CHALLENGES FACING GROWTH OF MICROENTERPRISES IN KENYA: A CASE OF TIGANIA WEST DIVISION

By

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2010
DECLARATION

This project report is my original work and has not been presented for award of any degree in any other university.

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This study is dedicated to my husband David Thuranira and my children Rawlings Mwenda and Rispa Gatwiri.
ACKNOWLEDGEMENTS

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<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<td>GoK</td>
<td>Government of Kenya</td>
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<td>LDC</td>
<td>Least Developed Countries</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<td>MEs</td>
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<td>SACCOs</td>
<td>Savings and Credit Co-operative Societies</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
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ABSTRACT

This study was conceived to find out the problems facing actors in the microenterprises sector. Microenterprises play a significant role in the country's economy. This sector provides goods and services and is also a driver in promoting competition and innovation; and enhancing the enterprise culture, which is necessary for private sector development and industrialization. Many countries in the world have realized the importance of SMEs and therefore are working to increase performance and competitiveness. In Kenya, this sector cut across all sectors of the country's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and larger industries, which are critical for industrialization today, these enterprises are found in every corner of Kenya and they have great potential for creating a variety of jobs, while generating widespread economic benefits. It is in the light of the above that the study was designed to establish the challenges facing growth of microenterprise. The study was a descriptive study and was limited to Tigania west division. Questionnaires were the main data collection tools and descriptive statistics were used to analyze the data obtained from the field. Findings were presented in the form of frequency tables and percentages. Study findings demonstrate the numerous problems that micro-enterprises experience in day to day running of businesses. Majority of the microenterprise owners 82.1% were not trained in any business skills which are needed to run micro and small enterprises. Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees evidence of lack of management skills. The study also demonstrated that there was inadequate business support services and recommends that there is a need for a supportive policy to encourage the establishment of documentation centers and information networks to provide information to microenterprises at an affordable price. This study also recommends that business policies should aim to encourage and promote the development of microenterprises.
CHAPTER ONE
INTRODUCTION

1.1 Background to the study
The microenterprise sector has the potential to generate enormous economic gains and increased employment for national economies and for the micro and women entrepreneurs and their families. Currently, in most economies, small and microenterprises generate a significant number of jobs – in Canada, for example, a full 49% of the population work for small or micro-enterprises. These figures tend to be even higher in developing economies where microenterprises are generally more important in terms of employment.

The contribution of small and micro-enterprises (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution.

The available evidence suggests that SMEs have played a major role in the growth and development of all the leading economies in Asia. The Asian experience clearly shows that it is mainly the growth-oriented micro-enterprises that have a high propensity to apply technology and training and serve specialized niche markets. Among the factors that have contributed to the success of such SMEs is a high incidence of cooperative inter-firm relationships, which have rendered individual firms less susceptible to risks, fostered mutual exchanges of information and know-how between firms and created a rich pool of collective knowledge. A key factor has also been the provision by Governments to SMEs of technological extension services (such as quality assurance, research support and information on sources of technology).

However, a similarly robust and dynamic SME sector is absent in many developing countries like Kenya, and particularly in the least developed countries (LDCs). The enterprise sector in many LDCs shows a distinct dual structure. At one extreme there
exist a few large modern capital-intensive, resource-based, import-dependent and assembly-oriented enterprises, while at the other extreme there are small and informal sector (micro) enterprises that use very simple and traditional technologies and serve a limited local market. This structural imbalance in many developing countries has arisen despite their implementation of SME promotion programmes for many years. The industrialization policies pursued by developing countries in the past are identified as having contributed to a bias in favour of larger scale enterprises by encouraging premature movements of resources into large capital-intensive businesses rather than promoting the gradual and organic growth of enterprises. This bias persists in many developing countries, rendering their SME promotion strategies largely ineffective. Efforts focusing on SME development are often frustrated by the absence of a favourable macroeconomic framework. In addition, repressive legal and regulatory regimes can impose disproportionately high costs on SMEs, which often results in a polarization of business size.

Badly conceived microenterprise promotion strategies are equally to blame. The degree to which governments regulates supports or inhibits microenterprise growth requires a delicate balance: Protective SME-development policies have proved ineffective in promoting a robust and dynamic SME sector. The outcome of such policies is a small-scale sector with low productivity, insufficient opportunities for dynamic growth and powerful vested interests.

Microenterprises cut across all sectors of the country’s economy and provide one of the most prolific sources of employment despite the many challenges faced by the microenterprises in many developing countries, not to mention the breeding found for medium and large industries, which are critical for industrialization. This is why many countries in the world are busy working out strategies of improving and making the microenterprises a success.

In Kenya, micro-enterprises are those with 10 or fewer workers, small enterprises have from 11 to 50 workers, and medium enterprises have from 51 to 100 workers. Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya, while there are a few medium enterprises (Parker and Torres 2004). Small
enterprises are almost non-existent. However, despite government efforts in Kenya to promote informal sector activity, not much progress seems to have been achieved, judging by the performance of the informal sector.

In Tigania West division, in terms of sector (trade, tourism and industry sector) contribution to household income, waged employment and self employment contributes around 5% which is attributed to trade and industry subsectors. Trade is predominantly small scale retail in nature which is distributed across the division (GoK, 2009). In this area several microenterprises have come up and 50% of them fail to thrive during the first year after starting. The table below shows the growth and distribution of microenterprises in Tigania west division.

Table 1.1: Distribution of small scale businesses in Tigania west division

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>No growth</th>
<th>Small growth</th>
<th>High growth</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>All micro-enterprises</td>
<td>72.2</td>
<td>21.1</td>
<td>1.1</td>
<td>100</td>
</tr>
<tr>
<td>Female-owned enterprises</td>
<td>84.7</td>
<td>15.27</td>
<td>0.2</td>
<td>100</td>
</tr>
<tr>
<td>Male owned enterprises</td>
<td>75.1</td>
<td>23.3</td>
<td>1.6</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing enterprises</td>
<td>88.5</td>
<td>10.7</td>
<td>0.8</td>
<td>100</td>
</tr>
<tr>
<td>Trade and commerce enterprises</td>
<td>76.2</td>
<td>23.5</td>
<td>0.4</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: District statistics office, Maua, 2009

From the above table, most of the enterprises in Tigania west division are characterized by lack of growth. There is thus a growing recognition of a need for micro-level approaches that address the specific problems facing small-scale entrepreneurial activity and that are compatible with the general direction of industrial and macroeconomic policy.

In the prevailing climate of globalization, developing countries urgently need to ensure that they have a critical mass of domestic enterprises, which are internationally competitive and capable of penetrating global chains of production. Increased access to information and knowledge of proven practices that enhance micro and small enterprises’ production capabilities are crucial to creating business expansion
opportunities. There is a need for a better understanding of microenterprise growth in general, as well as women’s current participation as small scale producers and suppliers in both the formal and informal economies. All these strategies can be examined from the perspective of both growths at the domestic level as well as growth of microenterprises through increased linkages with international trade.

1.2 Statement of the problem

The microenterprises cut across all the sectors of the Kenya economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction. Self-employment in micro-enterprises provides a living to hundreds of millions of people, and considerable resources have been put towards helping these businesses to grow beyond a subsistence level.

The sector contributes up to 18.4% (Government of Kenya, 2005) of the country’s gross domestic product. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. This sector is therefore not only producer of goods and services but also important in promoting competition and innovation; and enhancing the enterpriser culture which is necessary for private sector development and industrialization.

The sector plays a significant role. However, it has continued to experience many binding constraints that have inhibited the realization of its full potential. Past statistics indicate that three out of five micro-enterprises fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to statistics obtained from the District statistics office, Maua, 2009, most of the enterprises in Tigania west division are characterized by lack of growth.

Little is known about the challenges that face the growth of these microenterprises. The understanding of the dynamics of SMEs is therefore necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. To address the need for more specific information about microenterprises in Kenya, this study explored characteristics of microenterprises that make it more difficult for them to grow and assessed the particular challenges that
these microenterprises face which may have contributed to their poor performance. This study therefore sought to establish the challenges facing the growth of micro enterprises in Kenya taking a case of Tigania West division.

1.3 Purpose of the study
The main purpose of this study was to investigate challenges facing growth of microenterprises in Kenya taking a case of Tigania West district.

1.4 Objectives of the study
The objectives of this study were to:

1. Examine how business finance influences the growth of microenterprises.
2. Explore the extent to which entrepreneurs' management skills influence the growth of microenterprises.
3. Establish the extent to which government regulations and policies have influenced the growth of microenterprises
4. Establish how availability of business support services influences growth of microenterprises
5. Find out the extent to which training in business influence the growth of microenterprises

1.5 Research questions
The study sought to answer the following research questions:

1. To what extent does business finance influence the growth of microenterprises?
2. How does entrepreneurs' management skill influence growth of microenterprises?
3. To what extent do the government regulations and policies influence the growth of microenterprises?
4. How does the availability of business support services influence the growth of microenterprises?
5. How does training in business influence the growth of micro enterprises?
1.6. Significance of the study
This study will be significant in the following ways:-
Firstly, scholars will gain additional new knowledge on the microenterprises in Kenya. It is hoped this study will provide a background for subsequent studies in this area with a view of coming up with other related researchable titles.
Secondly, this study will be significant to the policy makers and planners by giving them direction and raising their awareness in the area of challenges facing micro enterprises. This will eventually help the policy makers and other partners to develop strategies that will be necessary in overcoming these challenges.
Lastly, the study will provide information to the small scale businesses traders on how to carry out their businesses successfully.

1.7. Delimitation of the study
The scope of the study was limited to Tigania West division. The study only targeted entrepreneurs operating microenterprises in this area. The study only sought to investigate challenges facing the growth of microenterprises in Tigania west division. The study was conducted from January 2010 to July 2010.

1.8 Limitations of the study
The study did not focus on specific microenterprises. Being a survey, it means that it did not focus on historical or longitudinal issues of microenterprises studied. Another key limitation of the study was embedded in the weakness of the survey research design that some of the information from respondents might have had some inaccuracies. Some of the respondents were unwilling to give some information that they felt sensitive to reveal for security reasons. To overcome this challenge, the researcher assured the respondents of confidentiality in using the information provided as well as stressed that such information shall be for the purposes of the study alone. There were time and financial limitations in carrying out the study.
1.9 Assumptions of the study
This study assumed that sample population chosen would voluntarily participate in
the study and that respondents gave as accurate, complete and honest responses as
possible. The study also assumed that the respondents understood and were able to
answer the questions in the data collection tools. It was also assumed that the
microenterprises in Tigania west are similar to others elsewhere in the country.

1.10 Definition of the significant terms

**Business** – The activity of buying and selling goods and services. It is also a legally
recognized organization designed to provide goods or services, or both, to consumers,
businesses and governmental entities. A business is typically formed to earn profit
that will increase the wealth of its owners and grow the business itself. The owners
and operators of a business have as one of their main objectives *the receipt or
generation of a financial return* in exchange for work and acceptance of risk.

**Business Growth** – This is the expansion of an enterprise in terms of sales volume
profits and number of employees. It involves expanding products and services,
expanding target markets or some combination of each. In general, business growth is
concerned by increased revenue and profitability.

**Entrepreneur** – This term is used in this study as a businessman who initiates
business ideas and products. Is a person who has possession of a new enterprise,
venture or idea and assumes significant accountability for the inherent risks and the
outcome. An entrepreneur is always who willing to take upon herself or himself a new
venture or enterprise and accepts full responsibility for the outcome.

**Large Scale Business** – This is an organization that has grown beyond the limits of a
medium-sized business and has 500 or more employees. It is usually from the ranks of
large-sized businesses that multinational businesses arise.

