SMES (SMALL AND MEDIUM ENTERPRISES) GROWTH IN NAIROBI- NON FINANCE DETERMINANTS IN CLOTHING SUB-SECTOR.

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BY

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DECLARATION

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

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

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GDP	Gross Domestic Product
ILO	International Labor Organization
RPED	Regional Program on Enterprise Development
SMEs	Small and Medium Enterprises
VAT	Value Added Tax

ABSTRACT

Growth and Expansion of SMEs have led to more employment opportunities, higher standards of living and elimination of social evils in our societies hence the prominence given to SMEs.

For most part and in many years the assumption has been that with access to formal credit sources, SMEs are likely to grow as a result. This has led to attention and over-emphasis on formal sources of finance as the corner-stone foundation for SMEs expansion and success.

But there are SMEs that have received little assistance from the formal sources of finance and those that did receive finance from the formal sources have not shown much difference in terms of growth.

This has necessitated the need to change focus, pay attention and give more weight to other factors that determine SMEs growth apart from the formal sources of Finance.

CHAPTER ONE

INTRODUCTION

1.1 Background

Small and Medium Enterprises (*SMEs*) grow because those directing them value expansion and can seize opportunities and overcome obstacles to creating larger enterprises. Inaccessibility to formal credit sources and finances by the Small and Medium Enterprises (*SMEs*) is perceived as the greatest obstacle that constrains Small and Medium Enterprises (*SMEs*) growth. There is no standard definition of SMEs in Kenya. Lenders' definitions vary, but typically they define SMEs as businesses with 1-50 employees or with annual revenues less than Kenya shillings 50 million (*Strategic business advisors (Africa) Ltd 2005*).

The Government through Kenya revenue authority also in its bid to define and characterize this sector and also make sure that it doesn't lose on the tax revenues that can be generated from this sector has come up with classifications of what SMEs constitute (that is businesses that have an annual turnover of between Kenya Shillings 500,000 to Kenya Shillings 5,000,000) and currently tax them under Turnover tax regulation (*Section 12 (c) of Income Tax Act Cap 470*). The importance of Small and Medium Enterprises (*SMEs*) in the process of economic development is beyond debate and widely recognized in Kenya and the rest of the developing countries as a channel for poverty reduction and achievement of Millennium development goals (*Berks et al (2005*).

The preparation of sessional paper No2 of 2005 on 'Development of Small and Micro Enterprises for Wealth and Employment creation for poverty reduction' and Vision 2030 emphasis on the importance of SMEs in making Kenya a middle income country by the year 2030 gives SMEs a central role in economic development and growth.. It has thus been argued that a growing SMEs sector can contribute to the achievement of a wide range of development objectives including: the attainment of income distribution and poverty reduction (*DFID,2000*); creation of employment (*Daniels, 1994, 1999*); provision of seedbed for industrialization (*Grosh and Somolekae,1996*); savings and mobilization (*Beck et al, 2005*); and production of goods and services to meet the basic needs of the poor (*cook and Nixson,2005*)

These Small and Medium Enterprises (*SMEs*) employ 74.2% of the working age population in Kenya and its contribution to GDP though not reliable fall in the 15% to 18.5% range (*Aleksandra G, 2009*).

As the role of Small and Medium Enterprises (*SMEs*) become clearer in Kenya, policy makers, donors and other organizations have increased resources to support and promote these Small and Medium Enterprises (*SMEs*). This can be seen through projects such as Youth Enterprise development fund (founded in June 2006), women Enterprise development fund (founded in December 2007), and business research incubator training through Kenya Industrial Research and Development Institute (KIRDI) among others.

The Imported clothing (Second hand) trade begins in private homes of the world's affluent people. When Americans and western Europeans clean out their closets to make room for more stuff, they assuage their consciences by donating their castoffs to charity organizations, recyclers, rag makers, wholesales and used clothing exporters to importers in receiving countries America alone donates more than 2.5 billion pounds of clothing per year (*Packer, 2002*) with Goodwill Industries reporting a 67 percent increase in donations since 2001 (*Carl, 2002*). Since the supply of donated clothing exceeds the domestic demand, only about 20 percent is directly second hand by the collecting charity (*Carl, 2002*). Larger charities first sort through donations to stock their thrift stores and then sell the rest to secondhand clothing dealers to help fund assistance programs (*Carl, 2002*). Charities' report up to 80 percent of donations is sent on to second hand clothing traders (*Packer, 2002*).

A tremendous and increasing amount of attention has also been paid in recent years to the legal and regulatory framework that may constrain SMEs growth e.g. The Microfinance bill of 2007 that seek to control and audit microfinance institutions through the central bank of Kenya. Of the many programmes and initiatives that have been put forward in the Small and Medium Enterprises sector the most notable attention has been paid to Micro and Small Enterprise (SMEs) finance. Perhaps the mushrooming of Microfinance institutions in Kenya and the success of banks focusing on Small and Micro Enterprises in Kenya has made microfinance one of the principal development topics in Kenya (*McCormick, 1998*).

In the recent past in Kenya therefore, the perceived obstacle has been taken as given that poor access to formal credit sources constrains Small and Medium Enterprises (SMEs) growth. However, for the most part, empirical evidence supporting such an assumption has been weak if not lacking. Nevertheless, millions of shillings have been spent on programs that seek to mitigate this perceived obstacle. Programmes such as Youth development fund and women development fund were specifically tailored to mitigate this perceived obstacle (*McCormick, 1998*).

1.2 Overview of Clothing sub-sector in Kenya

Clothing in Kenya heavily relies on imports from abroad comprising of retail ready-made garments, retail second hand garments. The development of this sector can be traced to the collapse of manufacturing of textile and clothing to meet the domestic demand. The secondhand clothing trade in colonial Africa began in the immediate post-World War I period with an influx of surplus military uniforms shipped by used clothing dealers in Europe and from production areas in the United States (*Hansen, 2000. p. 66*). The countries of sub-Saharan Africa now form the world's largest secondhand clothing destination, receiving 30% of total world exports in 2001 with a value of USD $405 million, up from $117 million in 1990 (*United Nations, 1996*).

The post-independence period throughout much of sub-Saharan Africa was characterized by an increased emphasis on domestic production of textiles and finished apparel for local consumption. Governments turned to clothing as a visible and potentially lucrative expression of pride and solidarity in new nations. African print cloth was the focus of campaigns encouraging or otherwise imposing 'dress codes' or national dress, using domestic print cloth from these new industries. The importation of secondhand clothing was banned in Kenya, and elsewhere throughout much of sub- Saharan Africa, as import substitution policies were adopted to strengthen domestic manufacture. Despite the ban, secondhand clothing began entering Kenya in the 1970s and 1980s as a consequence of regional political crises (*Catherine Barber et al, 2007*).

Kenya's experience with the imported clothing trade is somewhat different from rest of sub Saharan Africa. Refugees from Zaire, Rwanda, Somalia, and Burundi fled to Kenya to escape their war torn countries. Charitable aid, including second hand clothing, followed the refugees into Kenya in the late 1970s early 1980s. In addition to providing clothes to the refugees, the aid organizations also gave the second hand clothing to poor Kenyans. During the mid1980s, however, the charities revised their policies and began selling the clothes. The commercialization of second hand clothing in Kenya had begun. With trade liberalization in 1990, imports of secondhand clothing drastically increased. The collapse of the Kenyan textile industry soon followed in the early 1990s (*Catherine Barber et al, 2007*).

Since Kenya's independence from Britain in 1963, the textile sector and its production of *khanga* and *kitenge* had been the focus of the country's economic development policy as well as its cultural strategy to develop a symbol of Kenyan identity. *Khanga* and *kitenge*, relatively inexpensive colorful printed cotton fabrics, communicate feelings, traditions and cultures through various colors, patterns, and design symbols. Kenyan textile manufacturing seemed to be developing; The number of weaving mills increased from 6 in 1963 to 52 in 1983 (*Mangieri, 2006. p. 57*). However, the development was short-lived. From 1998 through 2002, Kenyan imports of second hand clothing increased by 32 percent. By 2001, the domestic production of traditional African print textiles ended (*Mangieri, 2006. p. 7*).

The Kenyan textile firms still in operation are run by foreign investors producing fabric for export rather than local purchase. As in other sub Saharan African countries, local textile designers and manufacturing associations are working with the government to revive the local textile sector. They are trying to raise awareness of East African identity in a "wear Kenya, buy Kenya" campaign (*Mangieri, 2006. p. 12*).

A midst all these and of the many positive and negative on imported clothing described many small and Medium enterprises have cropped up in Kenya to take advantage of this growing sector that is the subject to this study especially in Nairobi. The rapid rate of mushrooming and churning of these enterprises in Nairobi is of great interest.

1.3 Problem Statement

With the increase attention and focus being put on Small and Medium Enterprises (SMEs) Investment's survival and growth in Kenya as the important sector that can accelerate sustainable economic growth and help the country reach the Vision 2030 objective of being a middle level income country by year 2030, it is important that the growth of Small and Micro Enterprises be sustained. Much effort and resources has been put on the area of formal credit and financing without addressing other underlying factors that necessitate the Small and Medium Enterprises (SMEs) survival and growth.

Of importance is also the need for the Small and Medium Enterprises (SMEs) adaptation to the ever changing business environment as a result of changes in technology and other factors. This paper seek to address empirically the assumption that Small and Medium Enterprises (SMEs) in the clothing sub sector in Nairobi with access to formal credit sources are more likely to grow as a result. However, perhaps instead these Small and Medium Enterprises (SMEs) Investments tend to grow as a result of factors not related to formal credit and finance, such as Entrepreneurial skills, opportunities in the sub sector in which the firm operates, firm age, firm size and location. Citing evidence from Indonesia, Berry et al. (*2001, p.370*) report 'firms that did and did not receive assistance show similar patterns of development, suggesting that other factors explain firm growth'. Murdoch. J. 1999 in his view of the microfinance literature asks whether a borrower have done just as well without borrowing.

1.4 The Objectives of the Study

This paper will seek to achieve the following;

1. To find out if with access to formal credit and finance SMEs in the clothing sub sector are more likely to succeed and grow in Nairobi.
2. To establish other factors (notably entrepreneurial skills, area of occupancy and Infrastructure/ location) not related to formal credit and finance that are important for the growth of Small and Micro Enterprises in Kenya.
3. To highlight the importance of responsiveness to changing business environment for survival and growth of the Small and Micro Enterprises in Kenya and make necessary conclusions.

The research sets out to study the factors that determine the growth of SMEs in the clothing in Nairobi. Specifically it seeks to investigate the relationship that exists between:

a) Growth of SMEs and Access to Credit

b) Growth of SMEs and area of occupancy

c) Growth of SMEs and Entrepreneurship skill

d) Growth of SMEs and Infrastructure /Location

1.5 Justification and Significance of the study

If growing SMEs will benefit the economy, then policy makers must ease the way or create an enabling environment for SMEs growth. Effective policies must be grounded on an understanding of the economic and non economic factors promoting and discouraging SMEs expansion. Policy makers have adopted a number of policies to try and encourage lending to the Small and Micro Enterprises in Kenya the lack of which is seen as hindering growth and survival of Small and Micro Enterprises. Although these have been to an extent successful, they have not yet managed to solve the problem of failure of Small and Micro Enterprises entirely. A reason that could be behind this is lack of proper understanding of the factors that affect growth and survival of Small and Medium Enterprises in Kenya. Therefore it is important for the policy makers to have this understanding in order to formulate the appropriate policies.

Of importance is the need to identify and differentiate SMEs bulking for growth and those that can seize the opportunities available to grow from those formed for subsistence purposes. This is best articulated by distinguishing between the two types of owner-manager-the craftsman entrepreneur and the opportunistic entrepreneur. The craftsman entrepreneur is described as having a limited and narrow educational and training background, and has low social awareness and involvement. He lacks flexibility and confidence, is reluctant to delegate responsibility or authority, and is adverse to employing external sources of finance, adopting aggressive marketing strategy or engaging in any long-term planning of the firm's future.

The opportunistic entrepreneur, has a broad education and training, and has high social awareness and involvement. He is flexible and confident, and has an acute awareness and orientation for the future. He is ready to delegate and hire on a universalistic basis. He utilizes a variety of financing sources, employs an aggressive marketing approach and undertakes long-term planning. Consequently, his firm is more growth-oriented than the craftsman's firm.

Observers in Nairobi and elsewhere have remarked on the tendency of small businesses to make identical products or engage in identical activities which some may attribute to technological weakness or lack of imagination or lack of market information but this is due to risk avoidance; Entrepreneurs deal with uncertainty by directing their activities along lines involving minimal risk uncertainty. Making products or engaging in activities with assumed market is such one strategy. Thus SMEs involved in metal works produce cooking utensils, charcoal stoves, metal boxes, small hardware, metal furniture, metal doors and window frames and iron gates; SMEs involved in Carpentry mostly make basic wood furniture, tables, chairs, beds, stools and wood frame sofas; SMEs involved in Tailoring fashion standard men's, women's and children clothing.

