

**FACTORS INFLUENCING ENTREPRENEURIAL PRACTICES
IN KIKUYU TOWN, KIAMBU COUNTY**

BY

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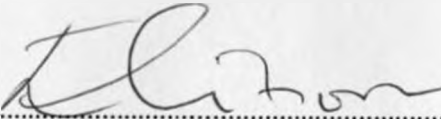
**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
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DECLARATION

STUDENT'S DECLARATION

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

My signature.......... Date.....23/7/2012.....

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SUPERVISOR'S DECLARATION

This project has been submitted with my approval as a University Supervisor.

Supervisor's signature.......... Date.....24th-07-2012.....

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DEDICATION

This research project is dedicated to my parents, Mr. Kihoro Magu and Mrs Agnes Kihoro Magu for their financial support, moral support and encouragement. It is also dedicated to my siblings, Eunice, Edwin and Nelly for allowing me time to concentrate on the project and for their continuous encouragement.

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I would like to acknowledge the assistance I got from my research project supervisor, Dr. Joyce Mbwesa, for her assistance as I carried out this project. She was readily available and guided me pretty well. I also wish to specially acknowledge my mother for pushing me to academic excellence, guiding me as I carried out the project and even helping me to access the relevant data for this project.

ABSTRACT

Entrepreneurship is one of the most important inputs in economic growth and development. The number and competence of entrepreneurs in a country affects the economic growth and development of a country. The crucial and significant role played by entrepreneurs in the economic development of advanced countries has made the people of underdeveloped and developing countries conscious of the importance of entrepreneurship in economic growth and development.

The key objective of this study was to analyze the factors influencing entrepreneurial practices in Kikuyu Town. This study sought to find out how entrepreneurial skills, availability of financial resources, the economic environment, government policies and government support influence entrepreneurial practices. This study also outlines the historical development of entrepreneurship, theories of entrepreneurship, role and importance of entrepreneurship in an economy as well as characteristics of entrepreneurs.

In this study, the target population was enterprises operating in Kikuyu Town and government officials who answered questions on behalf of the government. The research design that was used is descriptive survey design. Stratified random sampling was used to divide the target population into various groups or strata. The sample population was picked from each stratum using simple random sampling. Primary data was collected through interviews, administering questionnaires and observation. Secondary data was collected from written records and reports from previous studies carried out. The data was analyzed using statistical packages for social sciences and presented using percentages, frequencies and tables.

From the data collected, majority of the respondents run their businesses personally and do financial accounting in their businesses. In addition, all the entrepreneurs interviewed had attended at least one business training course. The major source of initial capital for the respondents was personal savings coupled with borrowing from friends and relatives. None of the respondents got loans from commercial banks for their initial capital due to lack of collateral and the high cost of credit. When it came to expanding the business, the

major source of capital was ploughed back profits followed by loans from microfinance institutions.

Research findings show that the economic environment within which the entrepreneurs are operating is unfavourable for business. Businesses are struggling to survive due to high inflation rates and high operation or production costs. This has greatly reduced profitability of businesses. Consequently, entrepreneurs have had to raise the prices they charge for their products, reduce number of workers, change to alternative business ventures and buy sub-standard or low quality inputs.

Majority of the respondents felt that the government had not done enough to support entrepreneurship in the town. They complained of poor road network in the town, high levels of insecurity, poor drainage and sewerage systems, heaps of uncollected garbage, lack of a regular supply of water and poor town planning.

Further, most of the respondents felt that the policies formulated by the government on entrepreneurship were sufficient but they were not properly implemented. They felt that the government should develop a one stop shop to deal with matters concerning businesses and to regulate business activities. In addition, bar owners feel that the infamous Mututho Law should be discarded since it has negatively impacted on their businesses and significantly reduced their profit margins.

The study recommended that the government should help businesses to reduce production or operation costs by reducing the cost of fuel and energy. In addition, the government can provide subsidies to entrepreneurs and other incentives to promote entrepreneurship. The government should establish an entrepreneurship development plan that will enable entrepreneurs and other stakeholders to be more focused in their endeavour to develop entrepreneurial ventures.

The government should also develop programs that provide entrepreneurial education to entrepreneurs and people thinking of starting their own businesses. Finally, organisations or institutions involved in providing courses on various aspects of business should offer more affordable courses so as to encourage more entrepreneurs to get trained.

TABLE OF CONTENT

DECLARATION	I
DEDICATION	II
ACKNOWLEDGEMENT	III
ABSTRACT	IV
TABLE OF CONTENT	VI
LIST OF FIGURES.....	IX
LIST OF APPENDICES.....	X
LIST OF TABLES	XI
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the study.....	1
1.2 Statement of the problem	3
1.3 Purpose of the study	4
1.4 Objectives of the study.....	4
1.5 Research questions.....	4
1.6 Significance of the study	5
1.7 Delimitation of the study.....	5
1.8 Limitations of the study.....	6
1.9 Assumptions of the study.....	6
1.10 Definition of significant terms	6
1.11 Chapter Summary.....	7
CHAPTER TWO: LITERATURE REVIEW	8
2.1 Introduction	8
2.2 Historical development of entrepreneurship.....	8
2.3 Theories of entrepreneurship.....	10
2.4 The role of entrepreneurship in economic development	12
2.5 Characteristics of an entrepreneur	15
2.6 Entrepreneurial skills	18
2.7 Availability of financial resources	21
2.8 The economic environment.....	25
2.9 Government Policies	30

2.10 Government support	33
2.11 Conceptual framework	37
2.12 Chapter Summary.....	38
CHAPTER THREE: RESEARCH METHODOLOGY	39
3.1 Introduction	39
3.2 Research Design.....	39
3.3 Target population	40
3.4 Sample size and sampling techniques	40
3.5 Data Collection methods	42
3.6 Research instruments	42
3.7 Validity and reliability	43
3.8 Operationalization of the variables	43
3.9 Data analysis	45
3.10 Chapter Summary.....	45
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, AND INTERPRETATION	46
4.1 Introduction	46
4.2 Questionnaire return rate	46
4.3 Analysis of Background information.....	46
4.3.1 Age of Respondents.....	46
4.3.2 Gender of respondents.....	47
4.3.3 Education level of respondents	48
4.3.4 Type of business	48
4.4 Analysis of independent variables.....	49
4.4.1 Entrepreneurial skills	49
4.4.2 Availability of financial resources	52
4.4.3 Economic Environment.....	55
4.4.4 Government Policies and government support	57
4.5 Chapter Summary.....	60

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	61
5.1 Introduction	61
5.2 Summary of findings	61
5.3 Conclusions	62
5.4 Recommendations.....	63
5.5 Suggestions for further research	64
REFERENCES	65
APPENDICES	69

LIST OF FIGURES

Figure 2.1: Conceptual framework.....	37
Figure 3.1: Operationalization of variables.....	44

LIST OF APPENDICES

Table 3.1.7. The Overlooked Child	40
Appendix 1: Letter of introduction	69
Appendix 2: Questionnaire	70
Appendix 3: Interview schedule	76
Table 4.1. The role of the teacher	80
Table 4.2. The role of the teacher in the classroom	80
Table 4.3. The role of the teacher in the school	80
Table 4.4. The role of the teacher in the community	81
Table 4.5. The role of the teacher in the home	82
Table 4.6. The role of the teacher in the workplace	83
Table 4.7. The role of the teacher in the church	84
Table 4.8. The role of the teacher in the media	85
Table 4.9. The role of the teacher in the government	86
Table 4.10. The role of the teacher in the business community	87
Table 4.11. The role of the teacher in the sports community	88
Table 4.12. The role of the teacher in the arts community	89
Table 4.13. The role of the teacher in the environmental community	90

LIST OF TABLES

Table 3.1: Population under Study	40
Table 3.2: Study Sample Size	41
Table 4.1: Age of respondents	46
Table 4.2: Gender of Respondents	47
Table 4.3: Education Level of Respondents.....	48
Table 4.4: Type of business	49
Table 4.5: Responses on who runs business.....	50
Table 4.6: Training areas	50
Table 4.7: Person responsible for financial accounting	51
Table 4.8: Source of Start –Up capital	52
Table 4.9: Expansion of the business.....	53
Table 4.10: Sources of capital for business expansion	54
Table 4.11: Economic environment businesses operate in.	55
Table 4.12: Economic factors affecting business	56
Table 4.13: Measures taken to cope with the harsh economic environment .	57
Table 4.14: Ratings of government support to businesses.....	58
Table 4.15: Formulation of policies	59

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Entrepreneurship refers to the overall course of action undertaken by an individual in starting and managing his/her enterprise for profit. However, the term entrepreneurship continues to be used in different ways. One usage relates entrepreneurship to the process leading to the creation and running of any new business regardless of its size, product, service or potential. Another view point sees entrepreneurship as being essentially concerned with developing a new idea, based at which a risk-bearing unique product, service or method is marketed by means of setting up a new independent unit or by using an existing unit (Dollinger, 1999).

The latter notion views entrepreneurship as a complete process involving the conceptualization of an idea of what the new thing should be. What follows is the starting and running of a venture that sells the new unique product or providing a service never seen or known before. However, both usages give prominence to the fact that the entrepreneur plans, owns, organizes, and manages a concern and bears risks in expectation of profit.

Entrepreneurs are widely recognized as the prime movers of economic development. They are the people who translate ideas into action. An entrepreneur is a person who has the ability to scan and identify opportunities in his or her environment, gather the resources necessary to take advantage of opportunities and implement successful action to utilize the opportunities.

Of all those who feature in the management of the modern world economy, it is entrepreneurs who most attract our attention. We all take some view of them. We may see entrepreneurs as heroes or as self-starting individuals who take great personal risk in order to bring the benefits of new products to wider world markets. We may express concern at the pace of economic and social change entrepreneurs bring and of the

uncertainty they create. We may admire their talents or we may question the rewards they get for their efforts. Whatever our instinctive reaction to entrepreneurs, we cannot ignore the impact entrepreneurs have on our world and our personal experience of it (Wickham, 1998).

One of the key challenges in the modern world is that businesses have to be more responsive. In order to keep their places in the markets, they have to innovate more quickly. In order to compete, they have to become more agile. Consequently, the world is demanding both more entrepreneurs and more of the entrepreneur. In the more mature economies of the west, entrepreneurs provide economic dynamism. The fast-growing businesses they create are now the main source of new job opportunities. In the developing world, entrepreneurs are increasingly meeting the challenge of creating new wealth and making its distribution more equitable (Obeng and Piaray 1999; Zapalska and Edwards 2001; Trulsson 2002).

In Economics, an entrepreneur is an economic leader who possesses the ability to recognize opportunities for successful introduction of new commodities, new techniques and new sources of supply and to assemble the necessary plant and equipment, management and labour force and organize them into a running concern (Jhingan, 2001).

Whatever the form of economic and political set-up of the country, entrepreneurship is essential for economic development. In a socialist state, the state is the entrepreneur. So is the case in under-developed countries where private entrepreneurship is shy in undertaking the risks associated with new ventures. On the other hand, entrepreneurship in advanced capitalist societies of the west played a crucial role in the economic development of those countries.

According to Dollinger (1999), two conditions must exist in order for entrepreneurship to flourish. First, there must be freedom to establish an economic venture and freedom to be creative and innovative with that enterprise. Second, there must be favourable economic conditions that give an entrepreneurial organization the opportunity to gain and grow.

The entrepreneur supplies funds and other resources, supervises and co-ordinates production resources and plans, innovates and takes ultimate decisions. As aptly pointed out by Yale Brozen, "The private entrepreneurship is an indispensable ingredient in economic development in the long-run."

1.2. Statement of the problem

Entrepreneurship is seen as a solution to the problem of unemployment in developing countries. In Kenya, we are looking at self-employment as one way of creating employment for the youth. Approximately, 500, 000 graduates from various tertiary academic institutions enter the job market annually. However, due to low economic growth, rampant corruption, nepotism and demand for experience by potential employers, the majority of the youth remain unemployed.

In addition, entrepreneurial ventures that are developed by entrepreneurs play a key role in moving our nation towards basic economic objectives like having new technical innovations, improving standards of living, supplying goods and services to people as well as economic growth and development (Zimmerer, Scarborough 1988). Entrepreneurship also contributes to the development of social amenities and infrastructure. The economic history of presently advanced countries like USA, Russia and Japan supports the fact that economic growth and development is the outcome of entrepreneurship.

The theory of economic growth depicts innovation as the key not only in the development of new products and services for the market but also in stimulating investment interest in the new ventures being created. The process through which innovation develops and commercializes through entrepreneurial activity stimulates economic growth. In order for Kenya to realize vision 2030 of being a globally competitive and prosperous nation, entrepreneurship must be supported and encouraged in order for us to achieve economic growth and development.