**Microenterprise** - is a type of small business, often unregistered, having five or
fewer employees that is organized to sell merchandise in small quantities

**Microfinance:** - A type of banking service that is provided to unemployed or low-
income individuals or groups who would otherwise have no other means of gaining
financial services. Ultimately, the goal of microfinance is to give low income people
an opportunity to become self-sufficient by providing a means of saving money,
borrowing money and insurance.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter is an attempt to bring to light some of the studies that have evolved over years on small and microenterprises. Particular emphasis was laid on literature dealing with microenterprises and the factors that determine the growth and success of these businesses and the challenges they face.

2.2 Theoretical literature
A micro-enterprise (or microenterprise) is a type of small business, often unregistered, having five or fewer employees and requiring seed capital of not more than $35,000. The term is often used in Australia to refer to a business with a single owner-operator, and no employees.

The term microenterprise connotes different entities and sectors depending on the country. In developed countries, microenterprises comprise the smallest end (by size) of the small business sector, whereas in developing countries, microenterprises comprise the vast majority of the small business sector—a result of the relative lack of formal sector jobs available for the poor. The microentrepreneurs operate microenterprises not by choice, but out of necessity.

Microenterprises often rely on "micro-loans" or microcredit in order to be financed because they typically have little to no access to the commercial banking sector. Microfinance institutions often finance these small loans, particularly in the Third World. Those who found microenterprises are usually referred to as entrepreneurs. The terms microenterprise and microbusiness have the same meaning, though traditionally when referring to a small business financed by microcredit the term microenterprise is used. Similarly when referring to a small, usually legal business that isn't financed by microcredit, the term microbusiness is used.

Micro and small enterprises (MSEs) allow the rural poor— including some of the most marginalized and vulnerable strata such as rural women, youth, and the landless—to diversify their incomes, create new sources of economic growth and generate
additional employment (including self-employment) in rural areas. The same strata may also be reached through MSE support to small-scale local entrepreneurs, whose business expansion can create new jobs for the rural poor. Core issues that shape the justification for and design of investments in MSE development concern:

The policy and institutional environment. A country's legal framework, current business practices, government policies such as tax breaks or seed grants for MSEs, bureaucratic and administrative procedures, etc. may all act either to encourage or impede MSE development.

The availability and strength of local financial services. Commercial banks, microfinance institutions, micro-leasing companies, etc., also non-financial service providers such as business counselling, must be adequate to support MSE growth.

The business opportunities and evolving demand in the project area. Agriculture-related (agro-processing, input selling, food trade) and non-agricultural MSE opportunities (carpentry, metal-working, transport, shops, handicraft, other amenities) should be present, together with government commitment to an identified target clientele. There should be general indications that financial returns from typical MSEs are attractive to this clientele.

The institutional mechanisms for MSE promotion. Support needs of potential MSE entrepreneurs require identification. Business development services such as entrepreneurship training, management and planning advice, and improved market information and access, are likely to be needed. Assistance in making loan applications and advice on dealing with financing agencies will also be required.

Micro and Small Enterprise Units (MSEs) may need setting up if institutional mechanisms are inadequate. Such units may also incorporate teams of rural business advisers (RBAs) to strengthen links between MSEs, producers or producer organizations, other market intermediaries such as traders, processors or transporters, and rural or urban businesses.

Related infrastructural needs and constraints. Means may have to be found to address non-commercial constraints to MSE growth such as the poor quality of the rural roads.
needed to link MSEs to markets, inadequate water and electricity supplies and ineffective communication networks.

The importance of small and micro enterprises (SMEs) in contributing to job creation and output growth is now widely accepted in both developed and developing countries. SMEs make their most tangible contribution to economic growth and job creation. Dynamic medium-sized enterprises provide a competitive edge in two ways – as leading subcontractors and as venture firms in their own right. They also tend to survive longer than most SMEs and create jobs that yield higher returns, thus multiplying their impact on economic growth.

In many developing and least developed countries (LDCs) there is evidence of a “missing middle”: a shortage of middle-sized growth-oriented SMEs that could make an important contribution to development. This “missing middle” is generally attributed to hidden and largely inadvertent biases in the economic policies of these countries that militate against the gradual and organic growth of their enterprises. The lack of coherent SME development strategies, which take into account the three dimensions of enterprise evolution (i.e. start-up, survival and growth) and the different needs of enterprises in their various stages of evolution, is another important contributory factor.

In the absence of a coherent policy framework for enterprise development, globalization and the opening of domestic markets as part of liberalization policies has had an adverse impact on the enterprise structure in many LDCs and other developing countries.

In particular, SMEs are being decimated or are continually losing ground in terms of their competitiveness. Instead, the microenterprise or survival sector has gained prominence. The twin processes of globalization and liberalization, combined with rapid advances in information and communication technologies, are creating new dynamics of production, enterprise development and international competition. Countries’ existing enterprise development strategies may no longer be effective in light of the changes in the environment. Any government that is concerned about
promoting SMEs should therefore carefully examine the impact of its existing policies and programmes for enterprise development and redesign its SME strategies to focus on addressing the issues related to the “missing middle”.

Microenterprises engage in selling merchandise for person on house consumption and rendering services incidental to the sale of the goods. Buying of goods for resale to the consumer is a characteristic of microenterprises that particularly distinguishes them from the agricultural and extractive industries. Processing incidental or subordinate to selling often is conducted at retail stores for example restaurant prepare meals, and meat markets cut meat.

A business normally passes through several milestones that when achieved, proves that the business is on the right track. These milestones serve as indicators that the business is growing and expanding in the right direction. A successful business does not happen overnight. You don’t start a business and expect it to earn profit the next day.

The first indicator is achieving the break-even point. After you have determined that your business idea is feasible, you should begin to focus your effort in business development. Know the one time costs you will incur for start-up and makes sure there’s more than enough capital to cover those cost and any contingencies. A new entrepreneur must also calculate a very important piece of data; the breakeven point. This shows what level of sales is needed to offset all fixed costs of doing business and the variable costs of producing products. Achieving the monthly breakeven point is the first indication that your business may be viable. Breakeven means that expenses are equal to revenue. Profit is zero. The pay check for a proprietor is profit (Stephen, 1999)

The second indicators are earning a living wage. You know that your business is starting to do well when it can provide you with a living wage. After months of living on very tight budget and no income while starting your business, you have now reached the stage when you can start to draw income. At this point, the small business entrepreneur is doing as well for himself/herself as they would be working for
someone else at a similar level. But the business as yet not demonstrated an ability to generate a return on investment.

The third indicator is achieving real profit. Your investment becomes a successful business only when it can move beyond the respectable wage category and contribute real profit. Real profit is cash left over after a respectable wage is provided. The ability to earn real profit is the dividing line between owning a job and owning a business. At this stage, your business not only provides you with a respectable wage for time spent but it is also able to pay you back with all the cash that was invested. It goes beyond payment for any principal on debt or income taxes owned. After paying the obligations of the business, all of the cash profit that is generated is discretionary cash. A business at this level becomes more valuable than the value of its assets. It is generating a return on investment and a positive cash flow (Longnecker, 2000)

In addition, success and failure always depend on the entrepreneur. This is why some succeed and others fail. Entrepreneurs must spend careful evaluation and extra time on studying the nature and principles of entrepreneurship. Successful entrepreneurs share several of the same traits first one is goal oriented. Whether short term or long term, as a successful entrepreneur, always set your goals. The establishment of goals is critical to the company’s sales success. Prior to the business plan and subsequent marketing and sales plans, the entrepreneur must establish focused goals. Those actually commence with dreams and ideas. He/she must have a clear and vivid mental picture of what they want to accomplish. They must want it above all else and be totally focused upon its above all else and be totally focused upon its achievement. Their dream must constantly occupy their thought critical to the establishment of goals is the commitments to maintain written goals. Without the writing down component goals are nothing more than impotent wishes.

Goals and decisions require action to both empower and complete them. The entrepreneur is always moving, always contemplating, always adjusting. To remain static world invite failure. These three key component goal setting, decisions you make, actions you take will keep you selling efforts in check. You can monitor your
progress at any time by reviewing your path towards the completion of your goals. That path will be always be enabled by your decisions and actions.

Secondly, an entrepreneur should be an opportunity seeker. You need to know how to search for opportunities. It may be an opportunity to earn more or to learn more. You need to know how to find opportunities that may not be visible for most people (Anita, 2000).

Thirdly, an entrepreneur should be able to take advantage of these opportunities. Once you have found opportunities, learn how to take advantage of them. You will need to know how to identify what type of opportunity will give you benefits. Ask yourself these questions; will it bring more good than harm? Is it worthy the time and money? Will it help me reach my goals?

Another good trait of a successful entrepreneur is knowing your strengths and weaknesses. This trait enables you to define your limits and extend them. An individual who does not know his strengths and weaknesses is like a person facing a mirror without clearly seeing his face. A successful entrepreneur sees his face clearly or the mirror and recognizes his imperfections. He/she would polish his/her imperfections and convert them to something beneficial. A successful entrepreneur knows his/ her strengths and weaknesses, and recognizes them as part of which he is (Anita, 2000).

A successful entrepreneur does not settle for the second best. You always find ways to be the best in your niche. You need to continually expand and fine tune your skills; product or services in order to stay at the top (always want to be the best).

The next good trait is employing what you do and knows how to enjoy as well. As a successful entrepreneur you should love your work and enjoy what you are doing. You will not be successful if you are not able to enjoy your business, know how to take a break occasionally to employ life itself. Finally, know when to go for help. As a successful entrepreneur recognize that you cannot do everything alone. You need to understand that you need a helping hand in order to get things right. Know and respect
others views on matters regarding your business. This will help to minimize the risk of committing mistakes (Anita 2000).

Doug the vice president of marketing at Palo Aito software came up with the basic success factors. The first success factor is choice of business. Why have you chosen this business? Are you passionate about this particular business or just about being in business? One very important success factor is choosing a business that is going to be vital for as long as you can reasonably foresee.

Secondly, education and experience. None is greater than the other because plenty of highly educated business fail, as well as many highly successful business owners who are not very well educated. Experience trumps education when it comes to running a small business. Education and experience are both important success factors. Identify where you are deficient and acquire what you don’t have (Steve, 2001).

Thirdly, people. Duog puts people in the three slots. There is the internal team, which comprises of the founders and the key employees who make the company work. Many winning strategies have been built around one person or team. Also external team. These are paid professionals every business has them, but in small businesses they become a defector vice presidents. Choosing this team is a critical element in success. In addition, there are connections. This is the network; your community of market place friends. More so, creativity in management is another factor. Every small business needs the creative influence of an entrepreneur, plus the steady hand of a manager (Steve 2001).

The fifth success factor is the industry. This encourages you to find out if the industry you are considering high potential or low potential. A high potential industry is one that emerging, or at least hasn’t spent too much time on the maturity continuum. Doug says a high potential industry is also one that affords a low capital investment, and / or one where you can operate with a small number of employees. Low potential is one that has already seen its best days. Dous says industries that are capital and people intensive and /or highly specialized are also examples of those with low potential.
The sixth factor of success is records. Successful businesses must manage the information they collect; financial statement, customer records, sales performance, service levels, plus dozens of other categories. The more educated business owner will usually begin with data collection fundamentals, but must learn how to apply those rules effectively in the market place. Business owners with significant market place experience must acquire an understanding and appreciation for how sophisticated data collection and processing can leverage their experiences (Steve 2001).

The corridor principle is the final factor Doug defines it as the concept where an entrepreneurial venture may significantly change focus from the ventures initial concept through a continuous response to the market and the desire to optimize profitability.

Communication is also another key to success. This is the key to unlocking the potential with businesses as well as individuals. When the goals are in alignment with the vision and consistently communicated from top down, the performance excellence is much more likely to happen. Inconsistent communication contributes to missed targets and lowers the performance for the entire organization.

