

"FACTORS INHIBITING GROWTH OF MICRO AND SMALL ENTERPRISES IN NAIROBI"

A case study of Ziwani Jua Kali association motor-vehicle sub- sector.

A Research report submitted in partial fulfillment of the Master of Arts Sociology (Entrepreneurship Development) requirements of the faculty of Arts University of Nairobi.

By

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DECLARATION

This research paper is my original work and has not been presented for a degree in any other university.



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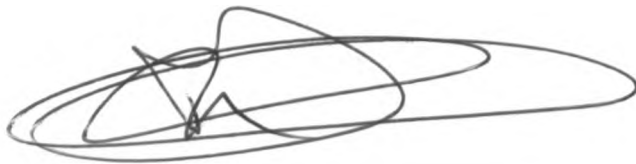
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This research paper has been submitted for examination with our approval as University supervisors.



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DEDICATION

I will dedicate this research to my wife Sally and children who have also given me invaluable support.

Abbreviations and acronyms

ILO	International Labour Organization.
UNDP	United Nations Development Program.
“Jua Kali”	Micro and small informal enterprises.
K-REP	Kenya Rural Enterprise Program.
SIDA	Swedish International Development Agency.
GTZ	German Technical Co-operation.
ODA	Overseas Development Agency.
KMAP	Kenya Management Assistance Program.
MSEs	Micro and Small Enterprises.
UNIDO	United Nations Industrial Development Organization.
MLE	Medium and Large Enterprises.
BAT	British American Tobacco.
DAT	Directorate of Applied Technology.
EPC	Export Promotion Council.
KETA	Kenya External Trade Authority.
DET	Department External Trade.
GEP	Group Entrepreneurship Project.
CE	Cooperative Entrepreneurship.
SBMO	Small Business Membership Organizations.
COMESA	Common Markets for East and Southern Africa.
GOK	Government Of Kenya.
DFID	Danish Fund for International Development.
MFI	Micro Finance Institutions.

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ABSTRACT

The informal sector has been in existence globally for as long can be remembered. However, micro and small enterprises in this sector have experienced numerous problems in Kenya in the last decade. Key to these problems is the inability of these enterprises to grow vertically at the expected rate. Although these problems can be attributed to the economic slump experienced during the period in question, there was a need to establish the causes of these down-turn trend. This research was carried out to establish the causes of this phenomenon.

The main objectives of this research were to establish how technological advancement influences growth of micro enterprises. Another objective was to determine how marketing strategies can enhance potentiality of growth of motor-vehicle micro enterprises. Besides these, the study examined the influence of regulatory policies on the functioning and expansion of micro enterprises. Finally, the study determined the role that social organizations (Jua Kali Associations) in enhancing enterprise growth.

The research is a case study carried out on a cluster of entrepreneurs in Ziwani who are involved in motor-vehicle enterprises.

The research design used is a systematic random sampling. In this design, every Kth respondent was selected after randomly selecting a number between one and four. The Kth number was arrived at by calculating the sampling interval as follows;

$$K = \frac{\text{Population size}}{\text{Sample size}} = \frac{795}{60} = 13$$

A sampling frame was used in the selection process. After selecting the first respondent randomly, every thirteenth respondent was selected from the population frame of 795 until the required number of 60 respondents was obtained.

After a careful analysis of the data collected summary findings were as follows. The level of education acquired by the majority of respondents (43) or 72% of them is primary education. This has hampered technological transfer to this sector because they do not possess the capacity to adapt to the latest technology. Other factors were experience in business, income and acquisition of tools and equipment, which were directly related to technological acquisition. With regard to access to markets, 37 respondents who form 62% of those interviewed admitted that they make no effort to advertise their products but just wait for their customers. This has also retarded growth. Considering the legal and regulatory framework, the study established that 53 respondents or 88% did not pay for business licenses. They cited the reason as being the high costs of acquiring licenses from the local authorities. Associations play a pivotal role in enhancing the growth of enterprises. 38 or 63% of those interviewed agreed that they actively participated in association matters. This participation directly influenced development of their enterprises.

The study recommends that entrepreneurs in the motor-vehicle industry especially at Ziwani should improve their mode of practice if they are to grow at all. They must get further training in skill enhancement so that they can be able to adapt the latest technology which will enable them to advance.

The government should also create a favorable environment that will enable micro and small enterprises to develop. This can be done by formulating policies that are supportive to the expansion of the enterprises. Key to these are the policies relating to rules and regulations which have been too stringent for many years.

Further research on other factors that retard growth of enterprises can be carried out by other researchers. The factors that this study took into account are just a few out of the numerous that affect enterprises adversely. Cost of raw materials proper operating sheds are factors that could be studied.

Chapter one

Introduction

1.0 General background

Micro enterprises have been in existence globally for many decades in developing and developed countries. With particular reference to Kenya, micro-enterprises have been in operation from way back in the pre-independence years without formal recognition. There are two essential elements of the pre-history of micro-enterprises in Kenya. Firstly, the east African Royal Commission of 1953-55, which addressed the restrictions and regulations that affected many areas of colonial African life; ranging from marketing strategies to the provision of credit and licenses to the use of land. Secondly, the 1966 Kericho Conference report in Kenya, which was published as "Education, Employment and Rural Development"(Sheffield, 1967), touched on concern of the rising population of unemployed young people and the need to utilize them in small-scale service industries.

By the year 1972 the concept of the informal sector had been openly disseminated by the ILO's Employment Mission publication. The mission emphasized self-reliance. The mission urged the government to abandon shanty demolition and harassment and substitute these with site-and-service schemes, which would support small enterprise establishments. The 1986, Sessional Paper No.1 on "Economic Management for Renewed Growth" was published. It emphasized "Education and Manpower training in vocational, scientific and technological development". A task force to review policies on promotion of the sector was established. It was charged with the responsibility of formulating a "healthy and regulatory climate" besides promoting an enterprise culture. This task force made inroads in meeting its objectives of creating a healthy regulatory climate.

In the 1989-1993-development plan, the term "Jua Kali" was accepted into a major planning document and one section was dedicated to "development of small scale and Jua Kali enterprises". A project on entrepreneurship was started in 1992; in collaboration with UNDP and ILO, giving rise to project ideas like that, which addressed the "missing middle"- an absence of modern Jua Kali enterprises. In the 1992, Sessional paper No.1 on "small enterprises and Jua Kali development" was launched. This paper confirmed the lack of graduation of micro-enterprises to small-scale enterprises. It underlined the "missing middle" concept and laid down the "agenda for action", initiating business development and enterprise education.

From independence to date; which is 40 years down the line, there has been an integration of ideas and policy. What was originally considered to be foreign enterprise ideology has now become locally owned enterprise development. The donor community has played a key role in the small enterprise policy and development process. Some of the organizations involved in this area are the K-REP, ILO/SIDA, GTZ, UNDP, ODA, Action AID ,KMAP and Undugu Society. These organizations have over the years been

involved in training on skill-upgrading, building of “Jua Kali” sheds and formulation of policies tailored towards the support of small enterprise growth.

Micro-enterprises, especially those operating outside the formal structure, were always perceived in the public eye to be ‘crude’, and associated with ‘poor quality products and services’. That attitude has now changed and the perception has become that of ‘organized and a creator of employment opportunities’. This shift in attitude was to some extent prompted by the shrinking of the formal sector. The shrinking was brought about by the Structural Adjustment Programs by the Bretton Woods institutions; (McCormick, 1999) highlights these factors. She says that the micro-enterprises provide employment to a majority of Kenyan peoples in the rural and urban areas. According to the study, the majority of labor force produced in Kenya in 1995 was engaged in informal enterprises i.e.250, 000 out of 500,000 entrepreneurs (Daniels et. al. 1995). Projections indicate an increase in the employment in the informal sector as follows; 439,000; 870,000; 1,321,000; 2,366,000; for the years 1990; 1996; 2000; 2010,respectively. Clearly therefore, the majority of the Kenyan labor force is engaged in informal employment (McCormick, 1999). Bearing in mind the importance of these enterprises in the development of various sectors of Kenya, it is imperative to nurture and enhance the growth of the enterprises in order to subsidize our economy, which has been in financial doldrums for the past decade.

1.1

Statement of the problem

For the last ten years, the Kenyan informal sector has experienced a high negative growth rate of the micro-enterprises. A baseline survey carried out in 1993 and 1995(Mullei 1995) indicated that there were 910,000 MSEs employing up to 2million people and 708,000 MSEs employing 1.2million people, respectively. This was a clear indication of a drop in the number of enterprises and employment capacity within the two years in question. This study tells us that the drop implied the possibility of mortality of enterprises. In 1999 another baseline survey was carried out. The findings of this survey showed that there were 1.3 million MSEs employing 2.4million people. This increase is however not as per the expected margin considering the number of years in question;1995-99. This is an indicator of stunted growth. These figures, especially between 1993 and 1995 portray a picture of negative growth. This is the crux of the problem. The study will look into the real issues that influence the negative growth with a view to offer solutions.

Most firms begin small and remain small(McCormick: 1993). This characteristic of remaining small is an indication of stunted growth. The inability to grow can be attributed to the use of simple technology to produce basic and often low quality goods and services for the domestic market. Another reason for wanting to remain small could be that firms shy away from having to incur the costs of paying for licenses and other

legal requirement associated with the larger firms. These costs often discourage enterprises from expanding and keeps them small. This characteristic is more prevalent in urban centers where MSEs are required to pay legal fees to the local authorities. It would be intriguing to find out if the benefits accruing from evasion of taxes outnumber those arising from graduation of enterprises from micro to small or small to medium.

