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DEPARTMENT OF SOCIOLOGY & SOCIAL WORK

MANAGEMENT PRACTICES OF SMALL AND MEDIUM ENTERPRISES AND THE CHALLENGES IN SOCIO-ECONOMIC SPHERE: A CASE STUDY OF SMES IN NAIROBI CITY

By

KAGIKA ALFRED MUCHAI
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DECLARATION

I declare that this project paper is my original work and has not been submitted to any other university for an academic credit.

Kagika Alfred Muchai ______________________ Date:_____________________

Admn. No._______________________

This project paper has been submitted for examination with my approval as the University supervisor.

Dr. Mutsotso Beneah _______________________ Date:________________________

DEDICATION

This project paper is dedicated to my wife Susan, son Leon and daughter Rhoda for their unwavering support, resolution and determination in ensuring that my university masters' degree program is actualized.

Thank you and may the Almighty God Bless you.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The purpose of this study was to determine the challenges that prevent the growth and development of small and medium enterprises specifically, the socio-economic factors hindering good management practices in the Small and Medium Enterprises (SMEs) as a component of the economy. The sector operates in an unsustainable fashion which prompted the researcher to interrogate the main reasons why most enterprises do not grow or survive beyond their inception stages. As much as the SMEs benefit the country economically and socially through creation of employment, entrepreneurs remain over burdened with challenges of ensuring that their businesses stay afloat.

The main objectives of this study are; to find out the barriers experienced by SMEs in their effort to implement good management practices in business. Secondly, to examine the impact of owner/ managers' managerial activities on the success and growth of SME and thirdly, to determine the effect of government policies on development of SMEs in Kenya.

Throughout the literature review, this paper sought to contend with the copious documents that discuss the importance of the SME sector in developing economies while on the same vein critically outlining the shortcomings that hinder growth, development and sustainability of this sub sector. The theoretical framework in the paper focused on five theories which inform the research on how the sector exists and functions. They include the Small Enterprise Theory, the Small-and-Flexible Model, the Theory of Constraints, Capital Accumulation Theory and lastly the Functionalist Theory.

In order to answer the research questions in this study, we implored a multi-methodological approach prompted by the uniqueness and very economic importance of SMEs in Kenya. The sample size used in this project was 15 enterprise owners as our key informants and 70 employees engaged in enterprises located within the CBD of Nairobi. The method used was simple structured observation, personal interviews and use of questionnaires and key informant guide as tools for data collection. The researcher also analyzed available data on SME to enrich and solidify the findings.

Key findings in this study were that Entrepreneurs are faced with barriers which prevent them from effectively managing the SMEs towards growth and development. These barriers include lack of access to financial institutions for funding, incompetent workforce, limited managerial skills, high operating cost, stiff and unfair competition, unfavorable government policies especially concerning business legislation and taxation.

The study recommends the following; that government policies should be geared towards facilitating the growth and development of SMEs by providing tax incentives and breaks especially for start-ups and devote state departments for promotion of the sector in the country. Secondly, large enterprises should endeavor to create business linkages with SMEs for purposes of reducing cost of doing business and ease flow of commodities to the markets. Similarly, Entrepreneurs should strive to professionalize their business especially when recruiting labor so as to optimally operate with efficiency. In addition, business owners should periodically develop themselves and staff members through business training courses that sharpen their knowledge on tackling emerging customer trends. Finally, the study recommends a more prudent and transparent way of financial management and proper record keeping for business appraisal.

CHAPTER ONE: BACKGROUND AND PROBLEM STATEMENT

1.1: Background

The history of SMEs in Kenya stretches back to the 1960s and 1970s, a number of investment institutions were formed by the government in order to address industrial development objectives such as the Industrial and Commercial Development Corporation (ICDC) (King, 1996a and b).Furthermore, the government has contributed to the development of financial institutions and the provision of funds for use in the management of SMEs. Despite the promising value of this decision, a number of schemes have collapsed between 1980s and 1990s due to unavailability of resources and lack of strategic management approaches (Eng and Parker, 1994; Torre, 1986; Daniels, et al. 1995; King, 1996b).

There is no particular definition of a small business due to the fact that businesses are classified into small-scale or large scale categories based on qualitative judgments (Hooi, 2006; Omer and Ismail, 2009). In the United States of America (USA), Britain, and Canada the definition of a business is based on the annual turnover and the employees who work in a particular organization. In Britain, small-scale businesses are those whose turnover is approximately 2 million pounds or less while the number of employees is about 200. In other countries such as Malaysia, the main categories for SMEs are: general businesses, manufacturing organizations, and agriculture (Hashim, 2000). Enterprises employing between 50-150 employees on full-time basis are considered as medium enterprises while those employing 5-50 employees are called small and less than 5 are referred to as micro enterprises.

SMEs are also categorised differently according to the countries in which they are operated. This study uses the classification criteria that was developed by the Kenyan Government's 1989 Development Plan and the Sessional Paper No.2 of 2005 (GOK, 1989, 2005). On the basis of these documents, organizations are categorized by the number of employees involved in full-time employment. Organizations with less than five employees are categorized as micro enterprises, those with 5 to 49 employees are categorized as small-scale enterprises, those with 50-99 employees are called medium enterprises (MEs), and those with 100 or more employees are called large enterprises (LEs) (GOK, 1989, Sessional Paper 2, 2005). This study focuses on conceptualization of SMEs in terms of the number of employee. Consequently, SMEs are described as business with 100 or less employees.

In the past decades, SMEs were less regarded to be of significance in achieving economic development because of the increased mass production techniques of operating businesses. After this period, there was a change in this paradigm by an increase in fragmentation of companies, an increase in unemployment and the need to create new enterprises to meet the employment needs of the population. This resulted into the increase in the number of SMEs (Acs, 1992; cited in Fathian et al., 2008).In the early 1980s; there was a significant rise in unemployment rate in a number of countries in Europe. This resulted into the increase in development of SMEs as a means of improving economic capability of the people.

Small and medium enterprises (SMEs) are common in different parts of the economy and contribute significantly to the economic empowerment of people. They promote sustained growth of the economy, improvement of dynamism, and achievement of long-term growth (Thassanabanjong et al., 2009; Gadenne and Sharma, 2009; Singh et al., 2010). For countries in developing stage, SMEs are usually a sources of prospects for improving the value of products and services in addition to providing employment (Mirbatrgkar, 2009). According to the report from the Kenya national bureau of statistics (KNBS), there exist about 17 million registered SMEs in Kenya, where 98 per cent constitute 25% of the country's Gross Domestic Product (GDP) and provides employment to 50 per cent of the country's workforce.

SMEs are important factors in the attainment of economic development in all countries (Akhavan and Jafari, 2008; Fathian et al., 2008; Gadenne and Sharma, 2009). Okpara (2009), Singh et al. (2008) and Mirbargkar (2009), stated that SMEs are important in enabling the achievement of economic growth because they provide supplies of goods and services to other companies. The relevance of SMEs in Kenya will achieve greater magnitude as the country moves towards improving its industrial development in order to meet the economic challenges of the new millennium (Sohail and Boon Hoong, 2003; Garengo et al., 2005; McAdam et al., 2000). Most scholars have illustrated that the success of managing an SME is determined by the acquisition of the right educational skills by the entrepreneur. Educational skills constitute important requirements in the management of micro enterprises. On the other hand, a majority of

Kenyans engaged in SMEs do not have educational skills which can be effective in enhancing their enterprise management activities (Okpara, 2009). However, those who have acquired the right training and education are able to successfully manage SMEs sector in the country (King and McGrath, 2002 and Wanjohi and Mugure, 2008). Consequently, the success of small businesses in Kenya is determined by the ability of people to acquire skills of management.

In addition to educational attainment, a number of aspects contribute to the success of SMEs in Kenya. An enabling environment must exist in all small and medium enterprises. With the change in governments and changes in policies for managing small and medium enterprises, there is a high likelihood of success in the activities of SMEs in the country. The success of SMEs is also determined by the extent to which legal and economic frameworks have been developed to empower them and enable their operations. In studies on enterprise development, it has been suggested that legal structures in different countries have been barriers to the formation and operation of most SMEs. In most countries in Africa, the reduced incidences of internal conflicts have resulted into increased engagement of the states in improving SMEs (King and McGrath, 2002).

