

**UNIVERSITY OF NAIROBI  
DEPARTMENT OF SOCIOLOGY**

**THE ROLE OF BUSINESS ADVISORY AND COUNSELLING SERVICES IN THE  
PERFORMANCE OF SMALL SCALE ENTERPRISES**

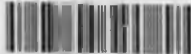
**BY  
KITIVI JONATHAN**

UNIVERSITY OF NAIROBI  
EAST AFRICANA COLLECTION

**A THESIS PAPER SUBMITTED IN PARTIAL FULFILLMENT FOR THE  
REQUIREMENTS OF THE DEGREE OF MASTER OF ARTS (SOCIOLOGY)  
IN THE UNIVERSITY OF NAIROBI**

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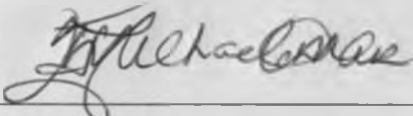
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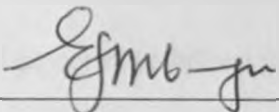
## DECLARATION

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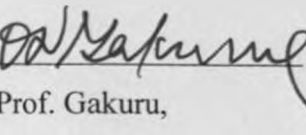
Signature  Date 7/11/2007

**JONATHAN MUTUKU KITIVI**

This thesis paper has been submitted for examination with our approval as university supervisors.

Signature  Date 09/11/2007

Prof. Mburugu,  
Department of Sociology  
University of Nairobi  
P.O. Box 30197  
Nairobi, Kenya

Signature  Date 9/11/07

Prof. Gakuru,  
Department of Sociology,  
University of Nairobi,  
P.O. Box 30197  
Nairobi, Kenya.

## **DEDICATION**

To my beloved wife Jacinta Wahito whose love, patience and encouragement have kept me going.

To my mother Grace Muthio whose encouragement has propelled me to advance academically.

To my brother Joshua who inspired me by taking my academic achievements as his own.

To the Lord God Almighty who both destined and called me to academic excellence and whose strength and power have helped me this far.

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May the lord God of all glory who sees in secret richly bless you and remember your every act of kindness to be rewarded back to you.

JONATHAN M. KITIVI

## ABSTRACT

This study sought to examine the contribution of business advisory and counseling services (BACs) to the performance of the Small-Scale Enterprises (SSEs). It attempted to determine the factors that affect the start and growth of the SSEs and how these factors interrelate with one another. The specific objectives were to find out how accessibility to BACs relate to the performance of SSEs; how the cost of the service affects its utilization and find out the level of utilization of the business advisory services in Kenya by the SSEs relative to the other sectors. This study sought to identify the interdependence between business growth and performance to business advisory and counseling services.

To capture the required information and get an understanding of reality this study was guided and informed by three theories: The Social Systems, Exchange and Achievement motivation. The relevant information was obtained from secondary data extracted from the works of past authors in the area of micro-finance and business advisory services. The study carried out a survey in the city of Nairobi capturing the operations of the small-scale enterprises and a sample of 100 SSEs was randomly selected from five micro-finance institutions (MFIs). Nairobi city was purposively selected as the research site due to its proximity to the operations of the business advisory and counseling firms and the MFIs. Moreover, 22 key informants, 12 from business advisory and counseling service firms and 10 from the micro-finance institutions further informed the study. The questionnaire was used for all the SSEs respondents while an interview schedule was utilized as a guide for the key informants. The data obtained were analyzed through SPSS program, classified and grouped in tables showing descriptives, frequencies and percentages. Bi-variate relationships were tested through cross-tabulations and the chi-square while the multivariate relationships were measured by correlation.

The study found that of the SSEs studied only 15% of them consulted the advisory and counseling firms for their services. The SSE entrepreneurs also claimed that the charges of the BACs were high and exploitative and that the service is both not accessible and known to the majority of the SSE entrepreneurs. Moreover, it was reported that the high cost of BACs has contributed to a low utilization of the service and consequently to a poor performance of the small-scale sector. As a result therefore, the SSEs have the lowest level of BACs utilization compared to the large and the medium scale enterprises. Similarly, it was further noted that even though the MFIs had better

terms and were more accessible to the SSEs as opposed to their counterpart the banks, their interest rates were still regarded as high.

In conclusion, the BACs services were very expensive to the SSEs and therefore they were not adequately utilized by the small scale sector. Furthermore, the BACs were not known by the SSEs as the majority of the SSEs investigated reported of not being aware of the existence of BAC services in the country thus the BACs were not actually accessible to the SSEs. Moreover, due to the poor accessibility of the BACs to the SSEs and the high cost of the services, the SSE sector has not been able to utilize the BACs fully as compared to the medium and large scale sectors. Furthermore, drawing from the study findings and considering the complementarity of all the stakeholders in the small-scale business, there is need for the SSEs to link up with all relevant departments and institutions for better outcome to be realized in the pursuit of economic growth.

It is hereby therefore recommended that the BACs should be extended more rigorously and made affordable to the SSEs to help them gain a competitive edge against other sectors. Furthermore, the MFIs also should lower their interest rates on loans and develop a mechanism of assessing and helping improve the performance of the small-scale entrepreneur. Lastly the government should increase its support to the SSEs in terms of provision for finances, research and information and the creation of an enabling environment as well as protecting the sector from undue competition by other sectors. The government must work together with all stakeholders to build a culture of entrepreneurship that nurtures business growth and rewards those actively involved in it by creating an environment that prepares the population as a whole take advantage of the abundant business opportunities in the society. The government should also provide supportive measures for entrepreneurs at all levels of development to utilize their potentials.

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## ACRONYMS

1. AFC- Agricultural Finance Corporation.
2. ApproTech- Appropriate Technology.
3. BACSS- Business Advisory and Counseling Services.
4. CED- Centre of Enterprise Development.
5. DBK- Development Bank of Kenya.
6. DFBK- Development Finance Bank of Kenya.
7. DFIs- Development Finance Institutions.
8. GDP – Gross Domestic Product.
9. GoK – Government of Kenya.
10. ICDC- Industrial Commercial Development Corporation.
11. IDB- Industrial Development Bank.
12. IRCU- Industrial Research and Consultancy Unit.
13. IYB- Improve Your Business Kenya.
14. KIE – Kenya Industrial Estates.
15. KIRDI – Kenya Industrial Research and Development Institute.
16. K-rep – Kenya Rural Enterprise Programme.
17. KTDC- Kenya Tourism Development Corporation.
18. MCFs – Management Consultancy Firms.
19. MCSs – Management Consultancy Services.
20. MFIs – Micro Finance Institutions/NGOs.
21. NGOs – Non-Governmental Organizations.
22. SEFCO- Small Enterprise Finance Company.
23. SMEs – Small and Medium-Sized Enterprises.
24. SSEs- Small Scale Enterprises.
25. UNCDF-United Nations Capital Development Fund.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background information

Entrepreneurship enables people to take charge of their own situation and destinies through their own efforts and the key to the potential of entrepreneurship lies within the individual members of the society and the degree to which the spirit of enterprise exists (Morrison, 1998). This is because the economic growth of an enterprise is not automatic but occurs on account of constant efforts of individuals who respond to business opportunities, incentives and motivation. This responsiveness to business opportunities is referred to as entrepreneurship and must be initiated. This is due to the fact that the environment in which the entrepreneur operates in facilitates his or her activities. Moreover, the entrepreneurs' characteristic quality of determination and readiness to take risks coupled with a favorable business environment is a great pillar of business establishment. As Rasmussen (1992) indicated, an entrepreneur is rarely a person who jumps into business from nowhere but instead one who builds his or her economic capabilities and skills by obtaining local knowledge and network to enable him/her perform.

Kenyan employment projections to the year 2000 indicated that 75% of all jobs in the urban areas and 50% rural employment would be in the informal sector thereby underlining the importance of the small enterprise development in Kenya (GoK, 1989). This is because the entrepreneurship of the small-scale sector has the potential to revitalize the economy and create new job opportunities (Giaoutzi, Nijkamp and Storey, 1990). Kenya recognizes the important role played by the small-scale sector in national development. Since independence the country has undertaken to improve the standard of living of the people and create more jobs through the promotion of the sector as articulated in the eighth National Development Plan, (GoK, 1996). It established the Kenya Industrial Estates (KIE) in 1967 to promote the small and the informal sector (Coughlin and Nyong'o, 1991). However, in assessing its performance since its inception Coughlin and Ikiara

(1988) concluded that KIE achieved very little in entrepreneurial development, often compelling its clients to undertake projects they knew nothing about thereby defeating their entrepreneurial abilities.

This implies that although a lot of policies have been made in Kenya, very little has been done to promote the enterprising of the small-scale sector. Furthermore, some policy statements aimed at promoting the small-scale sector have also been found to work against its interests (GOK, 1989).

The industrial growth on its part has been very slow and the scientific community has not forged any strong links with the indigenous entrepreneurs (Juma and Ojwang, 1989). Moreover, it was estimated in 1986 that Kenya required a GDP growth rate of 5.6% per annum to be able to provide employment, income, food and other needs for its population (Juma and Ojwang, 1989).

To achieve close to full employment during the period between 1997-2020, the government of Kenya further estimates that the employment growth rate must average 4.3% annually and the economy must grow at the rate of between 8-10% per annum (GoK, 1996). The industry growth rate is projected to increase from the current 5% to 15% by the year 2020. To achieve this rate of growth, major improvements in production efficiency and output, both of which depend on the extent and rate of technological change must be made (GoK, 1996). Twenty years later, the estimated rate of GDP growth has not been achieved and even though the fertility rate of the country has been declining, unemployment has continued to prevail with the labour force continuing to grow at a rate of 4% annually (GoK, 1996). Hence the need for the country to address the enormous challenge of unemployment.

To address the prevailing challenges of economic growth and industrialization, national indigenisation of technology for self-reliance and proper adoption of useful foreign technology is necessary. This is because while only about two hundred thousand jobs are created in the formal sector annually, approximately half a million people leave school annually and join the labour

market (Kibuka, 1997). The informal sector should therefore be developed to absorb the rest of the jobless Kenyans. Kibuka (1997) further notes that the informal sector lacks adequate skills and resources and thus needs assistance to establish and run business. While such assistance could be available in several organizations in the country, many entrepreneurs are not aware of this or how to access the assistance. This calls for need of other organizations that offer support to the small-scale sector to be encouraged to bridge the gap between the business plans of the SSE entrepreneurs and the actualization of such plans. Financial institutions offering micro finance services to the less fortunate will be handy in this noble cause. For example, Faulu Kenya, whose vision is to enable the low-income people in society to succeed through business loans, identifies its target clients as the Kenyans who cannot afford or are unable to get financial services at the mainstream financial institutions. This is because in a baseline survey of micro or small-scale enterprises in Kenya, the gap between supply and demand for credit is Kes 68 billion (Faulu Kenya, 2003).

The small-scale sector is therefore seen both as a source of employment and an incubator of enterprises especially in developing countries (World Bank, 1996). The sector further acts as both a training ground for prospective formal business and a major tool of reducing poverty levels through increase of economic levels of the people. This is in consideration of the fact that the rate of unemployment has continued to increase and the distribution of income become more unequal in developing countries therefore making the small-scale enterprises as the only solution of reducing the absolute percapita income gap of such countries (Meier, 1974). This general underdevelopment of African countries and their slow industrialization could be blamed to the lack of the critical mass of the indigenous entrepreneurs. As a result, only a few countries in Africa have succeeded in creating a broad and more diversified economic production structure that would foster an enabling environment and offer opportunities for the development of entrepreneurship (Coughlin and Ikiara, 1988).

## 1.2 Problem statement

Small-scale enterprises (SSEs) in developing countries play a critical role in providing the means of reducing poverty, a source of income and employment as well as making a significant contribution to economic output (Albu, 2004). Nevertheless despite its importance, the full potential both economic and social of SSEs is not being realized. A key problem that contributes to this shortcoming is the lack of access to finance for medium term investments a constraint that undermines small businesses ability to meet the quality, quantity and timeliness standards required (Albu, 2004). For example, Banks discourage commercial lending to small enterprises and confine their lending to the medium and large-scale enterprises. They leave out the SSEs because they generally lack formal forms of collateral needed to secure medium term finance, for example a reliable credit history and existing capital assets (Albu, 2004).

The 100 organizations that provide some form of micro-finance business in Kenya only assist about 2 million of the Kenya's 30 million population (Omino, 2005). This is in spite of the fact that the organizations are meant to serve those left out of the formal banking system and the campaign to gain access to credit was top in the agenda of international year of micro-credit of 2005. The United Nations acknowledges micro finance as a key instrument to achieving millennium development goals that seek to reduce poverty by 2015 (Mulama, 2005). Moreover, there is poor state of small-scale business in Kenya partially due to the investment policy inherited at independence that encouraged foreign and private local investors at the expense of quality investments and the harnessing of the African entrepreneurial potential. The local investors are faced with structural obstacles like inaccessibility to credit, lack of an enterprise culture and low technical endowments McCormick and Pedersen (1996). There is also a growing concern that many Kenyans still lack credit facilities and this trend has created an unequal competition between the large and small entrepreneurs because it is in favor of the former. This apparent

situation is further worsened by the fact that Kenya lacks suitable policies on key issues of small-scale business development.

Moreover, past research has not been well synchronized and industrial investments are not consciously guided to enhance local technology capabilities. This deficiency has resulted in the country losing a lot of business opportunities and capital due to poorly designed or inappropriate projects (Coughlin and Nyong'o, 1991). The institutions for gathering and providing technical information both local and foreign are not properly organized and leave many gaps in needed information. The national information and documentation centre is undeveloped and the information arriving in the country is not organized or centralized. There is further a severe deficiency in the ability to analyze the information and get it to its users. In addition, even though business entrepreneurship is influenced by both social and economic factors, previous research has tended to emphasize the effects of the economic factors in business development. There is therefore a need to attempt to make an analysis of the salient social factors of business enterprising that assist or inhibit entrepreneurship.

To attain this goal, careful attention must be given to the investigation of the role, played by the business advisory consultants in assisting the small entrepreneurs in their business organization. This is because the essence of entrepreneurship involves the application of innovatory management processes and technology has emerged as the key to taping a country's natural resources for development. The countries that have experienced technological revolutions either through innovation or adaptation have benefited from socio-economic development. On the contrary, however, inadequate research on allocation of resources, lack of qualified personnel et cetera has resulted to very low rates of technological change (Coughlin and Ikiara, 1988).

While the role of the business advisory services to the development of the small-scale sector is paramount, its contribution cannot be established until a study on the accessibility and utilization of the business advisory and counseling services by the small entrepreneurs is done. Small-scale business success will be realized if the business advisory consultants geared their efforts in bridging the gap between the SSEs and the relevant business information. Proper guidance is therefore critically needed to help the SSEs to best invest and utilize their finances for maximum profits at the least possible cost. This is because poor management and inability to put entrepreneurs' ideas into proper use is the greatest constraint to the development of the small sector (Katz, 1997, Kasekende, 1984).

Moreover, the inherent contradiction in government policymaking and implementation requires an investigation on the role played by the business advisory and counseling services in business entrepreneurship. This is because Kenya lacks a comprehensive policy and documentation on the importance and significance of business advisory services in the development of business and in particular the small-scale sector (Coughlin and Nyong'o, 1991). The BACs was taken in the past as a foreign initiative with little or no local application at all and as a result the business advisory sector has remained at its infant stage (Kasekende, 1984). A keen inquiry into the role played by the BAC sector in development of the SSEs is thus necessary to enhance the making of a viable small enterprise development policy.

### **1.3 Research objectives**

The broad aim of this study was to investigate the role business advisory and counseling services play in the performance of small-scale enterprises (SSEs). In particular, it sought to investigate the contribution of the business advisory and counseling services to the success or retrogression of the small enterprise sector. While the study recognizes the importance of the micro- finance institutions in the promotion of small enterprises, it recognizes that the efforts of these MFIs will



be in vain, if the entrepreneurs do not utilize or have access to the information on business development. This study aims to provide an in depth assessment of the accessibility and utilization of business advisory and counseling services by the small enterprises. It further aims to investigate how business advisory and counseling services can help the SSEs to take advantage of their adaptability to their production needs, flexibility in the transfer of technology and their ability to penetrate new markets ahead of other sectors as contended by Oman (1984).

The specific objectives were:

- a) To assess the affordability of business advisory and counseling services by the SSEs and how the cost of the services has contributed to its utilization.
- b) To establish how accessibility to business advisory and counseling services by the small-scale enterprises has contributed to their performance.
- c) To determine the extent to which the small-scale enterprises are utilizing the business advisory and counseling services in Kenya.

Developing from the problem statement the study will answer the following questions:

- 1) How does accessibility to business information relate to business performance?
- 2) Are the business advisory services affordable to the small entrepreneurs?
- 3) How does the cost of the business advisory services affect or translate to its utilization?
- 4) What is the effect of the utilization of the commercial business advisory services to the performance of the small-scale enterprises?

This study was mainly exploratory in nature meant to develop both theory and literature for further development of future studies. Since no studies have been done in the past in this area no hypotheses have been developed in this study because it is not a statistical exercise.

#### **1.4 Justification and significance of the study**

This study was done in answer to a need to fill the gap for further research. According to McCormick and Pedersen, (1996) there is need to determine the relationship between credit and growth in the small enterprise sector and whether the improvements in the marketing, management skills, workers skills, technology and quality of products or services would have significant impact on enterprise performance. Policies for SSEs development should therefore focus on issues affecting credit accessibility, technology upgrading and transfer, market for products and services and quality control. The fact that no studies of this kind have been done in the country in the past, the study will go along way in informing in informing policy and forming the basis upon which future studies will be focused.

In choosing SSEs the main consideration or justification is that the government is engaging, encouraging and assisting their growth and hence their evaluation is meaningful in this study. Past researches on SSEs performance have emphasized the importance of addressing the financial needs of the sector, establishment of a competitive private informal sector, sound macro-economic management and the enhancement of sound social and political stability (GoK, 1996). Three main problems have been identified by past studies as facing the SSEs in Kenya. These are the lack of finance, lack of experience with credit institutions and poor management of their resources (McCormick and Pedersen, 1996). However, this study takes a keen look at the relationship between micro-loans and the business advisory and counseling services and how the later impacts on the performance of SSEs.

Secondly, this study is important because of the applied utility of the knowledge it will generate to inform policy on the improvement of the SSEs accessibility to adequate finance and appropriate technology through credit schemes and appropriate training in order to improve the sector's productivity and income generation. By creating the proper link between industrial business

advisory and counseling information and SSEs, the entrepreneurs will get the proper business planning and management advice to solve their own problems and enlarge their operations in regard to the use of their loans. The provision of the relevant and current information and technology will create a better and factual basis of decision-making to the small-scale entrepreneurs. Access to relevant information will also help the small-scale entrepreneur to identify and develop opportunities of investment and marshal the required resources for enterprise growth, a subject matter overlooked by much previous research.

Strategic alliances and linkages should be forged between the small enterprise and other stakeholders to create a wider enabling environment and eliminate poor designing of projects that have a direct impact on the efficiency and effectiveness of the SSEs. This is because the government of Kenya acknowledges the role of the SSEs in the promotion of the economy but admits that much of the growth in the sector has been spontaneous rather than out of deliberate strategy (GoK, 1989). This study attempted to highlight the importance of business advisory and counseling information in small business development. It sought to contribute towards documented information on the development of SSEs as the country embarks on industrial expansion with the view to creating new jobs, reducing dependency on agriculture and diversifying the economy.

Despite the fact that industrialization is a key agenda in Kenyan national development, there is no comprehensive vision of the kind of industrial base needed in the future and implementation of policies has been problematic. Feasibility studies for new projects are not properly carried out to establish their viability and local experts have been often ignored resulting to dire economic consequences, (Coughlin and Ikiara, 1988). There is need therefore for the improvement of the SSEs accessibility to adequate finance and appropriate technology through credit schemes and appropriate training in order to improve the sector's productivity and income generation. The

SSEs require less capital and their entrepreneurs have more potential to start businesses if they have access to credit and the operations know-how of their businesses. The SSEs also have the potential of generating more employment opportunities for the economy, McCormick and Pedersen, (1996).

Local industrial business information links between SSEs entrepreneurs must be established and the small entrepreneurs as potent mobilizers of domestic savings should not be ignored in national development, Coughlin and Nyong'o, (1991). The SSE entrepreneurs therefore need business planning and management advice to solve their own problems and enlarge their operations especially in regard to the use of loans. Their accessibility to current information will create a better and factual basis for decision-making, be an indicator of the business trend and be an incentive for better plans. This is because business information in the managerial process supports the executive in planning, operating and controlling the enterprise by the use of a variety of managerial techniques (Scarborough and Zimmerer, 1996).

The entrepreneurs in the small-scale sector should be helped to identify and develop opportunities of investment, marshal the required resources and to capture full opportunity through the growth of their enterprise. Business management and advisory technology for example should identify the motivation and the driving force behind the utilization of the resources available to small-scale entrepreneurs. There is thus need to understand the factors upon which achievement of successful or sustained growth depends on and the capacity the entrepreneurs of all levels need to have to respond flexibly as new markets and technical opportunities emerge, World Bank, (1993). The gathering of information and its proper dissemination will lead to a policy that would encourage business entrepreneurship in the country.

While program design of the MFIs should be varied to meet the specific needs of the diverse types of SSE entrepreneurs, the programs should respond to the changing needs of their clients over time. The reason is because while SSEs require credit, other forms of assistance like technical, training and social promotion are also required. The emphasis on financial needs of the SSEs however should not be allowed to obscure other factors. Moreover, since the various needs of the small enterprise cannot be met by a single organization, provision should be made for the networking of the MFIs with other support organizations that play distinct but complementary roles in the development of the sector. Once strategic alliances and linkages are forged between the small enterprise and the other stakeholders, a wider enabling environment will be created. This is why this study sought to understand the role of business advisory and counseling. It is assumed that business consulting will ensure that support to the small-scale enterprises is given according to their purpose and objectives. This will eliminate poor designing of projects, which lessen the earning potential of MFI clients and will have a direct impact on the efficiency, effectiveness and sustainability of the micro-finance institutions (MFIs).

### **1.5 The scope of the study**

Since the setting and the problems of the large and the medium scale enterprises are quite different from those of the SSEs the comparison of the SSE sector with the rest of the sectors is not possible. It's on the basis of this reality that this study sought to identify the forces that may hamper the SSEs from using the business advisory and counseling services despite the many problems that they face and proposes ways of improving the relationship between business advisory and counseling firms and SSEs.

In a workshop conducted by the government of Kenya in 1988, the key barriers to small enterprise development were identified. These are: the lack of new entrepreneurs, lack of access to capital, limited availability of extension services, lack of access to technology, poor project preparation, and lack of managerial skills, lack of raw materials, unfair government regulations and lack of

market knowledge (GoK, 1989). This study focuses on how limited access to or availability of extension services and lack of access to market knowledge has resulted in lack of new entrepreneurs and lack of access to capital.

This study was carried out in Nairobi the capital city of Kenya that has the longest traditions and the highest concentration of business operations and of the informal sector. The study is focused on the business operations of the SSEs using micro business loans. It limited its scope to the SSEs that had borrowed loans from the micro-finance institutions in Nairobi only. It also looked at the extent to which the SSEs were both aware of the existence of business advisory and the level they utilized the service in their business operations. In this study, only five micro-finance institutions were selected and from them a sample of hundred small-scale enterprises was randomly chosen for the study sample (see methodology).

Despite the wide range of businesses in the city of Nairobi, only a small fraction of the SSEs were studied. This sample size is too small compared to the actual small business population in the city of Nairobi. Moreover, due to the limitation of time, this study could not capture far-reaching information that change with the passage of time and only captured African and Asian owners. This may be the result of sampling or of the fact that whites did not operate SSEs. Furthermore, some business entrepreneurs did not open their full financial positions due to their suspicion that the information would leak to the tax revenue authority officers.

Due to time and financial constraints the study only focused on business advisory and counseling services generally instead of dealing with specific areas like the technical, marketing, accounting, finance, start-up among other areas. The study also chose to use the Nairobi based micro-finance institutions to obtain its sample of small-scale enterprises and business consultants instead of handling the whole range of the small enterprises in the country.

## CHAPTER TWO

### LITERATURE REVIEW

According to Bless and Smith (1995), for one to conceive a research problem and topic in a way permitting a clear formulation of the research problem and hypotheses, some background information is required. This information can only be acquired through undertaking a thorough and critical review of the relevant literature. Through this review the problem and the questions to guide the study can be properly conceived. This chapter is organized into the following minor themes and sections: Small-scale entrepreneurship and development, the significance of the small-scale enterprises to the national economy, the business advisory and counseling services, the micro-finance institutions and the interdependence of business operations in development. The rest of the chapter focuses on the theoretical and conceptual framework of the study.

#### 2.1 Small-scale entrepreneurship and development

According to Morrison (1998), entrepreneurship is a way of life that enables people to take charge of their own situation and destinies and their realization that their success will only come through their own efforts. He views entrepreneurs largely as products of their society and therefore their responses to the events that affect them are influenced by the value system of their society. On the other hand, Etzion and Lawrence (1991) from a managerial point of view see entrepreneurship as the process of doing more with less and reaching for opportunities regardless of resources already controlled. The entrepreneur creates new businesses in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources in his society (Scarborough and Zimmerer, 1996).

Consequently, through the initiation of their personal motivations, the entrepreneurs become the driving force behind SSEs. Entrepreneurship, therefore, becomes the process and activities undertaken by entrepreneurs to create new business opportunities irrespective of the risks

involved. It is also the pursuit of opportunities without regard to resources currently controlled. However, since the entrepreneurs are usually confident of their ability to seize an opportunity regardless of the resources under current control, they must be nurtured, raised and given a conducive environment of brooding (Birley and Muzyka, 1997). Despite this observation Birley and Muzyka (1997) do not elaborate how the entrepreneurs are to be nurtured, raised and the kind of environment that will enhance their brooding.

On the other hand, Morrison (1998) identifies the business advisory consultants as the drive that arouses the spirit of business within the entrepreneurs. He does this by noting that the key to unlocking the potential of entrepreneurship lies within the individual members of the society and the degree to which the spirit of enterprise exists or can be stimulated. Morrison (1998) however, does not say what this key to unlocking the potential of entrepreneurship is and how it should be used. An individual possessing the entrepreneurial alertness, for example, will under the right circumstances develop insights about the market, which transcend its current framework on the means available to accomplish his or her goals and objectives. The creation of this alertness remains a missing gap from the works of previous scholars in the area of business entrepreneurship yet it is the role played by the business advisory and counseling services.

As the individuals apprehend the commercial value of their insights, the opportunity identification is experienced as a flash of insight or foresight. However, this experience depends on the interaction of the most suitable person with the right environment or situation. This person must be in the possession of an entrepreneurial alertness or the ability to notice a motivated propensity to formulate an image of the future. The entrepreneur who is alert to both information and its commercial value will, even in the absence of the necessary resources, develop realistic expectations of gaining access to and control of such skills, abilities and resources (Morrison, 1998).



In this connection, the entrepreneur must be willing to take investment initiatives and risks as well as sustain the dynamic business enterprise through innovative utilization and management of available resources. He or she does this as the prime mover of progress, the organizations decision maker and the key to industrialization. Since Morrison, (1998) sees the essence of entrepreneurship as the application of innovatory management processes directed at bringing about change of both social and economic nature, policies for SSEs development should focus on the issues affecting accessibility to credit, technology upgrading and transfer, market for products or services and quality control, which stimulate the spirit of enterprise.

Massie (1987), sees the actual business activity as a process that occurs in three stages. The first stage is that the business activity as a process begins with a change of lifestyle for example due to displacement, termination of employment or encouragement by partners, mentors, investors or customers. Here a business idea is introduced in ones mind and is propelled by the current situation which require a resetting of the mind. The second stage following the introduction of a business idea by a situation or a positive force is that the mind starts to form the desired perceptions. These perceptions are influenced by one's family, culture, peers or working experience. These come as strong forces, which stimulate or discourage further action. Perceptions of mind must therefore be positive if the process of entrepreneurship is to continue.

In the third stage of perceptions of feasibility, after the entrepreneur is convinced into business and after overcoming all the prevailing hindrances, the final consideration is whether the business is feasible. This fact will be determined by the entrepreneur's finance, or availability of loans, managerial strength, and demonstration effect, availability of models or mentors and partners. The entrepreneurial activity must at this stage appear feasible as an indication for action by the entrepreneur otherwise the entrepreneurial spirit will be derailed (Massie, 1987). Furthermore, the

entrepreneurs will logically respond more rapidly to profitable opportunities where the society is inclined positively towards business initiatives (Kubr, 1996). This requires the setting of an enabling environment for businesses to thrive.

Since the innovations that are easily and quickly adopted tend to be those with relative advantage over the previous methods and have an immediate and obvious source of a clear gain to the entrepreneur (Goldthorpe, 1984), such innovations should be compatible with existing values and past experiences and simple to the user. New ideas only become readily adopted if they are communicable and if their benefit can be easily seen or perceived. Goldthorpe (1984) however fails to address the means through which innovations and new ideas would be adopted into the society. This is despite the fact that innovators are ever seeking to challenge their local social system to pave way to the accomplishment of their goals (Wallerstein, 1991). This calls for the need for the establishment of an institution that would take up the task of facilitating the adoption of new ideas and innovations by the small-scale entrepreneurs, this is the role played by the business advisory services.

