INSTITUTIONS AND ENTERPRISE GROWTH IN KENYA: THE CASE OF FIRM LEVEL INSTITUTIONS AMONG WOOD FURNITURE PRODUCERS IN KAKAMEGA TOWN

BY

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DECLARATION

This Project is My Original Work and has not been submitted for a Degree to any Other University.

28 · 11 · 2003

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DEDICATION

To my Mother, Rose Juma Kwimba, who for years, has

Inspired us to Hard Work, Strengthened my Faith in the Future and generally

Kept us going.

I shall always Cherish the Patience, the Trust and Endurance even when

The waiting Appeared to Turn into a

"Punishment"

* * *

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ABSTRACT

Since 1986, the Kenyan government has put special emphasis on the promotion of Micro and Small Enterprise, (MSEs), particularly in the medium sized urban centres or towns. These are incidentally the areas that are suffering some of the highest rates of unemployment and human poverty. MSEs play an important role in poverty alleviation through development of employment and income generation in the non-farm sector.

This paper examines the role played by firm level institutions in the growth and development of MSEs in Kakamega, Kenya. Areas of focus include distinguishing of firm level institutions as well as the constraints to establishing firm level institutions. Establishing and strengthening firm level institutional dynamics such as management styles, strategic focus and legal framework is one way to promote the growth of MSEs.

The significance of education, gender and age in determination of firm level institutions were tested using the X^2 Test at 0.05 level of significance. The insight into the determining factors of firm level institutions and the factors limiting the growth of and establishment of firm level business systems were analyzed. The research found that wood furniture SMMEs in Kakamega exist with inadequately developed firm level institutions. Interviews revealed that businesses with fairly developed firm level business systems tend to do better than those with inadequate or no business systems. Constraints to firm level institutions included poor educational backgrounds of entrepreneurs, lack of inter-firm linkages including low-level participation in business and welfare associations. There is limited application of new product design and development technologies. There is also lack of incentives to promote business linkages from the government and non-governmental organizations (NGOs).

This paper makes several recommendations to address these constraints including focusing on increasing the amount of support services by the Government, NGOs, CBOs, K.I.E as well as providing continuing training, skills development and access to new technologies to micro and small, medium scale wood furniture producers.

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CHAPTER ONE

INTRODUCTION

In spite of the economic down turn that Kenya has experienced since the mid 1980s through to the 1990s, some enterprises have continued to operate even when similar firms, which were supposedly equally resilient, have either scaled down on their operations or closed down altogether. It seems that firms of varying sizes have developed their own unique mechanism to overcome economic adversity and to take advantage of economic opportunities. Furthermore, firms have their own ways of overcoming risks and constraints as well as ensuring their survival (McCormick *et al*, 2001). According to McCormick *et al* (2001) and North (1990), these ways of doing business constitute institutions and are the " rules of the game". These institutions are both at the wider socio-economic level and at the firm level (McCormick ibid, 2001). In the wider application these institutions structure human interaction and in business environment, they determine the eligibility of decision makers, rules and procedures necessary and desirable for the conduct of business.

Business activity does not take place in a vacuum. Business is carried on within an institutional framework that comprises various activities, actors and ultimately the corporate community. These institutions are relevant to commerce and the development of industry (Kimuyu, 2000). According to McCormick *et al* (2001), these activities shape and design the character of the firm.

The institutional context influences development and growth of business by shaping the different components of a business system. Important elements of such a context may be financial institutions, social structures, market structures, provisions of enforcement mechanisms, systems of innovation and technological capabilities (McCormick and Pedersen, 1999). For example, formal and informal financial systems affect access to credit and capital and thereby influencing the direction of enterprise development.

According to McCormick (1999), differences in such areas as management practices, trust, social responsibilities and internal labour markets are influenced by the processes of socialization and systems of education and in turn determine enterprise performance. Similarly, legal and information systems, market structures and infrastructure influence contracting and trust relations, collaboration and interactions among enterprises. They also influence opportunities for internalization of activities at the individual enterprise level. In other words, businesses operate within an institutional context, which in turn affects their performance.

Organizational forms and corporate strategies are intertwined with institutional contexts. Differences in the environment in which businesses operate inform the evolution of management and organizational structures. The mechanism for control, authority relationships, and division of labour and evolution of comparative advantages are closely related with institutional contexts (McCormick, 1999). They may also develop business organizations with unique links with major institutions. Thus exploring how different business and economic organizations evolve under different institutional arrangements is important in understanding the developmental processes of business enterprise.

1.1 Background to the Research Problem

Since independence, Kenya has endeavoured to improve the standard of living of her people. This aspiration has consistently been reflected in various Government policy documents such as the Sessional papers and Development Plans. The development objectives of the Kenya government have subsequently been the same since independence, although the relative emphasis placed on each goal has changed over time. The country's long-term development goals are to achieve fast overall growth in gross domestic product (GDP), more equal distribution of income, provision of employment opportunities, improvement in the balance of payments and alleviation of poverty (Kenya, 1997-2001).

However, the performance of the economy with respect to some of these long-term development goals has been disappointing. Rapid population growth, rural-urban migration, and high rate of urbanization lead to increasing urban unemployment. Furthermore, over the last two decades the economy has been unable to create jobs at a rate to match that of the nation's labour force. These problems prevent the country from achieving one of the long-term development goals, namely provision of employment opportunities to a growing labour force.

The declining economic performance of the economy has largely accounted for the persistent and increasing levels of poverty over the past decades. This is because it could not ensure an increase in employment generation, nor could it provide the necessary structural and economic transformations to diversify the economy and thus spread the benefits of growth to a wider section of the population (KHDR, 2001).

Solutions continue to be sought for the unemployment problem in urban centres. However, most of the research tends to be concentrated in Nairobi with little attention paid to other urban areas. One of the solutions is development of a dynamic informal sector that creates jobs at low cost and caters for the needs of the people at all income levels. However, even with concerted government effort, problems affecting small-scale enterprises continue to stunt their growth and development. In fact, policy initiatives are yet to come to terms with what needs to be done to dynamise the informal sector to enhance its contributions to the economy. Some researchers, such as Kamunge (1990) have suggested that the informal enterprises can be improved significantly by addressing issues like limited access to credit, education, and provision of enabling business environment. However these solutions tend to be general in nature, relying as they do, on the assumption that the informal sector is homogenous. Nevertheless, what is not in doubt is that most of the problems plaguing business enterprises are endogenous to the firms. (Fischer *et al*, 1997). This is where policy actions geared towards addressing the sluggish pace of development of business enterprise is needed

Many analyses on the small and medium enterprises have tended to discuss institutions either in isolation or in regard to broad sectoral and or regional dimension that assumes homogeneity in the sub-sectors or sub-regions. But as noted by Fisher *et al* (1997), a sub-sectoral analysis or approach is much more revealing in detail as the organization and functioning of firms in industry differ in terms of the actual rules of the game that govern their operations.

Examples abound where such approaches have been found to be more appropriate for in depth analysis of the small and micro enterprises. McCormick *et al* (2001) discusses firm level institutions among garment producers in Nairobi based on the New Institutional Economics framework. Like the textile sector in general and the garment sub-sector in particular which exhibit unique operational and developmental characteristics, the wood–furniture sub-sector comprises various activities, actors and elements which influence its performance and development. My view is that the sub-sectoral analysis based on New Institutional Economics Framework can equally be applied to the wood furniture sub-sector.

Institutions affect the performance of the economy by their effect on costs of exchange and production. Together with the technology employed, they determine the transaction cost and transformation (production) costs that make up total costs. The main thrust of this study is to examine firm level institutions and to specify the way they influence the performance of the wood-furniture subsector. Indeed, there is need to document information concerning the strategies which enterprises have employed to survive. Furthermore these enterprises will be studied from an institutional standpoint to find out the role institutions have played in their survival strategies.

Woodworking industry in Kenya is composed of furniture making and other activities in roughly equal measure (Sverrison, 1993). Regrettably, these are lumped together in official published small sector statistics (CBS, 1990). In this way it is difficult to see the quantitative importance of wood-furniture subsector, which is a prerequisite for effective policy formulation and implementation. According to Sverrison (1993) the woodworking firms tend to grow at a faster rate than the general informal sector. These firms are also on average bigger than the rest in the informal sector, and support bigger households (2.8) as compared to 1.8 for the informal sector in general (Oketch, 1991). The wood-furniture sub-sector is thus selected for study on the basis of size, dynamism, and growth potential.

1.2 Statement of the Problem

The wood-furniture small and medium size enterprises MSEs are plagued by a host of problems. These problems include; a weak and constrained local market; lack of managerial skills, poor and inappropriate technology (use of rudimentary tools); poor or lack of strategic focus; lack of capital (inaccessibility to credit markets). These problems inhibit the growth of MSEs, and thus prevent them from effectively playing their expected role of generating increased employment opportunities for people, livelihood diversification and industrialization.

A number of studies have been carried out in a bid to find solutions to the above stated problems (McCormick, 1998; Mead, 1998). However, most of them have focused on macro variables (using the neoclassical theories) such as demand and supply conditions of the market, role of technology, and labour. In these theories, firms are all identical black boxes that churn out products in proportion to the raw materials. However, newer theories by opening up the black box have recognized that firms vary in ways that make some more able than others to access and use inputs and to market their products profitably. (McCormick, 1998). Understanding the growth and development of an enterprise requires an assessment of a firm as a player. Understanding how different businesses and economic organizations evolve under different institutional arrangements is one of the most important ways in understanding developmental process such as industrialization. The implication is that economic efficiency has a social dimension and such efficiency is likely to vary significantly under different social contexts. Institutional analyses thus rises above concepts of economic rationalism by allowing us to have a wider picture of enterprise problem, which widens the scope of economic analysis. Studies on the role and importance of institutions in enterprise growth and development in Africa in general, and Kenya in particular are at best inadequate and at worst lacking altogether. The role of institutions in the process of business evolution requires better understanding and documenting.

This study analyses the institutional roots of wood-furniture small and medium size enterprises in Kakamega. The question we were attempting to answer is; do Institutions affect the wood furniture sub-sector? The idea is to identify the type of firm level institutions that have evolved within the furniture enterprises. This involved the analysis of managerial techniques, degree of competition, legal status and strategic focus and how these influence the firm's abilities to grow and develop. The study also assessed whether firm level institutions are determined by age, gender, and education level of the entrepreneur. For example, we tried to determine whether the propensity to use courts for redress in case of cheating in a business transaction depends on gender, age and education of the entrepreneur.

1.3 Research Questions

The following research questions will be addressed:

1. What are the institutions that wood furniture producers use to overcome Constraints so as to grow and continue operating?

2. What are the factors that explain the ability of wood- furniture firms to grow? The central question is, do institutions affect the performance of the wood furniture subsector?

3. Do firm level institutions depend on the age, gender or education of the entrepreneur?

1.4 Research Objectives

The overall objective of this study is to determine the type and nature of institutions that have evolved within the wood-furniture subsector and how these affect enterprise growth and development among wood furniture firms. The specific research objectives are;

1. To identify and critically assess the institutional factors that affect the wood-furniture firms' ability to grow and expand. By growth we mean increase in sales volume, production volume and profitability.
2. To understand how institutions influence firm size, location, capitalization, legal status, degree of competition and strategic focus of furniture firms.
3. To Asses whether firm level institutions are influenced by age, education and gender of the entrepreneur.

1.5 Hypotheses

1). Firm level institutions (management techniques, legal status, linkages to other institutions etc) are not the main determinants of enterprise growth in wood –furniture firms.

2) There are significant differences between those firms with firm level institutions (such as management styles and structures, skills and skill acquisition systems, linkages to external institutions, contracting and channels of distribution) and those that do not have.

3) Firm level institutions do not differ by age, gender and education level of the entrepreneur.

1.6 Rationale For The Study

By highlighting institutional issues relevant to the growth and expansion of the wood furniture sub –sector, this study has both knowledge and policy implications. In the first instance the study aims to spawn debate among scholars and researchers regarding the wood furniture sub–sector. This is a critical contribution to the evolution a theoretical framework to guide further research in the area of MSEs. This work is borne out of relative paucity of information in this area.

In terms of policy, this study has the developmental goal of influencing government policy regarding the possibility of harnessing the potential of wood furniture sub-sector for overall development and industrialization. Policy makers operate on the (mistaken) assumption that all Small, Micro and Medium Enterprises (SMEs) are homogeneous. In this respect policy makers have struggled to devise strategies that promote growth without erecting new constraints. Being unable to adequately predict the efficacy of untargeted policy interventions in the presence of unique enterprise constraints, government policy has not achieved the desired goals. Consequently, policy effectiveness in achieving growth objectives (employment creation and high incomes) has been marginal, judging from the persistent problems, that the SMEs continue to face. This suggests that there has been an 'information gap' with respect to evidence-guided policy design. With the problem of the existing information gap in mind, a study of firm level institutions in wood-furniture producers is worth pursuing

The wood furniture is selected for study because it is the most common small scale manufacturing activity in Kenya and especially in Kakamega town. Indeed it is rare to find villages or towns without carpenters. Furthermore the subsector is relatively labour intensive in comparison with other manufacturing activities in Kenya. Value added as a percentage of gross output in wood working generally is slightly higher than the average for all the other small-scale activities (Gok, 1990: Sverrison, 1993). Thus, it is our view that the study of the institutional dynamics in wood-furniture subsector is critical and relevant to the effort geared toward improving the performance of small and medium enterprises in terms of employment generation, livelihood diversification and industrialization.

Furthermore, firms of various sizes can be found within this subsector. This variation in size could also be marched by variation in institutional framework. Hence it is possible to study the comparative institutional dynamics of small enterprises within the wood-furniture subsector.