Another critical factor is attitude that drives behaviour that result in change. Many companies focus on trying to change negative behaviour because they are experiencing negative change. However, when the negative attitudes are replaced with positive attitudes, those attitudes will drive positive behaviour creating positive change. By failing to address negative attitude, new trends, changes on initiatives, the result is wasted resources creating a negative drain (Jim 2003).

Alignment is necessary to ensure that the desired results are achieved. Performance excellence happens when the strategies, systems and people are working together to build loyal internal customers that drive loyal external customers.
There are other factors which include legal and regulatory environment, which is imperative if the small business is to create the desired impact and play an effective role as an engine of economic growth, income generation and poverty reduction.

Favorable legal and regulatory environment can be achieved through consolidation and harmonization of trade licensing and regulation services. Use of a mentor is also very important. Mentors are empathetic and experienced business people who lend an ear and provide guidance to help business owners achieve their goals.

Mentors have already experienced the challenges of operating and successfully developing businesses they can offer benefits like, help you step back from your business, be a sounding board. A key role of a mentor is to listen, stimulate and challenge your thinking.

By being a sounding board, a mentor may help you develop your own ideas and arrive at your own solutions to your business challenges. A mentor can offer guidance during a growth phase. A successful growing business brings new challenges such as hiring new staff, raising new capital and entering new markets. A mentor may be able to put you in touch with key business people and customers within your industry, which may open new doors for your business. They may also refer you to other professional advises to help obtain the necessary specialist skills or advice mentors are coaches, not consultants, and do not take the place of professionals such as accountants, lawyers or bank managers (Daniel, 2001).

They also provide accountability; someone having a mentor won’t automatically fix all your business challenges. It takes time to implement changes and you will have to do some hard work to put into practice any suggestions they may have. The knowledge that you will have to tell your mentor when you next meet that you haven’t done what you said you would be a helpful motivation. Scale economies are a major barrier to microenterprise’s growth. Large firm’s ability to realize scale economies blocks small ones from growing. Big firms produce in mass and sell more cheaply. Entrepreneurship is important for the growth of a firm. The entrepreneur need to be alert to opportunity, creativity and willingness to take risks that mostly
lacks in small businesses. Lack of resources is a major factor. Working capital seems a problem. This hinders buying of new inputs. Low demand and profit margin make it difficult to accumulate enough working capital. Political instability is a barrier. Customers who are uncertain about the future were not buying. Instability causes lower demand.

In addition government policy on firm growth is important. Corruption and uncertainty particularly with regard to importation of inputs, adding that frequent policy changes open opportunities for corrupt bureaucratic to take advantage of confused business owners. Indirect taxation hinders firm growth.

The above discussion brings out several factors that contribute to growth and success microenterprises. This can depend on personal factors, managerial factors and product, market and company factors which can be combined into two categories – internal and external factors.

Internal factors comprise of personal management, product market and company characteristics while external factors related to structure and institutional arrangements with which business was conducted.

Small and micro-enterprises (SMEs) in any country do contribute to economic growth. However, there are challenges and opportunities that they face. Kenya has a developing economy, agriculture being the chief economic activity. Most of people in Kenya work in agricultural sector. Some practice subsistence farming while a very small number practice large-scale farming. Some people work as wage laborers in coffee farms or tea plantations. They depend on the small wages and life become rather unbearable at times. For those who practice small scale farming, their source of income is mainly from the sale of the farm produce. Some are in small businesses like selling of agricultural goods in market places while others trade in livestock and selling of milk. There are all sorts of small businesses related to Agricultural sector.

SMEs (Small and Micro-enterprises) within manufacturing industry have not seen much development since independence due to financial constraints and other factors. Jua Kali Sector, a Kiswahili term for a hot sun, is comprised of low scale artisans who
mostly apply appropriate intermediate technology. This sector, given all conditions for growth can bring about industrial revolution in Kenya. The phrase itself can tell it all. There are many other areas where SMEs seem to be picking well. For instance, with development of information technology in the world, Kenya is slowly and steadily moving towards embracing the technology. It is evident everywhere in the major Kenyan towns with the rate at which cyber café and other information and communication technology businesses are coming up. Bearing in mind that there are many challenges facing SMEs in Kenya, we are led to pose a major question: What are the main opportunities open for the growth of Small and micro enterprises in Kenya?

Network involves a group of people who exchange information, experience and contacts for professional, business or social purposes. Shaw and Conway (2000) say that networks are important during the establishment, development and growth of small businesses. The network may include family members, or even friends, or professionals. Networks are of growing importance to SMEs in any economy. Africans being notoriously social, networking becomes a vital tool for success of SMEs; it becomes like ‘an inborn trait’ or an opportunity that comes by natural flow. Networking involves distance. According to Tulus (2005) in an Indonesian perspective, he observes that clustering plays an important role in the growth of small businesses and governments should support it. Hence, close proximity is crucial to enterprise. From the context of Kenya, small enterprises like mitumba (selling of second hand cloths), we find the business clustered in one place. This is aimed at creating a closely-knit network that ultimately increases the inflow of customers.

An enabling environment is an opportunity that should be utilized by the micro and small enterprises in Kenya. With changing governments, which come with promises of a better tomorrow and definition of new business policies, reconstruction of economy, improvement of infrastructures and security, small businesses are expected do well. The legal and economic framework in which enterprises operate is crucial to their performance. In the literature on enterprise development, it has been argued very forcefully that the legal framework of many countries serves as a barrier against enterprise. In many cases across Africa, the reduction of open hostility has been more
important for smaller enterprises than any positive program of engagement from the state (King and McGrath 2002).

But what constitutes an enabling economic environment? In theory, structural adjustment and trade liberalizations were supposed to bring benefits to micro and small enterprises. However, there is evidence across Africa of both negative and positive impacts of these policies on SME development. It can perhaps be said as a generalization that those with better skills and knowledge, and located in strong market niches, have benefited. On the other hand, those faced with low barriers to entry have seen a saturation of markets and growing poverty (King and McGrath 2002).

According to Ngahu (2000), SMEs are obviously incapable of sourcing, evaluating, and adapting technologies effectively. The government policy should, therefore, aim to develop these capabilities in SMEs through supportive institutions. Policy can encourage the development of assistance programs to facilitate SMEs' access to resources, information, training, and technology. Further, policy should promote the development of technologies appropriate for SMEs. Although it is possible to develop policies designed to improve the circumstances of SMEs, it may be more feasible to support the development of technologies compatible with the SMEs' circumstances.

Policies, says Ngahu (2000), should aim to encourage and promote the development of local technologies. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. SMEs are said to face a "liability of smallness." Because of their size and resource limitations, they are unable to develop new technologies or to make vital changes in existing ones. Still, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided. Further, research and development institutions that are publicly funded should be encouraged to target the technology needs of SMEs.
Diversification inherently constitutes networking, reaching out in terms of services and products, or/and having variations. A number of strategies may be employed. One such strategy is for a company to diversify its range of products. A firm may even become its own supply of its raw materials or services. Diversification may also include a firm moving into related new markets with new product. In the context of Kenya, microenterprises like street trade where one sells firm produce like fruits harvested from one’s shamba (farm). Another example would be hotel, where one’s firm supplies foodstuffs. A firm that produces a number of largely unrelated goods and services is said to be diversified. A diversified company might be offering services such as research, and at the same time selling computer accessories and printing. Diversification gives a company more financial security than it would have if it produced only one kind of product. Because a diversified company operates in various industries, it can usually offset declines in one industry with advances in another. Diversification is therefore an opportunity for growing small businesses in Kenya, for it ensures stability and continuity.

Franchising, according to Jim (2007), refers to an arrangement whereby a party (franchisor), who has developed a way of running a business system successfully, licenses to another the rights to operate that system using either his/her trademark or name or/and other rights. The rationale behind franchising lies in acquiring support in the area of training, which includes building personnel, management and overall opening up of new horizons in the market place.

In Kenyan perspective, the business environment (though not all that conducive due to heavy cost of investment and production, partly because of heavy taxation and energy issues) has enabled a number of micro enterprises to rise. More and more micro-enterprises are seeking support from the macro ones more than ever before. This has partly facilitated to their rapid growth.

Micro and small enterprises have potentiality of boosting a country’s economy. Although they are faced by many challenges, they still have opportunities to grow. These include linkage with multinational companies, networks with other businesses, diversification of market and products, enabling environment and franchising
opportunities. Such opportunities, if well utilized by the micro and small enterprises can turn round their future in many developing countries.

The discussion shows the actual root cause of growth and success may lie in a combination of different internal and external factors within which the small business operates.

2.3 Empirical review

This part provides an overview of microenterprises in general. It will discuss the studies and related research undertaken in this area. Particular emphasis is going to be laid on literature dealing with microenterprises.

According to a Baseline Study that was done (C.B.S. 1999), microenterprises include businesses employing up to 50 workers. Employment does not necessarily mean workers with wages: it refers to people working in the enterprise whether they are paid or not. The term microenterprises therefore covers a range of establishments, including informal sector activities which employ one or more persons and enterprises in the formal sector employing up to 50 persons. Whatever the site (home, street, mobile unit) microenterprises may be undertaken as a main activity or as a secondary activity, and may be permanent, temporary, casual, or seasonal.

Asian Research institute, (2000) points out that in spite of the increased awareness, access to capital continues to be the most difficult challenge for microenterprises. Several reasons why even under optimal conditions, entrepreneurs are still not successful at getting financing by banks, by very nature of their business, are hesitant to the high risk loan which many microenterprises represent, potential entrepreneurs may lack the business savvy to articulate what need in business terminology; and such inexperienced business person may also fail to present a well thought out long-range alternative plan to cover emergencies and other contingencies.

To help microenterprise owners meet these challenges, the study concludes that accurate information should be provided regarding sources of information about obtaining financing for small business. Along with this, is the emphasis on the importance of self-assessment in determining what it takes to be an entrepreneur.
coupled with admonition to those who seek financing to expect rejection before finally winning approval of their financing proposals. More so, owner’s request for financing from the point of view of the potential funding resource.

Gelderen (1998) focused on planning environmental conditions and their impact on growth, success and survival of microenterprises. The study’s findings were that many microenterprises do not plan at all. However, enterprises that do plan have more success in most studies. Robinson and Pearce, (1984) a hostile environment produces challenges to the firm and efforts must be devoted to plan in details on how to deal with these threats. Hostility reduces resources, decreases profit margin, and handicaps maneuverability. Those in a hostile environment know there is a positive relationship between the quality of planning and success, however, in a non-competitive environment it is not necessary to plan. Additionally, potential disadvantages of planning may have detrimental effects as planning often leads to an adherence to plan, and thus, increases rigidity since there is no necessity to deal with the difficult situation in a non-competitive environment, there should be either a low correlation or even a negative correlation between planning and success.

Ondego (2004) carried out a research on factors influencing the success of owned Asian businesses in Nairobi. The main focus of the study was to find out the unique characteristics of the family owned businesses, success factors and the challenges. The study showed that being an entrepreneur has gradually become legitimate, not only culturally but also socially and economically. The formative role of family background shapes the personality of entrepreneurs and is very crucial to the success of family owned businesses especially during the introduction and growth stages of the business.

The study reveals that the entrepreneurs are usually achievement oriented, like to take responsibility for their discussions, willingness to take moderate, calculated risks enable them to transform simple, ill-defined ideas into something concrete. The society and life cycle transitions usually shape entrepreneur goals and decisions. The leadership style usually reflects on the personality of the entrepreneur.
Critical success factors are that they endure painful struggle and overcome long bitter periods of intense anxiety. Total honesty is another factor that earns an entrepreneur far more respect than bluffing could have. Family support plays a vital role, advice within the family and strong community information sources and networks. The study also reveals that experience is a major factor to success.

The challenges experienced are that it takes a dash of bravery and guts by an entrepreneur to begin a new business. Further, discrimination, licensing and contract renewal difficulties were the major stumbling block that the family owned businesses faced.