Nairobians use these products daily. Product designs are generally conservative and according to King and Aboudha (1991), ninety per cent are aimed at the large lower priced market. Thus few of the SMEs venture into unknown areas. To mitigate on the risk of not uncertainty faced by many SMEs, clothing has been chosen as it is considered as one of the 'safe products' for SMEs trade and investment. The assumption here is thus therefore that the problem of risk has been taken care of.

This study looks into other important determinants of growth and survival of Small and Micro Enterprises in the clothing sub-sector in Nairobi, Kenya that could be replicated in other sectors and thus could help towards this end. Small and Medium enterprise owners also need to have this understanding in order to ensure growth and survival of their businesses. The research will also form a basis for further study and might give future researchers a framework for reference.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical review

Focus is on the studies done in both developed and developing countries on small and micro enterprises (SMEs). This study aims at analyzing the effects of non-finance determinants on firm's growth alongside availability and non availability of credit in Clothing sub sector with emphasis being on second hand clothing.

Economic rewards, though not the only reason for SMEs growth are powerful incentives. The promise of scale, size or growth economies impel entrepreneurs to expand output and/ or move into new product lines. Economies of scale are an obvious economic incentive for SMEs growth. Increasing returns to scale promise greater output without proportionate cost increases. The range of efficient SMEs sizes depend on the shape of the sub sector on which they operate on the production function.

The horizontal function characteristic of average costs that are nearly independent of size allows a wide range of sizes. Whereas a strongly U-shaped average cost curve produces a narrower range. A monotonically and strongly decreasing curve provides the strongest incentive to growth. Empirical results from India suggest that in developing economies, constant returns to scale are common as the classic U-shaped average cost curve *(Little, Mazumdar and Page, 1987, pp 173-180)*. Thus in many industries, lack of scale economies could leave business owners indifferent about growth.

When growth incentives are weak or missing and barriers formidable, SMEs will remain small. Even when scale economies exist, their effect on SMEs growth is unclear. One problem is that, even within the same Industry, firms may use different technologies. A typical pattern especially where labor is relatively expensive, is for small firms to use labor- intensive technologies, while larger firms replace labor with capital. Sometimes the larger, capital intensive firms can produce a given level of output at a lower marginal cost than smaller labor- intensive firms, but smaller firms' greater flexibility in meeting changes in supply or demand markets may give them lower average costs. It is impossible in such industries to identify a single optimal firm size from the point of view of technology alone *(Mills 1984, Brock and Evans 1989)*. A further problem lies with the difficulty in measuring scale economies resulting from differences in product mix among firms of various sizes.

The size of a SME at any given point in time is a result of continuous conscious and unconscious decisions of the owner. Economies of scale and growth are important especially when expansion is actively being considered. Yet other factors may be crucial in the day-to-day operations that ultimately determine SME size. Thus perception of risk for example deters growth. Business owners' responses to risk and uncertainty inhibit growth of their firms. Risk and uncertainty are common words with technical meanings. In modern decision theory, uncertainty is the state of mind in which the individual perceives alternative outcomes to a particular action *(Roumasset 1979, p.4).*

Knights (1965) classic treatise distinguished 'risk' for which the probabilities of the outcomes can be estimated, from 'uncertainty', which deals with situations that do not permit quantitative determination of probability. SMEs face two main types of risk. The first which Lipton *(1979, p 352)* calls background risk, is the ever present possibility of widespread economic or political collapse or personal misfortune. Because in less developed countries risks are relatively large, income low and risk spreading options few, attitudes to risk can be important determinant of decision making *(Newberry and Stiglitz 1981, p.105).*

Under uncertain conditions firms tend to operate under sub-optimal sizes *(Lipton 1979, pp 347-348).* Enterprises may either adopt conservative financial policies and restrict expansion, or plan their expansion to minimize risk *(Penrose 1959, pp 61-64).* In the first case the effect of risk on growth is direct and obvious. The indirect effects of the second are no less real. Business owners, baulking at further risk. look for safe ways to expand their interests. Possibilities include diversifying activities, protecting themselves by backward or forward integration or adopting short-run flexible programmes easily modified when conditions change. In this proposal thus an assumption is made that risk inhibition has already been overcome and thus it is not a factor that determines SMEs growth.

A literature search on the growth of a small firm reveals a dominant theme-that of a stage model of growth. Stanworth and Curran (1976) summarized the stage models into the following phases:

i. The initial stage stresses the individual entrepreneur with a single product and service

ii. Division of managerial tasks as small firms plan for growth and the owner-manager loses total control of the firm

iii. The firm becomes more bureaucratic as it grows larger

iv. In stages four and five, the firm matures and stabilizes

Although researchers do agree that a firm does pass through a series of phases as it grows, the problem arises as to where should be the cut-off points between the stages, and what characteristics the firm displays at each particular stage. Muellar (1972) theorized the growth of the small firm on the s-curve hypothesis which suggests that the small firm will go through a formative period which is usually followed by a period of rapid growth, sometimes reaching an exponential rate.

In a small firm, growth is by no means the natural or inevitable strategy. It is the manifestation of social phenomena, and the entrepreneur's aspirations, dynamism and limitations that will determine the nature and extent a small firm's growth. Stanworth and Curran (1976) noted that decisions in small firms were frequently the responsibility of one or a few persons who might be ill-equipped to do so. For most firms, the management decisions are made for survival instead of growth. Penrose (1959) pointed out that the quality of the entrepreneurial services available to a firm is of strategic importance in determining its growth; if at all the small firm wants to grow.

Stanworth and Curran (1976) argued that although living in a society where rapid growth and expansion of the small firm is a social mythology, many entrepreneurs chose to adopt a no-growth stance. Such a social action view of the small firm explains why growth is, on the whole, much less common than the prevalent growth ideology would indicate. In their growth model, they view the firms as passing through three phases: - The artisan stage, the classical entrepreneur stage and the manager stage.

During the artisan stage, the entrepreneur's values and goals influence a largely autocratic firm and as the firm grows, financial goals dominate the classical entrepreneur behavior. As the firm grows even further, the entrepreneur needs to be more managerial.

The various theories on growth cycles highlight the changing roles an owner-manager must perform as the firm grows. The manager must change his behavior to match the situation of the firm or else the growth of the firm will be curtailed to match the behavior patterns which the owner-manager is able or willing to display, or both.

The second hand clothing trade binds together the world's richest and poorest people through the twisted strands of consumerism, charity, and commerce. Wealthy westerners who can afford to discard last year's fashion for this year's new trend soften their consciences by donating their castoffs to charity. Many are now finding out that the destination of these contributions is not always what was intended by the donor *(Rivoli, 2005)*. Very few charitable organizations give the clothing away. The majority of donated second hand clothes are sold to poverty stricken people in developing countries around the world. While proponents believe that the second hand clothing trade benefits the poor, critics maintain it is sabotaging the development of struggling nations. The second hand clothing trade, which offers short term help and long term harm to developing countries, is a growing multimillion dollar global industry fueled by wealth, humanitarianism, environmental concerns, tax incentives, lack of information, trade deregulation, and corruption *(Rivoli, 2005)*.

For those in the western world, clothing has become more than a necessity; It is social expression and a fashion statement. Due to lower production costs brought on by globalization, clothing costs have decreased over the years. High disposable incomes allow those in developed countries to purchase throwaway fashions and discard clothing because it is no longer in style, no longer fits perfectly, or shows the slightest sign of wear. Prior to World War I, Americans did not discard their clothing. Apparel was mended and altered to become hand me downs to other family members or recycled as quilt material or rags. As the American economy improved over the years, consumerism increased *(Strasser, 2000)*. Today the United States is the world's largest exporter of second hand clothes; 385,000 tons were exported in 2003, which was close to 40 percent of the market *(Rivoli, 2005)*. Other major exporters include Germany, Great Britain, the Netherlands, and Japan *(Veseth, 2005. p 179)*.

The second hand clothing trade represents the "grassroots side of globalization," according to Michael Veseth in his book Globaloney: Unraveling the Myths of Globalization. Economist Pietra Rivoli calls it "a global industry for the little guy" *(Rivoli, 2005)*. Most of the companies are small family businesses like Trans America Trading Company in Brooklyn, New York *(Rivoli, 2005)*. Like Trans America Trading, many older companies in the trade started out as textile recyclers, and easy profit attracted them into the growing secondhand clothing trade *(Rivoli, 2005)*. Without lobbyists or governmental interference, it is an industry controlled solely by economics *(Rivoli, 2005)*. Most clothing is purchased from charities for approximately 5 to 7 cents per pound *(Rivoli, 2005)*. After purchase, the majority of second hand clothing dealers sort and categorize the clothing. After sorting by condition, clothing is categorized into more than 400 groups. Clothing is then bundled into 500or 1,000pound bales for shipping *(Rivoli, 2005)*.

Second hand clothing markets exist in over 100 countries *(Rivoli, 2005)*. The prime markets are Sub-Saharan Africa, Central and South America, South and Southeast Asia, and Eastern Europe *(Veseth, 2005. p. 179)*. The heart of the trade is Africa with Tanzania receiving the most clothing.

Summer clothing is sent to the African countries *(Rivoli, 2005 pp184, 185)*. The collapse of the Berlin Wall in 1989 opened up the Eastern European market, which became an outlet for the winter clothes collected *(Rivoli, 205 pp 183)*. Americans and Europeans donate their old clothing for many reasons. In addition to those who contribute clothing due to genuine charitable inclinations, many displace guilty feelings of being wasteful by donating their castoffs to help the local poor while others are recyclers trying to prevent the growth of landfills. In the United States, tax incentives for charitable donations encourage this humanitarianism *(Packer, 2002)*. However, what many do not realize is that not all donations are helping the domestic poor. In addition, the vast majority are not aware that all clothing collection boxes dotting city streets and parking lots in the United States and Western Europe do not belong to bonafide charities *(Veseth, 2005. p. 181)*.

Corruption is rampant in the very competitive second hand clothing trade. For the last several years, many for profit secondhand clothing dealers and unscrupulous nonprofit aid organizations have been placing collection boxes in Europe and the U.S. to secure free raw materials for their enterprises *(Mangieri, 2006)*. The boxes sometimes allude to helping the poor or protecting the earth; And they are being filled by unknowing or careless donors primarily concerned with convenience and getting unwanted clothing out of their homes. U'SAgain (pronounced use again); Planet Aid, Gaia, and UFF are examples of companies collecting clothes in Europe and the United States under the guise of humanitarianism. All of these companies have ties to a group called the Humana People to People Movement, a Danish organization with global outreach that collects and sells second hand clothes and runs social volunteer programs. Humana People to People is really part of a huge organization called the TVind Empire masterminded by Mogens Amdi Peterson *(Mangieri, 2006)* who will face retrial in Denmark on fraud and tax evasion charges if he can be found *(Durham and Jakobsen)*. European journalists Michael Durham and Frede Jakobsen revealed that by selling clothes to its own companies, most of Humana's revenue was being classified as costs. Due to money laundering and offshore tax haven subsidiaries, very little real aid actually goes to poor countries. The journalists created the Humana Alert website to warn people throughout the world about the immoral and illegal dealings of this enterprise *(Durham and Jakobsen)*. Corruption in the secondhand clothing trade, however, is not limited to fraudulent organizations; some legitimate businesses participate in dishonest practices such as stealing clothes from other firms' collection boxes *(Hansen, 2000. p. 124)*, mismarking shipping containers to circumvent second hand clothing tariffs, stuffing the inside of bales with junk clothing, and bribing import laborers and customs officials *(Packer, 2002)*.

Supporters of the second hand clothing trade say it improves the quality of life for the poor. It provides the consumers of developing countries with a means to purchase clothing; Without second hand clothing, many would have no clothes at all. In addition, the trade helps the global economy by providing jobs as wholesalers, importers, traders, and vendors *(Veseth, 2005. p. 180)*.

Critics, including many humanitarian organizations, believe that secondhand clothing is detrimental to struggling nations. Although good intentions are acknowledged, they say short term benefits often worsen the plight of the poor. They compare second hand clothing to food aid. Although the food filled stomachs, it damaged the agricultural economies. The developing countries need help that will empower them to become self sufficient not dependent. The second hand clothing trade does not empower *(Rousso 2007)*. The governments of many developing countries believe that the second hand clothing prevents industrialization. Over 30 countries, including South Africa and Bolivia, have banned the import of second hand clothing ("Morales to Ban Second hand Clothing in Bolivia"). Some assert that the global trade of second hand clothes has turned Africa into a dumping ground for second hand clothing *(Jeter, 2007, p. A01)*. Some countries have placed high tariffs on second hand clothing imports to prevent the clothing from entering as duty free aid while others require health certificates to prevent the spread of disease *(Rivoli, 2005. p. 198)*. Others feel that second hand clothing trade is immoral because it turns charity into a business *(Hansen, 2000.p. 11)*.