It is in this respect that a study on institutional framework within which firms operate is imperative. This will lead to a better understanding of the enterprises and their growth prospects. Furthermore, the study will help in devising more appropriate programmes for

SMEs. The study of the wood-furniture enterprises in Kakamega is thus important because firms in this sub-sector cut across all firm sizes, are dynamic and have greater growth potential. Thus, an institutional inquiry into the wood-furniture sub-sector would be a useful indicator of the growth prospects of SMEs.

Indeed, it will be interesting to explore how institutional dynamics of the wood-furniture firms change and influence the performance of the furniture enterprises in the wake of privatisation and public sector retrenchment, which as expected, is likely to release skilled labour as well as entrepreneurial talent in the sub-sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature

The relevant theoretical framework used here is a combination of the New Institutional Economics (NIE) of North (1990), Javanovic's theory of firm dynamics and network approach to firm growth used by Sverrisson (1993), Pedersen (1993) and McCormick et al (1994).

2.1.1 Institutional Analysis (New Institutional Economics)

As is often the case, policies are implemented by organizations and thus their practical implementation may be very different from the intentions with which they were designed. In seeking to make sense of this complex interlocking web of policies, organizations and their institutional environment, we draw on the New Institutional Economics (NIE) propounded by North (1990) in which he describes "institutions as the rules of the game in a society or, more formally......... the humanly devised constraints that shape human interaction"(North, 1990,2).

NIE seeks to go beyond the restrictive assumption of perfect competition by using such concepts as the principle –agent problem and transaction costs. To help policy-makers to choose the strategic interventions appropriate to the specific sub-sectors we have adapted the framework of competitive advantage' developed by Porter (1990). Porter identifies four determinants that promote or impede the creation of such advantage in industry and firms; factor conditions; demand conditions; related and supporting industries, and firm strategy, structure and rivalry.

2.1.2 Jovanovic Model

Jovanovic developed this theory in 1982. This theory is an attempt to trace and explain the elements of firm or business enterprise dynamics. Jovanovic argues that risk arises because business activities are inherently risky and also because individuals are unsure of their management abilities. He assures that abilities are better assessed by engaging in the business world and observing how well one performs. As one gradually learns more about his or her actual abilities, business attitudes and practices also change over time.

According to Jovanovic, at the initial stage, an industry is seen to be perfectly competitive with firms of equal size, assuming they all have equal managerial abilities. This is basically true of wood furniture sales where nearly all furniture bear similar characteristics.

In this model entrepreneurs use level of profit/losses as a measure of their performance from which they are able to update their earlier estimation of their management abilities. In this way enterprises use profits or losses as a measure of their management ability and also chance of random elements, which determine the next cause of action, they should take. Entrepreneurs adjust only partially to this new reality in order to ensure that they continue operating. In other words businesses that revise their management abilities (estimates) upwards will tend to expand while those that downgrade their abilities contract or close down if the estimated managerial ability lead to net expected profits being negative (Rono, 1998). Businesses that survive market competition tend to be well managed, efficient and can grow.

Jovanovic's model, though an important step towards a truly dynamic theory of the firm is severely limited. The entrepreneur is assumed to simply learn more about his or her exogenously given level of managerial ability. No provision is made for the entrepreneur to enhance this ability through education or training. It is widely acknowledged that education, training and certain social –demographic variables are among the key determinants of enterprise growth. This limitation can be addressed by network theory to Enterprise

2.1.3 Network Theory: Firm Growth and its Environment

Network theory emphasizes the use of institutions such as family, kin, friends, professional clubs and ethnic organizations in business development (Kinyanjui, 1999).

The main proponents of network approach are McCormick and Pedersen (1996), Pedersen, (1993) and Sverrison. (1993). This approach sees enterprises as operating within a specific environment in which there is an interaction between enterprises. The proponents of network theory see these interactions between enterprises and their environment as forming networks based to some extent on personal relations, trust and reciprocity. For the wood furniture sub-sector, Sverrison (1993) found the business and political connections were important to the development of business workshops. McCormick *et al* (1994) observed that social, family and professional networks were important in the growth of small-scale enterprises in Nairobi.

Basically, Network theory implies a simplified view of social relations as the part of society conceptualized as a series of discrete units or through relations termed as links (Sverrison, 1993). In particular the basic assumption about business networks is that different units within a network are intrinsically (or internally) related with each other. These relations may take the form of ordinary exchange, information exchange, exchange of services, subcontracting, common location and common background

The overall quality of relationships impacts on the business pursuits. This is because social capital promotes voluntary co-operation, which in turn promotes economic performance (Kimuyu, 2000). Networks are often conduits for information on markets and technologies. This information feeds into business decisions. Kimuyu (*ibid*) argues that since commerce is contextual, firm behaviour and economic decisions tend to be socially embedded and therefore different under different institutional settings. The social embeddedness of firms leads to differences in business systems. Specific institutional settings generate specific kinds of enterprises, which tend to resist change except when there are major changes in the institutional context.

Thus the network theory can provide a useful basis for examining how wood furniture producers use family, social, professional and ethnic networks to access capital (credit), operate in labour recruitment, enhance education and training in order to achieve growth and development of their businesses.

The importance of institutions arises from the costs associated with measuring what is valuable, pricing of commodities and enforcing of agreements. Once created, institutions, determine the costs of acting in various ways especially in economic context.

2.2 Empirical Literature Review

It is hardly controversial that institutions affect performance of economies. Indeed the differential performance of economies over time is fundamentally influenced by the way institutions evolve (North, 1990).

The key aim of the study is to examine how institutions influence economic outcomes. From the context of studies on the interplay between institutions and development, it is clear that institutions shape the exchange process thereby determining the level of commerce and industrialization realizable. According to Kimuyu (2000), firm's behaviour and economic decisions are socially embedded, creating different business systems. Thus, people require rules of engagement to structure their interactions. This is what North (1990) calls "the rules of the game of a society or more formally as the humanly devised constraints that shape interaction". According to North (1990), institutions structure incentives in human exchange, whether political, social or economic.

Institutions reduce uncertainty by providing a structure to everyday (business) life. They are a guide to human interaction in formation of business and how to perform different tasks in a firm (North, 1990; Kimuyu 2000). Institutions differ from country to country; nevertheless they define and limit the set of individual choices. Institutions can be either formal or informal. Formal institutions include official state constitutions and laws while informal institutions are those that societies have consistently utilized to regulate collective and individual human interactions (norms) or those that have simply evolved overtime.

Kimuyu (2000) and Whitley (1992) distinguish three types of institutions; firm level institutions, market institutions and societal institutions (government). Firm level institutions consist of management styles structures and decision-making processes.

According to McCormick et al (2000), firm level institutions also include owner-employee relations and patterns of growth. Thus, firm level institutions may encompass skill and skill acquisition, capitalization, labour institutions, channel of distribution and linkages to external institutions. Kimuyu views institutional fitness from the framework of an institutional pyramid in which culture and norms form the substructure while governments, constitutions and legislation form the superstructure. In such a framework, other institutional components such as business systems and markets fall somewhere in the middle. A defining difference between the different levels of this institutional pyramid is the relative ease with which the components can be altered.

According to Kimuyu (2000), it is harder to change components that constitute the superstructure as compared to those that are part of the substructure. Lack of effective institutions to enforce contracts adds to the riskness of business environment and encourages entrepreneurs to restrict their dealings with person with whom they share kinship, friendship, ethnicity or religion. Unfortunately, this is counterproductive to growth and development of business enterprise as it restricts wider regional or national markets for goods and services (McCormick *et al*, 2000)

According to North, (1990) variations in business performance can directly be attributed to the role of institutions. For North, although the formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies. These cultural constraints not only connect the past with the present and future, but also provide us with a key to explaining the path of economic change.

However these scholars who have written on the role of institutions do not specifically focus on firm level institutions and do use the subsectoral approach which are more detailed and more revealing in terms of situating firm problems.

Institutions can also be seen as "sets of working rules that are seen to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided ... All rules that contain prescriptions that forbid, permit or require some action or outcome" (Johnson, 2001,42). This suggests a need to analyze the rules along with the procedures that are necessary to monitor conduct and enforce compliance. According to Johnson, the firm operates by allowing an entrepreneur to negotiate contracts with a range of participants that specify the ways in which they will act in coordinated way. In deciding whether or not to participate (assuming voluntary participation) each participant gives up some choices and as a result of this, the entrepreneur can pay each of the agents retaining residual profits (or bearing losses). The implication of this approach is that the entrepreneur is motivated to organize the activity efficiently and maximize profits. In Johnson's view, economic interactions produces core collective action problems which can be addressed by three types of institutions; the state, the firm and co-operative solutions. It thus seems to us that institutions at all levels are related and tend to influence each other.

Pedersen and McCormick (1999) classify institutions into four categories; financial, social structure, Market structures and technological capabilities. According to them, Financial Institutions determine who gets access to credit and capital and how and to whom enterprise management becomes financially accountable. Social structures on the other hand are the processes of socialization and educational system, which lead to differences in management practices, trust relations and social responsibilities. Market structures are the market level institutions such as legal systems and its enforcement that influence contract and trust relations, collaboration and linkage among enterprises that widen the reach of individual enterprises to global markets. Since African businesspersons seldom use the courts for dispute settlement (due to smallness of enterprises), market structures are critical in ensuring trust in their exchanges. Finally technological capabilities are innovation systems both within individual enterprises and their own environments, which lead to the way much management, react to change in the environment.

Nge'the and Ndua (1984) noted that the behaviour that informal sector exhibits is influenced by a number of economic and social factors. They assert that changes in the level of performance of informal enterprises are a function of changes in investment, number of years of formal education, levels of experience, age of the respondent and level of informal education among other factors. These factors are all institutional factors, which are endogenous to firm. However, they do fail to address how the effect of education and age on the firm institutions such as management styles, labour relationship and patterns of decision making in the firm which in themselves are very critical to growth and development of the business enterprise.

Mullei and Bokea (1999) argue that for government policy interventions to have any chances of success in improving the performance of the informal sector, there is a need of a strategic entrepreneurial approach aimed at the many constraints that hamper the growth of the informal sector. In there view, it is important to devise strategic entrepreneurship development policies that promote enterprise culture and innovation among Kenyans capable of developing into high profile entrepreneurs and industrialists. In their view, it is therefore important to understand the institutional environment in which business is carried on. Such a strategy can create many businesses, which would generate many employment opportunities thus leading to improved standard of living, poverty alleviation and sustainable livelihoods.

Bates (1996) argues that informal institutions such as culture of the community is critical for enforcement of informal contracts to avoid cheating or defecting in business exchanges. In this way, trade can then flourish only where non-market institutions protect it. According to Bates, the efficacy of informal institutions is the opportunity for repeated interactions. However, the applicability of these institutions outside trade and commerce, say in manufacturing (where wood furniture falls) is difficult to understand since transactions tend to be lumpy and often offer limited opportunity for repeated interactions in future. This means that business enterprises involved in manufacturing such as production of wood furniture require formal institutions (laws) to strengthen business exchanges.

Institutional approaches emphasize both the nature and the potential costs of interactions between key economic actors (North, 1990). Network theories are in turn based on the recognition that business entrepreneurs may cooperate in matters ranging from pricing product development and technological exchange (Alila et al, 1997; Skae, 1998).

Cooperation enables organizations to attain ends they cannot achieve alone. (Mead, 1998). This is important in any interest, but especially so in the circumstance faced by firms operating in developing countries. Linkages are believed to improve firm performance in at least four ways: first;

1) By reducing market friction and its resulting costs;

2) It allows firms to maintain a greater degree of flexibility than would otherwise be possible;

3) Improves skills and encourages the diffusion of technology.

4) It facilitates sharing of market information.

(Alila *et al*, 1997; McCormick *et al*, 1997; Mitullah *et al* 1997)

According to Alila *et al* (1997), market friction is reduced as repeated interactions between firms allow firms to lower the traction costs of obtaining and acting upon information. Linkages enhances flexibility most directly by allowing firms to reduce fixed costs., for example the firm with good linkages can gain access to equipment without the high cost of ownership or buy in specialized services instead of keeping the specialist on its payroll.

Linkages are especially beneficial when a small firm is able to supply technology-intensive products to another firm (Meyanathan *et al*, 1994). As inter-firm relationship are repeated, the small firm gains a valuable skills upgrade and the technology that was formerly lodged in the larger or technologically superior firm becomes more widely available. Certain kinds of linkages facilitate the sharing of market information. In the same vein certain kind of multi-lateral linkages such as membership in sectoral associations seem particularly useful in this regard.

However, for interfirm linkages to be beneficial, it requires sustained effort and skills on the part of the firms involved. Since markets are often fragmented, narrow and incapable of stimulating linkages, the assumption that linkages will automatically occur as a result of market forces directing interfirm and inter-industry transactions may not hold. Consequently, as Anim *et al* (1998) argue, firms should establish linkages with three principal motivation in mind; either because it is good for business; or out of sense of community service, or because they wish to shift to a production pattern that enables them to escape payment of taxes, or evade the impact of rules and regulations usually imposed by government agencies. In this context, to be most effective, institutional support for the promotion of business linkages needs to be based on a number of clear principles:

1) The driving force must be economic not paternalistic goal of community service. All linkage promotion activities must have an orientation that starts from markets and workers back to producers.

2) The institutional structure must be cost- effective.

3) The presence of building blocks, which support the promotion of linkages such as information, capacity building and capital.

Although widely acknowledged as beneficial, interfirm linkages and networks may have their own drawbacks—more so for small firms –participating in various types of linkages. According to Masinde (1996) and Skae (1998), larger and reputable firms stand to lose considerably if inputs of poor quality or uneven quality threaten the quality of the final products. As a way of hedging themselves against these potential risks, considerable cost may be incurred in developing safeguards. It is possible that these expenses may outweigh the benefits of subcontracting (Alila *et al*, 1997).