Structural changes and liberalization of trade globally were likely to be beneficial to the SMEs. On the contrary, evidence from various parts of Africa shows that these policies have resulted into a negative impact on economic development. It can be argued that those who possess skills of competence and based in strong market environments, have benefited. However, those encountering fewer barriers to entry have seen a state of market domination by larger enterprises and increase in economic inequality among the people (King and McGrath, 2002).

1.2: Problem Statement

The developments of SMEs that are more innovative constitute an important factor in the achievement of industrial success in various sectors of the economy. However, a significant number of SMEs experience resource constraints and weaknesses during management. There have been attempts by policy makers and business institutions to correct these differences by making changes to fiscal policies or provision of support through the development of training programs. Generally, there have not been significant successes from the implementation of these measures during the attraction of large SMEs or during improvement of innovativeness of SMEs. While SMEs have a central role to play in achieving sustainable development, there is the need to implement modern management methods. A number of SMEs operators or those in the managerial positions do not have the skills of management or training experience that empowers them to implement strategic approaches that improve the attainment of success of SMEs.

Consequently, they use a more intuitive management style rather than analytical procedure. They are also more concerned with the regular activities of an organization rather than long-term goals and do not apply strategic approaches to management of the organizations (Hill, 1987). In a case where SMEs are not adequately managed, there is the likelihood of challenges in the business environment such as inability to plan effectively and apply strategies that ensure the success of the enterprises. According to King and McGrath (2002), poor educational achievement of those involved in the management of SMEs has an impact on their ability to perform regular activities which improve the success of SMEs.

SMEs that operate outside the mainstream sectors of the economy (informal sector) are perceived to be highly capable of enhancing the role of small and medium enterprises in contributing to the economic development in a country (Alila and McCormick 1995: 11; Giaoutzi et at, 1990; Webb, 1975). These enterprises contribute to technological improvements and maintenance of socio-economic stability. The SMEs have been regarded as important entities during the formulation of policies by the regulatory departments. In spite of this fact, there are a number of challenges being encountered by SMEs and therefore policy makers have been challenged to be more proactive in creating enabling environment by creating policies that motivate the functions of SMEs and reduce the risks of their failures to operate successfully (King, 1991).

SMEs, more so in developing countries, are faced by failures in financial markets despite their contribution to the economy. The World Bank (2002 and 2004) postulates that SMEs are important in enhancing competition and motivating the involvement of external financial supporting organizations, incorporates innovative strategies of performance of businesses, and play major roles in the attainment of the general growth objectives of LEs. In spite of this, growth of SMEs has been faced by challenges, key among them failures in financial markets and other related institutions. Besides, lack of enabling macro-economic environments also impedes SME development. Such issues need to be addressed by the government for the survival and development of the SME sector.

According to Prahalad (2006), SMEs are obviously incapable of sourcing, evaluating, and adapting to technologies effectively. Government policy should therefore, aim at developing these capabilities in SMEs through supportive institutions.
The policy could encourage the development of assistance programs to facilitate SMEs' access to resources, information, training, and technology. Further, policy should promote the development of technologies appropriate for SMEs. Although it is possible to develop policies designed to improve the circumstances of SMEs, it may be more feasible to support the development of technologies compatible with the SMEs’ circumstances.

This study therefore intends to look into the management practices of small and medium enterprises in the context of Kenya. It shall be important to examine the operating culture, cross-cultural management, key success factors, and opportunities and constraints of SMEs. Through this, it shall be possible to establish what different approaches local managers adopt and why these practices have not been an underlying success factor for SMEs in Kenya. It is imperative to note that the actual management practice employed by the owner impacts directly on the social and economic welfare of the participants in the enterprise.

1.3: Research Questions

The research collected data related to the following two questions:

1. Is the contribution by the SME sector in the economy sustainable?
2. What background characteristics of SME owners contribute to the success of the enterprises?

1.4: Objectives of the Study

The broad objective of the study is to examine the socio-economic challenges that hinder proper management of SMEs in the Central Business District of Nairobi. The specific objectives are:

1. To find out the barriers experienced by SMEs in their efforts to implement good management practices in businesses.
2. To establish the influence of the owner/manager's managerial activities on the success and growth of SMEs.
3. To ascertain the role of government policies on SME development and sustainability.

1.5: Rationale of the Study

A study on socio-economic challenges to management practices of SMEs is significant in that unemployment rates have been on the increase not only in Kenya but also world over. The improvement in productive employment and the opportunities for generating income has not been at the same pace as the growth of the labor market. The number of people who have been in labor force in Kenya according to 2008 statistics is 16 million (CBS, 2009) and 17.5 in 2009/2010. In this respect, there is a need to understand challenges faced by SMEs so as to make recommendations on better management practices. Good performance of SMEs would guarantee their ability as an employment sector for the ever rising unemployed population in Kenya.

SMEs in any country are important in contributing to the growth of the economy. In Kenya, they contribute to creation of employment opportunities and creation of wealth, improvement of income level of operators, and acquisition of entrepreneurial capabilities and the spread of resources among small and medium-sized enterprises (IDRC, 1993). According to the Economic Survey (GOK, 2009) the SME sector plays an important role in contributing to 79.8% jobs in the country. A study of SMEs is important because most organizations worldwide are small and medium enterprises which contribute significantly to the growth of the economy (Mohammad et al., 2011).

Therefore, the performance of an SME is determined by the overall national economic status. Countries where economic development has been successfully achieved in the previous decades demonstrate that the role of SMEs was significant in achieving growth. Private organizations that were perceived to be significant in achieving development objectives, is now regarded as important in achieving the overall economic improvement because they constitute a major component of the economy (Beyene, 2002). SMEs are leading factors in contributing to the economic improvement due to their role in constituting a major component of a growing economy such as Kenya. The growth of SMEs will also enable reaching a number of untapped human and physical resources, by establishing more small and medium enterprises. Due to the low capital requirements for setting up SMEs, it has been possible for them to convert most resources into productive activities. They are also involved in the provision of veritable outlets that enable advancement of technology in enterprises with elementary technologies.

1.6: The Scope and limitation of the Study

While the overall literature review provided a framework for concept development in relation to the project, the scope of this study involved an evaluation of the challenges faced in management of SMEs in the socio-economic sphere. Proper management of the sector determines the viability and eventual sustainability of the enterprises in the broader Economy.

Involved in this study were owners of enterprises mainly restaurants and business stalls and their employees. The entrepreneurs were the main focus in the study in so far as collection of data was involved and therefore formed our key informant group. The employees concretized our findings in the research by providing valuable information.

However, during the research we encountered limitations that led to prolonged duration in data collection. The researcher was hindered by lack of adequate time with the key informants because research could only be conducted during business hours. In addition, we noted that most business owners were quite reserved with information deemed sensitive such as issues of tax compliance and adherence to statutory laws. In light of these limitations, the researcher concentrated on a lean location of the CBD of Nairobi in order to capture the dominant attributes of the study.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1: Introduction

There are various studies on Small and medium Enterprises (SMEs) in different scholars for a different objectives. This shows that SMEs are important in contributing to the achievement of economic development in a given country. The observations of the roles of SMEs in developed countries cannot be overemphasized specifically in the Less Developed Countries (LDCs) or rather Developing Countries. In order to emphasize the role played by SMEs in the achievement of the overall growth of a country's economy, they have been generally referred to as 'engines of growth'. This is due to the fact that most countries that have put more focus on development of SMEs have experienced vibrancy of the economy and succeeded in improving the living standards of its people. There have also been high reductions in crime and per capita income has improved.

2.2: Definition, Characteristics and Needs of SMEs

The term SMEs is used to refer to Small and Medium Enterprises. In European countries, SMEs also include micro enterprises. Different definitions exist describing the term SMEs (Jafari et al., 2007; Fathian et al., 2008). The term SMEs is also defined differently in various countries (Thassanabanjong et al., 2009; Mirbargkar, 2009; Ghanatabadai, 2005) with the main factors used to determine the type of SME being the number of head count of members and others, business capital contribution.

However, most countries in developing world have not emphasized on the number of employees and included those that employ less than five people and that employ more or less than 20 people. In the manufacturing sector of the economy, SMEs are important in the provision of components that are used by larger companies (Gadenne and Sharma, 2009; Singh et al., 2010), because low cost is incurred when items are produced compard with the implementation of in-house production by the companies to produce different components (Singh et al., 2010). Most of the SMEs apply simple approaches and methods, which provides the ability to achieve flexibility, feedback provision, and decision-making in the short term as well as responding to the customer needs in organizations (Singh et al. 2008). The ability of an enterprise to succeed is determined by the manner in which the entrepreneur manages the regular activities of the company. A number of SMEs are flexible and have the ability to adapt to the changes in the market, create employment opportunities, and contribute significantly to trade (Jain, 2007). Generally, most SMEs do not apply formal procedures during decision making, and the decision making activities are centralized on the basis of experience of the entrepreneur, individual knowledge and intuition of the functions of different members of the organizations (Garengo et al., 2005).