As anthropologist Karen T. Hansen notes "The secondhand clothing trade is an unusual industry. Few other industries obtain their raw materials for free, as do charitable organizations, or have suppliers, the clothing donating public, who do not know the important role they play at the start of a long commodity chain" *(Hansen, 2000. p. 122)*. Second hand clothing has gone from a survival mechanism to a growing global industry powered by affluence, altruism, dishonesty, environmentalism, globalization, secrecy, and tax benefits. Although some justify it by saying it helps the poor cope with poverty, second hand clothing fails to empower and perpetuates poverty in the long run.

The G8 Summit and Live 8 concerts in 2005 brought Africa's problems to the forefront of the world's consciousness. While British Prime Minister Tony Blair advocated the increase of development aid to Africa, many Africans spoke out against the relief money. As Africans voiced their opinions on their continent's difficulties and possible solutions, the used clothing trade was cited as a problem. Kenyan economic expert James Khiwati criticized the used clothing trade in a 2005 interview with the German news agency Spiegel. Khiwati blamed the secondhand clothing for harming Africa's textile market *(Langenau,2005)*. In addition, Ousmane Sembene, a wellknown Senegalese filmmaker, shocked the public when he spoke out against the G8 Summit and Live 8 concerts. Sembene is against western aid for Africa. He said, "The only way for us to come out of poverty is to work hard." He accused the United States and other western countries of subsidizing their own cotton farmers which results in pricing African cotton growers out of the market. Sembene argued that these same countries made matters worse by "dumping used clothing on the African markets, crippling Africa's domestic clothing industries" *(Wax, 2007. p. 01)*.

Africans are not the only ones speaking out against the used clothing trade. The International Textile, Garment, and Leather Workers' Federation (ITGLWF), made up of 250 affiliated unions in 130 countries across the world with a combined membership of more than 10 million workers, has made the used clothing trade a priority. The group refers to the used clothing trade as "the disease of the century in the textiles, clothing, and footwear industries" and blames it for creating problems and unemployment in textile industries around the world but most noticeable in the African textile industries. According to ITGLWF General Secretary Neil Kearney, "There is no charity when it comes to the trade in used clothing. This is a lucrative business. On the market stalls of most African countries, castoffs donated to charity command prices about 2,000% over what the wholesalers pay for it. Unable to compete, local industries are collapsing, leaving hundreds of thousands of workers jobless." The group is campaigning for free distribution of used clothing donated for the poor so that damage to the industries of developing countries around the world can be avoided. As Kearney bluntly puts it, "Charities must stop exporting poverty" *(ITGLWF "Secondhand Clothing Impoverishing Poor Communities ' 2007).*

Traditionally SMEs were seen through the eyes of neo-classical economic theory. Firms in this theory are all identical 'black boxes' that churn out products in the proportion to the input of capital, labor and raw materials. Newer theories by opening the' black box' have recognized that firm vary in ways that make some more able than others to access and use the inputs and to market their products profitably. The major inputs remain the same: capital, labor and raw materials. Alls three are needed for all types of businesses, though their relative importance depends on the industry and the particular technology. Thus a wholesale trader needs substantial working capital to maintain her inventory, while a shoe repairer may literally be able to operate on a shoe string *(Mangieri, 2006*).

What varies is the way in which these inputs are combined and the skill with which the final product is marketed. Some of these variations can be attributed to innate ability or entrepreneurship but many are determined by the environment. One feature of the environment which scholars now believe plays a major role in economic performance is the society's framework of economic, political and social institutions. Running a business is analogized to playing a game. The players compete according to certain rules and understanding these rules are necessary for participating or even following the play. Institutional approaches provide a framework for such understanding. Institutions are the rules of the game *(North 1990)* or more precisely they are the societal constraints that shape human interaction. This very broad definition encompasses a wide range of formal and informal rules. Some rules evolve slowly, others are imposed at a point in time; still others are formalized after some period of informal evaluation. Institutions provide a framework for human activity. They tell us whether we bargain with the seller, when we buy tomatoes, whether we vote our leaders or receive them through inheritance. Institutions determine whether we greet with a handshake or a bow and what we must do to form a business *(Langenau,2005).*

Central to the institution approaches is the notion that development involves the evolution of appropriate institutions *(Toye 1995).* Although they can be conveniently grouped into economic, political or social institutions, there is considerable overlap among the categories and considerable disagreement about which group is most important for development. The new institutional economics emphasizes the economic institution of capitalism *(North 1990),* while other stress the role of political *(Putman 1993)* or social *(Granovetter 2001)* in the development process.

Of course the outcome of the game depends not only on the rules, but also on the players. Some players are better than others. They have more natural gift and have honed their skills to a higher degree. Understanding the growth and development of SMEs therefore requires an assessment of the SME as a player. In SMEs where the firm and its owner are closely identified, this usually involves looking at characteristics such as owner level of education and his or her ability to form useful alliances, as well as the SMEs capital investment.

The second group of institutions concerns business credit. Credit markets are doubly stratified. The first stratification is by size. The rules of the financial game are heavily weighed in favor of large business enterprises and individuals with collateral to back up their loans. Collateral is defined in terms of physical assets, and immovable assets such as land and buildings are preferred. Special banks and NGO loan programmes for small enterprises offer more favorable terms, but they reach a tiny minority of enterprises. Many of these programmes are secured by social, rather than physical capital *(Langenau,2005).*

Flexibility featured in the earliest studies of small enterprises and has recently become a cornerstone of a new paradigm of industrialization. Informal sector research has long noted the ability of individual participants to adapt to changing circumstances. Hart in 1973 central thesis, for example, was that urban migrants' informal occupations are a response of lack of sufficiently remunerative work (Alan smart and Josephine Smart (2006). Small firms also adapt using various strategies; low-paid labor *(Berry 1999)*, free or inexpensive work places *(Noomohammed 1985)*, subcontracts *(Schmitz 1982)* and family participation in business. Their specific tactics- growing out of particular historical, social and economic circumstances are less important than their overall strategy. Small businesses survive an uncertain environment by being highly flexible.

The recent recognition of the value of flexibility in developed country industry has spawned a new paradigm; flexible specialization. Revolving around a landmark treatise by Piore and Sabel (1984), the theory contrasts the mass production model with flexible specialization. Piore and Sabel (1984) argue that the key to prosperity lies in moving away from rigid mass production of standardized goods towards a more innovative and flexible system of multi purpose machines operated by skilled workers able to respond to continuous change. Flexible specialization links firms of various sizes through networks and subcontracting. The flexible specialization paradigm has three important implications for small scale industry. The model first emphasizes that even in advanced countries; competitiveness requires the capacity to adapt to disruptive circumstances. Second by overcoming the view that equates industrial progress with mass production, the model offers a positive place for small scale production in the industrialization progress. Finally it highlights an often missed distinction between flexibility of individual firms and the collective efficiency of a group of firms *(Schmitz 1995)*.

Average industry plant sizes in developed countries are uniformly higher. In part due to a higher ratio of wage cost to capital cost than in developing countries *(Curtes, berry and Ishaq 1987, pp 20-21)*. More important is the size of the market reflecting higher national income and better transportation and communication networks. In Industries where economies of scale exist, establishments can be expected to grow as the markets expand growth of local demand or by entry into foreign markets through exporting. Developing countries markets are often small because of small total populations and more importantly, the small proportion of population able to afford anything beyond the necessities. A small market constrains firms' growth. In the short run the government can help to expand the market by improving infrastructure to enable firms to reach a larger segment of the domestic market, or be offering incentives to export production. The best long run measures are those that increase demand by boosting incomes.

2.2 Empirical review

Most empirical work on the determinants of firm growth is based on Jovanovic's (1982) 'Learning Model' and its extensions by Pakes and Erickson (1995). These allow managers to influence their efficiency level via human capital formation. These theories predict that firm growth will be inversely related to initial firm size and to firm age, and directly related to the level of human capital embodied in the firm's entrepreneur. Examples of empirical research that generally support the Jovanovic (1982) and Pakes and Erickson (1998) models includes, Liedholm, et al (1999), Mc Pherson (1996) and Parker et al (1995).

Two separate surveys, one of small manufacturing in Nairobi's eastlands and the other in garment producers throughout the city, suggest that risk and uncertainty is central to keeping SMEs small. The first survey conducted in early 1986, covered all small-scale manufacturers operating in the eastlands of Nairobi (*McCormick 1995*). Of the 2866 firms with less than fifty workers, 39% made garment or other textile products, 16% were in carpentry, 23% in metal work and 22% in miscellaneous manufacturing activities. Very small firms predominated; 60% were single person enterprises; 98% had six or fewer workers. Most entrepreneurs (77%) were male, though 45% of textile businesses were owned by women. Business surveyed ranged from informal, Jua Kali enterprises to small workshops and factories. To capture their heterogeneity, each firm ranked along a formality continuum with seven dimensions; business site, size, relationship to civil authority, technology, skill level of workers, management and relationship to other enterprises.

The second survey, covering garment manufacturers of all sizes located anywhere in Nairobi, took place 1989-90. Again most firms were very small. Nearly three quarters (73%) of the owners of SMEs were women.

The data from both surveys suggest suggests that SMEs do not grow because of their owners' risk management strategies directly or indirectly restrict growth. The link between risk and size emerges in four distinct patterns of entrepreneurial behaviour; small and flexible businesses, same product line, diversified holdings and unused collateral.

Page (1979) has second hand the age of the enterprise to capture the experience of the owner. The same has been done by McCormick (1988) where she found that the general higher rates of profitability are observed for older firms. Chuta and Lieldholm (1985) in their model second hand experience as an explanatory variable. They argue that entrepreneurs with greater experience would be expected to earn higher economic profits that those with fewer years of experience. In their findings experience had a positive and significant co-efficient at 5% level.

They concluded that years of experience has an important bearing on the entrepreneurial success. Child et al (1973) in an empirical study of SMEs found lack of experience to be a major constraint among other factors he considered.

Prior occupation of the owner and experience are treated as factors affecting performance and SMEs growth. Mullei A (2003) goes further to include ethnic group membership and political involvement as factor affecting profitability in addition to other cited above. But this is not the case for Kenyan SMEs. Little (1987) found education of the entrepreneur to be of value in explaining profitability and growth. Page (1979) also considered formal education as a factor in explaining entrepreneurial success. Other studies however find no such relationships. Studies relating formal education and business success have consistently found weak and negative relationship *(Kilby 1969)*. Kilby (1982) cites the low educational background of the entrepreneur as a major handicap to the small scale sector. At the same time functional literacy has been found to be positively correlated with profitability of small scale firms *(Aryee 1976, Olakanpo 1968).* Little, Mazumdar and Page (1987) suggest that the explanation of this weakness might be that formal education is competitive with learning on the job, particularly in Africa. Their results of the Indian Study showed that Education beyond functional level was a significant positive factor for growth and profitability

With respect to the effects of credit on the firm's growth performance, much of the available evidence emanate from the descriptive statistics of national surveys of Small and Medium Enterprises (SMEs). Typically, these studies compare the average growth rate of firms that had received credit with that of firms without access to credit. The obvious disadvantage of this simplistic approach is that it does not control for other factors. Daniel and Ngwira (1993) and Parker et al (1995) are examples of this approach, and each finds that access to credit leads to better firm growth prospects for firms in various developing countries.

Kippra (2001) from its survey results show that SMEs are unattractive to lenders due to their low incomes. Banks perceive SMEs as bad credit risks (not stable business to base borrowing) and can therefore not satisfy collateral requirements. They also believe that small loans are costly (larger loans mean bigger returns). But the financial crisis experienced in the USA that led to the closure of big companies (Morgan Stanley, Layman brothers and several other companies) throws the spanner into the works of this perception as virtually no company may be deemed as a stable company.

Capital shortages are a factor given prominence by studies. ILO (1972) and Nzomo (1986) identify capital shortages as a major constraint for business growth. Availability of capital is closely related to availability of credit facilities. This is cited by Morris and Somerset (1971) as a major difficulty faced by entrepreneurs in starting businesses. The same view is held by Curtes, Berry and Ishaq (1987). They argue that access to a particular source of finance is probably as much as a consequence as a cause of SMEs success. Kilby (1982) also agrees with the latter by citing lack of cash and working capital as some of the major handicaps in SMEs and argues that capital labor ratio is a good yardstick for factor intensity and a determinant of economic efficiency. Morris and Somerset (1971) agrees with the rest that some of the problems that Africans face in entering business are capital, working capital and lack of knowledge and training in business management.

McCormick (1988) treats capital accumulation as profits ploughed back into the enterprise and connects this with success of business. This is supported by Chuta and Lieldholm 1985 survey of Sierra Leone when he argues that firms enter business to make profits and cites shortages of capital and demand as problems facing SMEs, in addition to poor management and poor quality skills. It can thus be concluded that capital, in the form of initial capital, credit facilities or cash contribute in explaining the business profits and growth.

