

FACTORS INFLUENCING GROWTH OF SMALL SCALE GROCERY BUSINESSES IN KISII MUNICIPALITY – KENYA

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS IN
PROJECT PLANNING AND MANAGEMENT OF THE UNIVERSITY OF NAIROBI**



2010

DECLARATION

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

Amey

2/8/2010

Peter M. Nyaboga

Date

LS0/71593/2009

This research project has been submitted with my approval as the university supervisor.

James

10th/8/10

Dr. James Nyambati

Date

Lecturer, Department of Extra-Mural Studies

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DEDICATION

This research project is dedicated to all those who love knowledge and my family for their support and encouragement

ACKNOWLEDGMENT

I sincerely appreciate the efforts put in by my supervisor, Dr, James Nyambati in guiding me through this work. His commitment and advice have been of great value. Also, I am highly indebted to my other lecturers in the School of Continuing and Distance Education, Department of Extra Mural Studies- University of Nairobi.

I cannot forget to mention and thank all my colleagues in the Master of Arts and Project Planning and Management class for their encouragement and support. Also, appreciation goes to all the staff of University of Nairobi for their input.

Lastly, I would like to appreciate the work of the typist who spent numerous hours typing the project and also the respondents who agreed to take part in the study

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ABSTRACT

Although entrepreneurship is a growing phenomena that has had significant impact in all economies, it is generally recognized that small scale businesses especially in developing countries such as Kenya face unique challenges which influence their growth and profitability. This ultimately diminishes their ability to contribute effectively to sustainable development. Given the importance of small scale businesses to a nation's economic growth, and also the role that the businesses play in poverty reduction, an understanding of the problems negatively affecting them is a vital step in boosting their growth.

The purpose of this study was to identify the factors influencing the growth of small scale grocery businesses in Kisii Municipality. The objectives of the study were:- to establish the financial factors influencing the growth of small scale grocery businesses, to assess the housing factors influencing the growth of small scale grocery businesses, to explore the legal factors influencing the growth of small scale grocery businesses and to examine the technological factors influencing the growth of small scale grocery businesses. The study adopted the descriptive survey design in its research design which was concerned with recording, describing analyzing and researcher selected the sample for the study using simple random sampling. Out of 147 grocery businesses, a sample of 30 % was taken ending up with 44 respondents for the study. Questionnaire and interviews were used as the main data collection instruments. The data received from the field was organized and analyzed according to research objectives by the use of frequency distribution tasks and percentage for all objectives.

The study revealed that in order to boost the growth of small scale grocery businesses in Kisii Municipality, there is need for all stakeholders to participate in assisting them. Since majority of small enterprises lack finances, government should establish friendly small loaning systems to support them. This would include low interest rates to ensure continuity of these businesses.

The issues of housing can be addressed through construction of affordable structures which should solve issues like congestion, storage and rent for the small entrepreneurs. Also, the government and other stakeholders 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. Most of the existing policies in Kenya seem to favor and care for the well-established businesses. In addition, since there is evidence that small businesses have the potential to initiate minor technological innovations to suit their circumstances, specific policy measures should be developed to ensure that technology services, training and infrastructure are provided. For example the government should establish training and business information centers for the small scale traders.

Apart from contributing to accelerated economic growth, small scale businesses have been a means through which rapid industrialization has been achieved in developing countries apart from improving forward and backward linkages between economically, socially and geographically, diverse sectors of the economy. The public sector and formal financial institutions should be sensitized on the value of participation in informal sector enterprises. A major goal should be to empowerment of entrepreneurs as they constitute a social category that is critical in sustainable development endeavors. In order to enrich this research, it is suggested that studies on factors influencing the growth of small scale grocery businesses be conducted in other parts of Kenya so as to compare the findings.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

The informal sector is characterized by a large number of small scale production and service activities that are individually or family owned and use of labor intensive and simple technology. The self employment entails a remarkable array of activities ranging from street vendors, barbers, grocers, hawkers, carpenters, knife sharpening, and welding in Jua Kali industries.

According to European Commission (2006) a small businesses is a business that is privately and operated, with a small numbers of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnerships. The legal definition of "small" varies historically, by country and by industry, but generally has fewer than 100 employees in the United State and under 50 employees in the European Union. European Union Member States traditionally have their own definition of what constitutes small enterprises, for example the traditional definition in Germany had a limit of 250 employees, while, for example, in Belgium it could have 100.

However, in Australia, a small business is defined by the Fair Work Act 2009 as one with fewer than 15 employees. By comparison, a medium sized business or mid-sized business has fewer than 500 employees in the US, 250 in the European Union and fewer than 200 in Australia. In addition to number of employees, other methods used to classify small companies include annual sales, (turnover), and value of assets net profit (balance sheet), alone or in a mixed definition. These criteria are followed by the European Union, for instance

(headcount, turnover and balance sheet total.) small businesses are usually in their field of operation.

The smallest business, often located in private homes are called micro business (term used by international organizations such as the World Bank Finance Corporation). In most economics, small enterprises are much greater in number. In the European Union, small scale businesses comprise approximately 99% of all firms and employ between them about 65 million people. In many sectors, small enterprises are also responsible for driving and competition. Globally small enterprises account for 99% of business numbers and 40% to 50% of GD, (Richardson et al 2004).

Tradesmen in countries such as Germany are required to fulfill a formal apprenticeship (usually three years) to work as a journey man /women. Up through the 19th and the early 20th century the journey man traveled to another part region of the country to learn the selling of customer attracting styles and techniques before usually returning home. After working as a journeyman for a specified period, a business dealer may go to study or test as a master businesses person.. In some countries such as Germany or Japan this is an arduous and expensive process requiring extensive knowledge including economic and legal knowledge to achieve master certification Fry (1997). These countries generally require master status for any one employing and teaching apprentices in the methods of attracting and satisfying customers.

In India, the micro and small enterprises sector plays a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 39% of the manufacturing output and around 33% of the total export of the country. Further, in recent years the SME sector has

consistently registered higher growth rate compared to overall industrial sector. The major advantages of the sector are its employment potential at low capital cost. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and the labor intensity in the SME sector is estimated to be almost 4 times higher than the large enterprises. The UNIFEM, a "United Nations Development Fund for Women" was used widely in many parts of Africa to assist women entrepreneurs in a bid to uplift them from their present situation of economic deprivation. In the nineties, the Mauritius Employers Federation introduced a structural entrepreneurship programme with the support of management systems International based in Washington. This enabled the Federation to have a structured training package for entrepreneurs.

In Bangladesh a programme called the New Businesses Creation Programme (NBC) was initiated to select, train motivate and assist potential and existing entrepreneurs who want to diversify or introduce new products. The NBC programme is based on German GTZ's model of creation Enterprises and Formation of Entrepreneurship (CEFE), which was developed in Nepal as part of the multifaceted assistance scheme known as GTZ small Business project. This project has been successfully conducted in several countries in Asia, Africa and Latin America.

In Rwanda, a post-conflict area, the United Nations Industrial Development organization (UNIDO) conducted a "Train the Trainers" programme where selected women entrepreneurs started playing the role of a local advisor to fellow entrepreneurs at their own setting. A network was thus established among women entrepreneurs to share information, resources and

equipment to produce food products. UNIDO also assisted the National Curriculum Development commission (NCDC). In developing the textbooks and trained the instructors in designing the entrepreneurship development course for secondary schools in Kampala.

The current Kenyan context categorizes businesses with fewer than 5 employees as “small”, those with fewer than 50 employees as “medium”, and those with fewer than 250 as large, (Wanjohi and Mugure, 2008). The focus of this study was on those small scale grocery businesses with fewer than 5 employees or in most instances none.

Among such towns where small scale grocery businesses take place is Kisii Municipality in Nyanza Province. If one visits the town, you will come across many kiosks with various items on roadsides and even in abandoned buildings. This appears to be an indicator of the challenges facing these businesses, which need to be addressed.

1.2 Statement of the problem

In almost all economies, small businesses are vital for sustained growth. A high failure rate is a huge negative for an economy, especially a developing economy with limited capital. Although the NARC government pledged to improve the performance and growth of small scale businesses when it took over from KANU in 2002 there is yet much to be done (Muteti 2005). In the light of support and incentive programs, it would seem reasonable to expect that small businesses would grow and flourish in Kenya. However, the effectiveness of these programs remains unclear, and the rate of business failure continues to increase. The performance of these businesses has been influenced by various

factors which have ultimately led to a vicious cycle of poverty and other attendant problems. This has also resulted in the inability of existing small businesses to expand and create jobs leading to poor living standards.