On another footing, McCormick and Pedersen, (1996) observe that early researchers have tended to treat the small enterprise as a phenomenon entirely different from the rest of industry. The scholars also see the sector as mainly a survival mechanism of the poor and with little or no impact to industrial development. However, the small business has a viable business environment due to its requirement for only small starting and working capital and the possibility to use their own savings as a start up capital or borrow from informal sources like relatives and friends (McCormick and Pedersen, 1996). This lack of information on the importance and the role of the small-scale sector in business development and the fact that the sector has not received the assistance and the attention it deserves, calls for the establishment of an independent institution.

The business advisory and counseling services sector will highlight the role of all sectors and how they are interdependent to one another.

Furthermore, three main problems facing the SSEs in Kenya can be categorized as the lack of access to finance, lack of experience with credit institutions and poor management of their resources (McCormick and Pedersen, 1996). On the other hand, the financial organizations in the country are mainly not predisposed to lending to the small enterprises and the existing regulations limit the total funds available for lending. For example, in a study done by Ondiege as cited in (McCormick and Pedersen 1996), only less than 2% of SSEs in the city of Nairobi indicated having access to credit from formal private and government agencies or NGOs to start their businesses. The reasons given by those who did not access formal sources of credit were: lack of knowledge of the procedures involved; belief that they could not qualify for credit; the high cost of credit; lack of security for loans; lack of information on lending institutions. This is despite the current increase of the institutions that support the small business sector, which include commercial banks, development finance institutions and NGOs (McCormick and Pedersen, 1996). This reality on the part of the SSEs requires experienced organizations in the area of business information and technology to come to the plight of the SSEs and bridge the gap between them and the other sectors.

The small-scale sector remains the most vulnerable and poorly prepared to face the challenges of business enterprising yet such challenges and constraints of development are often ignored and their origin mainly not traced back to their actual sources. The sector further lacks industry specific information, which makes it difficult to appreciate the wide range of production technology and business organization within particular type of enterprises. This significant information deficiency has resulted in a small sector that is constrained by factors like inappropriate environment and technology, inadequate capital and limited access to credit.

(McCormick and Pedersen, 1996). There is therefore a need to explore the extent the business advisory services have penetrated into the small sector and their contribution to its development.

Odhiambo (1999) found out that SSEs in the city of Nairobi experienced both moderate and poor performance depending on their location and the resources available to them. However, these problems are unique to each enterprise thus the need of business advisory and counseling to examine the various enterprises in existence and give them appropriate recommendations. He views the main problems enlisted as low demand for products and services, poor marketing strategies, lack of skilled personnel and poor book keeping. Altogether, scholars agree that many SSEs require working capital to enable them to expand their businesses. However, while the major constraint to SSE development is inadequate working capital, the question remains whether the entrepreneurs have the know how to make optimum use of the capital available to them. McCormick and Pedersen (1996) assert that because of the sector's high potential relative to other sectors to generate more employment in the economy, further research is necessary to determine the relationship between credit and growth in the sector and whether improvements in the marketing, management skills, technology and quality of products or services would have significant impact on enterprise performance.

On SSE development, Malenya (1998) affirms that the entrepreneur's background affect the rate of growth of an enterprise. He identifies several entrepreneurial characteristics and factors that influence this growth in Kenya, for example the gender and age of the entrepreneur. Men are more predominant and have enterprises that experience higher growth rates than those of women. The young unmarried entrepreneurs below the age of 45 years also tend to perform best since marriage has a tendency to reduce growth in enterprises due to the many responsibilities that come with it. On the other hand, to him education and experience does not have much effect in the growth of business. New comers in business also did better than those from business family background

(Malenya, 1998). This is because new comers in business are driven to enter into business by the intent of making more profits and being most successful and therefore they have more inclination to seeking business advisory and counseling services and do not take any chances in the operation of their businesses.

The entrepreneur will thus need to build his economic capabilities and skills by obtaining local knowledge and networks to enable him or her to perform (Rasmussen, 1992). This forms the foundation of an entrepreneurial culture, in which, a firm possesses a competitive advantage when it has access to resources, which are not accessible to other competitors. This means that the competitiveness of a firm is most likely to be sustained by its ability to maintain continuous innovation in technology and business strategy ahead of the competition (Kubr, 1996). The competitiveness of a firm is, however, influenced by the culture of the people in charge of the business vis a vis the people being served. This is because people are unavoidably constrained by cultural limitations like those imposed by the language spoken, the knowledge developed and the information available at any given time. Cultural influences also have an important effect on transaction costs and on the economic performance of a firm. A culture, for example, determines the degree of an employee commitment, trustworthiness and participation in risky projects and thus is an important resource for business enterprises located in a particular area (Kubr, 1996).

Considering the fact that cultures are formed in childhood, exposure to novel environments and significant contact with foreigners can bring about change through a commitment to making suitable ideological outlook of business enterprising which can be engineered through the education system (Kubr, 1996). This occurs in paradigms that are the universally recognized scientific achievements that for a given period of time provide model problems and solutions to a community of practitioners (Kuhn, 1970). Nevertheless the society has various engines through which change occurs. These are social movements, political revolutions and technical innovations

that bring about changes in the way the society, culture and population function. While the social cultural processes operate to maintain order and preserve the status quo, movements and technical innovations are specifically designed to change the balance (Weinstein, 1968).

While most scholars have identified the components of entrepreneurship, there is a gap on establishing how these factors affect the growth of an enterprise. Furthermore, entrepreneurship and industrial expansion in Kenya faces several constraints. The physical infrastructure of the country is not sufficiently developed to create an enabling environment necessary for industrial growth and there is limited access to credit and no efficient intermediation mechanism that can effectively channel resources towards private productive investment. There are also no adequate incentives and guarantees for banks to encourage the financing of SSEs. There are inadequate managerial, technical and entrepreneurial skills especially in financial, production material and project management and technical capability (Coughlin and Nyong'o, 1991).

Moreover, national research on business enterprise and development is not linked to the experience of the small business sector on the ground. The private sector in the past has not been involved in the studies done by the government and therefore there is no structured communication or link existing between suppliers and users of the business information obtained. The legal environment within which business operates in Kenya is also not sufficiently efficient while bureaucracy and corruption do frustrate the operations of many entrepreneurs (GoK, 1989). This explains why although Kenya has attained considerable economic growth, the benefit of the growth has been unequally distributed. Only a small elite of the population has benefited while the bulk of the population remain poor (Killick, 1981). There is thus need for investment and employment policies and measures to stimulate the growth of the indigenous enterprise and the extension of education to achieve this objective. After all, the existence of an informal small-scale sector has become a fact of life in the country's economic development since the formal sector

cannot keep in pace with the vast influx of job seekers (Ndegwa, Mureithi and Green, 1985). On its part, the government faces the challenge to help in the provision of infrastructure, loans and the legal recognition to entrepreneurs since the sector is dynamic and capable of generating profits for reinvestment to absorb job seekers.

## **2.2 The significance of small-scale enterprises**

The small enterprises cover the profit-oriented firms with between 1-50 employees and where total cost does not exceed Kes 5,000,000. These enterprises are divided into categories with those having 1-9 employees called the micro enterprises and firms with 10-50 employees termed as the small-scale enterprises (SSEs) (Central bureau of statistics, International centre for economic growth and K-rep holdings, 1999). Kenya has about 1.3 million micro and small enterprises employing 2.4 million people and any firm consisting of more than fifty employees or with annual cost of more than Kes 5,000,000 is by virtue of the large number of employees or the amount of money handled not considered to be a small enterprise (Central bureau of statistics, Internal centre for economic growth and K-rep holdings, 1999). However, this employment in SSEs does not necessarily mean salaried workers with wages but simply people working in an enterprise whether paid or not.

The World Bank (1996) sees the SSEs and the informal sector as a source of employment and an incubator of enterprises. The sector is seen as training grounds for prospective formal business owners and therefore a major tool with which to reduce poverty and increase income of the people. However, Meier (1974) notes that the number of success cases especially in the developing countries has been small. This is because the absolute gap of per capita income has continued to widen in the Less Developed Countries (LDCs) thus the need to increase the rate of economic growth. The rate of unemployment has also continued to increase and the distribution of income has become more unequal in many countries. Also, there has been a growing gap in per

capita income between the traditional rural sector and the modern urban industrial sector (World bank, 1996).

This situation has resulted due to a new competitive landscape that has developed in which there is a significant uncertainty and ambiguity for businesses, both large and small. Primarily the rapid technological change and substantial increase in international competition within domestic markets have formed this landscape (Katz, 1997). Such a landscape presents both threats and opportunities to entrepreneurial firms. This competition creates disequilibrium in markets, which makes the development and maintenance of strategic competitiveness difficult for firms of all sizes although this disequilibria present opportunities in the same markets and the uncertainty created by market disequilibrium provides opportunities for entrepreneurial ventures (Katz, 1997).

Due to the prevailing business constraints and challenges, therefore, the entrepreneurs who are not skillful run out of business while those seeking for short-cuts get themselves into business crimes like operating without licenses or using sub-standard materials. This notwithstanding, trade policies in the past have been in favor of the large-scale enterprises. For example, World Bank (1993) reports that even the commercial banks avoid lending to the SSEs thereby making the financial circumstances of the SSEs risky for entrepreneurs. Furthermore, Kubr (1996) observes that small enterprises are confronted by problems of legal aspects, access to credit and raw materials, lack of appropriate technical and managerial assistance. It is in line to this obvious gap pertaining SSEs marginalized position compared to the medium and large sectors that this study seeks to find the role played by the organizations that bridge the gap like the micro finance institutions and the business advisory institutions.

Although the small sector contains the potential to revitalize the economy (Giaoutzi, Nijkamp and Storey, 1990), Kerr, Dunlop, Harbison and Myers (1962) contend that the sector must master



industrialism or face oblivion. For example, while a baseline survey done in Kenya revealed that over 910,000 SSEs were in operation and had employed over 2 million people (Dondo, 1993), Parker and Torries (1993) note that only 38% of the SSEs in Kenya actually experienced expansion, 58% remained stagnant in terms of employment while 4% contracted. This is in contrast to the Kenyan government prediction that 75% of all new jobs would be created by the SSEs by year 2000, (GoK, 1989).

Since the small-scale enterprises (SSEs) are characterized by heterogeneity, meaning that they are extremely different, operate under a great variety of market conditions, have a spectrum of products and employ diverse means of production ranging from simple to highly automated systems (Giaoutzi et al, 1990), the only common denominator to all SSEs is an enabling environment. This means that the entrepreneur should have an economic know how in mainly detection of opportunities, development of strategies, identification of resources, and relational know-how with regard to personnel and the environment (Giaoutzi et al, 1990). The development of this know-how of economic and relational nature is facilitated by business advisory and counseling services, which creates the environment suitable for the emergence of entrepreneurs and the proper utilization of business finances.

Moreover, Killick (1981) points out that the informal and small-scale sector in the city of Nairobi is characterized by reliance on indigenous resources, family ownership, and unregulated and competitive markets. The sector is highly productive both in terms of material and service, income levels and the motivation of the entrepreneurs in it. This means that better management of the sector will facilitate better use of the existing capital and the best use of any loans available or accessed (Malcoln, 1979). This means that it is only by being prepared for the challenges that they face and the evolving role of business enterprise that managers will hope to manage effectively.

Barrow (1998) on his part identifies the reasons why small firms fail as the lack of expertise or incompetence and lack of managerial experience. They lack quality products and marketing strategies and as a result they are unable to identify who should buy the products or services and why. Although the entrepreneurs are overoptimistic about market size and the fact that new businesses should conduct researches into the market, they often underestimate the start-up time and lack an adequate working capital. Too high start-up cost and extravagant high standards cause them to lose the competitive edge of business (Barrow, 1998). As a consequence of early growth, businesses change their shape and size very rapidly in their early days and therefore increasing sums of cash are needed as sales grow. Small entrepreneurs thus should be helped not to mistake cash for profits and avoid wrong allocation of resources through the use of good management accounts and people.

Moreover, the SSEs need assistance with capital, suppliers, equipment, buildings, customers, employees and proper management because they always have more ideas than the money to implement the ideas. For example, they may not have the money to hire salesmen or advertise though they need customers as much as other businesses. The small enterprises are also often unable to take advantage of the services provided by the government or other organizations and infringe the law due to ignorance. There is thus need for a communication system that will convey both to the government and the small enterprises (Malcoln, 1979). Consequently, SSEs need to co-operate with one another to obtain reliable and economical supplies and market for their goods. They must compete with managers and management techniques that have been tried and tested elsewhere. Since they cannot earn enough to pay for many full-time managers, their managers must learn on their own how to manage the business.

Since SSE entrepreneurs must look beyond their own resources, what they need most is not loans but management advices to enable them analyze their ideas. This helps them make decisions and

improve their management ability significantly. Better management, training and advice will help entrepreneurs achieve their objectives without a loan. There is thus need for the business advisory and counseling firms to help the SSEs to perform effectively with the resources available to them. A frank trusting relationship should be established from the beginning, between the small business entrepreneurs and the business advisory consultants. This is because the majority of micro enterprises are normally informal, not having fixed assets/premises and often not properly registered, for example, hawkers and dealers of second hand clothes. These SSEs use simple labor-intensive technology, and utilize locally available materials and skills. Due to the low amount of capital requirements, the firms have the ability to operate profitably even at small volumes of production. This makes promotion of SSEs necessary if unemployment and the development of areas with shortage of capital, low skills, limited markets and uneven distribution of incomes are to be addressed. However majority of the businesses in this sector need assistance to help them get established and run successfully. While such assistance is available from several organizations in Kenya, many SSEs are neither aware of their existence nor how to access the assistance (Ncebere, 1999).

Moreover, despite the significance of SSEs, the sector does not develop technological capabilities in isolation but rather operate in network of informal and formal relationships with suppliers, customers, competitors, consultants and others (Barba, Lall, Teitel and Wiguavaja, 1994). There is therefore need to foster or create the information networks. Prior investments must be made available in human capital and organizational capabilities to decode the new technical information to the small-scale entrepreneurs and incorporate the information into management processes.

A stronger indigenous private sector is required in Kenya to promote associations of small enterprise entrepreneurs and strengthen the African business sector (GoK, 1996a). This is the assignment currently being carried out by the micro-finance institutions supporting local small-

scale enterprises in the country. In this connection, during a workshop held in 1988 the government of Kenya identified the major barriers to small enterprise development that need to be addressed. These are: lack of new entrepreneurs; lack of access to capital and raw materials; limited availability of extension services or consultancy services; lack of access to technology and managerial skills among others (Coughlin and Ikiara, 1988). This shows that the business environment and investment climate are not conducive or enabling to the development of Small-Scale Enterprises (SSEs). This calls for aggressive networking of all sectors and enhancement of the exchange of relevant and current information and technology through business advisory and counseling services.

### **2.3 Business advisory and counseling services**

Kenya is expected to maintain a Gross Domestic Product (GDP) growth rate of 56% per annum to sustain an economic growth that will provide employment, income and food for its rising population (Juma and Ojwang, 1989). To achieve this rate of growth, however, will require major improvements in production efficiency and output both of which depend largely on the extent and rate of technological change. This calls for indigenisation of technology as the basis for self-reliance because people's attainment in development rests upon access to the right kinds of technology (Juma and Ojwang, 1989). This makes technology to be the central area of state policy making for economic and social development.

In response to the problems encountered by small-scale enterprises, micro-finance institutions consisting mainly of non-governmental organizations, credit and training institutions have come up to offer some assistance. Although such organizations are committed to the plight of SSEs, the World Bank (1996) found out that such organizations have not been effective. The reason for their poor performance is because they handle credit facilities, give training and offer other services instead of embarking on only one task and doing it efficiently. The micro-finance institutions are

also motivated by different objectives in dealing with the small-scale sector ranging from social, humanitarian and economic development (Billetoft, 1996). Better results would be realized if each of these objectives was pursued separately.

According to the World Bank (1996), the lack of business skills is a more binding constraint to enterprise growth than the lack of access to credit. However, the entrepreneurs' persistent complaints about the lack of access to credit mask the technical and managerial inadequacies. Nevertheless, if the technical and management issues were remedied, a far greater return would be realized than would be with access to loans. Training must, therefore, accompany the provision of loans if the entrepreneurs are to optimize their use of the loans. Ndegwa et al (1985) on this note agrees that Kenya's domestic enterprise sector lacks indigenous entrepreneurs with sufficient capital and skills due to the lack of managerial ability or inappropriate management systems. On the basis of this crucial significance highlighted about the business advisory and counseling services it is necessary to throw some light on the operations of business advisory and counseling firms.

The business advisory and counseling firms are organizations engaged in the provision of guidance in business management and strategies of successful start up and operational advice. The diversity of these firms is as wide as their client organizations but they have certain common principles and methods. This is because their main contribution in development is to help their clients to develop a future vision and set realistic goals focused on results in the light of long term and fundamental organizational goals (Kubr, 1996). For example, they must be able to diagnose the client's problems and present proposals and conclusions to their clients. However, despite their important role Odete (1982) observes that the use of the service in Kenya is influenced by the degree of competition in the market place and the nature of technology used by a particular SSE industry. For example, the hotel industry had the highest consultancy use rate in Kenya due

to its competition with international tourism market hence a constant need to improve its services (Odeto, 1982).

On the other hand, although the problems and patterns of growth of SSEs are not identical, there are points of similarity. Adoption of up to date technology is necessary for these businesses to be transformed from traditional to modern enterprises. There is thus need for improved skill and good management if the SSEs must keep pace with the increasing demand of products as well as stand the high rate of competition from other sectors (Kubr, 1996). This is due to the fact that as business activities become more complex, the need for outside assistance usually increases.

Thus, while finance firms play an important initial economic role of assisting entrepreneurs set up small enterprises, the start-up phase is the most difficult (Kubr, 1996). Business advisory and counseling firms will be handy through their services to help the existing firms in their operation and give them guidance on new methods and modern processes. The consultant here acts like an extension worker or industrial advisor through their experience and expertise, to the managers of the small-scale enterprises (Janetzky, 1967). This is because poor management is identified as a major drawback to economic development (Kasekende, 1984) and there is a need for informed outside management strategizing.

Moreover, in spite of the fact that small businesses require low amount of capital, many small entrepreneurs lack sufficient capital for their businesses and the lack of adequate skills and assets to provide security also make it difficult for them to raise funds from lending institutions. Most banks and other lending institutions require tangible securities for lending thereby incapacitating the small enterprises when they don't qualify for loans. While a number of organizations like the micro-finance institutions have come up to give support to the SSEs without emphasis on the tangible security and to provide other support services, their continued support to the SSEs can

only be guaranteed by proper use of their loans and high payment rates of the loans (Kimuyu, Wagacha and Abagi, 1989).

Since most SSE entrepreneurs are not aware of the existence of new organizations supporting the small-scale sector, business advisory and counseling firms are supposed to provide them with this information and other relevant business updates. Moreover, since the SSEs are unable to employ the required business management team, this sector can benefit greatly from the services of business advisory and counseling consultants who provide an outside viewpoint to the inexperienced businessman. Furthermore, Kimuyu et al, (1989) assert that for industrialization to hasten there is a need to address the vagaries of entrepreneurship in Kenya and give the enterprises an opportunity to accumulate expertise to become more efficient.

To have a great increase in the number, size and activity of business counseling and services according to Amstein (1967), will arise from changes within the economy and technology. This is because the larger and the more complex a business becomes, the more it depends on scientific methods of management, control and reporting and the ability of every enterprise to compete effectively depends very much on the adequacy and timeliness of the operating information and other data supplied to the management. This is because the quality of management decisions is determined by the quality of the information system. More often than not, however, the business executive of the small enterprise lacks the specialized knowledge required to introduce techniques in the enterprise thereby calling for the need for a professional expert intervention. This is the task of the business advisory and counseling consultants that is a missing gap in the works of former researchers.

This is despite Toan (1968) assertion that information is inseparable from the management process, and that the significant elements of running business like planning, organization,

operating or controlling cannot exist in a practical sense without information. However, the kind of information required and applicability of what is available need not be taken for granted. This is because the usefulness of the information on business advisory and counseling is a function of its quantity, quality and intrinsic suitability, the executive's willingness and ability to use the information that he/she receives. According to Birley and Muzyka (1997), the message of enterprising must thus be taken to the doors of entrepreneurs to make human attitudes respond to investment and enterprise. This is because the driving force of any economy is in the entrepreneur who should have access to the right information at the right time especially in regard to the allocation of business loans.

The greatest challenge in business advisory and counseling has always been the marketing of these services. The professional services produced are intangible products and what the management consultant is selling is essentially a promise in form of advice (Kubr, 1996). Accordingly, every client organization is unique and there is no certainty that what worked for one organization will work for another. Since the client will not be able to fully examine the product they are intending to buy or compare it to what is available elsewhere, the business consultant must convince the client from a strictly technical point of view.

On the other hand, culture as the learned set of practices, beliefs, values, and rules for proper conduct and material objects shared by members of a society is a powerful force in the lives of all people. Although its impact is never all round and its content is forever changing, culture shapes and guides people's perceptions of reality. It tells us what is real and what is not and provides fundamental answers to the meaning of human existence as well as provides guidelines to every concern of every day life (William and Hickey, 1994). Being much more than ideas and rules of behavior, it is important to note that culture will also determine whether or not the SSEs will be inclined to seeking the help of the business advisory and counseling services. The general picture



for example is that enterprises that seek business advisory and counseling services are in trouble thus the need to utilize intensive awareness campaigns through literature and the mass media to identify and document business models (Morrison, 1998). In this connection, to reach business enterprises with any service it is important to understand the culture of the people.

Kubr (1996) identifies the four levels of culture: First is the national culture that comprises of the belief systems, traditions and behavioral norms. The movement of people across the boundaries of a country is important because people carry their cultural values and habits with them as they travel or migrate from one place to another. Second is the professional culture: culture shared by people in the same profession such as lawyers and doctors. This is influenced by professional education and training. Understanding the professional culture will help the management consultant to establish relations with clients and other professionals. The third level is the organizational culture: peculiar and unique to every organization. Strong personalities of the founders and top management influence this culture. By understanding this culture, the consultant will not be perceived as a stranger and can comfortably assess the organization and give recommendations. Fourth is the consultant firm's culture: encompassing values and norms of consulting methods and practices, commitment to clients, transfer of knowledge to clients and a code of ethics. This is a unique mix of the organization, professional and national cultural factors. The consultant must be culture conscious and sensitive to succeed in his/her operations. This will give him the strategy and the competitive edge required in business.

## **2.4 Micro-Finance Institutions**

The lack of working capital is the most important reason for business closure for more than a third of the small enterprises and the lack of credit is the second severest problem after the lack of demand for their products and services (Kimuyu and Omiti, 2000). However, despite the importance of credit to the sector, only a small proportion of small-scale enterprises borrow.

Majority of the entrepreneurs rely on their own or family limited savings for start-up and additional capital (Kimuyu and Omiti, 2000). As kimuyu and Omiti (2000) point out, this structure of the credit source choices is influenced by formality status, gender of the proprietor, location, membership to a support group and the business activity the enterprise is engaged in.

Access to credit by the small enterprises is constrained by the stringent collateral requirements, the reluctance of formal institutions to lend them and regulations that limit the volume of funds available for lending to the sector. Moreover, high interest rates, high administrative costs relative to the small enterprise loans, limited dissemination of information on the providers of credit and lack of experience of small enterprise borrowers with credit institutions further limit the small-scale sector (GoK, 2000). Those in the start up stage are most hit because their new businesses needs resources under terms that a strictly rational owner would not consider for example the provision of loans at a higher risk at a lower cost (Etzion and Lawrence, 1991). The MFIs allow for small amounts to be loaned to SSEs without conventional collateral, such as property and instead allow several persons to form groups that serve as an alternative form of collateral where the loan is issued to a group (Bloom, 2005).

Out of the 10.4% of small-scale enterprises that receive credit, only 5.7% is from formal sources. The reason for this shortcoming is because credit policies and strategies in the past were designed to increase credit and finance to the small-scale sector and were formulated in the absence of reliable information on the “best practices” and data on the small-scale sector. As a result, at the small-scale sector level, entrepreneurs do not know where and how to seek financial services even when such services are available (GoK, 2000).

The provisions of financial services to the low-income households and micro and small enterprises (MSEs) provide an enormous potential to support the economic activities of the poor

and thus contribute to poverty alleviation. The savings made by the poor and the credit facilities given to them for the development of micro and small enterprises are of great importance. This puts emphasis on the sound development of micro-finance institutions as vital ingredients for investment, employment and economic growth (Omino, 2005). This is because these micro-credit schemes allow for small amounts to be loaned without conventional collateral, such as property. Instead, several persons may serve as an alternative form of collateral where the loan is issued to a group. If a member of the group defaults on their share of repayment, the others step into the breach and also pre-empt defaulting through putting pressure on group members (Bloom, 2005).

Following the end of controlled interest rates in Kenya in 1991, non-bank financial institutions (NBFIs) licensed, regulated and supervised by the central bank were allowed to charge higher interest rates than commercial banks. Consequently, nearly all banks created non-bank financial institution affiliates to deliver the bulk of their credit resulting in the growth of 36 commercial banks and nearly 60 non-bank financial institutions by 1993. The central bank, however, later introduced the idea of universal banking subjecting both commercial banks and non-bank financial institutions to the same regulatory requirements. In addition to the lower minimum capital (then Kes 37.5 million), both categories of financial institutions were required to maintain the same cash reserves with central bank. Since there was no more interest rate advantage available to the non-bank financial institutions, the NBFIs were encouraged to convert into banks to take full advantage of the services that banks offer (Mugwanya and Hannig, 1999).

This notwithstanding, however, Kenya has over 1.5 million micro-finance clients and the demand for micro-credit alone is estimated to be in excess of Kes 4.3 billion per year. Nevertheless, today there is only an approximate of Kes 1 billion worth of micro-credit given to less than 100,000 clients by the over 50 institutions that practice some form of micro-finance. Of the 50 institutions 23 are under the umbrella of the Association of Micro-Finance Institutions (AMFIs) (Mugwanya

and Hannig, 1999) and 20 organizations practice pure micro-finance while the rest practice micro-finance alongside other social welfare activities. Most Micro-Finance Institutions (MFIs) are registered as Non Governmental Organizations (NGOs), others as NGOs and limited companies and others as trusts or associations.

The NGOs do offer an alternative to state funded development and since they are not part of the government but are voluntary, non-profit making and non-partisan they have comparative advantage over state institutions in engaging micro development activities. They are more flexible in undertaking small-scale projects and they are better able to focus their efforts in the rural areas. However, they have the shortcoming of living on a project-by-project basis and short planning horizons (Mugwanya and Hannig, 1999). They also cannot guarantee for themselves good quality personnel, equipment and or materials over a long time since they use a mix of volunteers and inexperienced field staff. Their donors are large agencies representing either a single government or a group of governments that give money for development purposes. Furthermore, due to the fact that the donors are established by other governments, operate with government funds and must report back to the governments, their operations are more directly political and closely follow current waves of development thinking (McCormick and Pedersen, 1996).

Micro-finance institutions channel financial assistance to micro-enterprises denied access to credit from conventional banking institutions and they are a variety of institutions involved in micro-credit and micro-savings. They include the Kenya post office savings bank, financial NGOs, savings and credit co-operatives (SACCOs), financial service associations (FSAs) or village banks (Mugwanya and Hannig, 1999). All the micro-credit institutions have an interest in the growth of the collateral savings and are obviously delighted when their clients save more than the mandatory as frequently claimed. This is because higher savings mean that the institution will be able to disburse larger loans in future.

On the other hand, the micro-credit schemes start as poverty focused projects to assist the poor people to secure access to enterprise finance. All these organizations have compulsory regular savings, which members take as long as they remain in the program. The compulsory savings can only be withdrawn when a member is leaving the program. These savings are illiquid relative to ordinary shares in a company because they can only be converted into cash when one is leaving a group. However, if a member saved more than the mandatory savings amount, it would be easier to withdraw the excess savings (Mugwanya and Hannig, 1999).

The micro-credit institutions also encourage their members to be in a merry-go round as a way of meeting their various needs and also keeping them together. Members are also encouraged to operate bank accounts for processing their loan cheques, for ease of withdrawing what they need and to get overdraft facilities. Micro-enterprises require savings services for growth and their liquidity management. The compulsory savings enable them to build up assets for access to larger credit for growth or for future equity for their businesses (Mugwanya and Hannig, 1999).