Among other challenges include the location. According to National MSE baseline survey (1999), location appears to be a major issue determining the nature of problems facing microenterprises and the severity of each of these problems varies according to the location of enterprises. For instance, problems associated with markets, competition, interference from local authorities, lack of worksites and poor security are predominantly urban, while problems related to accessing infrastructure facilities (water, roads, telephones etc) impose constraints for rural based small scale retail businesses.

Other constraints according to baseline survey (1999) include accidents, bad weather, household responsibilities, and personal health. Most microenterprises operate in ways that are closely entwined with the household; thus, any survival of the enterprise. According to baseline survey (C.B.S. 1999), there were four problems cited by all categories of enterprises. These relate to markets, finance, transport, and legal/security concerns.

2.3.1 Business Finance
MSEs tend to face greater financial constraints than do larger firms for various reasons ranging from a lack of collateral to bias against small firms. Empirical studies provide evidence about the ways in which reduced access to finance hinders firm growth. MSEs in developing countries apply for and receive formal bank loans relatively infrequently, and thus rely on other types of credit such as trade credit,
overdrafts, and informal loans. Microfinance institutions also provide important sources of financing for MSEs, but their outreach is more limited than that of traders, especially in rural areas. In some sectors, such as agriculture, the supplier credit portfolio may be as much as 100 times the size of the traditional microfinance loan portfolio.

Across the world, entrepreneurs typically start firms primarily through their own savings because of limited access to startup capital (Mason, 1998). Even after MSEs overcome the start-up hurdle, a lack of credit frequently hinders their growth during earlier years, because younger firms tend to find financing even more difficult than older firms (Schiffer and Weder, 2001). Growth also can be hindered by credit constraints that curb investment to maintain or improve technology.

While MSE owners often claim that insufficient credit is their most pressing obstacle, entrepreneurs’ perceptions may not always correspond to actual growth trends. Interestingly, few empirical studies have explicitly tested the positive link between access to finance and firm growth or success rates. As development finance practitioners have long preached, a loan does not create a viable business opportunity. Like many of the factors, access to finance may be necessary but is not a sufficient condition for growth.

### 2.3.2 Entrepreneurs’ Management skills

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. Their management style therefore is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Managers with inadequate managerial skills may not be well equipped to carry out managerial routines for their enterprises (King and McGrath 2002).
MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSEs, as entrepreneurs with more years of work experience typically have faster-growing MSEs. One empirical study found that Kenyan entrepreneurs with at least seven years of work experience expanded their firms more rapidly than those without such experience (Mead and Liedholm, 1998; Parker, 1995). While the benefits of on-the-job experience are frequently mentioned, the importance of prior work experience may be even more helpful, especially when that experience came within the same sector or in small to medium-sized enterprises. An empirically rigorous IDB study of high-growth entrepreneurs provides telling insights about the importance of skills and business contacts gained during past employment (Kantis, Angellini, and Koenig, 2004). Among Latin American and East Asian entrepreneurs, contacts were found to be a key benefit of work experience, helpful in identifying business opportunities, obtaining financing and other resources and alleviating management challenges. Developing regions, such as Africa, are characterized by a systematic lack of opportunities to gain relevant work experience. Work experience thus contributes to MSE growth in two ways: directly, by expanding the capabilities of MSE owners and employees through the acquisition of skills and knowledge; and indirectly, by expanding entrepreneurs’ social networks.

2.3.3 Government regulations and policies

The regulatory and institutional environment in developing countries—notoriously burdensome when compared with developed countries, frequently hampers small enterprise growth. Econometric analyses underscore how these challenges disproportionately harm smaller enterprises (Beck, 2004). Strict regulations and high taxes may keep firms small and informal (De Soto, 1989), thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement. Regulatory and institutional challenges may also deter MSE owners from making growth-enabling investments. Import duties on capital equipment (for example, sewing machines) may disproportionately hurt MSEs. Typically, larger firms can evade these duties by qualifying for investment promotions, and they may be preferred in allocations processes (Liedholm, 2001). In addition, special subsidies and trade protection may offer greater benefits to larger firms, who are often more
capable of lobbying (Tybout, 2000). Smaller firms more frequently report government policies to be unpredictable, and this uncertainty may be yet another factor reducing growth-enabling investments (World Bank, 2005).

Government policies that actually aim to benefit MSEs may also suppress growth if they provide disincentives for employment expansion. India offers attractive incentives to small enterprises, but by some accounts, these measures backfire because growth beyond a specified level entails losing valued benefits (Mitra and Pingali, 1999; Little, 1987). For example, the manufacture of certain products in India is reserved for small firms, which reduces incentives for firm expansion (World Bank, 2005). Some owners even split up their MSEs into several enterprises in an effort to make them look smaller (Kashyap, 1988).

2.3.4 Business Support Services

Entrepreneurs also need to form strong pressure groups to lobby governments and donors for removal of barriers such as lack of access to resources, membership in a business association is important for entrepreneurs in that it brings them into possible business contacts and helps them to network, protection and promotion of business interests and the potential for financial as well as non-financial assistance.

Firms that participate in value chains (all, with the possible exception of subsistence agriculture) must, by definition, interact with other firms and related entities such as universities and regulatory agencies. Such inter-firm cooperation can act as a driver for MSE growth, with emphasis on three aspects: vertical linkages, horizontal linkages, and supporting markets.

Individual firms form commercial relationships referred to as vertical linkages with their buyers and suppliers. Similar firms may group themselves or be organized by an outside party to work together and these are referred to as horizontal linkages. Supporting markets are also important in value chains, for services such as finance; consulting, legal, and tax advice; market information; and skills training.
A number of mechanisms are used to form vertical linkages, ranging from loose and informal understandings to rigid buyer-supplier agreements known as subcontracting or outsourcing. Contracts may be exclusive and legally binding, and include precise specifications regarding price, quantity, delivery dates, raw materials, and production processes. Vertical linkages can facilitate MSE growth by expanding a firm’s set of viable business opportunities and improving firm capabilities. Agreements with buyers can decrease the risks and costs associated with entering new markets by providing a guaranteed flow of orders, critical information about market requirements, and, in some cases, reducing the need for capital investments (Aw, 2001). Sometimes relationships with larger firms can help link rural industries to urban and international markets (Berry, Rodriguez, and Sandee, 2002). In addition to fostering growth through expanded business opportunities, vertical linkages can lead to improved firm capabilities by providing opportunities for learning and innovation—such as when corporate buyers assist with quality, maintenance, and technical issues (Berry, Rodriguez and Sandee, 2002)—or when input suppliers offer training or information related to the use of improved technologies.

There are many legal and organizational options to institutionalize horizontal cooperation which are cooperatives, associations, consortia, producer groups, and other collaborative structures. Horizontal linkages can help MSEs overcome many of the disadvantages of being small, for example by providing a way to consolidate production, improve their negotiating position with buyers or suppliers, access market information or services, or lobby for political or regulatory changes. Geographic and sectoral agglomerations of enterprises, or clusters, are also a vehicle through which MSEs may participate in rapid growth. Clusters inevitably involve external economies: one firm’s investments spill over to other firms in the cluster (Schmitz, 1999). In addition, clusters may involve consciously pursued joint action, such as sharing machinery or developing a product together. In cases where clustered firms seek to serve the same market, competition, as well as cooperation, can drive innovation critical to competitive performance.

The mere presence of clusters does not guarantee dynamic growth for MSEs (McCormick, 1998). The advantages from participation in clusters relate directly to
the strength of vertical and horizontal linkages, and relationships with supporting organizations including trade associations, universities and vocational schools, financial institutions, and local and national-level government agencies. These actors, in addition to private business service providers, are key players in supporting markets.

Services provided through supporting markets are often directly related to improvements in capacity. For example, skills training may allow firms to offer new products, while finance may allow them to produce greater volumes. Access to market information or new technologies, on the other hand, may help firms respond to new opportunities. It is useful to recognize that supporting services may be offered directly to MSEs on a fee-for-service basis or embedded in firm relationships, that is, delivered through vertical or horizontal linkages.

Value chain relationships, including horizontal and vertical linkages, and connections to supporting markets, offer many tangible, indispensable advantages to MSEs. These advantages include increased production capacity and ways to consolidate production; increased efficiencies; mechanisms to spread both costs and risks; increased bargaining power for inputs or raw materials; and channels to obtain information about and improve techniques used for production, marketing, transportation, and technology. These relationships, then, play a critical role in facilitating MSE growth. Linkages can expand business opportunities and enhance firm capabilities at the same time. Further, inter-firm collaboration can help boost productivity, whether through upgrading opportunities within value chains, increasing collective efficiency within clusters, or raising productivity among subcontracting firms.

2.3.5 Training in business

It is important for the entrepreneurs to have knowledge in the line of business, experience competencies and skills, which contribute significantly to successful businesses. Training programmes on entrepreneurship and management with a strong emphasis on the quality and product diversification and marketing should be vigorously mounted. They should be trained how to develop business plans and management aspects, which would help them to manage their enterprises successfully.
Entrepreneurs need entrepreneurial managerial and leadership training in addition to technical assistance. The entrepreneurs should be encouraged to attend business schools and entrepreneurial training which would help them to develop the necessary skills to run businesses which have potential for growth.

One might expect higher levels of formal education to spur MSE growth by enhancing firm capabilities. Formal education may provide entrepreneurs with a greater capacity to learn about new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility. However, exploring the relationship between education and MSE growth in developing countries reveals greater complexity.

Developing-country MSE owners and workers are relatively less educated than the majority of the population. Not only do they operate in countries with relatively low overall educational attainment, but they also tend to have less-educated owners and workers than larger firms. This lower level of educational attainment among MSE owners and workers is remarkable when contrasted with developed countries, where those with higher education are more likely to be self-employed (Woodruff, 1999). One reason for this contrast is that the poor in developing countries often create survival-oriented MSEs due to a lack of alternative employment opportunities.

With the relatively low level of education within the MSE sector in developing countries, do MSEs with more highly educated owners tend to grow more quickly? On the surface, the evidence appears contradictory. For example, an Inter-American Development Bank (IDB) study found that secondary school attainment had no discernible impact on firm growth in Latin America (Kantis, Angellini, and Koenig, 2004). On the other hand, GEMINI studies in Sub-Saharan Africa revealed that entrepreneurs completing secondary school were more likely to grow in Kenya and Zimbabwe but found no significant effect of primary education on MSE expansion (Mead and Liedholm, 1998; Parker, 1995; McPherson, 1991). Some clarity emerges when recognizing the threshold effect of education (Mead, interview, 2004). MSEs with more highly educated owners tend to grow more quickly, but a country-specific threshold must be reached to observe this growth effect. For example, whereas a
threshold of secondary education may identify high growth potential in the African countries just mentioned, a higher threshold of university education appears to exist in Latin America.

The relationship between a factor and productivity can illuminate the process by which a factor shapes MSE opportunities and capabilities. Most empirical evidence confirms that firms with better-educated owners and managers tend to be more productive (Little, 1987; Burki and Terrell, 1998; Tan and Batra, 1995).

Despite these potential benefits, education may also harm MSE growth in cases in which owners divert their attention to other attractive opportunities. Research on small manufacturing firms in Chile found that university education did not induce higher efficiency, because the highly educated owners paid little attention to monitoring their labor force (Alvarez and Crespi, 2003).

2.3.6 Business growth
The most common method people use to measure business success is financial worth. The more the entrepreneur and business are worth, the more successful the entrepreneur is considered to be. Many intelligent people, business owners and non-business people alike, measure their success by how much money they save from their annual earnings, sales volumes, profits, client base, number of employees and even the number of branches of the business. In each case, the entrepreneur should compare this year’s performance to the year before. The entrepreneur should look at growth in sales, the number of new clients, etc. Growth is one key factor indicating survivability of a business. Businesses which grow can survive.