Since entrepreneurship is vital for creation of employment opportunities and it stimulates economic growth and development, this study seeks to establish the factors that influence entrepreneurial practices in Kikuyu Town.

1.3. Purpose of the study

The purpose of this study was to establish factors that influence entrepreneurial practices in Kikuyu Town.

1.4. Objectives of the study

The objective of the study was to analyze factors influencing entrepreneurial practices in Kikuyu Town.

The specific objectives were:-

- 1). To investigate the influence of entrepreneurial skills on entrepreneurial practices.
- 2). To analyze how availability of financial resources influences entrepreneurial practices.
- 3). To find out the influence of the economic environment within which entrepreneurial ventures operate on entrepreneurial practices.
- 4). To establish the influence of government policies on entrepreneurial practices.
- 5). To analyze the role government support plays in entrepreneurial practices.

1.5. Research questions

This study sought to effectively address the following critical issues:-

- 1). To what extent do entrepreneurial skills influence entrepreneurial practices?
- 2). How does the availability of financial resources influence entrepreneurial practices?
- 3). In what way does the economic environment in which entrepreneurial ventures operate influence entrepreneurial practices?
- 4). How do government policies influence entrepreneurial practices?
- 5). What is the role of government support in entrepreneurial practices?

1.6. Significance of the study

Economic development is constrained to the development of entrepreneurial ventures that help to stimulate economic growth and development. In addition, entrepreneurship is widely seen as a solution to Kenya's problem of high unemployment levels. This is because entrepreneurs employ themselves and in turn create jobs for other people who serve as their employees.

Entrepreneurship increases per capita output and income, creates employment opportunities, provides revenue to government because the income it generates is taxed, decentralizes economic activities through the location of businesses in different parts of the country and promotes the exploitation of local resources that would otherwise lie idle.

This study sought to explore the various factors that influence entrepreneurial practices in order to help stakeholders to make informed decision in planning for the development of entrepreneurial ventures and also to create a conducive environment in which entrepreneurial ventures can easily develop and grow.

This study may also serve as a guide to entrepreneurs on what to do and what to avoid as they establish and expand their businesses. This study gives an overview on the skills that an entrepreneur should possess, the options available to entrepreneurs to finance their ventures and information on how the economic environment and government support and policies affect entrepreneurial ventures.

1.7. Delimitation of the study

This study sought to get in-depth information on various factors affecting entrepreneurial practices in Kikuyu Town. Entrepreneurial ventures within the town were classified into categories like hotels, supermarkets, kiosks, salons e.t.c. A representative sample was drawn from the target population and appropriate sampling methods were used. Though a good number of the entrepreneurs are educated, the researcher also used personal interviews in order to get information from those that are illiterate.

1.8. Limitations of the study

This study was limited to factors influencing entrepreneurial practices in Kikuyu town. In addition, the researcher faced challenges in the form of limited time for data collection and financial constraints. There was also the challenge of illiterate respondents but the researcher countered this by carrying out personal interviews in order to get relevant and accurate information.

1.9. Assumptions of the study

The study assumed that the stated objectives would be achieved and that the respondents would co-operate by answering questions in the questionnaire correctly and truthfully. The study also assumed that the sample population drawn would be representative of all entrepreneurs in Kikuyu Town. Finally, it was assumed that the research tools would be adequate in collecting data to fulfill the objectives of the research.

1.10. Definition of significant terms

Entrepreneurship: It is the act or process of identifying business opportunities, assembling the necessary resources and taking calculated risks in order to initiate a successful business activity.

Entrepreneur: A person, who takes initiative, assembles the necessary resources, risks his own money, undertakes a new venture, introduces something new and useful and is eventually rewarded with a profit or loss, monetary benefits, personal satisfaction and independence.

Entrepreneurial practice: Refers to the various activities carried out by entrepreneurs in the ventures that they have established and also how entrepreneurs respond to various situations in the business environment.

Risk: It refers to the variability of outcomes or returns that are expected from a business.

Uncertainty: It refers to the confidence entrepreneurs have in their estimates of how the world works and their understanding of the causes and effects of various phenomena in the business environment.

Entrepreneurial venture or a firm: Refers to the business started by entrepreneurs.

Economic environment: The economic factors that affect entrepreneurial ventures e.g inflation

Entrepreneurial personality: The unique characteristics that make a person an entrepreneur

1.11. Chapter summary

This chapter has given the background to this study, the statement of the problem, the purpose of this study, the objectives of the study, the research questions, significance of the study, the delimitations, limitations and assumptions of the study. In addition, it has highlighted the need or importance of entrepreneurship in the economy. The chapter has also identified the major variables under study for this research project as entrepreneurial skills, availability of financial resources, the economic environment in which the entrepreneurial ventures operate, government policies and government support.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter seeks to bring forth the existing literature on factors influencing entrepreneurial practices from various secondary sources like books, articles and journals. This chapter will also look at the historical development of entrepreneurship, the theories of entrepreneurship, the role of entrepreneurship in economic development and the characteristics that entrepreneurs should possess.

2.2. Historical development of entrepreneurship

The word entrepreneur originated from the French word 'entreprendre' which literally means "between taker" or "go between" (Hisrich, Peters, Shepherd, 2002). Over the years, the word entrepreneur has had various meanings.

In the early times, an entrepreneur was viewed as a go between. An early example of this definition is Marco Polo who would sign a contract with a money person, (forerunner of today's venture capitalist) to sell his goods. While the capitalist was a passive risk bearer, the merchant-adventure took the active role in trading, bearing all the physical and emotional risks. When the merchant-adventure successfully sold the goods and complete the trip, the profits were divided with the capitalist taking most of them (up to 75%) while the merchant-adventurer settled for the remaining 25%.

In the middle ages, the term entrepreneur was used to describe both an actor and a person who managed large production projects. In these projects, the individual did not take any risk but merely managed the project using resources provided by the government. A typical entrepreneur in the middle ages was the cleric - the person in charge of great architectural works e.g. castles, public building and cathedrals.

The re-emergence of the connection of risk and entrepreneurship developed in the 17th century, with an entrepreneur being a person who entered into a contractual arrangement with the government to perform a service or to supply stipulated products. Since the contract price was fixed, any resulting profits or losses belonged to the entrepreneur.

One of the entrepreneurs in this period was John Law, a Frenchman who was allowed to establish a royal bank. The bank eventually evolved into an exclusive franchise to form a trading company in the new world – the Mississippi Company. Unfortunately, this monopoly on French trade led to Law's downfall when he attempted to push the company's stock price higher than the value of its assets, leading to the collapse of the company. Richard Cantillon, a noted economist and author in the 1700s understood Law's mistake. He developed one of the early theories of entrepreneurship and is regarded by some as the founder of the term. He viewed the entrepreneur as a risk taker, observing that merchants, farmers and craftsmen buy at a certain price and sell at an uncertain price, therefore operating at a risk.

In the 18th century, the entrepreneur was distinguished from the capital provider (present day venture capitalist). One reason for this differentiation was the industrialization occurring throughout the world. Inventors like Eli Whitney and Thomas Edison were capital users not capital providers. Whitney financed his cotton gin with expropriated British crown property whereas Edison raised capital from private sources to develop and experiment in the fields of electricity and chemistry.

In the late 19th and early 20th centuries, entrepreneurs were frequently not distinguished from managers. In the middle of the 20th century, the notion of an entrepreneur as an innovator was established. Innovation is one of the most difficult tasks for an entrepreneur. It takes not only the ability to create and conceptualize but also the ability to understand all the forces at work in the environment.

In the 21st century, the concept of an entrepreneur has been viewed from business, managerial and personal perspective. Generally, all the definitions of Entrepreneurship today can be summarized as: "Entrepreneurship is the process of creating something new

with value by devoting the necessary time and effort, assuming the accompanying financial, physical, emotional and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.”

This definition stresses the four basic aspects of being an entrepreneur regardless of the field. First, Entrepreneurship involves the process of creating something new of value. The creation has to have value to the entrepreneur and to the audience for which it is developed. Secondly, entrepreneurship requires the devotion of the necessary time and effort. A significant amount of time and effort is required in order to create something new and make it operational. The third aspect of Entrepreneurship is assuming the necessary risks. These risks take a variety of forms but usually centre on financial, psychological and social areas. The fourth aspect involves the rewards of being an entrepreneur which are profit, personal satisfaction and independence.

2.3. Theories of entrepreneurship

Entrepreneurial characteristics aren't universal. There are no specific laws or a set of characteristics that are seen to be independent across situations to guide the entrepreneur to success. These differences in entrepreneurs can be explained by four theories that include: psychological, sociological, economical and anthropological. The field of entrepreneurship has no unified theory to explain who an entrepreneur is. Instead, it presents a body of independent theories which are supported by research evidence. The difficulty in achieving and building a universal theory has to do with the evasive nature of the entrepreneur's behaviour and cultural differences. Cultural practices vary from country to country which makes it difficult to use any of the theories to sufficiently answer the question, “What makes an entrepreneur?”

The psychological entrepreneurship theory is based on five psychological factors namely: personality traits, motives, incentives, need or achievement and locus of control. This theory states that people with a high need for achievement have a tendency to strive for success. According to McClelland, “It is the need for achievement which drives people towards entrepreneurial activities.” High achievement is associated with better performance of tasks. Hence, entrepreneurs are those who exhibit qualities of leadership in

solving persistent professional problems and demonstrate an eagerness to seize unusual opportunities. According to the psychological view of entrepreneurship an entrepreneur is goal oriented, rather than means oriented. An entrepreneur must also have a high capacity for risk sustaining, which is a function of high confidence.

Sociological entrepreneurship theory includes four social contexts that are related to entrepreneurial opportunity which include: social networks, life course stage context, ethnic identification and population ecology. Social networks focus on building social relationships and bonds that promote trust and not opportunism. The life course stage context involves analyzing the life situations and characteristics of individuals who have decided to become entrepreneurs. The experiences of people could influence their thoughts and action thereby wanting to do something meaningful with their lives. The third context is ethnic identification. This is where one's social background is one of the decisive "push" factors to become an entrepreneur. For example, marginalized groups may overcome all obstacles and strive for success. Their disadvantaged background spurs them to make better lives of themselves. The fourth context is population ecology. The idea is that environmental factors play an important role in the survival of businesses. The political system, government legislation, customers, employees and competition are some of the environmental factors that may have an impact on the survival of new ventures or the success of an entrepreneur.

John Alois Schumpeter (1934) is credited as the father of economic entrepreneurship theory. Central to this theory is the creation of something new as an important function of an enterprise and that the new creation processes serve as impulses for the motion of market economy (capitalist engine). The economic entrepreneurship view starts by the acquisition of the means of production and continually reviewing the factors, methods and processes used by the entrepreneur. The economic end is justified by the creativity and innovativeness of the entrepreneur. Here, the main incentive to entrepreneurship is the promise of wealth (Schumpeter, 1934).

Anthropology is the study of the origin, development, customs and beliefs of a community. The anthropological entrepreneurship theory says that for someone to successfully initiate a venture, the social and cultural context should be examined or

considered. According to John Kunkeil, entrepreneurial behavior is a function of the surrounding social structure and can be readily influenced by manipulation of economic and social incentives. Emphasis is on the cultural entrepreneurship model or what has been referred to as indigenous entrepreneurship. The model says that new ventures are created by the influence of one's culture. Some cultural practices lead to entrepreneurial attitudes and venture creation behaviours. Conversely, a culture that frowns on the celebration of success and achievement may not develop positive attitudes about success and this may stifle innovation and creativity. In other words, the attitudes required to affect entrepreneurial behaviour or venture creation is essentially embedded in the cultural practices of the community.

These four theories of Entrepreneurship do not offer a comprehensive and universal model because the theories in their current state are independent and narrow. Therefore, there is a need to build an integrated entrepreneurship model that will take cognisance of all four independent perspectives.

2.4. The role of entrepreneurship in economic development

An entrepreneur can be regarded as a person who has the initiative, skills and motivation to set up a business or enterprise of his or her own and who always looks for high achievements. Entrepreneurs are the catalysts for social change and they work for the common good. They look for opportunities, identify them and seize them mainly for economic gains. An action oriented entrepreneur is a highly calculative individual who is always willing to undertake risk in order to achieve his or her goals.

The entrepreneur is not a man of ordinary ability. He is an economic leader who possesses the ability to recognize opportunities for successful introduction of new commodities, new techniques, new sources of supply and to assemble the necessary plant and equipment, management and labour force and organize them into a running concern. He is the kingpin of any business enterprise for without him, the wheels of industry cannot move. Hence, entrepreneurship is an indispensable ingredient in economic development (Jhingan 2001).