1.3 Purpose of the study.

The purpose of this study was to identify the factors influencing the growth of small scale grocery businesses in Kisii Municipality.

1.4 Objectives of the study

The following were the objectives of the study

1. To establish the extent to which financial factors influence the growth of small scale grocery businesses in Kisii Municipality.
2. To assess the extent to which housing factors influence the growth of small scale grocery businesses in Kisii Municipality.
3. To examine the extent to which legal factors influence the growth of small scale grocery businesses Kisii Municipality.
4. To determine the extent to which technological factors influence the growth of small scale grocery businesses Kisii Municipality.

1.5 Research questions

The following were the research questions

1. To what extent do financial factors influence the growth of small scale grocery businesses in Kisii Municipality?

2. To what extent do housing factors influence the growth of small scale grocery businesses in Kisii Municipality?.
3. In what ways do legal factors influence the growth of small scale grocery businesses in Kisii Municipality.?
4. To what extent do technological factors influence the growth of small scale grocery businesses Kisii Municipality?.

1.6 Significance of the study

First of all, the study drew policy makers' attention to the urgent need for specific management practices to enhance the effectiveness and sustainability of small scale grocery businesses in Kenya.

Secondly, the economy of Kenya is growing and Kenya has opened its borders to international businesses therefore the government should understand the level of small business development which plays a significant role in providing raw materials to multinational corporations.

It is hoped that the findings of this study will assist the government and other stakeholders to make informed decisions through appropriate policies in order to assist the small scale entrepreneurs because of their contribution to economic growth.

Finally, the study sought to contribute to future developments in the research area of small scale grocery businesses.

1.7 Basic assumptions of the study

The study assumed that all respondents were going to be cooperative and provide reliable information.

The study also assumed that the sample picked was going to provide information representative of the entire population.

1.8 Limitations of the study

Due to long distances whereby time was limited and the financial capabilities, the study was centered on factors influencing the growth of small scale grocery businesses in Kisii municipality. The research process might have been hampered by fear of unreliable information given by the respondents. However, due to the use of appropriate research instruments the situation was addressed.

1.9 Delimitations of the study

The study confined itself to small scale grocery businesses in Kisii Municipality which is in Nyanza Province- Kenya. Thus any small scale grocery businesses outside Kisii Municipality were not considered. The proprietors that were included in the sample were those who were directly and actively involved in the running of their businesses by the time of the study. Those who were not directly involved were not included in the sample.

1.10. Definitions of significant terms used in the study

Growth – The maximum rate of growth in sales that can be achieved given the firm's profitability, asset utilization and desired dividend payout and debt ratios. Variables typically include profits, asset turnover ratio and retention rate.

Small scale grocery businesses -A business that is typically owned and run by members of a family with less than 3 employees and in some instances none. It is established primarily for the retailing of food

Financial factors- Refers to sources of revenue expenses, capital and cost of goods which are indicators on the financial performance of a business.

Housing factors – Refers to housing challenges including lack of safe, secure and healthy shelter with basic infrastructure such as water and adequate provision of sanitation, drainage and the removal of household waste

Legal factors- Refers to the diverse government legislation and council by laws within a given business environment and how they influence the business whether directly or indirectly

Technological factors –Refers to latest innovations in technology and how they improve in marketability of products by making them consumer friendly

1.11. Organization of the study

The introductory pages of the study contain the declaration, acknowledgement, table of contents, list of figures, list of tables, abbreviations and abstract. The study is divided into five main chapters. Chapter one contains the background of the study, the statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, limitations of the study, delimitations of the study, assumptions of the study and lastly organization of the study.

The second chapter of the study mainly focuses on the literature review. This has sub sections namely: introduction, small scale business, characteristics of small scale, small scale business in international arena, Justification of grocery business, the history of small scale business in Kenya, characteristics of small scale businesses in Kisii Municipality and finally the conceptual framework

Chapter three of the study focuses on research methodology. The sub- sections in this chapter are introduction, research design, target population, sampling procedure, data collection methods, reliability and validity of research instruments and finally data analysis techniques.

Chapter four of the study, which focuses data analysis interpretation and discussion, contains introduction, themes on data presented and interpretation and discussion of data. The final chapter of the study is on summary of findings, conclusions and recommendations. It has subsections namely: introduction, summary of findings, conclusions, recommendations and lastly further research. The last section of the study contains references and appendices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature of the following thematic topics and sub-topics: concept of small scale grocery businesses, characteristics of small scale grocery business, Influence of financial factors on the growth of small scale grocery businesses, influence of housing factors on the growth of small scale grocery businesses, influence of legal factors on the growth of small scale grocery businesses, influence of technological factors on the growth of small scale grocery businesses, small scale grocery business in international arena, conceptual frame work and summary of literature review

2.2 Concept of Small Scale Grocery Business

The informal sector is characterized by a large number of small scale production and services that are individually or family owned and use of labour intensive and simple technology. The self employment entails a remarkable array of activities ranging from hawking, street vendors, letter writing, knife sharpening, drug peddling, small artisans, barbers, mechanics and carpenters. According to European commission (2006) a small business may be defined as a business that is privately owned and operated, with a small number of employees and relatively low volume of sales. Small businesses are normally privately owned corporations, partnership or sole proprietorship. The legal definition of "small" varies historically, by country and by industry, but generally has fewer than 100 employees in the United States and under 50 employees in the European Union.

However, in Australia, a small business is defined by the Fair Work Act 2009 as one with fewer than 15 employees. By comparison, a medium sized business or mid-sized business has fewer than 500 employees in the US, 250 in the European Union and fewer than 200 in Australia. In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of asset and net profit (balance sheet), alone or in a mixed definition. These criteria are followed by the European Union, for instance (headcount, turnover and balance sheet totals). Small businesses are usually not dominant in their field of operation.

Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, other small shops (such as a bakery or delicatessen), hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing etc.

The smallest businesses, often located in private homes, are called micro businesses (term used by international organizations such as the World Bank and the International Finance Corporation) or Sollos. The term "mom and pop business" is a common colloquial expression for a single-family operated business with few (or no) employees other than the owners. When judged by the number of employees, the American and the European definitions are the same: under 10 Employees.

The history of groceries in Kenya started with the coming of the missionaries and explorers (Kivuitu and Njoka, 2002). According to these writers the missionaries wanted to civilize the Africans. They were to do this by providing Western Education and culture. For this reason they opened schools along the Coast that taught among other

subjects Business Education. For instance the Holy Ghost Fathers set up a settlement for freed slaves at Bagamoyo in 1868. The former slaves were taught skills such as agriculture, carpentry, reading and writing.

Similar stations were set up at Rabai and Free town along the Coast of Kenya (Sanya, 2007). As noted earlier, the skills of business groceries were taught in a higher scale during the colonial period. According to Sanya (2007), the earliest schools in Kenya during the colonial period, commonly referred to as bush schools taught business among other skills. Though the Africans resented this type of education and wanted education that prepared them for white collar jobs, the system was continued with the starting of the Industrial Training Centre at Kabete in 1924 and the Jean school Kabete in 1925 for Africans.

The quest for higher education indicated a strong resentment towards training in technical skills (Manji Kiiro and Munyao, 2004). This resentment thus continued after independence with the government emphasizing formal education at the expense of informal education as seen in the first three education commissions and committees after independence (Republic of Kenya 1964, 1976, 1988).

Even the Government's efforts to return the business education in form of commerce (business studies as a subject in the 8-4-4 system of education was met with unpreparedness whereby parents were expected to finance their children so as to go for tours (fields) to learn about how businesses are carried out. Consequently, after about 5 years it was officially phased out of the formal curriculum. This also saw the phasing out of the subject in the secondary school even when there were facilities.

According to the European commission (2006) a small business can be started at a very low cost and on a part-time basis. A small business is also well suited to internet marketing because it can easily serve specialized niches, something that would have been more difficult prior to the internet revolution which began in the late 1990s. Adapting to change is crucial in business and particularly small business. By not being tied to any bureaucratic inertia, it is typically easier to respond to the market place quickly. Small business proprietors tend to be intimate with their customers and clients which results in greater accountability and maturity. Grocery business is characterized by small kiosks which sell vegetables, tomatoes, onions, bananas among others. Despite the proprietors' determination to remain in this business, they seem to have challenges that need to be addressed.