Interfirm linkages also have their own perils especially if the partnership is between smaller and larger, often stronger enterprise (McCormick, *et al* 1997). The small firm runs the risk of becoming over dependent or at worst, suffering exploitation at the hands of larger enterprises. Thus subcontracting especially where small firms rely on the large firm for its market could result in costly loss of small firm's autonomy. It is also argued that as a result of business collaboration a false uncompetitive environment is created.

It can therefore be argued that interfirm linkages and collaboration has both benefits and costs. It is there critical for the firm to evaluate itself on the basis of cost/benefit analysis before making the choice to enter into collaboration.

Business exchange requires trust. Even the simplest barter can only take place if transactors trust that each will respect some basic rules of honest dealing. They will deliver the agreed items to be exchanged and not some broken-down substitute, they will not try to renegotiate the terms of the agreement at the last minute. Markets induce trust through repeated dealings and the development of reputation (Ricketts, 2001).

However trust is an economic resource, which is very vulnerable to structural and personal difficulties such as insecurity, theft, cheating, family problems and other ill fortunes. According to Sorensen (1998), in a society where there is lack of reliable formal legal sanctions against non-completion of contracts, trust becomes a substitute for the law. According to Van Donge (1995) in an environment of economic instability, business transactions are confined to people who know each other. In this case, things like credit are viewed with suspicion and scorn with suppliers insisting on cash terms. He argues that trust is important for business growth and development.

2.3 Government Policy Towards The Informal Sector

The 1972 ILO report recommended that the following measures should be adopted in order to promote the informal sector:

1 The harassment of traders should cease.
2 Research and development on informal sector goods should be intensified.
3 Licenses should be freely available to all those able to pay the fees.
4 Links with formal sector, including government, should be strengthened through the development of subcontracting.

While the government's immediate response on this issue was favourable (Livingstone, 1986), the initial 'acceptance in principle' remained considerably diluted and resistant until the 1986-89 Development Plan in which the government fully recognized the employment potential of the informal sector (Kenya, 1986). However the plan to establish industrial promotion areas has never been extended outside Nairobi. The system of industrial estates for small enterprises, which was established under the Kenya Industrial Estates (KIE), has largely foundered owing to shrinking government funding and the withdrawal of donors. Under this system four different methods of assistance were envisaged: provision of infrastructure, including premises, power and water; extension, including advice on bookkeeping; skill training; supply of loans. Sadly these are the problems that afflict wood-furniture producers in Kakamega, the KIE having 'privatised ' everything save for its office block (Interview with operations manager on 4/7/2002).

Since 1986 the government's position on the salient role of the MSE sector is articulated in various policy documents. "Sessional paper No. 1 of 1986 on Economic Management for Renewed Growth" acknowledges the increasing importance of the informal sector in the face of the Structural Adjustment Policies. It proposed the establishment of a special task force to review local authority by-laws and other regulations governing informal activities (Mullei *et al* 1999). It is also noted that direct assistance was to be provided to individuals and small–scale businesses. Consequently, "the centre" was born within the Ministry of Planning and National Development to address key issues of the informal sector. In 1989, the Government of Kenya published a document entitled " A strategy for small enterprises Development in Kenya; toward the year 2000". This document mainly focused on the constraints the sector was experiencing. These were broadly classified as, the enabling environment, investment and finance and, promotional programmes and enterprise culture. These significantly formed a basis for designing fairly focused policies in the sector.

By 1992, the policy focus had been refined, and was published as Sessional Paper No. 2 on small enterprises and Jua kali Development in Kenya. This paper has since served as the basis of all other programmes, for the development of the sector. It sets out a comprehensive policy framework to direct assistance to individual entrepreneurs and small-scale enterprises, the transition of SMEs into medium size enterprises, and access to information for the informal sector.

Through action programmes based on this paper, obstacles inhibiting the growth in the M.S.E have been identified. These constraints include inadequate resources, lack of markets, poor business management skills, and inconsistent government policies, lack of marketing skills and hostile business environment. (Bokea *et al*, 1999; Njoka *et al*, 1998) It is evident that the basic policy framework for the SME exists; the challenge is the full implementation of the provisions in this framework.

Thus notwithstanding the significant efforts made by the Government, donor agencies and private sector organization to support and promote the development of the MSE in Kenya, little or no evidence is visible to suggest that they have achieved any success. Thus in an effort to make further progress, this study is warranted as a subsector specific research to diagnose some of the problems affecting SME's in a bid to refocus intervention programs to achieve growth and development. The study of institutions is critical.

As to why focussing on a particular sub-sector is a better way of study, Fisher *et al* (1997) states that due to enormous diversity within the SME; ranging from primary activities through manufacturing, to tertiary services, it is not possible to design, at least in any detail, policies which are appropriate to all the different undertakings within the sector. The SMES therefore needs to be seen in terms of its component parts, or its subsectors. He defines a sub-sector (such as the wood furniture) as the network of firms that supply raw materials, transform them and distribute finished goods to a particular consumer market. Normally a subsector is delineated by a final product (such as chairs, tables) and includes firms engaged in raw-material supply, production and distribution of the products.

The methodologies of sub-sector analysis developed by Fisher *et al* (1997) allow practitioners to determine strategic interventions, which have the potential to generate a significant impact on a chosen sub-sector. However, the choice of a potential subsector (which is able to thrive) comes before the choice of strategic intervention appropriate to the specific subsector chosen hence our study.

The implications of a sub-sectoral approach for policy-making are significant. For example, policies that assume that there is only one important constraint, which, if addressed, would allow all the diverse SMES enterprises to grow, are clearly inappropriate (Fisher, *et al* 1997). The provision of credit in particular has often been seen in this light.

From the literature, it is clear that the informal sector has been growing at a faster rate than the formal sector in recent years. The question is, can this pattern be repeated in the wood-furniture sub-sector? The question that emerges from the literature reviews is, to what extend can the performance of the MSEs sector be attributed to the role of institutions?

As can be deduced from the literature so far reviewed, subsectoral approaches are most appropriate in the study of the influence of institutional factors on the growth patterns of business enterprises. Understanding the role institutional factors play in the operation of business firms is key to finding solutions to their many and varied problems. Many of the studies that have been done on SMEs have tended to adopt a neo-classical approach where they have only focused on the supply and demand factors that affect enterprises growth, totally neglecting institutional factors (Todaro, 1997; World Bank, 1999). The solutions offered have therefore not had the desired impact of improving the performance of the SMEs, judging from their lack of growth and development

2.4 Definition Of Key Terms

INSTITUTIONS: These are the forces that direct and influence the way individual businesses operate and ultimately the organization of business activity in general. These forces are of economic, social, and political origin. Institutions are grouped into three main categories; firms, markets and societies (Kimuyu, 2000)

FIRM: This is a single economic unit producing goods and/or services.

FIRM LEVEL INSTITUTIONS: These include management styles, decision making processes, owner /employee relations, patterns of company growth and development (McCormick *et al* 2001)

NEO-CLASSICAL ASSUMPTION: This assumes a zero transaction cost model where producers and consumers are thought to have perfect information to make rational choices in a business transaction.

ENTREPRENEURSHIP IN WOOD-FURNITURE ENTERPRISES

Entrepreneurship is defined as the ability to perceive and exploit existing or emerging market opportunities for profit (Kirzner, 1979). This involves the ability to make decisions or allocate resources under conditions of risk due to uncertainty (King *et al*, 1999). According to Schumpeter (1984), entrepreneurs are individuals who do things that are already being done in a new way. This is innovation, which Schumpeter calls "New Combinations." In Schumpeter's view, innovation is the defining characteristic of entrepreneurship and does not necessarily entail invention. The objective function of entrepreneurs is to obtain the maximum possible output by using the best method of production, by introducing new goods or services, opening of new markets as well as conquering new sources of raw materials. Going by the above argument, one can posit that introduction of new methods of management in wood-furniture enterprises also comprises entrepreneurship. Carpenters with full knowledge of technical production possibilities are also likely to have the knowledge and ability to equate real marginal productivities with real factor prices (Njeru, 2001)

Consequently an entrepreneur in a wood-furniture firm would then be defined as the person who is able to assess the environment, identify existing opportunities, and gather the resources and implement actions to maximize those opportunities.

CHAPTER THREE

RESEARCH METHODOLOGY

The data requirements for this study were obtained from primary sources. This chapter discusses the research methodology under four sections; description and rationale for choice of the study area and subsector, the sampling design, type and strategy for data collection.

3.1 The study Area

Kakamega town is the headquarters of both Kakamega district and Western province respectively. It measures 49.9 square kilometers and is situated entirely within Kakamega district. It is an important administrative and communication centre for western province. However, Kakamega is not an important industrial centre since it does not host major industries. Its economy is thus dependent on the fortunes of employment wages and agricultural produce of the surrounding areas. In a way, one can say that Kakamega is only an important trading centre.

Administratively, Kakamega town is divided into two locations, namely Bukhungu and Shiewe. Bukhungu location has two sub-locations, Shirere sub-location and Mahiakalo sub-location, while Shieywe location has Township sub-location and Sichilayi sub-location. The town is also divided into 13 civic wards. The entire Kakamega town falls within Lurambi constituency. The last census of 1999 showed that Kakamega town has a population of 74115 people with a population density of 1485. Since Kakamega town is not a major industrial centre, majority of its population are employed within the informal sector, including small-scale wood furniture manufacturing firms.

Kakamega is a medium sized town that should ideally play a big role in the development process in the whole of the western Kenya region. Among other things, it should facilitate the growth of small-scale enterprise milieu, since in the absence of a significant industrial or manufacturing base, small and medium enterprises comprise a source of alternative employment, incomes, livelihood diversification and future industrialization.

3.2 Choice of Sub-Sector

Field work concentrated on the wood working sub-sector and focused on the making of furniture, although most of the carpenters interviewed also took on building work such as roofing, interior partitions, fixing of ceiling boards and coffin making etc.

The furniture sub-sector was chosen for the study of firm level institution in micro and small manufacturing enterprises because it is one of the most common small-scale manufacturing activities in Africa. The subsector tends to reflect the highest value-added activities in the economy (CBS, 1999). This subsector contains firms of varying sizes. This variation in size is in addition matched by wide variation in their internal institutional framework. Hence it was possible to study firm level dynamics of SMEs in more detail within the wood-furniture sub-sector.

Even more importantly, raw materials used by the furniture subsector in Kakamega as it is for most towns in Kenya, is mostly locally available. Hence the wood furniture sub-sector is an appropriate candidate for industrialization.

3.3 Sampling Techniques

In our study, the basic unit of analysis was the wood-furniture enterprise. Their owners, managers or workers were interviewed. The sample frame comprised all the wood-furniture producer enterprises in Kakamega town or municipality. The enterprises that were studied were selected by a method known as cluster sampling. Wood furniture firms in Kakamega are located in 6 groups. These groups are hospital, Amalemba, Lurambi, Town Centre, Maraba, Shikhambi. Through cluster sampling, four clusters namely, hospital, Amalemba, Lurambi, and Town Centre, were selected. The actual respondents were selected by stratified sampling technique whereby the first owner/manager in the selected cluster was interviewed and the next one skipped. Through this method 48 firm owners/managers in the selected clusters were enumerated. It was relatively easy to locate proprietors since we were able to obtain information on the whereabouts of other firms from those already visited.

3.4 Data Collection and Analysis

Data collection involved surveys of all sampled firms engaged in wood-furniture manufacture. Collection of actual data was through questionnaire-based interviews as well as in-depth interviews with key informants with relevant information related to woodworking business. Forty-eight proprietors and managers of wood furniture enterprises were interviewed in the sampled clusters (12 firms from each cluster) . Additionally, a number of key informants were interviewed. Key information interview/ discussion data collection was by a semi-structured topics discussion guide. On this basis, discussions were held with the Deputy Kakamega District Trade Officer, The Provincial Applied Technology Officer, Officials of Micro-finance Organizations, such as Pride Kenya, Kenya National Chamber of Commerce (Kakamega branch), officials of Kakamega Jua Kali Association and The Projects Officer at the Kenya Industrial Estates (KIE). There were also interviews with and various members of the Provincial Administration. From this group I was able to gain an overview of the state of development of the furniture sub-sector and a description of the relationship among key actors in the furniture sub-sector. Discussions with suppliers of hardware and raw materials were also held.

3.5 Ethics

This study was guided by the code of ethics in conducting social science research. In accordance with the code of ethics, the respondents were informed of the research goals and objectives. To forestall their fears, respondents were informed that the project had no connection with government authorities, and that data about individual firms would be treated as confidential. As a result no fee was paid to the interviewees for their co-operation.

3.6 Data Analysis

Analysis of quantitative data included preparation of frequency distributions, computation of relevant measures of central tendency and dispersion. In this endeavour, percentages and frequencies of various responses were calculated and correlated. Mean analysis of ages of the entrepreneurs was prepared to determine whether there are significant differences in firm-level institutions on the basis of age. Regression analysis was undertaken to determine the nature of the relationship between variables such as education and ability to seek training, join trade associations or maintain business records with a view of finding out whether decisions in a firm influence growth and development of wood-furniture firms. The study also used cross tabulations in which chi-square tests and significance tests were computed. In line with similar studies, notably McCormick (1999) tabulations and comparisons were done using SPSS and other suitable programs.

Significance tests were employed to evaluate the relationship between variables in all cross-tabulations. In all cases, the 0.05 significance level was used in testing hypotheses. If a calculated chi-square (X^2) value is less than or equal to the tabulated (critical chi-square) it fails to attain the significance, in which case the null hypothesis (Ho) is up held while the alternative is rejected. A calculated chi-square value exceeding the critical value attains the significance with the resultant acceptance of the alternative hypothesis (H1) and the rejection of null-hypothesis. Two of the three hypothesis formulated in chapter one were tested by this criterion. The tests were further supported by the discussion of the hypotheses using inferences from the descriptive results.