Economic development is a process in which an economy not only experiences an increase in its real output per head but also undergoes major structural change such as infrastructure development and a re-allocation of resources between agricultural, industrial and service sectors (Hardwick, Khan, Langmead 1994).

Economic development essentially means a process of upward change whereby the per capita income of a country increases over a period of time. Entrepreneurship is one of the most important inputs in economic development. The number and competence of entrepreneurs affects the economic growth of a country.

The economic history of presently advanced countries like USA, Russia and Japan supports the fact that economic development is the outcome of entrepreneurship. The crucial and significant role played by entrepreneurs in the economic development of advanced countries has made the people of developing and under developed countries conscious of the importance of entrepreneurship for economic development. Active entrepreneurs exploit resources available in a country like labour, capital and technology, which greatly contributes to economic development (Sage, 1993).

Different economists with an interest in development issues have suggested different roles for the entrepreneur. Joseph Schumpeter (1934) and Israel Kirzner (1973) emphasized the role of the entrepreneur as that of identifying unexploited opportunities. Frank Knight (1921) suggested that the key role of entrepreneur was that of accepting risk. Josh Harris (1973) proposes that entrepreneurs increase the probability that a particular project will in fact be undertaken. Harvey Leibenstein (1968) emphasized the importance of entrepreneurs in creating markets where markets are lacking.

The role of entrepreneur is not identical for various economies. Depending on the material resources, industry climate and responsiveness of the political system, their role varies from economy to economy. The contribution of entrepreneurs may be more in favourable opportunity conditions than in economies with relatively less favourable opportunity conditions. Entrepreneurship aids the process of economic development in various ways:

First, Entrepreneurship aids in the generation of employment opportunities. The growing unemployment, particularly for those who are educated, is a major problem in various countries. In Kenya, the available employment opportunities can only cater for 15% of the unemployed. Entrepreneurs generate employment both directly whereby entrepreneurs become self employed and indirectly whereby they offer jobs to other people. Thus, entrepreneurship is the best way to fight the evil of unemployment.

Second, Entrepreneurship increases national income. National income consists of the goods and services produced in a country. Goods and services produced are for consumption within the country as well as to meet the demand of exports. Domestic demand increases with increased population and increased living standards. An increasing number of entrepreneurs is required to meet this increasing demand for goods and services and consequently the level of national income increases.

Third, Entrepreneurship leads to balanced regional development. When industries are concentrated in selected cities, development gets limited to these cities. When the number of entrepreneurs increases, there is increased competition within big cities and some of them are forced to set up their enterprises in smaller towns away from big cities. This boosts the development of the less developed regions which for instance benefit from improved transport and communication facilities, health, education and entertainment as a result of entrepreneurial activities.

Fourth, entrepreneurship aids in the dispersal of economic power. Industrial development may lead to the concentration of economic power in a few hands. This concentration of economic power in a few hands has its own problem in the form of monopolies. Having a large number of entrepreneurs helps in dispersing economic power to various people hence weakening the harmful effects of monopoly.

Fifth, entrepreneurship promotes improvement of living standards. Entrepreneurs play a vital role in achieving a higher rate of economic growth. Entrepreneurs are able to produce goods at a lower cost and supply quality goods at a lower price to people. When the price of commodities decreases, consumers get the power to buy more goods for their satisfaction. In this way, they can increase living standards of people.

Sixth, the Entrepreneur brings about economic development through innovation. This is because an entrepreneur is a person who always looks for change. Other than combining factors of production, he also introduces new ideas and new combinations of factors of production. He always tries to introduce newer production techniques of goods and services. This leads to efficiency in production and consequently lower production costs.

Lastly, Entrepreneurship helps in increasing productivity and capital formation of a nation. This is because entrepreneurs exploit resources that would otherwise lie idle. They also buy the tools and equipment to be used in firms which leads to capital formation in a country.

In a nutshell, the development of entrepreneurship is inevitable in the economic development of a country. The role played by entrepreneurship in economic development can be expressed in the following words: "Economic development is the effect for which entrepreneurship is the cause."

2.5. Characteristics of an entrepreneur

Entrepreneurs must have the entrepreneurial personality. This refers to the various characteristics entrepreneurs must possess in order to be successful. These are the characteristics that make the entrepreneur extraordinary and therefore more likely to succeed as an entrepreneur.

One characteristic the entrepreneur must possess is innovativeness and creativity. Creativity is the ability to develop new ideas and to discover new ways of looking at problems and opportunities. Innovation is the ability to apply creative solutions to those problems and opportunities to enrich or to enhance people's lives. Harvard's Ted Levitt says that creativity is thinking new things and innovation is doing new things. Basically, entrepreneurs succeed by thinking and doing new things or doing old things in new ways.

Creative thinking has become a core business skill. Entrepreneurs who aren't creative and innovative don't stay in business for long. Leadership expert Warren Bennis says, "Today's successful companies live and die according to the quality of their ideas." However, simply having a great new idea is not enough; transforming the idea into a product, service or business venture is the next essential step. As management legend Peter Drucker said, "Innovation is the specific instrument of entrepreneurs, the means by which they exploit change as an opportunity for a different business venture."

The second characteristic of entrepreneurs is tenacity. Typically, obstacles, obstructions and defeat don't dissuade entrepreneurs from pursuing visions. They simply keep trying. Noting the obstacles that entrepreneurs must overcome, economist Joseph Schumpeter argued that, "Success is a feat, not of intellect but of will." Milton Hershey's first three candy making businesses failed before he created the Lancaster Caramel Company, which became very successful and allowed him to build the chocolate manufacturing business that remains one of the best known candy makers in the world.

The third characteristic of entrepreneurs is that they are not driven wholly by the desire to make money. On the contrary, achievement seems to be the entrepreneur's primary motivating force; money is simply a way of keeping score of accomplishments – a symbol of achievement. Economist Joseph Schumpeter claimed that, "Entrepreneurs have the will to conquer, the impulse to fight, to prove one self superior to others, to succeed for the sake, not of the fruits of success, but of success itself." Entrepreneurs experience the joy of creating, of getting things done and of simply of exercising one's energy and ingenuity.

The fourth characteristic of entrepreneurs is preference for moderate risks. Entrepreneurs are not wild risk takers but are instead calculated risk takers. Studies show that there is no correlation between risk tolerance and entrepreneurship. Entrepreneurs rarely gamble. Their goals may appear to be high - even impossible in other people's eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable. They usually spot opportunities in areas that reflect their knowledge, backgrounds and experiences which increase their probability of success. According to Norman Scarborough, entrepreneurship is not the same thing as throwing darts and hoping for the best. It is about planning and taking calculated risks based upon

knowledge of the market, the available resources and a pre-determined measure of the potential for success. In other words, successful entrepreneurs aren't as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their venture as possible. One of the most successful ways of eliminating risks is to build a solid business plan for the venture.

The fifth characteristic of entrepreneurs is future orientation. Entrepreneurs have a well defined sense of searching for opportunities. They look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. Entrepreneurs see potential where most people see only problems or nothing at all, a characteristic that often makes them the objects of ridicule, at least until their ideas become huge successes. Entrepreneurs are interested in spotting and capitalizing on opportunities.

The sixth characteristic is a high degree of commitment. Entrepreneurship is hard work and launching a company successfully requires total dedication from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have had to overcome seemingly insurmountable barriers to launch a company and to keep it growing.

The seventh characteristic is high energy levels. Entrepreneurs are more energetic than the average person. That energy may be a critical factor given the incredible effort required to launch a business. Long hours are the rule rather than the exception and the pace can be grueling.

The eighth characteristic is tolerance for ambiguity. Entrepreneurs tend to have a high tolerance for ambiguous, ever-changing situations; the environment in which they most often operate. This ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhide says that entrepreneurs exhibit a willingness to jump into things even when it is hard to imagine what the outcomes will be.

The ninth characteristic is flexibility. Entrepreneurs have the ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to failure. As our society, its people and their tastes change, entrepreneurs must also be willing to adapt their businesses to meet those changes. When their ideas fail to live up to their expectations, successful entrepreneurs change them.

The tenth characteristic is confidence in their ability to succeed. Typically, entrepreneurs have an abundance of confidence in their ability to succeed and are confident that they have chosen the right career path. The high levels of optimism in entrepreneurs may explain why some of the most successful entrepreneurs, who have failed in business often more than once, finally succeed.

The conclusion we can draw from the volume of research conducted on the entrepreneurial personality is that no one set of characteristics can predict who will become an entrepreneur and whether or not they will succeed. Indeed, diversity seems to be a central characteristic of entrepreneurs. One astute observer of the entrepreneurial personality explains, “Business owners are a culture unto themselves – strong individualistic people who scorn convention – and nowadays, they are driving the global economy.” Entrepreneurs tend to be non-conformists, a characteristic that seems to be central to their views of the world and to their success. Anyone, regardless of age, race, gender or any other characteristic can become an entrepreneur. There are no limitations on this form of economic expression. Entrepreneurship isn’t a mystery; it is a practical discipline. Entrepreneurship is not a genetic trait; it is a skill that most people can learn.

2.6. Entrepreneurial skills

A skill is simply knowledge which is demonstrated by action. It is an ability to perform in a certain way. In order to be successful, an entrepreneur must not only identify an opportunity but must also understand it in great depth. They must be able to spot a gap in the market and recognize what new product or service will fill that gap. They must know what features it will have and why the features will appeal to the customer. The entrepreneur must also know how to inform the customer about it and how to deliver the

new offering. All this calls for an intimate knowledge of a particular industry. (Hisrich, Peters, Shepherd, 2002). Turning a business idea into reality calls for two sorts of skills:

First, an entrepreneur must have general management skills to organize the physical and financial resources needed in the venture. This calls for skills like strategic planning, marketing, financial, project management and time management skills.

In order to be strategic, the entrepreneur must have the ability to consider the business as a whole, to understand how it fits within its market place, to understand how it can organize itself to deliver value to its customers and to develop ways in which the venture can do better than its competitors. Once the entrepreneur knows the position of his business, he is then able to come up with a strategy to follow in order to achieve the objectives of the business and to have a competitive advantage over his competitors.

The entrepreneur must have excellent planning skills. He should be able to see past the firm's offerings and its features to be able to see how his business satisfies the customers' needs and why customers find his products attractive or better than those of his competitors. If the entrepreneur finds that his business is lacking in some way, he should come up with a plan. A plan is a course of action that the entrepreneur needs to take in order to improve business operations and output.

The entrepreneur must be able to aggressively market his products so as to have a high sales volume and consequently higher profits. He should have the ability to inform potential customers on the new products on offer. He should also carry out sales promotion in order to retain the customers the business already has.

The entrepreneur must have the ability to manage money. He should be able to keep track of expenditure and monitor cash flow and to assess investments in terms of their potential and their risks. The entrepreneur should be conversant with various financial statements and he should be able to interpret these statements correctly.

The entrepreneur should be able to organize projects, set specific objectives, set schedules and ensure that the necessary resources are in the right place at the right time. The

entrepreneur should also be able to use time productively. He should have the ability to prioritize important jobs and to get things done on schedule.

Secondly, an entrepreneur must have people management skills. This is because businesses are made by people. A business can only be successful if the people who make it up are properly directed and are committed to make an effort on its behalf. Therefore, an entrepreneur must have leadership, motivation, delegation, communication and negotiation skills.

Leadership is more than merely directing people; it is also about supporting them and helping them to achieve goals in a specific way and to undertake the tasks that are necessary for the success of the venture. The ability to motivate people demands an understanding of what drives people and what they expect from their jobs. The entrepreneur should have the ability to make people enthusiastic about their work and get them to give their full commitment to the tasks at hand.

The entrepreneur should have the ability to allocate tasks to different people. Effective delegation is more than instructing people. It demands a full understanding of the skills that people possess, how they use them and how they might be developed to fulfill future needs. The entrepreneur should be able to use spoken and written language to express ideas and inform others. Good communication is more than passing information; it is about using language to influence people's actions.

The entrepreneur should have the ability to understand what is wanted from a situation, what is motivating other parties to that situation and recognize the possibilities of maximizing outcomes for all parties involved. Being a good negotiator is more about being able to identify win-win scenarios than it is about being able to "bargain hard."

These skills aren't necessarily innate as they can be learnt. Entrepreneurial performance results from a combination of industry knowledge, general management skills, people skills and personal motivation. Entrepreneurs should constantly audit their abilities in these areas, recognize their strengths and shortcomings and then plan how to develop these skills for the future.