Daniels, Mead and Musinga (1995) in their study of Kenya found that only small minority of Small and Medium Enterprises (SMEs) have benefited from any form of credit or non-financial assistance. They found that most enterprises solely relied in their personal savings and re-invested their profits to finance their enterprises. This is in consistent with the study by William J House (1984) whose study of Nairobi's informal sector found that the performance of SMEs in Nairobi is influenced by the amount of capital growth since business opened, the number of sub contracts, number of workers, ratio of capital employed to annual output, ratio of capital employed to workers, amount of loan, number of hours worked per day and whether business is retailing or not. The results found that these factors explain 33% of the variation in the net income of the businesses. However, he found that age, education and expertise are not significant. But in this study we expect them to be significant.

Several informal sector studies stress the need for an improved informal sector financing. By implication they accept the existence of a desired level of capital or savings *(King and Abuodha 1991)*. This implies that informal sector entrepreneurs cannot finance their own investments. Credit is needed to finance the difference between actual savings and desired level of capital or savings. Both the rural informal sectors as well as the urban informal sector finance most of their investments from agricultural incomes *(Ngethe N, Wahome J, and Ndua G, 1987 pg 75)*. Accepted sources of financing investment by most papers in the informal sector are a) financing from profits, b) financing from agricultural profits, c) gifts and loans from spouses and relatives, d) to a limited level loans from agencies. Most studies agree that profits and savings are the main sources of financing business investments *(King and Abuodha 1991)*.

Curtes, Berry and Ishaq (1989) found that the success of the firm as defined by benefit-cost ratios was significantly related to Education and Skills. They argued that University educated entrepreneurs employ a wide range of techniques whereas entrepreneurs with only elementary education tend to choose the simplest techniques. This can certainly have an effect on the performance and growth.

Other studies agree on the fact that education is rare among the SMEs *(Nzomo 1986, Leildholm and Mead 1986)*. This may act as a constraint to the success of the entrepreneur as it isolates him. Although there is actual evidence of the relationship between the level of education and successful management of SMEs the reaction on this issue is mixed *(Chuta and Lieldholm, 1985)*. Despite this most studies have found positive, though weak relationships. In Kenya education may not be a major factor given that most entrepreneurs are primary school leavers whose education may not have a great impact on the profits *(Wahome and Ngethe 1987)*. Majority of these entrepreneurs are apprentices whose level of education is very low and yet very successful. This implies that it is the training that one gets and not his education that has an effect on business performance. Kabwegyere (1978) says that participants in the informal sector lack requisite skills. He sees low levels of education of the entrepreneur causing poor perception of the monetary economy.

On dynamics, shocks and keeping abreast with the fashion trend can be parallel to problems of access to raw materials as a bottleneck to the growth of SMEs and is particularly emphasized by Gerry (1978) in his work on the petty production in Dakar Senegal. He found that small shoe producers had to switch from the use of leather to the synthetic materials since multinationals shoe company was able to achieve a virtual monopoly in the purchase of fine imported leather and had received considerable government protection. The main importer of synthetic materials then tried to're-organize' the small producers using his own capital and marketing outlets, albeit without success. Child et al (1973) in an empirical study of SMEs, identified lack of raw materials at affordable prices as an impediment to good performance. Also important is the quality of raw materials. Poor quality may lead to poor products that may lack markets. This is a vital input into the enterprise without which the enterprise may not be able to operate.

William House (1984) suggests that SMEs serve low income earners. This implies that their products are inferior goods. For that matter their location is in low income areas indicating their market orientation. This is currently not true in the Clothing sub sector. They further suggest that formal sector incomes determines the extent of the market, a point that is directly opposite of the Kenya's situation where the informal sector employ 74.2% of the working population. Child et al (1973) has similar views that the market for small scale manufactured products is limited to low income earners. He is emphatic that these products would not even sell to high income earners in Kenya let alone elsewhere, an outdated fact. According to Child et al (1973) these products are simply designed, crudely constructed and roughly finished thus offending the aesthetic values of high income consumers and thus render them as inferior goods.

Olakanpo (1968) concluded that capital played a vital role in determining the chances of success and growth. However he said that the relationship between the two is not linear. This highlights the importance of entrepreneurial skills and capabilities together with other factors. Capital on its own may not lead to success if not wisely handled. Vijaya and Manju (1999) in their article on Minority entrepreneurs and firm performance in Africa focus on the role of entrepreneurs in the private sector in sub-Saharan Africa. This article compares the performance, measured in firm growth, of minority entrepreneur firms and indigenously owned African firms. The goal is to control for various factors and then look at whether minority entrepreneurship is a significant determinant of firm growth.

Using data from the Regional Program on Enterprise Development (RPED) and controlling for various factors, their analysis compares growth rates of indigenously owned African firms with firms owned by entrepreneurs of Asian or European descent, in Kenya, Zambia, Zimbabwe, and Tanzania. They find that after controlling for firm size and age, various entrepreneurial characteristics, and sector and country differences, minority (or non-indigenous) entrepreneur firms start out larger and grow significantly faster than indigenously-owned African firms. Their results are consistent with theories that argue that informational and financial networks created by minority entrepreneurs provide access to credit, information, and technology for members of these networks. They also find that within indigenously-owned African firms, entrepreneurs with secondary and/or university education realize a higher rate of growth; access to education presumably enables indigenous African entrepreneurs to develop managerial skills that serve as a substitute for the informational and financial networks created by minority entrepreneurs.

Vijaya and Manju in this article argue that the role of minority entrepreneurs in the growth process is a much-debated question. They argue that these entrepreneurs control a major share of manufacturing resources in several sub-Saharan African countries. They are often accused of hindering the growth of indigenous private enterprise by engaging only in rent seeking, using outdated equipment, and limiting their hiring of locals. Others have argued that they have played an invaluable role in the growth of the private sector by bringing into the country, better skills, financial resources, and networking channels.

Vijaya and Manju (1999) article on Minority entrepreneurs and firm performance in Africa focuses on the importance of minority ownership in determining firm growth in sub-Saharan Africa, as compared with indigenously owned firms. The Regional Program on Enterprise Development (RPED) at the World Bank has conducted firm-level surveys in seven African countries, to increase our understanding of the microeconomic constraints affecting the growth and development of enterprises in sub-Saharan Africa. Firm level panel data was collected over a three-year period between 1992 and 1994, for 200 firms in each of the following countries: Ghana, Kenya, Zimbabwe, Tanzania, Zambia, Cameroon and Cote d'Ivoire. Sampling was done on the basis of size in terms of employment, such that each worker (rather than firm) had an equal probability of being drawn. The sampling method used was fixed interval sampling by sector. This method ensured that the sample covered the entire size distribution of firms, without being unduly skewed towards small firms.

The actual questionnaire used was customized by country. This article uses data from the first round of the survey for four countries - Kenya, Zimbabwe, Zambia, and Tanzania. Approximately 200 firms across four sectors - textiles, wood and furniture, metalworking and food processing - were surveyed in each country; the subset of firms which are owned by entrepreneurs is analyzed to determine the impact of minority entrepreneurship on the rate of firm growth.

2.3 Overview of Literature

A number of reasons have been discussed in the literature review as factors that lead to growth of Small and Medium Enterprises. The specific ones being finance, risk and uncertainty, markets, economies of scale, age of the enterprise, education of the entrepreneur. There has been a widespread closure and mushrooming of small and medium enterprises in Nairobi second hand clothing sub sector and other 'safe product' or areas that most SMEs venture into, an observation that has not been comprehensively explored. The number of exhibitions and sub-division of rental spaces to accommodate these businesses has been explosive. Finance seems to be a non issue. The question therefore how these Small and Medium Enterprises have managed to stay in business and whether they have been expanding.

This study differs from other studies in the sense that SMEs growth is measured using level of satisfaction with annual sales. Previous studies have emphasized finance as a major determinant of SMEs growth without giving much weight to other non finance factors. Thus the over riding fact in the literature is the fact that finance is an important determinant of SMEs growth.

Vijaya and Manju (1999) article on Minority entrepreneurs and firm performance in Africa provides the much needed relevance on this study as this paper seeks to control the provision of finance in the SMEs growth and test for other factors affecting growth and see the consistency of experience on firm growth, analogized to firm's age as postulated by Page (1979), McCormick (1988), Chuta and Lieldholm et al (1999), Child et al (1973). Education equated to entrepreneurship skill, supported by Little (1987) can also be tested for consistency. With little or no formal financing from the banking industry, equated to lack of network as a result of lack of collateral, SMEs have hit the road and invested overcoming the drawback of risk and some have managed to play in the league for sometime, while other have fallen out by the way side. Vijaya and Manju model provides the mirror to test for the non finance factors in the determination of SMEs growth in the clothing sub sector.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods that is be employed to provide answers to the research objectives in this study as listed in chapter one. The following aspects of research methodology are discussed; research design, target population, sampling procedure, research instruments, validity and reliability, data collection procedure and data analysis.

3.1 Research Design

This study adopts descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The study collects information from respondents on the non finance determinants on growth of SMEs. Borg and Gall (1989) recommend descriptive Survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers. The design is chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected. Furthermore, descriptive survey design raises concern for the economical completion of the research study. The method is rigid and focuses on the objectives of the study.

3.2 Target Population, Sample and Sampling Procedure

The study is carried out in Nairobi, Kenya. The sample population comprise of 240 SMEs in Nairobi dealing in clothing in eight administrative zones.

Nairobi is divided into eight smaller administrative zones or trading blocks i.e. Embakasi, Kasarani, Starehe, Dagoretti, Makadara, Westlands, Lang'ata and Pumwani divisions. The sample size is composed of two hundred and forty (240) respondents implying thirty (30) from each zone.

Purposive sampling has been used to select Nairobi as the study site since it has the most number of clothing SMEs. Primary data is collected through stratified sampling of 240 SMEs in Nairobi dealing in clothing. 10 SMEs dealing with clothing are selected by writing 30 names of SMEs in each division on a piece of paper and randomly selecting one after every three. Included in the sample are also hawkers.

Best and Khan (1999) warn that "there is no fixed number of percentages of subjects that determine the size of an adequate sample." To them, the ideal sample is "large enough to serve as an adequate representation of the population about which the researcher wishes to generalize and small enough to be selected economically in terms of subject availability, expense in terms of time and money and complexity of data analysis."

3.3 Research Instruments

Primary as well as secondary data is collected. Secondary data is obtained from relevant literature review from dissertations/thesis, journals, magazines and the internet. Primary data is collected using self-administered questionnaires that are issued to respondents directly. This is due to the time I have and I believe that these self-administered questionnaires have sped up the process and given me relevant data for my research within the time frame that is availed to me.

Questionnaire

A structured questionnaire is used to collect primary data. The questionnaires is preferred in this study because respondents of the study are assumed to be able to read and write and quite able to answer items asked adequately. It contains a mix of questions, allowing for both open-ended and specific responses to a broad range of questions. Kothari (2004) terms the questionnaire as the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization (Jill and Koger, 2010). It is for the above reasons that the questionnaire has been chosen as an appropriate instrument for this study.

The questionnaire were checked for accuracy, completeness and edited where necessary. Thereafter the questionnaires were sorted in accordance with the similarity of response given to different questions and considering the objectives of the research. Secondary information were collected from relevant literature review from dissertations/thesis, journals and the internet.

3.4 Data Collection Procedure

Primary data for this study were collected using self-administered questionnaires. The questionnaire has open ended questions and some structured responses. Pre-testing of the questionnaire will be done in order to determine its appropriateness before it is given to the entire population. The questionnaires were presented personally by the researcher to the respondents and filled immediately. The researcher also used trained and qualified research assistants to assist with the questionnaire distribution. In cases where it was not possible to collect the questionnaire immediately, arrangements were be made to collect at a later agreed date.

The type of respondent and the area coverage in this study made the use of a questionnaire very ideal as opposed to other methods of primary data collection. Whereas personal interview is the best method of data collection, because the interviewer is able to collect both verbal and non-verbal information and is able to clarify responses, it was not feasible for this study.

3.5 Data analysis Procedure

The process of data analysis involved several stages namely; data clean up, data reduction, data differentiation and explanation. Data clean up involved editing, coding, and tabulation in order to detect any anomalies in the responses and assign specific numerical values to the responses for further analysis. Completed questionnaires were edited for completeness and consistency. The data were then coded and checked for any errors and omissions. Frequency tables, percentages and means are used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) programme to analyze the data.

The analysis of the data started with the editing of the information obtained from the respondents. The editing involved the inspection of the responses to various question items with the aim of identifying spelling mistakes which had been made and the blank spaces left unfilled.

Raw data were combined into fewer categories and these groupings were then summarized into frequency tables. The categorization of data obtained from the open-ended question items involved the harmonization of responses which have similar context in regard to the particular question items that are targeted at.

The coding of categorized data was done according to various guiding statements stipulated by the question items. Data were then put in tabular forms for statistical analysis, using the Statistical Package for social sciences (SPSS). Data analysis consists of calculations of frequency distributions and percentages.

3.6 Analytical Framework

A small firm can be regarded simplistically as being asset-rich or asset-poor (in terms of the assets needed to maintain the current level of turnover) because its profitability record reflects the perceptions credit providers have of the achieved turnover. An asset poor firm can squeeze additional turnover out of the current assets. In doing so, or as a result of simultaneous action, it will seek to improve profitability per unit by containing and lowering costs. This can allow it to reach the position where its turnover and profitability per unit interact to create perceptions by credit-providers so that more financial resources are forthcoming.