The governance and management of MFIs however, is not easy to determine because both an individual and an institution can set a MFI thereby making the industry susceptible to unscrupulous operations (Mugwanya and Hannig, 1999). The MFI sector further does not have a specific legislation or a set of laws to guide its operations. The industry is also left to operate in a rather disorganized manner and lacks appropriate supervision in its major ingredient parameters like capital adequacy, proper audit systems, procedure for entrance and exit and the creation of an enabling environment for competition and efficiency (Mugwanya and Hannig, 1999). This calls for a neutral and more informed body like the business advisory and counseling firms to intermediate between the SSEs and MFIs as a way of safeguarding the former from exploitation and insecurity. This is due to the fact that the MFIs are faced by a number of challenges including

decline in funding levels, unsustainability and lack of supervisory and regulatory framework (Mugwanya and Hannig, 1999).

Until March 1999, MFIs did not have any formal association through which they could articulate and voice their views on issues affecting the micro-finance sector. However, stakeholders in micro-finance have now formed an Association of Micro Finance Institutions (AMFIs) whose objective is to address issues and challenges affecting the sector (Mugwanya and Hannig, 1999). Nevertheless, compared to MFIs in other continents, those in Kenya and Africa at a large have a very limited outreach in terms of the number of people they serve. Serving a large number of clients is necessary for financial viability due to the size of transactions and for developmental impact. Another constraint to the development of micro-finance institutions is their access to funds. Today the only source of funds is the donors who are also inevitably shrinking and comes in bits making it difficult for planning (Mugwanya and Hannig, 1999).

This calls for the supervision and proper regulation of the micro-finance institutions. However, while supervision and regulation of micro-finance services is necessary, there are costs associated with it. Supervision of MFIs is expensive and requires specialized expertise because the MFIs' clients are many in number and spread over wide geographical areas (Mugwanya and Hannig, 1999). The micro-loans also are short term and not secured by tangible securities but rather by group pressure and customer trustworthiness and the supervisory authorities may not have access to individual borrowers. The personal contact between the field officers and the customers result in high operational costs. At the moment there is also very little specialized training in micro-finance thus the need for MFIs to build capacity and train staff in MFIs operations (Mugwanya and Hannig, 1999). As the micro finance institutions work into creating a suitable environment for the provision of their services, the services of the business advisory and counseling services to the small-scale enterprises in dealing with MFIs will be handy.

## **2.5 Interdependence of business operations in development**

Setting up of business for the first time or expanding an operational business can be an exciting experience that can either be the road to financial ruin and personal misery or the road to riches, business development and personal fulfillment (Gary, 1995). Successful businesses are the result of keen research, planning and sound management that exploit an existing business potential, for example identifying a gap in a fast growing market as well as identifying the needs of the section of the market not known by existing businesses.

According to Gary (1995), business failures cannot be solely blamed to the ups and downs of the economy because businesses still fail during good economic seasons. The issue of concern on the failure or the success of the businesses is that too many SSEs do not engage themselves in undertaking serious and effective business planning to enable growth and increased profitability in times of boom and ensure survival in lean years. Assessment of the business operations leads to knowledge on how to break the obstacles and hindrances to successful enterprising and gives direction on business opportunity identification or creation. This means that a shrewd and wise assessment of realities, both present and future is the start of entrepreneurial decision-making.

The business situation must be perceived correctly, the relevant environment identified, most important factors identified and their nature and relationships correctly interpreted. This is because the success of any business depends on the ability of the entrepreneur to break the mental constraints of the existing means to attaining their goals and the realization that the existing means to this end may no longer work due to significant market changes (Katz, 1997). Thus, the individual decision to become an entrepreneur will be the result of the comparison of the expected rewards of the entrepreneurship versus the rewards of the best alternative or the opportunity cost, use of time, wage labor and resources invested. According to GoK. (2000) the responsibility of

the government is to provide the physical and the institutional infrastructure for business enterprising, create markets, increase loanable funds, enhance an enterprise culture and provide quality non-financial promotional programs. This can not be achieved unless the government does substantial policymaking and a great deal of implementing the already existing business enterprise policies. This puts up the essence of a study focusing on the role played by the non-governmental sector to promote the small business sector.

The SSEs personnel must be trained in the operation of the new technology and the micro-finance institutions (MFIs) engaged in SSEs programs must work hand in hand with each other if substantial results will be attained. According to GoK (1989) most of the MFIs in Kenya tend to work in isolation from one another but a closer complimentary of the MFIs activities is necessary and can only be possible if there is a linkage of the business consultancy in the form of advisory and counseling connecting the SSEs and MFIs. This will avoid possible duplication of business programs and projects and stimulate a sharing of experiences, ideas and research findings as well as enhance optimization of programs and reach more entrepreneurs. According to the government of Kenya, new programs on the operations of the small-scale enterprises and the micro-finance institutions should be planned to complement the existing ones but after a careful and elaborate research on what is feasible and viable locally in the country has been established by both the entrepreneurs and advisory consultants (GoK, 1989).

For the volume of SSEs to increase, some institutions like the micro-finance institutions (MFIs) are needed to promote new enterprises, encourage investment and assist in the movement of entrepreneurship from ideas to reality. Since the SSEs in Kenya are not properly equipped like the large enterprises, there is need for the intervention of other agencies committed with the task of improving technology and knowledge. The reason, as Birley and Muzyka, (1997) affirm, is because entrepreneurs normally do not have the resources, power or the ability required to



implement a venture but must engage others in their ideas and leverage resources they do not control or use other people's money. This is because the essence of the entrepreneurial activity is the identification and the economic capturing of market value based on matching of an innovation with a need. Acting as the intermediary between local SSEs and foreign technology, most of MFIs supporting SSEs are better placed since they have a foreign funding and, hence more chances of accessing foreign management technology.

The micro-finance institutions (MFIs) should help adapt the foreign management technology to the new environment, which has a host of cultural values since, as Mwaniki (1979) underlines, a higher degree of success will be achieved by firms that carry out proper adjustment to local social systems. It is expedient that MFIs do a thorough work in promoting business entrepreneurship in the country by finding out the constraints and limitations of the local entrepreneur then seek a suitable remedy through business advisory and counseling services.

In the course of the start and the running of business, funds remain a scarce resource to the SSEs while ambition and need for money are always greater than the funds available. However, to a large extent, the success of raising funds depends on the entrepreneur's personality, how well informed they are, the business contacts available, commitment to the business, sheer creativity and imagination to get funds, among other things (Mwaniki, 1979). This is the point at which micro finance institutions must intervene to support small businesses that are unable to get financial assistance from banks due to huge collateral requirements.

On the other hand, in order for entrepreneurial firms to create wealth to move into the international markets, they often must use all the avenues available to them to obtain the needed resources and to manage the international diversification effectively. These avenues are called social capital and refer to the internal social and cultural coherence of the society, which govern

interactions among people and the institutions without which there can be no economic and human well-being (Kubr, 1996). This includes the shared values and rules of social conduct expressed in personal relationships, trust, and a common sense of responsibility. Among the aspects of social capital important in the process of entrepreneurial firms is the use of formal or informal networks of entrepreneurial organizations since the entrepreneur alone with no interpersonal networks is less likely to succeed. These networks are required due to the need for extensive information, resources and knowledge in business and they provide mutual support as well as allow firms to combine resources and knowledge to enter and succeed in business (Mwaniki, 1979). Organizational network mechanisms, for example exchanging needed services, information and valued activities and long-term co-operation like sub-contracting, technical support and joint product development, is fundamental to the success of business operations.

Similarly, the key aspect of favorable entrepreneurial environments is the thriving network of entrepreneurs, other firms and institutions providing the capital, information and other forms of support. The ideal entrepreneurial environment is the setting where firms take advantage or maximize the accumulation and the accessibility of nearby sources of information, skilled labour, technology and capital (Kubr, 1996). However, in the event where networks are not developed, innovation and technology are not native to the local culture and economy and firms struggle to remain competitive. This is because regardless of their local environment, firms utilize networks to link with other firms and organizations. By using the information they obtain through the networks, firms become more innovative and competitive. This is because the entrepreneurial tactic in firms is the discovery or the creation of and subsequent exploitation of market opportunities. The perception and the exploitation of market opportunities form the basis for other entrepreneurial functions like uncertainty bearing and new venture creation (Katz, 1997). It is therefore only after all the conditions of the entrepreneurial process are met that business can be predicted because development is a product of three social forces namely politics, economics and

culture. Economic development will occur not only when economic conditions are right but also when the political situation is receptive and the cultural context is congenial (Ndegwa et al, 1985). As such, research in social science needs to design programmes of action for developing entrepreneurship through keen incorporation of all the key players in business development (Sharma and Singh, 1980).

Inadequate skills, technology, support services and infrastructure are important constraints on growth and productivity of micro and small enterprises in Kenya. There is thus need to stimulate the demand for business development services like skills training, technology and specialized management and marketing consultations to SSEs (Riley and Steel, 2006). The small firm requires more specialized and individualized advisory assistance and an ongoing advisory support. An institution is needed to carefully identify the small firms that can benefit from specific technological improvements, equipment, marketing efforts or business strategy development. This institution will then identify consultants or technology institutions to provide these services that will allow the firm to grow to the next level (Riley and Steel, 2006).

Moreover, for SSEs to be capable of addressing the constraints to normal growth and expansion, they need standard assistance programs. There is need for customized and appropriate specialized assistance to develop and market their products and facilitate their access to higher levels of technology. When this is done, the highest and most sustainable returns in an overall SSE assistance strategy will be realized. Kenya has the capacity to supply these services through the reorientation of population and supply led approaches to stimulate demand for available services. There will be need to catalyze the development of market for training and business development services by bringing together demand and potential supply (Riley and Steel, 2006).

In conclusion, very few studies in business advisory and counseling have been done in Kenya thereby leaving a lot of gaps to be filled by other researchers. Odete (1982) in a study of management consultancy as a transfer of management technology in Kenya found that there has been no comprehensive study published in the country on business consultancy. He stresses on a demand for extensive study on this area to aid both in research and policy making. Similarly, Kasekende (1984) agrees with this assertion by saying that the consultancy industry in Kenya is at its infant stage and a low level of utilization. This is despite the discovery by McCormick and Pedersen, (1996) that the destiny of SSEs in Kenya is bound up with other organizations, institutions and individuals. This is because in addition to their suppliers and clients, small enterprises relate to the government, NGOs, donor agencies, financial institutions, large institutions, research and training institutions. Developing from the various gaps identified after the works of the various Kenyan scholars, therefore, this study sought to find out how business advisory and counseling services contributes to the performance of the small-scale enterprises.

## **2.6 Theoretical Framework**

According to singleton, Straits and McAllister (1988), empirical studies should be based on theory to provide secure grounds for the formulation of study hypotheses. It explains observed events and relationships and predicts the occurrence of the unobserved on the basis of explanatory principles embodied in the theory (Selltiz, Kidder and Cooks, 1981). In such a case theory enhances the meaningfulness of research and drives it towards validity; a theoretical framework is essential to lead to the understanding of the factors that influence or are associated with an identified problem.

In this study, theories on entrepreneurship indicate that entrepreneurship is the result of a wide range of factors like the value systems, achievement motivation, socialization process, and community character, industrial and political milieu, among others. The theoretical framework in

this study incorporates a conceptual model and the theories that guided the study. The scope of this study focuses on three different sectors namely the micro-finance institutions, the business advisory and the small-scale enterprises. Moreover, due to an effort to reconcile economic development to social influences of the business performance, no single theory is sufficient to guide and inform this study. This is because, although ignored in the past, the social world is a great determinant of economic processes and every program of planned change, according to Rogers and Shoemaker (1971), produces social and economic reactions that run throughout the social structure. This means that the introduction of a new policy program into the existing social unit will have impact on the social-economic variables that in turn induce change in the social structure of the society. There is therefore need to assess the relationship between entrepreneurs and the society in which they operate. This is because cultural norms will determine the limits within which business entrepreneurship can operate. According Sharma, (1975) there is a wide variation in the strength of the need for achievement between different societies and different time periods in the same society and between different individuals and groups in a single society at a given point in time.

This study is thus advised by three sociological theories: The Achievement motivation theory, the Exchange theory and Social system theory. The three theories compliment each in the study and seek to inform it of the people who usually assume the role of entrepreneurship and become the most successful entrepreneurs. Two models namely the McMullan and the Grameen Bank models have also been used in this study. The underlying principle behind the use of these theories and models is that the consequences of change in the society as a social system make themselves felt over a long period of time and they also act as the operating factors that induce a need for achievement among members of the society. This process of change is cumulative and progressive for several successive generations. Therefore, success in any industrial or business endeavor will

be determined in part by both the models of effective and satisfying behavior that people find in their history and the opportunities open to them (Burns and Sani, 1967).

### **2.6.1 Achievement motivation (n/ach) theory**

This is a social psychological theory by McClelland (1961) that conceives the beginning of entrepreneurship and the good performance of businesses as a function of childrearing practices and socialization in the society. It stresses the need to understand the social structural variables, which inhibit or encourage entrepreneurship and like the conceptual framework assert that the social culture and mentors coupled with a business family background bring forth an entrepreneurial orientation. Other factors like technical skills, formal education and availability of resources all contribute to make an entrepreneurial spirit.

A high achievement motivation (n/Ach) is more effective to encourage entrepreneurship since given the same condition, those with a high n/Ach would perform better and the people's upbringing and popular literature are the main sources of high n/Ach. Furthermore, while the ethical values and socialization processes may not be changed in short-term there is a need to inject n/Ach through training for potential entrepreneurs and those already in business (McClelland, 1961). The business advisory and counseling consultants could potentially play this role of injecting because the n/Ach is not a permanent attribute of personality but needs to be infused in the people at a time when they need it. People must learn the dynamics of entrepreneurship through specifically designed training and extension programmes.

An individual when properly motivated will engage in a conscious search for a profitable business opportunity. However, this pursuit for business opportunities is associated with costs and the extent of the search will be consistent with the potential benefit (Sharma, 1975). The motivation to search for opportunities arises from an intolerable level of dissatisfaction that results from a

mismatch between an individual level of aspiration and the conditions of his or her employment or unemployment situation. A search behavior therefore arises due to the more dissatisfaction one experiences, a function of an individual's level of aspiration, skills and motivation interacting. One's skills, aptitudes and training combine with values, personality traits and social influences like environmental context and societal values (McClelland, 1965).

The achievement motivation theory points to the need for the relevant institutions to be set up to look into the plight of the small enterprise sector where institutions like the business advisory consultants should help identify the constraints, hindrances and problems faced by the sector. By taking up the challenge, such institutions will make models that will break through the competition of the business world. The new business models coupled with the strengths of the small sector will be the beginning of great victories in the business world of the small enterprises. Katz (1997) describes the entrepreneurs as actors who discover and exploit opportunities due to their creative spirit and extra ordinary will of the individual entrepreneurs. Theoretically one acts as or behaves as an entrepreneur only for that moment when he or she recognizes the commercial value or potential of an idea. The other times he or she is just behaving like other rational economic actors. In this regard, there is a need for the development of programs and forums that brainstorm the society with business ideas and potential opportunities and for the spirit of enterprise to develop, the right movements must be put in place through seminars and business campaigns, workshops and training programs made available to existing, interested and potential entrepreneurs. Such a step calls for co-operation between the governments, the private sector and other stakeholders in business.

The implication here is that the ethical values and the socialization process or childrearing practices need to be changed suitably in order to boost entrepreneurship. The necessary movements should be initiated to induce materialistic elements in the ethic of the community and

the people known to have interest in business should be highly encouraged. Every attempt should also be made to inculcate the spirit of entrepreneurship among the people who are likely to turn to business thereby becoming potential entrepreneurs (McClelland, 1976). The achievement motivation theory is however, not adequate for this study since it only focuses on highlighting the importance of having the right literature and institutions in place without considering the role of other stake holders in business.

### **2.6.2 Exchange theory**

According to Blau (1964) social life is made up of associations between people in work, play and other activities. People's associations proliferate through social space and time and the association between individuals gets organized into complex social structures and often become institutionalized to perpetuate the form of organization beyond the life span of humans. The exchange transactions and power relations also constitute of social forces that start out of simple associations and evolve out into more complex associations and the forces of social attraction stimulate exchange transactions.

The gratifications experienced by individuals are contingent on the actions of others while much of the human suffering and happiness has its source in the actions of other human beings. The rewards individuals obtain in social associations tend to entail a cost to other individuals. As such, individuals associate with one another because they all profit from their association though people do not benefit equally nor share the cost of providing the services equally (Blau, 1964). While this cost and the benefit may be direct or indirect/ intrinsic the reciprocation of kindness or favours results to the mutual exchange that strengthens the social bond between people. Failure to reciprocate, on the contrary, is regarded as ingratitude and such accusation serves as a social sanction (Blau, 1964).



Individuals and groups are interested in maintaining a balance between inputs and outputs and staying out of debt in their social transactions and for supply and demand to remain in equilibrium in a market, forces must exist that continually disturb the established patterns of exchange. The balanced social states depend on imbalances in other social states because forces that restore equilibrium in one respect do also create disequilibrium in others. Therefore, a person who supplies services in demand to others obligates them to reciprocate and if some don't he or she withhold it to supply it to others who repay back (Blau, 1964).

Homans (1974), on the other hand, says that large-scale structures can only be understood if we understand the elementary social behavior. This means that exchange process is identical at the individual and societal level and that the nature of individuals finally determines the nature of society. The history of rewards and their costs likewise determine the activities people engage themselves in. People continue to do what they found to be rewarding in the past and cease doing what proved to be costly in the past. All actions taken, the one rewarded is likely to be repeated and the more valued an action is, the more likely that it will be repeated (Homans, 1974). This means that the greater the profit for an action, the more it will be repeated. It is thus rational to act in ones own best interest and to maximize ones gain or profit and minimize ones loss or cost. Therefore actors use the resources or elements available to them in exchange having the goal of maximizing the realization of their interests (Homans, 1974). In a free market place people should have access to all the necessary information to consider all available alternatives and on the basis of this select the activity that will maximize the material benefits. The costs are weighed against material benefits in an effort to determine the alternative that yields maximum profit at less cost.

In their contributions to social exchange Turner, Belghley and Powers, (1989) gives the following assumptions of exchange theory: all actors have resources to use to receive valued resources from others; all actors make calculations as to the reward value or utility of resources possessed by

other actors and the costs they must incur; all actors seek to receive more value or utility than the resources they use; social relations involve a constant process of exchange of resources among actors. On the other hand, every role one has to play as a result of being in a certain position has a role expectation. This implies that the roles given to individuals in a social system are complimentary and their role expectations facilitate social interaction by providing those who interact with means of reciprocal prediction of behavior.

Exchange theory conceptualizes the world as a market place in which rational actors compete and choose the best means to maximize their utilities or gratifications (Turner et al, 1989). The main contention of this theory is that economic development is the result of the rationalization of technology and accounting systems, and the acquisition of capital and its productive use. Accordingly, enterprises seek to maximize their rewards out of every venture while entrepreneurs engage with other systems to get profit out of their enterprises. Moreover, Kubr (1996) contends that as business activities become more complex, so do the need for outside assistance for example the need for capital, technology and management information. This calls for the need to understand business in terms of the connectivity of various sectors in the small-scale business as members of the whole as explained by the social systems theory.

Based on exchange theory, interactions between business entrepreneurs are likely to continue when there is an exchange of rewards. This could explain why most SSEs in Kenya do not use business advisory and counseling services and eventually they are competed out of business. Possibly, they do not foresee a reward in terms of profits in exchange to the costs they pay for consultancy. For example, due to competition and the benefits of the hotel industry, the industry is leading in the use of business advisory. The exchange approach, as Ritzer (1988) affirms, looks at the benefits people obtain from and contribute to the process of social interaction. It is until SSEs entrepreneurs are able to perceive a gain that they can give themselves to the use of the services.

This fact returns us to the challenge of business advisory consultancy servicing given by Kubr (1996), which says that the product is intangible and can only be sold as a promise. Proper marketing of the service therefore is required in addition to the publishing of their testimonials by the SSEs who have benefited from the service if new users are to be attracted.

### **2.6.3 Social Systems theory**

This theory is associated with Talcott Parsons (1902-1979), and draws from classical theorists like Comte, Spencer, Durkheim and others. Its central argument is that actors interact and develop agreements and sustain patterns of interaction that become institutionalized. This institutionalization, leads to relatively stable patterns of interaction among actors (individuals) in statuses, and the key to the conceptualization of the social systems theory. Since the statuses are normatively regulated and at times infused with cultural patterns, it can thus be said that stable patterns of interaction constitute a social system (Turner, Belghley and Powers, 1989).

The social systems theory views society as a huge system comprised of many interrelated parts and therefore the intricate relationships or processes at various levels of parts cannot be treated out of the context of the whole. Rather, there is need to examine the relationship between parts and the system and other systems. The social systems comprise of mutually adjusted ideal patterns according to which the attitudes and the behavior of society members are organized (Borgatta and Meryer, 1956). A social system is an organization of ideas and represents a particular arrangement of statuses and roles in the society and responds to the environment as it maintains its basic identity.

According to Odegi Awoundo, (1993), the main functions of a social system are pattern maintenance, adaptation, goal attainment and integration. These functions require that the various parts work in harmony for the betterment of the whole system. A social system and its constituent

parts can only be understood by assessing how each part contributes to meeting the needs of the systematic whole. Moreover, in a social system, patterns find expression only through the medium of individuals who occupy the statuses established in society (Defleur, Defleur and D'Antonio, 1971). Moreover, a social system like other systems has a determinate internal organization and determinate patterns of structural change and has a variety of mechanisms of adaptation to changes in the external environment (Parsons and Shills, 1967). It has elementary units called roles and involves the differentiation and the allocation of roles. Different actors have different roles as each participates in the social system and must possess a minimum degree of integration for collective and private goals to be effectively pursued (Parsons and Shills, 1967).

The achievement of goals is only possible through the collaboration of complimentary role situations and the allocation of rewards has the dual function of maintaining and modifying motivation and affecting the allocation of facilities (Parsons and Shills, 1967). Where allocation of rewards diverges too widely from what is thought by the aspirant to be his right in the light of his qualifications, his motivation for the performance of his role will be affected. Equilibrium is thus maintained by a variety of processes and mechanisms by which motivation is kept at certain levels and in the direction necessary for functioning of the system. This is why this study emphasizes on the importance of bringing together all stakeholders of business entrepreneurship because the end result of business performance is cumulative and a product of all contributing parts of the whole.

Following social systems theory, there is a need to understand the difference between the subsystem of the small business sector and the other sectors in its environment as members of the bigger whole. In taking the business entrepreneurship as a social system, all the participants must work hand in hand with each playing its role for the betterment of the others and the common whole. All the institutions involved like the business advisory and counseling firms, finance

institutions and the business enterprises must interact in stable patterns of relationship. Their interdependence in pattern maintenance and goal attainment will keep entrepreneurship and business development in harmony. Small-scale businesses for example must get financial assistance and technical expertise to properly compete effectively with the other sectors in the business environment.

In the event where there is no transfer of energy (capital and other forms of material support), from financial institutions to the small enterprise sector or the exchange of business information from business experts to this sector, the sector then fails to respond selectively to the environment. This inability to respond selectively to the environment results in the development of tension (poor performance) as compared to the other sectors in the same environment. The small enterprise sector must be helped to develop mechanisms of adaptation to changes in the external business environment while the differentiation and allocation of roles must be properly done. In situations where the allocation of rewards diverges widely, the motivation of performance of the small sector is affected thus calling for concerted efforts from the concerned institutions to maintain order. Social systems theory looks at entrepreneurship in a general sense thus the need for achievement motivation and exchange that give a particular case focus.

In this study, the three theories used compliment each other. Social systems theory is used to shed light on the various business sub-systems' contributory potential towards business and societal business development, a precursor to national development. It is viewed in the light of the fact that a business will participate effectively if it has adequate capacity for decision and equal access to resources. This theory was used to answer the question: How does business access to capital and information relate to its performance in relation to other businesses? The social systems theory however is not sufficient by itself because it presents a general picture of the society. This calls for the need to incorporate other theories that present the specific issues and particular cases

of interest as required in this study. The achievement motivation theory for example, has pointed the study to the need for the relevant institutions to be established to look into the plight of SSEs. Such institutions will be trusted with the task of identifying the constraints, hindrances and the problems of the sector and making the relevant models to counter such. This is because, it is only after one recognizes the commercial value of an idea that they act or behave as entrepreneurs. As such there will be need to develop programs that brainstorm the society with business ideas and potential opportunities.

The spirit of enterprise will be developed when the right movements are put in place through seminars, business campaigns, workshops and training to both existing and potential entrepreneurs. The ethical values, socialization process and child rearing practices thus need to be changed suitably to boost entrepreneurship. Similarly, the achievement motivation theory is also inadequate by itself in this study due to the fact that it does not highlight the complementarity of the different stakeholders in small-scale business as members of the whole system. According to Blau (1964) on exchange theory, people's associations proliferate through social space and time and the association between individuals gets organized into complex social structures and they often become institutionalized to perpetuate the form of organization beyond the lifespan of humans. The exchange transactions evolve out into more complex associations. In this regard, SSEs make calculations to the reward value or utility resources possessed by the business advisory consultants and the micro finance institutions and the costs they must incur. Moreover, all the parties involved in business entrepreneurship seek to receive more value or utility than the resources they use and social relations involve a constant process of exchange of resources among the parties involved. Moreover, business performance is more than exchange and calculations for the reward value. This highlights on the complementary role of the three theories that connect each other in this study.

Moreover, the social systems theory in this study has seen the SSEs, micro finance institutions and the business advisory and counseling services as parts that work together for the betterment of business enterprise. The achievement of goals for example, is only possible through the collaboration of the parties involved in complimentary situations. For this reason, if allocation of rewards diverges widely from expectations, motivation for performance is affected. This explains why SSEs avoid the services of the business advisory and counseling when they don't perceive any benefit or reward at hand. Malenya (1998), for example notes that the slow rate of growth of micro enterprises in Kenya is attributed to a number of factors like inadequate capital, marketing difficulties, poor infrastructure, unfavorable legal and regulatory conditions, poor management practices and limited entrepreneurship skills. This calls for constant cooperation of all parties involved in the small-scale business entrepreneurship. The exchange theory explains why enterprises attach themselves to the pursuit of rewards while avoiding cost as much as they can and the reason why many entrepreneurs avoid business loans even when they are available due to fear of high interest rates. Again the high cost of running business and the high rates of risk cause potential entrepreneurs to opt to raise their own capital instead of accessing loans.

#### **2.6.4 The Long and McMullan's model: Opportunity identification as a creative insight**

The Long and McMullen model in Katz (1997) found out that opportunity identification is a process occurring over time rather than in a single moment of inspiration. It is the result of myriad of personal, social, cultural and technological forces (prevision) that meet together and lead to the perception of a possible market opportunity (vision). In this framework the vision represents the good idea that may or may not be an entrepreneurial opportunity. The idea is evaluated and refined until the individual has an opportunity or not (elaboration). The elaboration stage carries the greatest weight in this system that involves a searching preview of the mechanisms of translating the concept into reality within an industrial setting. This framework does not exist until the individual has developed a blueprint of the exploitation of his or her idea.

Job forces, social forces,  
Market demands, technology  
And cultural forces

**(SOCIAL)**



PREVISION → VISION → ELABORATION → LAUNCH DECISION.



**(Develop, Elaborate and Modify)**

Experience, satisfaction  
Attributes, knowledge,  
lifestyle and training.

**(PERSONAL)**

Figure 1: opportunity identification model. Source: Katz 1997.

The lack of employment and dissatisfaction with one's work, for example, compels one to seek alternatives of possible income opportunities. When coupled with the demands in the market, technology changes, and their cultural orientations, this creates a social drive. A person's education, experience and training, on the other hand, put up a personal drive that combines with the social drive to make a vision for a project or an activity in the mind. The vision bearer with time keeps working towards the actualization of his dream by developing further ideas and modifying what already exists until the vision is finally launched as a decision.

### **2.6.5 The Grameen Bank model**

According to Burns and Sani (1967), large-scale changes in society consist ultimately of changes in behavior of large number of individuals but are initiated by the behavior of a small number of individuals. The small groups develop norms or shared ways of behaving, thinking and feeling especially in relation to the main goals or objectives and activities of the group. Although norms exert some conservative influence resisting change, they become out of date due to changes in the environment outside the group. With time, the ways of life and behavior that were acceptable



become unable to successfully meet the needs of the members and as a consequence in the crisis influential people arise to find out solutions to the problems prevalent in the group.

Following the examples of many nations with the problem of economic development, leaders with development consciousness come up with ideas that can help deliver the people from the challenges of underdevelopment. For example, the Grameen bank was created with the intent to help the poor in society make use of their own potentials and simple skills to meet their livelihoods and its model is generally applicable in countries that have multiple national problems such as long term stagnating economy, serious social-economic and political disruptions, rapidly increasing population, high unemployment and underemployment and low agricultural productivity. As a model it is a product of the use of academic skills in the rehabilitation of a country and out of the affirmation that the university is a reservoir of knowledge, which should spill over to benefit it's surrounding, (Mann, Grindle and Shipton, 1988).