Past research conducted under the auspices of the GEMINI program provides a particularly robust source of data on MSE growth. Surveys of 28,000 MSEs operating in five African countries and the Dominican Republic revealed that MSE employment growth averaged nearly 17 percent annually, generally at least double the overall rate of GDP growth in each country (Mead and Liedholm, 1998).
Overall growth rates are often fueled by the rapid expansion of a narrow group of highly performing MSEs. In the GEMINI surveys, for example, just one-quarter of MSEs generated all of the remarkable employment growth mentioned above, while the remainder of firms stagnated or contracted (Mead and Liedholm, 1998). As a result, only 1 percent of MSEs starting with four or fewer workers “graduated” from the MSE category by growing to more than 10 workers.

2.3.7 Barriers to success of microenterprise

Stability in the business environment is necessary for technical advancement and dynamic growth. Risk retards the growth. Microenterprises stay small, at least in part, because the risk management strategies they use mitigate against growth. The lack of responsiveness of the entrepreneurs is a barrier to growth. (Hebron and Mwangi 2003) in their studies found that other problems that hinder success of microenterprises as lack of funds especially in early periods, lack of business plan, training computer skills, education and socio-cultural factors.

Mwangi (2003) further points out that success and failure are dependent on the entrepreneur. This is why some succeed and others fail. Entrepreneurs must spend careful evaluation and extra time on studying the nature and principles of entrepreneurship. Whether short term or long term a successful entrepreneur always sets goals. Prior to the business plan and subsequent marketing and sales plan, the entrepreneur must establish focus goals. Those actually commence with dreams and ideas. They must have a clear and vivid picture of what they want to accomplish goals and decisions require actions to both empower and complete item. The entrepreneur is always moving, always contemplating, always adjusting. (Kenya management assistance programme 1986) looks at the small business impediments.

The survey shows that small business operations face numerous problems. These problems are directly or indirectly caused by the government regulatory system consisting of several laws and administrative procedures and practices that constrain small business start-ups, operations and expansion.
The setting-up of business is regulated by the government through legal instruments. This process costs money and time to those who have to travel all the way to get it done since also trading licensing is mandatory. Microenterprise operators find the fees charged too high. The laws increase the cost of starting up business in terms of the financial resources required and the procedures to follow and adhere to.

There are also the problems of operational issues licenses have to be renewed at regular intervals. Many small-scale business operators especially those with low level of education, find the income tax return form complicated. Sometimes enterprises have not been able to expand their operational partly due to inability to pay minimum wages. The small scale operators also face operational difficulties as a result of harassment by the local authorities and the many and high tariffs charged.

Administrative issues or problems are those that relate to the implementation of enforcement of the various laws that affect business enterprise. The license issuing offices take too long in processing applications. Sometimes the applicants make several trips back forth to supply the required information or documents. This is certainly very costly both in terms of time and money spent and sometimes opportunity foregone. Many small – scale retail business operators have very superficial knowledge of the provisions of the various laws and procedures. Very little efforts have been made by the ministries and the departments charged with the implementation of these laws to provide sufficient information and interpretations of the same. This leads to uncertainty, fear misconception and inability to do the right things at the right time. This can be very costly in terms of delay and wrongful actions. The survey revealed a wide gap in knowledge among the small business operators. Therefore, there is a dire need to constantly supply relevant information to these operators in such a way that they can both access and understand it.

2.3.8 Factors influencing success of small scale enterprises
Riyanti (2004) carried out a research on factors influencing the success of small – scale enterprises in Indonesia. The study shows that personality traits are important factors determining entrepreneurial success. These are: achievement, flexibility in friendship, working hard, self confidence, risk taking, self controlled, innovative and
autonomous. The study shows that planned intervention can promote these major traits.

The research also shows that cognitive style used in thinking is related to other measured dimensions of personality. One way to measure business success is to assess the performance of individuals. Success can also be examined from three perspectives namely learning and growth, financial and internal business process.

Learning and growth is measured by employees satisfaction, the financial aspects is measured by increase to company assets, and the internal business process is measured by increase in production volumes, improvement of physical working condition and business expansion. Recent studies show that age is not a limit for their entrepreneurial aspirations. At the start of a business age is not a decisive factor, but with enough training and preparation, the earlier someone start business the better. Education and experience are vital factors.

The summary results of the study indicate that some variables could be used to accelerate the development of successful microenterprises, in line with government efforts to empower microenterprises. Thus the implementation of a balanced entrepreneurship education with both theory and practice could contribute to the emergence of new entrepreneurs.

Kuto (2003) carried out a research on the changing structure of small and micro enterprises in the 21st century. The study shows that small and micro enterprises need to operate more and more on global basis and adapt fast to the changing circumstances both with and without its competitive business environment. To achieve this, the small and micro enterprises have to increase their networking levels, introduce home working practices, be flexible in their operations and finally they should convert themselves into micro multinationals so as to compete effectively in the global market. Small and micro enterprises need to change their organization structures, operational strategies, culture and scope in order to survive in the current competitive global business environment. More so, they need to operate more and more on a global basis and adapt fast to changing circumstances.
Naituli, Wegulo and Kaimenyi (2003) presented a paper on entrepreneurial human capital and the growth of SMEs in rural Kenya. The paper investigated the influence of entrepreneurial human capital and other characteristics on growth of micro and small scale women enterprises. Results indicated that older firms are more likely to grow. The study also found that older women entrepreneurs are more likely to run growing enterprises. The study provides strong evidence that women enterprises founded by better-educated entrepreneurs are less likely to grow. This is attributable to their greater opportunities in other pursuit. The study points to the needs for models of firm growth, which consider the alternative opportunity available to the entrepreneur and the necessity for more empirical work examining the human capital characteristics.

2.4 Conceptual frame work

From the literature review discussed above the framework shown below was proposed.

![Conceptual framework](image)

**Independent variables**
- Business finance (Sources of finance, availability of finances, expenditure/costs of running the business)
- Entrepreneurs' management skills
- Government regulations and policies
- Business support services
- Training in business

**Dependent variable**
- Business growth (Sales and profits)

Figure 2.1: Conceptual framework.
The framework points that a growth of microenterprises is determined by several factors. The growth and success can result from a combination of the factors deployed in a wonderfully pure and extremely demanding market place. Blend together, results happen quicker and create a culture of working smarter and not harder. The microenterprise sector is faced with increasing economic pressure related to the growing internationalism of the market and the needs. Therefore, management strategies, organizational structures and working practices in the this sector are becoming more and more complex and differentiated in the light of the intense process of business rationalization and concentration that is currently under way, many traditional traits of microenterprise are taking other meanings.

Therefore, the factors that determine the growth and success of small businesses are vital. Success, an important part of planning the business entails knowing the key things that can tell the entrepreneur when he/she has reached his/her goals called key success factors, these are indicators or milestones that measure the business achievements. Without determining the key success factors, an entrepreneurial run the risk of needing to make expensive changes of direction later as he/she has not aligned the objectives to the success of the business. An entrepreneur must sit down and think what he/she really needs to do to make his/her dream business a success. For success, a business plan must contain a list of key success factors for the business.

2.5 Summary
This chapter reviewed relevant literature as regards to the challenges facing the growth of microenterprises generally and those specific to the Kenyan context. Literature acknowledges the great role played by microenterprise sector in the growth of the Kenyan economy. Despite this, various problems have been cited that hamper the growth and success of this sector. For instance lack of adequate capital, inadequate business skills and competition.

With this knowledge, there has been no research carried out in Tigania West Division to assess the challenges that the sector face. It is this gap that the research aims at filling. The researcher also seeks to generate information and recommendations that can contribute to solving the identified challenges facing this vital sector of our economy.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter explains the various research methods that were used to generate data in this study. This section further details the procedure of sampling and sample size, data collection instruments, data collection and data analysis.

3.2 Research design
This study was a descriptive survey where both qualitative and quantitative data was collected in order to investigate the challenges facing microenterprises in Tigania west division. A survey was selected because it was found to be suitable for gathering data and information on large samples and that it is cost effective. The major purpose of descriptive survey is description of the state of affairs as it exists at present. Kerlinger, (1969) points out that descriptive studies are not only restricted to fact finding but may often result in formulation of important principles of knowledge and solution to significant problems.

3.3 Target population
The study was carried out in Tigania-West division. According to Mugenda and Mugenda (1999), where time and resources allow a researcher should take as big sample as possible. However, generally, the sample size depends on factors such as the number of variables in the study, type of design, method of data analysis and the size of the accessible population. Gay (1992) suggests that for descriptive studies, 10% of the target population is enough. It is on the basis of the above discussion that the researcher chose 50% of the target population. The study population was 279 microenterprises within the Tigania West division. A sample of 141 microenterprises (50% of the target population) was selected.

3.4 Sampling
The sampling method used here was stratified random sampling technique where each microentreprise from every stratum was given an equal chance to be selected using random numbers, until the number making up the sample was reached. According to
Mugenda & Mugenda, 1999), the goal of stratified random sampling is to achieve desired representation from various subgroups in the population. This method of sampling increases statistical efficiency and provides data to represent and analyze the subgroups.

Table 3.1: Sample size

<table>
<thead>
<tr>
<th>STRATUM</th>
<th>TARGET POPULATION</th>
<th>SAMPLE SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shops</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>Kiosk</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>Butchery</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Salon/Kinyozi</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>M-Pesa</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Chemist</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Hotels</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>Bars</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Cereals stores</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>279</strong></td>
<td><strong>141</strong></td>
</tr>
</tbody>
</table>

Source: District statistics office, Maua, 2009

3.5 Data collection instruments and procedure

The primary data was collected using structured and unstructured questionnaire. Most of the questions were closed ended. Secondary data was obtained from Tigania West Municipal council records, showing all registered and unregistered businesses within the Municipality by category.

3.6 Validity and reliability

Patton (2001) argues that reliability and validity are two factors, which any qualitative researcher should be concerned about while designing a study, analyzing results and judging the quality of the study. White (2002) emphasizes the need to build into the research design the concept of validity and reliability. Validity is concerned with the idea that the research design fully addresses the research questions and objectives the researcher is trying to answer and achieve. Reliability is about consistency in research, and whether another researcher could use the same design and obtain similar findings.
3.6.1 Reliability

Reliability refers to the degree to which instruments yields consistent data or results after repeated trials (Mugenda and Mugenda 1999). The initial was a pilot test of the instruments to ensure that they obtain the desired data or results. This pilot was done in Tigania East division. To test the reliability of the instrument the researcher used split-half technique. By using this method the researcher aimed at determining the coefficient of internal consistency or reliability co-efficient whose value vary between 0.00 (indicating no reliability) and +1.00 (indicating perfect reliability). The research instrument was split into two (2) subtests one consisting of odd numbered items/questions and the other made of all even numbered items. The score of all the odd-numbered and even numbered items of the responses in the pilot study was computed separately. The odd numbered scores for all items were then correlated with the even numbered scores using the Pearson product correlation coefficient of the entire test as 0.73 thus the instrument was concluded as satisfactory.

3.6.2 Validity

Validity refers to degree of accuracy and meaningfulness of inference based on research results. This measures the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept (Mugenda and Mugenda, 1999). The indicators of variables were clearly defined and scrutinized and instruments developed to match the study objectives. It was therefore necessary to locate a sample of subjects with characteristics similar to those that were used in the study. For the purpose of this study, piloting was carried out in Tigania East Division. After the analysis of the pilot study, items which needed amendments were accordingly effected. Also irrelevant and baseless items were discarded and replaced with more useful and logical ones which needed to elicit the required responses. Instrument validity was also ensured through the expert advice of supervisors and other members of the department versed in research.