Firm size and growth indicators such as number of workers are measured against firm level institutions, they attain significant association at 0.05 significant levels, when the calculated chi-square (X^2) is greater than all tabulated (X^2) in which case the alternative hypothesis is accepted and null hypothesis (Ho) rejected.

Qualitative data were put through various types of content analysis so as to enable us to understand the different facets of firm level processes, structures and interactions including meaning of key concepts. The data was mostly collected through key informants.

3.7 Problems Encountered in the Field

Whereas the actual collection of data was successful, there were a few difficulties encountered in the field. Firstly, there was the problem of having to tailor my research schedule to fit those of my respondents. Thus, I was forced to accept the fact that work in the workshops had to be attended to during the interviews which considerably lengthened my stay in the field.

The other problem I encountered was that of initial fear and reluctance of the respondents to be interviewed, more so on the issues relating to sources of capital and particularly those on amount of sales, and profit. I later learned that this fear emanated from the alleged advertisements by the Kenya Revenue Authorities (KRA) to the effect that they intended to widen their tax base by enlisting on the small-scale enterprises. Consequently, I was unable to gather this valuable information from some artisans who totally refused to heed my pleas that I was researching for an MA project rather than assessing them for tax purposes.

In the same vein, most wood furniture artisans do not maintain adequate accounting records. While some of them had well kept records, I would like to point out that majority of the respondents were giving me only estimates of sales, production volume and profitability. This undoubtedly reduces the reliability of such data and our results should be interpreted with this in mind.

While I am very grateful to the furniture artisans who happily agreed to hastily arranged interviews, I regret the fact that I was not able to interview any wood furniture producers of Asian or Indian origin. This is because of their deep suspicions and reluctance to discuss any matters relating to their businesses. The key informants told me that the hostility and/or reluctance of Indian business people in responding to research activities is a generalized phenomenon. This attitude therefore robbed this study of the much-needed diversity of views since firms operated by Indian entrepreneurs tend to be larger (in terms of employees) and fairly well mechanized. As a study in business systems, this study should have benefited immensely from the cooperation of Indian furniture producers.

The question of how the respondents were going to benefit from the research was very persistent. The respondents often related their experiences with past researches and complained that despite enumerating their situation, nothing had been done to alleviate their plight. Many of my respondents therefore adopted a feeling of 'dejavu'. In spite of this feeling, many of the sampled respondents as well as key informants were cooperative.

As to whether the findings of this work would result to immediate financial gains to the respondents, I explained clearly the purpose of the interviews at the outset. In particular the respondents were informed that the project had no connection with the government but was only meant for my MA project. Further I made a point to inform my respondents that as part of my MA project findings are likely to be published. Consequently the entrepreneurs visited agreed to be interviewed.

CHAPTER FOUR

FIRM CHARACTERISTICS AND ENTREPRENEUR CHARACTERISTICS IN KAKAMEGA.

4.1. Description of the enterprise and their owners

This section contains an introductory description of the woodworking firms included in this study. The purpose of this description is to give the reader a general idea about what kind of enterprises were included in this study.

4.2 Socio-Economic Background of Respondents

A majority of those interviewed were male while only one respondent was female. This finding seems to vindicate the nature of manufacturing activities in general and wood-furniture production in particular. Manufacturing sector is mostly dominated by the male gender, which agrees with the findings of the National Base Line Survey (C.B.S, 1995).

4.3 Age of the enterprise owners

An overwhelming majority of those interviewed were married (72%) whose age ranged between 19 years to 77 years. The oldest entrepreneur was 77 years and the youngest was 19 years as illustrated in Table 4.1. The mean age for all the entrepreneurs was 37 years. This is slightly higher than the National mean for all the micro and small enterprises, which is 35 years (CBS, 1995). Table 4.1 gives a summary.

The age of the entrepreneur could have a bearing on the dynamism of the enterprise as age has a bearing on experience, health and drive of the entrepreneur. Age is also a determinant of vital business experience access to sources of capital, raw materials and channels of product distribution (Kinyanjui, 1996; Shimooka, 1996).

The fact that firm founders in Kakamega are relatively older seems not be unique to Kakamega town. Other studies notably Kinyanjui (1996) found the average age of firm founders in Central Kenya districts ranged between 35 and 45 years. However studies done in Nairobi particularly Abuodha (1992) have found that most entrepreneurs were relatively young. This finding is nonetheless explainable in the sense that many young and highly educated entrepreneurs migrate to Nairobi and other big towns such as Mombasa and lately Kisumu in search of better opportunities.

4.4 Enterprise premises

All the enterprises studied had permanent buildings of operation. The function of these permanent building for many entrepreneurs is to provide a place where tools, machines and work in progress can be kept safely overnight. Respondents told me that "having a fixed place of operation is important as it serves as a show of genuiness and authenticity of the business in the eyes of the customers". This is important for furniture making/selling business since customers have to be sure where and how to find the entrepreneur and this is a crucial determinant as to whether customers will take out orders and entrust the entrepreneur with deposits. Permanence of buildings is also an important criterion for licensing of wood-furniture firms.

4.5 Enterprise size

The number of persons employed varied from 1 to 10. The most frequent size by this measure was 2 persons representing 31.3% of all enterprises. The modal size was 3 persons and the mean 2.69 persons. There were 8 enterprises in one-person category, six in the three persons category one in the four employees category. There were 3 enterprises in the five employees category as well as in the six employees category. Two employees category had five enterprises. Four employees category had seven enterprises. This is illustrated in Table 4.1 below.

Table 4.1: Size of the firm in terms of employment size

Size of the firm	Frequency	Percent
No Employee	11	22.9
1	8	16.7
2	5	10.4
3	8	16.7
4	7	14.6
5	3	6.3
6	3	6.3
7	1	2.1
9	1	2.1
10	1	2.1
Total	48	100.0

According to firm owners, the number of workers in any one firm is somewhat variable as the use of casual or 'contract' labour on short-term contracts is widespread. Only 45.8% of entrepreneurs reported retaining the same number of employees at all times, all of which employed between 1-2 persons.

Thus, variation in size of employment or labour force is an inadequate predictor of firm size of wood working enterprises. One obvious reason for this is that when demand increases, firms can either employ more people or acquire machinery; or purchase different supplies such as planed instead of rough timber; subcontract some of their activities such as splitting of timber; wood curving and pattern design etc. It was apparent that increased employment is only acceptable as an indicator of increased demand, which unfortunately is affected by seasonality. Growth and development of a firm depend on a variety of factors, such as machine availability, organizational and technical capability or owners, availability of operational capital and perceived permanence of increased demand among others.

The enterprises studied operated continuously throughout the year. This was important since the presence of firm level institutional dynamics are based on and enhanced by commercial activities found among the open, full-time and all-year enterprises.

4.6 The age of firms

The actual age of enterprises ranged from six months to 26 years. The average age of the enterprises was 7.5 years. The oldest firm studied in the survey was established in 1976 while the youngest was established in January 2002. Generally, most firms (61%) were established in between 1996 and 2002.This finding indicates that majority of the firms studied are relatively young as shown in table 4.2.This show that once established, furniture firms tend to survive for a fairly long time. This is probably because of the motivating factors, which are mainly availability of skills and the desire for self-employment.

Table 4.2: Age of Firms.

Age of Firms	Percent
26	2.1
23	2.1
22	2.1
16	4.2
14	2.1
13	4.2
12	2.1
11	4.2
8	6.3
7	6.3
6	6.3
5	18.8
4	4.2
3	6.3
2	6.3
1	12.5
≥1/2	10.4
Total	100.0

Mode 1996; Mean Age 7.5; Max=26; Min=0.5

The firms in wood-furniture MSEs are much older than those specified by other studies such as Njoka *et al* (1999) and Abuodha (1992). This is probably because of the motivations for starting businesses (skills availability and the need for self-employment), which by their very nature tends to avoid risky business undertakings. Again furniture firms tend to be more receptive to family labour, which leads to integration of family members into business, making succession issues less harmful to business operations and continuity.

It is my believe that the wood-furniture manufacturing firms must have been in existence before 1976. McCormick (1988) says that the age of firms range from 0.2 –39 years. This implies that the firms must have been in existence before 1947. Either these firms could have withered out or moved over to the formal sector. The former is bound to be more realistic. If these firms had developed into formal sector firms, then not only would there be a lot of awareness of sector's potentialities, but also entrepreneurs in the informal sector would be by now far more aggressive in decision making to increase production so as to achieve what their predecessors achieved. It is therefore possible that these firms stagnate and wither out after some period of time. It is this aspect that should attract the analyses of policy makers with a view to finding solutions.

4.7 Source of start-up capital

A majority of firms (64.6%) relied on personal savings for start up as well as working capital, other sources included retirement benefits (8.3%), family loans (10.5%) and loan from micro-finance organization (MFI) comprised 2.1%. Other sources of capital were saving of material and equipment from previous employment (2.1%). Entrepreneurs who are either teachers or civil servants also mentioned loans from Banks and Government as a source of capital, which comprised 2.1%. A similar percentage was recorded for loan borrowed from the government and previous employment, with loans from ROSCAs recording 4.2%. We should mention that loans from ROSCAs were actually borrowed by the spouses of those who were interviewed. One of the sampled respondents declined to reveal the source of his business start-up capital. This is shown in Table 4.3.

Personal savings is the most prominent source of business start-up capital because entrepreneurs usually do not have information about credit institutions and the perception that they would be required to give collateral, hence demotivating them against seeking credit outside the opportunities available within personal and familial environments.

This is not surprising, given that a large proportion of entrepreneurs (77.2%) had said that they had no access to information on financial/lending institutions. Many carpenters or wood-furniture entrepreneurs also looked at credit institutions as exploiters, due to the high interest rates charged on loans. The fortunes of those who took loans did not help matters such that credit institutions were said to drain business money as those who took loans ended up selling personal property such as cattle to service the loans till their businesses started performing badly.

Most entrepreneurs rely on personal business start-up capital because of ignorant of the details of the procedures and operations of the credit giving organizations. The credit giving organizations mentioned included WEDCO, Pride Kenya, and NCCK.

Table 4.3: Source of capital used to start business

Source of Capital	Frequency	Percentage
NGO loan	1	2.1
Bank loan	1	2.1
Loan from ROSCA	2	4.2
Family loans	5	10.4
Personal savings	31	64.6
Pension/redundancy Benefits	4	8.3
Church sponsorship	1	2.1
Saved material from pervious Employment.	1	2.1
Not sure	1	2.1
Loan from government	1	2.1
Total	48	100.0

In terms of the amount of capital used for business start-up, the highest amount was Kshs 100,000 while the minimum was Kshs 700. The mean amount of start-up was Kshs 20,000. This start-up mean capital is higher compared to other subsectors such as the Garment subsector (McCormick *et al*, 2001) due to high cost of carpentry tools and implements. We would like to point out that some furniture producers with low start-up capital reported having acquired tools and other material requirements from previous employment, training colleges or sponsors. However, they did not think that this was part of their overall start-up capital.

4.8 Business ownership

Most of the firms (70.9%) are owned by sole proprietors. Firms inherited by sons of retiring entrepreneurs comprised 20.8%. Partnership is the third most important form of business ownership (4.2%). The other form of business ownership was by the church (2.1%). The Catholic church through the community of Saint Lwanga owns and runs a carpentry workshop which initially was meant to train destitute children in wood work, but later began making and selling furniture as a way of raising funds to cater for the growing needs of the increasing trainees. This was in a bid to make the centre self-sustaining.

The finding that a fairly high proportion of entrepreneurs (20.8) have inherited their firms from their fathers or other relatives is important because it shows strong kinship and family characterization of the furniture businesses in Kakamega. Furthermore, integration of family members into business makes succession issues less harmful to business operations and continuity. This is the reason why furniture firms are much older than those specified in other studies such as those in Garment subsector (McCormick *et al*, 2001). This finding also contradicts earlier studies such as those of Marris *et al* (1971), which had argued that business inheritance (family business) was a phenomenon associated predominantly by Kenyans of Asian and European extraction.

4.9 Motivation for starting business.

Firm founders offered a variety of motives for starting wood-furniture firms. The factors motivating the formation of firms covered in the survey were not very different from the reasons for starting the firms. Table 4.4 gives a summary.

Table 4.4: Motivation for starting firm

Motivation	Frequency	Percentage
Skills availability	17	35.4
Source of income	11	22.9
Self employment	15	31.3
Investment of golden handshake/pension	3	6.3
Ready market for furniture products	1	2.1
Avoid idleness	1	2.1
Total	48	100

As table 4.4 shows, majority of respondents were motivated to start their firms due to the availability of skills and the need for self-employment. The need to generate or diversify sources of income came in third with slightly over 22%. The other significant motivations included investment of golden handshake/pension benefits and availability of investment capital.

Most entrepreneurs are motivated to establish businesses due to the availability of carpentry skills, which are easily acquired through apprenticeship training in Jua Kali workshops, Vocational Colleges and Technical training Colleges. Failure to secure wage employment pushes skilled carpenters to establish their own businesses. For those who are already employed, the need and desire to be independent makes them to start firms of their own, so that they can be self-employed. For others, establishing own wood-furniture business is the only way to earn a living.

This finding suggests that over 60% of wood furniture producers in Kakamega were motivated to establish their firms by negative stimulants. Negative motives in the sense of enforced entrepreneurship which results from such factors unemployment and the desire for self-employment mean that majority of the firms start small and remain small (Kinyanjui, 1996). This according to Kinyanjui, is because these firm operators tend to be risk averters fearing to loose what they already have. Positive motivations such as perceived market opportunities, which could lead to pursuit of growth and expansion objectives, comprise only a mere 2.1%.