In this research study, the context of growth is meant to imply the inability to expand in size/capacity and not only the increase in numbers. An issue that has not been effectively addressed is that of expansion. This study is tailored to establish relationships that exist between the above-mentioned drop in numbers as indicated in the 1993-1995 survey and the inability of MSEs to graduate into medium and large enterprises.

Current trends in the informal sector indicate that the formal sector is shrinking considerably fast. For the past decade, there has been a noticeable decrease in employment in the formal sector. This decrease has necessitated the shift of employment of the majority of Kenyans from the formal to the informal sector. The Bretton Woods institutions are partially to blame for the slow growth of enterprises due to the conditionalities that they have imposed on developing countries. The restructuring programmes that were implemented from the early 1990s to the present time have had an adverse effect on the employment in our country. There has been a slump in employment opportunities in the formal sector which has in effect necessitated the shift of employment to the informal sector.

The problem in this study therefore was to establish why micro and small enterprises are unable to graduate from one level of development to another, i.e. micro to small or small to medium.

1.2 Research objectives

1.2.1 General objective:

The broad objective of this study was to determine whether there is contraction of motor-vehicle and other related sub-sector micro-enterprises at Ziwani in Nairobi. The study investigated the rate of contraction or expansion of small enterprises in the motor-vehicle sub-sector and determined the causes of their inability to expand at the expected rate. The study then suggested the necessary interventions to be instituted in order to revive or resuscitate the declining growth rate.

1.2.2

Specific objectives:

The specific objectives which were the main focus of this study are as listed below.

1. To find out the determinants of technological advancement on growth of motor-vehicle micro-enterprises in Ziwani.
2. To study the influence of marketing strategies on the growth potentiality of the said motor-vehicle and related sub-sectors.
3. To examine the influence of regulatory policies on the functioning and expansion of micro-enterprises in the said location.
4. To determine the role played by social organizations (Jua Kali Associations) in enhancing enterprise growth at Ziwani Jua-Kali Association.

1.3

Justification

Given the importance of the informal sector in the employment creation for the majority of Kenyans, it has become necessary to carry out this study now. The slow graduation rate of micro-enterprises may be an indicator of a large mortality rate, but this is highly hypothetical. It's therefore very imperative to carry out this study and offer an understanding of the impediments to growth. Past studies have always pointed towards lack of finance as the key cause. However this has proved not to be the real cause because even government interventions have not hitherto enhanced growth. This study will therefore attempt to determine what factors are responsible for this phenomenon.

Kenya's development policies have emphasized the importance of the informal sector in creation of employment for the youth. The majority of unemployed Kenyans ,who happen to be the youth, fall in this category of job seekers. If this sector does not grow, the majority of the unemployed, whose lifeline depends on the small enterprise industry will suffer greatly. This scenario will lead to reduced employment and decreased economic growth thereby enhancing poverty.

The out come of this study will be used by stakeholders (private, public sectors and the entrepreneurs) to enable them to formulate the right policies that will create an enabling environment for the thriving of MSEs.

1.4 Scope of the study

This study will be confined to the MSE cluster located at Ziwani geographical area. This will be a case study and for the reasons of limitation of resources the site is considered to be adequate for purposes of this particular study. The site is also considered to be typical of all the Nairobi motor-vehicle MSE clusters because it comprises of various related manufacturing and service trades like metalwork, spare-part fabrication, and sale of spare parts.

1.5 Definition of terms

Micro-enterprise—In context, this term will mean an undertaking (business or manufacturing with 1-5 employees.(Mullei:1999).

Small –enterprise—This term will imply an undertaking with 6-10 employees.

Medium-enterprise—An enterprise employing between 11-50 workers.

“Jua Kali”- The 6th Development Plan of Kenya small scale enterprise as “Jua Kali”.

This term was derived from a Kiswahili language meaning “hot sunshine” because the entrepreneurs used to work under adverse conditions without sheds or formality.

Growth---In this study, growth will imply the following;

- a) increase in number of employees i.e. graduation from micro to small or small to medium enterprises.
- b) capacity to employ requisite service, repair and manufacturing technological skills.
- c) ability to access regional and global markets for their products and services.
- d) ability to reap the benefits of collectivity or association by subscription.

Chapter two

Review of literature

2.0

Introduction

Literature was reviewed in line with the research objectives so that there is consistency and flow of objectives. The review was organized under 4 main themes. The first one started by analyzing how technological innovations influenced the growth of micro-enterprises in the said sub-sectors. The second theme embarked on studying the marketing strategies employed by entrepreneurs that might have an effect on expansion of enterprises. Thirdly, influence of laws and regulatory policies on the growth of enterprises were examined. Finally, the review synthesized the roles played by social organizations (Jua Kali Associations) in enhancing small enterprise growth. The review analyzed the works of various authors, what contributions they have made to the study themes and what gaps they have left. These gaps formed the basis of this particular study. Mention was made on where these gaps were identified in the review and what contribution was made by the study to fill in these gaps as the review progressed.

2.1

Influence of technology on expansion of MSEs.

Technology is a multi-faceted study that cannot be reduced to a mere hardware or machines. Rather, it involves knowledge embodied in hardware, persons, organization and cultural practices. It is a body of knowledge about techniques, methods, processes and designs. Today, societies change and develop through generation and application of technological innovations. The indicator of technological development of a country is determined by the level of its industrialization. Unfortunately, Kenya still relies heavily on its imported technology (Kaane: 1999). The author asserts that there is a need to combine human skills, information and organizational structure if growth is to be realized. He argues that limited access to technological information, technical services (Total Quality Management, patenting, packaging), lack of innovation, weak linkage between SMEs and MLEs, lack of entrepreneurial skills lead to the slow growth of enterprises.

However, he has failed to lay emphasis on lack of appropriate technology, which seems to be a big problem at Ziwani. Motor-vehicle technological advancement is a very dynamic factor. These entrepreneurs at Ziwani, for reasons that were researched had not effectively embraced these changes. The United Nations Industrial Development Organization (UNIDO) set up a training facility for technical skill development at Ziwani. This facility has not been effectively utilized and so its purpose still remains elusive. This study endeavored to determine why such a facility which is on site is not achieving its objectives. The equipment at this facility are high quality automotive repair machines which could effectively assist in the required technological skill transfer. The project had envisaged that the facility would offer appropriate technological skills to the

employees and owners of enterprises at the site on part-time basis. As it has turned out, recruitment of trainees has been elusive. This study made an attempt to establish why trainees are unwilling to join the training program. This study also attempted to establish whether the recruitment and training exercises are meeting expected objectives.

Appropriate technology today embraces an approach to the management of technical change, which is participative in the use of resources, knowledge and skills of the people involved (Jeans:1999). Jean defines technology as a process involving the combination of technique, knowledge, organization and product. He says that much of the existing technology available in our environment for micro and small enterprises is either insufficient to produce quality products that can enable them to break into new markets.

However, this writer leaves one gap. He does not tell us whether these technologies are appropriate for our consumption. Technologies, whether in hardware or software form are not in themselves sufficient to enhance the growth of our micro-enterprises. This study went further and established whether there is not enough capacity to utilize the available technologies within the context at the Ziwani Jua Kali Association.

Rapid technological changes will affect modern sectors in developing countries and exclude them from the benefits of such a change (Bannet: 1995). He emphasizes that market forces alone in a liberalized economy, will not deliver the technologies that the poor need fast enough to prevent the widening gap between the modern sector "included" and the traditional sector "excluded". In the simplest terms this has to do with appropriateness of the technologies in our set-ups. He says most technologies are developed to suit the needs of western industrialized countries and hence embraces an approach where skills and experience of the "excluded" are combined with those of the "included" in an effective way. This makes the approach holistic or participative. Bannet's approach is applicable to the Ziwani case which can be considered as the "excluded". The Ziwani cases cannot be able to effectively adopt to the rapid technological advancements from the developed countries. This puts them at a disadvantage. Unless these entrepreneurs adopt to these dynamic inevitable changes, they will lose out on the benefits accruing from these changes.

Technologically, micro-enterprises in the developing countries are characterized by limited technological resources for innovation, adaptation and dissemination, poor communication systems, non-supportive policy environments and uncertain markets(Marcelle:1995). Whether this stand holds true for the technological adaptation in our micro-enterprises in Nairobi (Ziwani) motor-vehicle and related sub-sectors is a big challenge. This study attempted to unravel the mystery behind the inability of enterprises to grow and the development of these sub-sectors. The writer does not tell exactly which developing countries he is referring to and we cannot therefore assume this blanket statement will apply to all. However, the micro enterprises at Ziwani for sure lack appropriate technological resources, communication and dissemination strategies to assist them to adopt. This study concentrated on how best to strategize and acquire the necessary technological innovations. These strategies are suggested for developing countries and Kenya happens to fall under the category of these developing countries.

But even so, there was a need to establish whether they apply in entirety to the set-up of Ziwani mechanical sub-sector or just partially and if so which factors were applicable to our set-ups.

Technological linkages between the formal and informal sectors enhance enterprise growth (United Nations, 1996). The book further asserts that this may take place as a result of movements of skilled workers and other exchanges of knowledge. This may include transfer of advanced technological skills or equipment from the formal to the informal sector. This helps bridge the technological gap between the formal and informal sectors. In Ziwani, most of the enterprises are made up of entrepreneurs who have presumably moved from the formal sector as a result of retirement, retrenchment or other related reasons. The knowledge, skills and technology are hence supposed to be effectively transferred to the informal establishments. Transfer of these technologies has not been effective in practice as established by this research study at the site where a good number of the enterprises have either owners or employees coming from the formal sector but not having transferred the technology.

2.2 Marketing strategies that enhance growth of MSEs.

Micro-enterprises in general are faced with a myriad of constraints that inhibit their growth. One of these is the lack of market for their products and services. Unless there is appropriate response to market demands by our enterprises, they are bound to have stunted growth or go out of business altogether. This is outlined in the Sessional Paper No.1 of 1986.