3.7 Data analysis and presentation

Descriptive statistics was used to analyze data owing to the nature of the methodology used in the research. After collection, the completed questionnaires were edited and coded to facilitate statistical analysis. The aim here was to eliminate unusable data,
interpret ambiguous answers and contradictory data from related questions. A coding scheme was developed for the responses to each question. The coding scheme facilitated the development of an appropriate data structure to enable its entry into the computer. Data entry and analysis was done using Statistical Package for Social Sciences (SPSS) version 11.5 for Windows. This was useful in arranging, summarizing and presenting the major characteristics of key variables as well as relationships among the said variables.

Results were presented in terms of frequency tables and percentages from which inferences and conclusions were drawn.
### 3.8 Operationalizing of variable

**Table 3.2: Operationalization table**

<table>
<thead>
<tr>
<th>Research question</th>
<th>Variables</th>
<th>Indicator</th>
<th>Measurement</th>
<th>Level of scale</th>
<th>Data collection</th>
<th>Approach of analysis</th>
<th>Type of analysis</th>
<th>Level of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>In what ways do business finances influence the growth of microenterprises?</td>
<td>Independent</td>
<td>Sources of finance, Availability of finances, Expenditure/costs of running the business</td>
<td>Different sources of business capital, Number of available business financiers, Total amount spent on business expenses</td>
<td>Nominal</td>
<td>Secondary data sources</td>
<td>Qualitative</td>
<td>Non-parametric</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>Business finance</td>
<td></td>
<td></td>
<td>Interval scale</td>
<td>Interview/questionnaire</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Interval scale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To what extent do entrepreneurs' management skills influence growth of enterprises?</td>
<td>Independent</td>
<td>Education level, Professional qualification, Experience, Record keeping</td>
<td>Level of education attained, Number of years in business, How and which records are mainly kept</td>
<td>Ordinal</td>
<td>Secondary data sources</td>
<td>Qualitative</td>
<td>Non-parametric</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurs'</td>
<td></td>
<td></td>
<td>Interval scale</td>
<td>Interview/questionnaire</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>management skills</td>
<td></td>
<td></td>
<td>Nominal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To what extent does training in business influence growth enterprises?</td>
<td>Independent</td>
<td>Business trainings</td>
<td>Nature of trainings, Number of business seminar attended, Frequency of trainings</td>
<td>Nominal</td>
<td>Secondary data sources</td>
<td>Qualitative</td>
<td>Non-parametric</td>
<td>Descriptive</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurs'</td>
<td></td>
<td></td>
<td>Interval scale</td>
<td>Interview/questionnaire</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>training in</td>
<td></td>
<td></td>
<td>Ordinal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research question</td>
<td>Variables</td>
<td>Indicator</td>
<td>Measurement</td>
<td>Level of scale</td>
<td>Data collection</td>
<td>Approach of analysis</td>
<td>Type of analysis</td>
<td>Level of analysis</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------</td>
<td>-------------------</td>
<td>---------------------</td>
<td>-----------------</td>
<td>------------------</td>
</tr>
</tbody>
</table>
| To what extent have the government regulations and policies affected the growth of microenterprises? | **Independent**  
Government regulations and policies | • Tax administration  
• Business licenses  
• Business registration | • Process of obtaining investment approvals  
• Costs of registering and business licenses  
• Costs and Levels of taxes | • Nominal  
• Interval scale | • Secondary data sources  
• Interviews/questionnaires | • Qualitative  
• Quantitative | Non-parametric | Descriptive |
| How does availability of business support services influence the growth of microenterprises? | **Independent**  
Business support services | • Business networks and associations  
• Business location  
• Linkages with large firms  
• Mentorship  
• Business incubators | • Membership of business associations  
• Activities of the associations  
• Existence of business incubators  
• Existence of mentorship programs  
• Existence of linkages and exchange programs with similar larger businesses | • Interval scale  
• Nominal  
• Nominal  
• Nominal  
• Nominal | Interviews/questionnaires | Qualitative | Non-parametric | Descriptive |
3.9 Summary

This chapter detailed the various research methods that were used to generate data and information to address the study objective. Among the sections discussed included: study design, the procedure of sampling and sample size, data collection instruments, data collection and data analysis. Reliability and validity testing and operationalization of the variables were also highlighted.
CHAPTER FOUR
DATA PRESENTATION AND INTERPRETATION

4.1 Introduction
This section presents the analysis, presentation, and the interpretation of findings. The data is analyzed around key variables such as sources of income (Sources of finance, availability of finances, expenditure/costs of running the business), entrepreneurs' management skills, government regulations and policies, business support services and training in business. In addition, the data also highlights on ways to mitigate the challenges faced by entrepreneurs running micro-enterprises. Presented below are key findings of the study. Out of 141 questionnaires responded to, 140 were accepted for analysis representing a response rate of 99.29% which is statistically acceptable.

4.2 Influence of business finance on business growth

4.2.1 Types of business operated
Respondents were asked to indicate the type of the business they operated. Table 4.1 summarizes the types of business operated in the study area.

<table>
<thead>
<tr>
<th>Business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saloon</td>
<td>6</td>
<td>4.29</td>
</tr>
<tr>
<td>Kinyozi</td>
<td>12</td>
<td>8.57</td>
</tr>
<tr>
<td>Hotels</td>
<td>13</td>
<td>9.29</td>
</tr>
<tr>
<td>Chemist</td>
<td>12</td>
<td>8.57</td>
</tr>
<tr>
<td>Butchery</td>
<td>6</td>
<td>4.29</td>
</tr>
<tr>
<td>Shop</td>
<td>49</td>
<td>35.00</td>
</tr>
<tr>
<td>Kiosk</td>
<td>18</td>
<td>12.86</td>
</tr>
<tr>
<td>Grain Stores</td>
<td>9</td>
<td>6.43</td>
</tr>
<tr>
<td>M-pesa</td>
<td>15</td>
<td>10.71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

According to the Table 4.1, majority of the business in Tigania West Division are shops 35%, kiosks form 12.86% of the businesses, while kinyozi and chemists each forms 8.57% of the businesses. Butcheries and salons were the least type of businesses operated in Tigania West Division at 4.29% each. Other types of business operated in the division include: grain store 6.43%, hotels 9.29%. This finding
illustrates the diversity of businesses in the division which is necessary for healthy competition that can spur economic growth and development in the region.

4.2.2. Challenges facing micro-enterprises

Table 4.2 summarizes some of the challenges facing microenterprises as suggested by the respondents

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Most challenging (%)</th>
<th>Challenging (%)</th>
<th>Least challenging (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial constraints</td>
<td>65.0</td>
<td>27.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Price fluctuations</td>
<td>53.6</td>
<td>30.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Poor environmental hygiene</td>
<td>31.4</td>
<td>30.0</td>
<td>38.6</td>
</tr>
<tr>
<td>Lack of business skills</td>
<td>32.9</td>
<td>59.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Unfavorable government policies</td>
<td>46.4</td>
<td>42.1</td>
<td>11.4</td>
</tr>
<tr>
<td>Dynamic consumer behavior</td>
<td>83.6</td>
<td>6.4</td>
<td>10.0</td>
</tr>
</tbody>
</table>

The most challenging aspect faced by microenterprises included financial constraints, price fluctuations, unfavorable government business policies and dynamic consumer behavior as indicated in Table 4.2. Lack of business skills was rated as challenging. Majority (38.6%) of the businesses considered poor environmental hygiene as the least challenging challenge.

4.2.3. Sources of capital to start a business

Different sources of capital to start businesses exist. Table 4.3 summarizes some of the sources of capital to start a business.

<table>
<thead>
<tr>
<th>Source</th>
<th>Very often (%)</th>
<th>Often (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-finance institutions</td>
<td>28.6</td>
<td>32.9</td>
<td>38.6</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>8.6</td>
<td>7.9</td>
<td>83.6</td>
</tr>
<tr>
<td>Personal savings</td>
<td>92.9</td>
<td>4.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Shylocks</td>
<td>6.4</td>
<td>10.0</td>
<td>83.6</td>
</tr>
<tr>
<td>Profits</td>
<td>88.6</td>
<td>9.3</td>
<td>2.1</td>
</tr>
</tbody>
</table>
According to table 4.3, the most popular sources of capital to start a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (88.6%) as shown in Table 4.3 above. Other sources of capital that were used very often as source of capital include microfinance institutions (28.6%). The two least popular sources of capital were commercial banks and shylocks. High interest rates on loans charged by banks and shylocks together with the need of collateral as a requirement for loan qualification in banks make these sources unpopular.

4.2.4. Sources of capital to expand a business

Moreover, different sources of capital to expand businesses exist. Table 4.4 summarizes some of the sources of capital to expand a business.

Table 4.4: Sources of capital for business expansion

<table>
<thead>
<tr>
<th>Source</th>
<th>Very often (%)</th>
<th>Often (%)</th>
<th>Not at all (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-finance institutions</td>
<td>20.1</td>
<td>43.2</td>
<td>36.7</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>8.6</td>
<td>5.7</td>
<td>85.7</td>
</tr>
<tr>
<td>Personal savings</td>
<td>92.9</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Shylocks</td>
<td>10.7</td>
<td>7.9</td>
<td>81.4</td>
</tr>
<tr>
<td>Profits</td>
<td>96.4</td>
<td>2.1</td>
<td>1.4</td>
</tr>
</tbody>
</table>

The most popular sources of capital to expand a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (96.4%) as shown in Table 4.4. Other sources of capital that were used very often as source of capital for business expansion include microfinance institutions (20.1%). The two least popular sources of capital were commercial banks and shylocks. These observations are similar to those made when sourcing for capital to start a business.

4.2.5. Challenges faced by micro entrepreneurs as they source for capital

Several challenges exist in raising business capita. Table 4.5 summarizes the various challenges encountered by micro entrepreneurs as they source for business capital.
Table 4.5 Challenges faced by micro-entrepreneurs as they source for capital

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Very challenging (%)</th>
<th>Challenging (%)</th>
<th>Not challenging (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates</td>
<td>60.7</td>
<td>9.3</td>
<td>30.0</td>
</tr>
<tr>
<td>Bureaucracies involved in loan disbursement</td>
<td>25.7</td>
<td>40.7</td>
<td>33.6</td>
</tr>
<tr>
<td>Payment schedules</td>
<td>57.1</td>
<td>36.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Collateral</td>
<td>59.2</td>
<td>25.8</td>
<td>15.0</td>
</tr>
</tbody>
</table>

According to the Table, majority of the micro-entrepreneurs (60.7%) considered interest rates, collateral (59.2%) and payment schedules (57.1%) as the very challenging obstacles as they source for their capital either to start or expand their businesses. Bureaucracy involved in loan disbursement was considered as not very challenging when it comes to sourcing capital.

4.2.6. Overcoming financial challenges

Micro entrepreneurs suggested several ways of overcoming financial challenges as shown in Table 4.6.

Table 4.6: Overcome financial challenges

<table>
<thead>
<tr>
<th>Ways to overcome</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing from institutions with low interest rates</td>
<td>122</td>
<td>87.1</td>
</tr>
<tr>
<td>Simplifying loan procedures</td>
<td>8</td>
<td>5.7</td>
</tr>
<tr>
<td>Negotiating flexible payment schedules</td>
<td>7</td>
<td>5.0</td>
</tr>
<tr>
<td>Loan repayment history of an individual to be used in replacement of collateral</td>
<td>3</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The most of the popular ways of overcoming financial challenges include sourcing capital from institutions with low interest rates, simplifications of loans procedures and negotiating, flexible payment schedules as illustrated in Table 4.6. It was also noted that a client history in loan repayment could be used by financial institutions to gauge the ability of a client to repay their loans. This can be used in replacement of the need for collateral.
4.2.7. Direct cost incurred when running business

Micro entrepreneurs highlighted on some of the direct and indirect costs incurred when running their businesses as shown in Table 4.7.