In an attempt to attain the self-reliance of the low-income people, this paper borrows some important aspects from the Grameen bank model as an institutional framework for self-reliant Bangladesh because this is the model from which many micro-finance institutions have founded their operation principles. Burns and Sani (1967), for example, observed that while many locals wish to borrow funds and make local investment, none was willing to give them loans. Furthermore, the few available sources of income to the low class people charged very high interest rates or required collateral to the creditor as a form of loan security. This trend resulted in a vicious cycle of poverty for the disadvantaged leading to a decreasing alienation to the profit, which go to the hands of a few elites. To alleviate the rampant problem of poverty, there is a suggestion to work towards a fair return to the efforts of the poor (Mann et al, 1988). This would mean initiating institutions, which would lend money to entrepreneurs at reasonable interest rates. Yunus, the author of the Grameen Bank model, also sought group 'like- minded' entrepreneurs of

the same locality to encourage trust and cooperation. Each group had to take a loan from the institution and pay back weekly through the groups elected officials. To avoid inconsistency of regulations Yunus came up with a printed booklet with the by-laws of the Grameen bank project (Mann et al, 1988).

The apparent underlying assumption of the Grameen model is that the poor have the skills to carry out productive activities but the skills must be properly harnessed and directed, a role that can be played by business advisory and counseling consultants. According to this model, specialized banking institutions are not appropriate for handling the poor thus the need for motivators committed to the plight of the local entrepreneurs. These motivators must both have the interest and a record of field experience to be able to monitor progress and organize training (Mann et al, 1988).

Developing on the this model, this study realizes a need for the policy makers to come up with strategies that can help the small enterprises in business development and therefore the need to equip these entrepreneurs with the relevant business skills and harness their efforts by mobilizing them into viable economic ventures. Their business ideas must be realized by offering them both the capital and the expertise of business operations. This brings out the need for concerted efforts to be encouraged between the business advisory experts and the small business financiers. To realize this goal, the government, the private sector and the learning and the research institutions must be united to work hand in hand with one another. However, since entrepreneurship takes a variety of forms in different times and places due to the complexity of each society, the innovator does not always find it easy or possible to equip himself or herself with the necessary characteristics of enterprise development. This calls for proper rationalization and ability to make wise economic choices for the opportunities given to the entrepreneur by the society and the best utilization of the resources available.

To achieve any economic objective, it would be of paramount importance to change the people first. For example, there is need to condition the workers to the discipline of modern industrial organization with a higher degree of division of labor and the ability to identify and capitalize on new opportunities of business development. This is because people tend to seek roles in which they gain power and status relative to the people of high class in the society and in their pursuit of economic prowess they become innovators (Burns and Sani, 1967).

## 2.7 Conceptual framework

To get an overview summary of the process of entrepreneurship development and the contributing factors and in pursuit of the research objectives, this study developed a conceptual model on the process of developing small-scale business initiatives and the ultimate business development.

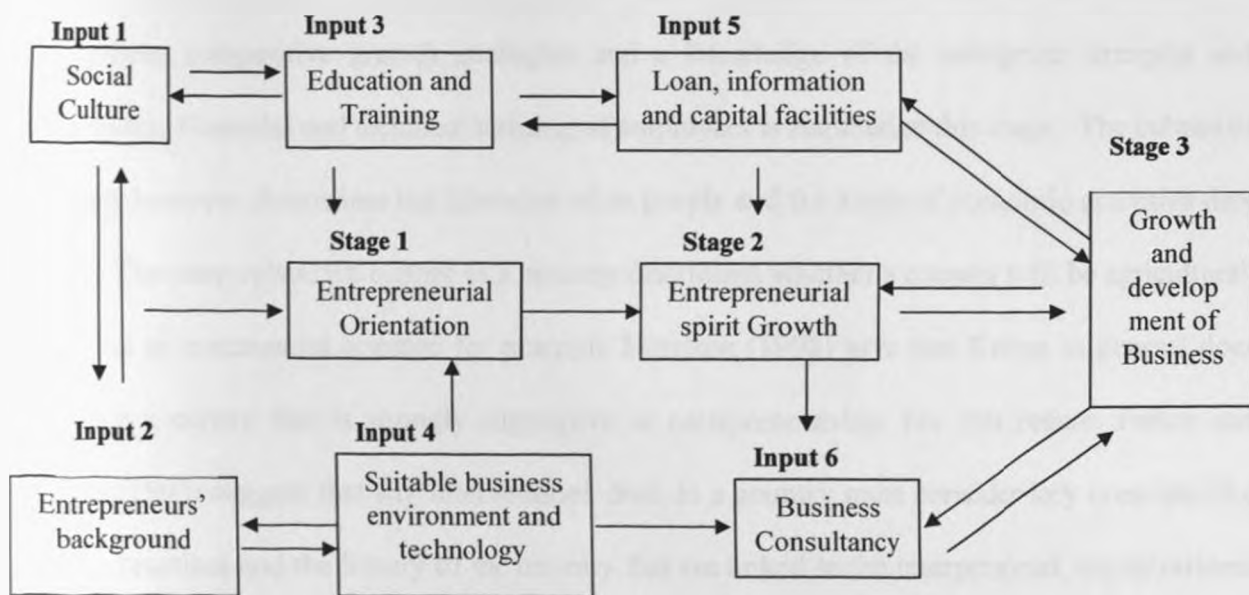


Figure 2: The Business entrepreneurial model.

This conceptual framework is an analytical tool showing a specification of the relationships in the study developing from the literature reviewed, building on the theories used and the elaborate guide of the study hypotheses. The framework shows three stages. In stage one, social culture, mentors, family background, formal education, curriculum and technical training interact with one

another resulting to the development of an entrepreneurial orientation. Those with the potential for entrepreneurship get information about self-employment as a career option and skills and attitudes on entrepreneurship are developed and project ideas enhanced as people gather the relevant information to determine the viability of their idea.

A conducive environment, appropriate technology and market, available capital, business facilities, SSE support institutions and business consultancy breed entrepreneurship orientation that develops further to entrepreneurial spirit (Stage two). The potential entrepreneurs make a definite commitment to become self-employed and begin preparing business plans. Entrepreneur development programmes and information on technology options are valuable at this stage (GoK, 1989). In the final (third) stage, all the relevant factors interact resulting to growth and development of business. Here entrepreneurs change to more managerial styles where information on markets, competitive growth strategies and a knowledge of the enterprise strengths and weaknesses. Financial and technical training of employees is required at this stage. The culture of a society however determines the lifestyles of its people and the kinds of economic activities they pursue. The comprehensive culture of a country determines whether a country will be agricultural, industrial or commercial oriented for example Morrison (1998) says that Kenya in general does not have a culture that is strongly supportive of entrepreneurship. For this reason Parker and Torries (1993) suggest that any interventions done in a country must consider key concepts like beliefs, practices and the history of the country that are linked to the interpersonal, organizational or community change.

A culture that is conducive to business activities will produce entrepreneurship and economic development will be realized through the rationalization of technology, accounting systems, the acquisition of capital and its productive use. This comes about when a society emphasizes on a culture of materialism and rationality (Parker and Torries, 1993). For example, once associations

with successful business mentors and a family business setting are developed, they expose one to business undertakings and mould up an entrepreneurial spirit within a person. This is due to the fact that the members of ones immediate surroundings and the peer group which one most identifies with have the most significant influence on an individual's behavior (Rogers, 1972). For this reason, people are most likely to adopt new behavior based on favourable evaluations of the ideas communicated to them by others whom they respect. These other members act as their role models.

The input that comes from ones formal education and technical training equip one with knowledge and skills necessary for business undertakings. The availability of capital or any possibility to receive credit facilities on the other hand will open up the entrepreneurial spirit for action. This is the inherent drive to get into business irrespective of the prevailing constraints and challenges. With business opportunities available and entrepreneurial endowments, a person as a rational being will make systematic use of the information available. According to Fishbein (1967), people consider the implications of their actions in a given context at a given time before they decide to engage or not to a given behavior or undertaking.

After assessing all factors with satisfaction the entrepreneurial spirit propels one into business. Rogers (1972) declares that when a business idea gets into a community it starts as an innovation; it is communicated into the social system and then adopted with the passage of time. The people's exposure to a new idea takes place within a social network or media, which determine the rate at which people adopt the new behaviour. This is the work of business consulting that facilitates the adoption of business information and new management techniques. This is as Rogers, (1972) affirms, due to the fact that human behaviour is a continuous interaction between cognitive, behavioral and environmental determinants.

Growth and development of business is the final stage. The entrepreneurial spirit coupled with business information and management technology contributes greatly to the good performance of enterprises. The circulation of business information becomes important in entrepreneurship because behaviour is learned by modeling the behaviour of others or by direct experience, (Rogers, 1972). A significant impact of any undertaking will therefore be when those individuals contemplating change and those who have made the changes get the support to sustain the changes, (Fishbein and Ajzen, 1975). Business advisory and counseling consulting gives the support to both make a change and sustain it in business. Since only a few studies have been done in connection with the interdependence between the small sector and other institutions working towards economic development, the three objectives developed guided this study into formulation of the research hypotheses.

## **2.8 Research hypotheses**

From the literature review, it has been established that the small-scale sector plays an important role in national development yet it has been marginalized. As part of the entire whole of business development, this sector has a contribution that cannot be ignored. Since only a few studies have been done in connection with the interdependence between the small sector and other institutions working towards economic development, three hypotheses have been developed to guide this study. They are:

- a) Accessibility to business advisory and counseling services increases the profitability of the small- scale enterprises.
- b) The high cost of commercial business advisory and counseling services has resulted in the underutilization of the service by the small-scale entrepreneurs.
- c) The level of utilization of the commercial business consultancy services by the small-scale enterprises in the Kenya determines their level of economic performance.

## 2.9 Operationalization of variables

Operational definition of variables and concepts used in this study was carried out to enable the reader understand fully the levels of measurement used. The independent variables in this study were accessibility of business advisory and counseling services, the cost of commercial business advisory and counseling services and the availability of loan and credit facilities. The dependent variables were the performance of the small-scale enterprises, the profitability of the SSEs, the utilization of business consultancy services and the impact of the business advisory services.

### **Dependent Variables:**

These are the variables upon which change is brought about by the effect of the independent variables.

**1. Performance of SSEs:** This variable refers to the growth and development of the small-scale enterprise sector in terms of the rate of entry of new SSEs in the operations of MFIs within a given period of time and increase in capital. Decreased profits and the lack of new businesses entering the sector or the exit of SSEs will indicate a deterioration of the enterprise and the inability to properly use the loans given to them, and loan defaulters have been taken as a measure of underdevelopment or poor performance.

**2. The profitability of SSEs:** This is measured by the comparative performance of the SSEs in terms of increased profits of their operations over time, increase in labor force, increase of working capital, increased assets, widening markets, increase of customers and the ability to payback their loans.

**3. Utilization of business consultancy services:** This is measured by unlimited access to business advisory services and its proper use and the willingness by the SSEs to have business transactions

with the business advisory and counseling consultants. It also refers to the ability of the entrepreneur to translate the business ideas and experiences offered him by the consultant into productive tangible results like increased profits or increased levels of production and sales.

**4. The impact of business advisory services:** refers to the changes, outcome or consequences brought about by the utilization of the business advisory and counseling services by the small business enterprises. For example increase of profits, enlarged market and proper utilization of loans.

### **Independent Variables**

These refer to variables or factors that affect or bring about a change in others in a relationship but they remain unaffected.

**1. Accessibility of business advisory and counseling services:** refer to the awareness of the SSEs about business consultancy and their ability to use the service conveniently at their will.

**2. The cost of commercial business consultancy:** This is measured by the SSEs attitudes and assessment of the consultancy fees charged by the business advisory and counseling consultants relative to the SSEs profits over time. It also refers to the affordability and ability of SSEs to pay conveniently, any business consultancy service they use.

**3. Availability of loan and credit facilities:** refer to the ease of access to formal financial assistance from the financial institutions or co-operatives and unions towards for the use and improvement of the small-scale enterprise business sector.



## CHAPTER THREE

### METHODOLOGY

#### 3.1 Introduction

This chapter profiles the type of data that was collected, the techniques and methods of collection and analysis as well as the location and the population of the study. The chapter presents the study site, the sampling procedure and the sample size used in the study. It also describes the type and sources of data and the methods of data collection used in the study. The unit of analysis and of observation for the study is given here as well as the data analysis techniques used. In order to precisely understand the question of the small enterprise in relation to national development, it was found necessary to use the triangulation method. This means that both the quantitative and qualitative methods of social investigation have been used.

#### 3.2 Field Research

This started with desk research that was done for the purpose of generating secondary data to help understand the question at hand at a theoretical level. It involved the reviewing of various research reports and books including the works of interested organizations about this subject. This entailed visiting various libraries and resource centres in Nairobi in particular the Kenya Central Bureau of Statistics, the Kenya National Archives and several libraries of the University of Nairobi and Jomo Kenyatta university of science and technology. Research findings from NGOs like the association of the NGOs, the NGO council of Kenya, K-rep, and Faulu Kenya, among others, were also utilized.

While the role of desk research cannot be overlooked, the reality of the study cannot be understood adequately without a great deal of field research. This involved studying a sample of the target population elements in the areas of their business operations. This, unlike the desk research, explained the problem at a practical level due to its direct interaction with the

respondents. The firsthand information obtained helped to answer the research questions raised earlier in the study. In this connection, Nairobi city was purposively chosen as the area of study by virtue of the diversity of the operations of the micro-finance institutions and SSEs more than in any other part of the country (Central bureau of statistics and K-rep, 1999). The fact that most micro-finance institutions even those in the countryside have their headquarters in Nairobi and that their operations are not scattered in the city as in the countryside is appreciated in this study.

### **3.3 Site selection and description**

This study was carried out in the city of Nairobi in Kenya and targeted the operations of micro finance institutions and their endeavor to promote the SSEs. Nairobi is the largest city in Kenya and the headquarters of both governmental and many international organizations and foreign missions operating in the country and in the region. The main reason for conducting the study in Nairobi is the fact that this is the capital city of Kenya and one of the largest cities in East and Central Africa and therefore a major industrial and business center (Ndege, 1990). Considering that majority of the micro-finance institutions are in Nairobi and that more small enterprises are concentrated here, coupled with time and financial constraints, the study purposively chose to carry out the research in Nairobi city.

The city of Nairobi is one and half degrees south of the equator and covers 696 square kilometers including the 120 square kilometers of its game park and all of Jomo Kenyatta Airport. It borders Kiambu and Thika districts in central province in the north, Machakos district in eastern province to the east and Kajiado district in Rift valley province to the south. The city has an approximate population of about two million residents and a density of 2,903 people per square kilometer. This population comprises of 1,153,828 males and 989,426 females (Kippra, 2004). The central part of the city center is only 5 square kilometers and it is congested with a high density of storey buildings that utilize the aerial space. South of the railway line lies the industrial area that has

witnessed the fastest growth in terms of acreage. It is a busy and thriving action-packed area with factories of all sizes and functions (Kippra, 2004).

Nairobi has the greatest proliferation of all types of businesses (Central bureau of statistics, International centre for economic growth and K-rep, 1999). It has the greatest concentration of the three types of organizations focused on this study: MFIs (micro-finance institutions), SSEs (small-scale enterprises), and Business advisory and counseling consultancy firms (BACCFs). Since Nairobi is the center of national activity, it is also expected that most decisions are made here and policies are first implemented here before they are taken to the rest of country. The majority of the industrial activity is located in the industrial area that is in the east lands of the city and in the central business district. However, there are other isolated cases as in Ruaraka and Kariobangi in the south, among other areas. Apart from industrial activities other business operations are spread all over the entire city. Other isolated cases of small-scale enterprises especially of retail shops and informal manufacturing have found their way into residential areas. Similarly, many private organizations are mainly located in Nairobi and some extend their operations to the countryside, (Central bureau of statistics, International centre for economic growth and K-rep holdings ltd, 1999).

Nairobi as a province has eight political divisions namely: Dagoreti, Kasarani, Makadara, Westlands, Starehe, Langata, Kamukunji and Embakasi. Its population is further subdivided into four socio-economic strata, namely: upper class, middle class, lower class, and lower-lower class based on incomes and other socio-economic variables. The upper class is found in the western, northern and southern parts of the city while the middle class is spread all over the city. The lower class and the lower-lower class mainly reside in the area called the eastlands which sprawl to the east of Uhuru Highway, cutting across the middle of the city towards the eastern, north-eastern and south-eastern suburbs bordering Kiambu, Thika and Machakos districts (Kippra, 2004).

Nairobi like many cities in the developing world is characterized by a majority of the population (estimated at 60%) living in non-formal settlements (Kippra, 2004). Poverty is rampant with approximately 50% of the population living below the absolute poverty line of less than one US dollar a day (Ksh 2,648 per month). The poorest population is concentrated in five divisions namely: Makadara, Embakasi, Kasarani, Dagoreti and Kibera (Kippra 2004). The city, however, has a fairly large business sector comprising of manufacturing, service and merchandising, which include large, medium and small-scale enterprises. The formal sector coexists with a large non-formal sector, which employs the majority of the city residents. Nairobi also is a haven of market stalls with at least 10 markets around the city center. In addition to the large busy ones, there are a collection of stalls in every residential area of Nairobi. The big markets are City market, Kariokor, Wakulima, Gikomba, Westlands, Eastleigh, Retail and Burma markets. Small knee-level stalls are scattered throughout the city. These are for street shopping, craft shopping, clothing, and bookshops. There are also numerous supermarkets (Macintyre, 1986).

### **3.4 Unit of analysis**

The unit of analysis in this study is the effect of business advisory and counseling services to the performance of small-scale enterprises. The information to this end however, was obtained from the SSEs, Business advisory and counseling firms (consultation firms) and the micro finance institutions (MFIs) that were the focus of the study. As a result of the limitation of time and resources this study mainly undertook to investigate the operations of only those small-scale enterprises using micro-finance loans. This category of small-scale enterprises comprised of all small enterprises by virtue of the size of their invested capital and extends to the ranges of retail, production, and “Juakali,” among others. This study included respondents from micro-finance institutions and business advisory consultants as additional units of analysis to get a grasp of other stakeholders’ perspective on the sector. The unit of observation was comprised of all the

respondents used in this study to provide the researcher with information pertaining to their organizations. These were the credit officials from micro-finance institutions dealing with small enterprises, business advisory and counseling consultants and operators or owners of SSEs or their managers.

### **3.5 Sampling procedure and sample size**

According to Singleton et al (1988), a sample is a part of a population selected according to certain rule or plans to be a true representative of the whole population. The sampling procedure refers to the plan and process used to choose the sample. A survey covering the small-scale enterprises was done in the city of Nairobi. Nairobi city was purposively selected for this study because of its role as the commercial hub of Kenya. It however, proved an extremely difficult task to have a watertight definition of the entire population of the Nairobi's small-scale enterprise sector due to the ad-hoc nature of the enterprise activities and the uneven geographical spread of their location as well as operations.

The mapping exercise of the study area focused mainly in the divisions with a large majority of the lower and the lower-lower class population because these are the areas with the highest proliferation of small-scale enterprises. However, the fact that the sector also comprised of mainly unregistered enterprises made it difficult to develop an exhaustive sampling frame. To surmount this obstacle, the study conducted a pilot field survey to establish the number of micro-finance institutions in the city of Nairobi. From these firms it was possible to obtain a list of the small enterprises getting micro-finance assistance in the form of loans from each micro-finance firm. The population for this study was then taken to constitute the small-scale enterprises in Nairobi benefiting from micro-finance loans.

Since it was practically impossible to contact a study on the entire target population within the limited time available and due to shortage of resources, sampling was done. Scientifically speaking sampling was necessary to increase efficiency during the study and to enhance the collection of high quality data. The selection of a truly representative sample gave the research information that could be easily handled and the results of generalization for the population would be better than a large mass of population data (Singleton et al, 1988).

To capture the diversity of the micro-finance operations, this study randomly chose five micro-finance institutions out of the fifty-two enlisted in the sampling frame as clusters. This was done in the first stage of the multi-stage cluster sampling employed in this study. Moreover, to lay a grasp of the role of the Kenyan government on the establishment of the small-scale enterprises, the government finance institutions were also included in the category of micro-finance institutions. Kenya has six development finance institutions (DFIs) namely: the industrial development bank (IDB), the industrial commercial development corporation (ICDC), the development bank of Kenya (DBK), the agricultural finance corporation (AFC), the small enterprise finance company (SEFCO) and Kenya industrial estates (KIE) GoK, (1996).

The sampling frame for the micro-finance institutions was obtained from the register with the NGO council of Kenya, the government development finance institutions including Development Finance Bank of Kenya (DFBK), Housing Finance Corporation of Kenya (HFCK), Kenya Tourism Development Corporation (KTDC) and the association of micro-finance institutions in Kenya. An application was sent to fifty-two organizations whose physical, telephone and postal address was available in the Kenya telephone and mail directory, requesting them for permission to carry out a study with their organization.

The sampling frame however only comprised of those organizations offering financial support to small enterprises. Out of these twenty-eight responded in the affirmative within the four-month grace period adopted by the study to receive responses. This study employed multi-cluster sampling and selected at random ten categories out of the twenty-eight micro-finance institutions the study in the first stage of cluster sampling. This was done by listing down the names of the twenty eight firms and allocating a number to each of them. Small papers were folded each with a number written in it and thoroughly mixed in a bowl and then ten micro-finance institutions picked at random without replacement.

It is important to note here that in the beginning of the selection of the sample, the different micro-finance institutions and their operations in the city of Nairobi were taken as clusters. They were considered as clusters because each is externally different and unique in its operations from the others and each cluster is internally homogenous in its operations countrywide. Out of the ten micro-finance institutions selected in the first stage of multi cluster sampling, five were purposively selected starting with the one with the highest total annual budget allocated to SSEs and how it spread more widely within the city of Nairobi (in terms of branches or coverage) in the second stage of the multi cluster sampling. The micro-finance institutions selected for this study were: K-rep, Sun-link, Faulu Kenya, Kenya Industrial Estates (KIE) and Undugu society of Kenya.

After selecting the micro finance institutions, the study adopted simple random sampling technique to select twenty small-scale enterprises from each of the five categories of micro-finance organizations in the third stage of multi-cluster sampling as the unit of analysis of the study to make a total of 100 SSEs. The clusters were chosen from different micro-finance institutions to bring about diversity in the final selected sample. Equal sub-samples of twenty respondents were randomly selected from each micro-finance institution comprising of the small-

scale businesses all of whom were loan beneficiaries. The study interviewed all the one hundred respondents in the small-scale category benefiting from micro-finance loans. The five micro-finance institutions selected had different numbers of small-scale enterprises they were currently supporting. However, each micro-finance firm contributed twenty small-scale enterprises to the study sample. The sample consisted of 1.2% of the total number of SSEs from the selected five micro finance institutions. The micro-finance institutions selected had a total of 8240 small-scale businesses benefiting from them. The main focus of this study was the small-scale enterprises operating on micro-finance loans that led to selection of twenty SSEs from the MFIs to allow representation and diversity in the final sample.

The main justification for not selecting equal number of SSEs from every MFI was that the SSEs were the main focus of the study but not the MFIs. The MFIs were only used as gateways of reaching the SSEs utilizing business loans. The fact that there was no watertight population size identified in this study coupled by the fact that no MFI ever has a constant no of SSEs benefiting from their loans at any given time required that this study come up with a uniform number of SSEs from each MFI. The kind of sampling adopted here therefore is referred to as disproportionate multi cluster sampling. This sampling ignores the size of each cluster in determining the final sample and is used when the actual size of each cluster is not known and as a result the sampling frame is not available.

Concentration of SSEs was found in places where the government had set up “Juakali” sheds like in the Kenya Industrial Estates, in the industrial area and the major market places like Gikomba, Kamukunji, City Stadium and the City Center among other areas. The SSEs are attracted in large numbers by the densities of population in these areas where the entrepreneurs take advantage of the large market offered by the inhabitants. In addition to the 100 respondents this study also used twenty-two key informants. The key informants comprised of the credit officials from the micro-



finance institutions who dealt with the small enterprise clients and the business advisory and counseling consultants conveniently chosen from a list prepared by the Kenya Industrial Research and Development Institute (KIRDI). Thought provoking discussions were conducted with these officials and representatives from the firms investigated in the form of informal interviews and discussions as guided by the research interview guide. The selection of the key-informants from advisory and counseling services depended on their willingness and availability for such discussion.

### **3.6 Methods of data collection**

Both primary and secondary data were collected for this study. The study utilized the survey method in collecting the primary data. Surveys were administered using an interview schedule (see appendix) to the respondents drawn from the small-scale enterprises of five micro-finance institutions and the appropriate responses recorded. Observation at the site and informal discussions of the issues related to the subject matter and not included in the interview schedule was also done to provide more information about the personal lives and work of the small entrepreneurs. The respondents were required to give all the information and answer to the questions asked as well as give any evidence of the records used. A standard questionnaire (interview schedule) was used for all small business respondents and data was obtained by conducting of interviews. The unit of analysis here was the small-scale businesses while the unit of observation was the managers or owners of the SSEs.

The questionnaire was designed to elicit information about the proprietors' personal and social-economic backgrounds, their modes of operation and continuity in the sector, and issues relating to their capital outlays and increases over time. On the other hand, an interview guide was also used to get information from the key informants who comprised of consultants and credit officials from the MFIs. In addition, more information was obtained from discussions with the consultants

and the officials of the institutions concerned. In all cases important details were taken from the organizations. These included information on business operations of the organization with other related categories for example their relations with business advisory consultants, micro-finance institutions and SSEs where and as is applicable.

The study pre-tested the research instruments to be used to determine their effectiveness by interviewing members of five SSEs, two-business advisory and counseling consultancy firms and two MFIs. The responses were used to revise the instruments used by removing any ambiguities in the questionnaire and making the questions more relevant. English language was used both in the research instrument and the conducting of interviews except in very limited cases where the researcher interpreted the questions into Kiswahili language for some semi-literate small-scale entrepreneurs.

Generally, once the research tools were available, the study followed the following steps to collect the required data:

- 1) Pilot survey to pre-test the instruments and familiarize with the research site.
- 2) Editing of the research instruments and preparation of the required documents.
- 3) Sampling the population and making of appointments.
- 4) Conducting the interviews.
- 5) Conducting discussions with the key informants.

Secondary data were collected from various institutions and government departments on the written works of the operations of the small-scale enterprises, the micro-finance institutions, the business consultancy and the efforts of the Kenyan government in business development. Besides the literature reviewed, photocopied reports and documents obtained from professionals and specialists consulted were used. All these provided invaluable information for the study.

### **3.7 Data processing and analysis**

The nature of the data obtained govern the type of statistical manipulations that are possible and their ability to meet various purposes. The data collected from both primary and secondary sources were processed and analyzed both manually and by the use of the Statistical Package for Social Sciences (SPSS). First, the questionnaires were revised to check their completeness, clarity and consistency of the respondents in answering the questions. In a few cases the researcher went back to the respondents to clarify some inconsistency due to missing information. Coding of the open-ended questions was done following editing of the questionnaires and then complete coding of all variables in the research instruments done. Both qualitative and quantitative data were extracted from the questionnaires. All the data obtained were fed into the computer with the use of SPSS program. The following techniques were adopted for data presentation and analysis.

#### **Descriptive statistics**

The descriptive statistics used in this study are the mean, percentages, the sum, the minimum and maximum values for the purpose of grouping and summarizing the data. Simple statistics were used mainly in the presentation of the findings on single variables that needed to be represented in summary form and for descriptive purposes. These include the frequency distributions, means percentages and other measures of central tendency and dispersion as deemed appropriate in the various cases of presentation. Cross-tabulation analysis technique was used to examine some sets of relationships between pairs of variables, where the main statistics extracted for use in this analysis were the chi-square and the contingency table.

#### **Inferential statistics**

The inferential statistics used were the Pearson's correlation coefficient and multiple regressions. These statistics were used to show both the direction and strength of the relationship of the

variables studied. Regression analysis was used to ascertain how much of the variation in the dependent variable is explained by the independent variables. For hypothesis testing multiple regression analysis was used as well as the chi-square. Pearson's correlation coefficient  $R$  was used to determine both the direction (whether positive or negative) and the strength of association between the various variables and determine the associations existing between all other variables where applicable. Multiple regression analysis was used to assess the significance of each of the independent variables on the dependent variables controlling for all other variables in the regression equation and the overall influence of these variables. This was made possible by the use of the "F" test and the  $R^2$  at 0.05 or better levels of significance.

The assumptions based on the use of the multiple regressions are that the regression model is linear; that there is no significant error in the model, that there is no heteroscedasticity and that there is no multi co-linearity and auto correlation. The multiple regression analysis was preferred because it enables us to understand the nature of the association (whether positive or negative) between independent and dependent variables, as well as tells us how much influence each independent variable has on the dependent variable including the strength and direction of the relationship that exist between each independent and the dependent variable.

### **3.8 Limitations of the study**

While the entire study was successful and met the required expectations it was not without problems and challenges. For example, drawing up a sampling frame from which to set our sample involved a tedious exercise that consumed more than a month, a time in which actual interviewing should have been done. There were also some non-response or long delays on responses due to the busy schedules of the respondents. There was a lot of impatience and hostility also among some respondents who thought the questions were many and that they did not see any positive benefits of the outcomes. A few isolated cases wanted a financial treat for them to

offer the information required. At times the researcher had to return to the same respondent and keep assuring them of the importance of the study. There was a mild suspicion by some respondents that the researcher was an employee of the Income Tax Department because of the socio-economic nature of the questionnaire.