Sessional Paper No.1 of 1986, "Economic Management for Renewed Growth" sought to provide mechanisms for disseminating information on market opportunities and appropriate production methods for small-scale manufacturing.

Subsequent to this paper was Sessional Paper No.2 of 1992. It proposed efforts by Government to focus on stimulating research based on proper needs-assessment, identification of markets and the use of appropriate technologies. The Government was to use its machinery to implement these programmes. Among these it would use public procurement and regulations to help SMEs find product markets, carry out market surveys in business and provide market support services.

However according to this paper, there were flaws in these policies. The implementing agencies were not clearly defined and the necessary interventions were not provided. There were no proper follow-ups to ensure fully implementation. In addition, there was a clear narrow product range among various MSEs, which led to cut-throat competition. Product design was very poor. There was a weak sub-contracting arrangement. Sales were low due to lack of market research. This study established that all of these factors also inhibit the growth of micro-enterprises in Ziwani Jua Kali site. Many of the Government initiatives in Jua Kali development have often been slowed down due to poor implementation. The policies are right but implementation is not forthcoming. This

study looked into issues of lack of implementation as a gap in the proposed government initiatives. It was intriguing to establish that the government has good policies and yet cannot be able to implement them effectively.

To accelerate the development of a market-oriented culture, new initiatives are required (Gachugi: 1994). Public attitudes towards SMEs and the reasons for them should be examined and efficient interventions aimed at modifying perceptions should be identified and implemented. This author also brings to light the existence of the National Trade Promotion Programme which comprises of various institutions. These institutions provide information on markets and documentation. Some of these institutions are; the export Promotion Council, Kenya External Trade Authority and the Department of External Trade. British American Tobacco(B.A.T), in collaboration with the Directorate of Applied Technology(DAT) do organize annual exhibitions to sell Jua Kali goods and services. An overall evaluation of achievement of these exhibitions are however in question. Results of achievement are minimal because exhibitors only target the volume of exhibits sold whereas the objective of exhibitions are; business continuity, market retention, appointment of agents and business sustainability.

This study focused on the marketing strategies employed by entrepreneurs at Ziwani with a view to analyze their potentiality in enhancing market and growth as opposed to this author's study which tends to indicate little achievement of intended purpose of the exhibitors. This is another study gap this study pursued.

Marketing strategies must provide a unique selling proposition besides providing rewarding programs (Gerson: 1994). These strategies must also provide community services and promotion programs. On offer also should be product samples and price discounts. These services are hopefully the incentives to business growth of enterprises. These marketing techniques, may work in an environment where the entrepreneur has resources for providing these incentives. They may not be entirely applicable to our Jua Kali enterprises where most workers just want to get an income for the 'daily bread' or subsistence. This research study will tried to fill this grey area which the author has created. Entrepreneurs in Ziwani cannot provide the type of incentives suggested by this author. For one, they are struggling to keep afloat amid the cut-throat competition from more established formal enterprises. However, he is not entirely wrong. They can be able to provide incentives except the type of incentives they can provide are in terms of good quality services and reliability. The study developed questions that provoked answers that can le to incentive development and promotion programs appropriate for the business set-ups at Ziwani.

According to (Tran:1999), the term "marketing" is usually associated with advertising, promotional and public relations activities aimed at selling a product, service or concept. Another aspect is customer behavior analysis which enables one to develop products and their differentiation according to client needs and an aggressive outreach program.

Marketing is an attempt to raise client awareness about the institution and the product offerings. To emphasize, the last point on outreach tends to be lacking at the Ziwani

MSEs. The entrepreneurs just expect that customers will patronize them; they have not made deliberate initiatives to sell themselves in the market. In this study an attempt was made to establish whether owners of the enterprises make any initiative to sell their products. In order for them to succeed, they must initiate aggressive outreach programs.

With constant communication higher sales volumes are realized(Onyango:1988). This author is the Coordinator of 'Ziwa Creations' an organization that offers market development services in Kisumu and its environs. She says that her clients, the entrepreneurs, realized higher volume sales through contract sales. However, she concedes that little progress has been made in exploiting export markets due to constraints like pricing, quality realization and meeting of deadlines. She views competition to the products of her clients as arising from the private sector and the International market at large. Marketing services offered by Ziwa creations is a fine concept, which can be adopted by Ziwani motor-vehicle and related sub-sectors to market their products. This study incorporated Ziwa' strategies to enhance growth. Ziwani enterprises have allegedly made contracts with other organizations in order to market their products and services competitively. There can be no breaking-even in a liberalized market without a proper contract marketing strategy. It's important that these enterprises put in place mechanisms that can assist them to make these contracts and harness the required market.

Moreover, the clients for Ziwani are mainly individuals. Ziwani products and services are of comparatively lower quality with limited variations as compared to established formal organizations. The demand for these goods is decreasing as consumers gain access to higher standard goods from formal competitors. Thus, although the potential market continues to grow with the increasing population, the size of the market being served may be shrinking. This study established that these goods and services can be able to acquire scale economies with the current liberalized market structures.

2.3 The necessity of an enabling legal and regulatory framework for operations of MSEs in Nairobi

Excessive regulatory constraints inhibit business competitiveness worldwide. They impose unnecessary costs that frustrate entrepreneurs, hamper innovativeness, deter investment and minimize opportunities for employment creation. An enabling environment for micro and small enterprises must be provided if Kenya's needs for growth and employment opportunities are to be met effectively and sustainably (Karingithi:1998). An important part of creating such an environment is the removal of legal and regulatory obstacles. The Government's commitment to creating an enabling environment was emphasized in the Sessional paper No.1 of 1986 on Economic Management for renewed Growth. The paper recommended that a task force be appointed to review all policies and local-Authority by-laws governing informal sector activities, to create a healthy legal and regulatory climate for informal sector activities by eliminating unnecessary constraints. Recommendations were made for an appropriate scale of licensing fees and protecting hawkers and other business practitioners from over-zealous policing. In 1992, Sessional paper No.2 was published. In the paper, relevant

ministries were instructed to review licensing arrangements with intent to relax them. They were also required to undertake a comprehensive analysis of the relevant act with a view to make them MSE friendly.

The Development Plan of 1989-1993 the Government declared that it would speed up the already initiated review of the local authorities by-laws that had proved to be restrictive to the development of MSEs. Other subsequent commitments were made by Government in form of Development Plans and Budget speeches to ensure the creation of this enabling environment. However, all these interventions remain good as far as documentation is concerned but elusive when it comes to implementation. MSEs in Kenya continue to suffer from the effects of evictions and damage and loss of their properties by the local authorities up to the late 2002. It's only this year,(2003) that we have witnessed minimal forceful evictions of hawkers from city streets and a commitment from Government to allocate them designated streets to operate from at specified times. The President himself, in his opening speech of the ninth parliament (19th Feb.2003) reiterated the Government's commitment to create a friendly legal and regulatory framework for the micro and small enterprises. This in itself was proof of the fact that such a suitable environment did not exist.

This study established how the legal and regulatory framework affects the entrepreneurs in Ziwani. It is peculiar in the sense that these entrepreneurs have a site for their operations issued to them by the former President of the Nation. It was intriguing to study why enterprises, like the ones at Ziwani which are provided with the necessary infrastructure still show tendencies of retarded growth. It's for this reason that this study endeavors to establish if the negative growth rate is a factor of a skewed legal and regulatory framework.

Problems created by bad regulation can take the form of higher costs, wasted time and energy, restrictions on choice, inflexibility, stifling initiatives and missed opportunities(Gitu:1998). The author, says in his article that adverse regulation leads to stifled growth and higher unemployment. He proposes that good regulation is achieved by having simpler rules and regulations. These rules should always be objective. Regulation should motivate innovation, growth and competitiveness in performance. The author feels that in order to design an effective regulatory framework. Good regulation can be achieved by consultation with relevant departments, choosing relevant goal-based regulations and carrying regulatory impact assessment. Having done all this, the author moves to the stage of implementing and enforcing regulation. This is the most important part of the process of regulation. Unless regulations are adhered to by enforcement, they remain elusive. It becomes imperative to enforce regulations for them to be of any use to an organization. This author leaves a gap which is critical to the development of these regulations. This gap is the enforcement of these regulations. You cannot easily enforce regulations unless the users accept them and are involved in developing them from the word go. In the case of enterprises in Nairobi, most of the by-laws constituted by local authorities are too adverse for the enterprises to adhere to. The end result is that they attract confrontation and non-compliance because entrepreneurs are not involved in developing them.

Micro finance institutions (MFIs) should not accept deposits from the public (Dondo:1999). Central bank regulation and supervision of MFIs would most likely stifle rather than foster the growth of micro enterprises in Kenya. The author says that commercial banks should provide banking services to the micro and small enterprises without explicit regulation. They should encourage self-regulation and barriers to entry into the enterprises should be removed. Most of the MFIs have not made an impact in MSEs. The reason is that these MFIs have very punitive collateral requirements which make them unattractive to the MSEs. This could be one of the reasons that MSEs are unable to grow vertically. Unless there is a change of attitude by MFIs to ease the collateral requirements for borrowing by MSEs, growth will remain elusive. The author did not effectively address the issue of collateral requirements which have become the undoing of MSEs.

There are three major interventions to be adopted in enhancing growth of MSEs (Karingithi:1999). She talks of streamlining trade licensing, accessibility to workplaces and land tenure. All these interventions either directly or indirectly affect micro and small enterprise development. With regard to Ziwani MSEs some or all these factors affect their growth potentiality. This research study through the research objectives established the gaps that have not been addressed by these interventions and determine which factor or combination of factors were causing the retardation in growth. With regard to Ziwani, the issue of land tenure and workplaces does not arise because they possess security of tenure and have licensed workplaces. The study therefore attempted to establish why this negative growth trends were inherent. Study objectives were developed and provoked answers explaining this mysterious phenomena.