2.3 Role of the SME Sub-Sector in the Economy

SMEs contribute to the success of every sector of the economy as well as contributing to the achievement of a sustained growth, dynamism, and creation of employment (Thassanabanjong et al., 2009). SMEs are attributed to their role in contributing to economic development, improving the success of private enterprises, and increasing the owner's skills of applying entrepreneurial skills in the management of businesses (Gadenne and Sharma, 2009). In the case of developing countries, SMEs usually provide realistic opportunities for improvement of employment prospects and value addition to products and services (Mirbatrgkar, 2009). The number of workforce in SMEs is higher than other sectors of the economy and they contribute to income generation opportunities for most employees and operators (Singh, 2010).SMEs are important in the overall economic empowerment of countries where they are practiced (Akhavan and Jafari, 2008), and with the greatest impact being experienced in the developing countries.

According to Fathian et al., (2008); Gadenne and Sharma, (2009), and Okpara (2009), SMEs are the engines of economic development.

Studies by Singh et al. (2008) and Mirbargkar (2009), conclude that SMEs constitute a backbone for the achievement of growth of the economy, creation of job opportunities, and supply of goods and services for larger organizations (Singh et al., 2008; Garengo et al., 2005; McAdam et al., 2000).

Another study by Sohail and Boon Hoong, (2003), shows that the significance of SMEs will be more relevant when the country expands its industrial activities to meet the emerging challenges in the new millennium. According to the authors, if stakeholders are to demonstrate commitment to improvement of activities of SMEs, there is a high possibility of improvement of the economy in general. A vibrant SMEs sub-sector is significant in the attainment of the overall growth of the economy of a country. They contribute to job creation, development of entrepreneurial culture, and innovation that contribute to improved competitiveness and therefore relevant for enabling employment creation. Glen (2007) in his study shows that in addition to the provision of employment opportunities, SMEs contribute to reduction of rural-urban migration and effective use of resources. By engaging in the production of intermediate products to be used by larger companies, SMEs are involved in improving links between industries and improves integration of those involved in production of similar products. An efficient SME sector is beneficial to stakeholders, entrepreneurs, customers, and the overall business community (Glen, 2007; Margi & Powel, 2005).

The study of historical developments in the growth of the economies of countries shows that most successes have been contributed by the roles of SMEs in industrial activities, technological changes, and improvement of effectiveness of export and import activities. A study by Dettmer, (1997) shows that these developments have occurred since traces these developments from the Industrial Revolution in 1760-1850, which are evidences of innovative role played by SMEs in contributing to industrial developments. In spite of challenges in the attempt to achieve economic change, technological developments, liberalization of industrial activities, and empowerment of SMEs have contributed to the overall economic growth in developing countries. In a number of developed countries, a significant percentage, 90 per cent of enterprises are SMEs (Dettmer, 1997).

Therefore, the sustainability of the contribution of SMEs in developing countries is contributed by technological and social factors such as the diversity of knowledge, skills and technologies in comparison to material and energy-intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms (Lewis, 1997). The social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralized work centre.

2.4. Barriers to Growth in SMEs

Although SMEs play an increasingly more important role, only a few have achieved high growth. The main barriers to growth in the SME sector are niche players, management resources, market intelligence and long-term strategy (McAdam and Kelly, 2002). Moreover, Khan et al. (2007) observed that SMEs face the resource constraints in terms of finance, time, people and a general lack of knowledge and expertise relative to current improvement methodologies and frameworks. Due to lack of human and financial resources that keeps SMEs from adopting new technological solutions and innovative managerial practices, they could not improve their overall performances (Grando and Belvedere, 2006).

Managers in small businesses face real competitive challenges. Most small ventures lack the brand recognition, channel power, market reach, and resources that sustain larger rivals. Lacking these weapons, small-business managers rely on agility, hard work, and passion to gain market acceptance (Fawcett et al., 2009). These enterprises often operate under the constraints of scarce resources, a flat organizational structure, a lack of technical expertise, a paucity of innovation, reduced intellectual capital and the like. The flat structure of SMEs leaves employees frustrated because they are often unable to realize either their short term or mid-term career goals. In this regard, SMEs find it difficult to employ and retain high-caliber staff. A study commissioned by Invest In Africa (IIA) and Strathmore business school concluded that the cost of financing and access to financial markets is the single largest challenge to SME growth. Failure to scale up led to 70 percent failure rate of SMEs within the first three years of their existence. According to the report, money from family members and personal savings are the most popular sources of capital and finance.

Furthermore, a managerial operational challenge cited was the lack of capacity to identify opportunities from large businesses. By providing better access to markets, the gap between large enterprises and SMEs is bridged hence creating business linkage. SMEs also need to enhance managerial skills through training and advancement of corporate governance standards so as to effectively access larger markets.

2.5 Employment Creation

The informal sector in urban centre plays an important role in employment and income generation (Ng'ethe and Ndua, 1984: 28). This role was underlined by the government when it noted in the National Development Plan of 1978/83 that the informal sector in the urban areas should absorb 195,000 people by 1983 from 140,000 in 1978- a growth rate of 4.9 percent. That is, eleven thousand places were to be created each year. The poor performance of the domestic economy in 2000 adversely affected employment creation in all sectors of the economy. The economy generated 415.4 thousand additional jobs, with the modern sector creating only 3,300 jobs representing 0.8 per cent of the additional jobs. As such most jobs were generated in the expanding informal sector. Inflation rate remained at single digit level, but raised from 3.5 per cent in 1999 to 6.2 per cent in 2000. Employment in the informal sector rose by 11.0 per cent from an estimation of 3.7 million persons in 1999 to 4.2 million persons in 2000 (Republic of Kenya, 2001: 46, 57).

During the last decade, the importance of the informal sector has increased significantly, especially as a source of employment. The informal sector's share in total employment has risen steadily reaching 70.4 percent in 2000 (Republic of Kenya, 1998). According to the National Development Plan (Republic of Kenya, 1997:10), the informal sector is currently creating more jobs than the formal sector. A good example is that in 1995, the informal sector employed about 2.2 million people while the modern sector employed 1.6 million people. Between 1991 and 1994, informal sector employment grew by 16.1 per cent per year on average compared to only 1.9 per cent per year realized in the modern sector (Republic of Kenya, 1997 (b):10). The informal sector eases pressure on the existing formal sector by offering some kind of alternative means of livelihood.

The study tries to establish to what extent SMEs in Nairobi CBDs have created jobs that have been offered to entrepreneurs relatives and the effect they have had on the performance of the enterprises.

The important role that Small and Medium Enterprises play in the development of the economy of Kenya has also been recognized and documented in other studies. A detailed review of the development of SMEs in Kenya is found in King (1996a and b) who identifies and discusses the critical turning points in the history of the sector. SMEs contributions to the economy of Kenya have been studied by ILO (1972), McCormick (1988), Parker and Torres (1994), Daniels, et al. (1995) and King (1996b). Parker and Torres (1993) estimated that out of the roughly 13,000,000 Kenyans of working age in 1993, SMEs provided employment for 16% of the labor force. Daniels, et al (1995) estimated that SMEs created jobs for 100,000 workers in 1994 and 130,000 in the first half of 1995. SMEs provide direct and indirect employment as well as part time and full time employment to households in rural and urban areas in Kenya. Employment size is strongly related to both capital size and output levels (Little et al, 1987: 129-1 30). If the capital size and output levels are low then the employment size is usually smaller.

The growth rate in wage employment within the modern sector decelerated from 1.1 per cent in 1998 to 0.5 per cent in 1999. The marginal growth was largely attributed to the current economic recession occasioned by reduced economic activity notably in agriculture, manufacturing and services sector. Further, the ongoing reforms have reduced the size of the public sector through retrenchment, retirement and restrictive government policy in the public institutions (Republic of Kenya, 2001:46). These workers opt to start their own small or medium sized enterprises (Republic of Kenya, 1994:14). Given shrinking public sector employment and a marked slowdown in overall economic activity, the informal sector has provided the greatest opportunity for employment (Republic of Kenya, 2002: 64).