Contrary to the survey findings of this study, evidence from other studies conducted in other parts of Kenya particularly Central Kenya show that majority of firm founders in that region were frequently motivated by positive motives such as the need to generate higher incomes and identification of market for firm products (Abuodha, 1992; Kinyanju, 1996). Although these studies were conducted before structural adjustment programmes pushed many people into the informal sector through retrenchments in private and public sectors, nevertheless these regional differences in the factors that motivate business formation should exercise the interest of policy makers concerned with finding solutions to firm problems. The finding that entrepreneurship in Kakamega is generally enforced by negative motivations seems to confirm the mainstream views of development theorists on Africa, notably Hyden (1986) and Marris and Sommerset (1971). These theorists have argued that enterprises in Africa are founded for survival rather than profit maximisation.

However, studies by such scholars as Bates (1986) have shown that there is a relationship between motives for firm formation and the economy of the surrounding areas. In other words, firm founder from regions that are economically better endowed will more likely be motivated by positive influences such as market opportunities and the desire to increase profits, while founders in economically depressed regions are more likely to be negatively motivated or forced into business by unemployment (Kinyanjui, 1996). Thus it behoves the government to reduce the incidence of poverty in the country so as to bridge the regional disparities in economic development.

4.10 Education of entrepreneurs.

Education is an important social institution. It determines the type of networks that entrepreneurs have with buyers and suppliers of raw materials and credit (McCormick *et al*, 2001). It also exposes individuals to good business practices.

Majority of the firm founders had some formal education (96%). However, this seems to be very low. Many firm founders (51%) had only primary education with 36.5% of these not completing primary level of education. Firm owners with secondary school level of education comprised 42% out of which a majority (66.6%) had not completed high school. There were no firm owners with university level of education. Those with no education at all were (4.1%). Table 4.5 illustrates this.

These findings are comparable to other studies notably McCormick *et al* (2001) and Abuodha (1992). Our findings indicate that there are more artisans in furniture enterprises (51%) with primary level of education as compared to 29.4% reported for the Garment subsector (McCormick *et al*, 2001). This has serious implication for training in the subsector since as Abuodha (1992) found out in his study of informal manufacturing firms in Nairobi and Kiambu, education correlates very strongly with both the type of training sought by trainees and firm performance. In other words, entrepreneurs with tertiary education (university and diploma) seek higher and better training, which realise best performance. This view is also echoed by Ndua and Ng'ethe (1984) who argue that only very high levels of education, those classified as tertiary, improve incomes significantly. Training should seek to encourage product differentiation, quality improvement and expand product horizons.

However, study these findings reflect those in the Garment subsector at secondary level of education, which is 42% and 42.9%, though there were 1.7% of entrepreneurs with university level of education in garment subsector compared to none in the wood furniture subsector. Compared to the metal subsector, the wood furniture subsector fares poorly as the metal subsector has higher representation at the secondary and university levels (Okech *et al*, 2002). This difference is based on the fact that some operations in metal work such as fabrication are much more complex and requires higher levels of education and training. When compared with the bigger towns such as Nairobi and Mombasa we find that there are more entrepreneurs with secondary level of education than Kakamega. Evidence from other studies such as Abuodha (1992) show that 52% of entrepreneurs in informal manufacturing firms in Nairobi had secondary level of education. These differences emerge from the fact that younger and relatively better educated people move to bigger town in search of better paying opportunities

What all these studies have in common is the confirmation of the fact that education is an important business attribute in business performance and in accessing resources and facilities for the business. This implies that with the rising education level of the MSE entrepreneurs, we may expect an increase in the demand for more and better supporting services to MSE sector.

Table 4.5: Level of education attained.

Level of education	Frequency	Percentage
None	2	4.2
Primary	26	54.2
Secondary	20	41.7
Total	48	100.0

4.11 Training.

Skill acquisition in the informal sector varies from entrepreneur to entrepreneur. However the three main forms of training in the subsector are: apprenticeship in jua kali workshops, vocational training and training in technical colleges.

In terms of training a fairly good number of wood-furniture artisans have attended college training. Although a big number (31.3%) were trained as apprentices in Jua kali workshops, 12.5% have attended vocational training colleges, 33.3% went to technical colleges while 6.3 % have polytechnic training. Training by family members accounted for 8.3%. However, 4.1% of firm owners have training, which is not immediately relevant to furniture production. These diverse forms of training include printing and medical courses. These people are join businesses so as to put their skills to productive work and also to develop an alternative source of income due to lack of wage employment. A number of furniture firm owners in Kakamega are either teachers or civil servants. On their own admission, the motivation for furniture firm formation is a desire to increase sources of income and also lack of alternative and appropriate forms of employment. Of the 20 respondents 'who had gone through training colleges, 70% reported having taken government trade tests in carpentry and joinery. One noticeable outcome of training is the ability to do such specialized tasks as wood-curving pattern design and joinery. This is shown in table 4.6.

Table 4.6: Type of training

Type of training	Frequency	Percent
Jua kali workshop apprenticeship	15	31.3
Vocational training colleges	6	12.5
Technical colleges	16	33.3
Polytechnics	3	6.3
Training by family Members	4	8.3
Medical training college	1	2.1
Printing	1	2.1
Total	46	95.8
Missing System	2	4.2
Total	48	100.0

The level of education does reflect level and type of training sought by entrepreneurs. All of the artisans without formal education and majority of those with only primary level of education were trained through apprenticeship in jua kali workshops. In the same vein majority of those artisans with secondary level of education have had their training either in technical colleges or polytechnics where level of training is much higher. This is shown in table 4.7.

Training through apprenticeship in Jua Kali workshops is one the most important and popular ways of acquiring carpentry skills. This is because it provides low cost on-job skills training that are flexible and do not largely require high levels of education. On the other hand technical colleges are also an important source of training. Although more expensive and complex requiring much higher levels of education than Jua Kali apprenticeship, this form of training is important as it provides short-term skills up-grading courses, especially the World Bank sponsored Voucher Training Programme which attracted many participants of all levels of education experience.

Table 4.7: Level of education attained and type of training

	Type of training							
vel of ucation ained	Jua kali workshop apprenticeship	Vocational training colleges	Technical colleges	Polytechnics	Training by family members	Medical training college	Printing	Total
one								2
mary	2	6	7	1	3			26
condary	9		9	2	1	1	1	18
tal	4	6	16	3	4	1	1	46
	15							

Chi-square=17.912; Df=12; Sig=0.118; Spearman's correlation=0.343.
Source; Own data.

Informal sector graduates are limited in what the trainers can offer. Specialisation is the order of the day in small-scale enterprises in this industry (King *et al*, 1991). Trainers are thus limited unlike in institutions where a variety of trainers and training facilities gives them more and improves their ability to differentiate their products.

In Kakamega, entrepreneurs were rather negative about employing formally trained carpenters, maintaining that their training was not only inadequate but also lacked practical application, and their wage demands are unreasonable. This is unlike evidence from managers/proprietors in high sophistication group in towns such as Nairobi and Mombasa who actually preferred formally trained carpenters, because of their experience with machines and their ability to work independently (Abuodha, 1992).

It should be noted that a substantial number of broadly skilled workers is necessary for mechanisation of the flexible type (Sverrison, 1990). This leads to the suggestion, that extensive vocational training is an integral component of an alternative industrial strategy.

CHAPTER FIVE
FIRM LEVEL INSTITUTIONS

5.1 Skills and Skill Formation in Carpentry Firms

Skill and skill formation is an indispensable part of furniture manufacturing business. Lack of skills is indeed one of the most quoted reasons as to why we have low quality wood furniture products. In order to find out how skills are acquired in wood-furniture manufacturing enterprises, entrepreneurs were asked to state the source, place of training and duration of their training. Most respondents cited informal training by experienced artisans 31.3%. Founders without any form of skills comprised 4.2 %.

Training of artisans in vocational training colleges accounted for 12.5%, technical colleges, 33.3% and polytechnics, 6.3% were the next important sources of skills in carpentry firms. Also notable was training by relatives, especially father-to-son and brother-to-brother training. Some artisans trained in this way even though they had inherited (rather than trained) the skills from their fathers or brothers. Other sources of skills include former employment.

5.2 Management techniques and related aspects

Inadequate management skills is undoubtedly among the most quoted reason for slow enterprise growth and development in Small and Micro sized Enterprises. Business success is very closely tied to the competence of the manager and the staff. Competence is the knowledge, attitude and skills a person has for a given task. In order to see if this is the case in carpentry enterprises in Kakamega, a number of management aspects were studied.

Among other things, the respondents were asked about accounts and accounting records. Their practices were classified and ranked. The results are shown in Table 4.8. The accounting records kept ranged from no accounts through the most rudimentary cash flow records to complete double entry bookkeeping.

The most frequent category was the lowest one – cash sale receipts (65 %), cashbook (20%) and order book (5%) and the lowest no record kept (10%). Operations, which entailed complete double entry bookkeeping such as depreciation on machinery and tools, debt schedules, were not seen. There was no firm without any form of records.

Table 4.8: Firms and keeping of accounting records.

Does firm keep accounting Records?	Frequency	Percent
Yes	39	81.3
No	8	16.7
Total	47	97.9
Missing System	1	2.1
	48	100.0

Management skills among furniture makers are acquired through a variety of sources. A majority of carpenters acquired management skill through repeated operation in their workshops. Although this question was not specifically put to respondents, it emerged from my discussions with the District Trade Officer, the Provincial Applied Technology Officer and the provincial Kenya Industrial Estates Office, "most carpenters lack skills in management, customer care, marketing and costing of their products". Respondents also admitted that they did not know the true cost of their products. According to the deputy district trade officer, "in many instances furniture manufacturers did not know they were selling furniture products at well below the cost price before they were taught product costing course". (Date of interview, 6.7.2002) This is the reason many of the firms are operated unprofitably till some of them eventually close down.

Micro and small-scale wood furniture manufacturing firms do not generally borrow from banks due to lack of skills and management experience to prepare business plans acceptable to banks and financial institutions. Due to lack of dialogue, informal sector operators are not fully aware of the packages and procedures available within the banking system. According to Kakamega district trade development officer, "the management deficiencies facing wood furniture producers in Kakamega can be summarized as lack of marketing strategies, inadequate pricing/costing policies, lack of important financial records and credit control and collection problems"(6.7.2002 in Kakamega)

Failure to keep budgets inhibits business forecasting and planning .Yet procuring a loan form a bank or NGO is based on a well-prepared cash budget. In any case a loan officer would have difficulties in appraising the prospects for an informal sector business if the operator used only a basic recording system

It is in this regard that the district trade development office liaises with the District branch of the Chamber of Commerce and the District Jua Kali offices to organize seminars for carpenters in management, marketing, product costing (for profitability), and sources of business finance. "Additionally, in conjunction with the office of the Provincial Applied Technology, exhibitions are organized for artisans to come and learn about new technological developments and product design. Those trained in this way are encouraged to share these ideas with other carpenters". (District Trade Officer, Interview Date, 6.7.2002)

In the view of the Provincial Applied Technology officer, there is a strong link between education and the capacity to accommodate change. Low levels of education/training among furniture producers are responsible for lack of willingness to appreciate the importance of skill enhancement. According to him, "the lower levels of education are a handicap to the efforts aimed at strengthening the link between furniture manufacturing firms and training institutions". (PATO, 6.7.2002).

5.3 Association membership

Belonging to associations has benefits, since there are a number of tasks, which individual entrepreneurs of firms cannot undertake alone (Okech, *et al* 2002). Some of these tasks include organizing seminars to exchange ideas on the changing trends of technological development, collective lobbying for certain government services, forming a front against perceived government harassment, negotiating for credit or capital, organizing for management capacity enhancement seminars and skills upgrading courses or seminars. The best example of this is the World Bank funded Voucher Training

Programme (VTP), through the District Jua Kali Association. Through this programme, many artisans have gone for training in order to upgrade their skills. This according to Provincial Applied Technology Officer is the reason why we have a higher number of furniture artisans who have trained at technical level college despite their low level of education.

Data from the field survey shows that 35.4% of the firms interviewed are members in certain associations. Most small wood-furniture firms did not belong to any association as indicated in Table 4.9 (64.6%). This is a worrying trend since some of the Association's objectives are to help members in times of business as well as personal difficulties such as sickness and/or death. Key informant interviewees pointed out that although small wood furniture producers know about the benefits of the Associations and are willing to join, they are discouraged through incessant wrangling over leadership in these organization, poor management, lack of membership fees, alleged corruption and mismanagement of funds and property. Although some of the Associations particularly the Kenya National Chamber of Commerce is known to assist furniture artisans in legal matters, improving and safeguarding business and settling disputes between firms and their employees, most artisans are ignorant of these services. They thus don't find it appropriate to join as members.

Table 4.9: Membership of trade associations.

Membership of Association	Frequency	Percent
Yes	16	33.3
No	31	64.6
Total	47	97.9
Missing System	1	2.1
Total	48	100.0

The findings that a majority of wood furniture firms largely do not belong to any associations, (table 5.0), seems to be a generalized one. This is in spite of the usually accepted view that business and other Associations are beneficial to the growth and development of small scale as well as large-scale enterprises (Kinyanjui *et al* 1999). As

Kinyanjui (Ibid) argues in the case of the construction sector in Nairobi, lack of associational life does not augur well for the growth and development in the wood-furniture sub-sector in Kakamega. On her part, Sverrisson (1993) pointed out that, associational life of whatever shade provides an important link in the formal as well informal networks, which are critical for the survival, growth and development of enterprises. Networks are systems of relations between technical functions on one hand and external environment on the other.

The prevalence of sole proprietorship and the lack of business associational life in Kakamega may infact be the missing link in the growth and development of the furniture sub-sector. The low membership of associations as seen from table 5.0 can explain to some extend, the poor performance of the wood furniture subsector extend poor performance of the wood furniture subsector in Kakamega. This is because the absence of strong association denies artisans free assess to new ideas and skills, technological development, as a buffer against government harassment, lobbying for government services, ensuring quality standards and negotiating for softer terms for credit and resolution of trade disputes (Oketch *et al*, 2001). Associations are in a better position to organize seminars to sensitise furniture manufacturers on government policies and marketing of products, assisting in social welfare matters, offering small loan to members at softer terms and legal protection of firms.