2.4 The role of social organizations in growth of MSEs.

Various studies have been done on the role played by social organizations in the growth and development of MSEs. In the case of MSEs in Ziwani these organizations are popularly referred to as 'Jua Kali' Associations. One author (Schmitz:1998) asserts that clustering or formation of organizations bestows advantages of collective efficiency of MSEs. With clustering benefits such as joint actions and external economies of proximities can be realized. He came up with an approach to overcome deficiencies in growth dubbed 'Triple C' which stands for Customer-orientedness, Collectivity and Cumulation of the benefits of clustering. The first C means that services originating from enterprises must be based on a needs-assessment carried out on needs of customers. Products must suit needs or demands of customers. The second C, collectivity implies the reaping of benefits realized by collective functionalism. The third C cumulation means that enterprises develop a sustainable cumulative capacity to be self-reliant. Different skills are pooled together and so the end-user can consume the desired skills by choosing from the pooled skills. In addition to the 3 Cs, the author also highlights the importance of networking. He likens collectivity to networking. Efficiency is realized where there exists an Association or collectivity of people with a common purpose.

In this research study, efforts will be made to determine why there is slow growth of enterprises in Ziwani notwithstanding the fact that Associations have operated since the inception of the 2 sites. Ziwani Jua Kali site enjoys a combination of the benefits of the 3Cs. Why then is there an evident slow growth rate of enterprises at the site? It was interesting establishing why these trends exist and yet the site enjoys the benefits of group collectivity. This study will attempted to prove the directional hypothesis on collectivity enhancing growth.

Group entrepreneurship is not just about maximization of profits but rather security in the form of strengthened social bonds(Bogaert:1992). He gives it a functional definition. He perceives it as a set of functions, roles and characteristics shared not only amongst individuals, but also between different agencies and groups which are directed towards the same objective. He likens the group to an organization controlling its own members' activities, with a minimum of interventions from the higher authorities. Group entrepreneurship however poses many challenges; maintenance of solidarity in groups and eradication of individualism. At individual level, the idea of saving which is inherent in groups does not exist. Other challenges posed are the definition of tasks and reporting relationships and the shifting of government assistance from individual to group-based approach. These issues are pertinent in this research study. This author has given them a very functional approach. In Ziwani, functions inherent in the organization can be shared by group members at individual and group level. Experiences, skills and roles can be shared amongst individual entrepreneurs in a bid to enhance growth of enterprises. What remains elusive however is the understanding of why there is no evident vertical growth of MSEs at Ziwani. Group entrepreneurship does exist from the inception of manufacturing and business undertakings here. This phenomenon may be caused by other factors.

The high failure rate of small business start-ups proves that entrepreneurship requires considerable technical skills beyond the realm of micro enterprises and self-employment(Hansen:1996). Too often, programs used to stimulate survival rate of micro enterprises are limited to provision of incentives, infrastructure and markets. So what is the missing link? It therefore calls for these entrepreneurs to acquire skills as a group and not at individual level. Arising out of this concept are two models; Group entrepreneurship projects(GEPs)-gives individual entrepreneurs a group bargaining position and Cooperative Entrepreneurship(CE)-which arises from maturation of GEPs. It uses concept of economic democracy to address employment needs besides failure-prone individuals-*laissez-faire* (indifference) approaches. They encourage network developments, group developments and formation of associational federations. GEDs are appropriate for the development of Co-operative entrepreneurship level of enterprise development.

Ziwani Jua Kali association has adopted both models but they still portray traits of stifled growth. This study addressed this undesirable phenomenon. The associations are registered and are operating under the umbrella of the Kenya National Federation of Jua Kali Associations. At the group level they operate as Jua Kali Associations whereas at the

National level they subscribe to membership to the Federation . The big question is why no substantial growth is realized even with the clustering. The study established that individual entrepreneurs were involved in the formation of the Associations voluntarily or by coercion.

Clustering is defined as Small Business Membership Organizations SBMOs- (Havers:1995). They are seen as being characterized by ownership by small business managers, serving collective interests of its members and having some legal identity. However, he says that larger SBMOs did not serve needs of their grassroots members as effectively as the smaller ones did. The general feeling is that donor funds should make SBMOs need-driven rather than resource-driven. He discovered that the quality of an SBMO office bearer is a key influence on the effectiveness of the organization. SBMOs should be run by members and not by donor influence and the smaller the SBMO, the more self-reliant it will be.

Donor support to SBMOs in Kenya often fails because of too much support for a single organization like in the case of Kenya where donors give too much support to the federation at the expense of the smaller Jua Kali Associations. Donors have always assumed that supporting the umbrella organizations will have a trickle-down effect on the individual Associations but this has not been realized.

2.5 Theoretical framework

2.5.1 Social systems theory

This study was grounded on the social systems theory. The main proponent of this theory was Talcott Parsons(1902-1979). Parsons was a renowned sociologist in the area of functional theory in the 1930s-1960s. Parsons' theory proposes that social systems are perceived as an organism with different parts that function to make a whole.

Figure1 is a model or representation of the Parsonian theory of an organism with its constituent functional parts that work in unison and coordination. Each part plays a different role but together the roles coordinate to enhance cohesion and enable the organism to function. In sociological studies, these functions are interrelated and interdependent. If one of the parts of the organism is not functioning well, it induces a dysfunction in the whole organism.

Dysfunctions on the other hand threaten social cohesion, transformation and even existence of a system or organism. It's therefore necessary for the system parts to work in unison and coordination.

In this study, an assumption was made that the Jua Kali enterprise operates like an organism with constituent functional parts. The constituent parts are deemed to be the four main projected interventions that are lacking to enable entrepreneurs to expand vertically. The lack of one or more of the interventions causes dysfunctions in the operations, thus inhibiting the growth of enterprises.

There are many aspects of functionalist approach. These are; interdependence, equilibrium and evolutionary change. Functionalism attempts to explain the relationship of different parts of the system to each other and to the whole. The different parts are usually in equilibrium, or moving towards the equilibrium, with consensus rather than conflict governing the interrelationships of the various parts. In the process evolutionary changes do occur. These changes however, should not be so rapid that they may induce revolutionary changes which may lead to breaks in the system or organism.

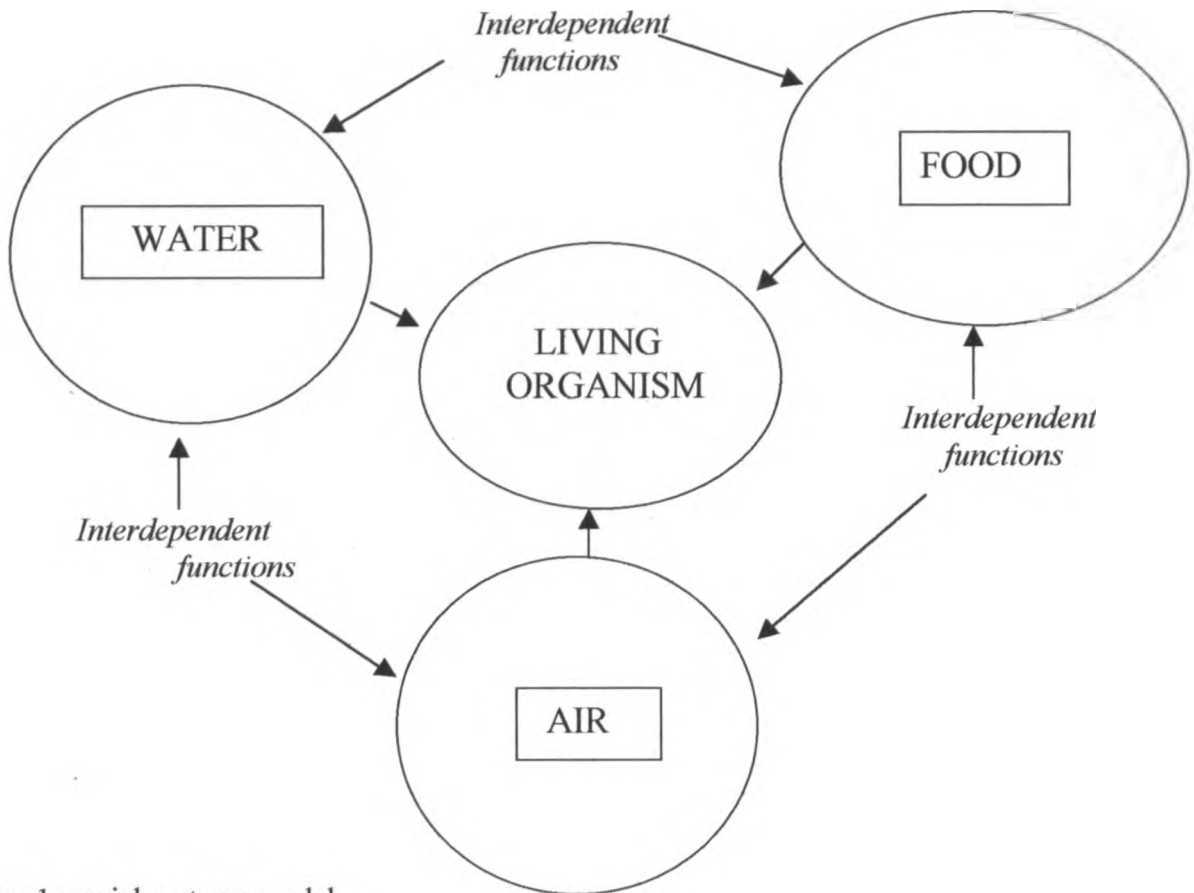


figure 1 :social systems model

SOURCE: Developed by researcher, based on the systems theory

2.5.2

Conflict Theory

The systems theory cannot however apply in complete and exclusive isolation. The reason is that the association interacts with other associations within and outside of Ziwani. According to Karl Marx and Abraham(1962) there are two broad categories of conflicts; endogenous(within the system) and exogenous(between systems). In the case of Ziwani there is bound to be conflict due to competition with other motor-vehicle repairers

for same clients. Applying the systems theory to the association without considering outside influence from other competitors would not be justifiable. Due to this influence arising from other similar associations, there is bound to be conflicts due to competition for the same clientele. Not only is there competition between Ziwani and similar associations but there is competition with formal established organizations like Toyota Kenya, D.T. Dobie and Marshalls. Conflict comes about as a result of conflict of interest between the Ziwani entrepreneurs and similar organizations competing for the same clientele.