This study would not have been carried out without a written formal application sent to the various organizations of interest for their consent and permission. The bureaucratic process involved was long in these organizations especially the micro-finance institutions. The researcher had to wait for four months after application for the responses from these organizations. Even with the necessary research permit documents and proper application, some respondents especially the key informants were elusive and in most instances the interviews or discussions had to be postponed for many times thus increasing the cost and time of the study.

Interview appointments were rarely honored and after much persistence the researcher was wary of the sincerity of some respondents. Other respondents insisted that the interview be conducted in the presence of other people thereby increasing the probability of compromising the quality of data. Several of these organizations could neither allow research to be conducted in their organizations nor on their clients, the small enterprises. As a result of their restrictions and inaccessibility the list from which sampling was done was shortened. Contrary to the researcher's expectations, other organizations required money to be paid to them by researchers interested in their operations. Due to the limited time and money only the organizations that responded positively and promptly were considered in this study.

More time and effort was spent accessing the small enterprise and the business advisory and counseling firms sampled out from every micro-finance firm selected. However, with the permission and the introduction granted by the micro-finance officials involved in the field with

the small entrepreneurs, the exercise was less rigorous and less disappointing than the deal of accessing the micro-finance institutions themselves.

The fieldwork was only limited to the one year allocated for the exercise as an academic requirement. It was however evident that more time would have allowed a wider range of enterprises to be reached and a more intensive study to be done. Although the study looked into the works of business advisory consultants and the micro-finance institutions, their representation was very limited. A greater representation of these firms and institutions would have brought out a better picture of the situation in the country. Due to the limitation of finances, the researcher did the entire field and research work alone and no enumerators were employed. On the side of data analysis and interpretation, the demerit of the techniques used is that they work on averages and presents a major problem with small data sets as they may distort the results.

## CHAPTER FOUR

### RESULTS: DATA PRESENTATION

#### 4.1 Introduction

This chapter presents the data and gives a discussion of the study findings. The study has used descriptive statistics like the measures of central tendency that include mean, mode and median. Classification and grouping of data was done through the use of simple tables with frequencies, percentages and descriptives to make the discussion more elaborate. There is mainly quantitative data in this section but a few isolated cases of qualitative data are available. Grouped frequencies are generally displayed with some limited explanation.

#### 4.2 Socio-economic and demographic characteristics of the respondents

The objectives of this study were to find out whether the accessibility of business advisory and counseling services affects the performance of the small enterprises; the contribution of the cost of the commercial business advisory and counseling services to their utilization by the small business entrepreneurs and the effect of the utilizing of business advisory and counseling services in Kenya by small-scale enterprises to the general business economic performance in the country. The study also sought to find out other factors that influence the performance of the small-scale enterprises.

The respondents in the small-scale enterprise category comprised of the managers and owners of the small enterprise businesses. A total of 100 respondents were investigated comprising of 85% males and 15% females (see table 4.1). The age of the respondents ranged from 23 to 50 years while their years of experience in other businesses prior to the current one ranged from 0 to 15 years. The respondents who had worked in the current business were in for a period ranging between 3 and 15 years. The businesses studied had operated for between 4 and 20 years and were

spread across 34 different areas both in the industrial area and the residential estates of Nairobi. However, their dispersion was within a relatively short distance from the city centre.

**Table 4.1: sex and the status of the respondent in business.**

Respondent sex	Status of the respondent			
	Owner	Co-owner	Employee	Total
Male	61	21	3	85
Female	6	7	2	15
<b>Total (N)</b>	<b>67</b>	<b>28</b>	<b>5</b>	<b>100</b>

The main regions covered were Eastlands, Nairobi central region from Eastleigh to Majengo, within the light industries of Kariobangi, in the far East mainly Kayole and Komarock estates, The industrial area, West covering Kibera, Ngong and Yaya, City centre, Westlands, and along Murang'a and Thika roads. In the residential areas, much production and business was carried out in the compounds of the houses of the owners who mainly kept a small workshop or retail shop attached to their house and carried out business with the help of family members or few paid workers. The goods produced or sold mainly target the market provided by the surrounding population and the dominant products here are household goods, carpentry and metalwork. This is because of the fact that the small-scale sector is limited to the domestic low-income earner, (Child, 1973).

Out of the businesses studied, only 25% were registered while the rest of 75% were not. The majority of the registered businesses belonged to men while only a few of them belonged to women. This means that only a few businesses owned by women relative to those owned by men were registered. Moreover, out of the entire number of small-scale enterprises studied, 61 of the male respondents (72%) were sole proprietors of their businesses, 21 (25%) were in partnership with other people or relatives and 3 (3%) of the male respondents were employees in the enterprises investigated as seen in table 4.1.



On the other hand, out of the total number of women respondents, 6 (40%) were sole proprietors, 7 (47%) owned the business in partnership with others and 2 (13%) were employees in the enterprises studied. The majority of the female respondents (60%) interviewed did not own their businesses because they reported being unable to raise enough capital by themselves to start their businesses. This means that the majority of females did not own their own businesses; rather were in partnership or co-ownership. The reason given for this trend was that women were unable to raise the capital required to start their businesses. As a result other people like their husbands, parents and relatives came in to offer part of the capital thereby becoming co-owners.

The results of this study showed that all of the respondents had some level of schooling. The category with the highest number of respondents investigated (43%) had attained the secondary level of education as shown in table 4.2. Colleges level respondents were the second highest category with 27% of the entire sample studied. Primary level and graduate level respondents had an equal number of respondents of 14% each. None of the respondents investigated was illiterate. That the entrepreneurs in this sector were of diverse academic abilities suggests that the development of this sector may be largely unrelated to formal schooling.

**Table 4.2: Percentage distribution of respondents by level of education.**

Level of education	Frequency	Percentage
Primary	14	14
Secondary	43	43
College	29	29
University	14	14
Total	100	100

### 4.3. Basic features of small-scale enterprise firms

The businesses studied were in eight category types namely shops, juakali, engineering, clothing, second hand items, production, computers and electrical and chemists. The type of business with the highest number of respondents was the shop with 20% of the total respondents while the chemists' type had the least respondents (8%). Three categories of businesses namely the engineering, production and computer and electrical had 10% of the total respondents each (see table 4.3).

**Table 4.3: Distribution of respondents according to the type of businesses.**

<b>Business type</b>	<b>Frequency</b>	<b>Percentage</b>
Shops	20	20
Juakali	15	15
Clothing	15	15
Second hand items	12	12
Engineering	10	10
Production	10	10
Computers & electrical	10	10
Chemists	8	8
Total	100	100

Table 4.4, shows that about 20% of the businesses studied were retail and general shops, 15% were Juakali (unorganized simple manufacturers) businesses doing manual jobs in the open and semi permanent premises, 10% were engineering based enterprises like motor vehicle repairs, 12% were Mitumba or second hand material dealers of both wares and household products, 10% computer and electrical based and the rest of 8% were chemical based enterprises. Table 4.4 further shows that all the types of businesses in the categories of engineering, production, computers & electricals and chemists had their respondents above primary level of education. The high level of education for such respondents may have been necessary due to the high level of knowledge and expertise required to run their businesses. The distribution of respondents with university education however, was limited to only three types of businesses namely production, computer and electrical and the chemists.

**Table 4.4: Percentage distribution of respondents according to type of business and level of education.**

Type of business	Level of education				Total %
	Primary (%)	Secondary (%)	College (%)	University (%)	
General & retail shops	15.0	45.0	40.0	0.0	20
Juakali	20.0	46.7	33.3	0.0	15
Engineering	0.0	30.0	70.0	0.0	10
Clothing	20.0	73.3	6.7	0.0	15
Second hand items	41.7	50.0	8.3	0.0	12
Production	0.0	50.0	10.0	40.0	10
Computer & electrical	0.0	20.0	30.0	50.0	10
Chemists	0.0	0.0	37.5	62.5	8
<b>Total (%)</b>	<b>14.0</b>	<b>43.0</b>	<b>29.0</b>	<b>14.0</b>	<b>100</b>

It was found that (41.7%) of the respondents with primary education operated second hand item types of businesses while the majority of the respondents with the secondary level of education (73.3%) operated clothing based types of businesses. Moreover, the greatest percentage of business respondents with college and university levels of education in were engineering and chemists types of businesses with 70% and 62.5% of the total respondents in these categories, respectively.

#### **4.4 Views of the small-scale entrepreneurs on business advisory and counseling services**

This section presents the data given by the small-scale entrepreneurs on their awareness of the existence and role of business advisory and counseling services. It depicts the SSE sector's perception of this service and the level of interaction with business advisory and counseling firms.

The study found that only 15% of all the businesses studied were using the business advisory and counseling services. Moreover, despite the fact that all the small enterprises that were using business advisory counseling services studied indicated that they were helped by the services in their utilization of loans given to them, very few SSEs were willing to continue using the service.

This information corresponds with the response of the micro-finance institutions as seen later (see table 4.19) that the charges of consulting firms were expensive. Asked to rate the consultation fees charged for consulting services, 6.7% of the 15 businesses utilizing such services thought that the

service was too expensive. Furthermore, the SSEs utilizing business advisory and counseling services had very low percentages of the total business growth attributed to business consulting. These ranged from 3% to 15% with a median of 8% as evident from table 5.1. These low rates of growth, due to business consulting are despite the awareness of the businesses about the benefits of business consulting and consequences of not consulting.

As evidence from table 4.5 shows, 44% of the respondents indicated that business consulting had the benefit of market connections. This meant the discovering of new markets and increasing the competitiveness of business enterprises. Another 19% of the respondents saw the benefit of consulting as the provision of business updates and information to enterprises for the purpose of the entrepreneurs receiving the current and necessary details at the most appropriate time. Other benefits of business consulting were technical expertise, proper business management and accountability and business direction and guidance respectively with 4% of the scores each. These three are important pillars in business development. However, although all the businesses investigated indicated that there were benefits accruing from business advisory and counseling, 22% of the respondents were not sure what the specific benefits were and therefore they could not quantify the benefits. It is thus possible that some of these businesses were not really aware of what consulting actually was and its role in business enterprising.

Business updates and information as reported in the table 4.5 were crucial for business operations. This category has direct link to the rest of the categories. For example, information on new business markets or change of demand of any product or service provided is part of business updates that is very crucial information for the progress of business enterprises. Equipping business owners and managers with good management skills and knowledge on business accounts, bookkeeping and organization were components of business operations updates.

However, according to the government of Kenya, there is little dissemination of market information despite the fact that information is necessary to stimulate a greater exchange of SSE products between urban and rural areas (GoK, 1989). In addition, there is minimum access to government tenders by SSEs, limited access to export market to majority of SSEs since very little SSE industrial research has been done, hence, the need to establish SSE industrial research unit. Many SSEs also have limited access to credit facilities and are not represented at the national level of science and technology Act and many SSE entrepreneurs also are either unfamiliar with new technology or cannot gauge its appropriateness. The government should therefore arrange for the provision of more information technology options and do more research on the needs of SSEs, identify markets for the SSEs and on the use of appropriate technologies and processes (GoK, 1989).

**Table 4.5: Distribution of respondents according to benefits derived from business advisory and counseling services.**

Benefit	No. of cases	% Freq
Market connections	44	44
Not sure	22	22
Business updates	19	19
Management & accountability in business	4	4
Direction and guidance of business	4	4
Technical expertise	4	4
Problem and risk solving	3	3
<b>Total</b>	<b>100</b>	<b>100</b>

The small-scale entrepreneurs investigated like their counterparts in business enterprising, the consultants and the micro-finance institutions admitted that failure to consult had adverse consequences to business performance and progress. Table 4.6 presents the diverse consequences provided by the respondents. The greatest adverse consequence of not consulting given by the small-scale respondents, was the lack of business markets that had 37% of the total responses. This meant that the respondents agreed that their success in business marketing was to a large extent determined by whether or not the businesses utilized business advisory and counseling services. According to these respondents business advisory and counseling consultants were more informed about both demand and supply of a particular commodity or service. As business experts

involved in research and business studies the consultants were the best placed to create market links to different types and sectors of business. Furthermore, the Small-scale entrepreneurs consulting business advisory and counseling services, agreed that the consultants had a fore knowledge of what was required where, when and by whom.

**Table 4.6: Percentage distribution of respondents according to what they thought were adverse consequences for not using business advisory and counseling services.**

Consequence	No. of cases	% Freq
Lack of market for products	37	37
Not aware	22	22
Lack of business updates	19	19
Problematic, risky businesses	8	8
Lack of business guidance and direction	5	5
Lack of appropriate technology	5	5
Poor management and accounting	4	4
Total (%)	100	100
<b>(N)</b>	<b>100</b>	<b>100</b>

Moreover, 19% of the respondents said that failure to consult resulted to lack of business updates. This meant that the affected businesses had no knowledge of the current trends in business operations. Also 8% of the respondents said that failure to do business consulting resulted into businesses being risky and problematic. Other consequences for not consulting were that the businesses lacked modern or appropriate technology, lack of business guidance and direction, poor management and accounting. There was however a category of businesses that was totally ignorant of whether or not failure to consult had any negative effect to business performance. This response of ‘not aware’ was given by 22% of the total respondents indicating that some of the small-scale businesses were not informed of the existence of business consultants and what they did to enhance development of the small-scale business sector.

Despite the fact that the 88% of the small enterprise respondents affirmed the importance of the business advisory and counseling services, as evident from table 4.5, not all the small-scale enterprises already using the services were willing to continue with it. Asked to indicate how often they intended to seek the advisory and counseling services, 53.0% said they would do so

often whereas 13.2% said they would not consult at all. Another 26.4% of the consulting businesses said that they would only consult when in need. This means that they would only approach the consultants after they had either identified or sensed a problem. Out of the entire consulting SSEs 13.2% and 6.6%, respectively indicated that they would stop to consult and only seek consultation after some time then stop. This implies that apart from the problems or some specific needs that made the enterprises consult, there was no consistency or a predictable pattern of consulting. The reason behind this could be due to the high cost of consultation charges as seen previously. As much as the consultation fees was not rated as high by the business consultants themselves, compared to the amount of income raised relative to the medium and large-scale enterprises, these rates were considered to be exorbitant by the small entrepreneurs. The micro-finance institutions who deal with the SSEs further admitted that these consultation fees were expensive.

#### **4.5 The costs and profitability of the small-enterprise sector**

The cost of any business enterprise is an important factor that determines the performance and the economic level of any venture. The indicators of performance of the small-scale sector in this study are the rate of entry of SSEs into business, increased profits, increased working capital, increased assets and widening markets. As evident in table 4.7 this study found that the majority (53%) of the small-scale enterprises investigated, had an average annual total cost of less than Kes. 400,000 while 29% of all businesses operated at a total average cost of less than Kes.200.000. Whereas 24% had an average total cost of between Kes. 200,001 and 400,000, only about 4% of the total small-scale businesses had an average total cost of over Kes.1000,000. The small-scale enterprise categories of shop, “juakali” and dealers of second hand materials had the least amount of average cost per annum while the Engineering, Production and Chemical based categories had the highest average cost per annum. The level SSEs’ cost here is an implication of the fact that the investigated businesses performance was poor. This is because every profitable

venture will always have a cost effect attached to it. A decrease in the cost of business if not as a result of low cost of materials and low cost of running business means that the businesses are not growing.

**Table 4.7: Distribution of respondents by type of business and average business cost per year (in 000).**

		Average cost per annum in thousands						Total
		0-200	200-400	400-600	600-800	800-1000	Over 1000	
1	Shops	8	6	3	2	1	0	20
2	Juakali	7	6	2	1	0	0	15
3	Engineering	0	0	4	3	2	1	10
4	Clothing	6	5	2	2	0	0	15
5	Second-hand goods	8	3	1	0	0	0	12
6	Production	0	0	1	3	4	2	10
7	Computer services	0	3	3	2	2	0	10
8	Chemical based SSEs	0	1	1	2	3	1	08
	<b>Total</b>	<b>29</b>	<b>24</b>	<b>17</b>	<b>15</b>	<b>11</b>	<b>4</b>	<b>100</b>

Furthermore, the average annual net profit is an indicator of business performance and is an important factor in the categorization of the scale of a business enterprise, whether small or large.

Based on table 4.8, the majority (61%) of the small-scale enterprises were earning an average net profit of less than Kes. 600,000 per annum. Whereas 11% of all small-scale enterprises studied were making an average profit of over Kes. 1,000,000 per year, only 4% made average annual profits of between Kes.3,000, 000 and 5,000,000.

**Table 4.8: Distribution of respondents by type of business and the average net profits from business per annum.**

Type of business	Average annual net profits per annum in thousands.							Total
	0-200	200-400	400-600	600-800	800-1000	1000-3000	3000-5000	
Shops	4	7	6	1	1	1	0	20
Juakali	4	5	3	0	2	1	0	15
Engineering	0	2	3	1	2	2	0	10
Clothing	4	1	4	4	2	0	0	15
Second hand items	4	2	3	0	2	0	1	12
Production	1	2	1	0	2	2	2	10
Computer services	0	2	1	2	2	2	1	10
Chemical based	0	1	1	2	1	2	1	8
<b>Total</b>	<b>17</b>	<b>22</b>	<b>22</b>	<b>10</b>	<b>14</b>	<b>11</b>	<b>4</b>	<b>100</b>



Consistent with the study findings about the cost of running business, shops, juakali, clothing and dealers in second hand goods realized the least average profits per annum compared to production, computer services, engineering and chemical based small-scale enterprises. This section shows the annual total cost of business operations and the annual net profits as well as their mean, minimum and maximum values recorded. The cost of business per annum according to table 4.7 depended on the type of the small-scale enterprise operated. For example shops, juakali and clothing types of business had the least amount of the total cost per annum compared to the engineering and production types that had the highest amounts of cost per annum.

All the enterprises investigated gave their total costs of production and profits for the last one, two, three and five years (years 2001, 2000, 1999 and 1997) as indicated in table 4.9. The mean annual cost of production for all the businesses studied was Kes. 699,630. This gives an average cost of Kes. 58,303 per month thereby suggesting that the businesses were not very small but rather of medium size. However, this conclusion is negated by the fact that the business with the least cost of production per annum had Kes. 90,000 only. This figure gives an average monthly cost of Kes. 7500, which implies that the business was very small in size. The small-scale business with the largest cost of production per year had a total of Kes. 6,513,000 giving an average of monthly cost of production as Kes. 542,933.

**Table 4.9: The costs and profits made by the small-scale enterprises.**

Characteristic	N	Minimum	Maximum	Mean
Cost of business last 1 year	100	90,000	6,513,000	699,630
Cost of business last 2 years	100	59,000	4,450,000	594,821
Cost of business last 3 years	100	75,000	2,800,000	553,010
Cost of business last 5 years	100	50,000	2,700,000	534,720
Current loan	100	0	1,000,000	86,980
Last 1 year profits	100	20,000	4,400,000	636,490
Last 2 years profits	100	22,000	8,000,000	765,300

The cost of production in the two years prior to this study (year 2000) was low for all categories of years presented as indicated in the table 4.9. For example, the business with the minimum cost of production was lower than the previous year by Kes. 31,000 to Kes. 59,000. The business with the highest cost of production per year had Kes. 4,445,000 that is lower by Kes. 2,068,000. The mean cost of production for the last two years also declined by Kes. 104,809 to Kes. 594,821. By the end of the previous third and fifth years before this study was done (1999 and 1997) the business with the least cost of production per year had Kes. 75,000 and 50,000 respectively. The mean costs of production for these years were Kes. 553,010 and 534,720 respectively. This is lower from the previous one year (2001) by Kes. 146,620 and 164,910 respectively. The businesses with the highest costs of production also went down in the third and fifth years (1999 and 1997) to Kes. 2,800,000 and 2,700,000 respectively. While the most immediate conclusion from the above figures could be that in general the costs of business production went low due to low costs of materials or due to little expenses, the reason given by the SSEs is that the business performance was very poor.

These financial trends actually show poor business performance. The investigated businesses having been in the categories of production, buying and selling of products and services, did not have good market for their products and therefore no more stocks came and thus no expenses. The decline in the total cost of production as reported by the small-scale enterprises was due to a dead stock that was not moving as a result of poor markets or poor consumption of the products and services produced by the SSEs. All the investigated businesses complained that they had faced poor performance of their businesses due poor economy and instable currency rates and lack of an enabling environment in the last five years (from year 1997) of their business operation than in any other time of their business history.

The fact that some SSEs were not aware of whether there is any effect if they consulted or not as shown in table 4.6 suggests that such businesses were not informed of the existence and the role of the business advisory and counseling service. This reality must have contributed to the lack of competitiveness of the small sector to the others and thereby causing it to lag behind both in terms of development and productivity. On the issue of loans, while some of the businesses did not have any loan by the time of the study, the business with the largest current loan had one million Kenyan shillings. The mean amount of loan owed to the small-scale businesses studied was Kes. 86,980 as evident from table 4.9. This statistics indicates that no business had acquired the maximum amounts of loans accessible to them except for businesses belonging to Undugu society whose maximum loan was only Kes. 30,000 per annum.

The per annum profitability of the small-scale businesses studied as evident in table 4.8, varied from one business to another but mainly depended on the category in which the enterprise belonged and the total annual cost per annum. For example businesses in the shops category made less net profits per annum compared with their counterparts in production and engineering categories. The minimum amount of net profit made by the businesses investigated was Kes. 20,000 per annum, with an average of only Kes. 1,633 per month. This is by far too little profit for business enterprising putting into consideration the fact that most of the businesses investigated reported that the business was their sole source of income.

Most of the entrepreneurs investigated also had started the business as a source of employment because they were unemployed while the rest of them started business to supplement their little incomes. The maximum amount of net profit for the last one year (by year 2000) was Kes. 4,400,000 that amounts to an average of Kes.366,667 per month an amount rather fair for reasonable business enterprise. The mean amount of net profit for all businesses under study in the

first one year was Kes. 636,490 thus an average of Kes. 53,041 per month an amount that is generally moderate in that it is neither too small nor large.

The minimum amounts of net profits made during the last two, three and five years (2000, 1999 and 1997) were Kes. 22,000, 25,000 and 22,000 respectively (see table 4.9). The maximum amounts were Kes. 8,000,000, 4,000,000 and 7,750,000, respectively. Finally the mean net profits for the same periods of time were Kes. 765,300, 638,228 and 745,260 respectively. While the amounts of cost per annum is an indicator of the resource use and is directly proportional to the profits made when other factors are held constant, the above trends of profitability indicates unpredictable, changing and unstable business patterns as reported by the majority of the respondents.

#### **4.6 Business consultation firms rendering services to small-scale enterprises**

This section is mainly comprised of qualitative data but there are a few isolated cases of quantitative data. The 15% of the small-scale enterprises accessing business advisory and counseling services belonged to six different business advisory and counseling firms. Information for the firms was obtained from two respondents (a consultant and a public relations officer) for each business advisory institute alongside other non-guided discussions. The specific consultation firms investigated under this study were the following: Appropriate Technology (ApproTech) firm located in Kariobangi North; Channacco Management Consultants located in the City center; Improve Your Business (IYB) Kenya located in Kariobangi light industries; Industrial Research and Consultation Unit (IRCU) of the University of Nairobi; Center of Enterprise Development (CED) of Kenya polytechnic and Kenya Industrial Research and Development Institute (KIRDI) in industrial area.

Appropriate Technology and Improve Your Business Kenya are Non-governmental organizations offering advisory and counseling services to small-scale businesses while IRCU and KIRDI are governmental research units and Channacco is a private consultation firm. KIRDI was found to have the longest period of operations of twenty-eight years of service followed by CED and IYB with fifteen years of service each while IRCU was found to be the least serving firm with only five years experience (see table 4.10). This shows a wide diversity of experiences in service provision. Nevertheless all of the firms had business operations for at least five years. KIRDI had the largest number of employees totaling fifteen followed by IYB with ten employees. IRCU and Channacco had the least number of employees totaling five each. It is important to note that the total number of employees did not refer to the entire firm personnel but those employed for consultancy purposes only. The mean year of business operations for the firms investigated was thirteen years while the mean number of employees was eight. Despite the fact that these firms are of different categories and that they are formed in pursuit of different goals and motivations, all the firms are engaged in research activities. Their objective is to understand the problems facing the business sector and find out what can be done to obtain the best results out of every input made in a business enterprise.

**Table 4.10: Business advisory and counseling firms offering service to the small-scale enterprises.**

Name of the firm	Category	Service years	Number of employees
APPROTECH	NGO	10	5
CHANNACCO	Consultant firm	6	5
IYB	NGO	15	10
IRCUCU	Research unit	5	5
CED	Govt. institute	15	12
KIRDI	Research unit	28	15

Based on table 4.11 only IYB and CED rendered their services of business advisory and counseling to only small-scale and medium-scale enterprises while the rest served all types of enterprises. The reason attributable to this finding is that these two firms offered technology based business advisory and counseling services that were only usable by the small sector of business.

ApproTech firm had the highest capacity of 500 businesses that it could render advisory and counseling services to followed by IYB (400 businesses) and KIRDI (300 businesses) while IRCU had the least service capacity of 50 businesses.

All the firms investigated however affirmed that they rendered services to both existing and start-up businesses, because no security or business collateral is required before business advisory and counseling services are administered. In all the cases of the business advisory firms the total capacity that could be supported by the firms was not being currently served. To illustrate, ApproTech with a capacity of 500 businesses was serving only 250 businesses while IYB with a capacity of 400 businesses was rendering services to only 200 businesses. The capacity and utilization of other firms can be found in table 4.11. Comparing the total number of businesses served and the total capacity of each business advisory services firm, it would be acceptable to conclude that the advisory and counseling services were under utilized by the small enterprises.

**Table 4.11: Business advisory firms' service capacity and types of clients served.**

Name of the firm	Type of clients	Max SSEs capacity	Current SSEs	Firm's support for Start-ups
ApproTech	All	500	250	Yes
Channacco	All	200	22	Yes
IYB	Small & medium	400	200	Yes
IRCU	All	50	10	Yes
CED	Small & medium	100	30	Yes
KIRDI	All	300	70	Yes

As evident from table 4.12, Channacco and IYB firms depended mainly on income obtained from the services rendered to clients to run their firms. ApproTech and CED depended on donors and the government respectively while KIRDI and IRCU obtained their income from the government, donors, and income from services rendered. In terms of extension, ApproTech had the most branches followed by IYB while IRCU and CED had only one branch each. The dispersion of the consultation firms and the number of branches within the city of Nairobi depended on the nature and the centrality of the services provided. For example, ApproTech and IYB with applied

technology (farm and business management) needed to be closer to their clients than the others. Moreover, out of all the firms studied, only IRCU and Channacco offered specialist services, mainly accounting and engineering, respectively, while the rest of the firms offered general services on business management and entrepreneurship.

**Table 4.12: Business advisory firms' details.**

<b>Name of the firm</b>	<b>Source of income</b>	<b>No. of branches</b>	<b>Type of consultation</b>	<b>Report submission.</b>
ApproTech	Donors	5	General	End of assignment
Channacco	Services	2	Specialist	On request
IYB	Services	3	General	End of assignment
IRCU	University & services	1	Specialist	Monthly
CED	Government	1	General	End of assignment
KIRDI	Government & donors	2	General	Twice per transaction

The small-scale enterprises investigated were mainly getting their business consultation services from six consultancy firms as evident from table 4.12. These firms had a diversity of clients ranging from the large to small scales and their size was determined in terms of the number of employees and the amount of capital invested. The firms also had different number of the small-scale enterprises that they could offer services to. Despite their maximum capacities however, the small-scale enterprises had the final decision on whether to go for their services or not.

ApproTech, IYB and CED submitted their business evaluation reports to their clients the small-scale enterprises after the end of the consulting assignment while Channacco, IRCU and KIRDI submitted their reports on request, monthly and twice per transaction, respectively. None of the firms had any justification as to why they submitted their reports in this manner. The frequency of submitting evaluation reports was nonetheless at the convenience of the consultants or due to demand by the clients (the SSEs). ApproTech for example, being an agricultural technology firm supplied both farm equipment and business advisory and counseling services to its clients unlike the other firms who only rendered business advisory and counseling services.

#### 4.7 Acquisition of clients and modes of payment as used by business advisory and counseling firms

All business advisory and counseling firms received the payments for the services they rendered to clients on installments basis except Channacco management consultants who were paid in lump sum for every service they rendered (see table 4.13). The nature of payment depended on the type of services offered. For example, Channacco offered business accounting, auditing, management and bookkeeping services. This entailed business plans or the preparation and settling of accounts, an exercise that would be done within a short period of time thus the need for the service to be paid for at once. However, the nature of the other services offered by the other firms needed a long period of time and could not be finalized at once and therefore the need for the service to be paid for in installments. The total cost of the business consultation was distributed in installments to allow the clients enough time to pay. CED firm did not have a fixed grace period allowed to its clients before payment for services offered commenced but rather had the period agreed upon between the client and the firm at the convenience of both. The reason given was that its clients were diverse and would not be equally treated.