2.6 Effect of Entrepreneur Characteristics on the Business Success of Small and Medium Enterprises (SMEs)

In order to respond to the research questions and the objectives of the study stated earlier on, it is important to review literature on how entrepreneur characteristics affect the performance of SMEs. In this regard, the study examines demographic characteristics, individual characteristics, as well as entrepreneurial orientation. In addition, managerial characteristics of the owner/managers of SMEs and the gender of owners/employees shall form the entrepreneur characteristics under examination.

2.6.1 Managerial Skills of Owners/Managers

According to the Kenya National Bureau of Statistics (GOK, 2007), three out of five businesses fail within their first three years of operation. One of the most significant causes of failure is the negative perception towards SMEs (Bowen, Morara, & Muriithi, 2009) (Amyx, 2005). Potential clients perceive the small business as lacking the ability to provide quality services and hence not trustworthy. Many of the problems faced by small businesses are inevitably centered on the owner/manager. There are two key factors that impact on the way most of these SMEs are managed.

First, decision making is concentrated on one or two owner managers (Greenbank, 2000; Keasey and Watson, 1993).

Second, owner/managers often work at both the management and operational levels and therefore acquire information about the market and the performance of their business through personal experience rather than relying on feedback mechanisms from other sources (Greenbank, 1999).

Lack of managerial accounting skills for decision making and lack of technical skills are as much obstacles to developing a small business as is the inability to access credit. Studies have shown that small firms may lack types of knowledge necessary to innovate and compete successfully, hence there is need to investigate the business owner/managers' characteristics such as managerial capabilities, education level, business skills experience on the success and growth of small and medium enterprises in Kenya. For the small firm, any simple management error may spell its death (Wyer and Mason, 1999). The review shall examine financial, marketing, and human resource management aspects of owners/managers.

Financial management

De Fries (1989) argues that a major theme in the life and personality of many entrepreneurs is the preoccupation with control which inevitably affects their power relationships and consequently the interpersonal action. He goes on to say that the entrepreneur has a great inner struggle with issues of authority and control and has difficulty working with others. The issue of control of the SME owner/manager making all the financial management decisions has important

implications for the firm's functioning and may lead to low staff morale and customer service which in turn may contribute to the failure or success of the SME.
A good business idea does not necessarily translate to good business management capability.

Perren et al. (1999) posits that owner-managers in small firms move from informal methods of financial management and decision-making to more formal methods depending on the development of the businesses. Furthermore, financial management decisions are based on evolutionary change and dynamic processes, which rely on relationships established between owners and external advisors whether accountants, bank managers or other professionals (Deakins, Morrison and Galloway, 2002). Small businesses are less transparent when providing financial information and are more reluctant to facilitate voluntary accounting and financial information. Financial controls may be used with the main purpose of tax minimization instead of for strategic and performance decisions (Trostel and Nichols, 1982). The majority of small firms prepares regular income and expenditure reports but uses other financial reports less regularly.

Small businesses often falter due to business-related problems such as poor financial management (Holland and Boulton, 1984). McChlery and Godfrey (2005) found that "the principal catalysts to sound financial management systems within the small firms sector appeared to be: computerized accounting systems, highly motivated owners/directors of the firm, qualified internal accounting staff, proactive external accountants and pressure from providers of finance." From these discussions, this paper has postulated that owner/manager financial management capabilities will positively influence growth of the firm and consequently success of the SME. In this study, we shall therefore investigate how owner/ manager managerial capability in financial management influences decision-making for the success and growth of the firm.

Marketing management

Previous research shows that SMEs have unique characteristic that differentiate them from conventional marketing in large organizations (Carson, 1990). These characteristics may be determined by the inherent characteristics and behavior of the owner/manager or by the size and stage of development of the business. Such limitations are finance, time, marketing knowledge, lack of specialist expertise and limited impact in the marketplace. Most owner/managers make most decisions on their own, respond to current opportunities and circumstances and so end up with decisions made in a haphazard and chaotic manner according to personal and business priorities at any point in time (Scace and Gofee, 1980). SMEs do not conform to the conventional marketing characteristics of marketing text book theories but are characterized by the limitations outlined above. Thus, their marketing is likely to be haphazard, informal, loose, unstructured, spontaneous, reactive, built on and conforming to industry norms (Gilmore, 2001). This study investigates how the marketing management decision making within the SME affects the success and growth of the firm.

Human resources management

Insufficient attention is paid to human resources and very often employees occupy different positions at the same time. In almost all the SMEs investigated, there is no one person responsible for human resources management, with the exception, in some cases, of the presence of an external consultant. Often employees are mainly managed unsystematically by the entrepreneurs, and individual performances and knowledge are rarely measured using ad hoc systems. The main criteria used are informal and based on trust and feelings. There have been some sporadic attempts to link rewards to productivity or other generic objectives; however, the lack of formal performance management is an impediment to the use of reward systems and to empowerment processes. Managerial skills are often lacking and therefore managerial tools and techniques are perceived as being of little benefit to the company. Most SMEs in developing economies lack strategic orientation and long-term vision. They put greater emphasis on short-term profits rather than building long-term competitive potential.

Recruiting new employees is one of the biggest challenges facing small firms, and a key component of organizational success. Previous research on the staffing practices of small firms has found that small firms tend to rely on social networks to attract workers, particularly at the inception of the firm (Curran, 1988). However, as SMEs grow in size they exhaust the supply of suitable family and friends, forcing them to recruit strangers to fill work positions. Since the performance of SMEs is closely related with their ability to recruit strangers, the development of effective recruitment policies and practices in small firms has significant implications for organizational survival. The study therefore makes an attempt to find out how the owner/manager managerial capability in human resource management, influences decision-making for the success and growth of the firm

2.6.2 Demographic and Individual Characteristics

Several studies have attempted to establish how characteristics of employees like age, education, and gender are associated to success of SMEs.

Age

Reynolds et al. (2000) found that individuals ranging from 25 to 44 years were the most entrepreneurially active. Findings from another study in India by Sinha (1996) disclosed that successful entrepreneur were relatively younger in age. In their study on Internet café entrepreneurs in Indonesia, Kristiansen, Furuholt, & Wahid (2003) found a significant correlation between age of the entrepreneur and business success. The older (>25 years old) entrepreneurs were more successful than the younger ones. Mazzarol et al., (1999) found that female were generally less likely to be founders of new business than male. Similarly, Kolvereid (1996) found that males had significantly higher entrepreneurial intentions than females. In addition, the same study found that individuals with prior entrepreneurial experience had significantly higher entrepreneurial intentions than those without such experience. Conversely, Mazzarol, et al., (1999) found that respondents with previous government employment experience were less likely to be successful founders of small-businesses primarily due to their stinginess to break protocol and formality.

Education

A research by Charney and Libecap (2000) found that entrepreneurship education produces self-sufficient enterprising individuals. Furthermore, they found that entrepreneurship education increases the formation of new ventures, the likelihood of self-employment, the likelihood of developing new products, and the likelihood of self-employed graduates owning a high-technology business. Also, the study revealed that entrepreneurship education of employee increases the sales growth rates of emerging firms and graduates' assets. Similarly, Sinha (1996) who analyzed the educational background of the entrepreneur revealed that 72% of the successful entrepreneurs had a minimum level of technical qualification, whereas most (67%) of the unsuccessful entrepreneurs did not have any technical background. She summed up that entrepreneurs with business and technical educational background are in a better position to appreciate and analyze hard reality and deal with it intuitively, which seems to play a critical role in entrepreneurial effectiveness.

Gender

Other studies have examined how gender composition of employees affects the success or failure of SMEs. Recent studies, mostly in developing countries, have found evidence that gender has significant effect on SME performance (Mohammad and Reza). Despite the scarcity of data, the available information on female entrepreneurs shows that the involvement of women in entrepreneurial activity and the consequent self-employment rates, which include women who own and operate their own businesses, are increasing around the world, especially in urban areas and metropolis (NFWBO, 2002; OECD, 2001a, b; Weeks, 2001).

According to the available data, between one-quarter and one-third of the formal sector businesses are owned and operated by women in different countries. In the USA for instance, 38 per cent of businesses are owned by women (1999), in Finland, 34 per cent (1990), in Australia (1994) and Canada (1996), 33 per cent, in Korea, 32 per cent (1998) and in Mexico, 30 per cent (1997) (Weeks, 2001). According to the OECD's Labor Force Survey database, the total number of entrepreneurs in the OECD has increased considerably over the past decade, particularly after 1995 and in 1999, when the average number of entrepreneurs in the OECD was 36 per cent higher than in 1985. The share of female entrepreneurs during this period has been between one-quarter to one-third of all the entrepreneurs (OECD, 2001b).