2.6

Conceptual framework

Arising out of this theoretical construct, the research study has come up with two conceptual models; the pre-interventionary and post-interventionary models. Out of these two models, the study has attempted to provide an explanation that will link the hypothesized pre-interventionary causes of stunted growth and the post-interventionary measures that are expected to provide projected solutions. The reality on the ground as indicated in the literature review has shown that MSEs in Nairobi have tended to remain small. With the shrinking of the formal sector in the last decade we would have expected rapid vertical growth in the informal sector. The theoretical perspective and conceptual models will form the basis of the pre-research hypothetical explanation. The research findings will provide an explicit and comprehensive explanation after the data analysis. This study has provided models (as in the figures 2&3) that will help in understanding the phenomenon of stunted growth of enterprises. The first model highlights the hypothetical causes and consequences of this negative growth and it is termed the pre-interventionary model. The second model is called the post-interventionary model which is projected to provide a perspective of what the interventions will provide as possible solutions to the projected problems.

2.6.1

Conceptual Model

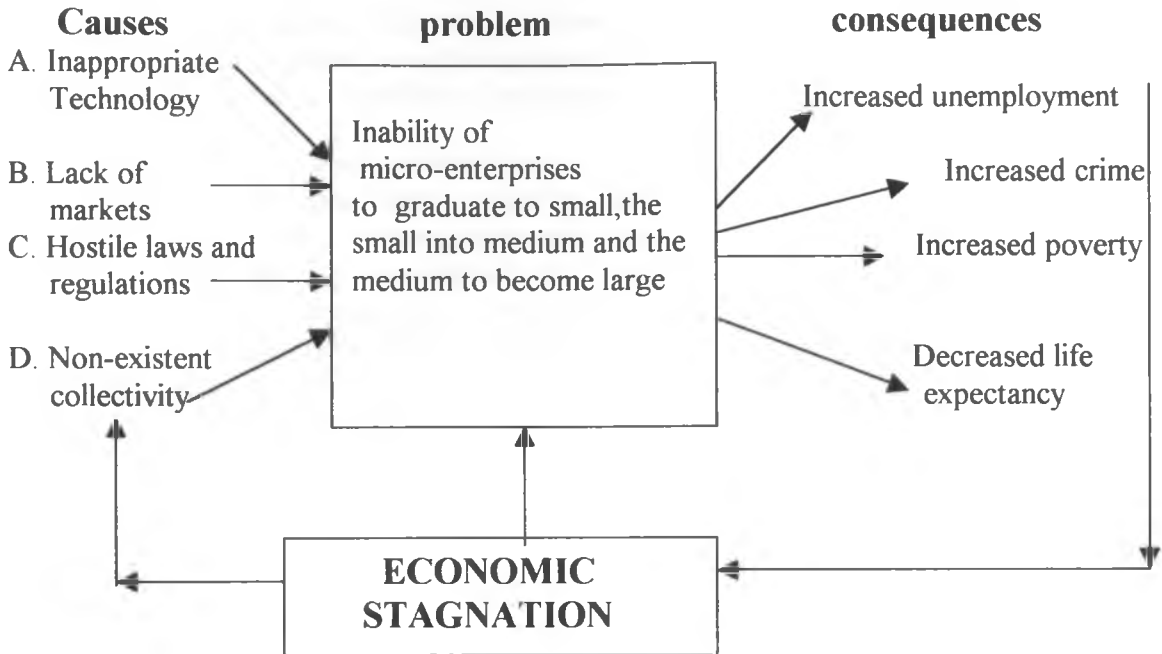


Figure 2
Pre-interventionary model

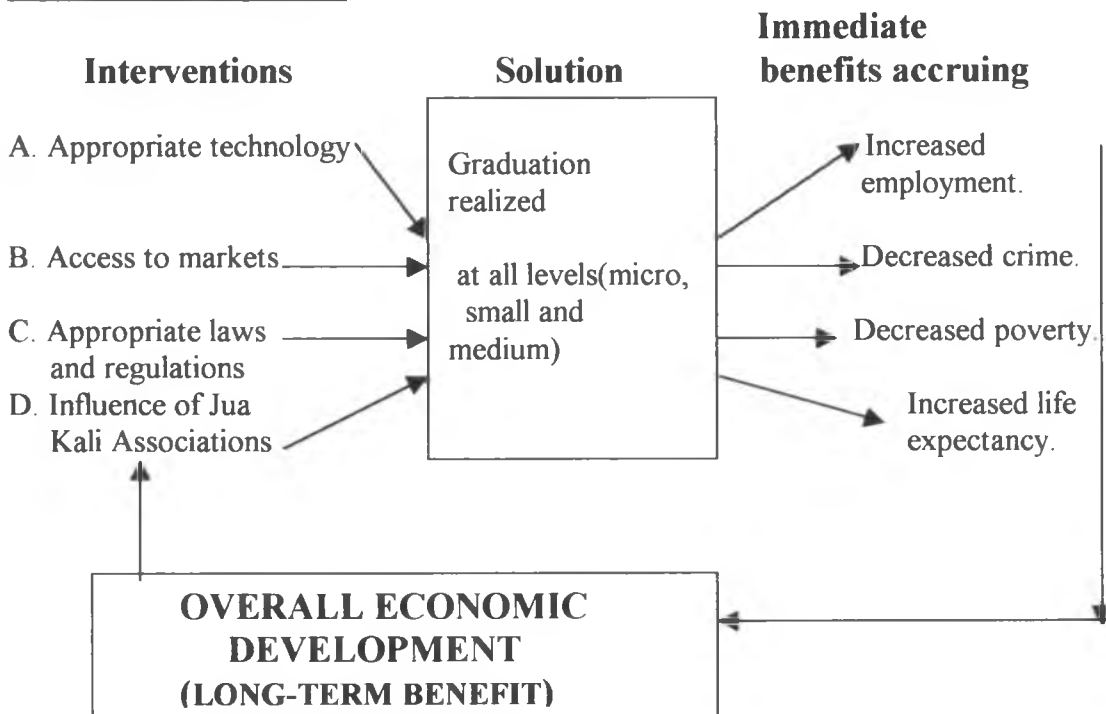


Figure 3
Post-interventionary model

Source: developed by the researcher

2.6.2 Interpretation of the conceptual models

The conceptual models in this section explain the relationship between causes (independent variables) and the consequences (dependent variables) and how they are linked to the problem of inability of enterprises to grow.

Figure 2 shows the pre-interventionary stage where the problem is micro enterprises are unable to graduate to small and in turn the small are unable to advance to medium enterprises. The causes of this problem are inappropriate technology, lack of proper markets, non-existence of associations and an adverse legal framework. All these problems have their consequences. When all these interventions are lacking in an enterprise environment, they lead to the following consequences. The first consequence is increase unemployment. Increased unemployment leads to the undesirable poverty. It is a well known fact that when people are poor they'll look for a means of survival. Due to the poverty they will conceive evil schemes to make money. The unemployed who usually happen to be idlers will then engage in criminal activities. Poverty will also lead to malnutrition which in effect lead to decreased life expectancy. The overall effect will be economic stagnation.

Figure 3 attempts to explain the post-interventionary scenario. After the appropriate technology, access to markets, a friendly legal framework and the influence of associations have been instituted, benefits associated with them are then reaped. There will be increased job opportunities. Graduation of enterprises will occur at all levels and the result will be a drop in the rate of crime because more people will be employed. More people will have money in their pockets and so poverty goes down. People will afford quality food and so malnutrition will drop drastically. The overall benefit of this interventions will be enhancement of the economic development of the country.

2.7 Variables In The Study

This section gives the functional definition of the variables under investigation. The variables under study have been listed on the left column below while their functional definitions are given on the right column. The definitions relate entirely to what the study has perceived as the most appropriate functional definition.

Variables	Operational Definition
1. Technology acquisition _____	(i) adoption of technical skills through training. (ii) application of technical skills by use of appropriate tools and equipment in service provision and manufacture. (iii) assimilation of appropriate technological skills through IT.
2. Access to markets _____	(i) application of appropriate marketing initiatives like sales promotion, exhibitions shows and fairs.

- (ii) accessibility of regional and global marketing through the website.
3. Appropriate legal regulation _____ (i) compliance to laws and regulations.
(ii) an appropriate legal framework.
4. Membership to social associations _____ (i) subscription to social organizations.
(ii) social welfare initiatives.
(iii) sub-contracting with other associations.
5. Level of investment _____ (i) type of tools and equipment acquired.
(ii) type of shed constructed.
6. Level of income _____ (i) amount of money earned in a month.

2.8

Summary of literature review

From the above literature review, some key areas were identified for the research to zero in on. These 'key areas' or 'gaps' are as explained below.