**Table 4.13: Modes of payment of consultation fees and getting business clients.**

Name of firm	Basis of rating charges	Mode of payment	Special rates for SSEs.	Grace period	Charges' assessment	Getting SSEs
ApproTech	Working hours	Installments	Yes	4 months	Affordable	Networking
Channacco	Market rates	Lump sum	Yes	4months	Affordable	Networking & approaches
IYB	Working hours	Installments	Yes	4 months	Affordable	Approaches
IRCU	Chapt 530 Act	Installments	Yes	6 months	Affordable	Tendering
CED	Cost of service	Installments	Yes	As agreed	Affordable	Adverts & approaches
KIRDI	Working hours	Installments	Yes	1 month	Affordable	Seminars & networking

IRCU had the longest grace period of 6 months given to its clients before payment of services commenced while the rest of the firms gave a period of 4 months each. IRCU offered engineering based advisory and expertise that required a longer period of implementation before payment. It



was also found that all the firms investigated assessed their service charges as affordable contrary to their clients who perceived them as expensive. The assessment of the affordability of the services was therefore relative and depended on the point of view of the assessor and the type or scale of their businesses. Furthermore, all the firms had the means for identifying their clients. For example, ApproTech and Channacco firms used networking with other businesses or marketed their services to the individual business firms. IYB and CED did a door-to-door marketing and advertising of their services to their clients, while IRCU used tendering and KIRDI used seminars and networking.

The results showed that three-consultation firms ApproTech, Channacco and KIRDI got their clients through networking. Networking here refers to the firms collaborating with their current businesses and other interested parties to create business alliances and awareness that resulted in other businesses being referred or being introduced to them. Firms do networking by introducing and referring business clients to the relevant institutions and authorities especially for tasks that are outside their specialization and ability to handle. For example, through sub-contracting an institution deals with an issue and refers the client elsewhere for further or better expert services.

Another means of accessing clients that was reported in this study is the approaching of individual clients by the consultancy firm through the marketing of their services. Channacco, IYB and CED used this method while CED also used business advertisements as another way of reaching its clients and marketing its services. IRCU depended on tendering; where the client puts up the kind of service required in an advertisement or notice and wait for bidders among the service providers then make a choice of the best firm in service provision or the most fair in monetary charges.

All the business advisory and counseling firms investigated reported that there was interference from grossly inefficient and unethical business consultants who offered non-professional and

substandard services. They unanimously asked the government to take action against such unscrupulous behavior. Such illegal firms were either not registered or lacked the expertise necessary in business advisory techniques but got into service provision for financial gains. However, a fact worthy noting here is that the business advisory and counseling firms were few and the existing ones not very well established. The lack of proper publicity and advertisement to their clients as required by their consultancy ethics resulted in the illegal entry of the unethical consultants who took advantage of the clients' ignorance about the genuine consultants.

The firms studied utilized different methods to determine the consultation fees they charged. For example, ApproTech, IYB and KIRDI set their consultation fees according to their working hours. IRCU set their consultation on the basis of the Act of Parliament chapter 530 on business consulting whereas CED and Channacco set their fees depending on the cost of service as of the market rates of business advisory and counseling services. With a wide experience on the ground dealing with concerns raised by the small-scale enterpriser, the management consultants proposed that SSE entrepreneurs should be trained and the general public must be involved in entrepreneurship to understand their role in development. In addition, they suggested the need for better policies (such as lowering of taxes) to be established to create a conducive and an enabling environment for business development and that SSE entrepreneurs should be given constant business updates and linkages made between the small enterprise sector and other sectors (see table 4.14).

**Table 4.14: Proposals for development of the small-scale sector.**

Name of the firm	Suggestion to govt.	Proposal to the development of the SSE sector
ApproTech	All	Train SSEs
Channacco	All	Involvement of all stakeholders in business
IYB	All	Development of better trading policies
IRCU	All	Constant updates of business
CED	All	Linkage with other sectors
KIRDI	All	Creation of an enabling environment e.g. Lower taxes

#### 4.7.1 Training of small-scale enterprises

Due to the stiff competition between the different sectors of business enterprises and among the businesses themselves, business advisory consultants emphasized the importance of the business entrepreneurs having the relevant information and technical know-how. To lay hold of the changing trends of business management and operation, the business entrepreneurs must often be trained. However, before such training could be effected, the problems facing the various businesses must be identified.

As evident from table 4.15 both IYB and IRCU preferred to have their clients identify their business problems and then the consultant would come up with the best possible solution to the already stated problems. The rest of the advisory and counseling firms saw the need of both the client and the consultant working hand in hand towards the definition of the problem. Once the problem was identified then the consultant would come up with a working plan and, with the assistance of the client, incorporate the plan into the system. In the former case, the client as a patient explains the ailment as the physician pays attention to give the right description of treatment. In the latter case however, both the patient and the physician work together from the beginning of the transaction to the end. This ensures elaborate discussion of the problem for better results.

On the definition of the duration of time taken on the assignment, only ApproTech and KIRDI involved both the client and the consultant to make such a decision. The rest of the firms were dictated by different factors in deciding the duration of the assignment. For Channacco and IRCU the problem and its magnitude defined the time of assignment while for IYB and CED it was the client and the consultation firm, respectively, who defined the time taken. All the firms, except IRCU, trained their clients in the areas of technology application, best way to handling the complicated areas, business management, bookkeeping and entrepreneurship, among other areas.

**Table 4.15: Client training, definition of the problem and the duration of assignment.**

Name of the firm	Definition of problem	Reason	Definition of duration	Training of clients	Area of training
ApproTech	Both	Cooperation	All	Yes	New tech, application
Channacco	Both	Discussion	Problem	Yes	From problematic areas
IYB	Client	Better diagnosis	Our client	Yes	Management, marketing,
IRCU	Client	To satisfy client	Problem	No	N/A
CED	Both	Cooperate efforts	Our firm	Yes	Management, book-keeping, entrepreneurship
KIRDI	Both	Combine preferences	All	Yes	Areas of their choice

#### 4.8 The importance of business advisory services

The business advisory and counseling firms agreed that business consulting helps in the utilization of loans advanced to SSEs. The areas of help given were that business advisory helped the SSEs to identify the best areas of investment and to maximize profitability. The business advisory and counseling consultants assess the small entrepreneur loan requirements and advise them on how to maximize the benefits from loans as well proper planning and timely repayment of loans. Proper bookkeeping and business management are taught to the entrepreneurs to ensure good keeping of records and balancing of accounts. The consultants also help in the identification of the most suitable loan institutions, the type of loans to advance, proper allocation and investment of the loans and proper asset management.

All advisory and counseling firms also confirmed that in their own assessment small-scale enterprises required business advisory services. This was irrespective of whether the SSE entrepreneurs were aware of the importance of this service or not. Accordingly, due to the importance the consultants attached to this service, all of them except IYB and CED referred their clients to other consultants for assignments that were beyond their scope to get advanced expertise and to network with others. The business referrals were due to networking among the consultants

or for subcontracting purposes. These business advisory and counseling firms stated that advisory services helped in the growth and development of the small-scale enterprises through identification of markets, opportunities, investments, solutions to business operations and management problems and countering of challenges and risks in the small-scale sector as shown in table 4.16.

**Table 4.16: The importance of business advisory and counseling services to the SSEs and the consultants' business subcontracting.**

Name of the firm	Need for consulting.	Referral	Reason for referring	Importance of consulting to the growth and development of SSEs.
ApproTech	Yes	Yes	Network	Identify markets & areas of investment
Channacco	Yes	Yes	Beyond our scope	For management of businesses
IYB	Yes	No	Not applicable	Identify problems & get financiers
IRCU	Yes	Yes	Advanced technology	Proper direction of business
CED	Yes	No	Not applicable	Mobilization of resources, strategic mgt.
KIRDI	Yes	Yes	Beyond scope	Identify opportunities, counter challenges.

All the business advisory and counseling firms reported that advisory and counseling services were paramount and indispensable to the development and growth of the small business enterprise sector. Through elaborate researches on the performance of businesses and the most suitable technologies coupled with their exposure to different business enterprises for example, the consultancy firms provide handy and timely knowledge on the best and upcoming markets as well as wisdom in identification of the best areas of investment. They both identified the problems hindering the good performance of SSEs as well as the solutions and diagnosis to such problems. Consultancy firms when consulted help the SSEs to bring together their resources and identify the best financiers in times of inadequate capital. In addition, the consultants help the SSEs to properly manage and run their businesses to counter the challenges and risks in the sector as well as put all what is within their reach for optimum use.

Table 4.17 shows that all the firms investigated confirmed that small-scale enterprises are aware of the existence of business advisory and counseling services. The percentages on awareness among the SSEs however differed from firm to firm ranging from 5% to 12%, the mean being

9%. Nonetheless the percentages of SSEs consulting on their own accord or out of their own initiative were lower ranging from 2% to 10% and a mean score of 5.3%. These low rates were confirmed by the assessment of whether or not the SSEs knew the importance of business advisory services. Only ApproTech and Channacco said that the SSEs understood the role of business consulting while the rest of the business advisory and counseling firms differed with this assertion.

**Table 4.17: Awareness of the SSEs about the existence and importance of the business advisory.**

<b>Name of the firm</b>	<b>% Of awareness</b>	<b>% on own accord</b>	<b>Importance known by SSEs</b>	<b>Reason for knowing or not by the SSEs on the importance of consulting.</b>
ApproTech	5.0	3.0	Yes	Their past successful deals.
Channacco	10.0	7.0	Yes	Their past success stories
IYB	7.0	2.0	No	Poor business past business performance
IRCU	10.0	5.0	No	Ignorance of SSEs in their operations
CED	12.0	10.0	No	Lack of networking
KIRDI	10.0	5.0	No	Non establishment of the consultation sector

The small-scale enterprises did not consult due to their ignorance of the role of business advisory and the lack of proper organization of the small enterprise sector in the country coupled by the assumption that consultation is either for large businesses and that the small businesses are unable to afford the services. Nevertheless, having a strong understanding of the significance of the business advisory and counseling services, the consulting firms identified the impact of both use and failure to use consulting services.

The impacts of proper business consulting given by the SSEs included the identification of investment opportunities and proper business management, better performance of businesses and survival during the lean times as well as direction on the allocation of resources for increased profitability and networking with other businesses and their sustainability. Alongside these benefits were the effects of failing to use business consulting ranging from improper decision-making and high chances of business failure, poor business growth or stagnation, lack of business

updates and business markets leading to the collapse of their operations and lack of business competitiveness.

#### **4.9 Characteristics of micro-finance firms**

Kenya has four types of financial institutions namely: the commercial banks, the non bank financial institutions (NBFIs), housing mortgage finance companies and building societies and the savings and credit co-operative societies. The country possesses in principle, the primary conditions for a micro-finance sector and high potential demand for micro-finance services. These conditions are a liberalized economy, a large domestic market (31 million inhabitants), a high population density of 228 people per square kilometer, over 70% of population living under poverty line (1\$ a day) and a high unemployment rate UNCDF, (2003). The Kenya micro-finance sector however, though one of the oldest and most established in Africa, lacks a number of building blocks characteristic of the micro-finance sector.

The Kenyan micro-finance sector has few officially endorsed accepted performance or reporting systems for micro-finance institutions. Awareness of the full range of products and services is not uniform and therefore there is need for more and better information about their products and services. On the contrary, commercial banks in Kenya do not pay attention to the poor but such institutions are getting actively involved in micro finance services. For this reason the bulk of the poor, most of who live in the rural areas, have no access to formal financial services. For example, in 1999, only 3.5% of the country's poor had access to micro finance services. Moreover, only 10.4% of the 1.3 million existing micro and small enterprises had accessed credit from any source. This shows that despite the numerous donors investing in micro-finance, the existing products and methodologies do not allow the sector to have an extensive reach as required for the services in demand (UNCDF, 2003).

Nevertheless, the economic hardships in Kenya coupled with a poor currency rates necessitate the need for financial assistance for most businesses especially the small-scale enterprises. In the pursuit of seeking business capital for example, many businesses consult various financial institutions. All of the small-scale enterprises investigated in this study, for instance, were loan beneficiaries of five micro finance institutions in Kenya comprising of the Kenya Rural Entrepreneurship Program (K-rep) located in Kilimani, Pride Africa (Sun link) located in Parklands, Faulu Kenya located in Muthangari gardens, Kenya Industrial Estates (KIE) located in the industrial area and Undugu society of Kenya located in Landhies road, City stadium all in the capital city of Kenya-Nairobi.

Of these five Micro-finance institutions whose businesses were investigated, K-rep micro-finance was the largest firm in terms of the total number of employees (214) and an annual budget of Kes 514 million followed by Kenya Industrial Estates with 188 employees and an annual budget of Kes 200 million. The smallest firm investigated was Sun-Link with a total of 75 employees and an annual budget of Kes 3 million. Faulu Kenya and Undugu Society had budgets of Kes 4 million and 131 employees and Kes 5 million and 120 employees, respectively.

Despite being the smallest in terms of annual budget and the number of employees, Sun-Link Kenya had the largest maximum potential number of 5,000 small-scale businesses that it could support. K-rep and Faulu had 3,000 small-scale businesses each while KIE and Undugu Society could only support a maximum of 200 and 600 businesses, respectively (see table 4.18). It is important to note here that the maximum number of businesses supported depends on the annual budget of the micro-finance institutions and the size of loan given. In terms of the number of businesses currently supported, Sun-link had the largest number of 4,000 followed by Faulu



Kenya with a total of 2,400 businesses. K-rep, Undugu and KIE had 1,160, 550, and 130 small-scale businesses, respectively, under their current support.

**Table 4.18: The basic characteristics of the micro-finance institutions giving loans to SSEs.**

Name of the firm	Characteristics									
	No. of workers	Max SSE	Current SSEs	Branch	Operation years	Min loan Ksh.	Max loan Ksh.	Annual budget Ksh.	Grace period	Loan rates
K-rep	214	3000	1160	28	9	2000	5 M	514M	1wk-12mont	18%
Sun link	75	5000	4000	5	3	10000	300000	3M	1wk	25%
Faulu	131	3000	2400	10	11	1000	No max	4M	2-4wk	22%
KIE	188	200	130	21	36	50000	14M	200M	6-12mont	18%
Undugu	120	600	550	5	28	10000	30000	5M	1wk	20%

#### 4.9.1 The size of micro-finance institutions and provision of loans

Micro-finance institutions are of different characteristics depending on the capital investment of the firm, its objective and duration of service. Some of the institutions are larger than others in terms of the number of employees and the amount of money and other resources available as loan to the small-scale enterprises. The institutions also differ in terms of their geographical spread, (or the number of branches they serve) and the diversity of services rendered depending on their vision.

The micro-finance with the majority of branches was K-rep totaling 28 of them across Kenya followed by Kenya Industrial Estates with 21 branches. Faulu Kenya had 10 branches while Sun-Link and Undugu Society had 5 branches each. Kenya Industrial Estates was the oldest serving micro-finance institute investigated with a wide experience of 36 years followed by Undugu Society for 28 years while Faulu, K-rep and Sun-link had 11, 9 and 3 years of experience respectively. From a comparison of the two longest serving firms with the rest of the micro-finance institutions, it is easy to see that the two firms were no longer opening new branches and if so they did it at very low negligible rates. KIE had the highest amounts of both minimum and maximum loans given to its clients Kes.50,000 and Kes.14,000.000, respectively. The large

amounts of loan given to the clients by KIE are a clear indication that it did not support the micro-enterprise category of the SSEs due to the fact that the micro enterprises did not have the required collateral and also due to the huge amounts of loan given by KIE.

The government of Kenya identified the three constraints of SSE borrowing at three levels: the small-scale borrower lacks experience with credit institutions, financial organizations are not predisposed to lending to the SSEs and the existing regulations limit the total funds available for lending (GoK, 1989). In this connection, KIE was formed in 1967 to give loans and technical training to SSEs (Coughlin and Nyong'o, 1991). By the year 1986 KIE had 400 sheds for its entrepreneurs where training was done. Today these sheds have however, been sold to individuals who rent them to SSE entrepreneurs. The numbers of loans given in the same year were 630 compared to the current 130 loans being given. KIE also had 28 regional centers and 18 technical service centers compared to the current 21 regional centers today. This indicates a decline in the government ability to support SSE entrepreneurs despite their increasing numbers. This means that the government policy to allow the KIE-assisted entrepreneurs buy the sheds instead of renting so as for the government to invest in giving loans to more SSEs did not bear the intended results (Coughlin and Nyong'o, 1991).

Faulu had the least amount of loan given to its clients of Kes. 1,000 but with no maximum limit. The rest of the firms in the study had set maximum and minimum loans available to clients. That is, K-rep minimum of Kes 2,000 and maximum of Kes 5,000,000, Sun-link minimum of Kes 10,000 and maximum of Kshs 300,000 and Undugu society minimum of Kes.10,000 and maximum of Kes 30,000. KIE had the longest grace period given before payment of loans commenced. This was probably due to the large amounts of loan given to its clients and the type

or nature of business the clients were involved in. The rest of the firms studied had a grace period of about one week to four weeks.

Both KIE and K-rep charged an interest rate of 18% while Sun-link, Faulu and Undugu charged interest rates of 25%, 22% and 20%, respectively. However, at the time of the study, Sun-link had put up a notice to the effect that its rates would be reduced to 19.5%. Furthermore, both Sun-link and Undugu Society supported only small business clients while the rest of the firms supported both small and medium sized enterprises. This was due to their small budgetary allocations that may not have been enough to cater for the financial demands of the medium scale enterprises. However, KIE and Undugu were the only firms that gave financial assistance to start up businesses though for KIE it was more of policy than practice. The start-up businesses were risky to finance due to their lack of collateral and the difficulty of tracing the loan defaulters. For this reason most micro-finance firms excluded them from their financial considerations.

Although KIE was the country's leading institution-providing training, technical, subsidized facilities and cheap credit to SSEs by 1989, it has been overtaken by K-rep and its only left with a loaning facility (Coughlin and Nyong'o, 1991). For example, in 1987 KIE charged interest rate of 13% per annum for repayment. This interest today has gone up to 18% per annum and a repayment period of 3 years similar to other non-governmental micro-finance institutions. Moreover, the time taken by KIE to approve loans is rather long ranging from 3 months to 2 years depending on the type of business of the SSEs (Coughlin and Nyong'o, 1991).

On the other hand, out of the five micro-finance institutions whose SSEs were studied, only K-rep and KIE offered both loans and advisory services to their clients. The other micro-finance institutions reported that it was expensive and demanding to set up a department of business

advisory and counseling services alongside offering loan facilities. Furthermore, the small budgetary allocations for the MFIs only allowed the financing of the SSEs through loans. All the micro-finance institutions however affirmed that SSEs required advisory services to be able to run their businesses properly. Their sources of funding were from lending and savings for K-rep, donors and interest on loans for Sun-link and Undugu Society, interests on loans for Faulu and from the government and donors for KIE. In addition to loans, the micro-finance institutions also rendered other services to their clients like training, business development and linkages for networking with other sectors. These other services were meant to encourage more clients and ensure better utilization of loans given in addition to good business management.

#### **4.9.2 Utilization of business advisory and counseling services**

All the micro-finance institutions admitted that the SSEs did not utilize the advisory and counseling services available in the country. Similarly, all the firms, except Sun-link, agreed that only a few of the SSEs were aware of the existence of businesses advisory services. As evident from table 4.19, the estimated percentages of SSE awareness of the role and the importance of business advisory and counseling services according to the micro-finance institutions ranged from 0% to 30% with an average of 16.9%. The percentage estimates of those consulting on their own accord without being approached ranged from 5% to 10% with an average of 7.5%. The reason for these low rates of business consulting as indicated by the micro-finance institutions would be associated with the fact that the small enterprises did not know the role or the importance of the advisory and counseling services. Based on table 4.19, a number of reasons accounted for the lack of awareness and failure to understand the role of advisory services. These included the fact that the services were too expensive to the SSEs, ignorance and illiteracy of the small-scale entrepreneurs, lack of exposure to business updates and lack of a culture of business entrepreneurship in the country.

**Table 4.19: The view of the micro-finance institutions on provision of business advisory services.**

Name of the firm	SSEs aware	% SSEs Aware	SSEs on Own accord	Reason for failure of SSEs to use consultation services.
K-rep	Yes	20.0	10.0	The services are too expensive
Sun link	No	0.0	0.0	SSE entrepreneurs are Ignorant & illiterate
Faulu	Yes	7.5	5.0	Ignorance of the SSEs
KIE	Yes	30.0	10.0	Lack of an enterprise culture
Undugu	Yes	10.0	5.0	Lack of SSEs exposure to consulting services

All of the five micro-finance institutions giving loans to the SSEs trained their business clients in various areas. These areas included bookkeeping, marketing, business management, technology appliances and transfer and group dynamics, among other areas. Furthermore, all the firms, except KIE, that required loan collateral of a commercial property, only used group membership as security and co-guaranteeing. Group pressure was the basis of ensuring that the entrepreneurs paid back the loans advanced to them. Family and business assets, however, were used within the group as the security against members who finally failed to pay back their loans or ran away from the group.

Similarly, the conditions for award of loans also for KIE unlike other MFIs were possession of commercial properties and loan guarantors. For the rest of the firms group membership and possession of a business was the requirement. Moreover, the rest of the firms, except K-rep and Sun-link, referred their clients to business consultants at one given time or another. The micro-finance institutions suggested that business advisory should be extended to reach the SSEs, that SSEs should be trained in business operations and that they should be given enough credit, security and working space.

#### 4.10 Hypotheses Testing

**H1: Accessibility to business advisory and counseling services affects the performance of the small-scale enterprise (SSE) sector.** The chi-square required to accept this hypothesis after correlating the variables accessibility to consulting services and business profitability is 8.43 or below as seen in table 4.20. The chi-square obtained however is 59.50 at 0.05 level of significance. Since the obtained chi-square is higher, the null hypothesis that accessibility to business advisory and counseling services does not affect the performance of the small-scale enterprise is rejected and the alternative hypothesis accepted. The acceptance of the alternative hypotheses is further supported in table 5.1 that shows that all the SSEs reported that an average of 9.8% of business growth and progress was as a result of business consulting. Table 4.6 also shows that there were various consequences that the small-scale enterprises reported as being caused by their inability to access the business advisory and counseling services.

**Table 4.20: Chi-square values of variables for hypothesis testing.**

Variable combination	Value			D/F	Significance (2-tailed)		
	Observed	Expected	Contingence		Observed	Tabulated	Cont.
1	59.50	8.43	0.58	79	0.05	1.00	0.89
2	100.00	11.20	0.71	79	0.05	1.00	0.06
3	28.42	21.75	0.85	30	0.05	0.86	0.55
4	2.39	2.18	0.36	2	0.05	0.30	0.34
5	610.88	331.96	0.93	630	0.05	1.00	0.70
6	26.28	21.89	0.84	24	0.05	0.59	0.34

Where variable combinations are:

1. SSEs access to consulting services versus the level of business profitability.
2. Percentage of SSEs consulting versus business profitability.
3. Consultation cost versus SSEs consulting percentages.
4. Consultation rates and SSEs inability to payback.

5. SSEs awareness of consulting services and consulting percentages.

6. Consultation cost and growth due to consulting.

The fact that all businesses investigated gave diverse benefits attributed to business consulting is also evidence that access to the service affects the small enterprise sector. There is a positive correlation between the SSEs that consulted business advisory and counseling services and their profitability. Moreover, access to business information (advisory) was reported as one of the greatest contributions to business progress. Likewise the unawareness of business trends, a concern of business advisory was reported as one of the greatest challenges to small business enterprising.

Table 4.20 shows that the profits made by SSEs and their access to consulting services gives a chi-square of 59.50 at a significance level of 0.05 and a likelihood ratio of 8.43 at significance level of 1.0 both at 79 degrees of freedom and a contingency coefficient of 0.58 at a significance level of 0.05. This shows a very strong relationship between the variables correlated. The profits made by an enterprise therefore would be determined by whether or not it would seek advisory and counseling services. There is also a relationship between business profitability and awareness to advisory and counseling services and percentages of SSEs consulting. This is shown by the chi-squares of the former and the latter that are 100 at a significance level of 0.05 and likelihood ratio of 11.2 at significance of 1.0 and chi-square of 610.88 at a significance of 0.05 and likelihood ratio of 331.96, respectively.

All the SSEs utilizing business advisory services reported some growth in their enterprises associated with their consulting. Table 5.1 shows that all consulting SSEs were properly utilizing their business loans to profitability. The reporting by all respondents of their awareness of both benefits of consulting and consequences of not is evidence that the utilization of the service

impacts on the level of profitability in business. Moreover, proper business management, direction and guidance is expected to be subject to how updated the business owners and managers are informed of the business trends' operations. Business consulting therefore if rightly done by business experts will preserve the enterprises and protect them from diverse problems as well as safe guard them from dangers and risks associated with business operations. Table 4.5 shows the benefits given by businesses both using and not using advisory and counseling services as evidence that business consulting is both crucial and necessary for the small-scale enterprise.

**H2: The high cost of commercial business advisory and counseling services has contributed to its underutilization.** The chi-square value required to accept the null hypothesis and reject alternative hypothesis is 21.75 or less according to table 4.20. The actual realized chi-square, however, is 28.42 at a significance level of 0.05. Since the observed value is greater than the expected value, we reject the null hypothesis that the high cost of business advisory and counseling services has not contributed to its under utilization and accept the alternative hypothesis.

The alternative hypothesis is further supported by the fact that out of all SSEs investigated only 15% were using business advisory and counseling services. Both the micro-finance institutions and the SSEs studied admitted that consulting rates were expensive for small enterprises and that only a few of the SSEs were consulting in the long run. Majority of the SSEs using business advisory had a problem with paying the consultation fees. These findings therefore show that the advisory services were both expensive to the SSEs and thus under utilized. There is also a negative correlation between the cost of business advisory services and their utilization. This means that increase in the cost of business advisory would result in decrease of the percentages of SSEs consulting as well as lower the profits the SSEs make.



The implication here is that more small-scale entrepreneurs would be willing to continue seeking the services of business consulting firms and those already consulting businesses would also go into further detail and elaborate dimensions of consultancy if the value they attached to consulting increased. The business advisory firms, therefore, are faced with a challenge to work more vigorously in an attempt to market themselves and create awareness to the SSEs and make them have trust and confidence to use their services. The material and financial benefit of gain attained from every service given to SSEs must clearly be seen by the SSEs as a way of attracting them to use the service and be willing to sell the idea to prospective others.

If the net profits made per year are little or the invested capital is low especially for the micro enterprises, then very low amount of money would be available for business advisory consulting. This explains the low percentages of the SSEs using business advisory and services compared to the other sectors, the medium and large-scale enterprises. On a one to one correlation of variables the consultation rates and the problem of paying consulting fees give a chi-square of 2.39 at a significance level of 0.05 and a likelihood ratio of 2.18 two degrees of freedom. This implies that the rates of consulting have a direct positive relationship to or affect the ability to pay the consulting fees. This would mean, as seen earlier, that increasing the charges of consulting would result in the small-scale enterprises having problems with paying the consultation fees thus lowering the percentages of SSEs that would eventually consult. This can be confirmed by the contingency coefficient that is 0.36 at a significance level of 0.05 as seen in table 4.20. The observed chi-square is greater than the tabulated value and therefore it is safe to accept the assertion that the levels of the high rates of consultation fees charged by the business advisory and counseling consultants make the SSEs to be unable to pay back their fees.

**H3: The level of utilization of the Commercial business advisory and counseling services in Kenya by the small-scale entrepreneurs determines their level of business economic performance.** In the correlation between business profits and percentage of SSEs consulting, the chi-square value required for accepting the null hypothesis and rejecting the alternative hypothesis is 331.93 or less (see table 4.20). However, the value observed is 610.88 at 0.05 level of significance. This means that there is a positive correlation between the consulting of business advisory and counseling services by the SSEs and the SSE profitability and thus consistent using of this service will result in better performance of the SSEs.

Furthermore, majority of the respondents reported that the SSEs operations were risky and dangerous due to poor economic performance. In general, the amounts of net profits obtained for the periods of time studied contravene the purpose for which the businesses were started, that is to create employment for self, family members and to supplement the existing low incomes as well as make profits for the economic betterment of the country.

Invested capital and profits made per annum have a Pearson correlation of 0.77 and at a significance level of 0.00 at p value of 0.01(see table 4.21). This means that the growth connected to consulting directly depends on the amount of capital invested and by extension that even when businesses consult, not much benefit will be realized if their invested capitals are low. The reason for this finding is because the amounts of profits made per year directly depend on the amount of capital invested. Similarly the financial allocations attached to every venture in business enterprising are a function of the invested capital and the net profits made.