2.7. Availability of financial resources

Financial resources represent the money assets that a firm has. Financial resources comprise of the firms borrowing capacity, the firm's ability to raise new equity and the amount of money generated by the internal operations of the firm (Dollinger, 1999).

Money is the kingpin of starting a business. An entrepreneur can get money from personal savings, relatives and friends, financial institutions and other available sources. Reports show that entrepreneurs with access to credit or financial assistance are likely to perform well in their ventures than those who lack support. For entrepreneurs to expand their operations, it is imperative that funds are available. Lack of funds forms a major constraint to growth. In a situation where credit is available, it is often unaffordable for most medium and small scale enterprises.

Few people deal with the process of raising investment capital until they need to raise capital for their own firm. As a result, many entrepreneurs go about the task of raising capital haphazardly because they lack experience in this area and because they don't know much about the resources available to them. This shortfall may cause a business owner to place too much reliance on some sources of capital and not enough on others. Entrepreneurs therefore need to have a full understanding of the alternatives that are available with regard to raising money.

There are three reasons why most entrepreneurial ventures need to raise money during their early life: cash flow challenges, capital investments and lengthy product development cycles (Barringer, Ireland 2006). Inventory must be purchased, employees trained and paid and advertising must be paid for before cash is generated from sales. Therefore, to mitigate against cash flow challenges or to prevent firms from running out of money, entrepreneurs need investment capital or a line of credit from a bank to cover cash flow shortfalls until their firms can begin making money. The cost of making capital investments e.g. buying building facilities, purchasing equipment etc typically exceeds a firm's ability to provide funds for these needs on its own. In addition, some products are under development for years before they generate earnings. These up-front costs often exceed a firm's ability to fund them on its own.

Becoming a successful entrepreneur requires one to become a skilled fundraiser and this requires a lot of time and energy. In start-up companies or businesses, raising capital can easily consume as much as one half of the entrepreneur's time and can take many months to complete. Sources of finances available to an entrepreneur include:

1. **Personal savings**

There are very few ventures that are started without the personal funds put in by the entrepreneur. Personal savings is considered to be the least expensive source of funds both in terms of cost as well as in terms of control.

Money from personal savings is also essential in attracting other sources of finances e.g. commercial banks, private investors e.t.c. Lenders and investors expect entrepreneurs to put in their own money into a business. If an entrepreneur is not willing to risk his own money, potential investors are not likely to risk their money in the business either.

Failure to invest enough in one's business leads to excessive borrowing or giving up a significant portion of ownership to outsiders. This is likely to result in intense pressure on the business cash flow or reducing the founder's enthusiasm for making the business successful.

2. **Relatives and friends**

After the entrepreneur, relatives and friends are a common source of capital for a new venture. They are most likely to invest in the venture due to the relationship they have with the entrepreneur. However, obtaining finances from relatives and friends results into equity financing. One potential hazard associated with accepting help from relatives and friends is that it can cause conflicts or strain relationships if the venture doesn't work out (Barringer, Ireland 2006).

3. **Partners**

Entrepreneurs can take on partners to expand the capital base of a business. However, before getting into any partnership arrangement, entrepreneurs must

consider the impact of giving up some control over the operations of the business and having to share profits with partners.

4. **Commercial banks**

Most entrepreneurs go for loans from commercial banks when collateral is available. Relative to other countries in Africa, Kenya has a well developed financial sector. The cost of credit does not appear to be a major constraint for large enterprises. Nonetheless, medium, small and micro enterprises have severe problems accessing credit. This is due to high costs to banks of evaluating and monitoring credit to small enterprises, the absence of credit rating agencies and deficiencies in the legal system that make enforcement of debt contracts difficult. This makes collateral requirements too high for medium, small and micro enterprises. In addition, many medium, small and micro enterprises lack the capacity to process bank paperwork and they don't have access to insurance that would significantly reduce the risk to banks and the collateral required (Balisteri, Rutherford, Tarr 2008).

Historically, commercial banks have not been viewed as practical sources of financing for start-up firms. This is because banks are risk averse and financing start-ups is risky. In addition, lending to small firms is not as profitable as lending to large firms which have historically been the staple clients of commercial banks (Baringer, Ireland 2006).

Despite these historical precedents, some banks are starting to engage start-up entrepreneurs. Some banks are re-thinking their lending standards and are beginning to focus on cash flow and the strength of the management team rather than on collateral and the strength of the balance sheet.

5. **Public and private offering**

Public offering refers to the sale of a firm's shares to the public. Private placing the other hand is the sale of stock to specific individuals. It enables a firm to obtain the needed funds with less public disclosure. These funds are frequently in the form of

intermediate or long term debt with a float interest rate or preferred stock with specific dividend requirements.

6. **Merry go round**

This is where several people team up and contribute a certain amount of money per person, say at the end of every month. The total amount collected is given to one member at a time. This continues until all the members have had their turn. This system is more popular with ladies than with men.

Since the group is informal, it is important that the team members are familiar with each other. This option of raising funds is popular in the informal sector where loans are hard to acquire. Members of these informal societies are united by unity of purpose: to raise funds through committed savings and lump-sum receipts.

It is important that the teams are not too large so that one doesn't have to wait for too long for their turn. A membership of beyond ten may not be desirable unless members agree to split each collection so that two members benefit each time. A member can belong to several such groups at a go depending on one's income and ambition. Some of these groups retain some money which can be lent to the members for short periods without interest. This ensures that members have somewhere to run to in case of any urgent financial need (Ncebere, 1999).

7. **Co-operative societies**

A co-operative society is a body of people or an association of persons who have agreed to work together in order to achieve common goals. Members of a co-operative get together voluntarily, contribute capital to the co-operative, bear a fair share of the risk of the undertakings and also enjoy its benefits (Indire, Nyam, Mbuvi, 2008).

In co-operatives, members pooling their resources together in order to enjoy economies of scale. Members contribute to the pool of resources by buying as many shares as possible. When a member has a problem, he or she can borrow from the pool of available resources. This concept enables members of co-

operatives to distribute their problems among all members and therefore there will be less effect as compared to a situation where the individual has to solve the problem alone (Nasio, Ali, 2003).

Kenya has three main types of co-operative societies; producer, consumer, savings and credit societies. Compared to bank loans, loans from co-operative societies are easy to acquire and cheap to service.

8. Micro-finance institutions

The Kenyan micro-finance industry has grown in response to the lack of access to formal financial services for most of Kenya's poor people. Commercial banks have very limited rural outreach which denies rural areas an important service that supports wealth creation. Moreover, small business owners have been kept away from commercial banks by cumbersome account opening procedures and operating rules, high transaction costs and unfriendly credit terms. Hence, micro-finance institutions in Kenya have become a popular source funds for small and medium business enterprises (Dondo, 2006).

Whereas most banking services have a greater demand for savings accounts than for loan accounts, the micro-finance industry tries to force every saver to also be a borrower because micro-finance institutional viability is dependent on expanding the loan portfolio. The services of micro-finance institutions are designed as a means of collateralizing loans and providing low-cost capital. They are not designed to meet small businesses' need for saving (Hulme, 2000).

2.8. The economic environment

In Kenya today, businesses are operating under a very challenging economic environment. Businesses are battling with the rising inflation rates and the increased cost of production. This has led to reduced profitability and it has forced firms to look for alternative ways of cutting costs in order to remain in business. This section will address the effect of inflation and high operational costs on entrepreneurial ventures.

The term inflation originally referred to increases in the amount of money in circulation in an economy. However, most economists today use the term inflation to refer to the rise in price levels. Economists generally agree that in the long run, inflation is caused by increases in money supply. However, in the short and medium term, inflation is largely dependent on demand and supply pressures in the economy (Trichet 2004).

An increase in the general level of prices implies a decrease in the purchasing power of currency. This means that each monetary unit buys fewer goods and services. Economist Wilson Kenyatta says that inflation is a thief that robs you off your purchasing power in addition to eating into your savings. According to the Kenya National Bureau of Statistics, inflation has been rising consequently for the last five months. The Central Bank of Kenya reported that inflation peaked at 9.19% as at the end of March 2011 and 14.05% in the month of June 2011. According to financial analysts, the current wave of inflation in Kenya is driven by the rise in crude oil prices and food prices and a depressed foreign exchange rate (Standard Newspaper 18/4/2011).

The effect of inflation is not distributed evenly in the economy and as a consequence there are hidden costs to some and benefits to others from this decrease in the purchasing power of money. For example, during inflation, lenders or depositors who are paid a fixed interest rate on loans at deposit will lose purchasing power from their repayment schedule if it is fixed. Individuals or institutions with cash assets will experience a decline in the purchasing power of their holdings. Increases in payments to workers and pensioners often lag behind during inflation especially for those with fixed payments (Taylor, Timothy 2008).

High or unpredictable inflation rates are regarded as harmful to the economy. It creates inefficiencies in the market and makes it difficult for businesses to budget or plan long term. Inflation can act as a drag on productivity as businesses are forced to shift resources away from products and services in order to focus on profits and losses from currency inflation.

Uncertainty about the future purchasing power of money discourages saving and investment (Bilkley, George 1981). This is because when prices rise rapidly, the propensity to save declines because more money is needed to buy goods and services than before. Reduced saving adversely affects investment and capital formation which hinders production. In addition, investors are not going to risk their capital if they don't think that there is a good profit to be made. If entrepreneurs are uncertain about where the economy is going they will be less likely to take risks and expand.

When the prices go up it means that workers will demand for higher pay in order to keep up with the rising consumer prices. Providing higher pay can take a huge chunk out of profits thus discouraging entrepreneurship. In the cost – push theory of inflation, raising wages further fuels inflation. In the case of collective bargaining, wage growth will be set as a function of inflationary expectations, which will be higher when inflation is high. This can cause a wage spiral. In a sense, inflation budgets further inflation.

During inflation, people buy durable and non – perishable commodities and other goods as stores of wealth in order to avoid losses expected from the declining purchasing power of money. This creates shortages of the hoarded goods. You also find that with high inflation, firms must change their prices often in order to keep up with the economy wide changes although changing prices is itself a costly activity.

Inflation is socially harmful. By widening the gulf between the rich and the poor, rising prices create discontent among the masses. Pressed by the rising cost of living, workers resort to strikes which lead to reduced productivity. Inflation can also lead to massive demonstrations and revolutions in countries. For instance, inflation is considered to be one of the main reasons behind the revolutions in Egypt and Tunisia. Lured by profits, people resort to hoarding , black marketing and adulteration of products. Manufacture of sub-standard commodities, speculation e.t.c. reduces the efficiency of the economy.

Inflation is often defined to mean a general increase in prices. However this definition fails to emphasis a key fact – that inflation increases uncertainty (Carlton 1982). This uncertainty clouds the decision making of consumers and businesses and it also reduces their economic well being. Without this uncertainty, consumers and businesses could

plan better for the future. According to many analysts, uncertainty about future inflation rates rises as inflation rises.

Uncertainty about inflation causes businesses and consumers to make economic decisions that differ from the ones that they would otherwise make. Analysts refer to these effects as ex – ante due to decisions made in anticipation of future inflation or ex – post which are the effects that take place after decisions have been made (Golob 1994).

Uncertainty about inflation can affect the economy ex – ante through three channels. First channel is by increasing long – term interest rates. An important determinant of interest rates is the return required by investors. If inflation is uncertain, the return on the long – term debt will be riskier. Consequently, investors will require higher long – term interest rates. Higher interest rates in return imply that businesses will invest less in physical capital.

The second channel is by causing uncertainty about interest rates and other economic variables. When the payments in a contract are not indexed to inflation, the real value of future payments becomes uncertain. For example, inflation uncertainty can cause employers and employees to be uncertain about future wages and also causes landlords and tenants to be uncertain about future rents. This uncertainty about interest rates and other economic variables can reduce economic activity. When businesses are uncertain about interest rates, wages, tax rates and profits, they may choose to delay hiring, production and investment decisions until some of the uncertainty is resolved.

The third channel is businesses spend resources in order to avoid the risks of future inflations. Businesses may spend more resources improving their forecast of inflation and they may try to hedge against unexpected inflation using specialized financial instruments. Both forecasting and hedging activities imply that resources are diverted from more productive business purposes. While these strategies reduce the risk of unexpected inflation, they don't eliminate risk. Furthermore, forecasting and hedging activities are not practical for small and medium businesses.

Ex – post effects occur when the inflation rates differ from what had been expected. Unexpected inflation leads to a transfer of wealth whenever the payments in a contract are specified in nominal dollars. When the inflation rate is higher than forecasted, the real value of nominal payments is lower than expected.