While the ability to achieve SME growth may be attributed to superior judgment this can be a commodity which is difficult to demonstrate to others. By the same token it is difficult to know whether any adverse experience of the firm represents a hurdle that will be overcome or a decline in judgment previously displayed. Consequently, there is a tendency for responses for the firm's experience- its changes in turnover- to lag behind the actual event with changes in access to assets representing point revisions of expectations as to the future of the firm. The model allows that some firms do not fit into this pattern. However, in bringing to attention the alternatives inherent in the model, it is possible to reject some on the grounds of economic implausibility. For example, there is no expectation that once a firm possesses some (lesser) amount of assets it will immediately 'jump' to a higher level of assets which, if it ever falls below, will signal an immediate fall to the earlier lower level of assets. Nor it is expected that there is some critical level of assets from which the firm is likely to keep growing or keep declining.

3. 7 Model Specification

From the literature review several factors have been identified as being responsible for the growth of the Small and Medium Enterprises. This study will consider some of the growth factors, particularly relevant to the clothing sub sector viz entrepreneurial skills, area of occupancy and location

This study will use a model developed by Vijaya and Manju (2001) in a survey of firm growth in seven African countries; Ghana, Kenya, Zimbabwe, Tanzania, Zambia, Cameroon and Cote d' Ivore. The model tries to capture the relationship between firm growths due to credit provision. Vijaya and Manju (2001) used the model to capture firm growth of minority entrepreneur firms and indigenously owned African Firms. This study will use the model to establish finance is not a significant determinant of firm growth.

We shall use the approach and try and investigate why firms that have access to finance tend to grow faster than their counterparts and establish the change in employment levels of such firms due to non provision of finance. Growth is calculated using satisfaction levels of sales to measure growth because SMEs that are not satisfied with their level of sales will tend to strive fro more.

The basic econometric model is described as

$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n + \varepsilon$

Where Y =change in employment = $[\ln (L_c) - \ln (L_i)] / a$

L_c= current employment

L_i= Initial employment

a= age of the SME

$X_1 \ldots X_n$= Variables to be tested.

Thus the model will take the form of the following equation

$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where Y =Level of satisfaction with annual sales level

X_1= Access to Credit

X_2= Area of Occupancy

X_3= Entrepreneurship skill

X_4= Infrastructure /Location

3.8 Hypotheses

Guided by theoretical and empirical review the study tests the following hypotheses

1 Ho: There is no relationship between SMEs growth and access to credit

Ha: There is a positive relationship between SMEs growth and access to Credit.

2 Ho: There is no relationship between SMEs growth and area of occupancy

Ha: There is a positive relationship between SMEs growth and area of occupancy

3 Ho: There is no relationship between Growth of SMEs and Entrepreneurship skill

Ha: There is a positive relationship between Growth of SMEs and Entrepreneurship skill

4. Ho: there is no relationship between Growth of SMEs and Infrastructure /Location

Ha: there is a positive relationship between Growth of SMEs and Infrastructure/ Location

3.9 Expected Signs of the Estimated Co-efficient

The expected signs of the co-efficient of the independent variable based on findings of studies in the literature review are shown below in table 1 below.

Table 1 Expected Signs of the Estimated Co-efficient

	Variable	**Expected Sign**
1	Access to credit	+ **(Positive)**
2	Area of occupancy	**+/- (Positive or negative)**
3	Entrepreneurship skill	+ **(Positive)**
4	Infrastructure /Location	+ **(Positive)**

Following economic theory the expected sign between SMEs growth and access to credit is positive. SMEs growth is a function of accessibility to credit. This means therefore that as accessibility to credit increase the SMEs growth increase. Therefore the more SMEs access credit the more their growth is realized. When accessibility to Credit is high it means that the SMEs are doing well and the more is their likelihood to grow.

A positive or negative relationship is expected between SMEs growth and area of occupancy. As the area of occupancy increases there is a likelihood that SME will grow as it can add additional stock to it current stock or also diversify to other products. This is inhibited by the current small spaces that most of the second clothes retailers operate from though the advent of computers may encourage online shopping that does not necessarily require the SMEs to occupy a larger space.

Between SMEs growth and entrepreneurship skill we expect a positive sign. The owners of the SMEs that have capability of creating and identifying opportunities out of problems, negotiating, marketing and basic book keeping skills, increased the chances of growth of SMEs.

SMEs that are located in areas accessible and have other business activities e.g. City centre and shopping malls tend to grow than otherwise. Thus the expected sign between SMEs growth and Infrastructure /location is positive.

3.10 Estimation techniques of the model / data and variables

As put forward by many researchers, growth can be expressed in the conventional terms of turnover, profits, value of assets-total, fixed or net, number of employees, market share and equity of the firm.

Though useful, each measure has its weakness. Penrose indicates that growth of a firm when measured in terms of fixed assets has its limitations in that a firm may be large simply because the firm is unable to expand its operations fast enough to make use of its cash resources. She recommends taking long-term profits as the optimum measure as it is the ultimate determinant of a firm's ability to reinvest. Few, if any, firms would want to invest for the sake of growth if the return is negative. Therefore Penrose argues that to increase the long-term profits of the firm is equivalent to increasing the rate of growth.

Singh and Whittington (1968) concluded that growth should be measured in terms of net assets due to the correlation between profitability and growth. Also growth is found to be a systematic function of past growth and cannot be regarded as a random process.

Growth in this research will be calculated using satisfaction with the level of sales rather than employment and turnover data as it has been in other studies. This can be more reliable since most firms are able to gauge their satisfaction with their levels of sales but cannot provide actual sales figures due to fear of victimization of Value Added Tax (VAT). The learning mechanism that we will control for includes whether the entrepreneur has borrowed or not. We shall include another variable that has an indirect learning mechanism –sources of the entrepreneur finances for his/ her business.

The variables that were tested were:

1. Access to credit- This is assessed by the entrepreneur/ SME being a member of a savings society or welfare or having a bank account and whether the entrepreneur or SME has borrowed.
2. Area of occupancy –This is measured by the area size measured in square meters with the assumption that there is no excess capacity i.e. full area capacity utilization. This will be measured by the ability of the SME to introduce new clothes or fashions without increasing business space.
3. Entrepreneurship skill- Is measured by the new products being introduced to the stock or stocked, new ways of providing services are being implemented and whether there is a new scheme in the offing. Basic planning and book keeping will also be looked at among others. This is best measured by the ability of the entrepreneur to scheme by having secrets and plans that he/ she cannot disclose to others
4. Infrastructure/ Location- This is done by observation and will access whether the business is located in the Central Business District (CBD), within a market area, within the estate and on the road side and the intention of the SME to relocate to other areas.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.0 Introduction

The questionnaires were analyzed using SPSS Version 16.

Out of 240 questionnaires which had been administered to the interviewees, 236 of them were returned for data analysis. This translates to 98.3 percent return rate of the respondents. Overall, the return rate can be considered to have been high.

The Gender of the respondents is shown in table 2 below.

Table 2 Gender of the respondents

Gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		3	1.3	1.3	1.3
	male	117	49.6	49.6	50.8
	female	116	49.2	49.2	100.0
	Total	236	100 0	100.0	

Source: Own Research (2010)

There is an even distribution of both male and female of the respondents an indication that clothing sub-sector is not dominated by any Gender.

Table 3 below shows the age of the respondents

Table 3 Age of respondents

Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-22	19	8.1	8.2	8.2
	23-27	82	34.7	35.2	43.3
	28-32	81	34.3	34.8	78.1
	33-37	21	8.9	9.0	87.1
	38-42	20	8.5	8.6	95.7
	43-47	9	3.8	3.9	99.6
	48-52	1	.4	.4	100.0
	Total	233	98.7	100.0	
Missing	System	3	1.3		
Total		236	100.0		

Source: Own Research (2010)

77.1% of the respondents fall between the age bracket of 18-32 years representing the youth in this country who are a majority and this corresponds with the fact that Small and Medium Enterprises (*SMEs*) employ 74.2% of the working age population in Kenya (*UNDP, 2006*).

Table 4 below shows the marital status of the respondents

Table 4 Marital Status of the respondents

Marital status of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	single	97	41.1	42.2	42.2
	married	117	49.6	50.9	93.0
	divorced	13	5.5	5.7	98.7
	other	3	1.3	1.3	100.0
	Total	230	97.5	100.0	
Missing	System	6	2.5		
Total		236	100.0		

Source: Own Research (2010)

Over 50% of the respondents were married an indication they have been using this activity to support their families and that these businesses are not just pass time activities.

The education level of the respondents is as shown in table 5 below. 89.9% of the respondents have completed secondary education with only 38.8% (College and University Completed) having gone through college or University that corresponds to the respondents view that lack of technical skills have hindered their growth as depicted in the constraint of lack of technical skills in the clothing sub sector.

Table 5 Education Level of the respondents

Education level of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	primary did not complete	6	2.5	2.6	2.6
	primary completed	8	3.4	3.4	6.0
	secondary did not complete	10	4.2	4.3	10.2
	secondary completed	74	31.4	31.5	41.7
	college did not complete	32	13.6	13.6	55.3
	college completed	77	32.6	32.8	88.1
	university did not complete	14	5.9	6.0	94.0
	university completed	14	5.9	6.0	100.0
	Total	235	99.6	100.0	
Missing	System	1	.4		
Total		236	100.0		

Source: Own Research (2010)

To determine the type of business ownership, the results of the respondents is as shown in table 6 below. It shows that 66.9 % of these businesses are operated as sole proprietorships with only 5.1% being operated as limited liability Companies and 26.3% as partnerships.

Table 6 Type of business ownership

Type of business ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	partnership	62	26.3	26.6	26.6
	private limited company	12	5.1	5.2	31.8
	sole proprietor	158	66.9	67.8	99.6
	others	1	.4	.4	100.0
	Total	233	98.7	100.0	
Missing	System	3	1.3		
Total		236	100.0		

Source: Own Research (2010)

Table 7 below shows the number of years the businesses have been into operation.

Table 7 Years of business

Years of business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-1 year	19	8.1	8.1	8.1
	1-2 years	45	19.1	19.2	27.4
	2-3 years	88	37.3	37.6	65.0
	3-4 years	33	14.0	14.1	79.1
	4-5 years	20	8.5	8.5	87.6
	over five years	29	12.3	12.4	100.0
	Total	234	99.2	100.0	
Missing	System	2	.8		
Total		236	100.0		

Source: Own Research (2010)

Majority (37%) of these businesses are in their 2nd and 3rd year of operation with only 12% in over 5th year of operation an indication that only 12% witness their 5th birthday an indication of massive closures before they reach their 5th year.

Table 8 below shows the amount of capital that have been employed as start up capital for the business

Table 8 Amount of Capital Employed In business

Amount of capital employed in the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10000-20000	53	19.2	23.5	23.5
	21000-30000	73	26.4	32.3	55.8
	31000-40000	24	8.7	10.6	66.4
	41000-50000	29	10.5	12.8	79.2
	51000-60000	19	6.9	8.4	87.6
	61000 and above	28	10.1	12.4	100.0
	Total	226	81.9	100.0	
Missing	System	50	18.1		
Total		276	100.0		

Source: Own Research (2010)

The initial amount needed as start up capital for these businesses is small and 32.3% of them range between Kshs 21000-30000.

Table 9 to table to table 13 shows the number of years the businesses have been into operation versus the number of employees it engaged during those years

No of Years in Operation versus the Number of Employees

Table 9 Number of Employees In the business in Year 1

Number of Employees in the business in year 1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	105	44.5	97.2	97.2
	3-4	3	1.3	2.8	100.0
	Total	108	45.8	100.0	
Missing	System	128	54.2		
Total		236	100.0		

Source: Own Research (2010)

Table 10 Number of Employees In the business in Year 2

Number of Employees in the business in year 2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	101	42.8	93.5	93.5
	3-4	7	3.0	6.5	100.0
	Total	108	45.8	100.0	
Missing	System	128	54.2		
Total		236	100.0		

Source: Own Research (2010)

Table 11 Number of Employees in the Business in Year 3

Number of Employees in the business in year 3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	71	30.1	82.6	82.6
	3-4	15	6.4	17.4	100.0
	Total	86	36.4	100.0	
Missing	System	150	63.6		
Total		236	100.0		

Source: Own Research (2010)

Table 12 Number of Employees in the Business in Year 4

Number of Employees in the business in year 4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	41	17.4	69.5	69.5
	3-4	14	5.9	23.7	93.2
	5-6	4	1.7	6.8	100.0
	Total	59	25.0	100.0	
Missing	System	177	75.0		
Total		236	100.0		

Source: Own Research (2010)

Table 13 Number of Employees in the Business in Year 5

Number of Employees in the business in year 5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	123	52.1	68.3	68.3
	3-4	35	14.8	19.4	87.8
	5-6	14	5.9	7.8	95.6
	7-10	8	3.4	4.4	100.0
	Total	180	76.3	100.0	
Missing	System	56	23.7		
Total		236	100.0		

Source: Own Research (2010)

From table 9 to 13 it is thus evident that as the year's progresses over time and the businesses continue to be in operation more employees are employed which is an indication that the growth of these SMEs is a function of the age of the SMEs. Over 90% of these businesses had 1-2 employees in the 1st and 2nd years of operation but as the number of years passes more employees are engaged bringing into the fold employment level of 5-10 employees in the 4th and 5th year of operation though in smaller percentages also corresponding to the small number of businesses that realize their 5th birthdays.