Also, although the proprietors of grocery businesses have high expectations, they appear to be struggling within and without their premises and subsequently the returns accruing from the businesses are quite minimal. They have to travel far to buy the vegetables, onions and others. Secondly they are likely to lack technical management skills to reinvest and save to meet the demand of their esteem to be and immediate customers. According to the European commission (2006) Sanya (2007) small businesses often face a variety of problems related to their size. Grocery businesses are thus no exception. Grocery business is characterized by kiosks (small sizes) which sell vegetables, onions, tomatoes, bananas, Irish potatoes among others. Despite the grocery proprietors determination to remain in this business they seem to have challenges that need to be addressed.

Many small enterprise owners or managers lack managerial training and experience. The typical owner or managers of small business develop their own approach to management, through a process of trial and error. As a result, their management style 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 small enterprises owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Majority of those who run small enterprises are ordinary lot whose educational background is lacking. Hence they may not well equipped to carry out managerial routines for their enterprise (King and McGrath, 2002). Education and skills are needed to run micro and small enterprise. Research shows that majority of the carry out micro and small enterprises in Kenya are quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the small enterprise sector (King and McGrath 2002). As such for small businesses to do well in Kenya, people need to be well informed in terms of skills and management.

Lack of access to credit is almost universally indicated as a key problem for small enterprises affects technology choice by limiting the number of alternatives that can be considered. Many small enterprises may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur

may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constrains operate in variety of ways in Kenya where undeveloped capital market force entrepreneurs to rely on self financing or borrowing from friends or relatives. Lack of access to long term credit for small enterprises force them to rely on high cost short term finance.

There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors' that they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constrains remain a major challenge facing small enterprises in Kenya (Wanjohi and Mugure, 2008)

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The national policy and regulatory had an important impact on technology decisions at the enterprise level. The Structural Adjustment Programs (SAP's) implemented in many African countries are aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. SAP's tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries, (USAID, 1991).

The findings in a study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of small enterprises. Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of small enterprises but also to the Kenya economy that was gaining momentum after decades of wastage during KANU era.

Changes of technology have posed a great challenge to small businesses. Since the mid -1990s there has been a growing concern about the impact of technology many small entrepreneurs appearing to be unfamiliar with new technologies. Those who seem to be well positioned, they are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies.

In most of the African nations, Kenya inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persist (Muteti, 2005). There is digital divide between the rural and urban Kenya. With no power supply in most of the rural area, it is next to impossible to have internet connectivity and access to information and network that are core in need in any enterprise. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs

Poor infrastructure poses a major challenge to small enterprise in Kenya. In Kenya, the provision of better infrastructures has lagged behind over years. There are

poor roads, inadequate electricity supply. According to the proceedings of the national investment conference November 2003, Kenya still stands in need of better infrastructures. It has been the pledge NARC government (which it took over from KANU in 2002) to improve the infrastructures, but there is yet much to be done.

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade related information available and the possibility of accessing national and international database many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (Muteti, 2005) and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and internet connectivity, small enterprise entrepreneurs need to be supported.

2.4 Influence of financial factors on the growth of small scale grocery businesses

In order to operate successfully, small scale grocery businesses in Kisii Municipality have to overcome a number of obstacles which influence negatively the business performance. To set up a start-up enterprise, the entrepreneurs need to be able to get access to finance. The access to formal financial schemes is very often a constraint to small scale grocery businesses and thus entrepreneurs are dependent on informal sources of finance such as own sources, family and friends or 'savings and credit associations' (which charge high interest rates). Finance plays a critical role in all stages of the business life cycle and limits the ability of existing small scale grocery businesses to expand and create jobs. Small scale grocery businesses very often begin small and

eventually die small, without ever having seen any expansion in terms of employment numbers and output, (Hill, 1989).

The entrepreneur's ability to pay back loans and credit is influenced by the ratio of a borrower's monthly payment obligation to the borrower's gross income. A higher ratio corresponds to a lower ability of an entrepreneur to pay back the loan. Financial obligations are high if the entrepreneur has a large number of family members who are dependant on her/him to pay, for instance for their school fees, weddings, hospital stays or funerals. Thus a high number of dependants limit the entrepreneur in its ability to repay the loan

Lack of access to credit is almost universally indicated as a key problem for small scale grocery businesses. This affects technology choice by limiting the number of alternatives that can be considered. Many small scale grocery businesses may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan.

Credit constraints operate in variety of ways in Kenya where underdeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack access to long-term credit for a small enterprises forces them to rely on high cost short term finance.

There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little inventors,' that they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraints remains a major challenges facing small scale grocery businesses in Kenya (Wanjohi and Mugure, 2008)

2.5 Influence of housing factors on growth of small scale grocery businesses

All of the countries in sub-Saharan Africa face formidable housing problems. Almost without exception they have poorly developed housing institutions and markets, stock which is in poor conditions, a huge backlog of housing need and weak policy responses. In addition to its housing problems, Sub-Saharan Africa faces other formidable development challenges. A recent report produced by a number of agencies specializing in African development made for grim reading. It highlighted the fact that although Sub-Saharan Africa has a population of over 600 million people, just less than ten per cent of the world's population, its share of world trade was less than two per cent and falling. Sub-Saharan Africa was the only global region where per capita GDP was lower in the late 1990s than it was 30 years earlier and over 40% of its population lived below the international poverty threshold of 1 dollar a day, with incomes averaging around 0.65 dollars per day in terms of purchasing power parity. The problem of

providing adequate shelter needs to be seen in the context of these other, highly formidable challenges. Policies for the provision of housing also need to be seen within the context of urbanization and the nature of and the nature of urban development. The level of organization in Sub-Saharan Africa is modest by global standards, but because of this limits urban base, African cities are experiencing some of the fastest rates of urbanization in the world (USAID, 1991).

One of the principal difficulties associated with the provision of housing is that of ensuring land supply. This is by no means a problem confined to African cities, but the nature of the problem in African cities is almost unique. Traditional or customary land ownership in many African countries is held on a tribal basis. Under these circumstances, decisions about the use of land are made according to the customs of the tribe. Hence, decisions may be taken individually by a chief, they may be collectivized within a council of elders, but in any event they are rarely recorded in writing and hence there is no evidential basis for use rights. The concept of any kind of ownership may be entirely alien.

Many important aspects of the regulatory environment as it affects small businesses in Kenya have improved on paper for example abolition of the Building Standards Act which defined standards for the construction of premises which were in appropriate for small businesses in Kenya. However, severe restrictions on the availability of affordable, appropriately sized and serviced infrastructure is an ongoing constraints to the growth of Kenya's small scale grocery businesses whose investment in productive assets and equipment depends in part on access to secure businesses premises.

Even government's effort to provide plots of land to Jua Kali Association throughout the country is far from adequate. Especially small, growth-oriented business enterprises uniformly decry unreliability of utility services and inappropriately small business premises as major constraints to their potential growth.

2.6 Influence of legal factors on growth small scale grocery businesses

In order to remain legal the law requires all businesses to pay a variety of annual taxes and levies at national and local government levels. The Kenya Revenue Authority (KRA) collects taxes and duties on behalf of central government, and the local government authorities for example Kisii Municipality collect local taxes, fees and dues for their operations. Local government taxes are fixed by the local authorities and cover various areas including property tax, environmental charges,. Over time, however, measures have been introduced by the KRA to reduce the burden of taxation on the small tax payers who are mainly in the informal or semi-formal sub-sectors, Government of Kenya (1998). Experience from countries in Africa (e.g Kenya, Mauritius, Namibia, South Africa), Asia (e.g. India, Japan, Korea, Malaysia, Singapore) and Latin American, Brazil, Chile, Mexico) shows that properly designed legislation for small scale grocery businesses can play a positive role in fostering the development of the sector.

The legal framework in which small scale grocery businesses operate is crucial to their performance. The legal framework of many countries including Kenya serves as a barrier against enterprise growth. 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).

All over the world, and certainly also in Kenya, there is discussion and frequently disagreement about the proper degree of regulation and deregulation in the business scene. Unduly strict regulations often harm and, in particular, emergent enterprises and benefit the larger and established ones, whereas less regulation may lead aggressive competition between market entrants, to the neglect of workers rights, or to health hazards and environmental destruction.

Kenya's tax system is currently under reform. However, there is still a wide gulf of understanding between the administration of tax by the officials of the Kenya Revenue Authority (KRA) and the business owners that pay the taxes. Currently, the officials of the KRA and the entrepreneurs/ taxpayer live in two different worlds. The entrepreneurs' workshops organized by SME's and the subsequent consultation with stakeholders that led to the preparation of legal frame works governing small scale businesses revealed that, (Government of Kenya 1998).