During inflation, businesses tend to collapse due to the rising costs of doing business. Inflation causes serious problem for small and medium size business owners because it tends to compound all of their other operational problems. It tends to push up the working capital requirements of a business. Many small and medium businesses cannot cope with high levels of inflation for extended periods. Most of them are in keenly competitive markets with very little control over the prices they can charge and they usually cannot quickly and effectively establish cost controls. The result is that small and medium businesses are particularly vulnerable to inflationary price movements.

The rising cost of fuel in Kenya today has a direct impact on the cost of transport, energy and manufacturing (Standard Newspaper 16/04/2011). Increased cost of doing business or increased production costs eats into the profit of a business and also reduces production as it becomes more expensive to produce a unit of output. In this case, firms are forced to either put in more money so as to retain production levels or to reduce production if they don't have extra financial resources to put into production.

The rising cost of doing business or high production costs forces firms to pass on the extra cost to consumers. This makes commodities in the market to become more expensive and hence less appealing to consumers. In addition, people cut back on their spending in the hope that prices will fall again. This has the effect of reducing demand for commodities in the market hence the sales volume for a business is reduced. When the sales volume is reduced, profitability also reduces. This leads to unemployment and people will have even less money to spend on goods and services.

In a nutshell, inflation and high costs of doing businesses are detrimental to entrepreneurial development and practice. It makes it increasingly difficult for firms to remain in businesses due to the reduced profitability of firms.

2.9. Government policies

In order to promote entrepreneurship in a country, the government needs to develop entrepreneurship policies that promote and support entrepreneurial development and practice. This section seeks to address the various policies that can be formulated to support the development and growth of entrepreneurial ventures.

An enduring claim in the field of entrepreneurship is that entrepreneurial activity promotes economic growth and development. This realization in turn, has generated a significant amount of interest on how government policies may be instrumental in fostering entrepreneurial activity (Minniti, 2008). As a result, policy discussions have centered on the idea that governments seeking to stimulate their economies should reduce constraints on entrepreneurship (Minniti, Bygrave & Autio; 2009).

The major shortcomings in the medium and small enterprise sector development in Kenya have been inappropriate policy designs, weak implementation framework and failure to institute and effectively monitor policy formulation process and design which has not been consultative and has mainly been driven by government. As a result, the policies have failed to address the specific needs of the target groups and they have lacked ownership by entrepreneurs. At the operational level, poor coordination has led to the duplication of efforts and sub-optimal utilization of scarce resources. There is no mechanism for coordinating all the stakeholders and facilitating their participation in policy development and implementation.

Prior to liberalization, the government had a policy which provided guidance on how distribution of both locally manufactured and imported goods was to be undertaken. The policy prohibited manufacturers from engaging in distribution, wholesale or retail trade. Similarly, an importer of bulky common user goods could not be licensed to engage in retail trade. The government had also established State Trading Enterprises like Kenya Meat Commission, Kenya Seed Company among others to deal with distribution of bulky commodities that were considered essential for the welfare of Kenyans (National Trade Policy, 2009).

With the liberalization of the economy, the role of these State Trading Enterprises has been minimized as implementation of the policy was relaxed. This led to some manufacturers engaging in the distribution of their own manufactured products as well as importers of bulky common user goods engaging in wholesale and retail trade. Consequently, manufacturers and importers are in direct competition with retailers and wholesalers. In addition, some business firms whose core business is basically retail e.g supermarkets are also undertaking distribution and wholesale thus posing a big challenge to the small distributors and wholesalers.

The licensing of businesses by local authorities in Kenya is a major impediment to entrepreneurial development and practice. Whereas efforts have been made to simplify licensing through the single business permit, this has not reduced the cost of doing business. The single business permit is still associated with high fees and inappropriate implementation mechanisms.

In addition, traders in the country are subjected to multiple and cumbersome taxation. Whereas Kenya has reduced the corporate tax rate in recent years to be more comparable to its neighbours within East Africa, the financial burden of taxation is still considered to be a major constraint to the operations and growth of businesses as profitability is reduced significantly. More specifically, the high tax burden is mainly due to the high profit tax rate of 32.5% which is the highest in East Africa. Furthermore, there is double taxation of profits which coupled with multiplicity of taxes such as local government levies; central government, user charges, internal taxes such as VAT and excise tax has a negative impact on business.

The challenge to the government is to rationalize the licensing regime and reduce the tax burden without compromising the provision of public amenities that are necessary for the growth and development of business enterprises in the country.

The area of promoting entrepreneurship is one of the more underdeveloped strategic areas of entrepreneurship policy development. It is widely recognized that exposure to credible role models is an important aspect of entrepreneurial development as is the premise that the more exposure one has to information and knowledge about entrepreneurship, the

more likely there are to choose it as an option. Mass media coverage is an effective strategy to bring about widespread awareness of entrepreneurship in society and to increase its legitimacy. Newspaper features, stories about the role of entrepreneurship in the economy and the profiles of entrepreneurial activity serve to stimulate discussion, raise awareness and demystify the entrepreneurial process. The government can also sponsor entrepreneurship or business awards.

One approach to enhancing entrepreneurial activity and enterprise growth in developing countries is to create an "enterprise culture" among the youth of the country (Nelson and Mburugu, 1991). By focusing on the youth while they are still in school, this approach may provide a long term solution to the problem of job growth (Nelson, Johnson 1997). To achieve a widespread "enterprise culture" in the long run, education and training programs in Kenya must integrate business, technology, self-employment and entrepreneurship into the curriculum. This idea was supported by the Presidential Working Party on Education and Manpower Training for the Next Decade and Beyond (1988), which recommended that entrepreneurship be taught in all technical training institutions.

Entrepreneurship education is very important in creating a more entrepreneurial society. The government should develop policies to integrate entrepreneurship education in the curriculum throughout the school system at all levels from primary schools to institutions of higher learning. The educational and training systems of many countries have in the past favoured the professional and the white collar jobs at the expense of encouraging people to become self employed by developing their own business. Education and training institutions have often not considered enterprises as a viable source of economic employment. The government should institute measures to give more professionalism to entrepreneurship which will create new respectability to entrepreneurship. The government can also fund centers where the entrepreneur can go to get advice and training about how to establish and operate a business enterprise.

While technical skills are needed by successful entrepreneurs, it is important to identify differences between technical skills and entrepreneurship capabilities. This distinction is important because there are many training programs for technical skill development but relatively few entrepreneurship development programs currently exist in Kenya. Most

existing entrepreneurship development programs have been designed for entrepreneurs who are already in business.

Government also needs to target special groups for focused attention. This is based on the fact that entrepreneurs are a heterogeneous group with different backgrounds, experience, motivations, behaviours and needs; and that certain demographic segments of society are under-represented in business ownership. Once the target group is identified, the government comes up with support mechanisms that are specific to the target group. In Kenya for example, specific policies have been made and measures taken to encourage entrepreneurship among women and the youth.

Entrepreneurship is the mechanism through which economic growth takes place but institutions such as the policy environment are what allocate entrepreneurial efforts towards productive activities by influencing the relative incentives and payoffs offered by the economy to such activities. Government policies mould institutional structures for entrepreneurial action, encouraging some activities and discouraging others. It is therefore clear that government policy has the power to influence entrepreneurial activity.

2.10. Government support

Other than formulating the relevant policies to promote entrepreneurship in Kenya, government support and goodwill towards entrepreneurship is also necessary.

The government has so far undertaken a number of trade facilitation measures aimed at easing, speeding and reducing the cost of movement of goods in the domestic market and across borders. The Kenya Revenue Authority has introduced Taxpayer Charter which stipulates the time and procedures for export documentations. Similarly, Customs Office Department has introduced reforms and modernization programs including introduction of customs procedures based on risk analysis; a community-based system for electronic exchange of information and documents among relevant authorities; an internet reference system for accessing statutory information and simulating transaction costs; and an electronic payment system.

However, Kenya's trade competitiveness based on export and import and export facilitation has been affected by the number of export and import documents, time for processing export and import procedures, multiple approval requirements and the cost of shipment of goods across borders. These numerous import and export procedures and high costs of cross border shipment of goods have placed Kenya's business community at a disadvantage relative to their competitors from other countries.

An enabling legal and regulatory environment is imperative for entrepreneurship to play an effective role as an engine for economic growth, poverty eradication and employment creation. Some laws that are in existence are cumbersome, out of step with current realities and hostile to the growth of entrepreneurial ventures. Specifically, the bylaws applied by many local authorities are not standardized and are in most cases punitive instead of facilitative. Further, the bureaucratic and lengthy process of transacting business with government agencies adversely impacts on the operations of business by diverting resources from production to sheer housekeeping.

The government can provide administrative support and remove barriers to the successful development and the growth of entrepreneurial ventures. Entrepreneurs wishing to establish enterprises often face bureaucratic barriers and a little support from government. They must get licenses and permits, obtain registration, run contracts and source supplies. All these things take time and cost money. In addition, the entrepreneur often has to deal with different government departments. The government can put in place policies and measures to reduce these bureaucratic barriers and to help entrepreneurs to handle problems associated with establishing enterprises.

The government can develop one stop shops where entrepreneurs can go and conclude all their dealings with the government in the registration of new businesses; complete all transactions with government regulators; and access information and advice. With the advent of internet, the government can develop a range of websites and portals to provide information and services to new and existing entrepreneurs. This reduces the need for entrepreneurs to physically go to the government offices for information and services.

The existing tax regime is not only cumbersome but also a deterrent factor in the growth of entrepreneurial ventures. The tax regime does not encourage businesses to either register or pay taxes. Instead it serves as a formidable barrier to the graduation of informal enterprises into the formal sector. It also increases compliance costs and restricts upward mobility of enterprises. Value added Tax which is applicable to most products and services is costly for businesses to administer, increases transaction costs and inhibits cash flow for enterprises. In addition there is lack of vigilance by custom administrators against the dumping of substandard imported goods. This poses unfair competition to local entrepreneurs. Cost and delays in clearing imports and exports through customs pose a threat to productivity and market outreach of most enterprises as well as deterring domestic investment.

The government has the responsibility of ensuring social order, stability and security. A society that is safe and free from crime encourages the development of enterprises and also encourages investors to invest. Security also enables business to operate for longer hours as opposed to having to close down business early for fear of being robbed.

Access to affordable trade finance is a major challenge to trade development. Establishing an enterprise can cost a lot of money and commercial loans are often not available without collateral - even if the entrepreneurs have good business proposals. Even when loans are available, repayments and interest rates can take up a lot of the profit of a business. Governments can encourage credit unions and people's banks as well as creating supportive financial policies and programs. The government can also provide tax shelter programs for new business.

In spite of high liquidity in the financial sector, there are no innovative credit products to support economic growth such as lending for long term investment and working capital. Where such lending exists, collateral requirements are forbidding, interest rates and bank charges are high and repayment terms are unfriendly. There are also concerns about availability of suitable financial products to cover risks associated with exchange rate fluctuations. The premium charged by commercial banks where such products exist is often prohibitive.

Finally, the government has embarked on a number of infrastructural programs including roads, energy, rail transport and Nairobi Metropolitan development programs among others. Businesses need good facilities and services in order to produce and deliver their goods and services successfully. Good roads, reliable power and water supply as well as cheap and reliable telecommunication facilities all aid entrepreneurship and encourage the development of the new enterprises. The government should also provide other services like proper drainage systems and proper collection of garbage so as to ensure that businesses operate in a clean and healthy environment.