4.1 Infrastructure / Location

Table 14 below is a cross tabulation of the business location and the desire to relocate to other places.

Table 14 Cross tabulation of business location and Intention to relocate business

Cross tabulation of business location and Intention to relocate business

Count

		do you intend to relocate your business		Total
		yes	no	
where is your business located	Central business district	16	33	49
	marketing area	54	78	132
	estate	17	0	17
	roadside	23	11	34
Total		110	122	232

Source: Own Research (2010)

Majority of these businesses are located in marketing areas where there is access to customers and other amenities. Of the 40% of the businesses from the market area that wanted to relocate wanted to relocate to the Central business district, while 100% of the businesses located in the Estates wanted to relocate to the Marketing areas or the Central Business District, while 68% of those on the road side wanted to move up the ladder. Of the 33% of the businesses that desired to relocate in the CBD wanted to move to areas within the CBD that they considered strategic. This represents inequality to accessibility in the market that needs to be addressed in terms of planning and regulation so as to have a level playing field.

4.2 Access to Credit / borrowing

Table 15 below is a cross tabulation of borrowing and the source of the borrowing

Table 15 Cross tabulation of borrowing funds for business capital and where from

Cross tabulation of borrowing funds for business capital and where from

Count

		if borrowed where from			Total
		Bank loan	friends	others	
have you borrowed funds for business capital	yes	63	101	8	172
	no	3	17	10	30
Total		66	118	18	202

Source: Own Research (2010)

As shown above 59% of those who borrowed borrowed from friends an indication that accessibility to bank financing is still a major problem that still needs to be tackled as penetration of banking services still remain low for these group of investors mostly because of their lack of technical skills which range from understanding how banks operate to their artisan skills.

A cross tabulation on borrowing and the uses of the funds borrowed is as shown in Table 16 below.

Table 16 Cross tabulation of borrowing funds for business capital and uses of the funds

Cross tabulation of borrowing funds for business capital and uses of the funds

Count

		what were the borrowed funds used for			Total
		paying personal debt	paying business debts	business expansion	
have you borrowed funds for business capital	yes	20	56	100	176
	no	8	3	13	24
Total		28	59	113	200

Source: Own Research (2010)

86% of the respondents that borrowed used the borrowed funds for business purposes (Business debts and Expansion) a clear indication that the funds borrowed are used for the intended purpose and not diverted to personal activities.

The impact of the borrowed funds on the sales and is done by the cross tabulation on table 17 below

Table 17 Cross tabulation of borrowing funds for business capital and impact on sales

Cross tabulation of borrowing funds for business capital and impact on sales

Count

		has the borrowed fund had an impact on your sales		Total
		yes	no	
have you borrowed funds for business capital	yes	154	20	174
	no	19	17	36
Total		173	37	210

Source: Own Research (2010)

82% of the respondents are of the view that the borrowed funds had a positive impact on their sales volume though they could not disclose their sales figures because of fear of victimization by revenue authority officials but a closer look at their remission of value added tax returns in table 18 below indicate that 52% of them remit their returns an indication that they are making or expecting to have annual turnovers above kshs 6,000,000.

Table 18 Remission of value added tax returns for business

remission of value added tax returns for business

Question		Frequency	Percent	Valid Percent	Cumulative Percent
Do you remit value added tax returns for your business?	yes	106	44.9	52.7	52.7
	no	95	40.3	47.3	100.0
	Total	201	85.2	100.0	
Missing	System	35	14.8		
Total		236	100.0		

Source: Own Research (2010)

Table19 below seek the view of the respondents on the lack of credit and business expansion. Majority of the respondents express their desire to borrow from financial institutions where they can get more credit.

Table 19 View of lack of credit access on hindrance to business expansion

View of lack of credit access on hindrance to business expansion

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Do you think lack of credit access has hindered your business expansion?	yes	142	60.2	62.0	62.0
	no	87	36.9	38.0	100.0
	Total	229	97.0	100.0	
Missing	System	7	3.0		
Total		236	100.0		

Source: Own Research (2010)

62% of the respondents see lack of credit as a major hindrance to their business expansion because most of their borrowings are gotten from friends and not banking institutions with a majority re-investing between 21-30% of their profits into the business as shown in table 20 below.

Table 20 Cross tabulation of uses of borrowed funds and sources of borrowing

Table 20: Cross tabulation of uses of borrowed funds and source of borrowing

Count

		if borrowed where from			Total
		Bank loan	friends	others	
what were the borrowed funds used for	paying personal debt	4	15	8	27
	paying business debts	21	35	1	57
	business expansion	43	69	3	115
Total		68	119	12	199

Source: Own Research (2010)

A cross tabulation of the percentage of business profit reinvested and sales increment over the last five years the business has been into operation is shown in Table 21 below.

Table 21 Cross tabulation of % of the business profit reinvested and view of sales increment over the last five years

Cross tabulation of percentage of the business profit reinvested and view of sales increment over the last five years

Count

		can you say that your sales have been increasing over the last five years		Total
		yes	no	
what percentage of the business profit do you reinvest	0-10	15	4	19
	11-20	21	7	28
	21-30	84	14	98
	31-50	33	1	34
	over 50	28	1	29
Total		181	27	208

Source: Own Research (2010)

Most of the respondents re-investing over 21% of their profits into their business have experienced increased level of sales over the last five years with a majority of the same group also experiencing low levels of sales despite re-investing.

4.3 Area of Occupancy

Table 22 below shows the number of years the business has occupied its current business place. Majority of the respondents (37.6%) have been into their current place of business for the last 3 years corresponding the years the businesses have been into operation.

Table 22 Years of business space occupation

Years of business space occupation

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
For how long have you occupied this business space?	1 year	24	10.2	10.3	10.3
	2 years	88	37.3	37.6	47.9
	3 years	64	27.1	27.4	75.2
	4 years	28	11.9	12.0	87.2
	5 years	12	5.1	5.1	92.3
	6 years and above	18	7.6	7.7	100.0
	Total	234	99.2	100.0	
Missing	System	2	8		
Total		236	100.0		

Source: Own Research (2010)

Table 23 below tabulates the possibility of stocking new clothes and the need to increase the business space in line with the increase in new clothes. This is in line with the need to see whether the owners of the businesses have been making full utilization of the business space.

82.7% of the respondents agree that they have not been maximizing on the usage of their business despite the borrowings they have been making a clear indication that the amounts they have been borrowing from their friends are very limited and cannot make them fully utilize their business spaces and this have made 53% of them not to increase their business spaces as shown below

Table 23 Space Utilization

Space utilization

		Frequency	Percent	Valid Percent	Cumulative Percent
are there new clothes/fashion that you can stock without requiring you to increase your space	yes	191	80.9	82.7	82.7
	no	40	16.9	17.3	100.0
	Total	231	97.9	100.0	
Missing	System	5	2.1		
Total		236	100.0		

Source: Own Research (2010)

We further seek to find out whether the business space has been increasing over the last five years as shown in table 24 below.

Table 24 Increment in business area of occupancy over the last five years

Increment in business area of occupancy over the last five years

		Frequency	Percent	Valid Percent	Cumulative Percent
has your business area of occupancy increased over the last five years	yes	106	44.9	47.1	47.1
	no	119	50.4	52.9	100.0
	Total	225	95.3	100.0	
Missing	System	11	4.7		
Total		236	100.0		

Source: Own Research (2010)

The results above indicate that 50.4% of the businesses have not increased their business space over the last five years an indication that they have been tying first to maximize on their un-utilized business space.

For the businesses that went a head and increased their business spaces we asked on the method that they used to increase their business space and table 25 below indicate how they went about to increase the spaces.

Majority 61.4% of those businesses that increased their space did so through acquiring new branches.

Table 25 Method of increasing business space

Table 25: Method of Increasing business space

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
If business area of occupancy increased how?	acquiring new branches	78	33.1	61.4	61.4
	partnership with others	49	20.8	38.6	100.0
	Total	127	53.8	100.0	
Missing	System	109	46.2		
Total		236	100.0		

Source: Own Research (2010)

4.4 Entrepreneurship Skills

One of the main requisite for having good entrepreneurship skills is the desire to see the growth of ones business and this is best captured by the level of sales an entrepreneur yearns for. Table 26 below thus cross tabulates the amount of business profit re-invested into the business and the level of satisfaction with the current sales levels.

Table 26 Cross tabulation of % of the business profit reinvested and satisfaction with current annual sales levels

Cross tabulation of percentage of the business profit reinvested and satisfaction with current annual sales levels

Count

		are you satisfied with your current annual sales levels		
		yes	no	Total
what percentage of the business profit do you reinvest	0-10	3	18	21
	11-20	7	20	27
	21-30	32	64	96
	31-50	15	18	33
	over 50	10	18	28
Total		67	138	205

Source: Own Research (2010)

67.3% of these businesses are not satisfied with their current sales levels and given the fact there is still room for capacity utilization as shown above, they still have room for growth in terms of sales. 33.3% of these respondents are satisfied with their current sales levels an indication that they are either meeting their targets or contented and 42.1% are not willing to improve their businesses as shown in tale 27 below. Therefore given a low survival rate of these SMEs only a small percentage survives their 5th birthday.

Table 27 Cross tabulation of satisfaction of current sales levels and intention to changing the way of doing business

Cross tabulation of satisfaction of current annual sales levels and intention to changing the way of doing business

Count

		do you intend to change the way of doing your business		Total
		yes	no	
are you satisfied with your current annual sales levels	yes	34	36	70
	no	87	52	139
Total		121	88	209

Source: Own Research (2010)

Of these percentages that were not willing to change the way they do their business, they were also that did not have business secrets an indication of lack of scheming on their part that is needed for a good entrepreneur as shown in table 28 below.

Table 28 Existence of any secret plans/ information that cannot be disclosed

Existence of any secret plans/information that cannot be disclosed

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Is there any secret plans/information that you cannot disclose to others?	yes	148	62.7	63.8	63.8
	no	84	35.6	36.2	100.0
	Total	232	98.3	100.0	
Missing	System	4	1.7		
Total		236	100.0		

Source: Own Research (2010)

Table 29 below is a cross tabulation on the existence of sales increment over the last five years and the desire to introduce new clothes into the market. This was to measure the importance of recognizing the ever changing businesses environment in terms of changing fashions and trends in order to survive in the clothing sector.

Table 29 Cross tabulation of existence of sales increment over the last five years and intention to introduce new fashion/ clothes in the market

Cross tabulation of existence of sales increment over the last five years and intention to introduce new fashion/clothes in the market

Count

		do you intend to introduce new fashion/clothes in the market		Total
		yes	no	
can you say that your sales have been increasing over the last five years	yes	170	10	180
	no	26	1	27
Total		196	11	207

Source: Own Research (2010)

94.6% of the respondents are willing to introduce new clothes in to the market given the dynamism of the clothing sub-sector because lack of keeping abreast with the new trends will keep them out of business.

Planning is an essential skill for any entrepreneur and thus table 30 shows the existence of business plans on the part of the entrepreneur and whether he/ she has been achieving the business plans

Table 30 Achievement of business plans

Achievement of business plans

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Have you achieved any of your business plans?	yes	186	78.8	84.9	84.9
	no	33	14.0	15.1	100.0
	Total	219	92.8	100.0	
Missing	System	17	7.2		
Total		236	100.0		

Source: Own Research (2010)

84.9% of these businesses have achieved their business plans a clear indication that they have set objectives towards which they strive to reach. This shows that they have business plans and records which are essential measures of entrepreneurship skills as in table 31 and 32 below.

Table 31 Existence of business plan

Existence of business plan

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Do you have a business plan?	yes	205	86.9	88.7	88.7
	no	26	11.0	11.3	100.0
	Total	231	97.9	100.0	
Missing	System	5	2.1		
Total		236	100.0		

Source: Own Research (2010)

Table 32 Existence of business records

Existence of business records

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
Do you keep business records?	yes	219	92.8	96.1	96.1
	no	9	3.8	3.9	100.0
	Total	228	96.6	100.0	
Missing	System	8	3.4		
Total		236	100.0		

Source: Own Research (2010)

Reactions or responses to business threats dictates whether a business can survive shocks to be able to remain a float in the business and this is also one of the key skills required from the entrepreneur. Table below 33 shows how the SMEs entrepreneurs in the clothing sector respond to competition.