Officials of the KRA are focused solely on immediate revenue generation through taxation. They are interested in enforcement at all costs. KRA's intentions are to have a system that is open, fair and transparent but the reality, from the perspective of the small business owners, just the opposite.

Small scale grocery businesses are like clients without rights or options. Few of them fully understand the process. None of them see any connection between the taxes they pay and the net benefits that accrue to their local communities. Small scale grocery businesses experience of the taxation process is that it is arbitrary, open to negotiation,

with hidden or direct methods of coercion that are used by KRA officials to solicit bribes.

The entrepreneurs are also subjected to taxation measures that often make it financially impossible for them to start businesses. The opportunity to contest tax rulings is equally problematic since the appeals currently is under the control of the KRA, first through the office of the Commissioner of Income Tax upon appeal through the Taxation Appeal Board , (Government of Kenya 1998).

2.7 Influence of technological factors on the growth of small scale grocery businesses

Technology choice has important implications for growth and productivity in small scale grocery businesses in Kisii Municipality. The use of technology is always tied of objective. Because various types of technologies can be used to achieve an organization's objectives, the issue of choice arises. The concept of technology choice assumes access to information on alternative technologies and ability to evaluate these effectively; (Karim, 2001) effective choice is based on reselected criteria for a technology's meeting specified needs. Further, it depends on the ability to identify and recognize opportunities in different technologies. The expected outcome is that the firm will select the most suitable or appropriate technology in its circumstances.

It is also sometimes emphasized that appropriate technology should not affect the environment negatively and that it should fit in with the socioeconomic structures of the community. The suggested characteristics are too numerous, which implies that a technology can be appropriate in some ways and inappropriate in others. Trade -off involved in the choice of technology and mechanized production can, at times, turn out

an inexpensive, higher quality product for consumers, whereas normal production of a lower quality and higher cost product generates more employment, (Drake 2002). This illustrates the dilemma involved in evaluating technology and raises the question, Appropriate for whom? This article is concerned with the gaps in knowledge, skills, or resources that hinder effective choice of technology at the enterprise level. In this context, the term appropriate is used loosely to mean technology that is most advantageous to the enterprise's purpose and circumstances.

Entrepreneurs decide at the enterprise level which technologies to use. The main factors influencing their choice of technology include the objectives of the firm, the resources available, the nature of the market, and their knowledge of available technologies, (Drake 2002). Moreover, the entrepreneurs need technical and managerial skills to choose, adapt, and effectively use technology.

Additionally, one would be in a better position to choose a technology if one were able to assess the demand for the firm's products, estimate the rate of change in the market that may call for change in technology, gather information about alternative technologies, and estimate the potential return on investment for each alternative. However, many entrepreneurs in this sector lack the education, training, management experience, and other competencies needed to respond to these issues. Because of their economic and organization characteristics, many small scale grocery businesses lack information about technologies and have no way of gauging the appropriateness of those they are aware of, (Karim 2001).

Small scale grocery businesses face unique constraints that hinder the effective choice of technology. Many small scale grocery businesses 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. As a result their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than strategic in its concept, (Hill 1989). 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 small scale grocery businesses owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Lack of information is a key problem affecting small scale grocery businesses access to technology suggested that technologies used by small scale grocery businesses in developing countries may be inappropriate because their choice is based on insufficient information and ineffective evaluation; (Drake 2002) suggested that ignorance is a key constraint affecting the choice of technology by small scale grocery businesses. Further, level of education is relevant, as it may determine the entrepreneurs' access to information. Generally, the ability to read and write, exposure to a broader world, and training in the sciences enhance one's ability to understand, respond to, use and control of technologies, (Karim 2001).

Lack of access to credit is almost universally indicates as a key problem for small scale grocery businesses.. This affects technology choice by limiting the number of alternatives that can be considered. Many small scale grocery businesses may use an

inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Another related problem is the lack of suitable premises and other infrastructure.

The national policy and regulatory environment has an important impact on technology decisions at the enterprise level. The structural adjustment programs currently implemented in many African countries are aimed at improving heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. However, much as these policies may in principle favour small scale grocery businesses growth in the long run, concern has been shown about the ability of the small scale grocery businesses sector to increase production and create more jobs under conditions of declining demand, (Muteti 2005). Saps tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries, (USAID 1991). Furthermore, severe cutbacks in government services, such as health and education, force many small-businesses owners to draw more money from their businesses to meet these needs, thus hindering investment in technology and business expansion. In addition, the resulting reduction in employment and real wages leaves many potential customers without the ability to buy, thus reducing demand.

2.8 Other factors influencing growth of small scale grocery businesses.

There are numerous other factors which influence the growth of small scale grocery businesses in Kisii Municipality apart from the ones already discussed. Many small scale grocery businesses owners or proprietors 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. As a result, their management style 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, 1989). 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 of consequences of poor managerial ability is that the small business owners are ill prepared to face changes in the business environment.

Education and skills are needed to run small scale businesses. Research shows that majority of the lot carrying out small scale grocery businesses in Kisii Municipality are not quite well equipped in terms of education and skills. Studies suggest that those with more education and training are more likely to be successful, (King and McGrath,2002). As such, for small scale grocery businesses to do well in Kisii Municipality, the proprietors need to be well informed in terms of skills and management.

Lack of sufficient market information poses a great challenge to small scale grocery enterprises in Kisii Municipality. Despite the vast amount of trade related information available and the possibility of accessing national and international databases, many enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas, (Muteti,2005).

Key issues facing new and growing enterprises in the United States include access to capital, access to information and access to networks. A study by Soyeon Shim and Eastlick (1998) on Hispanic female business owners identified 10 business problem areas: sales and profit forecasting; obtaining lines of credit; capital management; working capital management; pricing strategies; customer database management; short-term business planning; labour cost analysis; managing debt; and gender problems. Whilst many of these problems seem to be synonymous across the Asian and African countries in the study, there are some problems which are significantly prevalent only in certain countries.

In a study by (Karim 2001) on entrepreneurs in Bangladesh, financial problems were the most common problems faced by business owners. Inadequate financing was ranked first, particularly so in rural areas and among small economic units (fewer than 5 workers), all the more so with those in unregistered sectors. Competition, obtaining quality raw materials and balancing time between the enterprise and the family were ranked as major start-up problems.

A study by Richardson, Howarth and Finnegan (2004) on entrepreneurs in Africa reveals that many entrepreneurs in Africa feel they lack abilities, skills and expertise in certain business matters. In addition to lack of exposure, their business networks are poorly developed as social assets. This in turn impacts on a range of factors that adversely affect the entrepreneurs at all levels. Entrepreneurs in Africa also face constraints and barriers to obtaining money to start and grow their own business. Their

inexperience of negotiating with the banks and their lack of financial confidence to argue for what they are entitled to, are some of the problems they face in obtaining loans.

In Uganda (UNIDO Document, 2003) entrepreneurs in rural areas suffer from lack of training and advisory services that would allow them to upgrade their managerial and technical skills and solve immediate production problems, thus improving productivity and increasing profitability. In Uganda, where more than 70 percent of enterprises employ less than 20 people, micro and small enterprises play an important role in economic and social life of the majority of citizens.

