital, structure network to locate venture, market size and competition affected initiation of new business venture. Among the development strategies established in this study included, opening of branches, and offering special discounts to customers in new markets

Stiff competition was as a result of larger firms, and existed among SMEs examined. Respondents commended that stiff competition had affected their businesses through changed prices, and loss of customers. Respondents mentioned existence of unfair competition as a result of sale of counterfeit products.

The study findings revealed that inadequate finances hindered growth of SMEs in motor vehicle parts, most SMES requires managerial skills and expertise in financial management to facilitate growth and that government did not have large influence on availability of finances to SMEs in motor vehicle spare parts.

Technology among SMEs in motor vehicle parts was an important factors in growth of SMEs, However, most SMEs were found to have slow technology adoption which could be attributed to lack of finances or adequate technical knowhow. Though technology was confirmed to be fairly available, its was found that slow adoption of technology among SMEs, gave large firms a competitive advantage and thus this could explain slow growth among them.

Study findings revealed that managerial training and expertise affected sustainability of employees in motor vehicle parts business, employees understandings as a result of educational background and consequently growth of the business.

Finances were found to be a large contributory factor in choice of SMEs among motor vehicle parts entrepreneurs. The study findings revealed that though technology considered an important factor in motor vehicle industry, it did not have much contribution on the choice of SMEs among the respondents examined. This therefore indicated that stiff competition was determinants factor in decisions the kind of SMEs business to venture in. Though a factor in determining choice of SMEs business the contribution of government policy in the decision was not found to be as weighty as lack of finances and technology. Managerial and expertise skills was found to affect choice of SMEs to a fairly large extent.

5.4 Recommendation

After successful completion of the study on the factors that affect choice and growth of SMEs, the researcher recommended; A training on SMEs owners and employees so as to increase the growth capabilities among SMEs. The government should have a strategy to ease lack of finances among SMEs by offering subsidized credit facilities to facilitate growth among SMEs. SMEs owners should take advantages of the enormous technology available at affordable rates to enhance their growth and efficiency.

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APPENDIX I: LETTER OF INRODUCTION

JANE NJERI MBUGUA
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI
P.O BOX 30197
NAIROBI.
17TH JUNE 2011

Dear respondent,

RE: COLLECTION OF RESEARCH DATA

I am a post graduate student at school of business, University of Nairobi. In order to fulfill the requirement of attaining Master of Business Administration degree, I am undertaking a management research project on “Factors influencing business choice by small and medium sized enterprises in motor spares business along Kirinyaga road in Nairobi”.

I kindly request you to participate as one of the respondents for an interview to assist me in data collection. The information is for academic purpose only and will be treated with strict confidentiality. Upon request, a copy of the final report will be made available to you.

Thank you for your cooperation

Yours faithfully,

.....

Jane Njeri
Student, MBA.

Mr. Mududa
Supervisor
University of Nairobi.

APPENDIX I I: RESEARCH QUESTIONNAIRE

PART A: GENERAL INFORMATION

1. Gender

Male Female

2. What is your education level? (Tick as applicable)

Primary Secondary

College Bachelors Degree

Others- specify.....

3. Name of Company.....

4. Year of Incorporation.....

5. Period of time in which this business has been in operation

Less than 1 year 6-10 years

1 – 5 years Over 1-10 years

6. Kindly state your position in the business

Owner Owner/Manager Partner/Manager Manager Employee

7. State the number of employees in the organisation

1-5 employees 6-10 employees 11-20 employees 21-50 employees

SECTION B: Factors Influencing the Choice and Growth of Small and Medium Enterprises (SMEs) in Motor Vehicle Parts Business.

8. To what extent do the following factors influence business choice into small and medium enterprises (SMEs)?

Statement	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a Very Large extent 5
Entrepreneurial education					
Demographic and economic factors					
Technological advances					
Independent lifestyle					
Entrepreneurs as heroes					

9. To what extent do the following factors influence the location decision of Small and Medium Enterprises (SMEs) in Motor vehicle parts business?

Please use a scale of 1-5 where 1 is to no extent and 5 is to a very great extent

Statement	Not at all 1	To a less extent 2	To a Fairly large extent 3	To a Large extent 4	To a very extent 5
Proximity/nearness to market and needed raw materials					
Competition					
Government policy/local laws and regulations					
Appropriate infrastructure / i.e. roads/ working space					
Cost of utilities/total operating cost					

In your opinion, how has the choice (location) of your company affected your business?

i)

ii)

10. To what extent do the following factors affect the way a new venture can be initiated and positioned in the market place?