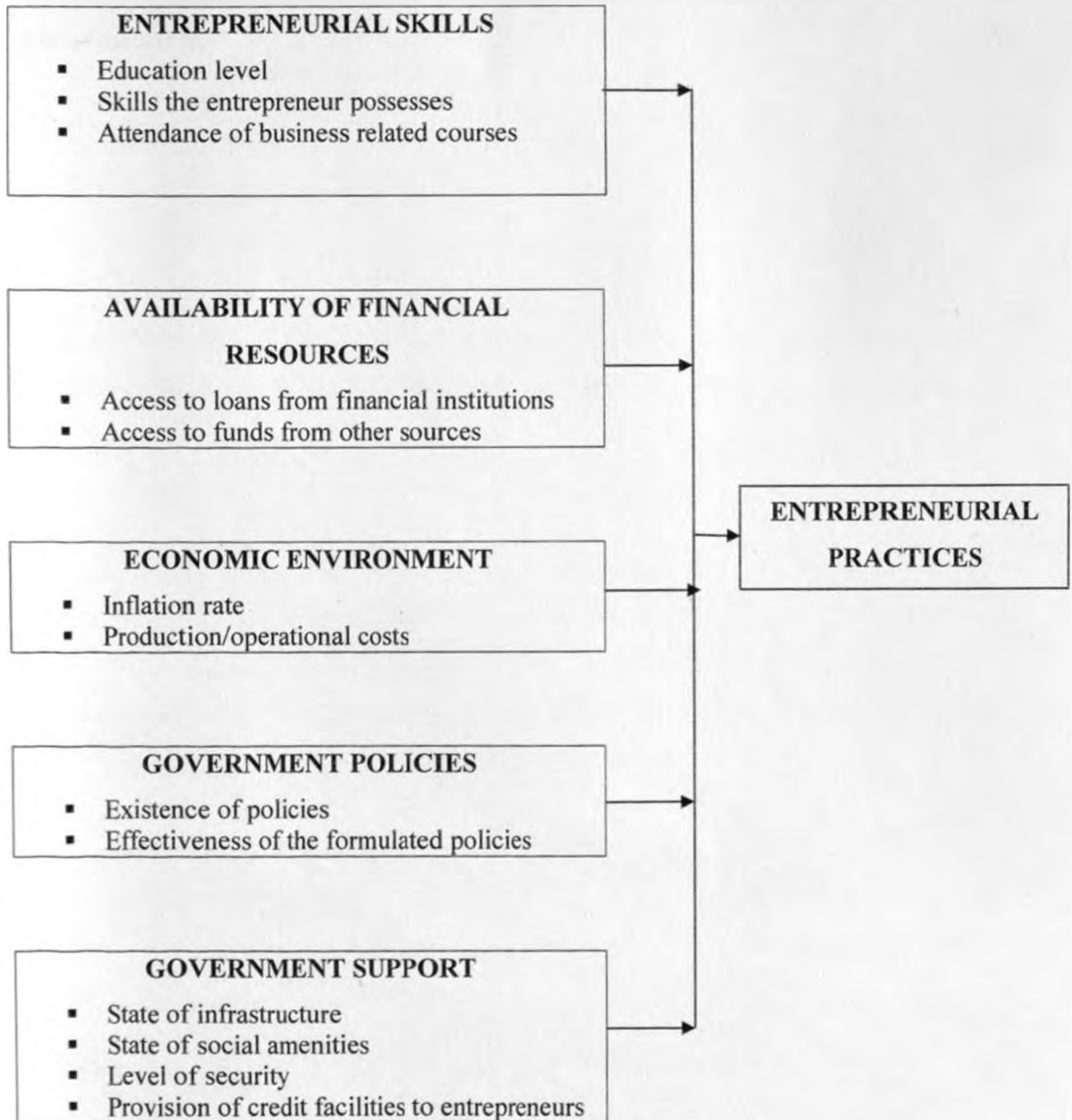
According to the Business Operations Survey carried out by the Kikuyu Traders Welfare Association in June 2009, respondents were of the opinion that the local government was not doing enough to make sure that access roads are well maintained. Traders complained of incurring huge losses during the rainy season as it became difficult to access supplies and distribute commodities to consumers. They also complained of insecurity, poor drainage systems, heaps of uncollected garbage, lack of a regular supply of water and poor town planning.

This section has highlighted the various ways in which the government can support entrepreneurship by providing various services. The government plays a major role in creating a favourable business environment in which enterprises can flourish.

2.11. Conceptual framework

The conceptual framework shows the relationship between independent variables and the dependent variable. For this research, the dependent variable is entrepreneurial practices whereas factors influencing entrepreneurial practices namely entrepreneurial skills, availability of financial resources, the economic environment, government policies and government support are the independent variables.

Figure 2.1: Conceptual framework



2.12. Chapter summary

This chapter has given detailed information on the five major factors that influence entrepreneurial practices which are: entrepreneurial skills, availability of financial resources, the economic environment within which entrepreneurial ventures operate, government policies and government support. This chapter has also outlined the historical development of entrepreneurship, theories of entrepreneurship, role of entrepreneurship in the economy and characteristics of entrepreneurs. Finally, this chapter has given a conceptual framework showing the relationship between various variables that affect entrepreneurship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This section seeks to give a detailed outline of how the study was carried out. It describes the research design, the target population, the sample and sampling procedure, data collection methods, research instruments, validity and reliability of the instruments and the methods of the data analysis used.

3.2. Research design

A research design is a program used to guide the researcher in collecting, analyzing and interpreting observed facts (Orodho 2004). It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.

In this study, descriptive survey design was used. Descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subjects in the study (Mugenda and Mugenda; 1999). Robson (1993) indicates that descriptive studies are advantageous in the sense that they collect information that can be generalized for the whole population.

Descriptive survey design enabled the researcher to have a systematic collection and presentation of data in order to give a clear picture on the factors influencing entrepreneurial practices in Kikuyu Town.

3.3. Target population

According to Kombo and Tromp (2006), a population is defined as a complete group of individuals, items and objects from which samples are taken for measurements. The target population for this study was made up of enterprises operating as hotels, bars, supermarkets, retail shops or kiosks, salons, chemists, cyber cafes, and hardware shops in Kikuyu Town and licensed by the Kikuyu Town Council as at December 2010. In addition, government officials (Town Clerk Kikuyu County Council and the representative of the Kenya National Chamber of Commerce and Industry) in Kikuyu town were interviewed.

Table 3.1 shows the classification and distribution of enterprises in Kikuyu Town as provided by the Kikuyu Town Council.

Table 3.1: Population under Study

Type of business Enterprise	Total Population
Hotels and Eateries	32
Bars	39
Supermarkets	9
Kiosks/Retail shops	45
Chemists/Pharmacies	9
Cyber Cafés	12
Hardware shops	21
Salons	36
TOTALS	203

Source: Kikuyu Town Council (December 2010)

3.4. Sample size and sampling techniques.

Kombo and Tromp (2006) refer to Orodho and Kombo (2000) in defining sampling as a process of selecting a number of individuals or objects from a certain population which when selected will contain all the representative elements bearing all the representative

characteristics in the group. According to Webster (1985), a sample is a finite proportion of the statistical population with properties that will be studied to have information of the whole population.

For this study, the sampling methods used were stratified random sampling and simple random sampling. Stratified random sampling involves dividing population in homogeneous groups or strata. Samples were then taken from each sub-group or stratum using simple random sampling in order to get a representative sample for the whole population targeted. The use of simple random sampling to get a sample from each stratum ensures that all individuals in the selected population have equal chance to be selected for the sample. Samples were then taken from each stratum independently of each other in order to ensure proper representation of the targeted population.

There are many categories of businesses being operated in Kikuyu Town but for the purpose of this study, there were 8 strata or sub-groups namely: Hotels, bars, supermarkets, kiosks/retail shops, salons, chemists/pharmacies, cyber cafes, and hardware shops. According to Corchran (1977), a sample of 30% of the population is sufficient for the study. Therefore, from each of these sub-groups or strata, a sample of 30% of the population was picked using simple random sampling.

Table 3.2: Study Sample Size

Type of business Enterprise	Total Population	Sample Population
Hotels and Eateries	32	10
Bars	39	11
Supermarkets	9	3
Kiosks/Retail shops	45	13
Chemists/Pharmacies	9	3
Cyber Cafés	12	3
Hardware shops	21	6
Salons	36	11
TOTALS	203	60

3.5. Data collection methods

Data collection is about bringing together specific information aimed at supporting or refuting some facts. Information was collected by conducting interviews, administering questionnaires and through observation whereas secondary data was collected from written records and reports from previous studies carried out. Gray and Eurasian (2003) assert that personal administration of questionnaire is efficient when participants are closely situated as is the case in Kikuyu Town. Accordingly, the researcher administered the questionnaires to the respondents personally.

3.6. Research instruments

It was necessary to develop instruments that were to be used to obtain the views of various entrepreneurs since a wide coverage on this topic was desirable. Therefore, questionnaires were most appropriate for this study.

The questionnaire had both closed ended questions, where respondents were offered a set of answers and asked to choose the one that most closely represents their views; and open ended questions where respondents gave their opinions in full. Since the sample population has both literate and illiterate individuals, the literate were given the questionnaires to fill whereas the illiterate were interviewed on the basis of the questions in the questionnaire.

The researcher also developed an interview schedule to interview government officials. This enabled the researcher to get all the relevant information from the officials in the shortest time possible. The interview comprised of questions on government policies and government support.

3.7. Validity and reliability

Validity is the accuracy and meaningfulness of inferences which are based on the research results. It is the degree to which results obtained from data analysis actually represents the phenomenon under study (Mugenda and Mugenda 1999). In order to ensure validity, the researcher ensured that the sampling techniques used resulted in unbiased representation of the population. The researcher also ensured that the research instruments are accurate by making the necessary adjustments after testing the instruments and ensuring that they gave the required and relevant information. Information gained from using the instruments was cross-checked with other sources e.g. secondary data to ensure authenticity and accuracy.

Kombo and Trump (2006) define reliability as a measure of how constant the results from a test are after repeated trials. Mugenda and Mugenda (1999) states that pre-testing helps in enhancing the reliability of the instrument as being a consistent measure of the concept being studied. They further propose that a pre-test sample could be between one percent and ten percent of the study sample depending on its size. Thus the bigger the size, the smaller the percentage used. To ensure reliability, the tools were presented to a small sample to determine the accuracy and suitability of the research instruments. The necessary adjustments were made before the final survey was carried out.

3.8. Operationalization of the variables.

Figure 3.1 shows the operationalization of variables under study. This table shows the independent variables, the indicators that show the success of each and the measurements used.

Figure 3.1: Operationalization of the Variables

RESEARCH OBJECTIVES	RESEARCH QUESTIONS	INDEPENDENT VARIABLES	INDICATORS	MEASUREMENT SCALE
To investigate the influence of entrepreneurial skills on entrepreneurial practices.	To what extent do entrepreneurial skills influence entrepreneurial practices?	Entrepreneurial skills	Education level Skills the entrepreneur possess Attendance of business related courses	Nominal Nominal Nominal
To analyze how availability of financial resources influences entrepreneurial practices.	How does the availability of financial resources influence entrepreneurial practices?	Availability of financial resources	Access to loans from financial institutions Access to other sources of capital	Nominal Nominal
To find out the influence of the economic environment within which entrepreneurial ventures operate on entrepreneurial practices.	In what way does the economic environment in which entrepreneurial ventures operate influence entrepreneurial practices?	Economic environment	Inflation rate Production or operational costs	Ratio Ratio
To establish the influence of government policies on entrepreneurial practices.	How do government policies influence entrepreneurial practices?	Government policies	Existence of policies Effectiveness of the policies formulated	Nominal Ordinal
To analyze the role government support plays in entrepreneurial practices.	What is the role of government support in entrepreneurial practices?	Government support	State of infrastructure State of social amenities Level of security Credit provision	Ordinal Ordinal Ordinal Ordinal

3.9. Data analysis

Data analysis refers to the computation of certain measures along with searching for patterns of relationships that exist among data groups. It involves categorizing, manipulating and summarizing of data to obtain answers to research questions. It enables the researcher to reduce data to intelligible and interpretable form using statistics.

Data analysis was centered on descriptive statistics and statistical packages for social science (SPSS) was used to process the data. Frequencies and percentages were used to answer research questions and objectives in relation to the research topic.

The researcher grouped the raw data under broad themes to ensure the data was uniformly entered, accurate and completed as required in order to facilitate coding and tabulation. Thereafter, data was analyzed, summarized and presented using percentages, frequencies and tables for interpretation.

3.10. Chapter summary

This chapter has given insight into how the researcher collected data, analyzed the data, determined sample and sample sizes, the instruments used and how validity and reliability was ensured in order for the study on factors influencing entrepreneurial practices in Kikuyu Town to be successful. The study adopted descriptive survey design and the probability sampling approaches used were stratified random sampling and simple random sampling. The research instruments used were questionnaires, interviews and observation. The chapter has also given an overview of how the researcher analyzed the data collected and presented it.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, AND INTERPRETATION

4.1. Introduction

This chapter presents the analysis of research findings. The first part deals with demographic information whereas the second part deals with research objectives. Data is presented in both descriptive and tabular form.

4.2. Questionnaire return rate

Questionnaire return rate is the proportion of the sample that participated in the study as intended in all research procedures. The questionnaires were administered to a sample of 60 respondents. Out of these, 50 respondents dully filled and returned the questionnaires. The questionnaire return rate was 83%.

4.3. Analysis of background information

4.3.1. Age of Respondents

The respondents were asked to indicate their age. The responses are presented in table 4 below:

Table 4.1: Age of respondents

N=50

Age	F	%
Below 25 years	6	12.0
26 – 35	20	40.0
36 – 45	10	20.0
46 – 55	8	16.0
Over 55	6	12.0
Total	50	100.0

Data in Table 4.1 indicates that majority of the respondents (40%) were aged between 26 - 35 years; 12% were below 25 years; 20% were between 36 – 45 years; 16% were aged between 46 – 55 and 12% of the respondents were over 55 years of age.