**Table 4.21: The Pearson correlation between consultation costs, growth connected to consulting, consulting percentages, total invested capital and profits made at 0.01 significance level (2-tailed).**

Independent variable	Dependent variable									
	Consultation cost		Consulting growth		Consulting percentages		Invested capital		Profits made	
	Corr	Sigf	Corr	Sigf	Corr	Sigf	Corr	Sigf	Corr	Sigf
Consultation cost	1.000		-0.330	0.322	-0.128	0.707	0.240	0.477	0.477	0.138
Consulting growth	-0.330	0.320	1.000		0.338	0.218	0.420	0.119	0.421	0.118
Consulting percentages	-0.128	0.707	0.338	0.218	1.000		0.069	0.496	0.065	0.590
Invested capital	0.240	0.477	0.420	0.119	0.690	0.496	1.000		0.767	0.000
Profits made	0.477	0.138	0.421	0.118	0.550	0.590	0.767	0.000	1.000	

Profits made per year are correlated with the profits made in the consecutive years and the reason is the same as for costs of business per year that profits are either carried down or brought forward at the end of each financial year to the next year. This implies that losses made in every financial year will be carried forward to the following year. While the business may make profits in the next consecutive years, the net amount will decline as it settles down bills and losses of the previous years. On the other hand a business may not make a lot of profits on a given financial year. However, if it had made good profits during the previous years then the current profits will be positively affected and vice versa.

Based on Table 4.20, the chi-square of the consultation cost per year and the growth connected to consulting is 26.28 at a likelihood ratio of 21.89 at 0.05 level of significance. This means that increasing the cost of consulting per year would result in a decrease in the growth connected to consulting or the benefit of consulting. The contingency value of 0.84 confirms this assertion. Similarly increasing the consultation cost would reduce the percentages of SSEs consulting. This is confirmed by both the chi-square and the contingency values that are 28.42 at a likelihood ratio of 21.75 at 0.05 level of significance.

Since only half of the total consulting enterprises (53%) were willing to continue to consult, then this trend means that the consulting percentages would decline greatly if new businesses would not start consulting. This study can thus acceptably conclude that the future of accessing advisory and counseling services by the SSEs is very negligible, uncertain and unpredictable. This leads us to a conclusion that commercial business consulting has had very little impact in Kenya otherwise very many small-scale enterprises would be willing to consult if they had benefited or had been impacted by that service. This is in spite the fact that the ability of an enterprise to compete effectively depends very much on the adequacy and timeliness of operating information and other data supplied to management. This is because the quality of management decisions is tied to the quality information system (Armstein, 1967).

Having tested the relationship between the variables above, regression analysis is further done to take control of any spurious relationship and the confounding effects of other variables. Here the partial correlation coefficients of variables are considered. The multiple correlation coefficient (R) of all the independent variables including total invested capital, growth connected to consulting and capital from other sources on the consulting percentages that is the dependent variable is 0.73. The  $R^2$  and the adjusted  $R^2$  are 0.53 and 0.41 respectively as seen in table 4.22. This means that the proportion of variance in the independent variables acting together on the dependent variable accounts for 53.4% change. We therefore conclude that all these independent variables have a real impact on the dependent variable of -0.12, -0.65 and 0.74, respectively. As indicated earlier, the value attached to consulting by the SSEs is the main determinant of their willingness and consistency to consult.

**Table 4.22: Regression summary between the dependent and independent variables.**

Variables entered	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std error
Capital invested, growth due to consultancy, capital from savings & other sources.	0.731	0.534	0.407	2.26

Where the dependent variable is the SSE consulting percentages while the independent variables are the total invested capital, growth connected to consulting and capital from savings and other sources.

Since the testing of bivariate relationships only leads to the identification of whether there are relationships or not, it is important to go beyond this level to test the nature, strength and direction of such relationships. This is possible through the use of multivariate tests like regression.

**Table 4.23: The distribution of the regression equation coefficients between consulting Percentages and invested capital.**

Independent variables	Unstandardized coefficients		Standardized coefficients	T test	Sig.	95% confidence for B	
	B	Std. Error	Beta			Lower bound	Upper bound
Constant	3.521	1.961		1.796	-0.100	-0.794	7.836
Growth Connected.	0.603	0.211	0.740	2.856	0.016	0.138	1.067
Other capital	-3.2E-06	0.000	-0.649	-0.919	0.378	0.000	0.000
Total capital	-3.2E-07	0.000	-0.120	-0.183	0.858	0.000	0.000

The relative effects for the independent variables on the dependent variables after controlling spuriousness and the confounding effects of other factors are: growth connected to consulting (0.74), capital from savings and other sources (0.65), and total invested capital (0.12). Their beta values are presented in table 4.23. The plot of regression showed that the regression between consulting percentages, invested capitals and growth connected to consulting is linear. Here values scatter around a straight line implying a strong relationship between the variables.

Moreover, the multiple regression coefficient of consulting percentages (the dependent variable) and independent variables of loan rates, consulting cost, whether the businesses get enough profits to pay their loans and the current loan is 0.7 while the  $R^2$  is 0.5. This is the amount of net change of the independent variables on the dependent variable as well as the degree of predictability of the dependent variable from the independent variables.

**Table 4.24: The regression coefficients between consulting percentages (dependent variable) and the independent variables.**

Independent variables	Unstandardized coefficients		Standardized coefficients	t test	Sig.	95% confidence interval for B	
	B	Std error	Beta			Lower bound	Upper bound
Constant	28.119	7.268		3.869	0.012	9.436	46.802
Consultation cost	-8.8E-06	0.00	-0.193	-0.991	0.367	0.00	0.00
Consultation rates	-0.355	1.270	-0.056	-0.280	0.791	-3.621	2.910
Current loan	-1.5 E-05	0.00	-0.919	-4.419	0.007	0.00	0.00
Enough profits to run?	-5.585	1.728	-0.685	-3.391	0.19	-10.299	-1.417
Loan interest rates	-0.486	0.226	-0.464	-2.152	0.084	-1.066	0.095

The regression matrix shows the relative effects of each independent variable on the dependent variable. From the multiple effect of 0.5 the respective variables have an individual impact of: consultation cost per year (0.19), consultation rates (0.06), current loan (0.92), and enough profits to pay loan and run business (0.69) and loan interest rates (0.46) evident from table 4.24. Here the sign of the coefficients shows the direction of impact. However, as seen in the table 4.24, the significance of current loan and whether the SSEs make enough profits or not is very low indicating that the impact of these two on consulting percentages is negligible. Nevertheless, a strong linear relationship between the dependent variable and the independent variables.

The results show that loan rates have the greatest impact on consulting percentages followed by the consultation cost per year. This implication confirms the findings of this study that the small-scale entrepreneurs were neither satisfied nor comfortable with the rates charged by the micro-

finance institutions as loan interests and the consultation firms as fees. Since both the regression and the correlation coefficients between consulting percentages, loan rates and the consultation rates are inversely proportional the result is that increase of loan rates and consulting cost will result in a decline in of the percentage of the SSEs seeking business advisory services or loan advances.

The multiple regression results for the cost of business and the profits made on consulting percentages are 0.09 and 0.06, respectively. This shows very low impacts of cost and profits on consulting percentages. However, the relative effect of each independent variable was found to be high and the level of significance adequately relevant. This outcome could be due to the fact highlighted earlier that costs and profits of business are always carried down or brought forward to the following years of business operations. Majority of the SSEs have no access to business consulting services and the maximum growth connected to those consulting was estimated to be only 15% per annum. We therefore reject the null hypothesis and accept the alternative hypothesis that the level of the utilization of the commercial business advisory and counseling services in Kenya by small-scale entrepreneurs determines the level of business economic performance.

## CHAPTER FIVE

### DISCUSSION AND INTERPRETATION OF FINDINGS

#### 5.1 Introduction

The study was guided and based on three hypotheses: that accessibility to business advisory services affects the performance of the small-scale enterprises; that the high cost of business advisory services has resulted to its under utilization and that the level of utilization of the business advisory service determines the level of economic performance of the small-scale sector.

This chapter attempts to examine and interpret the study findings and the relationships among the smajor variables. The main areas covered in this section are an interpretation of the data on the mean cost of business operations of the small-scale businesses studied and the amounts of profits they make.

#### 5.2 Summary of findings

The government of Kenya in 1988 identified the barriers to the SSE sector development as: the lack of new entrepreneurs, the lack of access to capital, limited availability to extension services, lack of access to technology, poor project preparation, lack of managerial skills, lack of raw materials, unfair government regulations and lack of market knowledge (GoK, 1989). The development of the small-scale sector however is a major area of concern for most developing countries in their attempt to industrialize and achieve their development objectives. For example, Kenya acknowledges the importance of this sector in its pursuit to improve her economy and create jobs for its people. Though full of opportunities, the small-scale sector has not been facilitated and developed to maximize its full potential.

This study was prompted by the fact that the problems of the small enterprises are often ignored or their sources erroneously attributed to their small size. The lack of business specific information on small establishments for example made it difficult for the SSEs to effectively



compete with other sectors of business. The small sector is also constrained by factors like inappropriate environment, inappropriate technology, inadequate capital and limited market. In addition, most SSEs are ignorant of the important role business advisory and counseling services would play in helping them overcome the above constraints.

In this study, simple business types mainly characterized the small-scale sector. Their operations were distributed along all levels of education with no one of them found to be illiterate. The small-scale enterprises had the majority of the male respondents with their businesses registered compared to their female counterparts. This study established a relationship between business registration and the sex of the respondent with the registration of business dependent on the size of the business; the bigger enterprises were all registered while the micro ones were not. The type of goods or services offered also determined whether a business would be registered or not as the majority of the entrepreneurs re-iterated that they would not get customers if their businesses were not registered due to the sensitivity of the service or goods dealt with, for example engineering and motor services.

Due to unpredictable business trends and a poor economy, the cost of business and profitability were unstable and unpredictable. According to the SSE entrepreneurs, their survival in business was due to their personal efforts and background rather than due to the services of micro-finance institutions or the business advisory and counseling services. Even though the micro-finance institutions had great contribution to the development of the SSEs than the commercial banks, their services are neither adequate nor “friendly” to the poor entrepreneur.

Even with the lack of security as a requirement to access business loans as required by banks, loan interest rates are not lower for the micro-finance institutions than for the banks. Furthermore, the business advisory and counseling firms on their part have not marketed their products to the very

doors of the small enterprises and their fees are not affordable by SSE entrepreneurs. This problem coupled with the lack of business expertise and poor management amongst most small enterprises has resulted in the inability of the SSEs to breakthrough their constraints to development. There is therefore need for informed expertise and the provision of business direction.

The main findings in this study were that though the business advisory and counseling services were fundamental and contributed to the development of the small-scale sector, the services were inaccessible to the majority of the small-scale entrepreneurs. Moreover, for reasons not established in this study, the business advisory services in Kenya are expensive and not affordable to the small-scale entrepreneurs thereby resulting in the low utilization of the services. The consequent effect is a comparative poor performance of the small-scale sector relative to the medium and large business sectors. There is thus need for the government of Kenya to take measures that stimulate the growth of the indigenous sector and help in the provision of infrastructure, loans, and the legal recognition of the small entrepreneurs. The reason for such a move is because these small-scale entrepreneurs are a unique group of actors who do not possess entrepreneurial alertness and are not quick to discern business opportunities as they come. This is because non-entrepreneurial actors profit through the optimal allocation of their personal and organizational resources among the already identified and legitimate market opportunities. On the other hand, small-scale entrepreneurs should obtain their profits by directing and managing change via the identification of new market opportunities.

This study also found that the most important endeavor for Kenya to concentrate on in the long run is the fostering of an enterprising culture through the relevant institutions like the media and the educational systems to maximize the country's human resource potential. These relevant institutions however, must not be taken as ends by themselves but as means to the end. This is

because such institutions only exist to meet the demands of the small enterprises or are tools for small enterprise development policies. The creation, objectives, structure and programs of these institutions must be measured against their utility in accomplishing these ends. This means that a strong linkage must be developed between policy and these institutions.

### **5.3 The interpretation of findings**

Interpretation of the study findings has been done at several levels to allow excellent presentation of the results. These levels include, the general finding that express a broad picture of findings and specific findings that reveal particular cases of interest.

#### **5.3.1 The general study findings**

The entrepreneur factors influencing business growth are gender, age, marriage, education, family business experience, involvement in other activities and the reason of entering into business and the components of an entrepreneur's background (Malenya, 1998). For this reason this study sought to understand the socio-economic and demographic characteristics of the respondents investigated. The results showed that a large percentage of women respondents than men had been employed to run the small-scale enterprises. This was probably due to the inability of the female respondents to raise business capital to start and operate their own businesses thus leaving them with only the option of seeking employment. The small-scale entrepreneurs (owners) also affirmed their preference for women employees rather than men. Although the reason behind this preference was not captured by this study, this would probably be due to women's low allowances, bargaining power and trustworthiness as opposed to men. However, majority of the owners further indicated that they chose to employ women as opposed to men due to their perceived loyalty and faithfulness. Moreover, Billetoft (1996) discovered that owner-cum manager manages majority of small enterprises in Kenya like in Bangladesh and that only in some occasions does an entrepreneur employ a substitute for the day running of the business. This is

true in this study because only a total of 5% of all respondents were employees in the businesses investigated (see table 4.1).

As observed earlier (see chapter four), there is a relationship between sex and the status of the respondent in the business because the distribution of each category in the dependent variable (status of the respondent) is not the same for the independent variable (sex). More men than women owned the business enterprises studied or were in partnership with someone else. There is a relationship between the sex of the respondent and the ownership of businesses. Similarly, men were more likely than women to start their own businesses while women tended to be either employees or in partnership with someone else in their businesses. This was due to the inability of women to raise capital or lack of collateral to borrow loans to start or run businesses.

Contrary to expectation that small-scale entrepreneurs are illiterate, all respondents had some level of schooling in this study. Actually all levels of education were well represented. While this occurrence may have been due to unemployment in the formal sector, the presence of literate entrepreneurs is strength worth appreciating or noting. On a different footing, three main obstacles were identified to stifle the development of the small-scale enterprises. These are the lack of management skills, lack of access to credit and the lack of an enabling environment (Pratt, 2001). However, Ndege (1990), found that apart from capital and skill, business information is the most important requirement for the small-scale entrepreneur. To him, before the decision to start production, for example, one must have both the skill and the know-how of the production process.

Despite this great need for expert guidance, only a low percentage (15%) of small-scale enterprises investigated in this study were found to be utilizing the business advisory and counseling service. The small-scale enterprise must be founded on information for it to be viable

and have adequate demand and supply for the products and services offered. Businesses ignorant of the current trends are therefore risky and problematic because they are built on chance and operate on trial and error methods.

In this study, all the businesses that were found to be having transactions with business advisory consultants were not comfortable with the fees charged. For example, 6.7% of the consulting businesses reported that the charges were too expensive, 73% of them said the charges were expensive, while only 19.8% considered the charges to be moderate (see table 4.4). Despite the high charges for business advisory and counseling services, the competitiveness of business in the country and pressure from other sectors compels the small-scale businesses to seek marketing expertise for the success of their businesses and for the purpose of gaining a competitive edge against other competitors. For example, since the enterprises investigated were either producing for sale or buying and selling products and services, market connection was reported as the most crucial benefit to the majority of the businesses. However, only few SSEs were found to consult business experts because of their small size and their low-income levels. This is despite the fact that the small-scale businesses could not afford to employ their own marketers but depend wholly on external-marketing experts.

Despite the fact that market information is necessary to stimulate a greater exchange of SSE products between urban and rural areas, there is little dissemination of market information according to the government of Kenya. Moreover, there is minimal access to government tenders by SSEs, limited access to export market to majority of SSEs and very little SSE industrial research has been done. As such, there is a need to establish SSE industrial research unit. In addition, many SSEs operate without licenses and therefore cannot put up permanent structures, have limited access to credit facilities and are not represented at national level of science and

technology Act. Furthermore, many SSE entrepreneurs are either unfamiliar with new technology or cannot gauge its appropriateness GoK, (1989).

On their part, the SSEs investigated reported a lack of business direction and guidance as the least consequence of not consulting, accounting for a 5% of the total responses. This means that such businesses would not be predictable at all and would not be able to make informed decisions. Lack of business guidance and direction would also imply that the enterprise would easily plunge into problems and difficulties without the slightest suspicion. These consequences show, without doubt that business consulting is fundamental to business performance. Although as evident from table 4.15, there are reasons why the small-scale entrepreneurs needed to consult, the SSEs only understood the role of business advisory services due to the development based on their past business success stories. On the other hand, the lack of awareness of the existence of business advisory and counseling services by the SSEs was due to lack of proper business training, ignorance of business operations on the part of small enterprises and the fact that small business consulting is not yet established in Kenya coupled with an apparent isolation of the SSE sector from the other sectors and its failure to network with other businesses.

The failure of most SSEs studied to seek business advisory and counseling services explains their poor performance. According to Janetzky (1967), the firms that do not seek technical advisory have difficulties in overcoming problems or eliminating business weaknesses. Such businesses are often unaware of simple improvements that would enable them cut costs and raise the quality of their products. They also get problems and disputes with their suppliers and customers. The consultants should be used as extension workers or counselors due to their training and experience. They should give advisory service on loan applications, licenses, procedures of financial sources, availability of raw materials, marketing and choice of business Janetzky, (1967). This is because a firm will possess a competitive advantage when it has access to some

asset (tangible or intangible) that is denied to its competitors. The competitiveness of a firm is most likely to be sustained by maintaining continuous innovation in technology and business strategy so as to remain always one step ahead of the competition (Casson, 1995).

### 5.3.2 Specific findings from the SSEs studied

Table 5.1 presents the characteristics of the businesses and the respondents investigated. From the table, the most recent business had operated for four years. This was important for the study because essential statistics for businesses were required in this study for the last five years of business operations. The business with the longest operating time had existed for twenty years while the mean years of operations were 7.67 years. This implies that the majority of the businesses had operated for between five and ten years. It was however beyond the scope of this study to find out if some businesses retrogressed and fell back or whether others that served for some time graduated into the medium or large scales. Due to this shortcoming the study was unable to know why there were no businesses that had operated for very short or too long periods of time.

Out of the fifteen enterprises that were investigated as consulting business advisory and counseling services, only eleven of them gave out their costs of consultation per year. The rest of the enterprises had not consulted consistently and therefore could not estimate the annual costs because they had only done it once or seldom while others did not keep proper records thus making it not easy to give the actual figure. The minimum amount of money spent on consulting per annum was Kes. 50,000 while the maximum was Kes. 200,000, the mean was Kes. 117,455. Comparing these figures with the net profits made per year, we can safely conclude that consultation charges were expensive or too costly for small-scale enterprises. From these figures it is also apparent that not many small enterprises would have afforded the cost of consultation. Nevertheless, all the enterprises investigated indicated that they had some level of business

growth that was connected to business advisory and counseling consulting services. Based on table 5.1, out of the fifteen consulting firms the least rate of growth as a result of consulting was 3% while the maximum was 15%. The mean business growth connected to consulting was 9.8%, which is on the average by assessment. These figures in our opinion are high enough and would encourage enterprises to seek business consultation services if the charges were fair and suitable to the small enterprises.

**Table 5.1: The minimum, maximum and the mean of the business characteristics of the small-scale respondents.**

Characteristic	N	Minimum	Maximum	Mean
Years of business operation	100	4	20	7.67
Consultation cost per year	100	50,000	500,000	117,000
Growth connected to consultancy	100	3%	15%	9.8%
Number of employees	100	0.00	20	3.29
Profits to pay loan and run business	100	1	2	1.25
Number of executives	100	1	3	1.19
Total Invested Capital	100	45,000	12,000,000	1,190,600
Loan interest rates	100	18%	25%	20.6%
Year of Knowing MFI	100	2 years ago	20 years ago	5.9
Capital from other sources (not loan)	100	10,000	3,000,000	707,100
Employees on pension	100	0.00	15	0.79
Loan annual payments	100	20,000	850,000	88,706
Time of knowing consultants	100	1 year ago	25 years ago	6.188

While a number of the enterprises studied indicated that they did not have any employees except the owner of the enterprise, majority of the others had employed workers. The business with the largest number of employees had twenty in number. This is rather a big figure close to that of small companies. The business with this number of employees was Pantech, a firm-producing machine and vehicle filters. The mean number of employees of the enterprises in the study was 3 persons and the average years of operation were 7.67 years.

Out of all the SSEs studied, the business with the least invested capital was Kes. 45,000 while the business with the largest amount had Kes. 12,000,000 and the mean invested capital was Kes. 1,190,600. Basically this amount of capital was from loans and from entrepreneurs' personal savings. As depicted on table 5.1 the capital from personal savings and other sources had a mean



of Kes. 707,100, a minimum of Kes. 10,000 and maximum of Kes 3,000,000. When we compare the two means of total investment and finance capital from the other sources it is evident that much of the small enterprise business capital was from the entrepreneur. This could be because the micro-finance institutions, except the KIE and Undugu society in very limited cases only supported existing businesses. Except in these limited cases, all the micro-finance institutions required an existing business as the basis of support and the invested capital as the security or collateral to give loans.

The SSEs studied reported the amounts of money they paid back per annum to the micro-finance institutions after borrowing loans. The least loan payment per year together with interest was Kes. 20,000 while the largest amount was Kes. 850,000. The mean amount of money paid back per annum was Kes. 88,706, an amount that is rather large compared to the amounts of net profits made by the small-scale enterprises. Asked whether they got enough profits or not to run their businesses and pay back their loans, the majority of the respondents investigated responded in the affirmative. However, the extent to which they were able to pay back and run their businesses was beyond the scope of the instrument used in this study. Similarly, there was a lapse of time between both the time the small-scale enterprises knew about the operations of the business advisory and counseling services and the micro-finance institutions and when transactions actually begun. The reasons given for this were because either the business was not fully established and therefore had not met the conditions and the terms required or the entrepreneur did not think that their business required such services.

### **5.3.3 Business progress and challenges**

Despite the fact that the SSEs investigated in this study were using business loans from the micro-finance institutions and others were consulting business advisory and counseling services, these businesses had different issues that contributed to their progress as well as gave them the greatest challenge. Five issues were raised as the ones that contributed greatest to business enterprising.

Personal efforts of the entrepreneur was reported to have the greatest contribution to the business

progress for the SSEs. It was reported by 32% of the respondents. Personal efforts refer to hard work, personal savings and sacrificing oneself for the sake of the business well being. The next highest contribution to business progress was the availability of well-trained staff in the enterprise with a score of 24%. The staff members employed in the business had the relevant training and the expertise required in each particular enterprise. The availability and use of the modern technology was also of great use to good business performance and had a score of 20%. Contrary to the expectation, access to capital and business information by the SSEs from the micro-finance institutions and the consultants only contributed 15% and 9% to the entire business progress, respectively. These findings indicate that the small-scale entrepreneurs went to these micro-finance institutions for loans and to the business advisory firms as a last resort or because they had no option for not doing so.

Furthermore, the SSEs investigated in this study gave out five main challenges in their business operations. The challenge with the highest score among the respondents is the unawareness of current business trends with a score of 31%. This indicates a contradictory situation because current business trends can only be known through business advisory and counseling services that the enterprises were not willing to access. Therefore business advisory and counseling consultants should consider lowering their charges to be able to cater for the SSEs whose biggest obstacle to their services is cost.

Undue competition from other businesses was the next highest challenge reported by 26% of the total respondents. This refers to competition that came from businesses that were not legal or properly registered but operated in the same environment as the SSEs in this study. Interference from the local government scored 25% of the total responses. This kind of interference came in the form of the local government harassing the small enterprises in the areas of their work specifically because majority of the businesses investigated were not registered. Another kind of

harassment came in the form the local government interfering in the manner in which goods were displayed or in the manner in which the businesses did advertise their services.

Private or family responsibility was also a problem in the running of the businesses. The majority of the respondents were breadwinners for their families. This is characteristic of the high population growth rate and the high dependency ratios existent in Kenya. Due to the African extended family system, the mutual reciprocities and diverse obligations of the African heads of families, it follows that the task of obligations on these proprietors is immense. Managing both the family and the business was not an easy task. Many of the affected businesses in this category indicated that a keen attention to the family was often at the expense of the business and the vice versa. Lack of adequate capital was the least challenge. The reason may have been due to the fact that these businesses had access to micro-finance institutions and therefore did not have a big problem with capital requirements.

To assist in the running of the micro-finance institutions the SSEs investigated said that the government has the responsibility of ensuring that all MFIs are properly registered with the government, submit budgets of their funds annually as well as to set a special auditing board to check the operations of the MFIs and de-register the entire ill performing ones. To help in the development of the SSEs the respondents interviewed said that the state had a role to play. This would be to ensure a conducive business environment to the small sector, help in the financing of businesses, vet the mushrooming of irregular businesses and ensure proper registration of SSEs and protect them from undue competition from other sectors.

Currently, SSEs investigated in this study faced very stiff competition from the medium and large-scale sectors. The main reason is that, although the small enterprise manager knows that there is a solution to his or her problem and understands the nature of the solution, he or she lacks

The specialized knowledge required to introduce the technique into the enterprise (Arnstein, 1967). Moreover, while the large-scale entrepreneurs can readily obtain advice from private consultants, the small entrepreneur cannot afford such assistance. This is in spite of the fact that the amount of financial support given by the government for loans was by far lower than the required amount as reported by the Kenya Industrial Estates and its clients.

Technical assistance in the form of advice is also required, for example, on the use of tools and equipment and book keeping for the small-scale firms. This is because many difficulties of the small enterprises are not purely technical but of managerial and economic nature also. This need of outside techno-economic advice and assistance without being in a position to afford the costs of such private consultants was a characteristic of the small-scale enterprise. This is despite the fact that firms that don't seek technical information (advisory) have difficulties in overcoming problems and are often unaware of simple improvements that would enable them to cut production costs and raise the quality of their products (Janetzky, 1967).

On theory, achievement motivation theory has pointed the study to the need for the relevant institutions to be established to look into the plight of SSEs. Such institutions will be trusted with the task of identifying the constraints, hindrances and the problems of the sector and making the relevant models to counter such. This is because, it is only after one recognizes the commercial value of an idea that they act or behave as entrepreneurs. As such there will be need to develop programs that brainstorm the society with business ideas and potential opportunities. The spirit of enterprise will be developed when the right movements are put in place through seminars, business campaigns, workshops and training to both existing and potential entrepreneurs. The ethical values, socialization process and child rearing practices thus need to be changed suitably to boost entrepreneurship.

According to Blau (1964) on exchange theory, people's associations proliferate through social space and time and the association between individuals gets organized into complex social structures and they often become institutionalized to perpetuate the form of organization beyond the lifespan of humans. The exchange transactions evolve out into more complex associations. In this regard, SSEs make calculations to the reward value or utility resources possessed by the business advisory consultants and the micro finance institutions and the costs they must incur. Moreover, all the parties involved in business entrepreneurship seek to receive more value or utility than the resources they use and social relations involve a constant process of exchange of resources among the parties involved.

On the other hand, the social systems theory in this study has seen the SSEs, micro finance institutions and the business advisory and counseling services as parts that work together for the betterment of business enterprise. The achievement of goals is therefore only possible through the collaboration of the parties involved in complimentary situations. For this reason, if allocation of rewards diverges widely from expectations, motivation for performance is affected. This explains why SSEs avoid the services of the business advisory and counseling when they don't perceive any benefit or reward at hand. Malenya (1998), for example notes that the slow rate of growth of micro enterprises in Kenya is attributed to a number of factors like inadequate capital, marketing difficulties, poor infrastructure, unfavorable legal and regulatory conditions, bad management practices and limited entrepreneurship skills. This calls for constant cooperation of all parties involved in the small-scale business entrepreneurship.

The findings of this study concur with the assertion of exchange theory that enterprises attach themselves to the pursuit of rewards while avoiding cost as much as they can. To help the small-scale sector, therefore, there is need for business advisory firms to develop models that are both relevant and affordable to the small business entrepreneurs. The micro-finance institutions on

their part should consider giving sufficient loans to the small business at low interest rates and help design their business projects to gain profitability. When this is done, business transactions will automatically be created between the small sector, the business advisory firm and the micro-finance institutions. Exchange theory explains the reason why many entrepreneurs avoid business loans even when they are available due to fear of high interest rates. Again the high cost of running business and the high rates of risk cause potential entrepreneurs to opt to raise their own capital instead of accessing loans.

## CHAPTER SIX

### CONCLUSION AND POLICY RECOMMENDATIONS

The purpose of this study was to assess the role played by the business advisory and counseling services in the performance of small enterprises. The study was based on the assumption that the small-scale sector has real potentials for development and that policy is continually changing from agriculture towards industrialization as a future engine of development. This chapter presents the conclusions drawn by the study the study as well as the recommendations and areas of further research.

#### 6.1 Conclusion

In conclusion, the SSEs studied reported that the business advisory and counseling services were very expensive to them and therefore the small-scale sector did not utilize the service. Most SSEs also did consult the business advisory services they were not aware about their services or did not have a business relationship with them. Due to poor accessibility of the BACs to the SSEs and the high cost of the service, very few SSEs actually used the service or were willing continue consulting relative to the medium and large-scale sectors. This study further found out that very few female respondents owned their business as compared to men. Majority of the female respondents co-owned their businesses with someone else mostly their husbands or relatives. The reasons given were the high cost of business enterprising and the lack of security for loans by the female entrepreneurs. The study also found a relationship between business ownership and the sex of the respondent. More male respondents than female owned their businesses due to their higher financial status thus an ability to raise business capital easily than their female counterparts. Financial institutions also are out of the reach of female entrepreneurs due to their lack of ownership of family property that could be used as loan security.