Please use a scale of 1 to 5 where 1 is to no extent and 5 is to a very great extent

Statement	Not at all 1	To a less extent 2	To a Fairly Large extent 3	To a Large extent 4	To a very large extent 5
Resource requirements for start-up					
Structure network to locate the venture					
Sources of investment capital					
Size of potential market					
Rate of competition					

11. To what extent do you agree with the following statements of how a firm can expand to a new region as a way of market development strategy?

Statement	Not at all 1	To a less extent 2	To a Fairly Large extent 3	To a Large extent 4	To a very large extent 5
Open branches in other towns/within Nairobi					
Offer services to existing customers moving to new towns					
Offer special discounts to new customers in new towns					
Open new branches outside Kenya.					

12. To what extent do you agree with the following statements about the effects of stiff competition SMEs in motor vehicle parts business parts

Statement	Not at all 1	To a less extent 2	To a Fairly Large extent 3	To a Large extent 4	To a very large extent 5
Stiff competition of SMEs in motor vehicle parts business is caused by large competitors/firms					
SMEs in motor vehicle parts business have no stiff competition					
Stiff competition is healthy for SMEs in motor vehicle parts business to grow					
Competition in motor vehicle parts business is unfair					

In your opinion, how has stiff competition affected your business?

- i)
- ii)

13. To what extent do you agree with the following statements about the effects of inadequate finances on growth of SMEs in motor vehicle parts in your location?

Please use a scale of 1 to 5 where 1 is to strongly disagree and 5 is to strongly agree.

Statement	Not at all 1	To a less extent 2	To a fairly large extent 3	To a Large extent 4	To a very extent 5
SMEs in motor vehicle parts fail to grow due to lack of adequate finances					
SMEs use of finances for growth requires managerial skills and expertise in motor parts business					
Inadequate finances by SMEs in motor vehicle parts favours large firms in the business					
Availability of finances to SMEs is influenced by Government policy					

In your opinion, how has inadequate finance affected your business?

- i)
- ii)

14. To what extent do you agree with the following statements about the effects of slow adoption of technology to the growth of SMEs in motor vehicle parts business in your location?

Please use a scale of 1 to 5 where 1 is to strong disagree and 5 is to strongly agree.

Statement	Not at all 1	To a less extent 2	To a fairly large extent 3	To a Large extent 4	To a very large extent 5
SMEs in motor vehicle parts business are slow in adoption of technology					
For SMEs in motor parts business to grow they must keep up with the pace of technology					
Technology required for SMEs in motor vehicle parts business to grow is readily available					
Slow adoption of technology by SMEs in motor vehicle parts has favoured large firms in the business					

In your opinion, how has adoption of technology affected your motor parts business?

- i)
- ii)

15. Rate your level of agreement to the following statements on the effects of managerial training and expertise to the growth of SMEs in motor vehicle parts business.

Please use a scale of 1 to 5 where 1 is to strongly disagree and 5 is to strongly agree.

Statement	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
SMES in motor vehicle parts manage to sustain skilled employees for longer periods as compared to unskilled employees in the same business					
Lack of managerial skills has affected the growth of SME's in motor vehicle parts business					
Most employees of SMEs in motor parts business have a low education background					
Lack of training employees of SMEs in motor parts business, affects the growth of their business					

In your opinion, what are the other factors related to managerial expertise and training which are likely to affect motor vehicle parts business?

- i)
- ii)

16. To what extent do the following factors affect the choice of SMEs in motor vehicle parts business.

Please use a scale of 1 to 5 where 1 is to no extent and 5 is to a very great extent

Statement	Not at all	To a less extent	To a fairly large extent	To a Large extent	To a very large extent
	1	2	3	4	5
Inadequate finances					
Slow adoption of technology					
Stiff competition					
Lack of managerial expertise and skills					
Government policy					

17. In your opinion, what are the other factors influence business choice of Small and Medium Scale Enterprises of SMEs business in motor vehicle parts business?

- i)
- ii)
- iii)

Thank you for taking your time to respond.