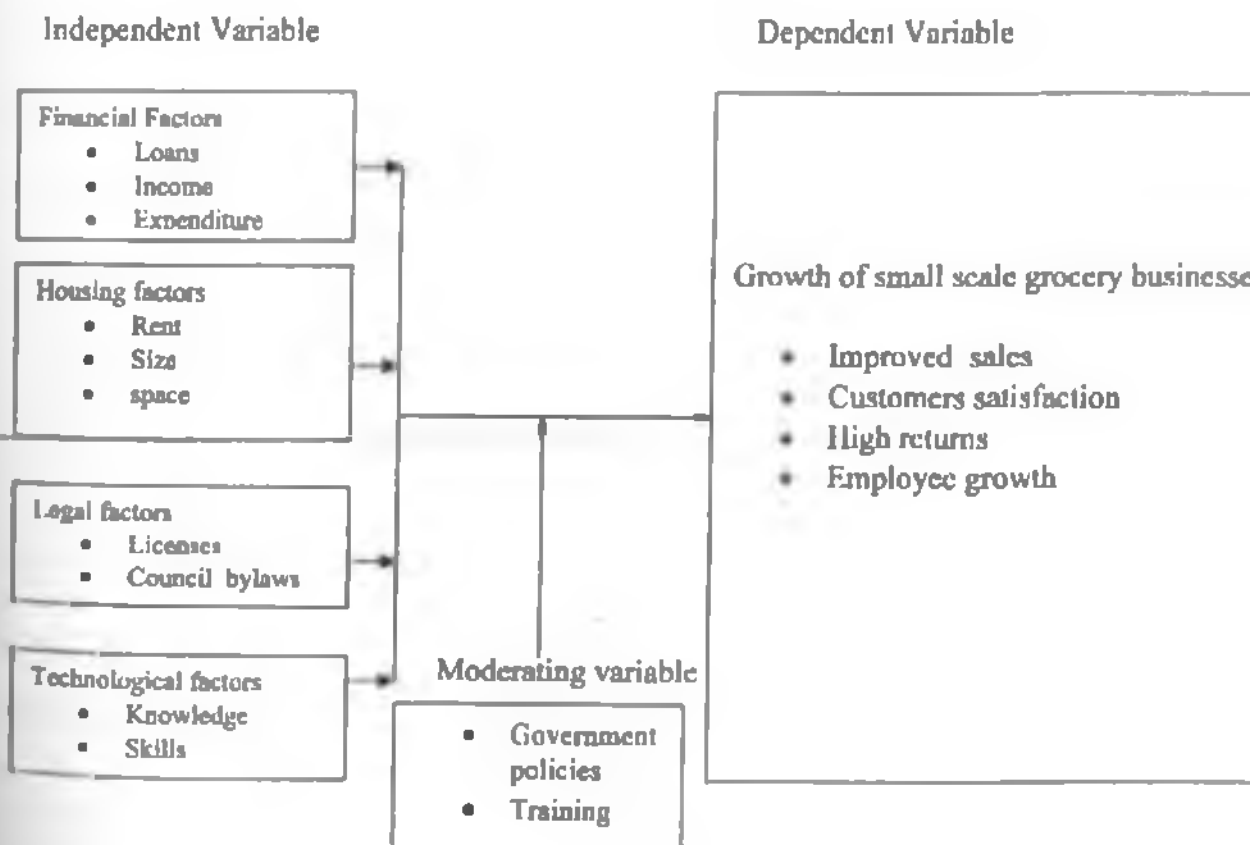
However, the growth and competitiveness of this sector are hampered by lack of technical and managerial skills, weak infrastructure, difficulties in accessing loans and complicated company registration processes. In Rwanda, a post-conflict area, entrepreneurs' immediate needs for sustaining the family mount tremendously when the supply of goods and services ceases and traditional community help schemes collapse due to the restricted mobility and security.

In Kenya, entrepreneurs see the establishment of a productive business as a means to improve their status in society as well as their family's standard of living and to serve their community by creating employment opportunities. However, due to a lack of technical skills, confidence, strong individual involvement and the willingness to take risks, these entrepreneurs, are often unable to establish and sustain successful businesses.

2.10 Conceptual Framework

There are a number of factors which influence the growth of small scale business consequently, these factors affect their profitability and hence diminish their returns. For instance, many of the small scale grocery proprietors operate abandoned buildings and make shifty premises. Also, a frequent cause of bankruptcy is undercapitalization. This is often the result of poor planning rather than economic conditions. The other factors include legal and technological factor. These issues need to be addressed because they directly affect sales returns which are ultimately linked to poverty and other attendant problems.

The diagram below depicts a conceptual framework through which business growth is affected various factors:



The conceptual framework shows that growth of small scale grocery businesses depend on financial, housing, legal and technological factors which are the independent variables. Some of the indicators considered under financial factors include loans, income, and expenditure. The indicators for the housing factors include rent, size and space issues. On the other hand, the legal factors are licenses and council by laws. Finally, some of indicators considered under the technological factors include knowledge and skills possessed by the small scale grocery business traders. If these independent variables are effectively addressed, then the small scale grocery businesses are likely to register improved sales, high returns and lead to customer satisfaction in addition to employee growth. However, this can only be achieved if adequate attention is given to enactment of government policies and provision from adequate training to the traders which are the moderating variables as illustrated in the conceptual framework

2.11 Summary of Literature Review

One major question we should pose is what solution can be offered to the plight of small enterprise in Kenya? For one, policies should aim to encourage and promote the development of local technologies. Also, the 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. Since majority of small enterprises lack finance, government should establish friendly small loaning system. This would include low interest rates to endure the continuity of these businesses. Small scale grocery businesses have the potentiality of transforming the economy of a developing nation such as Kenya As such; every effort should be made to boost their growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter contains research design, target population, sample size and sample selection, research instruments, pilot study, validity of research instrument, reliability of instruments, data collection procedures, data analysis techniques and ethical consideration in research.

3.2. Research design

This was a case on the factors influencing the growth of small scale grocery businesses. The researcher used descriptive survey in the study which was concerned with describing, recording, analyzing and reporting conditions that existed; (Kothari 1992) survey methods are widely used to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviors or values,(Mugenda and Mugenda,1999). Apart from just describing, surveys can also be used for explaining, or exploring the existing status of two or more variables, at a given point in time. Also surveys are excellent vehicles for collecting original data and the measurement of characteristics of large populations.

3.3 Target Population

According to records obtained from the Kisii Municipality Council, there were 1883 small scale businesses in the year 2009. The target population was 147 small scale grocery businesses from which a sample was drawn.

3.4 Sample size and sample selection

The researcher used random sampling to select the small grocery businesses to participate in the study. According to Mugenda and Mugenda (1999) sampling is a process of selecting the large group from they were selected. The sampling technique was based on the assumption that all the proprietors of small scale grocery businesses stood a chance of falling into the sample, (Kothari ,1992), Mugenda and Mugenda, (1999) also adds that the technique has other added advantages of making the survey more focused, cheaper and less time consuming. Random sampling was preferred because it is free from bias. The sample was determined by a pre-survey; according to the pre-survey, Kisii Municipality had 147 grocery businesses. By simple random sampling a sample of 30% was taken. This was appropriate for the study owing that the population was homogenous. According to Mugenda and Mugenda (1999) a thirty percent (30%) is large enough to represent the salient characteristics of the accessible population; The grocery businesses in Kisii Municipality had similar items and at least similar features .

3.5 Research instruments

The researcher used questionnaire and interview schedule in getting information from the respondents. Questionnaires are commonly used to obtain important information about the population. Each item in the questionnaire is developed to address a specific objectives research question or hypothesis of the study, (Mugenda and Mugenda ,1999). The two broad categories of questions that are used in questionnaires include structured or closed- ended and unstructured or open ended. By using the questionnaires, the researcher took into consideration the following advantages. They are easier to admitters

because each item issues followed by alternative answers, the questions are simpler to formulate mainly because the researcher does not have to labour to come up with appropriate response categories, the respondents resources may give an insight into his, interests and decisions. Finally, questionnaires are economical to use in terms of time and money.

The use of the interview allowed some flexibility in getting the responses in the language comfortable to the respondents. Also, since many respondents might not have wanted to expose their negative side, the researcher was able to get such information through interaction and genuine conversation.

3.5.1 Pilot study

According to Mugenda and Mugenda (1999) the purpose of pre-testing is to ensure that items in the instrument are stated clearly and have same meaning to all respondents It is during the pre-testing of the instrument that the researcher is able to assess the clarity of the instrument and the ease of use of the instrument. The questionnaire was pre-tested to a selected sample which was similar to the actual sample used in the study. The researcher selected 14 respondents for the exercise. The respondents on which the instrument was pre-tested were not part of the selected sample.

3.5.2 Validity of research instruments

According to Mugenda and Mugenda (1999), content validity of an instrument can be determined through analysis done by experts. These people are expected to indicate if the items in the instrument measure the concept under study. The validity of

research instruments were established by expert advise from University of Nairobi (UON) lecturers. This is also in line with Mugenda and Mugenda (1999) who asserts that content validity is judgment made better by a group of professionals and experts in their fields of study.

3.5.3 Reliability of the research instruments

Kothari (1992) states that the reliability of a test refers to the ability of that test to consistently yield the same results when repeated measurements are taken of the same individual under the same conditions. The reliability of the instruments was established through a test re-test. Test re-test is a statistical method used to determine a test's reliability. The test is performed twice; in the case of a questionnaire, this would mean giving a group of participants the same questionnaire on two different occasions. If the correlation between separate administrations of the test is high (0.7 or higher) then it has good test-retest reliability.