Table 33 Methods of Managing Competition

Methods of managing competition

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
How do you manage competition?	selling at lower price than competitor	23	9.7	10.2	10.2
	selling what is in current demand	107	45.3	47.3	57.5
	listening to customer needs	52	22.0	23.0	80.5
	closely monitoring close competitors	44	18.6	19.5	100.0
	Total	226	95.8	100.0	
Missing	System	10	4.2		
Total		236	100.0		

Source: Own Research (2010)

By selling what is in demand and listening to their customers needs seem to be the basis of survival in the clothing sub sector the absence of which drives one out of business like in all the other businesses.

Table 34 below shows the method of business promotion mostly used by SMEs entrepreneurs in the clothing sector

Table 34 Methods of business promotion

Methods of business promotion

Question	Answer	Frequency	Percent	Valid Percent	Cumulative Percent
How do you promote your business?	media advertising	46	19.5	20.2	20.2
	participating in trade fairs and exhibitions	23	9.7	10.1	30.3
	word of mouth from satisfied customers	74	31.4	32.5	62.7
	through brochures / Cards	85	36.0	37.3	100.0
	Total	228	96.6	100.0	
Missing	System	8	3.4		
Total		236	100.0		

Source: Own Research (2010)

Printing of brochures, card distribution and recommendation from satisfied customers are vital in promoting businesses for this sub sector. Trade fairs and exhibitions having the capability of reaching out to more customers is not preferred while media advertising is expensive for the business persons in this sub-sector.

Methods of responding to new trends in the market by the SMEs entrepreneurs in the clothing sector is shown in table 35 below

Table 35 Methods of responding to new trends in the market

Methods of responding to new trends in the market

		Frequency	Percent	Valid Percent	Cumulative Percent
How do you respond to new trends in the market?	selling what is currently on demand	185	78.4	83.0	83.0
	owning other businesses to support the existing one	24	10.2	10.8	93.7
	making use of new technology	14	5.9	6.3	100.0
	Total	223	94.5	100.0	
Missing	System	13	5.5		
Total		236	100.0		

Source: Own Research (2010)

The use of technology is the least on the agenda of these businesses. These comprise e-marketing and other methods currently changing the face of doing business in the country. This can be attributed to the curriculum in education and lack the requisite capital to initiate these changes.

Training

Table 36 below is a cross tabulation of existence of training and the methods used to train employees by entrepreneurs in the clothing sub sector.

Table 36 Cross tabulation of Existence of employees training and the training organization

Cross tabulation of Existence of employees training and the training organization

Count

		if yes how is the training organized					
		through workshops	through training institutions	in house	through seminars	on the job	Total
do you train your employees	yes	26	19	29	45	64	183
	no	2	0	0	0	0	2
Total		28	19	29	45	64	185

Source: Own Research (2010)

50% of their training is done on the job a good indicator on hands on experience. Majority of the training is on sales and marketing as shown in table 37 below with little effort being put on book keeping.

Table 37 Cross tabulation of Existence of employees training and areas of training

Cross tabulation of Existence of employees training and areas of training

Count

		if yes what areas of training do you venture into					Total
		marketing	computer applications	customer care	accounting and book keeping	others specify	
do you train your employees	yes	106	20	52	14	1	193
	no	1	1	0	0	0	2
Total		107	21	52	14	1	195

Source: Own Research (2010)

Table 38 is a cross tabulation on the existence of training and its contribution to the growth and expansion of the SMEs in the clothing sub sector

Table 38 Cross tabulation of existence of employees training and contribution of the skills acquired to the growth/ expansion of business

Cross tabulation of existence of employees training and contribution of the skills acquired t to the growth/expansion of business

Count

		have the skills acquired through training contributed to the growth/expansion of your business			Total
		yes	no	3	
do you train your employees	yes	181	3	3	187
	no	12	1	0	13
Total		193	4	3	200

Source: Own Research (2010)

90% of the SMEs that had some form of training for their employees agree that the training that their employees underwent contributed to the growth and expansion of their businesses as shown by the 181 respondents out of the total 200 respondents in table 38 above.

Table 38 to table 48 shows the constraints faced by entrepreneurs in the clothing sub sector in running their businesses ,

4.5 Constraints

Table 39 Lack of Management Skills Constraint

constraints faced by small and medium size entrepreneurs (lack of management skills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	33	14.0	14.2	14.2
	disagree	34	14.4	14.6	28.8
	Neutral	20	8.5	8.6	37.3
	agree	84	35.6	36.1	73.4
	strongly agree	62	26.3	26.6	100.0
	Total	233	98.7	100.0	
Missing	System	3	1.3		
Total		236	100.0		

Source: Own Research (2010)

62.7% of the entrepreneurs agree that lack of management skills is a hindrance to the growth of their business. This is a constraint that can be addressed through workshops and trainings by the government at subsidized rates.

Table 40 Lack of Technical skills Constraint

constraints faced by small and medium size entrepreneurs (lack of technical skills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	15	6.4	6.6	6.6
	disagree	61	25.8	26.6	33.2
	Neutral	41	17.4	17.9	51.1
	agree	78	33.1	34.1	85.2
	strongly agree	34	14.4	14.8	100.0
	Total	229	97.0	100.0	
Missing	System	7	3.0		
Total		236	100.0		

Source: Own Research (2010)

48.9% of the entrepreneurs agree that lack of technical skills is a hindrance to the growth of their business. This is a constraint that can be addressed by increasing the number of college and university graduates.

Table 41 Lack of Experience Constraint

constraints faced by small and medium size entrepreneurs (lack of experience in running small business)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	17	7.2	7.4	7.4
	disagree	33	14.0	14.3	21.6
	Neutral	50	21.2	21.6	43.3
	agree	82	34.7	35.5	78.8
	strongly agree	49	20.8	21.2	100.0
	Total	231	97.9	100.0	
Missing	System	5	2.1		
Total		236	100.0		

Source: Own Research (2010)

Experience (56.7%) closely related to management skills (62.7%) is a hindrance for the survival and growth of SMEs.

Table 42 Lack of Creative or Innovative ideas Constraint

constraints faced by small and medium size entrepreneurs (lack of creative or innovative ideas)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	20	8.5	8.6	8.6
	disagree	57	24.2	24.5	33.0
	Neutral	42	17.8	18.0	51.1
	agree	63	26.7	27.0	78.1
	strongly agree	51	21.6	21.9	100.0
	Total	233	98.7	100.0	
Missing	System	3	1.3		
Total		236	100.0		

Source: Own Research (2010)

Innovation and new ideas are vital for the survival of SMEs and therefore at 48.9% in agreement while the rest not sure or disagree there is need to put more emphasis on this as this SMEs cannot survive and grow without innovation.

Table 43 Employing Untrained employees Constraint

constraints faced by small and medium size entrepreneurs (employing untrained employees)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	26	11.0	11.7	11.7
	disagree	26	11.0	11.7	23.3
	Neutral	20	8.5	9.0	32.3
	agree	85	36.0	38.1	70.4
	strongly agree	66	28.0	29.6	100.0
	Total	223	94.5	100.0	
Missing	System	13	5.5		
Total		236	100.0		

Source: Own Research (2010)

67.7% agree that skills of most of the graduates leaving secondary schools employed in SMEs are wanting and there more needs to be done in the curriculum and further training.

Table 44 Poor Marketing Skills Constraint

Constraints faced by small and medium size entrepreneurs (poor marketing skills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	28	11.9	12.1	12.1
	disagree	45	19.1	19.4	31.5
	Neutral	16	6.8	6.9	38.4
	agree	88	37.3	37.9	76.3
	strongly agree	55	23.3	23.7	100.0
	Total	232	98.3	100.0	
Missing	System	4	1.7		
Total		236	100.0		

Source: Own Research (2010)

60.6% of SMEs agree that marketing skills are lacking in this Sector and this is supported by the amount of time they spend in training their employees in marketing skills.

Table 45 Poor book keeping skills constraint

constraints faced by small and medium size entrepreneurs (poor book keeping skills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	29	12.3	12.7	12.7
	disagree	84	35.6	36.8	49.6
	Neutral	32	13.6	14.0	63.6
	agree	40	16.9	17.5	81.1
	strongly agree	43	18.2	18.9	100.0
	Total	228	96.6	100.0	
Missing	System	8	3.4		
Total		236	100.0		

Source: Own Research (2010)

Book-keeping skills have not been given prominence (36.4%) by SMEs though they are a major factor that contributes to their accessibility of capital through banking institutions.

Table 46 City Council harassment Constraint

constraints faced by small and medium size entrepreneurs (city council harassment)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	11	4.7	4.8	4.8
	disagree	44	18.6	19.3	24.1
	Neutral	42	17.8	18.4	42.5
	agree	49	20.8	21.5	64.0
	strongly agree	82	34.7	36.0	100.0
	Total	228	96.6	100.0	
Missing	System	8	3.4		
Total		236	100.0		

Source: Own Research (2010)

City council harassment tops the constraints at 57.5%.

Table 47 Area of Occupancy Constraint

constraints faced by small and medium size entrepreneurs (area of occupancy)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	13	5.5	5.6	5.6
	disagree	54	22.9	23.3	28.9
	Neutral	52	22.0	22.4	51.3
	agree	81	34.3	34.9	86.2
	strongly agree	32	13.6	13.8	100.0
	Total	232	93.3	100.0	
Missing	System	4	1.7		
Total		236	100.0		

Source: Own Research (2010)

47.8% of the respondents agree that area of occupancy is a constraint for SMEs growth and expansion though the issue of capacity utilization needs first to be addressed by the entrepreneurs.

Table 48 Infrastructure / Business Location Constraint

constraints faced by small and medium size entrepreneurs (Infrastructure/ business location)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	20	8.5	8.6	8.6
	disagree	40	16.9	17.2	25.8
	Neutral	57	24.2	24.5	50.2
	agree	67	28.4	28.8	79.0
	strongly agree	49	20.8	21.0	100.0
	Total	233	98.7	100.0	
Missing	System	3	1.3		
Total		236	100.0		

Source: Own Research (2010)

49.8% of the respondents agree that business location is a hindrance to SMEs therefore infrastructural issues needs to be addressed by the policy makers.

4.6 Regression Analysis`

Table 49 Descriptive Statistics of the regression analysis

Descriptive Statistics of the regression analysis

	Mean	Std. Deviation	N
are you satisfied with your current annual sales levels	1.67	.472	202
have you borrowed funds for business capital	1.20	.403	202
are there new clothes/fashion that you can stock without requiring you to increase your space	1.15	.361	202
are there any secret plans/information that you cannot disclose to others	1.36	.482	202
do you intend to relocate your business	1.48	.501	202

Table 50 Correlations of the regression analysis

Correlations of the regression analysis

		are you satisfied with your current annual sales levels	have you borrowed funds for business capital	are there new clothes/fashion that you can stock without requiring you to increase your space	are there any secret plans/information that you cannot disclose to others	do you intend to relocate your business
Pearson Correlation	are you satisfied with your current annual sales levels	1.000	-.063	.125	.158	-.102
	have you borrowed funds for business capital	-.063	1.000	-.010	.235	.229

	are there new clothes/fashion that you can stock without requiring you to increase your space	.125	-.010	1.000	-.263	-.024
	are there any secret plans/information that you cannot disclose to others	.158	.235	-.263	1.000	.432
	do you intend to relocate your business	-.102	.229	-.024	.432	1.000
Sig. (1-tailed)	are you satisfied with your current annual sales levels		.187	.038	.012	.075
	have you borrowed funds for business capital	.187		.444	.000	.001
	are there new clothes/fashion that you can stock without requiring you to increase your space	.038	.444		.000	.365
	are there any secret plans/information that you cannot disclose to others	.012	.000	.000		.000
	do you intend to relocate your business	.075	.001	.365	.000	
N	are you satisfied with your current annual sales levels	202	202	202	202	202
	have you borrowed funds for business capital	202	202	202	202	202
	are there new clothes/fashion that you can stock without requiring you to increase your space	202	202	202	202	202
	are there any secret plans/information that you cannot disclose to others	202	202	202	202	202

	do you intend to relocate your business	202	202	202	202	202

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	do you intend to relocate your business, are there new clothes/fashion that you can stock without requiring you to increase your space, have you borrowed funds for business capital, are there any secret plans/information that you cannot disclose to others[a]		Enter

a. All requested variables entered.

b. Dependent Variable: are you satisfied with your current annual sales levels

Table 51 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.323[a]	.105	.086	.451	.105	5.757	4	197	.000

a. Predictors: (Constant), do you intend to relocate your business, are there new clothes/fashion that you can stock without requiring you to increase your space, have you borrowed funds for business capital, are there any secret plans/information that you cannot disclose to others

Of the variable chosen to measure growth of SMEs (Credit, area of occupancy, entrepreneurship skills and Location/Infrastructure) 8.6% explain the growth as the adjusted R square. This means that other variables accounting for 92.4% explain the growth of SMEs.