Studies on the effect of gender on performance of SMEs do not seem to agree. For instance, Fischer (1992) and Rosa et al. (1996) suggest that women entrepreneurs underperform relative to men as measured by conventional economic performance measures such as profitability and growth in sales, value added and employment. Holmquist and Sundin (1988) conducted a study of 1,600 female-owned businesses in Sweden. They also compared 1,440 female business owners with 317 male business owners. Their conclusion shows that gender differences mainly manifest themselves in the selection of industry. Masters and Meier (1988) found no gender differences in risk-taking propensity in a study of 50 U.S. entrepreneurs. Rosa, Carter and Hamilton (1996) carried out a study of 600 U.K. enterprises (half male/half female) in textiles and clothing, business services and hotel catering. They found considerable differences by gender, and that female owned businesses underperform in terms of number of employees, VAT registration, sales and capital assets.

An important issue in research on organizational survival and success is the relevance of gender to the performance of small businesses. The rate of growth in self-employment has recently been greater among women than men; women experienced an increase of 35 percent from 1977-82, compared to 12 percent for men (Hisrich & Brush, 1984). The study shall therefore establish how gender affects the performance of SMEs in Nairobi's CBD.

The study in essence tries to establish how the demographic and individual characteristics of employees affect the success of SMEs. These characteristics are: educational background of the entrepreneur, age, gender, industry experience and social skills.

2.7 Regulation of Private Sector

Governments regulate private sector activity for three main reasons: (i) protection of the public (i.e. from dangerous activities), (ii) compensation for market failures (such as monopoly) and (iii) revenue generation for redistributive purposes. Government regulates business formation and operation - in the form of registration, licenses and permits - for a combination of the above-mentioned reasons. Given the significant role that SMEs play in economic growth and poverty reduction, it is important that all areas of government policy contribute to a regulatory environment which is conducive to business flexibility and competitiveness (Republic of Kenya, 1997: 72-78).

Complying with such statutory requirements to start and run a business is a process that all businesses need to go through to acquire legal form. Completing this process affords businesses the benefits of legal recognition or formalization, such as the protection of limited liability or access to formal services (like bank finance). However, these statutory requirements carry with them costs of compliance. If these compliance requirements are costly or administratively inefficient they can create barriers to SME formation and growth and can stifle business flexibility and competitiveness (Kelly and Devas, 1999:12).

Government can minimize regulatory burdens in two ways. Firstly, by limiting or streamlining the overall regulatory framework without compromising public objectives. Secondly, government needs to ensure that implementation and enforcement of regulation is efficient and transparent — unless they are enforced in a fair, efficient, and transparent manner even the best-drafted laws in the world are useless — and that regulatory mechanisms are accessible and convenient for businesses (Kelly and Devas, 1999:13). Therefore government policy needs to strike a delicate balance between achieving public objectives and minimizing deleterious impacts on private business and commercial markets. As a general principle this means that government should strive to lighten the regulatory burden as much as possible by carefully reviewing existing and new regulations and exploring more flexible alternatives to regulation (Kelly and Devas, 1999:13).

SMEs interact with both central and local government's agents during licensing, registration and enforcement. There is a multiplicity of licenses and duplication of licensing requirements between different central government ministries and local authorities, which impose additional burden on traders and also make the enforcement of trade licensing very difficult (Republic of Kenya, 1997:1). Licensing as a concept means "all the rules that operate to authorize or permit the carrying out of any trade or business activity. Non-compliance with this requirement makes such business or trade activity illegal" (Nyamweya, 1995). As a retail stall owner, one needs to follow the following Acts, by-laws and Regulations: Building Codes (section 126 (a)), Registration of Business Names Act (Cap 265), Local Government Act (Cap 275), Trade Licensing Act (Cap 497) and Local Authority Service Charge (Cap 274) (Republic of Kenya 1997:42). The Ministry of Trade and industry through District Trade Officers directly deals with actual licensing at Central Government level. Prior to the changes which were being implemented in January 1998, licensing at Central Government level was said to be cumbersome. For new licenses, traders operating within urban councils have to meet a number of requirements, including proof that they were licensed by the urban authority and a letter from the landlord before the applications could be processed. In the new procedure, traders are supposed to be given licenses without condition (K'Obonyo et al., 1999: 5).

The purpose of registration is not to regulate activity but to create a basic information structure. Basic information structures might typically include the registration of (a) residents, (b) companies, (c) land, and (d) responsibilities (e.g. the responsibility to pay taxes). Business registration is beneficial to government as it helps provide up-to-date information on the business population for public policy-making and administrative purposes. For businesses, registration is a vital and relatively simple step towards formalization to benefit from formal legal status recognition. A clear legal status strengthens the position of business towards public administration and can considerably improve access to services such as bank finance (Kelly and Devas, 1999:10). (Informal businesses are regularly the victims of illegal levies, for example by city inspectorate).

The Ministry of Planning and National Development has identified licensing as a key issue to be addressed as part of the de-regulation exercise. It has been observed that licensing, as a pre-condition for the lawful conduct of trade or business, is increasingly regarded as an unnecessary barrier. Promotion of trade would be achieved if restrictions are confined to the preservation of necessary standards relating to public health, public order, security, safety and the environment. Trade restrictions which go beyond those parameters act as a constraint to business (Republic of Kenya, 1997: 49).

The de-regulation section (1997) has isolated a number of problems associated with the existing licensing procedures. For example, licensing procedures request detailed information and compliance with numerous administrative requirements before a license can be issued, leading to bureaucracy and long delays. The multiplicity of licenses and administrative agencies creates confusion and delays. The wide discretion given to licensing officers as per legislation and licensing by-laws has been noted to be problematic. It creates numerous loopholes for different interpretation and also increases opportunities for corruption and other illegal deals. Criteria for setting license fees are increasingly arbitrary, unrealistic regarding the ability of businesses to pay periodically and do not reflect the level of services provided. The high cost of licensing results from the multiplicity of licenses and the need to offer financial incentives to officials to speed up the approvals (K'Obonyo et al, 1999:18).

Kenya has pursued a business deregulation program as part of a wider policy of liberalizing the economy and encouraging enterprise development. One component of this deregulation program is a simplified system under which each enterprise only requires a single permit instead of an array of separate business licenses to cover each of the activities in which the business was involved. This multiplicity was widely recognized to be unwieldy and unnecessary, imposing on both government and businesses costs which were disproportionate to the benefits of licensing. In late 1998, the Government of Kenya established a new Single Business Permit (SBP). The reform has reduced the costs to small enterprises in Kenya of complying with the license process. However, this move to simplify business licensing has been to some degree undermined by a parallel effort to revitalize local authority finances (Republic of Kenya, 1997: 82-93).

Through carrying out this study, we will be able to find out if retail stalls are emerging due to the de-regulation of licensing. The study will also determine if retail stalls entrepreneurs are following the legal way of undertaking their businesses; or if, because of the discriminatory fees and taxes, they operate their businesses illegally. This will offer an opportunity for the policy makers to abandon or enforce policies, licensing and regulations governing operation of retail stalls in Nairobi.

2.8 Policy Framework on SMEs

This section examines the policy frameworks on small and medium enterprises by the government of Kenya. Included herein are the various sessional papers and national development plans.

2.8.1 Sessional Paper No. 2 of 1992

This sessional paper acknowledges that, "the Small Scale and Jua Kali Enterprises (SSJKE) sector plays an important role in job creation" (GoK, 1998, p200). In order to enhance the rapid growth of the sector during the Plan period, the Ministry of Commerce and Industry, Ministry of Finance, Local Authorities, Office of the Vice-President and Ministry of Planning and National

Development (OVP &MPND) and other relevant ministries were to collaborate with the private sector, NGOs and community based organizations so as to develop and review the legal and regulatory environment for informal sector activities. In addition, they were to formulate and develop programs to improve access to credit and finance, support women and youth involvement in SMEs through special programs, encourage strong backward linkages with the manufacturing sector; and review and harmonize licensing procedures for the informal sector enterprises (GoK, 1998).

2.8.2 Sessional Paper No.2 of 2005: Development of SMEs for Wealth and Employment Creation for Poverty Reduction

In this sessional paper, the government of Kenya recognizes the marketing constraints faced by the sector as, among others, lack of access to information on the existing market opportunities and in exports, effects of dumping and low quality products on SME marketing, and Poor quality products and poor product design and differentiation (GoK, 2005). Other challenges include lack of promotional activities, both locally and internationally, lack of market structures and sites for display and marketing of SME products, poor access to financial services, and weak business linkages.