With regard to technology, the main gaps that were not addressed effectively by the literature touch on appropriateness of the technologies that are being applied at Ziwani. Technology whether in hardware or software form may or may not be appropriate depending on how it is being applied. Most enterprises which have tried to adopt certain technologies in Ziwani have found it elusive because it was not appropriate. In some cases the right communication and dissemination strategies have not been applied.

When we consider the market accessibility the main gap identified was that the issue of quality of goods and limited variation have not been effectively addressed by the available literature. This gap is may be the reason behind the inability of enterprises' inability to access regional and global markets.

Considering the legal and regulatory framework it becomes clear from the literature review that the gap left is that entrepreneurs are not effectively involved in the formulation of rules that govern the running of enterprises. This has in effect created a problem of compliance by the entrepreneurs.

With respect to collectivity or association, the gap identified was that the effective involvement of members in formation and subscription to the Associations does not exist.

In summary these are the gaps identified that were not effectively addressed by the literature review.

Chapter three

3.0 Research Methodology

3.1 Introduction

This research explored the relationship between access to technology, marketing strategies, regulatory policies and the influence of social organizations in the growth of micro and small enterprises. Use was made of the primary data collected from Ziwani. Collection of data was done by use of interview schedules which were administered on a face to face basis.

3.2 Research design

The research was a case study which involved the collection of primary data. The research design used was a systematic random sampling technique. This method required a sampling frame and for this particular cluster it was available. Data was collected from respondents who were selected as follows. A number between one and four was selected randomly. After that a selection interval was arrived at by dividing the population size by the sample size as below. The sampling interval is called K.

$$K = \frac{\text{Population Size}}{\text{Sample Size}} = \frac{795}{60} = 13$$

Therefore the Kth number was 13. After the first random number between one and four was selected, thereafter every 13th number was selected from the frame until the required number of 60 respondents was obtained.

3.3 Primary data

Primary data was collected from a sample of entrepreneurs and from key informants. The two key informants were people who are well versed in the in micro and small enterprise development. The key informants interviewed were the National chairman of the Kenya National Federation of Jua Kali Associations which is an umbrella support organization. Secondly, the researcher interviewed the Chairman of Ziwani Jua Kali Association. Some questions generated responses that were qualitative or textual in nature.

The sample was drawn from a universe of 795 registered entrepreneurs in Ziwani Jua Kali Association. Both the owners and their workers were interviewed. From the total of 795 registered entrepreneurs, 7.5% of them were systematically selected to constitute a sample of 60 respondents.

3.4 Data collection techniques

The interview schedule questions were designed in such a way that they provoked responses indicating the level of technological acquisition, market access by entrepreneurs, state of the legal and regulatory framework and the role of Associations in enterprise development. The study administered structured and unstructured interview schedules. This was so because some responses required use of either of the two or a combination of these types of instruments.

3.5 Administration techniques

The researcher administered the schedules on a face-to-face encounter. The interviews were carried out during the working hours of the respondents and so it was necessary to make prior arrangements with the respondents regarding the convenient time to administer the interview.

3.6 Data analysis

After collecting the raw data it was analyzed and the findings were as in the chapter four below. The data was summarized and the phenomenon in the sample is described by use of tables which give numbers and percentages. Analysis in qualitative research is a process of ordering, structuring and bringing meaning to the data collected. Some of the qualitative data collected was converted into quantitative so that it can be easily analyzed. It was assigned numerical value after which it was tabulated and then analyzed. Percentages were also assigned to each of the responses.

Chapter four

4.0 Data analysis

4.1 Introduction

Data analysis in this study was done on the basis of the variables. Each variable was analyzed separately before a comprehensive outcome was arrived at. The four main variables are technology, markets, legal framework and social organizations. The general variables analyzed were gender, level of education, duration of experience, income of enterprises, income of employees, number of employees, technical skill acquisition, equipment and tools acquisition, and the number of employees. Each of these variables directly or indirect influences the four main factors set out in the objectives. They have been incorporated to enhance clarity and understanding of the four main factors.

4.2 General Variables

4.2.1 Gender of respondent

A systematic sampling method was employed in this study. It was quite interesting to note that only male entrepreneurs were involved in motor-vehicle repairs and service trade at Ziwani.

Table 4.1 :Distribution of respondents by gender.

Variable (Gender)	Frequency	Percentage
Male	60	100.0
Female	-	-
Total	60	100.0

The analysis of male/female analysis is as indicated in table 4.1 . In all, sixty respondents were interviewed and none of them was a female. The reason for the absence of females in this trade was not that they were excluded by the sampling procedure. The reason is that the sampling frame does not have any women entrepreneurs in motor-vehicle trade at Ziwani. When carrying out the interview, the researcher, out of curiosity, asked the chairman of the association why this was so. He casually replied that women don't show interest in the trade, which is traditionally considered a man's domain.

4.2.2

Level of education

Table 4.2 :Distribution of respondents by level of education.

Variable (educational level)	Frequency	Percentage
No formal education	5	8.3
C.P.E (Primary)	43	71.6
K.C.E (Secondary)	9	15.0
K.A.C.E (Higher)	3	5.0
University	-	-
Total	60	100.0

The analysis of educational background was as in table 4.2. It was quite noticed by the responses received that 43 entrepreneurs who form 72% of the sample in Ziwani have acquired minimal formal education. They have only acquired primary education. For entrepreneurs to effectively adapt to the rate of technological changes, they need to have acquired at least a secondary school education. In contrast, the figures show that most entrepreneurs have a basic Primary education. This lack of middle or high level formal education can be attributed to the inability of entrepreneurs to effectively communicate with potential customers. Formal education positively influences growth because it enhances communication. An entrepreneur who has no formal education cannot be able to communicate effectively with potential customers from other ethnic communities. As a result, he cannot be able to build a clientele and hence his earnings are curtailed. Considering that most people who own cars are the elite in society, they would rather have their cars repaired by a person who is well educated and would understand even the technical terminologies like names of spare parts and interpretation of repair manuals. In all, if the level of education is low, the earnings will be decreased and consequently growth will be hampered. This is the reason why the entrepreneurs cannot be able to adopt technologies fast enough. The minimal educational level hampers technological adaptation. The level of education was measured by the number of years an entrepreneur had been in school. For primary it was eight years, secondary ; four years, high school ; two years and University ; four years.

Formal education is the most basic but interesting the most important ingredient of technological advancement. For any sector to develop and grow it requires that the people running it must have formal education. Without formal education no tangible development can take place. Many people have tried to advance without formal education

but it takes far too long to make any gains. If one does make any advancement without formal education, he will be faced with a myriad of obstacles.

4.2.3 Duration of experience

The length of stay in business differs from one respondent to another. The findings of effects of experience on growth of enterprises are as in table 4.3.

Table 4.3 :Distribution of respondents by length of entrepreneur business experience(in years)

Variable (Experience in years)	Frequency	Percentage
0 – 4 years	34	56.7
5 – 9 years	15	25.0
Over 10 years	11	18.3
Total	60	100.0

From table 4.3 it can be noted that 49 entrepreneurs who comprised of (82%) of the sample had less than ten years experience in motor-vehicle repairs. These results indicate that experience amongst entrepreneurs is insufficient to support the requisite technology. Length of experience in business has implications. Firstly, if an entrepreneur has been in operation for long, he is able to build clientele from among those who patronize his business. Secondly, the length of business operation enables an entrepreneur to gain experience by virtue of the fact that they do similar jobs repeatedly. It works more or less like the motor-vehicle assembly plant where a worker repeatedly does a similar task. With time this worker gains so much experience that he can almost carry out the task with his eyes shut. The length of time taken to carry out this task is reduced and so enhances the overall turnover of the business.

It's therefore evident from the table that experience is important in the informal sector as a determinant of earnings. Enterprises in Ziwani are unable to grow because most of the operators don't possess the required experience. Inexperience hampers growth due to decreased customer turnover and consequently decreased income.

4.2.4 Income of entrepreneurs

An important variable that was considered is that of income earned by individual entrepreneurs. The findings on this factor are as in table 4.5

Table 4.4 :Distribution of entrepreneurs by levels of income(in Kshs.)

Variable (Income of employee)	Frequency	Percentage
No payment (apprenticeship)	12	20.0
1 – 100 Kshs./day	41	68.3
100 –200 Kshs./day	7	11.6
Total	60	100.0

This table indicates that 53 out of the 60 respondents interviewed which constitutes 88% of the sample earn less than Kshs. 100 per day. Income is an important factor in the growth of an enterprise. On average this percentage of entrepreneurs earn less than Kshs.3000 per month. Most of these respondents earning less than Kshs. 100/day indicated that they were employees. Those earning more than Kshs.100/day were owners of enterprises. Those earning less than Kshs.100/day indicated that this amount varied depending on what the enterprise earned in a day.

Low income directly influences growth of an enterprise as has been seen from these findings in the table. When earnings are low, de-motivation sets in. De-motivation influences input of the worker, which in turn also bears on the overall performance of an enterprise. Workers require sufficient pay so that they can concentrate on their work and enhance input.

12 respondents who constitute 20% of the sample indicated that they were not paid because they were on apprenticeship training. Some even hinted that they were expected to pay for the program. This shows that these people even work on an empty stomach. This is an unfortunate situation which directly influences production. These low income level can be largely attributed to the slow growth of enterprises. Most employees who earn less than 100 Kshs./day indicated that their income largely depends on what the enterprise gets in a day. Sometimes they do not earn anything when business is bad. However, the issue of income is very sensitive and some respondents were reluctant to give exact figures fearing that they were being interviewed for taxation purposes

4.2.5

Technical skill acquisition

In table 4.6 we have findings on how the entrepreneurs acquired the skills they possess.