Table 52 ANOVA[b]

Table 52: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.686	4	1.172	5.757	.000[a]
	Residual	40.091	197	.204		
	Total	44.777	201			

a. Predictors: (Constant), do you intend to relocate your business, are there new clothes/fashion that you can stock without requiring you to increase your space, have you borrowed funds for business capital, are there any secret plans/information that you cannot disclose to others

b. Dependent Variable: are you satisfied with your current annual sales levels

Table 53 Coefficients

Table 53:Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.351	.179		7.532	.000
	have you borrowed funds for business capital	-.103	.082	-.088	-1.248	.213
	are there new clothes/fashion that you can stock without requiring you to increase your space	.267	.092	.205	2.910	.004
	are there any secret plans/information that you cannot disclose to others	.320	.077	.326	4.136	.000
	do you intend to relocate your business	-.205	.072	-.217	-2.865	.005

a. Dependent Variable: are you satisfied with your current annual sales levels

The basic econometric model $Y= \beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4 + \varepsilon$ therefore takes the following form $Y= 1.35 -0.103X_1+ 0.267X_2+ 0.32X_3-0.205X_4 + \varepsilon$

Where Y =Level of satisfaction with annual sales level

β_0= Constant

X_1= Access to Credit. This imply that as the SMEs grow with level of sales satisfaction being achieved SMEs borrow less as they see no need to commit themselves to credit.

X_2= Area of Occupancy. As SMEs become less satisfied with their level of sales hence working towards satisfactory levels they tend to demand more business space when they have fully utilized their current business spaces.

X_3= Entrepreneurship skill. Less satisfactory sales levels entice Entrepreneurs to scheme more on their businesses to meet their targeted levels of sales.

X_4= Infrastructure /Location. Less satisfactory sales levels entice Entrepreneurs to desire to move to other areas as they will cease opportunities to move to get desired levels of sales.

Statistical Significance (t –statistic)

Access to credit variable has a t-statistic of -1.248 imply that it is statistically significant in determining the growth of SME since it lies between +2 and -2.

Area of Occupancy, Entrepreneurship skill and location with t-statistics of -2.910, 4.136 and -2.865 respectively are not statistically significant since they lie outside +2 and -2.

CHAPTER FIVE

SUMMARY. CONCLUSION AND POLICY RECOMMENDATION

SUMMARY

The objective of this paper was;

1. To find out if with access to formal credit and finance SMEs in the clothing sub sector are more likely to succeed and grow in Nairobi.
2. To establish other factors (notably entrepreneurial skills, area of occupancy and Infrastructure/ location) not related to formal credit and finance that are important for the growth of Small and Micro Enterprises in Kenya.
3. To highlight the importance of responsiveness to changing business environment for survival and growth of the Small and Micro Enterprises in Kenya and make necessary conclusions.

Growth of SMEs and access to Credit represented by X_1 shows that very few SMEs in the clothing sub sector have access to credit in the formative years of which most of them see as important for their growth, and as they grow their business over the years they see little need of borrowing from financial institutions and committing themselves to credit. They thus become the prey of banks after they have well established their businesses. In the formative years they heavily rely on their savings and friends to finance their businesses. This is represented by the co-efficient of X_1 in table 53.

As SMEs in the clothing sub sector grow over time the area of occupancy becomes a constraint but with the caveat of maximum space utilization. Therefore as SMEs become less satisfied with their level of sales hence working towards satisfactory levels they tend to demand more business space when they have fully utilized their current business spaces.

Entrepreneurship skills are keys to SMEs growth. Though they vary, the ability to scheme, taking advantage of opportunities that arise and the drive towards more volumes in terms of sales are of utmost important because once a scheme one will be able to plan, record and even hire professional services where there is lack in order to succeed. This is represented by X_3 in our analysis of entrepreneurship skill. The less satisfactory sales levels entice Entrepreneurs to scheme more on their businesses to meet their targeted levels of sales. The next generation of schemers will have to be technologically savvy and this seems to be lacking considering the training in technology and embracing to technological tools already available e.g. e-marketing.

Infrastructure / Location is very important factor in the determination of SMEs growth but as SMEs grow and attain satisfactory level of sales they become reluctant to relocate their businesses from the point of view of customers accessibility but would open other branches and still maintain their initial location. Also those not in areas that they perceive as less strategic have a desire to move to areas that they consider strategic. With X_4 representing Infrastructure /Location in the analysis we draw a conclusion that the Less satisfactory sales levels entice Entrepreneurs to move to other areas as they will cease opportunities to move to get desired levels of sales.

CONCLUSIONS

From the co-efficients in table 53, entrepreneurship skills are key to the success and growth of SMEs represented by X_3= 0.32. Technological skills are also important and should be given prominence as it represents a new area with room for opportunities and growth in clothing sub sector.

Business space represented by X_2= 0.267 though important for expansion and growth of SMEs in clothing sector is important but should be treated with some caution as space capacity needs to be fully utilized before acquisition of more branches or partnering. Therefore the smaller sub-division of spaces in very small units should not be seen as a hindrance for business growth from the face value of it.

SMEs bulking for growth opportunities will always be in constant formative stages of setting up new product lines or venturing into new businesses to keep up with the dynamism of the business world and therefore Access to credit in the clothing sector represented by X_2=- 0.103 could be an indication of lack of new ideas that needs to financed through the formal system or satisfaction with the sales levels which could be an indication of lack of entrepreneurial skills in the clothing sub sector.

There are several other factors that determine SMEs growth in the clothing sub sector apart from the ones covered by this paper

RECOMMENDATIONS

SMEs quest for more sales depicted by their unsatisfactory level of sales and their need to move to areas that they perceive as having more customers can be well addressed in this country through good planning of the business locations in such a way that zones are created that specifically deal with clothing, furniture, etc as this can reduces the disparities that is in the income levels and create a level playing field that will eventually improve innovation and spur growth.

There is also need for regulation of amounts charged on rental spaces as this is a big hindrance for SMEs expansion. This if done by the government through the zoning of products to be sold would go a long way in providing good incentive for growth as this businesses need to be nurtured.

Though job training is very good, more needs to be done to ensure that the employees in SMEs in clothing sector are not only trained in marketing skills but also on art and design courses and other relevant courses that would enable them stand out and move to the next level.

Technological uptake in terms of computing skills and e-marketing seem to have taken a back stage and this needs to be addressed as most businesses move to a higher level most SMEs may be left behind and forced to close shop in the years to come.

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APPENDIX

QUESTIONNAIRE

I am carrying out academic research on Small and Medium Enterprises (SMEs) growth in Nairobi - Non Finance Determinants in Clothing Sub-Sector. This is in partial fulfillment of the requirement of the Masters of Arts in Economics degree program at the University of Nairobi. The study uses the clothing sub-sector from which you have been selected as one of the respondent. Kindly spare some minutes of your time to fill this questionnaire.

Instructions: ***kindly complete the following questionnaire using the instructions provided for each set of questions.***

Confidentiality: ***The responses you provide will be strictly confidential. No reference will be made to any individual(s) or organization in the report of the study.***

PART A

BACKGROUND INFORMATION

1. Gender of the Entrepreneur [ ] Male [ ] Female

2. Age of the entrepreneur

[ ] 18-22 years [ ] 23-27 years [ ] 28-32 years [ ] 33-37 years

[ ] 38-42 years [ ] 43-47 years [ ] 48-52 years [ ] 53 and above

3. Marital status: [ ] Single [ ] Married.[ ] Divorced [ ] other __________

4. Education level of the entrepreneur (state the highest level)

[ ] Primary did not complete[ ] Primary completed [ ] Secondary did not complete

[ ] Secondary completed [ ] College did not complete [ ] College completed

[ ] University did not complete [ ] University completed [ ] other ___________

PART B

ABOUT THE BUSINESS

5. Your status in the business. [ ] Owner [ ] Manager

6. Type of business ownership (please tick one)

[ ] Partnership [ ] Private Limited company [ ] Sole proprietor [ ] others (specify) _______

7. How many years have you been in active business?

[ ] 0-1 years [ ] 1-2 years [ ] 2-3 years [ ] 3-4 years [ ] 4-5 years [ ] over 5 years

8. Do you operate your business on a full-time basis? [ ] Yes [ ] No

9. How many employees have you had in the years you have been in business?

Year 1_____ Year 2_______ Year 3______ Year 4______ Current Year ________

10. Where is your business located?[ ] Central Business District(CBD) [ ] within marketing area [ ] within the estate [ ] on the roadside

11. Do you intend to relocate your business? [ ] Yes [ ] No

If yes, to where and give reasons ____

PART C

ACCESS TO CREDIT

12. Have you borrowed funds for business capital? [ ] Yes [ ] No

13. If Yes to Q 12 above, from where? [ ] Bank loan [ ] Friends & Savings [ ] others ________

If No, how did you finance your business? ________________________________

14. What were the borrowed funds used for?

[ ] Paying personal debt [ ] Paying business debts [ ] Business expansion

15. Has the borrowed funds had an impact on your sales? [ ] Yes [ ] No

If No, why? ____

16. Do you think lack of credit access has hindered your business expansion? [ ] Yes [ ] No

17. What amount of capital did you employ in the business? [ ] 10,000 -20,000 [ ] 21,000 - 30,000 [ ] 31,000 -40,000 [ ] 41,000 -50,000 [ ] 51,000 -60,000 [ ] 61,000 and above

18. Do you remit Value Added Tax returns (VAT) for your business? [ ] Yes [ ] No

19. If yes to Q 18, why are you registered for VAT?

[ ] Voluntarily [ ] Reached the threshold [ ] other (specify) ____________________

20. Which year of your business did you register for VAT?

[ ] 1st year [ ] 2nd year [ ] 3rd year [ ] 4th year [ ] 5th year [ ] other ______

21. What percentage of the business profit do you re-invest in your business?

[ ] 0-10% [ ] 11-20% [ ] 21-30% [ ] 40-50% [ ] over 50%

PART D

AREA OF OCCUPANCY

22. Current area of occupancy (in Meters squares) ______________________

23. For how long have you occupied this business space?

[ ] 1year [ ] 2 years [ ] 3years [ ] 4 years [ ] 5th year [ ] > 5 years

24. Are there new clothes/ fashion that you can stock without requiring you to increase your space? [ ] Yes [ ] No

25. Has your business area of occupancy increased over the last 5 years? [ ] Yes [ ] No

26. If yes to Q25 above, how?

[ ] Acquiring new branches [ ] Partnering with others [ ] other (specify) ____

PART E

ENTREPRENEURSHIP SKILLS

27. Are you satisfied with your current annual sales levels? [ ] Yes [ ] No

28. If no Q27 where do you intend them to be in figures? ____________________________

29. Can you say that your sales have been increasing over the last 5 years? [ ] Yes [ ] No

30. Roughly what were your annual sales in the following sequence?

(a) 2009______ (b) 2008______(c) 2007______ (d) 2006______ (e) 2009______

31. Do you intend to introduce new fashion /clothes in the market? [ ] Yes [ ] No

And why?

____

32. Do you intend to change the way of doing your business? [ ] Yes [ ] No

33. If yes to Q32, how ____

34. Are there any secrets, plans or information about your business that you cannot disclose to others?[ ] Yes [ ] No

35. How do you manage competition?

a) By selling at lower a price than my competitors [ ] b) By selling what is in current demand [ ]

c) By listening to my customer needs [ ] d) by closely monitoring my close competitors [ ]

36. How do you promote your business?

a) By media advertising [ ] b) By participating in trade fairs and exhibitions [ ]

c) By word of mouth from satisfied customers [ ] d) through brochures [ ]

37. Do you keep business records? [ ] Yes [ ] No

38. Do you have a business plan? [ ] Yes [ ] No

39. For how long have you been having a business plan?

[ ] 1st year [ ] 2nd year [ ] 3rd year [ ] 4th year [ ] 5th year [ ] All years

40. Have you achieved any of your business plans? [ ] Yes [ ] No

41. Do you train your employees? [ ] Yes [ ] No

42. If yes to Q22 above, what areas of training do you venture into?

[ ] Marketing [ ] Computer Applications [ ] Customer Care [ ] Accounting & Book keeping

[ ] Others (specify) ______________________________

43. Do you have a training procedure in your business? [ ] Yes [ ] No

44. If Yes to Q43 above, how is the training organized?

[ ] through workshops [ ] through training institutions [ ] in-house

[ ] through seminars [ ] on the job

45. If No to Q43 above, why? ______________________________

46. Do you delegate responsibilities to your employees? [ ] Yes [ ] No

47. Have the skills acquired through training contributed to the

(a) Growth/expansion of your business? [ ] Yes [ ] No

(b) Business processes? [ ] Yes [ ] No

Please explain ______________________________

____

48. Indicated below are some of the greatest constraints faced by small and medium size entrepreneurs when conducting their businesses. To what extent do you agree/disagree to the constraints?

(Constraints)	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
Lack of management skills					
Lack of technical skills					
Lack of experience in running a small business					
Lack of creative or innovative ideas					
Employing untrained employees					
Poor marketing skills					
Poor book keeping skills					
City Council harassment					
Area of occupancy					
Location of the business					

49. How do you respond to new trends in the market?

[ ] Selling what is currently in demand [ ] Owning other businesses to support the existing one

[ ] making use of new technology

50. Please indicate at least three major problems you face while running your business

____

____

____

Thank you for your cooperation