In this regard, the Sessional Paper spelt out policies, which would enhance SME marketing, among them the provision of marketing information through trade information centres, promotion of SME products through Export Promotion Council internationally and locally through advertising and encouraging Kenyans to buy Kenyan products; strengthening dumping and countervailing measures, and provision of temporary marketing premises and spaces in parks and public places through the local government. Further, the government will allocate 25 percent of its procurement needs to the sector and encourage business-to-business linkages through sub-contracting between large firms and the SMEs. The Government also strives to undertake financial support services by establishing a Micro Finance Trust Fund from which MFIs can borrow for onward lending to the SMEs at affordable interest rates.

What is evident from the foregoing is that the government was and is still trying to grapple with the market failures that characterize the SME sector and make it difficult for them to operate. In addition to this, the government was taking issue with the lack of productivity growth of the sector despite the fact that it had been recognized as the source of future employment opportunities in the country. It was, therefore, necessary that the government undertake systematic interventions in areas that would spur the highest growth in the sector, of which marketing is one. Despite these policies, market access has remained a daunting problem for the sector's growth–evidence enough that the proposed policies in the sessional papers were/are either not appropriate or (if appropriate) were/are not implementable.

2.8.3 The 1974-1983 National Development Plan

In this development plan, the key concern by the government on traders was financial assistance, particularly small business men (Republic of Kenya, 1974). These were to have been channeled mainly through the ICDC's loans schemes. Under the commercial loans Revolving Fund Scheme, the ICDC would give loans to small businessmen, especially those who had recently acquired businesses from none citizens. These loans were meant to enable them to expand their existing activities. A small portion of these funds went to small traders in the rural areas. In urban areas the loans are applied mainly in support of the 'Kenyanization' of urban trade.

2.8.4 The 1989-1993 National Development Plan

One outstanding issue that the government indicated in this plan was that a serious omission had been the neglect in exploiting the full potential of the small-scale and Jua Kali enterprises. The targets for employment and income generation were set out in this Plan (1989-1993) and in Sessional Paper No. 1 of 1986. Key among other issues, the government had set out to create an enabling environment for small-scale and jua-kali enterprises.

The role which the small-scale and Jua Kali enterprises were to play in income and employment generation were to be viewed in the context of industrialization and commercial development policies and strategies to be implemented during the Plan period. The Government was to amend rules and regulations inhibiting the development of the small-scale and Jua Kali enterprises, such as time consuming administrative procedures in obtaining licenses, as well as inappropriate building codes (Republic of Kenya, 1990). It was also to ensure that unfair trade practices on the part of large-scale firms do not jeopardize the survival and performance of this sector. In addition, through its taxing and spending programs, Government was to directly and indirectly change the cost-price relations that would be beneficial to the development of the small-scale and Jua Kali enterprises.

Another consideration by government was to examine the laws, regulations and procedures which had frustrated small-scale and Jua Kali enterprises from competing on an equal footing with the more established businesses. Part of this environmental handicap arose from lack of access to suitable financial, distributive and marketing infrastructures. Government would also speed up the review of local authority by-laws and regulations that had proved restrictive to the development of small-scale and Jua Kali enterprises. This was to include the suspension of certain categories of licenses, appropriate revision of the building codes and ease of allocation of land to these enterprises. In this respect, Small-Scale and Jua Kali Business Allocation Boards were to be set up at district level under the auspices of the District Development Committees (DDC) to oversee matters related to the allocation of land to these enterprises.

2.8.5 The 1994-1996 National Development Plan

This national development plan adopted the Sessional Paper No. 2 of 1992 entitled Small Scale Enterprise (SSE) and Jua Kali Development. Among other concerns, this paper outlines the Government's role in the sector in relation to policy measures to improve access to credit facilities and measures to improve provision of non-financial programs. In addition, more private sector involvement was to have been encouraged through provision of a wide range of measures and incentives to improve the SSE operations such as access to credit and provision of appropriate technology and training.

2.8.6 The 2002-2008 National Development Plan

According to this development plan, the Government of Kenya was to adopt appropriate financing, policy and regulatory framework, trade information services and regional and international market access strategies aimed at promoting domestic and external trade. These were to be undertaken through various ways, among them government financing (GoK, 2003). The government was to initiate the Joint Loan Board program and the Micro Enterprise Support Program (MESP). The loan board was established to provide credit to the small-scale indigenous businesses, which currently serves all the regions in the country. On the other hand, MESP, a program which begun in 1997 (GoK, 2003), had the objective of lending to micro-enterprises.

MESP has three components namely credit, product development and marketing, and in addition, institutional support and capacity building component.

This development plan also considered issues on policy and regulatory framework, as well as entrepreneurship skills. Some policy issues were on licensing in which case the government abolished license fee in 1998 and some business permits. Licenses issued by local authority were consolidated into a single business permit with effect from 1st January 2000. In addition, the Government formed various committees to review thirteen trade related Licensing Acts and requirements. There were also plans to put in place a trade policy (GoK, 2003). To enhance entrepreneurship, the government took into consideration equipping would be entrepreneurs with necessary skills. Training programs aimed at equipping business persons with critical basic skills like record keeping, marketing, salesmanship and loan management were to be offered by the Kenya Institute of Business Training (KIBT). To ensure the strengthening of training programs, the KIBT was to be restructured, rehabilitated, modernized and fully equipped to improve its operations.

Policy makers in Kenya have sought to address the issue of marketing and markets for SMEs as one requiring policy attention and have proceeded to suggest a number of policy measures in past policy documents. The fact that several years after the formulation of Sessional Paper No. 2 of 1992, the marketing problem of SMEs still persists implies that the Government is still grappling with market failures that characterize the sector. It is evident that institutional failure remains one of the most critical hindrances to marketing for SMEs. This has been manifested in inappropriate policy design, weak implementation framework and failure to institute and effectively monitor policy implementation.

Apparently, the national development plans as well as the sessional papers do not seem to have achieved a lot in as far as SME policies are concerned. The government of Kenya further addresses entrepreneurship challenges in the vision 2030 framework. For instance, vision 2030 revisits the issue on training. The government was concerned with developing training program to improve retail skills. Attention was given to developing marketing capacity, particularly among retail traders. As a result, many operators in the country have had no formal training in management and marketing strategies. To address this imbalance, training programs would be developed and implemented through the school education system to inculcate skills in the area of retail trade, as well as in post- school business colleges (GoK, 2008).

In the First Medium Term Plan, 2008-2012 of Vision 2030, the vision for the manufacturing sector is the development of “robust, diversified and competitive manufacturing” (GoK, 2008, p 62). The government acknowledges that the country’s potential competitive advantage in manufacturing lies in agro-industrial exports. In order to compete globally in this sector, the government planned to “increase the capacity of value addition in agro-based industries” (GoK, 2008, p 63). This was to have been done by attracting strategic investors to boost agro-based industries and increased exports, especially in new markets where investors would be offered attractive incentives and would be expected to bring new skills and technologies to the domestic economy. For superior performance of the manufacturing sector as a whole, the government would strengthen SMEs to become the key industries of tomorrow by improving their productivity and innovation, improve critical infrastructure, such as ports, energy distribution systems, rail and major highways, improve the business environment in critical areas, such as licensing and security; and implementing efficiency-enhancing institutional reforms in the sector. The fact that the First Medium Term Plan was intended to end in 2012, this study would therefore appropriately establish, among other objectives, government policies that have helped strengthen SMEs.

2.9 Theoretical Framework

This part presents five theories which shall guide the study: Small Enterprise Theory, The "small-and-flexible" Model, the theory of Constraints, Capital accumulation theory and the Functionalist theory.

2.9.1 Small Enterprise Theory

Weiss (1988:56) found out that the development of an entrepreneurial small-business economy in Europe was the product of Christian democratic policies that favored artisans firms over big firms. Berry and Owens (1985:66) asserted that the tax code permits small businesses to evade taxation, thus encouraging its resurgence. Light and Sanchez (1987: 373-99) found that the liberalization of U.S immigration law encouraged small business by increasing the proportion of immigrants in the labour force. The law gives immigration preference to entrepreneurs who are prepared to start a business in the adopted country.