This shows that most of the business people in Kikuyu town are in their prime age i.e 25-35 years. This favours entrepreneurial practices since people in this age bracket have the strength and energy required to develop and run businesses.

4.3.2. Gender of Respondents

The study sought to establish the gender of respondents. The responses are tabulated in Table 4.2 below.

Table 4.2: Gender of Respondents

N=50

Gender	F	%
Male	30	60.0
Female	20	40.0
Total	50	100.0

Data in Table 4.2 indicates that out of the 50 respondents who participated in the research, 30 (60%) of them were male whereas 20 (40%) were female. This data indicates that there are more male entrepreneurs than their female counterparts.

This can be attributed to the fact that socio-cultural factors favour male entrepreneurs more than female entrepreneurs. Some of the challenges that female entrepreneurs face include: Unequal access to land and property which means that women are unable to secure loans for their businesses; Lack of decision making authority since women have always been subjected to dependence on significant men in their lives when it comes to decision making; Stereotyping whereby societies are largely negative about female entrepreneurs in terms of their capabilities and they think that they are doomed to fail in a male dominated environment; Domestic commitments e.t.c.

4.3.3. Education Level of Respondents

The study sought to establish the education level of respondents. The results are tabulated in Table 4.3 below.

Table 4.3: Education Level of Respondents

N=50

Education Level	F	%
Primary	10	20.0
Secondary	30	60.0
University / college	10	20.0
Total	50	100.0

The findings in table 4.3 indicate that majority of the respondents (60%) had attained secondary education, (20%) University / college education and (20%) had attained primary education.

The levels of education impacts on entrepreneurial practices because it determines the ability of entrepreneurs to set objectives, organize projects and direct people. Further, the level of education influences the entrepreneur's ability to understand what is wanted from a situation, motivate people working for him and maximize outcomes from his business.

The fact that most of the respondents have secondary education means that most of the entrepreneurs in the town are literate. This means that they are able to communicate effectively with clients and suppliers, keep proper business records and carry out other activities in the business effectively.

4.3.4. Type of Business

The researcher further sought to establish the type of business carried out by respondents. The findings are presented in Table 4.4 below.

Table 4.4: Type of business

N=50

Business	F	%
Hotels and eateries	8	16.0
Bars	9	18.0
Supermarkets	3	6.0
Kiosks / retail shops	13	26.0
Salon	9	18.0
Cyber-café	2	4.0
Chemist	2	4.0
Hardware shop	4	8.0
Total	50	100.0

Data in Table 4.4 indicates that majority of the entrepreneurs operate kiosks or retail shops. This is probably because they are easy to start compared to other businesses. This implies that the respondents' capital base for starting up entrepreneurial ventures is minimal or little hence leading them to sticking to small scale businesses.

4.4. Analysis of independent variables

4.4.1. Entrepreneurial skills

One of the research objectives was to investigate the influence of entrepreneurial skills on entrepreneurial practices.

Entrepreneurs must possess entrepreneurial skills in order for them to successfully start and run a business. They must have general management skills, financial management skills, planning skills, e.t.c. Fortunately, entrepreneurial skills are not necessarily innate and can be learned by attending business training courses in various aspects of the business.

The researcher sought to find out who runs the respondents' business. The responses are summarized in Table 4.5 below.

Table 4.5: Responses on who runs business

N= 50

Response	F	%
Myself	20	40.0
Family members	12	24.0
Employees	18	36.0
Total	50	100.0

Data in Table 4.5 indicates that majority of the enterprises are run by their owners. This is because most of the businesses have not expanded sufficiently to warrant the employment of employees to run the business. In addition, some business owners said that they didn't have any other occupation hence did not see the need to delegate the responsibility of running their business.

The findings reveal that the businesses run by employees maybe as a result of the high number of clients handled that forces the owners to employ more people. This data also indicates an expansion in the scale of operation hence the need to hire people to handle the increased business operations. In addition, some business owners have more than one business venture hence have to employ people to help them run their businesses.

Further the study sought to establish whether the respondents had attended any business training course. Table 4.6 presents these findings.

Table 4.6: Training areas

Business Course	F	%
Book – keeping	30	60.0
Financial accounting	20	40.0
Customer relations	15	30.0
Business management	20	40.0
Procurement	20	40.0
Human Resource management	35	70.0

Majority of respondents indicated that they had attended training. Data in Table 4.6 indicates that majority of respondents (70%) had been trained in human resource management, (60%) had trained in book-keeping whereas (40%) had trained in business management. The frequency does not tally at 50 showing that some of the entrepreneurs have been trained in more than one area of business.

Individual capacity development is a key priority area for the sustainable growth of small scale entrepreneurs. Capacity development programs such as training on business start up plans, regular operations, and enterprise development are important. Disseminating knowledge to equip entrepreneurs with necessary skills on various aspects of the business such as management, sales, accounting and strategic planning will be quite useful to enhance the capacity of entrepreneurs as a whole. Effective training on various managerial as well as social aspects will contribute largely in enhancing economic independence, self confidence, awareness, decision making process, sense of achievement, social interaction, leadership quality, personal and social capabilities.

The study also sought to find out who does financial accounting in the business. The findings are recorded in table 4.7 below.

Table 4.7: Person responsible for financial accounting
N=50

Response	F	%
Owner	35	70.0
Accountant	15	30.0
Total	50	100.0

Data in table 4.7 shows that majority of the entrepreneurs in Kikuyu town do financial accounting in their businesses (70%). This can be attributed to financial management skills that the entrepreneurs possess. This can also be attributed to lack of finances to hire accountants. Other entrepreneurs revealed that since their businesses were small scale they

saw no need to hire accountants. Entrepreneurs who hired accountants have enough capital to hire accountants or have large businesses or have no knowledge of financial accounting.

4.4.2. Availability of financial resources

The second research objective was to analyze how availability of financial resources influences entrepreneurial practices.

Entrepreneurial ventures cannot succeed without having financial resources. Therefore, entrepreneurs have to raise money to start the business (initial capital investment) and to expand the business.

The researcher sought to establish the source of initial capital for the entrepreneurs. The findings are summarized in Table 4.8 below.

Table 4.8: Source of Start-Up capital

Capital source	F	%
Personal savings	40	80.0
Borrowing from friends and relatives	20	40.0
Loan from micro-finance institution	10	20.0
Loan from a commercial bank	0	0.0
Merry-go-round	7	14.0

Data in Table 4.8 indicates that entrepreneurs get their startup capital by combining a number of sources. According to the data collected, personal savings tops the list of sources of finance for starting businesses (80%). This is because personal savings are considered to be the least expensive source of funds both in terms of cost as well as in terms of control. Personal savings are also essential in attracting other sources of finances e.g commercial banks, investors, e.t.c.

After the entrepreneur's personal savings, relatives and friends are a common source of capital for starting a business. Relatives and friends are most likely to invest in the business due to the relationship that they have with the entrepreneur. However, investment by friends and relatives in a business leads to dilution of the control that the owner has over the business. It may also lead to strained relations if the venture does not take off as expected.

None of the respondents in this study got initial capital from commercial banks. The entrepreneurs said that it was difficult trying to get initial capital from the banks since banks require collateral for the loans that they offer. They also said that loans from banks are very expensive hence they preferred to look for cheaper sources of capital.

Further, the study sought to find out if the entrepreneurs had expanded their businesses since they started them. The findings are tabulated in table 4.9 below.

Table 4.9: Expansion of the business

N=50

Response	F	%
Yes	33	66.0
No	17	34.0
Total	50	100.0

Data in table 4.9 shows that majority of the entrepreneurs (66%) have expanded their businesses. However, 34% of the entrepreneurs have not expanded their businesses. This can be attributed to shortage of capital. Lack of finance is a major constraint in the expansion of entrepreneurial ventures.

In addition, the study sought to find out the source of capital for those entrepreneurs who have expanded their businesses. The findings are tabulated in table 4.10 below.

Table 4.10: Sources of capital for business expansion

N=50

Response	F	%
Ploughed back profits	20	40.0
Borrowing from friends and relatives	6	12.0
Loan from micro-finance institution	13	26.0
Loan from a commercial bank	2	4.0
Loan from a co-operative society	4	8.0
Merry – go- round	5	10.0
Total	50	100

Data in table 4.10 shows that majority of the entrepreneurs got capital to expand their businesses from ploughed back profits (40%). This is an indication that the businesses earned enough money that was used to expand business operations.

The second major source of capital for business expansion is loans from micro-finance institutions (26%). Micro-finance institutions in Kenya have become a popular source of funds for small and medium business enterprises. Entrepreneurs who got loans from micro-finance institutions said that they were cheaper than loans from commercial banks. In addition, loans from micro-finance institutions are easier to acquire than those from commercial banks.

Small business owners have been kept away from commercial banks by cumbersome account opening procedures and operating rules, high transaction costs and unfriendly credit terms. Consequently, only 2 (4%) respondents got loans from commercial banks.

4.4.3. Economic environment

The third research objective was to find out the influence of the economic environment within which entrepreneurial ventures operate on entrepreneurial practices.

The economic environment greatly impacts on the growth of enterprises. If the economic environment is favourable, businesses thrive and are able to make more profit. However, if the economic environment is unfavourable, businesses struggle to survive and their profitability is reduced. Businesses that seek to thrive in challenging economic environments must strategize on their approaches in order to achieve the desired targets.

Respondents were asked to rate the economic environment within which their businesses were operating. Their responses are summarized in table 4.11 below.

Table 4.11: Economic environment businesses operate in.

N=50

Response	F	%
Favourable	7	14.0
Unfavourable	43	86.0
Total	50	100.0

Data in table 4.11 shows that majority of the entrepreneurs (86%) felt that the economic environment that their businesses were operating in was unfavourable. This can be attributed to the high inflation rates and the high cost of operating businesses.

High operational costs forces the businesses to either reduce production or maintain the same production level at a higher cost. Reduced production means that the business has a lower level of output and consequently sales are reduced. Producing the same level of output but at a higher cost makes the products more expensive for the consumer which ultimately reduces the sales volume. In addition, high inflation rates have made inputs very expensive and have significantly reduced the purchasing power of consumers.

Therefore, high inflation rates and high costs of operation have significantly reduced profitability of the businesses and thus many businesses are struggling to survive.

Respondents were then asked to state the factors affecting their businesses. The responses are summarized in Table 4.12 below.

Table 4.12: Economic factors affecting business

N=50

Response	F	%
High inflation rate	23	46.0
High production/operation costs	27	54.0
Total	50	100.0

Data in table 4.12 shows that the major problem afflicting businesses in Kikuyu town is high production or operation costs (54%). Business people attributed this rise in production or operation costs to the high cost of transport as a result of high fuel cost, high energy costs e.g high electricity costs, and increased cost of inputs or factors of production. This has forced business people to raise the prices they charge for their products in order to realize some profit.

Business people in Kikuyu town are also affected by high inflation rate (46%). Businesses are suffering from reduced profitability due to the high cost of inputs. In addition, sales volumes have gone down as a result of the reduced purchasing power of customers. This is because consumers buy less of a commodity when its price is high. Respondents further indicated that high or unpredictable inflation rates have created inefficiencies in the market hence making it difficult for businesses to budget or plan on a long term basis.

When asked to identify the measures they have taken to cope with the economic environment that their businesses were operating in, some respondents cited that they were forced to increase the prices of their products. Other respondents said that they were forced to reduce the number of workers in their businesses. Others said that they were

forced to change to alternative businesses while others resorted to buying sub-standard or low quality inputs for their businesses. Table 4.13 presents this analysis.

Table 4.13: Measures taken to cope with the harsh economic environment
N=50

Response	F	%
Increase of prices	22	44.0
Reduction of workers	11	22.0
Change to alternative business	4	8.0
Buying sub-standard or low quality inputs	13	26.0
Total	50	100.0

4.4.4. Government policies and government support

The study sought to establish the influence of government policies and government support on entrepreneurial practices. The government is a key stakeholder in promoting and supporting entrepreneurship in Kenya. This is true since entrepreneurship has been always regarded as a major contributing factor to the economic growth, especially small and micro-enterprises.

According to Mc Pearson (1996), development programs aimed at promoting micro-entrepreneurship have been a popular poverty alleviation strategy in developing nations for many years. This is supported by Bornstein (2005) who stated that rural development of the poorest countries happens largely as a result of the economic activity and intensity of micro-entrepreneurs and the financial support of micro-credit institutions.