5.4 Supplier credit and loans

This was captured by investigating the source of start-up capital and also where entrepreneurs turn for support in times of business difficulties (to capture source of working capital). There was also a question on whether suppliers give credit to furniture artisans. According to findings, 25% stated that they received credit from suppliers while 75% did not. The reasons given as to why suppliers are reluctant to give credit include lack of trust on the part of suppliers, and the inability of the artisans to repay. The source of capital used to start wood-furniture is summed up in Table 4.3.

NGOs and CBOs are increasingly playing a limited though important roles in the supply of business operation finance and other services. Only 2.1% of firms received loan from NGOs. My discussions with officials of Pride Kenya revealed that though micro-finance organization (MFIs) are playing an important role as source of operating capital, their conditions are making it difficult for wood-furniture artisans to borrow money for expansion. For example the MFIs in Kakamega demand that people borrow in groups and insist on lending only a little on the first instance of borrowing. This is rather difficult especially for wood-furniture borrowers who need a fairly higher initial capital outlay. Some of the MFIs mentioned were Pride Kenya, Small and Micro Enterprise Programme (SMEP), which was originally under the NCCK.

In terms of Bank loans, only one firm reported having acquired loans from the banks. It is significant to note that these respondents are either teachers or civil servants. None of the respondents acquired a loan from the bank on the basis of business viability. In Kakamega, cooperatives and SACCOs are not important sources of financing business (Refer to table 4.3).

Family loans are important sources of loans. This takes the shape of a father leaving tools or raw materials for sons, wife lending to their husbands or brother lending to brothers. Data in table 4.3 shows that 10.4% of the respondents received loans from their families. Loans from other artisans were also an important source of operating capital. Few of the firms admitted to have received loan from other fundi's. Other notable sources of capital and loans include church sponsorship.

5.5 Legal Status of firms and management

The legal status of enterprises is important particularly in cases where contracts have to be enforced. All the sample firms were either registered by taking out the single business permit or through the daily charges, which are collected by the Municipal Council of Kakamega. The majority of the firms were operated as sole proprietorship although there are cases where some firms operated as partnership but this was by way tacit agreement rather through legal paper work. Most of the furniture firms (77.2%) were started by their present owners. A significant proportion was inherited from close relatives such as father, brother etc. Other firms were started as partnership. In spite of the reported change in ownership as in the case of those inherited from father to son or brother-to-brother, our data shows that there was no significant shifts in management styles of the previous owner.

Table 5.0: Firm's Founders.

Firm founders	Frequency	Percentage
Self	35	73
Inherited from father/other relatives	10	20.8
Partnership	2	4.2
Church	1	2.1
Total	48	100

Many small transactions involving furniture businesses and poor consumers with limited asset-holding are on cash basis. This is because court action and recovery is either not possible or problematic. This forces the majority of the transactions to be on a cash basis since wood-furniture artisans want to avoid the trouble and the cost involved. Episodes of furniture customers carrying goods on credit or before clearing the balances are very rare. Only 20% of firms said they offer credit facilities. Survey data also shows that many operators of hard wares and timber yard sellers do not offer credit due to lack of trust for the furniture manufacturers. For the few firms, which said they received credit from sellers, almost all of them said it is a facility open only to most trusted entrepreneurs. As Van Donge (1997) has shown, highly insecure economic circumstances occasioned by Structural Adjustment Programs (SAPs), has created mistrust in business transactions hampering production, altering market conditions, which has affected growth and development of wood-furniture SMEs.

Lack of lasting business relationships between entrepreneurs and their customers as well as between entrepreneurs and raw material sellers is a manifestation of lack of reliable formal legal sanctions against non-completion of contracts. In these circumstances, trust becomes a substitute for the law (Van Donge, 1995). According to Van Donge (ibid), insecure economic environment is a social construction which if not quickly arrested could restrict business transaction only to people who are well known to each other. This restricts the market for goods and then ultimately affects growth and development of enterprises.

5.6 Employment in wood-furniture firms

The number of employees in small-scale wood furniture manufacturing enterprises, range between one and 10 employees. The total number of employees employed in the manufacture of furniture (sampled firms) in Kakamega is 129, while the mean number of employees is 2.69. Survey data also shows that 33.3 % of the firms did not have regular employees. In most cases, firms employed more contract workers in case of high demand when the orders were big and urgent. The firms with more employees had the flexibility to take on big volumes of work, which was urgent. Again firms with more employees showed specialisation of labour, which involved some artisans, this concentrating on some particular tasks. This tended to boost productivity and improved and improved quality of furniture. This implies that labour generation in the sub-sector can be achieved both through vertical and horizontal expansion. Horizontal expansion looks more attractive as a means of achieving increased employment. There was only one firm, which had achieved employment rates of more than 10 labourers. On the other hand many firms had achieved employment of between 4-10. Horizontal expansion seems more attractive as a policy instrument. However this should not be taken without due caution as it is likely to be misleading. Care should be taken to ascertain the sub-sector's ability to expand horizontally before we actually conclude that this growth direction would achieve stable and consistent growth.

The difference between means was not significant at 5% level. 60% of furniture firms engaged 3 or more labourers. The level of disparity between Kakamega and big towns such as Nairobi and Mombassa is notable (see for example Abuodha, 1992 and Oketch *et al*, 1991). While 40% of the firms employed fewer than 3 labourers, 12.6% employed more than 6 labourers. This shows the potential of this sub-sector in employment creation. The causes of the differences between firms employment capacity should hold the key to achieving the difference between employment generation potential of the sub-sector the actual employment level.

Some firms which had regular employees had trainees and/or family labour. In our study, 7 firms had student trainees with the highest number being 30 students and the least being one student. On the other hand, 5 firms reported having family members working in the firm. The number of family members in the firms ranged between one and three. The average family labour and trainees was 0.149 and 0.958 respectively. Family members were most visible among inherited firms.

Contract employees and trainees on apprenticeship in wood-furniture workshops, act as proxy of positive increases in demand for the output. More contract employees or casuals labourers imply that the wood-furniture sub-sector have higher demand of products than they can supply hence the need to increase factors of production. In Kakamega, periods of high demand are seasonal and coincide with harvest time.

5.7 Market for Furniture Products

The outlets for firm products were investigated in terms of whether the products are sold to individuals, institutions or other business firms. Most of the firms studied sold their products to individuals 90% for their consumption. Other outlets included schools, 4 % churches, 1% and government offices 5%.

Further according to our discussions with key informants, the reason why many hire purchase shops do not source their products from artisans in Kakamega town is because of the strict quality standardization measures adopted by these firms at their respective headquarters and the need to curb corruption among the outlet managers. With improved quality and other procedures, this market outlet provides hope for the future.

5.8 Subcontracting in Wood-Furniture Firms

Sub contracting of activities within the wood-furniture sub-sector is widespread. Survey data shows that 75% subcontract their activities. The rest 25% indicated that they do not subcontract their activities. The firms which subcontract largely sub contract aspects such as planing in big amounts, grooving, wood splitting, production of big volume of urgent orders, wood carving and pattern design and specialized joinery work. Size of the firm, quality and skill of workers, availability of tools, machines and expertise in a given aspect of furniture production are the main determinants of firms, which are subcontracted. Firms accept sub-contracts largely because they have time (idle capacity) 18.8%, want additional income (18.8%), have adequate tools and machines required for specialized tasks and expertise or skill in the required operation (33.3%). Other reasons include good relations 18.5% and 3.7% of respondents had no idea why they accept subcontracts. The reasons why firms do not sub-contract are mainly due to little work 50%, availability of machinery (8.8) and skills or expertise (25%), adequate personal and lack of interest (8.8%). 8.8% of the respondents failed to respond to this question..

On the other hand, firms, which give sub-contracts, gave various reasons why they sub-contract to other firms to handle some of their activities. The survey shows that lack of machines, lack of expertise, urgent bulk order, inadequate personnel and reduction of costs are the main reasons.

The most common subcontracting arrangement is machine work, for cutting and shaping furniture parts such as headboards for beds and chairs, and the arms and legs of various items. There are approximately fifteen businesses in Kakamega (including training institutions) with machines for doing this kind of work (circular saw, band saw, rolling lathe). Nearly half of these firms undertake furniture-making as well, doing shaping of wood for their own and others production. The rules of the game in sub-contracting are that there are some furniture firms, which specialises in such tasks as grooving planning, or pattern design. They accept business from those firms that do not have machines to do this work. Sub-contracting is mutual between businesses involved. If one party only receives but does not reciprocate when they have an opportunity then sub-contracting relationship is affected.

5.9 Links to education and training institutions

A majority of respondents 52.1% did not have any links with educational institutions; only 47.9% had some contact with educational institutions. Half of firms with links said the reason for these links are demonstration or exhibitions to students and the rest said they supplied the school with furniture mainly desks and shelves.

As for training institutions many respondents 79% did not have an on-going links with them. In spite of the fact that training enhances the skills of the wood furniture entrepreneurs, many of them did not see the need to have any links with them. According to key informants, this is one of the reasons why there is high competition in making of similar products, which tend to be of lower quality. For those who have had links with training institutions, they gave various reason; enhancing skills through further or refresher courses. This was particularly the case during the World Bank sponsored Voucher Training Programme (VTP). Other reasons mentioned were supply of furniture to these institutions, hosting students on practical attachments or sale of excess timber to them. It was also mentioned that contact with training is through use of the institution's machines for such tasks as grooving, wood splitting and planning and wood curving.

5.10 Linkages with other Firms

According to the survey, 83.3% of furniture firms in Kakamega have links with other firms in the industry. The remaining 16.7% have no such links. These links are of a continuous nature and are of various types. Most wood furniture firms are linked to other firms so as to share tools and machines 66.7%, sharing information 2.1%, sharing ideas on jobs that require technical skills (10.6%) sharing work or subcontracting development good neighbourliness (6.4%) and sourcing small but urgent financial help (10.4%) and purchase of ready made products for urgent orders (3.7%).

There was links with suppliers of raw materials both in timber yards as well as hardware shops most of which are situated on Canon Awori street. The main purpose of these links with suppliers was for of making daily or weekly purchases for materials.

The line dividing micro, small and medium sized firms is actually very thin. This is why contact between firms of various sizes in the wood furniture subsector is merely based on proximity and ability to satisfy service requirements.

There is absolutely no linkage between wood furniture firms in Kakamega and the hire purchase retail shops. This is largely because of lack of business dialogue between the two parties and the insistence by the hire purchase retailers on the need for product standardization and quality standards regulated from the headquarters of these shops.

As our data indicates, linkages are not so well pronounced among wood-furniture producers in Kakamega. This is in spite of the fact that business linkages are very important for firm development (Mitullah *et al*, 2002).

5.11 Business Rivalry

Business rivalry emanating from competition was also investigated through key informant questions. It emerged that although there was subtle business rivalry in all the clusters studied, the clearest manifestation of this was in the hospital government quarter's clusters. This is where aspects of business specialization and rivalry are not only based on trust and quality of products but also on ethnic background. Some people in certain clusters concentrate on making such things as coffins because of the guaranteed market and lower cost of production. The others owing to higher skill levels, availability of capital, specialize in making general furniture such as beds, table chairs sofa sets, coffee sets, and launch chairs for the relatively high-class market of government offices and living quarters around the Kakamega hospital.

My discussion with officials of the Chamber of Commerce revealed that business rivalry takes many shapes. These include not only reluctance to share tools and business information but also the use of municipal council *askaris*, forest guards and police to harass business rivals using the government ban on logging activities as a pretext. According to Chamber of Commerce officials, "this is the reason businesspeople of Asian origin generally do not engage in any business links with other firms" (Date of interview, 9.7.2002).

CHAPTER SIX

THE EFFECT OF AGE AND EDUCATION ON FIRM LEVEL INSTITUTIONS. CROSS TABULATION AND HYPOTHESIS TESTING.

The first hypothesis stated that firm growth and development is contingent upon the existence of firm level institutions. In testing this hypothesis a number of variables both independent and dependent were involved. Firm level institutions were measured by the following;

- Maintenance of accounting records (management techniques)
- Job training and specialization
- Type and quality of workers
- Legal status of the firm
- Distribution networks of furniture products.
- Firm linkages with other firms.

Contingency tables were derived by cross-tabulating the dependent variables with independent variables. Most of the chi-square values yielded by the cross-tabulation attained significance at 0.05 significance level.

The analysis of survey data reveals that all the firms that kept accounting records do not necessarily show an increase in the number of its employees or growth in sales volume as well as profit volume. Most of the 39 firms who kept accounting all do not record increase in sales and profitability while some of the 8 firms, which did not maintain an accounting system showed some growth.

6.1 Relationship between Training and Firm Growth

The survey shows that there is a positive relationship between training and growth indicators such as sales, and profit volume. Most of the firms whose owners/managers had some training show some upward trends. This trend tends to increase with the level and duration of training. This finding appears to agree with other findings particularly (CBS, 1999) and Obura (1996) all who have observed that job training tends to improve utilization of production tools, minimize industrial accidents and improve the willingness to absorb new techniques of production. This improves firm productivity and thus leads to growth.

For example, analysis of type of training and production volume show that most artisans trained at technical college level and polytechnic have higher production volumes than those trained through apprenticeship in Jua Kali workshop. The differences lies in the fact that those trained at Technical College and Polytechnic level are exposed higher and complex production leads to higher productivity and better quality furniture. Those artisans trained by family members who are carpenters had the least production volume. These variables show a correlation of 0.648.

Evidence from other studies notably Abuodha (1992) indicate that firm success in furniture enterprise depends less on entrepreneur training but greatly on decision-making or management, ability to differentiate production and marketing. It is for this reason that small-scale enterprises with more qualified entrepreneurs have better growth prospects . Higher training or even plain education equally plays an important role in improving firm performance.