Demand-led explanation and ethnic economies go hand in hand. When demand conditions are deteriorating, some ethnic economies decline more than others (Smelser and Swedberg, 1994: 656). In his study of New York City's garment industry, Waldinger (1986: 249-85) mentioned the economic conditions that lured immigrants Dominicans and Chinese entrepreneurs into the industry. The conditions include low returns on economies of scale, instability and uncertainty of product demand, small and differentiated product markets, agglomeration advantage, access to cheap labour and vacant niches caused by exodus of predecessors.

Small enterprises are not bound to extinction. They are alive and well even in the most developed countries. Small enterprises can often compete efficiently with large enterprises by exploiting external economies or certain market segments (Rasmussen, 1992: 91). Since small enterprises have less sophisticated internal division of labour they employ fewer specialists. Combined with the advantage of close personal contact between employer and employee, this means that small firms are likely to reveal considerably greater flexibility (Casson, 1990: 102).

The theory tends to explain the demand—only concept. Demand must be perceived, recognized, or discovered before entrepreneurs can act (Werbner, 1990:10). For an entrepreneur to start a business one has to consider elements like; the location, nearness to the customer and the nature of the business. The theory helps us to understand why entrepreneurs are opting to open retail stalls at certain places or locations within Nairobi city.

2.9.2 The "Small-and-flexible" Model

This model is determined by two common risk management strategies, i.e. by staying small, businesses avoid the risk of major loss. At the same time, their flexible structure allows them to shift quickly in the face of changing environment. According to McCormick, flexibility has recently become the cornerstone of a new paradigm of industrialization. The Small Firms also adopt various strategies: low-paid or unpaid labour (Charmes 1980; Banerjee 1982; Berry 1985), free or inexpensive work-places (Ndua and Ng'ethe 1984; Noormohaned 1985), low capital intensity (Schmitz 1982), subcontracts (Abadie 1982; Peattie 1982; Schmitz 1982), and use of family members in the business (Zarenda 1980; House 1981; Mathias 1983; Upton 1984). Their specific tactics-growing out of particular historical, social, and economic circumstances -are less important than their overall strategy. Small businesses survive an uncertain environment by being highly flexible.

The model first emphasizes that even in advanced countries, competitiveness requires the capacity to adapt to disruptive circumstances (Schmitz 1989, p. 24). Second, by overcoming the view that equates industrial progress with mass production, the model offers a positive place for small-scale production in the industrialization process (Schmitz 1989, p. 21). Finally, it highlights an often-missed distinction between flexibility of individual firms and the collective efficiency of a group of firms.

In this case therefore, we operationalize operationalized flexibility in terms of commonly observed tactics, i.e. for SMEs in the CBD to survive, they combine two flexibility tactics. First, they can opt to follow a family organizational pattern and secondly, they minimize capital investment. As such, SME owners thus end up reducing risk by increasing opportunities for additional income. Family organization contributes to flexibility by reducing wage costs and allowing SME owners to diversify by taking other work. Family firm in this case is taken to mean a single-person business or a large firm with family involvement. Businesses that use family members as workers either pay no wage or combine a small cash wage with free accommodation board.
Another component of the flexibility variable is the level of capital. Firms with little physical capital can alter their product mix to meet changing demand or input availability. When demand for a certain commodity is high, an SME owner can easily shift to selling that commodity without much worry of capital simply because having less capital brings greater flexibility.

In general therefore, we consider the composite flexibility variable in as far as the survival of SMEs is concerned, i.e. the family mode of production and low capitalization. From previous studies this composite flexibility variable has shown that profitable firms have higher flexibility scores than unprofitable ones (McCormick, 1992).

2.9.3 The Theory of Constraints

The Theory of Constraints (TOC) is based on the idea of using scientific principles and logic to guide human-based organizations in their decision-making processes. Ultimately, the goal of the TOC is to help organizations achieve their goals and, more importantly, continue doing so through changing times. Simply put, the TOC is a recipe for change (Goldratt, 1986).

A constraint is anything that prevents the system from achieving more of its goal. According to Dettmer, (1997), there are many ways that constraints can show up, but a core principle within TOC is that there are not tens or hundreds of constraints.

There is at least one constraint and at most a few constraints in any given system. Constraints can be internal or external to the system. An internal constraint is in evidence when the market demands more from the system than it can deliver. If this is the case, then the focus of the organization should be on discovering that constraint and following the five focusing steps to open it up (and potentially remove it). An external constraint exists when the system can produce more than the market will bear. If this is the case, then the organization should focus on mechanisms to create more demand for its products or services, for example through aggressive marketing strategy.

The most likely constraints in SMEs include equipment, people, and policy. In addition, it is notable that lack of skilled people limits the system. Mental models held by people can cause behavior that becomes a constraint. In addition, it has been established that most SMEs lack policy, written or unwritten and this prevents the system from making more or prospering.

The theory of constraints is based on a set of basic principles, which are applied, using a set of basic processes in a logical method, to a set of specific fields (Eric, et al 1995). The underlying premise of the TOC is that every organization has, at any given time, at least one stumbling block (or constraint), which limits its performance and hampers the attainment of its goals (Cox and Eliyahu, 1986). In the broadest sense, these constraints can be classified as either "internal constraints" or "market constraints." In order to successfully improve the performance of the organization, the constraint must be identified and managed according to one of the processes involved in the theory. As with any dynamic situation, over time the constraint may change, either because the initial constraint was successfully managed, or because a changing environment has left the organization with a new constraint. According to Linhares, (2009), at any rate, the constraint management process is continual.

In this study, we considered the interference or involvement of relatives in the management of SMEs as a constraint. Proprietors at times employ relatives and this is apparently done without consideration of relevant skills and experience. It is important to establish how the proprietors deal with this particular type of constraint. The study tries to establish whether the proprietors successfully manage interferences by relatives or if this acts as an impediment towards the success of SMEs.

2.9.4 The Capital Accumulation Theory

Capital accumulation refers to a net addition to existing wealth, or to the redistribution of wealth. If more wealth is produced than there was before, a society becomes richer; the total stock of wealth increases. But if some accumulate capital only at the expense of others, wealth is merely shifted from A to B. In principle, it is possible that a few people or organisations accumulate capital and grow richer, although the total stock of wealth of society decreases. But it should be noticed that capital may increase by increasing the total wealth of society but few people grow richer while most of the people grow comparatively poorer (Raya, 1943).

In this study, we adopt Karl Marx's perspective on economic theory. According to Marx, capital accumulation refers to the operation whereby profits are reinvested increasing the total quantity of capital. Capital is viewed by Marx as expanding value, that is, in other terms, as a sum of money that is transformed into a larger sum of money. Here, capital is defined essentially as economic or commercial asset value in search of additional value or surplus-value. This requires property relations that enable objects of value to be appropriated and owned, and trading rights to be established.

The theory further stipulates that the continuation and progress of capital accumulation depends on the removal of obstacles to the expansion of trade, and this has historically often been a violent process. As markets expand, more and more new opportunities develop for accumulating capital, because more and more types of goods and services can be traded in. This theory will enable the researcher to analyze how entrepreneurs realise cash flow in their businesses in order to operate sufficiently.

2.9.5: The Functionalist theory

The functionalist perspective has its origins in the works of Emile Durkheim who was especially interested in how social order is possible or how society remains relatively stable. Functionalism is a theory that focuses on the macro-level of social structure, rather than the micro-level of everyday life. Notable theorists in this perspective include Herbert Spencer, Talcott Parsons, and Robert K. Merton.

Functionalism interprets each part of society in terms of how it contributes to the stability of the whole society and that each component plays a necessary role, but none can function alone, and one experiences a crisis or fails, other parts must adapt to fill the void in some way.