The respondents were asked to rate government support in terms of provision of infrastructure, security, good drainage and sewerage. Their responses are shown in table 4.14 below.

Table 4.14: Ratings of government support to businesses.

N=50

Response	F	%
Poor	36	72.0
Average	11	22.0
Good	3	6.0
Excellent	0	0.0
Total	50	100.0

An overwhelming 72% of the respondents rated government support of entrepreneurship as poor. 22% of the respondents rated the government support as average and only 6% rated government support as good. None of the respondents rated government support to businesses as excellent.

The respondents complained of high levels of insecurity in the area, poor drainage and sewerage systems, heaps of uncollected garbage, lack of a regular supply of water and poor town planning. They were also of the opinion that the local government was not doing enough to make sure that access roads were well maintained. They complained that they incurred huge losses during the rainy season as it became difficult to access supplies and distribute products to customers.

This inadequate support of businesses by the government has not created an enabling environment for businesses to operate in. High levels of insecurity have made traders to hire security guards for their businesses while others are forced to close down their businesses early. This lack of support by the government has led to increased cost of doing business since traders are forced to provide the services that the government is supposed to provide. This inevitably lowers the profit margin of businesses.

Further, the respondents were asked what they thought the government should do in order to support entrepreneurship. Most of them felt that the government should improve security in the area. They also said that the government should make the town cleaner by collecting garbage and improving the drainage and sewerage system. In addition, they

recommended that the fees charged by the local government should be reduced and rent paid for business premises be reduced.

The respondents were asked to state if the government had formulated enough policies to support entrepreneurship. The findings are tabulated in table 4.15 below.

Table 4.15: Formulation of policies

N=50

Response	F	%
Yes	31	62.0
No	19	38.0
Total	50	100.0

According to the data in table 18, majority of the entrepreneurs (62%) feel that the government has formulated enough policies to support entrepreneurship in Kenya while only (38%) of the respondents felt otherwise. However, the respondents who said that the government had formulated enough policies said that the government had failed when it came to the implementation of the policies. The formulated policies looked good on paper but their implementation was poor.

When asked what policies the government needed to formulate in order to support entrepreneurial practices in Kenya, the respondents felt that there should be a one stop shop to deal with matters concerning businesses and to regulate business activities. The respondents reported that they had to deal with so many institutions e.g NEMA, Kenya Music Copyright Society, Kikuyu Council, KRA e.t.c. in the course of running their businesses. In addition, bar owners felt that the infamous Mututho Law should be discarded as it had negative effects on their businesses because it reduced their profit margins.

Asked to state if the government has fully supported entrepreneurship in Kenya, government officials cited that government fully supports entrepreneurs in Kikuyu Town

through provision of public utilities and social amenities, improving the road networks and provision of credit facilities.

The government officials also stated that the government has targeted special groups; that is the women and youth so as to spur entrepreneurial development and growth. In line with this, the government has set up the Women Enterprise Fund and Youth Enterprise Fund to help support women and young people who want to start their own businesses. These findings concur with Scott (2001) who asserts that government policies can provide a facilitative socio-economic setting for marginalized groups to start their own entrepreneurial ventures. Such conducive settings minimize the risks that entrepreneurs may encounter in the course of starting and running their businesses.

The officials felt that the local government had the capacity to effectively implement entrepreneurial policies formulated by the government. They also felt that the government had provided sufficient public utilities and social amenities like public markets, roads, water, schools, hospitals and electricity. They argued that the government had done its best to improve roads within the town and those connecting the town to other areas.

In addition, the officials said that the government was trying to come up with ways to solve the problem of insecurity in the town. They also felt that the government had done a good job in supporting and facilitating entrepreneurial practices in Kikuyu town.

4.5. Chapter summary

This chapter has outlined the findings from the research carried out on factors that influence entrepreneurial practices in Kikuyu town. Evidently, businesses in Kikuyu town are operating in a difficult and hostile environment which makes it hard for the businesses to survive and expand. This environment also makes it difficult for businesses to remain profitable and have a large sales volume.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of findings, conclusions, recommendations and suggestions for further research.

5.2. Summary of findings

The purpose of this study was to establish the factors influencing entrepreneurial practices in Kikuyu Town. Five research objectives were formulated to guide the study.

Entrepreneurial skills are necessary for entrepreneurs to successfully start and run a business. From the data collected, majority of the respondents run their businesses personally and do financial accounting in their businesses. In addition, all the entrepreneurs interviewed had attended at least one business training course. This shows that entrepreneurs in the town possess the relevant skills necessary for starting and running a successful business venture.

Financial resources are crucial for any business because no business can be started or expanded if financial resources are not available. The major source of initial capital for the respondents was personal savings coupled with borrowing from friends and relatives. None of the respondents got loans from commercial banks for their initial capital due to lack of collateral and the high cost of credit.

When it came to expanding the business, the major source of capital was ploughed back profits followed by loans from micro-finance institutions. However, only 2 respondents got loans from commercial banks probably due to the high lending rates that banks offer compared to micro-finance institutions.

From the findings, we can infer that most entrepreneurs preferred to raise capital from personal savings and ploughed back profits because they are cheaper and they allow the owner to remain in control of the business without interference from outsiders.

Research findings indicate that the economic environment within which the entrepreneurs are operating is unfavourable for entrepreneurial ventures. The businesses suffer from high inflation rates and high operation or production costs. Consequently, businesses are struggling to survive because profitability of the business has been greatly reduced. As a result of the harsh economic environment, businesses are forced to find ways to survive and remain in business. Hence, entrepreneurs have had to raise the prices they charge for their products, reduce number of workers, change to alternative business ventures and buy sub-standard or low quality inputs.

The government is a key stakeholder in promoting entrepreneurship. However, majority of the respondents felt that the government had not done enough to support entrepreneurship in the town. They complained of poor road network in the town, high levels of insecurity, poor drainage and sewerage systems, heaps of uncollected garbage, lack of a regular supply of water and poor town planning.

Further, most of the respondents felt that the policies formulated by the government on entrepreneurship were sufficient but they were not properly implemented. They felt that the government should develop a one stop shop to deal with matters concerning businesses and to regulate business activities. In addition, bar owners feel that the infamous Mututho Law should be discarded since it has negatively impacted on their businesses and significantly reduced their profit margins.

5.3. Conclusions

The conclusion we can draw from this study is that entrepreneurship is a significant aspect of economic growth and development. Therefore, efforts must be made in order to create an enabling environment for entrepreneurial ventures to flourish.

The government should create a conducive business environment by reducing fuel costs and energy costs. It should provide proper infrastructure, social amenities, a clean environment and security for traders to carry out their business without fear. Further, the government should work on ways to provide cheaper credit to business people so as to facilitate the development and expansion of business ventures.

In addition, entrepreneurs should attend more business courses in order to learn skills of running their businesses. This will provide a good avenue for entrepreneurs to learn of new trends in entrepreneurship, technology and in the market. It will also enable entrepreneurs to develop better products based on the current trends.

5.4. Recommendations

The study makes the following recommendations.

1. The government should help businesses to reduce production or operation costs by reducing the cost of fuel and energy. In addition, the government can provide subsidies to entrepreneurs and other incentives in order to promote entrepreneurship.
2. The government should establish an entrepreneurship development plan. This will enable entrepreneurs and other stakeholders to be more focused in their endeavour to develop entrepreneurial ventures.
3. The government should develop programs that provide entrepreneurial education to entrepreneurs and people thinking of starting their own businesses. This will boost entrepreneurial practices and promote entrepreneurship as a viable source of employment.
4. Organisations or institutions involved in providing courses on various aspects of business should offer more affordable courses so as to encourage more entrepreneurs to get trained.

5.5. Suggestions for further research

1. This research only focused on the influence of entrepreneurial skills, availability of financial resources, economic environment, government policies and government support on entrepreneurial practices. Research needs to be done on the influence of socio-cultural factors and technological advancements on entrepreneurial practices.
2. This study was only carried out in Kikuyu town. Research can be carried out in a broader area, either covering the whole constituency or county.
3. A comparative study can be carried out in another town so that the research findings can be compared to those of Kikuyu town.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI,
P.O.BOX 30197,
NAIROBI

Dear respondent,

I am a student at the University of Nairobi in the department of Extra Mural Studies currently undertaking a Master of Arts Degree in Project Planning and Management. I am carrying out a research to assist me in writing my research project.

My area of research is factors influencing entrepreneurial practices in Kikuyu Town. To enable me to collect the data necessary for this project, I have attached a questionnaire.

By virtue of being an entrepreneur in this town, you have been selected to participate in the study. Kindly provide the information required in the questionnaire to the best of your ability.

I would like to assure you that the information you will provide will be used only for academic purposes and the confidentiality of your responses is guaranteed.

Thank you for your co-operation.

ELIZABETH NJERI KIHORO

L50/77748/2009

APPENDIX 2: QUESTIONNAIRE INVESTIGATING FACTORS INFLUENCING ENTREPRENEURIAL PRACTICES IN KIKUYU TOWN, KIAMBU COUNTY

INSTRUCTIONS

Kindly respond by ticking the appropriate answer or giving a brief narrative to the questions below. The information given here will be used purely for academic purposes and will be treated with utmost confidentiality. Do not write your name on the questionnaire.

A. BACKGROUND INFORMATION

1. Age bracket

- Below 25 years
- 26 – 35 years
- 36 – 45 years
- 46 – 55 years
- Over 55 years

2. Gender

- Male
- Female

3. Education Level

- Primary Level
- Secondary Level
- University/college level

4. Which business are you engaged in?

- Hotels and eateries
- Bars
- Supermarkets
- Kiosks/Retail Shops
- Salon
- Cyber Café
- Chemist
- Hardware Shop

5. How long have you been in business?

- Less than 12 months?
- Between 1 – 5 years
- More than 5 years

B. **ENTREPRENEURIAL SKILLS**

6. Who runs or manages your business?

- Myself
- Family members
- Employees
- Others.....

.....

.....

7. Who does financial accounting for you in your business?

- Self An accountant

8. Have you attended any business training course in the last two years?

Yes No

If yes, which area of business were you trained in?

.....
.....
.....

9. Do you keep updated business records?

Yes NO

C. AVAILABILITY OF FINANCIAL RESOURCES

10. Where did you get the initial capital to start your business?

Personal savings

Borrowing from friends and relatives

Loan from micro-finance institution

Business partners

Loan from a commercial bank

Merry go round

Others

(Specify).....
.....
.....

11. Since you started your business, has it expanded?

Yes No

If yes, how did you finance the expansion of your business?

Ploughed back profits

Borrowing from friends and relatives

Loan from micro-finance institutions

- Loan from commercial bank
- Loan from a co-operative society
- Merry go round
- Others.....
-
-

If no, what hindered you from expanding your business?

.....

.....

.....

.....

D. THE ECONOMIC ENVIRONMENT

12. How would you rate the economic environment in which your business is operating?

- Favourable Unfavourable

13. What economic factors are affecting your business?

- High inflation rates
- High production /operation costs

Others.....

.....

.....

14. Has your business been experiencing a general rise in the operational cost/production cost?

- Yes No

Give reasons for your answer.....
.....
.....
.....

15. What measures have you taken to cope with the economic environment that your business is operating in?

.....
.....
.....
.....

E. GOVERNMENT SUPPORT

16. How would you rate the government in terms of providing infrastructure, good drainage and sewerage and provision of adequate security?

- Poor
- Average
- Good
- Excellent

Give reasons for your answer.....
.....
.....
.....

17. What do you think the government should do in order to support entrepreneurship in Kenya?

.....
.....
.....
.....

F. GOVERNMENT POLICIES

18. Do you think the government has formulated adequate policies to support entrepreneurship?

Yes No

19. What policies do you think the government should formulate in order to support entrepreneurship in Kenya?

.....
.....
.....
.....

Thank you for your honest and timely response

APPENDIX 3: INTERVIEW SCHEDULE FOR GOVERNMENT OFFICIALS

1. Do you think the government has fully supported entrepreneurship in Kenya?
Why?
2. What policies has the government formulated in order to support entrepreneurship?
3. Do you think the policies that have been formulated have been effective? Why?
4. Does the local government have the capacity to implement effectively entrepreneurial policies?
5. Which public utilities and social amenities has the government provided in Kikuyu Town? Are they sufficient to support entrepreneurship?
6. In your opinion, has the local government done enough to maintain the infrastructure in Kikuyu Town?
7. What is the government doing to resolve the problem of insecurity which is hindering entrepreneurship in Kikuyu Town?
8. What has the government done to ensure that entrepreneurs have access to credit to start and operate their businesses?
9. How would you rate the performance of government in supporting and facilitating entrepreneurial development and practice in Kikuyu Town?