Profitability depends on the owner's ability to sell in large numbers and/or orient production towards the middle class or affluent utility. Marketing potential is thus of extreme importance. It is due to this factor that those 'non-fundi' entrepreneurs with positive business motives grow and expand their firms as well as their trained counterparts. Abundance of equally qualified labour makes production of quality products not a function of woodwork training but a function of accessibility to a diversity of wood quality and power machinery for workers.

Production of high quality products in large quantities depends heavily on the availability of working capital, which to some extent will depend on business decision. Unfortunately entrepreneurs trained in wood-furniture production do not necessarily have such capital nor necessarily exposed to profit maximising decision-making.

Other studies, particularly Oketch *et al* (1991) show that firm performance is not necessarily improved by technical training but by capital acquisition and marketing capabilities. Technology currently required in the wood-furniture subsector, for production to satisfy current consumer utility has an upper limit, which most labour can attain. In the words of the district deputy development officer, "remedies to firm performance should concentrate on capital provision, management and marketing training." (Date of interview, 6.7.2002)

6.2 Relationship Between Firm Level Institutions and Age, and Education of the Entrepreneur

This hypothesis was formulated with the assumption that the age, gender and the level of formal education that one has attained influences firm level institutional framework. The survey shows that only one firm out of the sampled 48 firms was managed by a female, the rest being managed by males. Thus gender may not be a very significant variable in our analysis. However, contingency tables were derived by cross-tabulating dependent variable and independent variables. Most of the chi-square values yielded by the cross-tabulation did attain significance at the 0.05 significance level.

Table 5.1 indicates that Chi-Square value for the variables formal education level, were significant when cross-tabulated against keeping of accounting records. It was expected that formal education level attained by furniture artisans would influence the desire to maintain business accounting records. Our data shows that 96% had acquired formal education. Majority of those who had some formal education, (52%) had attained primary education, 42% had secondary education and only 4% had no formal education.

It could be said that while, it is not clear how much formal education attained is relevant to the incorporation of firm level institutions, but as McCormick *et al* (2001) has shown education determines the type of networks that an entrepreneur have with buyers and suppliers of raw materials and bankers. Education also exposes the individuals to good business practices, besides serving as a support for standard technology. Our survey findings show that a majority of firm owners with secondary education had links other furniture firms and training institution. According to the Provincial Applied Technology Officer, "education enables furniture artisans to appreciate innovative business practices such as product development designs and also have the ability seek credit from financial institutions since they maintain better financial records which are necessary for this purpose". (Date of interview, 6.7.2002)

6.3 Level of education and keeping of accounting records.

Studies done else where in Kenya have shown that a firm founder's level of education may be associated with SMEs characteristics such management styles, decision making related to production, sources of raw material and capital (Shimooka, 1996; Kinyanjui, 1996)

Accounting records are undoubtedly one of the critical indicators of how a firm is managed. Maintenance of an accounting system has implications for borrowing loans from banks and other financial institutions, and business planning and forecasting. As is clear from table 5.2, there is a strong relationship between the variable level of education and keeping of accounting records. Both the spearman's correlation (0.861) and contingency coefficient (0.663) are statistically significant at 0.5 level of significance.

Thus education level of the artisan is a very critical determinant of management styles among wood furniture producers in Kakamega. This is probably because higher levels of education are associated with greater verbal communication, computational and comprehension skills all of which are important in decision-making. (Todaro, 1999; Kinyanjui, 1996). Similarly its natural to expect that that firm founders with higher education levels are more likely to start firms that are more technically sophisticated or firms that are much more open to technical change and advancement (Sverrison, 1990).

Evidence from our survey data shows 96.2% of respondents keep accounting records though those with only primary level of education maintained only elementary records such as cash sale receipts and customer order books. On the contrary entrepreneurs with secondary level of education also maintained profit and loss accounts and trial balances although only 10.5% of respondents maintained complete balance sheets. The reasons offered by entrepreneurs as to why they maintain accounting records also show that education plays an important role. For example, majority of those with primary level of education (72.6%) said that they kept accounting to avoid conflicts with customers and also record customer's deposits. On the other hand majority of entrepreneurs with secondary level of education (66.4) said they maintained accounting records so to ascertain profit and loss and also use the records to seek credit from financial institutions such a Banks and MFIs

Table 5.1: Level of education and maintenance of accounting records

Level of Education	Yes	%	No	%	Total	%
None	1	2.1	1	2.1	2	4.2
Primary	21	44.1	5	10.3	26	54.6
Secondary	17	35.3	3	6.3	20	41.6
Total	39	81.9	9	18.9	48	100

Spearmans correlation=0.861; contingency coefficient=0.663. Total percentage corrected to the nearest whole number.

Source: Own Survey Data

6.4 Education and current size of the firm.

Most studies confirm education as an important business attribute in business performance and in accessing resources and facilities for the business. This is because higher education exposes one to good business practices and a much higher awareness of the business environment necessary for small firm growth and development.

The chi-square result confirms that a clear and strong relationship between current enterprise size and the entrepreneurs level of education. As can be seen, founders with college-based education tend to establish larger firms while those with primary and secondary education set up small firm. There are differences in size of the firm as a result of higher educational levels.

Table 5.2: Education and Current Size of Firms.

			Size of the firm in terms of employment size								
Level of Education attained	.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00	9.00	10.0	Total
None	1				1						2
Primary	5	6	2	4	2	2	3	1	1		26
Secondary	5	2	3	4	4	1				1	20
Total	11	8	5	8	7	3	3	1	1	1	48

Chi-square=15.031;sig.=0.660;contingency coefficient=0.821;spearmans correlation=0.819

Source: Own survey Data

6.5 Education and Business Linkages.

After the chi-square, statistics and contingency efficient were calculated in table below, the results showed that there was no significant relationship between variable formal education obtained and the decisions to develop and belong to business networks and associations. Table 5.3 shows the results;

Table 5.3: Level of education and links with other firms.

Level of education attained	Do you have any links with other firms					
	Yes	%	No	%	Total	%
None	2	4.2			2	4.2
Primary	24	50	2	4.2	26	54.2
Secondary	15	31.5	5	10.5	20	42.0
Total	41	85.9	7	14.7	48	100

Chi-square= 3.558; df =2; contingency coefficient=0.186. The total % corrected the nearest whole number.

Source; own survey data

As can be seen from table 5.2, there is a weak relationship between the variable at 0.05 level of significance. Again the table shows that the majority of the respondents in the sample 92% who had formal education did not belong to business networks. The reasons they gave ranged from business rivalry, competition in making similar products, and lack of demand. This means that about three quarters of the respondents with formal education did not mind whether the link to trade networks was beneficial or not in view of the fact that they did not expect to benefit from such links.

Observation revealed that majority furniture artisans with formal education had links with educational institutions. This link deepened with higher levels of education due to the fact that firm organized demonstration/exhibition days for schools required good communication skills in English.

6.6 Age of the Business Owner and enterprise Size.

The age of the entrepreneurs could have a bearing on the dynamism of the enterprise as age has a bearing on experiences, health and drive of the entrepreneurs.

Table 5.4: Age of the business owners and current enterprise size:

Mean Age of Firm Founders	Current SME size		Total
	1-3	4-10	
23.5	9	7	16
33.5	8	3	11
43.5	10	6	16
>49	3	2	5
Total	30	18	48

Chi-square 139.495, df 216, Spearmans Correlation 0.915, Contingency Coefficient =0.256

It is clear from the table 5.3 that there exists a strong relationship between the variable age of the business owner and size of the enterprise. From the table many enterprises in the 4-6 and 7-10 category belong in the age group 28-48 years. The proportion of 0–3 sizes is more represented among 19-28 and over 49 years. One can explain the above scenario by stating that larger sizes are concentrated among the age group28-48 years probably because this group is experienced enough to establish reliable business networks which act as sources of raw materials, operating capital and channels of product distribution. It is also possible that group will have accumulated enough expertise to enable it win and retain the trust of core customers. On the contrary younger entrepreneurs are only beginning in business armed only with production skills and lacking organisational skills, capital, and channels of product distribution to operate larger firms. On the other hand, older entrepreneurs lack the stamina to operate larger SMEs and are only seeking to achieve satisfactory level of personal income until retirement. (Kinyanjui, 1996). This is contrary to Shimooka (1996) who investigated the correlation between age and size of the firm, and found that there was no statistically significant correlation between these variables.

On the other hand membership of a business association or belonging to NGOs and CBOs is useful in that it brings one into possible business contacts, protection and promotion of business interests, and the potential for financial and non-financial assistance. As can be seen from tables 5.6 and 5.7 the decision to belong to NGOs or not is influenced by the age and education of the entrepreneur.

Table 5.5: Mean Age of firm owners and relationship with NGOs

Mean Age of Owners in Years	Relationship with NGOs		
	Yes	No	
23.5	4	12	16
33.5	2	11	13
43.5	0	15	15
>49	0	4	4
Total	6	42	48

Table 5.6: Education and relationship with NGOs

Level of education attained	Relationship with NGOs					
	Yes	%	No	%	Total	%
None	0	0	2	4.2	2	4.2
Primary	5	10.5	20	42.0	25	52.5
Secondary	0	0	19	38.7	19	38.7
Total	5	10.5	41	84.9	46	95.4

Source: Own data

6.7 Firm Growth and Development Indicators.

Growth and development was captured by asking questions about such indicators as production volume, sales volume and profit level both at start of business and currently (2002). Analysis of these indicators show that 31.2%, 33.6% and 36.5% reported increase in production, sales and profit levels respectively. In the same vein 51.2%, 48.4 % and 53.2% of firms reported a decrease in production sales and profit levels. 4.2% of the firms did not report any change in these firm growth indicators while 18.2% of firms declined to answer these questions or were unavailable when I revisited their businesses for these questions. The mean profit was Kshs 12500,while the mean production and sales volumes were Kshs18000 and Kshs 20500 respectively. These figures represent current prices and have not been adjusted for inflation. Analysis of these growth indicators show that there are no significant differences based on age or education except that the Provincial Applied Technology Officer mentioned that "younger and better educated artisans are more inclined to adopted new methods of productions, seek alternative sources of finance and adopt new strategies of product marketing". According to him, these are the main ingredients of firm growth and development.

The firms, which reported increase in sales, production and profit, gave various reasons for these trends. These include high quality products 28%, high skilled man power (8.8%), high demand 10.4, and customer trust 4.2%, market for products 4.2, good designs 16.6% and hardworking employees 6.4%. Those who reported business decline cited various reason, which include; expensive raw material 26.3%, scarcity of raw materials 6.6%, poor economy 12.6%, stiff competition in production of similar products 8.2%, low demand 12.3%, harassment by municipal council *askaris* 8.3% and lack of government services 2.1% and inadequate market 6.4%.

The main reason why the high price of raw materials especially timber was cited as the biggest problem was that at the time of this study the government had banned logging activities thus engendering scarcity of timber.

6.8 Business constraints.

Firms face various problems in their commercial endeavours. The problem that was often cited as the most constraining by the small-sale wood-furniture manufacturers is capital. Over a third of the operators covered in this study mentioned it as their major problem. This problem manifests itself in several forms. It includes inadequate start-up capital, inadequate credit for operating their enterprises on a day-to-day basis. (to purchase inputs or cover other overheads), lack of access to institutional capital and hence recourse to personal and family sources.

The second problem cited by the operators, is the inadequate and unreliable supply of timber and also lack access due to unaffordable prices. When this survey was carried out, the Government had banned logging activities, which greatly affected the supply of timber. The issue of low technology development, for example inadequate tools, equipment, poor skills and managerial practices are also very constraining. The wood-furniture subsector also experiences inadequate demand. These constraints are summarized in table 5.4 below.

Table 5.7 Business Constraints.

Business constraints	Percentage
Financial	
Inadequate start up capital	12.4
High price of timber	6.3
Inadequate operational capital	14.2
Market	
Seasonality	6.6
Small market	12.4
High competition	10.2
Inadequate demand	6.3
Poor economy	2.1
Scarcity of timber	
Social constraints	
Poverty in Kakamega	4.2
Theft in workshops	2.1
Health and safety Problems	2.1
Employee absenteeism	4.2
Infrastructure	
Power shortage	6.3
Lack of Government Policy	8.4
Government harassment	10.5
Lack of machines	4.2
Total	100

As can be seen from the table, the main constraints facing furniture manufacturers in Kakamega Town are financial and also market related. Hostile operating environment in which scarcity of timber, poor economy, and lack of government policies stand out as equally important. Lack of supportive institutions and Government harassment by public authorities also fall within the same category. These constraints outlined above tend to not only stifle SMEs development but also limits their role in the national industrialization process.

6.9 The role of government, NGOs and CBOs in wood-furniture manufacture

Majority of the sampled respondents (95.8%) indicated that they did not have a formal relationship with the government, except for only permits or licenses. Only 4.2% of the respondents mentioned that they received services other than licenses from the Government. These services included marketing promotion, management enhancement seminars and product design development seminars. However, 8.4% of the respondents identified the Government particularly the local authorities as a source of harassment to their operations. Many wood-furniture firm owners in Kakamega are ignorant of the role of the Ministry of Commerce and Trade Development as well as the department of Applied Technology. Thus the role of the government is synonymous with the licensing and harassment. 90% of firms reported daily contact with local authorities for daily permits while the rest took out the yearly business permit.

As for the NGO's, their role is very minimal. Only 3 firms reported having had any contact with NGOs. The nature of the links to NGO's is mainly financial support, marketing and management capacity building. Those who reported getting marketing support services, mentioned organized exhibitions as the main mode through which their goods were exposed to the public. Marketing officials with Pride Kenya told me "we only provide loans to entrepreneurs who are already in business since our grace period is only one month. It would be difficult for those who are just starting in business to repay"(Date of interview, 10.7.2002). This would explain why 83.3% of the respondents relied either on personal savings, family members, pension and redundancy benefits for start-up capital The nature of furniture manufacture and sale is that, most artisans tend to shy away from Micro-Finance Institutions that give small loans that have to be repaid weekly or daily as is the case with Pride Kenya. This is because it takes some time before furniture is sold, which means they would default on their payments.