Table 4.5 :Distribution of respondents by place of technical skill acquisition

Variable (Technical skill acquisition)	Frequency	Percentage
Village polytechnic	9	15.0
Institute of Technology	5	8.3
Apprenticeship in company	8	13.3
Apprenticeship in M.S.E	34	56.7
National Polytechnic	4	6.6
Total	60	100.0

The above table clearly defines the mode of acquisition of technical skills by the majority of enterprise operators. Going by the frequency 34 operators constituting 57% of the sample acquired their skills by being apprentices in micro-enterprises. Many entrepreneurs lacked the appropriate skills which can be more effectively acquired at National Polytechnics or Institutes of Technology. Most entrepreneurs indicated that they would not be keen to go for further training because they felt that the skills they had were adequate. This is an indication that attitude change is required amongst the entrepreneurs. This is so because nobody has adequate skills in any particular field. Technologies are dynamic and so each person requires re-training all the time. The entrepreneurs also felt that training would deprive them of precious money-making time and so lose their daily bread. Skill-upgrading is required at all times and at education and training levels.

4.2.6 Size of enterprise (number of employees)

The attribute (Number of employees) to a large extent tells whether there is graduation from one level of enterprise to another. These findings are depicted in table 4.6.

Table 4.6:Distribution of respondents by size of enterprise to which they belong.

Variable (Size of enterprise)	Frequency	Percentage
1 – 5 employees(micro)	50	83.3
6 – 10 employees(small)	7	11.7
11 – 50 employees(medium)	3	5.0
Total	60	100.0

This attribute is the focus of this study because it's about graduation from one level to another.

The variable (number of employees) is fundamental in this study. 50 respondents who constituted 83% of the sample fell into the category of micro enterprises, employing between 1 to 5 workers. This is a very clear picture of the non-graduation of enterprises from the 1st category to the 2nd. There is a predominant presence or concentration of employees at the micro-level as opposed to the small and medium enterprises. Only 3 respondents belong to the category medium enterprises employing between 11-50 category, further indicating slow graduation. The inability to graduate is the basis of this study and this variable goes a long way in explaining the reasons behind the retardation of growth.

The general variable ;size of enterprise, contributed significantly to the to this study. It revealed that most micro enterprises are not graduating to higher levels and thus growth is inhibited.

4.3 Specific variables

4.3.1 Acquisition of technology(tools and equipment)

Table 4.7 is a representation of what entrepreneurs feel about the appropriateness or inappropriateness of tools and equipment at their disposal.

Table 4.7 :Distribution of respondents according to their perception of appropriateness or inappropriateness of technology.

Variable (Technology)	Frequency	Percentage
Appropriate	17	28.3
Inappropriate	43	71.7
Total	60	100.0

43 respondents who constituted 72% of the sample felt that the tools and equipment they have are inappropriate for the work. They require modern equipment and tools to make their work easier. Only 28% of the respondents indicated that the tools and equipment they use are appropriate and modern. It is critical to possess the appropriate tools and equipment for motor-vehicle service and repair. The reason is that technology in the motor industry is very dynamic. A vehicle manufactured in the 70s is very different from one manufactured in the year 2000 when the technological input is taken into account. In the span of time between these two period many technological innovations have taken place. It is this new technologies that make it necessary for entrepreneurs to buy the appropriate tools and equipment to carry out quality repairs and services of motor-vehicles.

Likewise in table 4.8 below is a tabulation of the adequacy and inadequacy of the tools and equipment used by the entrepreneurs.

Table 4.8: Distribution of respondents according to whether they felt their equipment was adequate.

Variable (Technology)	Frequency	Percentage
Adequate	11	18.3
Inadequate	49	81.7
Total	60	100.0

49 respondents who constituted 82% of the sample said that the tools and equipment they possessed were inadequate for the work they were doing. Without adequate tools and equipment the rate at which work was done was slowed down significantly. This had an effect of reducing the turnover of the enterprises. Besides technical skills, adequate and appropriate tools and equipment are a good indicator of the adaptation technological advancement. The lack of appropriate and adequate tools and equipment therefore retarded growth of enterprises. All owners of enterprises attributed the lack of appropriate and adequate tools and equipment to the prohibitive cost of acquiring them.

4.3.2 Access to markets

Table 4.9 shows the response to marketing or access to markets by the entrepreneurs. It was noted that some entrepreneurs were more aggressive than others in accessing markets for their products and services.

Table 4.9: Distribution of respondents according to accessibility to markets.

Variable (Access to customers)	Frequency	Percentage
Wait for customers at premises	37	61.7
Go out to woo customers	21	35.0
Advertise products in media	2	3.3
Total	60	100.0

Table 4.9 clearly indicates that 37 entrepreneurs who made up 61.7% of the sample just wait at their premises with the hope that a client will show up. They don't make an effort to aggressively spend money to acquire clientele. Similarly only 2 entrepreneurs or 3.3% of the respondents advertised their services in the media. 21 respondents said that they went out to woo customers within the Ziwani premises. Those who do not advertise in the media indicated that advertising cost were so high that they would cost a fortune. This is a factor that can retard growth of enterprises. advertising is important in enhancing sales. If advertising costs are too high, the volume of sales drops significantly.

For Ziwani, the inability to market by advertising has led to the drop in number of clients, which has in turn led to the inability of enterprises to graduate from one level to another.

4.3.3 Legal and regulatory framework

Table 4.10 below depicts a picture of the general perception of entrepreneurs with regard to laws and regulations governing their operations.

Table 4.10: Distribution of respondents according to compliance to laws and regulations.

Compliance to laws and regulations	Frequency	Percentage
Paid for licenses and registration	7	11.7
Not paid for licenses and registration	53	88.3
Total	60	100.0

The indication in Table 4.10 is that only 7 respondents who made up 12% of the sample paid for their licenses and adhered to the regulations governing their operations. The majority; 88% disregarded these regulations and operated as if they did not require any regulation. The reason given for this was that compliance to these regulations was cumbersome, time-costing and very expensive. It was not very clear why the operators were unwilling to comply and yet the regulations were meant to ease and create direction for the entrepreneurs' operations. The respondents who were unwilling to comply insisted that regulations were too many, licenses too many and expensive. Many of them said that it was necessary to enforce de-regulation if entrepreneurs were to be supported at all by government and other stakeholders.

4.3.4 The role of associations

Table 4.11 tells what respondents felt about the role of associations in enhancing development of micro and small enterprises. The table below depicts that perception.

Table 4.11: Distribution of respondents according to participation in association matters.

Variable (Level of participation)	Frequency	Percentage
Do not participate in association matters	6	10.0
Rarely participate	16	26.7
Actively participate in association matters	38	63.3
Total	60	100.0

38 respondents, making up 63% of the sample participated actively in the affairs of the associations. Among the activities carried out are collective bargaining, unity and accountability. These respondents said they actively participate in activities of the association because they have benefits to reap. This was more pronounced amongst the entrepreneurs who have been in the business for long period(over 8 years). There was therefore a direct relationship between level of participation and the number of years one has been in the business. Those who have been in the business for shorter periods of time showed a relatively lower level of participation. It's therefore clear that those who had operated longer were more aware of what they stood to benefit by participating in the activities of the associations. Even though there was a fee to be paid for being a member of the associations those who subscribed did not mind going the extra mile to pay the small fee that was required for membership. Associations, although social in context and nature were found to play a key role in the development of Jua Kali enterprises; more especially as regards the graduation from one level to another. The study therefore proved beyond doubt that associations play a role in the growth and development of micro enterprises.

Chapter five

5.0 Conclusions and recommendations

5.1 Introduction

The overall purpose of this study was to establish the factors that hamper the growth or graduation of enterprises from the micro (1-5 employees) to small (6-10 employees) and likewise from the small to medium(11-50 employees).

This chapter will be organized as follows. The first part 5.1 will be the summary of the study. The summary will comprise of three main sections. These are as follows; purpose of study or the objectives, the methodology and finally the major findings.

Section 5.2 will be a discussion of the finding. It will involve the synthesis of the empirical findings, the literature review findings and finally the researcher's own opinion about the whole study.

Section 5.4 will give a conclusion arising from the synthesis of the findings derived from the study.

Section 5.5 will give recommendations that will be tailored toward improving the practice, policy formulation and general recommendations on possible gaps left out by the study and should be undertaken by other studies.

5.2 Summary of the study

5.2.1 Purpose of the study

The main purpose or objective of this study was to establish the influence of technology, marketing strategies, legal and regulatory framework and the role of social organizations in the growth and development of micro and small enterprises. Besides these main objectives other relevant variables and their influence were also studied. Among these variables were education, experience, gender, size of enterprise, technical skill acquisition and income of entrepreneur.

5.2.2 Literature review

In the literature review, various authors' views were incorporated in to the study. The literature review revealed that micro enterprises in developing countries are characterized by limited technological resources for innovation, adaptation and dissemination and non-supportive policy environments and uncertain markets. With regard to marketing the review brought to the fore the fact that with constant communication, higher sales volumes can be realize. It is necessary for entrepreneurs to make an attempt to raise client awareness about product offerings. It was also felt that excessive regulatory constraints inhibited business competitiveness. These regulations impose unnecessary costs that

frustrate entrepreneurs and deter investment. An enabling environment must be provided if the enterprises are to grow and graduate from one level to another. Bad regulation brings about problems in the form of higher costs, wasted time, inflexibility and missed opportunities. With respect to collectivity or association the review revealed that there was no effective involvement of in the formation and running of the associations.

5.2.3 Methodology

This study being a case study employed a systematic random sampling technique to collect data. The population from which the sample was to be drawn was 795 entrepreneurs. After employing the sampling method 60 respondents were drawn from the population. Interview schedules were developed and administered on a face to face basis. The data was then compiled. From the data tables and percentages were calculated which assisted in the analysis.