Fewer businesses owned by women were registered compared to those owned by men. The reason attributable to women having their businesses not registered is because of the fact the majority of the businesses belonging to women were very small relative to those owned by men. The study established a negative correlation between the cost of consulting and consulting percentages. This implies that any increase in the cost of consulting by one unit would result to the percentages of the small-scale entrepreneurs consulting decreasing by one unit. On the other hand, while there is a wide range of business advisory service providers ranging from non-governmental organizations, through governmental research institutions to commercial ones only a few of the SSEs were found to consult them. Majority of the firms were found to offer general business advisory services as opposed to the specialist type to be able to capture a wide majority of clients.

The few cases of SSEs consulting were nevertheless due to the great expense of the service as reported by many entrepreneurs. Moreover, despite the fact that there were benefits of consulting, only a few of the enterprises already consulting were willing to continue to consult. As a result, the small enterprise sector is constrained by the lack of the benefits accrued to consulting. Moreover, even with large amounts of loans available for the small entrepreneurs, not many of them utilized the large facility. The reason was either due to the large amount or size of collateral or loan security savings required and the high rates of interest charged. Majority of the MFIs also did not offer any support to business start-ups due to their lack of security and the difficult associated with the follow-up of loan payments. The majority of clients served by the micro-finance institutions were in the category of micro enterprises.

## **6.2 Policy recommendations**

According to Mbithi, P (unpublished paper, no indication of year) the government of Kenya has had a lot of implementation without planning occurring because of a crisis of felt needs where the responsible agencies appear to be ineffective. This implementation process takes into account the



national and regional priorities and constraints but fails to consider the local level constraints, resource characteristics, economic and social constraints. As a result, planned programs frequently achieve only minimal success or completely fail. In contrast, if planning will occur at the local level, with local involvement and takes into account the specific local conditions, the programs being implemented will have a greater chance of success through continued support and maintenance. This calls for a shift of attention to a "development from below strategy".

It is therefore the function of every government to support and facilitate the private sector or enterprise through the establishment of an industrialization policy that would create a suitable environment and sound macro-economic management. In this regard, the government of Kenya should get fully involved in business entrepreneurship by directly helping the small-scale enterprises and stop leaving them at the hands of well wishers. This is because entrepreneurs can achieve their goals and increase productivity per unit resource by adopting better management techniques. The entrepreneurs need suitable advice from the business consultants who get technical ideas from research. This calls for the need for an organization to identify and assess the financial needs of its clients and assist them in preparing business plans. Such organization will identify the clients perceived and real needs then a counseling coordinator will match what the client needs with a specific skill area and identify suitable counselors (Pratt, 2001). However, the lack of micro-level data due to the use of "development from above" strategy that ignores local participation of all entrepreneurship stakeholders creates irrelevance of the plans, particularly to local situations. It also makes the programs to appear as imposed thus raising suspicion and skepticism as the locals regard the plans to be unsuitable and undesirable.

The role of change agents should not be that of an expert but that of an explicator who generates ideas and suggests alternatives but leaves the decisions to be made by the community or the business unit. This is the essence of "growth from below." The disregard of indigenous resource

mobilization agencies and uncritical satisfaction with transformation approaches to development will reduce the capacity to harness indigenous social control and reward mechanisms for motivating people to act. To harness the local initiative to meet the local and national needs and accelerate the development process, both those at the center and at the periphery must understand the goals and the constraints of each and reach a working solution. The development from below approach should be institutionalized within the national planning framework.

To compliment the multidimensional approach to planning and implementation of development on entrepreneurship, we suggest a process which incorporates greater micro-level data generation and training for local level involvement. The local level participation in planning and implementation and co-ordination of the small entrepreneur activities should be increased. There is also need for more efficient dissemination of information. Generated information should be stored and its availability known to potential users. Furthermore, the generators of the information should be able to identify potential users and a means created for transferring the information to the relevant target groups like policy makers and the business units. Sending of business enterprising information to entrepreneurs should be done through proper effective channels to reach the specified recipient group in good time and mechanisms for feedback from target groups to the sender must be created. The government should therefore arrange for the provision of more information on technology options and do more research on the needs of SSEs, identify markets and on the use of appropriate technologies and processes.

Due to the changing needs of the SSEs, a program design suitable to modern forms of development is required because the various needs of the small enterprises cannot be met by a single organization. There is need for all the stakeholders of development to network for the purpose of better outcome. The government of Kenya will need to create an enabling environment by lowering taxes for materials used by the small entrepreneurs and reducing the amounts charged

on licenses, among other things. The government should increase the amount of money allocated for small enterprise loans. This is because most of the clients of the Kenya institute of industrial estates confirmed that they did not get adequate loans or failed to get them when they highly needed them.

There is also need to revoke the decision taken by the government to sell the small-scale business sheds or workshops under Kenya Industrial Estates to individual people. As a result of the decision, many small entrepreneurs are suffering at the hands of very exploitative business people who now own the former government business sheds. New workshops should be built all over the country to be rented to the business people at low and affordable cost. The government should further protect the SSEs from undue competition posed by the other sectors. To ensure proper deals of the micro-finance institutions and business advisory and counseling firms and avoid exploitation of the SSEs, proper registration and assessment of these firms' operations and budgets should be made.

Furthermore, given that the demand for products or services is the most serious problem of the small enterprises, attempts should be made by the government, small enterprise development institutions and the SSEs themselves to improve the product quality. Product quality, proper business management as well as adequately researched markets will ensure that the SSEs compete effectively. This paper proposes an elaborate partnership between the Kenyan government and the private sector. The government must be responsive to the needs of the private sector and be available to support them. The concerned government departments and ministries must take the responsibility of preparing and monitoring all national development plans and coordinating government activities.

Accordingly, Malenya (1998) points out that the policy makers should target their entrepreneurship development programs at young entrepreneurs. People especially the women should be sensitized through seminars, workshops and other appropriate sectors to enter into businesses. Local entrepreneurs should be equipped with the necessary knowledge, skills and attitudes related to strategic management planning. Development centers should be established near manufacturing activities and a study should be done on the entrepreneurship factor and how it affects the growth of the enterprises.

The capability of small enterprise to provide employment will depend on the incentives and support system provided by both the government and the private sector. SSEs need institutional machinery to assist in the selection of the most beneficial technology, its adaptation, installation and use in development. Institutions that supply advisory and consulting services must assist in the selection, adaptation and problem solving. For the volume of the SSEs to increase, some institutions are needed to promote new enterprises, encourage investment and assist in the movement from idea to realization through the institutional means of financing (GoK, 1989).

There is moreover a need for the development of a culture of enterprise in Kenya. This environment will prepare the population to take advantage of the abundant business opportunities in their society and provide supportive measures for entrepreneurs at all levels of development to realize their potentials (GoK, 1989). The government should also establish business centers in the small enterprise sector for information dissemination, research and product development and program promotion. Comprehensive programs that are targeted at specific groups should be developed alongside institutional machinery to assist in the selection of the most beneficial technology, its adoption and development of newer and more useful technology. Institutions that supply advisory and consultancy services must assist in the selection, adoption of the most appropriate and suitable technology and help them in problem solving. SSE personnel must be

trained in the operation of new technology and institutions that promote new enterprises and encourage investment must be enhanced (GoK, 1989).

The micro-finance institutions on their part should consider lowering the interest rates on the loans given to SSEs, increase the loan amounts and offer other necessary business management and training services to their clients. The business advisory and counseling firms should also lower their charges, do more rigorous work of reaching out small businesses and develop the relevant technology that is applicable and suitable to the small-scale entrepreneur. All the stakeholders of business enterprising should work hand in hand to develop a culture of business entrepreneurship that would be in a position to attract potential entrepreneurs into business. Furthermore, to adequately deal with the existing business advisory and counseling firms and guard against the mushrooming of unethical and unprofessional ones, the government of Kenya should ensure proper registration of all consulting firms, set a special board to monitor the operations of the consulting firms, encourage all clients to report any misconduct from consultants to government authorities and deregister all ill-performing firms.

The private sector must seize the opportunities and take the initiative to invest in production to create jobs and a competitive business sector as the government and the other enterprising stakeholders play their roles. Concrete action must be taken to implement all the policy frameworks articulated. The policies in themselves must be properly made and detailed as well as the relevant stakeholders in small enterprise development must be involved and follow up made by the government agencies and ministries responsible. Policies must be further developed to create specific programs and projects and their performance evaluated periodically. The

Implementation of all policies must have a time table so that they can be evaluated and their performance monitored.

As Barba et al (1994) observe, the informing and the educating sectors should be given a central part of the industrial strategy in the early stages of development. As an integrated approach for industrial growth, therefore, there is need to build up a variety of educational, training, technology institutions to carry out the tasks that the government has to perform. This is because in developing technological capabilities, physical capital interacts with the human capital and is driven by entrepreneurial responses. Workshop training sessions should also be used to supplement the one on one counseling and permit the SSE entrepreneurs to interact and learn from each other (Pratt, 2001).

After facilitating the entrepreneur to acquire skill, capital and network, the entrepreneurs may be capable to start on their own. Besides, management consultants alongside the micro-finance institutions supporting SSEs should help the entrepreneurs produce business plans and applications for funding to banks. After satisfying the external requirements of a business e.g. credit and legal these two organizations should further provide a valuable contribution in deciding whether or not to start the business at all.

### **6.3 Suggestions for further research**

This study recommends that further research should be done in the other relevant and related areas of business entrepreneurship apart from business advisory and business financing as a way of facilitating the growth of the small sector. This is because business growth and performance is determined by a multiplicity of factors whose impact need to be established independently. The culture of people for example determines the kinds of business activities that people engage themselves in as well as their level of competition. This because people are either motivated by

their cultural endowments or constrained by their cultural limitations. Cultural influences also affect the cost of doing business and economic performance in general. Further research should therefore be done on the effect of culture on business entrepreneurship in Kenya. Moreover, the effect of the currency rates and the country's economic level on business enterprising need to be established because their relationship to international currencies determine the rate of inflation in the country.

On the other hand, specialization in business produces better results when focus is given to particular cases as compared to generalization of issues. For this reason, a study on the performance of specific business advisory firms and their specializations as well as the effectiveness of the micro-finance institutions in business promotion in Kenya should be done. Moreover, since there is a gap on the lack of evidence that point to the growth of the micro and small-scale enterprises into medium enterprises coupled by the fact that Kenya desires to transform into an industrial nation by the year 2020 (GoK, 2000), there is need for further research on how the small sector must be fostered to expand and grow. Further research should also be carried out to determine the relationship between credit and business growth in the small-scale sector.

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**APPENDIX 1: A SURVEY OF SMALL-SCALE ENTERPRISES IN NAIROBI OPERATING ON BUSINESS LOANS.**

**A QUESTIONNAIRE OF THE SMALL-SCALE ENTERPRISE MANAGERS AND/OR OWNERS.**

**INTRODUCTION.**

Dear Sir/ Madam,

I am Jonathan Kitivi from the University of Nairobi doing a research on "The Role of Business consultancy in the performance of SSEs." Your enterprise has been randomly chosen to represent other SSEs in Nairobi. This research is purely academic and the researcher guarantees confidentiality to all information you provide. Please answer all questions honestly as required. Tick the most appropriate answer(s) and give a brief statement where no choice is given. One question may have more than one answer. Thank you!

**SECTION 1: BACKGROUND INFORMATION.**

1. The name of the business .....
2. Location of the business in the city of Nairobi .....
3. Why did you choose on your current business location?  
.....
4. What type of business is your enterprise engaged in? .....
5. Why did you start this kind of business? 1. I was unemployed   
2. To supplement my income  3. I have great interest in business   
4. Other, specify.....
6. Who owns your business premises? 1. It is the business asset  2. It is a family property   
3. It is rented
7. Age of business or years of operations.....
8. Is your business registered? 1. Yes  2. No
9. Position of the respondent in the business.....
10. Age of the respondent.....
11. Sex of the respondent.....
12. The Status of the respondent to the business  
1. Owner  2. Co-owner  3. Employee
13. Academic qualification of the respondent. 1. Primary education  2. O' level education   
3. College training  4. Graduate
14. The number of years the respondent has been in this business .....
15. The number of years of business experience elsewhere .....
- What type of business .....
16. Do you have any special training? 1. Yes  2. No

17. If yes in the question above in which areas of business specialty? .....
- .....
18. State the duration of training and the certificates obtained for example diploma degree etc.....
- .....
19. Do you use any machines? 1. Yes  2. No
- What type of machines .....
20. How many employees does your business have currently? .....
21. How many employees did your business start with? .....
22. How many of your current employees are on permanent terms? .....
23. How many executives or managers does your business have? .....

**SECTION 2: TRANSACTIONS WITH BUSINESS CONSULTANTS.**

24. Has your enterprise had any business deals with management consultants?
1. Yes  2. No
25. When did you first know of the existence of business consultancy? .....
26. When did you eventually start transacting with them? .....
27. Why did you not transact with the business consultants immediately you knew them? .....
- .....
28. Why did you choose a particular consultancy firm and not others? .....
- .....
29. Which consultancy firms has your business dealt with thus far? .....
- .....
30. What made you consult them?
1. To help us identify the problem with our business.  2. To solve a problem we had identified.
3. To give us an outside assessment of our business.
4. Other, specify .....
31. How did you get the name and the address of the consultant?
1. From other SSEs.  2. From advertisements  3. Through advances by the consultants
4. Our business sought for them  5. Other, specify .....
32. How did your business rate their consultation fees? 1. Too expensive  2. Expensive
3. Moderate  4. Fair  5. Low
33. What was your reaction to the consultant's method of work? 1. Very appealing
- .....

2. Appealing       3. Average       4. Disorganised       5. Very disorganized

34. Did your enterprise have any problem with paying back the consultation fees? .....

1. Yes    2. No

35. If yes in the question above what did you eventually do? .....

.....

36. What do you consider to be the role of business consultants to the SSEs?

1. They give an outside view of business
2. They are physicians to sickly or problematic businesses
3. They provide upto date competitive business information
4. All of the above
5. Other, specify .....

37. Do you prefer to deal with:      1. General       or   2. Specialist consultant?

38. Give the reason(s) for the answer to the question above .....

.....

39. What qualification do you consider necessary for one to be a consultant in business advisory? .....

.....

40. Does your business train any staff? 1. Yes       2. No

41. For how long do you train your staff? .....

42. In which areas of business do you give the training? .....

43. Would your business be comfortable to "sell out" the idea of consulting to other SSEs or recommend them to consultants? 1. Yes       2. No

44. Give the reasons to the question above .....

45. If your business has had deals with business consultants how frequently did they submit their reports?

1. Monthly       2. Quarterly       3. Semi-annually       4. Annually
5. At the end of the transaction

46. What has been your reaction or opinion to these reports? .....

.....

47. Which specific areas of your business has been helped by the business consultants? .....

.....

48. What percentage of your business growth in terms of increased profits would you connect to be the result of business consultancy? .....

49. What has been the total cost spent by your enterprise on consulting per year in Kenyan Shillings .....

.....  
50. Has business consultancy helped you on the best utilization of your loans and running of your business?

1. Yes                       2. No

51. In which particular ways has consulting helped you? .....

52. For how long would you wish to continue with business consulting? .....

53. From your experience do SSEs have good access to business consulting?

1. Yes                       2. No.

54. Are you aware of SSEs not informed about business consulting?            1. Yes             2. No.

55. What percentage of SSEs in Kenya would you estimate to be unaware of consulting .....

56. What are the benefits of business consulting in your own assessment? .....

57. What would be the consequences of not consulting in business? .....

SECTION 3: TRANSACTIONS WITH MICRO-FINANCE FIRMS.

58. When did you first know about the operations of the MFFs? .....

59. When did you start transacting with them? .....

60. What were the reasons of the lapse period between awareness your first transaction with the MFF? .....

61. Which MFF do you currently transact with? .....

62. How did you get this MFF? 1. From advertisements                       2. From other business clients

3. From seminars and training sections.                                  4. From advance by the MFFs

5 Other, specify .....

63. Why did you prefer to deal with this MFF but not the others? .....

64. What is the total invested capital of your enterprise? .....

65. How much of this capital was from your personal savings? .....

66. How much loan do you currently have? .....

67. How much money do you pay back annually? .....

68. What is the rate of interest over loans? .....

69. In your assessment how are the operations of the MFFs in terms of their rates and modes of payment?

1. Very exploitative       2. Exploitative       3. Fair       4. Good   
 5. Excellent

70. Does your business intend to have any further transactions with the MFFs? 1. Yes       2. No

71. Give the reasons for the answer to the question above .....

72. Which statement applies to your planned deal with the MFFs in the next one year?

1. I will highly increase our deals.     2. I will increase our deals

2. Our deals will proceed at the current rate.     3. I will reduce our deals.

4. I will highly reduce our deals.

73. In the next five years write the number with the answer from the question above that corresponds with your expected operations with the MFFs, e.g. 1,2,3 etc .....

74. What would you propose to the MFFs to improve their efficiency?

1. Increase the amounts of loans to SSEs.       3. Reduce interest rates on loans.

4. Increase the grace period before paying back commences.

5. All of the above.

6. Other, specify.

75. How would propose to the government to oversee the operations of the MFFs?

1. All MFFs must be registered properly with the government.

2. All MFFs must submit a budget of their funds and show their expenditures annually.

3. A special auditing board should be set to check their operations.

4. Ill performing MFFs should be deregistered.

5. All of the above.

76. What is the role of the state in business enterprising?

1. The state should ensure conducive environment for business.

2. The State should help in financing businesses.

3. The state should vet the mushrooming of SSEs.

4. The state should ensure proper registration of SSEs and give them protection from undue competition from other sectors.

5. All of the above.

**SECTION 4: BUSINESS PERFORMANCE.**

77. What has been your business cost or expenditure in the last?

1. One year? .....
2. Two years? .....
3. Three years? .....
4. Five years? .....

78. What profits have you made in the last?

1. One year .....
2. Two years .....
3. Three years .....
4. Five years .....

79. What reason(s) would you consider to be the causes of your business trends above?

.....

80. What has been the greatest contributor of the progress in your business?

1. Easy access to capital.
2. Easy access to enterprising information.
3. Modern technology.
4. Well trained staff.
5. Other, specify .....

81. What is your greatest challenge or obstacle in business operations?

1. Undue competition from other enterprises.
2. Unawareness of the current business trends.
3. Lack of adequate capital.
4. Interference from the local government.
5. Other. Specify .....

82. How would you rate the level of business competition in your business?

1. Very stiff.     2. Stiff     3. Average     4. Low     5. Very low

83. What actions would you take to improve on the demand of your products or services?.....

.....

84. Do you get enough profits to pay back your loans and run the business?

1. Yes                       2. No

85. What are the reason(s) that have contributed to the situation above.....

.....

86. What statement(s) applies to your business plan for the future?

- 1. I wish to stop borrowing funds
- 2. I wish to enlarge my business
- 3. I wish to reduce my business operations.
- 4. I wish to access more information on business.
- 5. Other, specify .....

87. What reasons necessitate the above action? .....

**END! THANKS. GOD BLESS YOU FOR COMMITTING YOUR TIME AND ATTENTION TO THIS RESEARCH.**

## APPENDIX 2: A SURVEY OF MICRO-FINANCE FIRMS IN NAIROBI.

### THE SMALL ENTERPRISE LOAN- SCHEME MANAGERS' RESEARCH GUIDE.

#### INTRODUCTION.

Sir/ Madam,

I am Jonathan Kitivi from the University of Nairobi. I am doing a research on "The role of business advisory and counseling services in the enterprising of the SSEs with business loans." Your firm has been randomly chosen to represent other micro-finance firms in Nairobi. This research is purely academic and guarantees confidentiality to all information you provide. Please answer all questions as honestly as required. Tick the most appropriate answer(s) and give a brief statement where no choice is given. One question may have more than one answer. Thank you!

#### SECTION 1: BACKGROUND INFORMATION.

1. Name of the firm .....
2. Location of the firm .....
3. Category of the firm
  1. NGO
  2. Government institute
  3. Research institute
  - Other, specify .....
4. The number of employees in the firm
  1. Permanent .....
  2. Contract .....
  3. Part -time .....
  4. Total .....
5. Types of business clients advanced loans
  1. Small-scale
  2. Medium-scale
  3. Large-scale
  4. All
6. The total number of businesses that the firm can support .....
7. The total number being currently supported .....
8. Does your firm give any funding to new entrepreneurs for start ups? 1. Yes  2. No
9. Where does your firm get it's funding? .....
10. Which regions of the country do your firm support? .....
11. How many branches does your firm have? .....
12. Where are the branches located? .....
13. For how long has your firm served in the MFF capacity? .....

#### SECTION 2: INTERACTION WITH THE SSEs.

14. What is the minimum loan that you give to your clients?
15. What is the maximum amount that you loan?
16. What is your firm's total budget for loans?



17. What are the terms or conditions to qualify for loan?

.....

18. What security do you require from the SSEs to give them

loan.....

19. What grace period do you give to your clients before repayment commences?

20. What is your interest rate for loans given to SSEs?

21. What measures do you take to ensure high rates of payment?

.....

22. What action do you take against the unfaithful clients?

.....

23. After what period of time is this action taken?

24. What other services do you offer your clients apart from

finances.....

25. What proposals would you give to improve the development of the SSE sector?

.....

### SECTION 3: ADVISORY AND COUNSELING SECTION.

26. How would you define to be the role of the management consultant?

.....

27. Does your firm offer any advisory and counseling services to your clients?

1. Yes  2. No

28. If yes in question 2, what areas of business do you give advisory or counseling on?

.....

29. What would you consider to be the best qualification of a business consultant?

.....

30. Do you train your staff? Yes  2. No

31. If the answer to the question above is yes, in what areas

.....

32. Do you give any training to your clients? 1. Yes  2. No

33. If yes in the question above, in which areas?

.....

34. Have you ever referred your clients to business consultants? 1. Yes  2. No

35. If yes in the question above, what were the reasons?

.....

36. In your own opinion do SSEs need business advisory or counseling? 1. Yes  2. No

37. How can business advisory and counseling help the SSEs in their growth and development?

.....

38. How can business advisory and counseling help the SSEs in their use of loans?

.....

39. Has your firm ever used business consultants? 1. Yes  2. No

40. What were the reasons for your firm to seek consultancy?

.....

41. Do you consider the SSEs to be aware of the role of business advisory and counseling?

1. Yes  2. No

42. If yes in the question above, what percentage of the SSEs do you consider are aware?

.....

43. How many of your SSE clients do you estimate go to consultants on their own accord?

.....

44. In your own opinion do SSEs understand the importance of advisory and business counseling?

1. Yes  2. No

45. What reasons do you attribute to this?

.....

46. How do you rate the charges of the business consultants to the SSEs?

1. Expensive  2. Affordable  3. Cheap

47. Do SSEs from your own experience utilize above service? 1. Yes  2. No

Give the reasons in question 22 above

.....

48. Do you consider the use or non-use of business advisory and counseling to have any impact on the SSEs performance? 1. Yes  2. No

49. What is the impact of the use of advisory and counseling services?

.....

50. What is the impact of the non-use of business advisory and counseling?

.....

END! GOD BLESS YOU FOR AVAILING YOUR TIME AND ATTENTION.

**APPENDIX 3: A SURVEY OF BUSINESS CONSULTANCY FIRMS.**

**A RESEARCH GUIDE FOR BUSINESS CONSULTANTS.**

**INTRODUCTION.**

Dear Sir/ Madam,

I am Jonathan Kitivi from the University of Nairobi. I am doing a research on "The role of business consultancy (advisory and counseling) services in the performance of the Small Scale enterprises (SSEs) with business loans." Your firm has been randomly chosen to represent other business consultancy firms in Nairobi. This research is purely academic and guarantees confidentiality to all the information you provide. Please answer all questions as honestly as required. Tick the most appropriate answer(s) and give a brief statement where no choice is given. One question may have more than one answer. Thank you!

**SECTION 1: BACKGROUND INFORMATION.**

1. Name of the firm Location of the firm in the city .....
2. Why did your firm choose the current business location? .....
3. Category of the firm
4. NGO                       2. Government institute                       3. Research institute   
4. Consultant firm                       5. Other, specify .....
5. For how long has your firm served in the consultancy capacity? .....
1. The number of employees in the firm      2. Part-time .....
3. Permanent ..... 4. Contract .....
5. Total .....
7. What are the age limits (lower and upper) the people you employ .....
8. Types of business clients given services 1. Small-scale                       2. Medium-scale   
3. Large-scale                       . 4. All
9. The total number of businesses that the firm can render services per year .....
10. The total number of businesses your firm rendered services last year.....
11. How many of your clients are small-scale businesses? .....
12. The total number currently receiving services .....
13. Which statement applies to your firm? 1. We render services to continuing businesses only    
2. We render services to start-ups only   
3. We render services to both continuing and start-up businesses
14. Where does your firm get it's funding? .....
15. Which regions of the country do your firm support? .....
16. How many branches does your firm have? .....
17. Where are the branches located? .....

**SECTION 2: BUSINESS CONSULTANCY.**

18. What would you define to be the role of the business consultant? .....

19. Does the general public idea correspond to this? 1. Yes  2. No

20. Give the reasons to the question above  
.....

21. What are the terms or conditions for a client to qualify for service? .....

22. What academic or professional qualifications or experience do you require of your consultants?  
.....

23. Do you employ women consultants? 1. Yes  2. No

If no what are the reasons?.....

24. Is one's personality essential in business consultancy? 1. Yes  2. No

What is its role? .....

25. Do you give any training to your staff? 1. Yes  2. No

26. If yes in the question above in what areas of business and for how long?  
.....

27. Does your firm specialize in any type of business consultancy or has general business deals?

1. General  2. Specialist  Which?

28. What machinery would you suggest to deal with the grossly inefficient or unethical business consultants?

- 1. All consultancy firms must be properly registered with the government
- 2. A special board should be set to monitor the operations of the consultancy firms.
- 3. All ill performing firms should be deregistered
- 4. Clients should be encouraged to report any consultant misconduct
- 5. All of the above

29. Do you ever turn away a prospective client? 1. Yes  2. No

For what reasons? .....

30. On what basis do you set your consultancy fees?.....

31. Do you have different rates for different levels of business? 1 Yes  2. No

32. Do you receive the consultation fees in 1. Installments  or 2. Lump sum

Why in the question above? .....

33. How often do you submit your reports to your clients? .....

34. How often do you hold meetings with your client executives? .....

35. How do you assess the outcome of your consultancy?  
.....

36. Have you ever pulled out of your job because of unsatisfactory relationship between your firm and your client? 1. Yes  2. No

37. What was the reason? .....

38. What grace period do you give to your clients before payment commences? .....

39. What measures do you take to ensure high rates of payment? .....

40. What action do you take against the unfaithful clients? .....

41. After what period of time is this action taken? .....

42. What other services do you offer your clients apart from business consultancy?.....  
.....

43. What proposals would you give to improve the development of the SSE sector? .....

**SECTION 3: TRANSACTIONS WITH SMALLSCALE BUSINESSES.**

44. How do you get your business clients? .....

45. How do you define a good client? .....

46. Do your small-scale clients fit in this " good" category? 1. Yes  2. No

What are the reasons to the above question? .....

47. Do you prefer that 1. Your clients define their own problems  or

2. That your firm finds out the problem?

What is the reason to this?.....

48. Who defines the duration of your assignment? 1. Our firm  2. Our client

3. The problem  4. All of the above  5. Other, specify.....

49. Do you give any training to your clients? 1. Yes  2. No

If yes in the question above, in which areas?  
.....

50. Have you ever referred your clients to another business consultants? 1. Yes  2. No

51. If yes in the question above, what were the reasons? .....

52. In your own opinion do SSEs need business advisory or counseling? 1. Yes  2. No

53. How can business advisory and counseling help the SSEs in their growth and development? .....

54. How can business advisory and counseling help the SSEs in their use of loans? .....

55. Has your firm ever used external business consultants? 1. Yes  2. No

56. What were the reasons for your firm to seek consultancy?  
.....

57. Do you consider the SSEs to be aware of the role of business advisory and counseling?

1. Yes  2. No

58. If yes in the question above, what percentage of the SSEs do you consider are aware?  
.....

59. How many of your SSE clients do you estimate come to you on their own accord? .....

60. In your own opinion do SSEs understand the importance of advisory and business counseling?

1. Yes  2. No

What reasons do you attribute to this?

61. How do you rate the charges of the business consultants to the SSEs?

1. Expensive  2. Affordable  3. Cheap

62. Do SSEs from your own experience utilize the business consultancy service? 1. Yes  2. No

Give the reasons in question above .....

63. Do you consider the use or non-use of business advisory and counseling to have any impact on the SSEs performance? 1. Yes  2. No

64. What is the impact of the use of advisory and counseling services?  
.....

65. What is the impact of the non-use of business advisory and counseling?  
.....

END! GOD BLESS YOU FOR AVAILING YOUR TIME AND ATTENTION.

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