The instruments were administered to a convenient sample of 30 respondents. The respondents were scored on a scale of 1 to 5 for every response provided and the total score for each response on the questionnaire was determined. The two separate halves were correlated using spearman –brown prophecy correlation formula. The reliability of the entire instrument was obtained through;

$$\rho_{xx'} = \frac{N\rho_{xx'}}{1+(N-1)\rho_{xx'}}$$

Where N is the number of "tests" combined and $\rho_{xx'}$ is the reliability of the current "test". A reliability index of 0.726 (72.6%) was obtained indicating that there was 72% chances of getting consistent responses when they have same questionnaire was administered on the same respondents twice.

3.6 Data collection procedures

The researcher applied for a permit from the ministry of higher education to enable him to carry out the research. After acquiring the permit the researcher proceeded to obtain a letter of introduction from the University of Nairobi and then informed the Municipal council officials at Kisii Municipality about his intention. After the researcher had obtained a letter of introduction from the University of Nairobi, he proceeded to introduce himself to the sample of respondents and administered the questionnaire.

3.7 Data analysis Techniques

The data received from the field was organized and analyzed according to the research objectives. The information was analyzed through descriptive survey by the use of frequency distribution tables and percentages for all objectives

3.7 Ethical considerations

The researcher ensured that the respondents were protected by keeping the information given confidential. In cases where the respondents were not concerned about confidentiality, the researcher sought their consent before revealing any information.

The researcher also ensured that the identity and privacy of the respondents was protected. Also voluntary consent was sought from the respondents before the research was conducted. This was done by disclosing the real purpose of the research, thus ensuring that the respondents accordingly participated in the research.

CHAPTER FOUR

DATA ANALYSIS PRESENTATION INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter contains the following sub-topics; response return rate, demographic variables, influence of financial factors on the growth of small scale grocery businesses, influence of housing factors on the growth of small scale grocery businesses, influence of legal factors on the growth of small scale grocery businesses, influence of technological factors on the growth of small scale grocery businesses , other factors influencing growth of small scale grocery businesses and suggested ways of solving problems influencing growth of small scale grocery businesses.

4.2 Response return rate

This refers to the percentage of subjects who responded to the questionnaires. The following was the response return rate of the respondents:

$$\frac{38}{44} \times 100 \% = 86.4$$

According to Mugenda and Mugenda (1999) a response return rate of 70% and over is very good. The response attained of 86% was therefore very good for the study.

4.3 Demographic characteristics of variables

The following sub-section provides data relating to the sample population in terms of gender age, marital status and educational levels.

Table 4.3.1 Distribution of respondents by Gender

Gender	Frequency	Percentage %
Male	4	11
Female	34	89
Total	38	100

The study revealed that there were only 4 males representing 11% of the total number of proprietors who took part in the study. This was a very overall number compared to the female traders, 34, representing 89% of the population. The findings were an indicator on the kind of attitude possessed by males towards grocery businesses.

Table 4.3.2 Distribution of respondents by age

Age (in years)	Frequency	Percentage %
16-21	2	5
22-27	6	16
28-32	9	24
Above 32	21	55
Total	38	100

From the data collected, very few respondents, 5%, fell in the age bracket of 16-21 years while the highest numbers of traders were over 32 years representing 55% of the total number of respondents. Increase in age corresponded with increase in the numbers of traders in the small scale grocery businesses.

Table 4.3.3 Distribution of respondents by marital status

Marital status	Frequency	Percentage %
Married	36	95
Single	2	50
Total	38	100

The findings from the study revealed that 36 traders representing 95% of the respondents were married while 2 traders representing 50% were unmarried. The findings suggested that since marriage comes with added responsibilities, the traders had decided to venture into small business activities to secure a source of income for their families.

Table 4.3.4 Distribution of respondents by level of education

Level of education	frequency	Percentage%
Primary	29	76
Secondary	8	21
University	1	3
Total	38	100

The findings indicated that most of the proprietors 76% had received only primary level education. This was followed by 21% who had received secondary level education. Only one proprietor had received university education representing 30% of the population.

4.4. Influence of financial factors on the growth of small scale grocery businesses

The first objective of the study was to establish the extent to which financial factors influence the growth of small scale grocery businesses. Finance plays a critical role in all stages of the businesses life cycle and limits the ability of existing small scale grocery businesses to expand and create jobs, (Hill 1989)

The access to formal financial schemes is very often a constraint to small scale grocery businesses and thus entrepreneurs are dependent on informal sources of finance such as own source, family and friends or to a small extent on banks and other financial institutions which charge high interest rates. This is also largely in line with a study conducted by Muteti (2005)

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The majority of the respondents, 68% started their businesses using loans from family members and from their own savings while 21% acquired capital from their close friends. 3% of the respondents derived capital for their businesses from other financial institutions. The rest, 8% who had applied for and succeeded in accessing bank loans strongly, felt that the interest rates were too high. Some of the respondents had fallen victim to unscrupulous money leaders in the name of pyramid schemes which promised hope through soft borrowing.

Table 4.4.1. Sources of capital for small scale grocery businesses

Sources of capital	Frequency	Percentage
Bank loan	3	8
Other financial institutions	1	3
Individual savings	12	31
Family members	14	37
Friends	8	21
Total	38	100

The study revealed that the preferred loan repayment period for most entrepreneur 84% was 1-12 months. Very few entrepreneurs, 50% took loans whose repayments period was more than 24 months. The respondents appeared to prefer small amounts of loans which were easy to repay although this had an impact on business growth (King and Mcgrath 2002). There was a direct relationship between the amount of loan taken and the repayment period. Also, those who had taken bigger loans appeared to be doing well financially compared to their counterparts who had gone for smaller loans

Table 4.4.2 Loans repayment period

Repayment period	Frequency	Percentage
1-12 months	32	84
12-24months	4	11
24-36months	2	5
Total	38	100

Most of the proprietors in Kisli Municipality did not have any workers in their businesses. The study revealed that 29 proprietors, 76% conducted the businesses on their own because they could not afford to hire workers. Only 8 proprietors managed to hire one worker each while only one business owner had more than one worker representing 3% of the respondents. Comparatively, those with workers seemed to be doing well in their businesses.

Table 4.4.3 Workers employed by proprietors

Number of workers	Frequency	Percentage
None	29	76
One	8	21
More than one	1	3
Total	38	100

4.5 Influence of housing factors on growth of small scale grocery businesses

The second objective of the study was to assess the extent to which housing factors influence the growth of small scale grocery businesses. The results revealed that 84% of the entrepreneurs owned make shift wooden structures as their business sites. These structures were strategically located on particular sites in order to attract customers. The remaining 16% percent had permanent physical establishments such as market stalls and kiosks made of either wood or iron sheets depending on the ability of the proprietors. None of the entrepreneurs owned the premises they were using for their businesses. Most of the respondents did not consider space as an issue because of the

kind and amount of commodities they were selling. Most of those owning kiosks reported that they rented the premises they were using whereas their counterparts in markets stalls paid duty to the municipal authorities.

Table 4 .5.1 Types of business premises

Type of business premise	Frequency	Percentage
Kiosk	3	8
Market stall	2	5
Make shift structure	32	84
Abandoned	1	3
Total	38	100

4.6 Influence of legal factors on the growth of small scale grocery businesses

The third objective of the study was to examine the extent to which legal factors influence the growth of small scale grocery businesses. 71% of the respondents cited unpredictable government policies and high taxation rates as issues that posed a great threat to the sustainability of their enterprises. The entrepreneurs felt that the municipal council employees were corrupt and subjected them to unnecessary harassment. Some of the respondents indicated that some council askaris used fake receipts to collect money from the traders in terms of taxes.

Table 4.6.1 Legal challenges experienced by proprietors.

Legal challenges	Frequency	Percentage%
Harassment by askaris	8	21
Poor services	3	8
Taxes	16	42
Government policies	11	29
Total	38	100

The study revealed that most of the businesses in Kisii Municipality are registered by the council and therefore remit taxes in line with the government policies. However, few of the taxes they paid and the net benefits that accrued to their businesses environment resulting in open hostility between them and the municipal officials, (King and Mcgrath 2002) . The few proprietors who had evaded registration operated through constant harassment by the council askaris and this was affecting smooth running of their businesses.