Table 4.7: Direct cost incurred when doing business

<table>
<thead>
<tr>
<th>Direct cost</th>
<th>Most expensive (%)</th>
<th>Expensive (%)</th>
<th>Least expensive (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>55.2</td>
<td>26.8</td>
<td>18.0</td>
</tr>
<tr>
<td>Rent</td>
<td>61.9</td>
<td>34.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Stationary</td>
<td>10.8</td>
<td>29.7</td>
<td>59.5</td>
</tr>
<tr>
<td>Transport</td>
<td>44.3</td>
<td>30.2</td>
<td>25.5</td>
</tr>
</tbody>
</table>

Table 4.7 shows that most businesses have electricity cost, rental cost, stationary cost and transport cost as the direct cost they face. Out of these recurrent expenses, rent (61.9%) and electricity (55.2%) seem to be the most expensive direct costs incurred by microenterprises. When such costs are too high, they may eat into the business profitability and slow down business growth.

4.3 Influence of management skills on business growth

4.3.1 Management skills of micro-entrepreneurs

Respondents were asked to respond to statements that best described the situation regarding their management skills. Table 4.8 shows the results.

Table 4.8: Management skills of micro-entrepreneurs

<table>
<thead>
<tr>
<th>Management skills</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>I always motivate my employees (team)</td>
<td>11.67</td>
<td>15.00</td>
<td>20.00</td>
<td>50.00</td>
<td>3.33</td>
</tr>
<tr>
<td>I always conduct regular visits to their working place to observe how they work</td>
<td>6.67</td>
<td>46.67</td>
<td>23.33</td>
<td>15.00</td>
<td>8.33</td>
</tr>
<tr>
<td>I always strive to promote performance at our working environment</td>
<td>13.33</td>
<td>20.00</td>
<td>25.00</td>
<td>36.67</td>
<td>5.00</td>
</tr>
<tr>
<td>I normally demonstrate good working knowledge and expertise</td>
<td>25.00</td>
<td>60.00</td>
<td>5.00</td>
<td>6.67</td>
<td>3.33</td>
</tr>
</tbody>
</table>
Table 4.8 below shows that even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees. Such management skills might affect the performance and growth of the business.

4.3.2 Time in business

Experience is important in business operations. Respondents were requested to indicate the number of years they had conducted their businesses. The results are shown in Table 4.9.

Table 4.9: Time in business

<table>
<thead>
<tr>
<th>Time in business</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 years</td>
<td>57</td>
<td>40.71</td>
</tr>
<tr>
<td>3-4 years</td>
<td>43</td>
<td>30.71</td>
</tr>
<tr>
<td>5-6 years</td>
<td>23</td>
<td>16.43</td>
</tr>
<tr>
<td>Above 6 years</td>
<td>17</td>
<td>12.14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table 4.9 shows that majority (40.7%) of the respondents have been in business for between 1 and 2 years. Such a short period of time may have not allowed the entrepreneurs master the operations of their business and this could affect business growth. 30.71% of the respondents indicated that they had been in business for between 3 and 4 years, 12.14% had been in business for between 5 and 6 years and the minority had been for at least above 6 years.
4.4 Influence of government regulations on business growth

4.4.1 Process of obtaining investment approvals

Respondents were requested to indicate the nature of the process of obtaining investment approvals. Table 4.10 shows the results.

Table 4.10: Process of obtaining investment approvals

<table>
<thead>
<tr>
<th>Process</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very challenging</td>
<td>119</td>
<td>85.00</td>
</tr>
<tr>
<td>Challenging</td>
<td>19</td>
<td>13.57</td>
</tr>
<tr>
<td>Not challenging</td>
<td>2</td>
<td>1.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table 4.10 illustrates that majority (85%) regarded this process as very challenging though few respondents regarded it as challenging (13.75%) and even a smaller percentage further regarded it as not challenging. This becomes notoriously burdensome to the micro-entrepreneurs and frequently hampers small enterprise growth.

4.4.2 Cost of obtaining operating licenses from the county council

Unpredictable government policies coupled with ‘grand corruption,’ high taxation rates, all continue to pose great threat, not only to the sustainability of micro-enterprises but also to the Kenyan economy.

Table 4.11: Cost of obtaining operating licenses from the county council

<table>
<thead>
<tr>
<th>Cost</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very expensive</td>
<td>110</td>
<td>78.57</td>
</tr>
<tr>
<td>Expensive</td>
<td>23</td>
<td>16.43</td>
</tr>
<tr>
<td>Not Expensive</td>
<td>7</td>
<td>5.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table 4.11 demonstrates that majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive yet another 16.43% regarded the process as expensive. There was only a small percentage that regarded these costs not to be expensive. Such high taxes may keep firms small and informal thereby contributing to increased transaction costs. Generally regulatory and
institutional challenges may also deter microenterprise owners from making growth-enabling investments.

4.5 Influence of business training on business growth

4.5.1 Training

Education and skills are needed to run micro and small enterprises. Education may provide micro-entrepreneurs with a greater capacity to learn about new production processes and product designs and offer specific technical knowledge conducive to business expansion.

Table 4.12: Business seminar/training attendance

<table>
<thead>
<tr>
<th>Trained</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>25</td>
<td>17.9</td>
</tr>
<tr>
<td>No</td>
<td>115</td>
<td>82.1</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Majority of the microenterprise owners 82.1% were not trained in any business skill, though 17.9% claimed to have been trained. Those with more education and training are more likely to be successful in the SME sector than those who do not have any training. As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management.

4.5.2 Number of times of seminar attendance

Training and skills acquisition is an on-going process. Table 4.13 show the number of times respondents attended seminars

Table 4.13: No of times one has ever attended business seminar/training.

<table>
<thead>
<tr>
<th>Number of times attended seminars</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Twice</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>More than twice</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

N=25

Out of those that had attended any kind of business seminar or training, majority (44%) had attended training session twice, 32% had attended trainings more than two times and the minority (24%) had attended only once as illustrated in Table 4.13.
4.5.3 Areas trained in during business seminar attendance

Table 4.14 summarizes the areas of training that respondents were exposed to. According to the table, respondents had covered very few areas which necessitates the need for further training. Respondents claimed to have had training in market research (20%), customer relation (88%) and bookkeeping (40%).

Table 4.14: Areas of training

<table>
<thead>
<tr>
<th>Areas trained in</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Research</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Customer Relations</td>
<td>22</td>
<td>88</td>
</tr>
<tr>
<td>Bookkeeping</td>
<td>10</td>
<td>40</td>
</tr>
</tbody>
</table>

N=25

Respondents felt that they required further training in accounting, entrepreneurship, managerial skills, marketing skill, business economics, business management, customer relations and business administration.

4.6 Influence of business support services on business growth

4.6.1 Business support

Respondents were requested to indicate whether they normally receive any kind of business support. Table 15 shows the results:

Table 4.15: Business support

<table>
<thead>
<tr>
<th>Support</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>10.7</td>
</tr>
<tr>
<td>No</td>
<td>125</td>
<td>89.3</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The table reveals that majority (89.3%) of the respondents do not receive any business support from anywhere. This indicates that there is no business support program (for example to offer market information) in place to offer business extension services to the entrepreneurs. Lack of sufficient market information poses a great challenge to small enterprises. The minority (10.7%) indicated that they received some kind of support. For the few who indicated that they received support, they got such support...
from parents, friends and guardians who were not well equipped with relevant knowledge to offer business support services to the micro-entrepreneurs.

4.6.2 Business working in consultation with other organization

It was necessary to establish whether the entrepreneurs worked in consultation with other organizations.

Table 4.16: Business work in consultation with any other organization

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42</td>
<td>30.2</td>
</tr>
<tr>
<td>No</td>
<td>98</td>
<td>69.8</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 4.16 demonstrates that majority (69.8%) of the respondents indicated that they did not work in consultation with other organizations while the minority (30.2%) indicated that they worked with other organizations. This is further evidence that business support programs did not exist in the area and this might affect the growth of microenterprises.

4.7 Business growth

4.7.1 Business success

The study sought to investigate the challenges facing the growth of microenterprises. Table 4.17 illustrates the success of businesses in the study area.

Table 4.17: Business success

<table>
<thead>
<tr>
<th>Success</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>18</td>
<td>12.9</td>
</tr>
<tr>
<td>No</td>
<td>122</td>
<td>87.1</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
</tr>
</tbody>
</table>

According to Table 4.17, 87.1% of microenterprise owners considered their business unsuccessful. Some of the factors considered as indicators of success include: annual sales, annual profits, and the number of employees. Few (12.9%) of the micro enterprise owners considered their enterprises successful. This a good gesture to all
stakeholders in the MSE sector that the sector has potential to transform Kenyan lives and spur economic development.

### 4.7.2 Annual sales

Table 4.18 summarizes the annual sales of businesses from the microenterprises.

<table>
<thead>
<tr>
<th>Annual sales ('000)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 100</td>
<td>27</td>
<td>19.29</td>
</tr>
<tr>
<td>100 - 300</td>
<td>50</td>
<td>35.71</td>
</tr>
<tr>
<td>300 - 500</td>
<td>26</td>
<td>18.57</td>
</tr>
<tr>
<td>500 - 1M</td>
<td>23</td>
<td>16.43</td>
</tr>
<tr>
<td>Above 1M</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

According to Table 4.18, majority (35.71%) had annual sales of between 100,000 and 300,000. It was also observed that some traders had sales as little as below 100,000 annually which made it difficult for such traders to make reasonable profits. Other traders had annual sales between 300,000 and 500,000 (18.57%), others had annual sales between 500,000 and 1,000,000 (16.43%) and the minority had annual sales above 1,000,000 (10%).

### 4.7.3 Annual profits in (000)

Table 4.19 summarizes the annual profits of businesses from the microenterprises.

<table>
<thead>
<tr>
<th>Profits</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 50</td>
<td>33</td>
<td>23.57</td>
</tr>
<tr>
<td>50 - 100</td>
<td>32</td>
<td>22.86</td>
</tr>
<tr>
<td>100 - 200</td>
<td>43</td>
<td>30.71</td>
</tr>
<tr>
<td>200 - 300</td>
<td>32</td>
<td>22.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>140</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

In terms of profits, 46% of the business recorded below Kshs. 100,000 as the annual profit, 30.71% range between 100,000 to 200,000 and 22.86% recorded profits
ranging from 200,000 to 300,000 annually as shown in Table 19. Calculated on a monthly basis, the profits also seem little depicting the sizes of the enterprises and low profitability of the businesses.

4.7.4 Improving microenterprises in Kenya

Several suggestions were put across to improve micro-enterprises in Kenya as illustrated in Table 4.20.

Table 4.20: Improving microenterprises in Kenya

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance Trainings in business</td>
<td>78</td>
<td>55.71</td>
</tr>
<tr>
<td>Conducting market research</td>
<td>33</td>
<td>23.57</td>
</tr>
<tr>
<td>Government to give subsidized loans</td>
<td>87</td>
<td>62.14</td>
</tr>
<tr>
<td>Markets expansion</td>
<td>60</td>
<td>42.86</td>
</tr>
<tr>
<td>Put in place favorable business policies</td>
<td>72</td>
<td>51.43</td>
</tr>
<tr>
<td>Improve infrastructure</td>
<td>76</td>
<td>54.29</td>
</tr>
</tbody>
</table>

N=140

They include training in business (55.71%), improving infrastructure (54.29%), giving subsidized loans by the government (62.14%), conducting market research (23.57%) and the government to put in place favorable business policies (51.43%)

4.8 Chapter summary

This chapter detailed the data analysis, gave the interpretation of the findings and presented the findings in frequency tables. The purpose of this chapter was to represent the result of the procedures described in the methods and present evidence in form of tables, text and figures. The data analysis was done on the basis of the study objectives. Moreover, the analysis was done by handling each question in the data collection tool. Descriptive statistics were widely used in the analysis of the data.
CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary of findings, conclusion drawn from the analysis and the recommendations by the researcher. The main objective of this study was to investigate the challenges facing the growth of microenterprises in Kenya taking a case of Tigania West district. The specific objectives were to examine how business finance influences the growth of microenterprises, explore the extent to which entrepreneurs' management skills influence the growth of microenterprises, establish the extent to which government regulations and policies have influenced the growth of microenterprises, establish how availability of business support services influences growth of microenterprises and find out the extent to which training in business influence the growth of microenterprises

5.2 Summary of the findings
5.2.1 Influence of business finance on business growth
Study findings revealed the existence of all types of business illustrating the diversity of businesses in the division which is necessary for healthy competition that can spur economic growth and development in the region. The most challenging aspect faced by microenterprises included financial constraints, price fluctuations, unfavorable government business policies and dynamic consumer behavior.