Like NGOs, CBOs also play a limited role in the manufacture of wood furniture. Only less than 20% of people reported belonging to or having contact with CBOs. The rest over 80% did not belong to CBOs. The reasons given for belonging to CBOs, range from credit, help during business hardships, support during times of sickness and bereavement.

CHAPTER SEVEN

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 Summary

Every Economic Sub sector has institutions that guide interactions between key players such as those related to the creation and exchange of goods and services. The quality of the institutions determines the scope for exchange, growth and development of the sub-sector. In particular, the extend to which existing institutions resolve the problems of firm coordination and cooperation determines the types of exchanges that are possible, and ultimately determines whether firms in that particular subsector are capable of growth culminating in their graduation from micro enterprises to small and medium sized enterprises. By implication, the firm level institutions determine to what extent industrialisation programmes can be successfully pursued.

The results of the study show that the wood-furniture subsector is characterised by great homogeneity in both activities and products. The subsector is thus characterised by great competition from many firms producing similar products. Thus, in the context of limited domestic demand and a shrinking product market and inadequate technological diffusion, the scope and potential for growth and expansion of firms is severely limited.

The analysis has highlighted the role of firm level institutions (management styles, decision making processes owner/employee relations, patterns of company growth and development) in creating the problems in the wood furniture subsector. Although focus was mainly on the role of firm level institutions, the role of the state and market cannot be ignored. More specifically, respondents believe that the state currently constrains business activity through inconsistent and unfair application and control of the ban on logging activities at the Kakamega forest, which incidentally is the main source of timber to wood furniture firms in Kakamega town. This has led to scarcity of timber thus exacerbating production costs, which in turn has lead to decline in demand due to high prices of timber products. Corruption in the supply of timber was thus the main problem cited by respondents. Lack of proper town planning by the government has led to haphazard location of wood-furniture workshops in the town. Although firms tend to cluster together, no doubt to enjoy economies of scale, the use of the provincial physical planner rather than a town planner has made the supply of government services to firms difficult. Further erratic licensing procedures are making operation of business very costly. Harassment of wood furniture artisans by the local authorities has made business environment uncertain and therefore risky.

In terms of the market, for furniture products, most respondents blamed lack of effective demand due to low incomes and generalised poverty of the people in the town and its surrounding areas. They also blamed retrenchment policies in the civil service, which has constrained the furniture market. The small size of the market and the competition in production of similar products were some of the problems cited.

The factors that motivate firm formation are many and varied. The need to utilize the skills available and the desire for self-employment were the most cited. Lack of alternative employment and the need to increase or diversify sources of income were also mentioned. Although these motivations show that wood-furniture subsector provides an easy option as a source of employment and livelihood for the unemployed, unfortunately these motivations are only to survival and not business optimisation, which may lead to growth and development.

This study has revealed that education and training system is an important institution that has significant ramifications for the wood furniture subsector in Kakamega town. Low and insufficient education is at least partly to blame for the low quality products and poor productivity. With the finding that there is a positive relationship between level of education and type of training sought by respondents, low education levels could also partly explain why there are few linkages between firms and training institutions. Education and training are important in product design, standardization and differentiation. This is what improves product quality and subsequently attracts customers. Wood-furniture producer's linkages with other firms are limited. As far as membership of trade and welfare related associations are concerned, there are few artisans who belong to these organizations, though many of them did not specifically mention any benefits accruing to this membership.

Lack of working capital is also one of the most important reasons for lack of growth and expansion of MSEs and was mentioned by more than a third of the enterprises. Apart from scarcity of raw materials (expensive raw materials), lack of credit is the second severest problem faced by wood-furniture producers.

Subcontracting arrangements exist among the firms surveyed. Subcontracting took the shape of sharing work when the orders were big and urgent. It also took the shape of firms giving such work as grooving, planning and wood splitting to those firms with machines. Another ground for subcontracting is giving work that requires high skill level such as woodcarving and pattern designs. Thus, firms largely subcontract due to inadequate capacity, lack of machines and relevant skills.

7.2 Recommendations

Kenya's recent development documents express commitment to industrialisation in general, and small and medium-scale enterprises in particular (Kenya, 1988). Thus to be effective instruments of industrialisation, policy programmes need to put the following recommendation into consideration.

To boost demand for furniture products, the Government should take all possible measures to alleviate poverty in Kakamega town and the surrounding rural economy.

Strengthening the linkages among firms between them and the large ones, and with other sectors of the local and national economy.

One of the most important finding of this study is that there is a significant relationship between education and the existence of firm level institutions in wood-furniture enterprises. Education is thus key to the adoption and operation of firm level institutions. The findings of the study indicate that majority operators of small wood furniture business with a higher level of formal education tend to develop adequate and effective firm level institutions that are responsible for growth and development of enterprise. Therefore it will seem that efforts to raise the level of education of operators of wood-furniture business would make a positive contribution to the establishment of important firm level institutions. Consequently we recommend that there should be more investment in education. The Government in conjunction with NGOs could make meaningful contribution in this regard.

Our survey shows that apprenticeship is one of the most common methods of training: - Providing low cost skills, which are important for improving the quality of furniture products, produced. Given the financial and administrative constraints on government, this low-cost and largely self-financing apprenticeship should be encouraged. The government should consider having an open apprenticeship scheme, which supports the placement of informal workshops by paying a share of cost, monitoring the quality of instruction and providing supplementary off-the job theoretical training similar to the World Bank sponsored Voucher Training Program (VTP)

Capacity building support to enable small-scale business associations to grow and thus liase with the public agencies and institutions responsible for implementing the various schemes aimed at assisting small enterprises. Strong associations would enjoy legal recognition; negotiate with official authorities on issues such as work permits, credit and the right to occupy public land. Associations could help the smallest enterprises to improve their access to capital and information through links with formal markets. They could also identify specific resource needs and give help where it will do the most good. All these benefits are important for the growth and development of furniture firms. For example, the Kenya National Chamber of Commerce (Kakamega branch) is very strong in advocating for the proper planning of the Kakamega town, harmonization of trade licensing procedures and indeed has several cases pending against the local authority for harassment of its members.

However, for Associations to grow and attract new membership, there is a need to have proper leadership drawn from among leading furniture artisans. There is also a need to have tight control over money and property belonging to associations to curb misuse and embezzlement. The capacity of these Associations to address issues of advocacy and policy influence on matters relating to furniture manufacturing should be strengthened through regular staff development and capacity building courses.

This study has revealed that most wood-furniture produces rely on personal savings and family sources for start-up as well as operational capital. This is in spite of the declared importance of credit in the growth and development of business enterprises. The conditions for borrowing from commercial banks and Micro Finance Institutions are impossible for most wood-furniture artisans. The limited role played by the external sources of funds should be of interest to the Government, Banks and Micro-finance Institutions (MFIs) that desire to see small-scale furniture firms grow and develop.

This study also found that poor management skills are also a major problem that hampers the growth and development of furniture firms. If firms are to improve and adopt more sophisticated patterns of production, then management skills need to be developed in entrepreneurs and their employees. More emphasis on worker development is an important ingredient in producing a more productive workforce.

The study also revealed that 20.8% of the wood-furniture firms in Kakamega have been inherited from their original founders by close relatives. This shows that wood-furniture firms have a strong kinship and family characterization of the businesses regarding labour and other demands of the enterprise. This is the context in which policy makers should understand furniture firms especially when contemplating policy actions and other initiatives.

The implementation of these recommendations would enable small wood-furniture firms to expand the volume and quality of their products and possibly expand employment. It is therefore necessary to put in place a programme for the assistance of these firms and also for small-scale industries generally.

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APPENDIX A

QUESTIONNAIRE OF FIRM LEVEL INSTITUTIONS

This questionnaire is constructed so as to gather information covering three broad areas.
These Areas include;

1. **Firm History and characteristics**
2. **Firm linkages**
3. **Firm Growth and Development as measured through such indicators as production volume, sales volume and profit level.**

The information to be filled in this form is purely for academic purpose and will remain confidential. Your assistance and contribution will be highly appreciated.

Questionnaire number

FIRM HISTORY AND CHARACTERISTICS

1. Name____________________
2. Year of Birth______________
3. Sex______________________
4. Marital status_____________

(a) Single [ ]

(b) Married [ ]

(c) Windowed [ ]

(d) Divorced [ ]

Others (Specify)

5. What level of education have you attained

None [ ]

Primary [ ]

Secondary [ ]

University [ ]

6. Have you had any training

Yes [ ]

No [ ]

7. If Yes, specify the type and duration of the training

____

____

____

8. Who started the firm?

When was the firm started?_______________________________

9. Did you start the firm alone? Yes [ ] No [ ]

10. What motivated the firm formation?_______________________________

____

11. What were the main activities and products at start?

____

____

____

12. What was the size of the firm at the time it was started in terms of production capacity and employment level?

13. How much capital did you use to start the business?

14. Where did you get the capital you used to start business?

Supplier Credit	**Yes**	**No**
Loan from NGO		
Bank loan		
Cooperative or Sacco loan		
Loan from Rosca		
Loan from CBOs		
Family loans/own savings		

Friends		

15. What are the main products of the firm?

____

____

16. Where do you sell your products?

Individual buyers for own use ________ %

Government institutions ________ %

Exporters or foreign buyers ________ %

Business buying for their own use ________ %

Others (Specify)

17. Where do you source your Raw materials?

____

18. What is the size of the firm in terms of employment size?

____

19. What is the size of the firm in terms production capacity?

____

20. How would you account for the differences between established capacity and actual capacity?

____

____

____

21. Do you keep accounting records for the firm?

Yes [ ] No [ ]

22. If Yes? Why do you keep these records

____

____

____

FIRM LINKAGES

23. Do you have any links with other firms?

Yes [ ] No [ ]

24. If yes please explain the nature of the links?

____

____

____

25. Do you have any links with Education institutions? Yes [ ] No. [ ]
If yes why /if not why not

____

____

____

26. Do you subcontract any of your activities? [ ] [ ]

If No. Why? ______________________________

27 What are the reasons for subcontracting?

____

____

____

28. Do you receive any subcontract Yes [ ] No [ ]

What kind of subcontracting does your firm do?

____

____

29. Why do you subcontract? ____________________

30. Do you belong to any Association? Yes[ ] No [ ]

31. If yes, can you name some of the Associations and their objectives (If possible)

____

____

____

32. What benefits do you get for belonging to Association (s)?

____

____

Please explain

____

____

____

33. Do you have any links with Educational or training Institutions?

____

____

34. How do you relate to firms with which you don't belong to the same Association?

____

____

FIRM GROWTH AND DEVELOPMENT

35. How has your firm performed since it was established in terms of?

Production volume____________________

Sales volume____________________

Profit Level____________________

36 How does your firm perform now?____________________

Production volume __________________

Sales volume __________________

Profit volume ___________________

37 What do you thinks is responsible for this performance

38 What are the problems you face in your activity?

39. Do you related to any of the following institutions Yes [ ] No [ ]

Government [ ]

NGOs [ ]

C.B.O [ ]

40. If yes what is the nature of the relationship

Daily

Monthly

Yearly

41 Where do you turn for support?

To personal/regular customers

To Established institutions

To anybody/general public

Extending credit without general policy

42. Do you give any credit to customers?

Yes [ ]

No [ ]

43. Do you receive any credit from suppliers?

Yes [ ]

No [ ]

44 Do you regularly meet your production targets? Yes[ ] No[ ]

If no, what is the reason for not meeting targets?

____

____

45. Do you buy all your inputs from one source? Why/why not.

____

____

Are you an important customer to your supplier?

APPENDIX B

KEY INFORMATION STUDY QUESTIONS

1. Name of the key informant.
2. Position of key informant in society.
3. Age in years.
4. Educational level
5. Sex
6. Marital status

7. In your view what are the main problems facing the wood furniture enterprises in Kakamega Town.

8. What would you consider to be the main institutional factors responsible for these problems?
   Government rules and regulation
   Labour and labour training systems
   Lack of demand for the product
   Lack of start-up and workings capital

9. What determines quality of your products?
   Machines and tools?
   Market specifications?
   Skills of workers?

10. What makes you maintain your product quality?
    - Skills
    - Familiarity
    - Information from product designers

11. Does your industry ever make use of product designs

12. What is the main reason why you may not maintain product quality
    - Lack of demand/market
    - Lack of appropriate machines
    - Production cost

13. What do you understand by the concept of subcontracting?
    - Do you subcontract any of your activities

    - Which type of firms do you subcontract to

    - What are the reasons behind your subcontracting?

14. Do you have any linkages with other institutions?
    - What determines the nature of these linkages

    - Do you belong to any trade Association?

15. What are the benefits that accrue from your membership of trade Association?

16. Do you have any linkage with the following institutions?
    (a) Government
    (b) Non-Governmental organizations
    (c) Community based organizations

17. What benefits do you derive from this linkage?

18. In what other ways does this linkage affect your wood, furniture enterprise?

19. What are the indicators of a furniture firm that is growing and developing?

In terms of production

Employment capacity

Profit level

Others (specify)

20. What factors are responsible for growth and development of a wood –furniture firm? Can you say the growth or decline of your firm is a reflection of the entire economy?

21. Do you experience any conflict in the furniture sector arising from competition among firms?

22. What are its main manifestations?

23. How are such conflicts settled?

24. What is the role of education, Training and gender in respect of Development in the Wood-Furniture area?

25. Any other thing(s) you would like our study to know about the furniture sub-sector?

Thank you very much.