Table 4.6.2 Registered Businesses

Types of business	frequency	Percentage
Registered	35	92
Unregistered	3	8
Total	38	100

4.7 Influence of technological factors on the growth of small scale grocery businesses

The fourth objective of the study was to determine the extent to which technological factors influence the growth of small scale grocery businesses. 87% of the

respondents did not have any machines or equipment in their business premises. Most of them depended on slow manual processes in all aspects of their trade. 11% of the respondents had electronic equipment in the form of refrigerators. The proprietors however decried the high cost of electricity coupled with frequent power outages which was greatly affecting sales returns. The innovativeness of 2% of the respondents had borne some fruit. The respondents had ventured into the technological world through inventing simple methods of preserving their perishable products thus cutting down losses.

Table 4.7.1 Types of technology used by proprietors

Technology used	Frequency	Percentage%
Manual	33	87
Electronic machines	4	11
New innovation	1	2
Total	38	100

Entrepreneurs decide at the enterprises levels which technologies to use. The main factors influencing their choice of technology include: - the objectives of the businesses, the resources available, the nature of the market and their knowledge of available technologies, (Drake 2002). Many small scale grocery businesses may use inappropriate technology because it is the only one they can afford. In some cases, even where credit is available the entrepreneurs may lack freedom of choice because the lending conditions may force the purchase of heavy immovable equipment that can serve as collateral for the loan

Table 4.7.2 Types of Human labor

Human labour	Frequency	Percentage
Skilled	2	5
Unskilled	33	87
Semi-skilled	3	8
Total	38	100

The study revealed that most of the entrepreneurs in Kisii , 87% Municipality use unskilled labour in their businesses. The businesses are incapable of sourcing, evaluating and adapting skills effectively. Only 2 businesses representing 5% of the respondents used skilled labour whereas 3 businesses representing 8% of the businesses used semi-skilled labour. There was an obvious correlation between the use of skilled labour and performance of businesses in terms of returns.

4.7.3 Impediments to business growth

Type of Impediment	Frequency	Percentage
Financial factors	27	71
Housing factors	2	5
Legal factors	6	16
Technological factors	3	8
Total	38	100

The study revealed that over 70% of the respondents regarded financial factors as the greatest impediment to business growth. This was closely by legal challenges since 16% of the respondents saw them as hindering business growth. Only 50% of the

respondents considered housing factors as a hindrance to business growth. The findings were consistent with those of Hill, (1989) who asserted that finance plays a critical role in all stages of the business life cycle and limits the ability of existing small scale businesses to expand and create jobs. The findings were also consistent with those of King and McGrath, (2002). According to these writes, the legal framework of many countries including Kenya serves as a barrier against enterprise growth. Some of the respondents did not see any connection between the taxes they paid and the net benefits that accrued to their business environment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the findings, conclusions and recommendations, suggestions for further research and contribution to knowledge.

5.2 Summary of findings

The findings from the study conducted revealed that majority of small scale grocery businesses lack finance. Credit constraints operate in variety of ways in Kenya where undeveloped capita forces entrepreneur to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit forces small enterprises in Kisii Municipality to rely on high cost, short-term finance. The government should therefore establish friendly small loaning systems which would include low interest rates to ensure continuity of these small scale grocery businesses. Management workshops and seminars can be organized by the government, non-governmental organizations, universities and other non-profit organizations to educate small businesses owners about personal and financial management, basic accounting, record keeping and market strategies. Businesses owners should network and seek advice from experienced entrepreneurs in similar businesses. To maintain accurate records, qualified workers with expertise in functional areas of management should be employed and properly compensated based on their education, experience and skills. Effort should be made to maintain accurate record on finances, inventory, revenues, and expenses, among others.

Accounts should be kept on a daily, weekly, monthly and annual basis. Severe restrictions on the availability of affordable, appropriately sized and serviced housing facilities is an ongoing constraint to the growth of Kenya's micro and small enterprises whose investment in productive assets and equipment depends in part on access to secure businesses premises. Poor housing poses a major challenge to small scale grocery enterprises in Kisii Municipality. By encouraging the development of a construction sector oriented towards low income groups, the government would address the housing problems affecting small scale grocery businesses. This venture can also be supported by appropriate sources of private finance. A variety of government and private sector housing finance exist including credit cooperatives and saving schemes. Although they invariably involve relatively small sums, they can be linked to other sources of funding such as public subsidies or grant aid from donor agencies. These initiatives can be used to successfully underpin modest house building programmes for the small scale grocery operators

All over the world, and certainly also in Kenya, there is discussion and frequently disagreement about the proper degree of regulation and deregulation in the business scene. Unduly strict regulations often harm small, and in particular, emergent enterprises and benefit the longer and established ones. Therefore, the 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 legal framework in which small scale grocery businesses operate is crucial to their performance. Since entrepreneurs are subjected to taxation measures that often

make it almost financially impossible for them to start and operate their businesses, the central and local governments need to work together to devise a tax collection system that reduces the level and overall burden of taxation on the businesses community.

As already seen, technology choice has important implications for growth and profitability in small scale grocery businesses. Because of their size and resources limitations, small scale grocery businesses are unable to develop new technologies or to make vital changes in existing ones. There is evidence that small scale businesses have the potential to initiate minor technological innovations to suit their circumstances. The government policy should therefore aim to develop these capabilities in small scale grocery businesses through supportive institutions. Policy can encourage the development of assistance programs to facilitate access to information, training and technology. Further, policy should promote the development of technologies appropriate for the small scale grocery businesses. The crucial focus of policy should be an enabling environment for technology decisions of the enterprise level. There is a need to go beyond statements of policy objectives and to take specific and consistent measures to ensure that the policy objectives will be achieved. There is a need to address the overall policy framework to ensure that the policy instruments are consistent with key objectives. In some cases, there appears to be an obvious construction and between policy and implementation and this has adverse effects on the performance of small scale grocery businesses in Kisii Municipality.

Because of their size and resource limitations, small scale grocery businesses are unable to develop new technologies or to make a vital changes in existing ones. Still,

there is evidence that small scale grocery businesses have the potential to initiate minor technological innovations to suit their circumstances. However, for small scale grocery businesses 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 small scale grocery businesses.

5.3 Conclusions

A central strategic concern in Kenya is the need to eradicate poverty through empowerment of people for self-development and the informal sector is an important part of the equation. Given the importance of small businesses to a nation's economics growth and also the role that small businesses play in poverty reduction, an understanding of the factors influencing the growth of small businesses in Kenya is a vital step in managing and avoiding the massive failure of these small businesses. The benefits of small scale grocery businesses to any economy are easily noticeable, they include: contribution to the economy in terms of output of goods and services; creation of jobs at negatively low capital cost; provide a vehicle for reducing income disparities; develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy; provide opportunities for developing appropriate technology approaches; after an excellent breeding ground for entrepreneurial and managerial talent, the shortage of which is often a great to economic development, among others

The study targeted the factors influencing the growth of small scale grocery businesses in Kisii Municipality. The research revealed that most of the grocery businesses are owned by women in Kisii Municipality – an indication of the attitude of men towards these types of businesses. The research further revealed that most proprietors derived initial capital for their businesses from close relatives and individual savings. However as the business grows, there is a tendency for most businesses owners to borrow money from banks and other lending institutions although those who had this cited high interest rates as a major setback to business growth. The repayment period for such loans ranged from 12 months to even 24 months depending on the amount of money given out.

5.4 Recommendations

Small businesses are generally regarded as the driving force of economic growth, job creation and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved, UNIDO (2003) experience in Kenya and elsewhere in developing countries indicate that micro-enterprises are not primarily oriented towards profit maximization. Although this may be a secondary goal, the immediate goal is to create security for their immediate families ,(Kinyanjui ,2000).

As already seen, majority of small enterprises lacked finance which largely contributed to poor performance. The Government can solve this problem by establishing friendly small loaning systems to support these entrepreneurs. In order to make the loans affordable and attractive, they should have low interest rates. The other factor influencing the growth of small of small scale grocery businesses was

housing. Majority of the entrepreneurs (84%) had make shift structures as their business sites. The government should erect more permanent structures to accommodate the entrepreneurs who undergo a lot of inconveniences especially during the rainy seasons.

The legal environment is among the key factors that affects the growth of small enterprises. (King and McGrath 2002). Unpredictable government policies and high taxation rates can pose a great threat to the sustainability of small enterprise. The entrepreneurs felt that the town council employees were corrupt and subjected them to unnecessary harassment. Apart from lack of transparency in council affairs, the services provided were below standard despite the large amounts of levies remitted by the proprietors in terms of taxes. The government should pursue policies that provide fertile ground for small businesses including trade liberalization and making the operating environment friendlier to entrepreneurs. For example, the central and local governments need to work together to device a tax collection system that reduces the level and overall burden of taxation on the small scale grocery operators.