The most popular sources of capital to start and expand a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (88.6%). Majority of the micro-entrepreneurs (60.7%) considered interest rates, collateral (59.2%) and payment schedules (57.1%) as the very challenging obstacles as they source their capital either to start or expand their businesses. The study established that rent (61.9%) and electricity (55.2%) were the most expensive direct costs incurred by microenterprises. When such costs are too high, they may eat into the business profitability and slow down business growth.
5.2.2 Influence of management skills on business growth

Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees.

5.2.3 Influence of government regulations on business growth

Majority (85%) regarded the process of approving investments as very challenging making it onerous to the micro-entrepreneurs which could hamper small enterprise growth. In addition, majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive. This coupled with ‘grand corruption,’ continue to pose great threat, not only to the sustainability of micro-enterprises but also to the Kenyan economy.

5.2.4 Influence of business training on business growth

Majority of the microenterprise owners 82.1% were not trained in any business skill which are needed to run micro and small enterprises. For those that had attended any kind of business seminar or training, respondents had covered very few areas which necessities the need for further training.

5.2.5 Influence of business support services on business growth

Majority (89.3%) of the respondents do not receive any business support from anywhere. For the few who indicated that they received support, they got such support from parents, friends and guardians who were not well equipped with relevant knowledge to offer business support services to the micro-entrepreneurs. In addition, respondents did not work in consultation with any other organization further evidence that business support programs did not exist in the area which could affect the growth of microenterprises.

5.2.6 Business growth

Study findings show that 87.1% of microenterprise owners consider their business
unsuccessful while 22.9 considered their businesses successful. This demonstrates the potential the sector has to transform Kenyan lives and spur economic development. Majority (35.71%) of the micro-enterprises had annual sales of between 100,000 and 300,000 and some traders had sales as little as below 100,000 annually which made it difficult for such traders to make reasonable profits.

5.3 Discussions
Capital is vital in starting and making a business grow. Study findings indicate that inadequate capital or financial constraint was cited as one of the major challenge that microenterprises were facing. Many microenterprise owners were are unable to raise adequate capital to make their businesses grow and this might result in their businesses to either fail or retard. This finding is in agreement with Nieman et al (2004:159) who asserts that raising finance for a new and growing business venture is a timely and costly process.

Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees. This clearly indicates that microenterprise owners did not have adequate relevant management skills and this could undermine their business growth. Any development practitioner or businessperson can attest that MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSEs, as entrepreneurs with more years of work experience typically have faster-growing MSEs. One empirical study found that Kenyan entrepreneurs with at least seven years of work experience expanded their firms more rapidly than those without such experience (Mead and Liedholm, 1998; Parker, 1995). On the contrary, our study finding revealed that majority (40.7%) of the respondents has been in business for between 1 and 2 years. Such a short period of time may have not allowed the entrepreneurs master the operations of their business and this could affect business growth.

A legal and regulatory system that calls for complex registration and licensing requirements and demands tedious and costly reporting practices imposes heavy costs on SMEs that could prove an impediment to the growth of the microenterprises. This
study observed that majority (85%) of the respondents regarded the process of approving investments as very challenging making it onerous to the micro-entrepreneurs which could hamper small enterprise growth. In addition, majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive.

Best practice points to the need to support linkages and networking as a key mechanism to facilitate the development of SMEs. The favoured style of intervention is the provision of specialized support services through a multi-layered network of service providers, whereby the Government supplements or supports private sector activities rather than duplicating them, and coordinates with specialized institutions in the provision of services to SMEs (Lorraine, 2003). In contrary this study, microenterprises (89.3%) do not receive any business support from anywhere and micro-entrepreneurs did not work in consultation with any other organization evidence that business support programs did not exist in the area which could affect the growth of microenterprises.

Entrepreneurs need entrepreneurial managerial and leadership training in addition to technical assistance. The entrepreneurs should be encouraged to attend business schools and entrepreneurial training which would help them to develop the necessary skills to run businesses which have potential for growth. Again this is in contrary to the study findings which observed that majority of the microenterprise owners 82.1% were not trained in any business skills that are needed to run micro and small enterprises.

5.4 Conclusions
Most of the retail businesses in Tigania West division are retail shops. One of the major reasons for this could be that Meru is not an industrial town hence many people find it easy to begin and run a retail shop. Most business people in Tigania west never approach commercial banks for capital. This is due to the general perception that bank loans are expensive to pay and also the fear of the consequences in failure to pay. Most the retail traders in Tigania west are not trained in any basic business management courses. This could be due to lack of knowledge of where such training is done, or the general perception that such training is not important.
5.5 Recommendations

Study findings demonstrate the numerous problems that micro-enterprises experience in day to day running of businesses. This study therefore recommends that business policies should aim to encourage and promote the development of microenterprises. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. Microenterprises are said to face a "liability of smallness." Because of their size and resource limitations, they are unable to flourish.

The study demonstrated the inadequate business support services and recommends that there is a need for a supportive policy to encourage the establishment of documentation centers and information networks to provide information to microenterprises at an affordable price.

Thirdly, the government should come up with training centers for training managerial and technical courses for the small enterprises entrepreneurs. Equally, there should be business information centers.

Fourthly, government should come up with proper regulatory policies that are small enterprises friendly since many of what we have in Kenya, frustrates every effort of a junior entrepreneur. The policies we have seem to care for the well-established businesses. The government through the ministries of trade and commerce, industrialization, planning and vision 2030 and also the ministry of youth should encourage and facilitate the traders in Meru municipality to diversity their business apart from retail shops alone.

Since majority of small enterprises lack finance, government should establish friendly small loaning system. This would include low interests rates to ensure the continuity of these businesses. Microenterprises have the potentiality of transforming the economy of a crippling nation. As such, every effort should be made to boost their growth.
5.6 Areas suggested for further studies

The study did not establish the role of technology in the growth of microenterprises. The current progress and development in the area of ICT has the potential to transform business in Kenya through reducing costs and reaching larger populations with increased efficiency and productivity. Further research is needed to evaluate the contribution of technology in the growth of microenterprises.
REFERENCES


Dear Sir/Madam,

RE: CHALLENGES FACING THE GROWTH OF MICROENTERPRISES IN KENYA

The researcher is a student at University of Nairobi doing research project on “Challenges facing the growth of microenterprises in Kenya”. This is in partial fulfillment of a Masters Degree in Project planning and management of the University of Nairobi.

I kindly request your input through filling this questionnaire. Please note that your honest responses will be in strict confidence and will purely be used for academic purpose.

Your acceptance to complete this questionnaire is greatly appreciated.

Thanking you in advance for your co-operation

Yours truly,

Lydia Kagwiria.

Lydia Kagwiria,
P.O. Box 2689-60200, Meru.
Appendix II: Questionnaire for micro-enterprises traders.
I kindly request your input through filling this questionnaire. Kindly note that your honest responses will be held in strict confidence and will purely be used for academic purpose. Any additional information you may consider relevant for this research will be most welcome. Your acceptance to complete this questionnaire is greatly appreciated.

General information
1. What type of business do you operate? (Tick the appropriate)

(i) Service
- Saloon
- Kinyozi
- Insurance
- Clothing
- Cyber cafes
- Other

(ii) Commodity
- Shop
- Kiosk
- Groceries
- Hawking
- Grain stores
- Other

Influence of business finance on business growth
2. Below are the challenges microenterprises experience. Please tick them appropriately according to your level of challenge by ranking them in order of merit. The most challenging to the least. (i.e. 1, 2, 3, )

KEY

(i) Financial constraints. 1. Most challenging
(iii) Poor environmental hygiene 3. Least challenging.
(iv) Lack of business skills
(v) Unfavourable governmental policies
(vi) Dynamic consumer behaviour
(vii) Others
3. What are the sources of your capital to start your business? Please tick how often you use each source.

(i) Loans from micro finance institutions. □ Very often □ Often □ Not at all
(ii) Loans from commercial banks. □ □ □
(iii) Personal savings. □ □ □
(iv) Shylocks □ □ □
(v) Profits □ □ □
(vi) Others □ □ □

4. What are the sources of your capital to expand your business? Please tick how often you use each source.

(i) Loans from micro finance institutions. □ □ □
(ii) Loans from commercial banks. □ □ □
(iii) Personal savings. □ □ □
(iv) Shylocks □ □ □
(v) Profits □ □ □
(vi) Others □ □ □

5. The following are the challenges faced by microenterprises as they source for capital. Please tick appropriately the level of your challenge.

(i) Interest rates □ Very Challenging □ Challenging □ Not Challenging
(ii) Bureaucracies involved in loan disbursement □ □ □
(iii) Payment schedules □ □ □
(iv) Others □ □ □
6. Below are ways of overcoming financial challenges of microenterprises. Tick appropriately.

(i) Sourcing from institutions with low interest rates. □
(ii) Simplifying loan procedures □
(iii) Negotiating flexible payment schedules. □
(iv) Others □

7. Below are some of the direct costs/ expenditures that you incur as you run your business. Rank them in the order magnitude i.e. most frequent, least frequent. 1-3.

(i) (1) Electricity □
(ii) (2) Rent □
(iii) (3) Stationery □
(iv) (4) Transport □

Influence of management skills on business growth

8. The following statements best describes the situation regarding the management skills of entrepreneurs. Please tick appropriately?

<table>
<thead>
<tr>
<th>Management skills</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>I always motivate my employees (team)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I always conduct regular visits their working place to observe how they work</td>
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<td></td>
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<tr>
<td>I always strive to promote performance at our working environment</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>I demonstrate good working knowledge and expertise</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I always involve my employees in decision making process</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

9. For how long have you been in business?

1-2 years □
3-4 years □
5-6 years □
Above 6 years □
Influence of government regulations on business growth

10. How is the process of obtaining investment approvals?

- Very challenging  
- Challenging  
- Not challenging  

11. How would you rate the cost of obtaining operating licenses from the county council?

- Very expensive  
- Expensive  
- Not expensive  

Influence of business training on business growth

12. (a) Have you ever attended a seminar/training course?.

- Yes  
- No  

If yes, how?

(b) If yes, how many times have you attended seminar/training? Tick the appropriate.

- Once  
- Twice  
- More than twice  
- Never  

(c) Below are areas that microenterprise entrepreneurs are trained on. Tick the ones you have been trained on:

- Market research  
- Customer relations.  
- Bookkeeping/accounts  
- Others.
(d) In your own opinion state other areas where you require further training.


Influence of business support services on business growth

13. Have you ever received any other form of business support?
   Yes ( )
   No ( )

14. If the response to question 12 above is yes; specify the type of support given.

   

   

15. Does your business work in consultation with any other organization?
   Yes ( )
   No ( )
Business growth

16. (a) Do you consider your business successful?..
   Yes □
   No □

(b) What is the performance of your business in the following areas?

(i) **Annual sales (Ksh '000)**
   - Below 100 □
   - 100 - 300 □
   - 300 - 500 □
   - 500 - 1M □
   - Above 1M □

(ii) **Net profit (Ksh '000)**
   - Below 10 □
   - 11 - 20 □
   - 21 - 30 □
   - 31 - 40 □

17. In your own opinion state how microenterprises can be improved in Kenya.

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