5.2.4 Major findings

Findings were as follows;

43 out of 60 of the entrepreneurs indicated that the tools and equipment they used were inappropriate whereas 49 out of the 60 felt they were inadequate. Inappropriateness and inadequacy are indicators of low technological practice. The level of formal and technical training was also quite low as per the data indications.

With regard to accessibility of markets, respondents do not effectively market their products by advertisement, sales promotion and trade exhibitions.

53 respondents admitted that they neither pay for trade licenses nor comply to other regulations pertaining to the operations of the informal sector. This accounts for 88% of the sample admitting non-compliance which they attributed to cumbersome and expensive regulations.

As regards the role of associations, 38 respondents said that they actively participate in social organization matters. 16 of them said that they rarely participate in these matters. Only 6 indicated that they do not participate at all in the activities. They therefore admitted that associations play a role in growth and development of enterprises.

5.2.5 Discussion of the findings

From the empirical point of view motor-vehicle enterprises in Nairobi have been unable to grow due to issues like lack of money for investment, lack of an enabling environment in terms of a laws and regulations and lack of appropriate equipment. From the literature review this empirical view has been supported further by (Bannet:1995) et.al who said that rapid technological changes will affect modern sectors in developing countries and exclude them from the benefits of change. The empirical view about markets is that our country has not effectively made proper efforts to access international markets to sell their products and services. The literature review revealed that marketing is about advertising a product and public relations aimed at selling a product, service or concept. As our entrepreneurs cry foul about their inability to reach global markets due to cost implications, they remain the ultimate losers. Our entrepreneurs must make a deliberate

effort to reach other regional markets by use of internet and other promotional strategies. With reference to technology, Kenyan entrepreneurs must make an effort to develop their own motor-vehicle technologies like in the manufacturing of local spare parts. We cannot grow because we depend on buying all products from other countries. Some spare parts can be locally manufactured by our “Jua Kali” entrepreneurs in collaboration with Universities, engineers and even foreign franchises. My personal opinion about laws and regulations being unsupportive for thriving of micro and small enterprises is consistent with the findings of this study and the literature review. A similar school of thought is held here. Regulations are too stringent and do not encourage growth due to their being unfriendly and costly.

5.3 Conclusions

In conclusion it is evident that enterprise are not growing or graduating from lower levels to higher levels due to the factors that have been studied and proven. The study has found that there is a rampant lack of requisite technology at the Ziwani Jua Kali site. This has been attributed to lack of technical skills, the lack of appropriate tools and equipment for providing the repair and service and the lack of high level formal education. Marketing, participation in social organizations and an enabling legal framework are other key factor the study established that need to be enhanced. It therefore becomes imperative for this study to come up with recommendations on how best to develop the enterprises at Ziwani so that they can graduate from the low micro level to the small and medium levels.

5.4 Recommendations

This study has made the following recommendations with regard to the development of micro enterprise at Ziwani and Kenya in general.

5.4.1 Practice

There is a need for entrepreneurs to go for courses to improve their skills. The course that is most appropriate for entrepreneurs is entrepreneurship development at certificate and Diploma levels besides other technically oriented course. This is necessary because most entrepreneurs have developed an attitude that they already possess requisite skills. They require refresher courses especially to assist them to change their attitudes towards attendance of courses. These courses can be tailored to be administered on the job because most entrepreneurs excuse themselves from attendance citing lack of time. Entrepreneurs should be encouraged to carry out their work using the appropriate tools and equipment because they enhance the work and reduce time taken.

5.4.2 Policy

Policy issues can be changed by the government departments that are concerned with the development of the informal sector. Other stakeholders can also assist the government in formulating and developing these policies. With regard to the informal sector development at Ziwani and other motor-vehicle repair sites the government should change policies relating to the laws and regulations governing the functioning of micro enterprises. This is the most critical area because laws and regulations in this sector are very adverse. The fees that need to be paid are costly besides being numerous. Other laws relating to registration of business names are likewise costly. The government needs to

come up with clear-cut policies on product standard in order to discourage shoddy work which lead to accidents and financial costs as a result of road accidents. Other policy issues that could possibly lead to development of motor-vehicle micro enterprises fixing of quotas for the importation of sub-standard spare parts from industrialized countries. By so doing, our entrepreneurs can be encouraged to develop industries for the manufacture of spares. Other policies that the Government would change to support local motor-vehicle industry to encourage local entrepreneurs to access regional markets for their products and services within the COMESA region while imposing quota for non-COMESA member countries.

5.4.3

Research

This study is recommending the following further research studies areas. The effects of level of education on the development small enterprises in Nairobi is one critical area. This study established that the majority of those interviewed only possessed formal education at primary level. This is quite low for people who skills and operations need technical knowledge. Another area that need to be given attention when it comes to research is enterprise culture in this sector.

Many entrepreneurs fail to take off or grow due to the lack of an enterprise culture amongst them.

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INTERVIEW SCHEDULE

PERSONAL INFORMATION

1. What is your name? _____
2. What is the name of your enterprise _____
3. Sex.
Male/female _____.
4. Position of respondent in enterprise.
 - a) owner.
 - b) employee.
 - c) relative.
5. If owner, how long has enterprise been in operation. _____
6. If owner, how what's the average income of your enterprise per day.
 - a) 0 – 2000 Kshs/ day.
 - b) 2000 – 5000 Kshs/ day.
 - c) Over 5,000 Kshs./day
7. If employee or relative how long have you worked here. _____
8. If employee how much are you paid? _____
9. Do you think this amount is sufficient?
Yes/No. _____.
10. If not, why? _____

11. What is the highest level of an your education?

- a) Never had any formal education.
- b) KACE or CPE.
- c) KJSE/KCSE.
- d) KCE.
- e) KACE
- f) University

GENERAL INFORMATION

9. How many people does your enterprise employ?
 - a) 1 – 5 employees.
 - b) 6 – 10 employees.
 - c) 11 – 50 employees.
 10. Under what type of structure does your businesses operate?
 - a) Open air.
 - b) Iron sheet structure.
 - c) Permanent brick structure.
- _____
- If other specify. _____

ISSUES OF TECHNOLOGY

1. How did you acquire your current technical skills?
 - f) In a village polytechnic.
 - g) In Secondary school.
 - h) Institute of technology.
 - i) National Polytechnic..
 - j) Apprentice in a company.
 - k) Apprentice in micro or small enterprise.
2. What was the duration of the training?
Specify. _____
3. How effective was the training?
 - a) Useful.
 - B) Not useful.
4. Why? _____
5. If given the opportunity would the you go for further training?
Yes/No. _____
6. If so, what type of training? _____
7. Do you think you have the necessary testing and repair equipment for use?
Yes/No. _____
8. Explain _____
9. If so do you think they are adequate or appropriate?
Yes/No. _____
10. Why? _____

ACCESS TO MARKETS

1. How do you access your customers?
 - a) We wait for customers to come to our premises.
 - b) We go out and look for our customers.
 - c) We advertise our products and services in the media.
 2. Do you ever do any sales promotions or participate in trade shows and exhibitions?
Yes/No. _____
 3. a) If yes, who organizes and funds them. _____
b) If not, why not. _____
 4. What is the public perception and attitude towards the term "Jua Kali".

-
-

5. How do you ensure that your customers come back to you? _____

6. Do they ever come back?
 a) Never.
 b) Rarely.
 c) Often.
 D) Always.
7. If always why do you think it is so? _____

7. Are your workplaces accessible and secure to your customers?
 Yes/No. _____
8. Do you think accessibility and security influence marketing of your goods and services?
 Yes/No. _____
9. If so, how? _____

EFFECTS OF LEGAL AND REGULATORY FRAMEWORK

1. a) Have you ever sought for any micro enterprise financing?
 Yes/No. _____.
 b) If so, from which organization did they secure the loan?

2. a) Were there any collateral requirements?
 Yes/No. _____.
 b) If so, what were they like in your view?

3. a) Do you pay for any licensing to the local authorities?
 Yes/No. _____.
 b) What is your assessment of the amount paid?
 (i) Too low.
 (ii) Sufficient.
 (iii) Too high.
 (iv) Why do you say so?

5. What happens when you do not pay?

THE ROLE OF SOCIAL ORGANIZATIONS

1. a) Do you subscribe or belong to any Jua Kali association?

Yes/No. ____.

2. b) Why? _____

3. a) In your view, does your association have any benefits to you?

Yes/No. ____.

b) If so, how? _____

4. a) Do the associations encourage sub-contracting of services within and with other associations?

Yes/No. ____.

If so, how? _____

6. a) Do you think the associations enhances growth of your enterprise?

Yes/No. ____.

If so how?

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When replying please quote

Ref. No. MOEST 13/001/33C 2004/2
and date



JOGOO HOUSE "B"
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... 7th August 20 03

William Nyanuto Mogire
University of Nairobi
P.O. BOX 30197
NAIROBI

Dear Sir

RE: RESEARCH AUTHORISATION

On the basis of your application for authority to conduct research on 'Factors inhibiting Growth of Micro and Small Enterprises in Kenya, I am pleased to inform you that you have been authorised to conduct research in Nairobi for a period ending 30th September, 2004.

You are advised to report to the Provincial Commissioner, Nairobi the Provincial Director of Education Nairobi, and the Heads of the Government Departments you will visit before commencing for study.

You are further advised to deposit two copies of your research report to this Office upon completion of your research project.

Yours faithfully

A handwritten signature in black ink, appearing to read 'A. G. Kaaria', written over a horizontal line.

A. G. KAARIA
FOR: PERMANENT SECRETARY/EDUCATION

CC
The Provincial Commissioner
Nairobi

The Provincial Director of Education
Nairobi

The Heads of the Relevant Government Departments