Another factor influencing the grocery businesses was related to changes of technology. Most of the entrepreneurs in Kisii Municipality are computer illiterate. They are not aware that information technology can help them shorten business processes, improve product quality, improve customer service and increase marketability of their products and services. These entrepreneurs need to be informed of the benefits of technology. The equipment they use is manually operated because they lack funds to buy electronically operated equipment which

would run on power generators or electricity. They need machines and equipment to move them away from the slow manual processes but to achieve this they need funds to help them purchase these equipment. Since small businesses have the potential to initiate minor technological innovations to suit their needs the government is encouraged to support them. The government should also establish training centers for the small scale entrepreneurs. By setting up businesses information centers the small entrepreneurs can get beneficial information on new technologies which can transform businesses. The crucial focus of policy should be an enabling environment for technology decisions at the enterprise level. There is a need for the Kenyan government to go beyond statements of policy objectives and to take specific and consistent measures to ensure that the policy objectives will be achieved. There is a need to address the overall policy framework to ensure that the policy instruments are consistent with key objectives. In some cases, there appears to be an obvious contradiction between policy and implementation.

The public sector and formal financial organizations should be sensitized on the value of participation in the informal sector enterprises. A major goal should be to promote the social economic empowerment of entrepreneurs as they constitute a social category that is critical in sustainable development endeavors. Since Kenya has opened its borders to international business; policy makers should understand the level of small scale business development, which plays a significant role in providing auxiliary services to multinational corporations. Also, the government should come up with specific management practices to enhance the effectiveness ad

sustainability of small scale businesses. In conclusion; every effort should be made to boost the growth of small businesses because they have the potential to improve the economy of a developing country like Kenya.

5.5 Suggestions for further research

In order to enrich the present study the following research studies should be conducted.

1. A similar study needs to be conducted to assess the challenges faced by women entrepreneurs in Kisii Municipality.
2. The same study to be carried in other parts of Kenya in order to compare the findings.
3. Other factors influencing the growth of small scale growing businesses to be considered other than the ones discussed.
4. A similar study to be conducted to cover all informal businesses in the region because of their contribution to economic growth.

5.6 Contribution to knowledge

Objective	Contribution
Financial factors influencing growth of small scale grocery businesses.	Create awareness on need for establishing friendly loaning systems
Housing factors influencing growth of Small scale grocery businesses	To sensitize municipal council to construct affordable housing units for traders
Legal actors influencing growth of small scale grocery businesses	Need for review of taxation process and bureaucracy in licensing procedures
Technological factors influencing Growth of small scale grocery businesses	There is need for development of local inexpensive technologies

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APPENDIX I

LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI,
SCHOOL CONTINUING AND
DISTANCE EDUCATION,
DEPARTMENT OF EXTRA
MURAL STUDIES
P.O BOX 2461
KISII.

Dear Participant,

I am a student at the University of Nairobi currently undertaking a Masters in Project planning and Management. I am carrying out research whose purpose is to find out the factors influencing the growth of small scale grocery businesses in Kisii Municipality. You have been selected to take in the study. You are therefore kindly requested to respond to all the items in the attached questionnaire by giving information that truly represents your opinion. The information you provide will be treated with utmost confidentiality and will only be used for this study.

I take this opportunity to request for your cooperation and to thank you in advance for accepting to take part in the study.

Yours faithfully,

PETER M. NYABOGA

APPENDIX 11

QUESTIONNAIRE FOR THE PROPRIETORS OF SMALL SCALE
GROCERY BUSINESSES

I am a student at the University of Nairobi undertaking a Masters in Project planning and Management and therefore, request to you assist me in this interview as part of a requirement to complete my project. There is no right or wrong answer. All the responses will be kept secret.

Name of business.....

Name of proprietor (optional).....

ITEMS

State your gender: Male

Female

State your age

State your marital status

State your level of education

What was the source of initial capital for your business

Bank

Other financial institutions

Individual savings

Family members

Friends

Was the capital acquired adequate for start-up and continued operations.

Yes

No

If not how did you overcome the financial challenges

.....

.....

.....

If source of capital is a bank loan what was the repayment period.

.....

What were interest rates of the bank loan

Low

High

How does this affect your business?

.....

.....

.....

How many workers do you have in your business

None

One

More than one

Do you afford to pay them and if so how much

.....

.....

.....

Do your dependants, if any, entirely depend on your business

Yes

No

If not how do you supplement your income

.....

.....

.....

What type of business premises are operating in

Kiosk

Market stall

Make shift structure

Abandoned building

Is the space sufficient for carrying out your business

Yes

No

If not do you operate then

.....

Is your business registered by the council?

Yes

No

What legal challenges do you experience from the municipal council?

.....

.....

.....

Do you use any form of technology in your business

Yes

No

If yes explain

.....

.....

Which type of human labor do you employ do your businesses

Skilled

Unskilled

If it is unskilled does this have an influence in your returns?

Yes

No

If yes explain

.....

.....

.....

What is the greatest impediment to the growth of your business.

Financial factors

Housing factors

Legal factors

Technological factors

OPERATIONALIZATION TABLE

Research objectives	Variables	Indicators	Level of scale	Measurement	Approaches of Analysis	Type of analysis
To establish the financial factors influencing the growth of small scale grocery businesses	independent dependent	<ul style="list-style-type: none"> • flow of banking • Loaning system • Income • Expenditure 	Nominal Ordinal	Amount of money	Descriptive survey	qualitative quantitative
To assess the housing factors influencing the growth of small scale grocery businesses	independent dependent	<ul style="list-style-type: none"> • Cost of rent • Size and space • Arrangement of structures 	Nominal Ordinal	Amount of money Number of business premises Area Distance	Descriptive survey	Quantitative Qualitative
To find out the legal factors influencing the growth of small scale grocery businesses	independent dependent	<ul style="list-style-type: none"> • Taxes • Council by laws 	Nominal	Amount of money	Descriptive survey	Quantitative Qualitative
To examine the technological factors influencing the growth of small scale grocery	independent dependent	<ul style="list-style-type: none"> • Knowledge • Skills • Experience • Training • Innovativeness 	Ordinal	No of graduate at various levels which determines knowledge skills and innovativeness	Descriptive survey	Quantitative Qualitative



UNIVERSITY OF NAIROBI
COLLEGE OF EDUCATION AND EXTERNAL STUDIES
SCHOOL OF CONTINUING AND DISTANCE EDUCATION
DEPARTMENT OF EXTRA-MURAL STUDIES
KISII EXTRA-MURAL CENTRE

Date: 28/05/2010

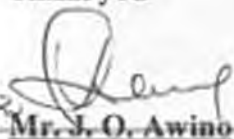
Our ref. Uon/Cees/Scde/Dems/Kai/17/30/ vol. 1

TO WHOM IT MAY CONCERN

RE: PETER MAKORI NYABOGA REG.NO. L50/71593/2009

The above named is a student at the University of Nairobi, College of Education and External Studies, Department of Extra-Mural Studies, pursuing a course leading to the award of a Master of Arts Degree in Project Planning and Management. For the course to be complete, he is required to write and submit a Research Report. Therefore, the purpose of this letter is to kindly request you to accord him necessary assistance in getting information that will enable him complete the Research Report. His area of study is titled "Factors influencing the Growth of Small Scale Grocery Businesses: A case of Kisii Municipality".

Thank you


Mr. J. O. Awino

Ag. Resident Lecturer,
Kisii Extra-Mural Centre





NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY

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NAIROBI-KENYA
Website: www.ncst.go.ke

Our Ref:

NCST/RR1/12/1/SS/994/3

Date: 28th August 2010

Mr. Peter Makori Nyaboga
University of Nairobi
P.O. Box 2461
KISII

Dear Sir,

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*Factors influencing growth of small scale grocery businesses in Kisii municipality Kenya*" I am pleased to inform you that you have been authorized to undertake research in Kisii Municipality for a period ending 31st December 2010.

You are advised to report to the District Commissioner and the Town clerk Kisii Municipality before embarking on the research project.

On completion of the research, you are expected to submit two copies of the research report/thesis to our office.


DR. M. K. RUGUTT, Ph.D, HSC.
FOR: SECRETARY/CEO

Copy to:

The District Commissioner
Kisii District

The Town Clerk
Kisii Municipality