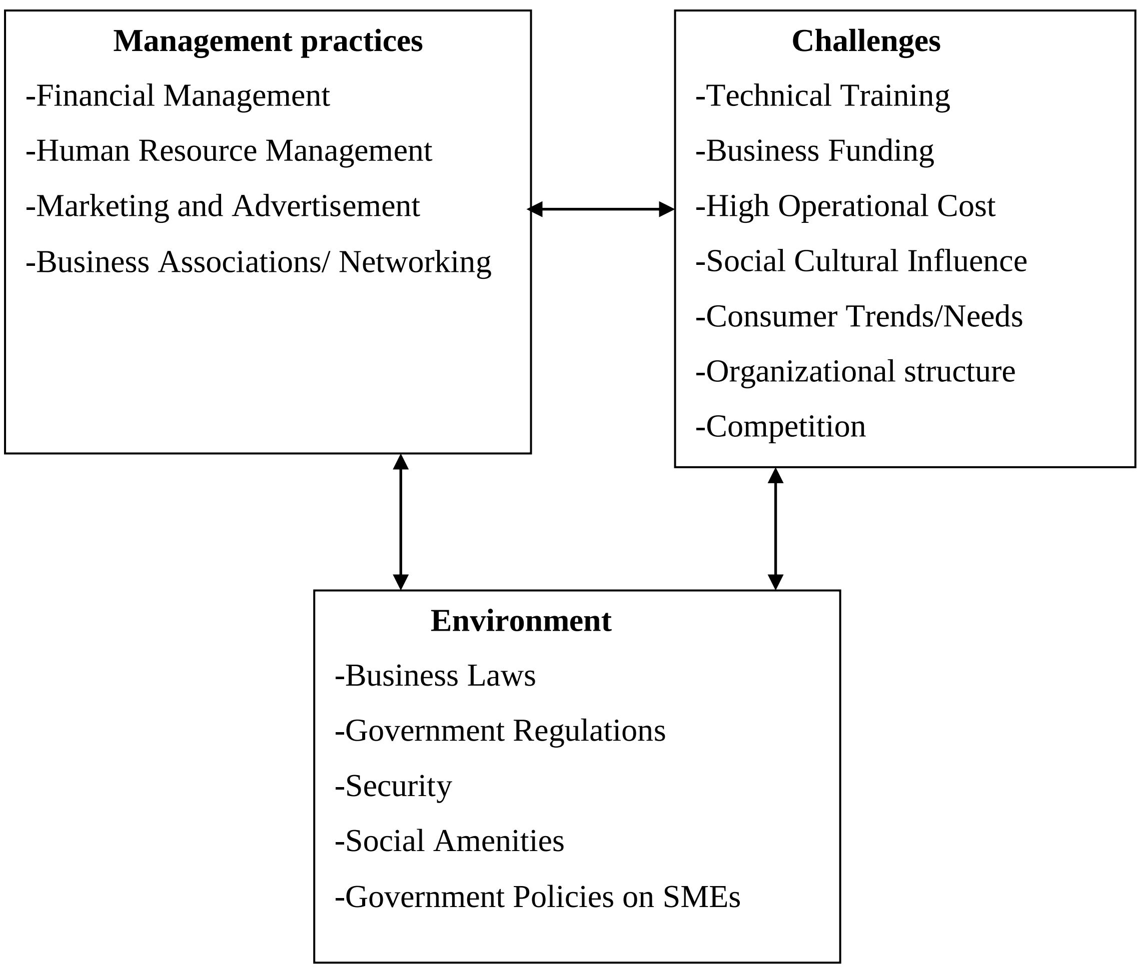
Within functionalist theory, the different parts of society are primarily composed of social institutions, each of which is designed to fill different needs, and each of which has particular consequences for the form and shape of society. According to functionalism, an institution only exists because it serves a vital role in the functioning of society. When new need evolve or emerge, new institutions will be created to meet them.

This theory therefore underscores the importance of SME sector in the economy as an integral part of the overall wellbeing of the society. The sector aggressively plays its part in ensuring that people become meaningfully engaged in the economy as a means of livelihood and that goods and services necessary for the population are adequately distributed as and when demanded and at the right prices.

This function creates tranquillity and stability and ensures that the society is somewhat orderly and structured. Other organs in the society such as government should also play their part in order for the system to operate harmoniously.

The five theories (small enterprise theory, “small-and-flexible” model, the theory of constraints, capital accumulation theory and the functionalist theory), will help in this study by allowing us to argumentatively explain how and why the retail stalls have grown over time and have gradually become persistent in the economy. Retail stalls are also rooted in an economic and socio-cultural environment of more or less stable relations with other actors where information is primarily qualitative and person bound and can rarely be priced through the market mechanism. It is basically through interaction with these other actors in the cluster that the apparent success and growth of the stalls are to be understood. The overall utility of the theories is to provide explanations that underlie the level of growth, viability, sustainability and performance observable in the retail stall business.

2.9.6: Conceptual Framework



CHAPTER THREE: RESEARCH METHODOLOGY

The information, data and material presented in this paper was collected through simple structured observations, personal interviews, use of questionnaire and analysis of available data. This multi-methodological approach is prompted by the uniqueness and economic importance of the SME sector in Kenya and a quest to answer the objective questions.

3.1 Site Selection and Description

The study was conducted in Nairobi central business district. The general objective of the study is to try and establish socio-economic challenges to management practices of small and medium enterprises (SMEs). This shall be established through an investigation of restaurants and common business stalls in the Central Business District (CBD). The study chose Nairobi due to its high concentration of SMEs, more so in the CBD. In addition, the city of Nairobi is cosmopolitan and all the characteristics of regional areas of Kenya would be exhibited in the city.

Nairobi is the capital and largest city of Kenya. The city and its surrounding area also form the Nairobi County (Lacey, 2010). The name "Nairobi" comes from the Maasai phrase *Enkare Nyirobi*, which translates to "the place of cool waters". The city of Nairobi was founded in 1899 as a simple rail depot on the railway linking Mombasa to Uganda, the town quickly grew to become the capital of British East Africa in 1907 and eventually the capital of a free Kenyan republic in 1963. During Kenya's colonial period, the city became a centre for the colony's coffee, tea and sisal industry (Alninga, 2005). Nairobi is also the capital of the Nairobi Province. The city lies on the Nairobi River, in the south of the nation, and has an elevation of 1795 m above sea-level (Bauck, 2007).

Nairobi is the most populous city in East Africa, with a current estimated population of about 3 million (GoK, 2010) According to the 2009 Census, in the administrative area of Nairobi, 3,138,295 inhabitants lived within 696 km^2 (270 sq mi). Nairobi has experienced one of the highest growth rates of any city in Africa. Since its foundation in 1899, Nairobi has grown to become the largest city in East Africa, despite being the youngest city in the region. The growth rate of Nairobi is currently 4.1% (knbs.or.ke, 2010). It is estimated that Nairobi's population will reach 5 million in 2015 (GoK, 2010). Nairobi is currently the 13th largest city in Africa, based on population and 4th largest in infrastructure development and its size (knbs.or.ke, 2010). The city is located at1°17′S 36°49′E/ 1.283°S 36.817°E.

3.2: Research Design

This section presents the research design that was used for the study. Kothari, (2004:31) describes research design as, “the arrangement of conditions for collection and analysis of data in a manner that aims at combining relevance to the research purpose with economy in procedure.” It is therefore a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision or so that a hypothesis can be tested properly. Babbie (1995:74) defines research design as a plan or blueprint of how a researcher conducts the research. The type of research design chosen depends on the type of problem, the knowledge already available about the problem and the resources available for the study (Varkevisser et al. s.a:119). Several classifications of study designs are possible.

This study adopted the case study design, a qualitative research method. The term case-study usually refers to a fairly intensive examination of a single unit such as a person, a small group of people, or a single company. Case-studies involve measuring what is there and how it got there. In this sense, it is historical. It can enable the researcher to explore, unravel and understand problems, issues and relationships. It is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used.

In this case, the study targeted SME including Restaurants and Stall businesses in the Central Business District (CBD). Restaurants are basically labour intensive and for purposes of the study, it shall be relevant to carry out an observation analysis. Secondly, restaurants require quite a colossal amount of capital to initiate and hence, the issue of economic challenges would be interrogated. In addition, it shall be possible to assess the level of professionalism and competence.

3.3 Observation Unit

The observation unit which is also known as the unit of data collection is the element or aggregation of elements from which one collects information. The observation units are the managers and owners of SMEs in the Central Business District as well as their employees.

3.4: Unit of Analysis

Beker (1994:102) defines unit of analysis as the social entities whose social characteristics are the focus of the study. According to Singleton et al (1988:69), "units of analysis are the activities (objects or events) under study." In this study, the unit of analysis is the Socio-Economic challenges to management practices of small and medium enterprises.

3.5: Sampling Techniques

Sampling involves the selection of a number of study units from a defined study population (Dane 1990:37). The study shall adopt non probability sampling strategies, in this case purposive sampling. According to Patton (1990), purposive sampling targets a particular group of people and therefore it is suitable when you want to access a particular subset of people. During sampling, the researcher rejects people who do not fit a particular profile (Gall, 2003). When taking the sample, purposive sampling starts with a purpose in mind and the sample is thus selected to include people of interest and exclude those who do not suit the purpose.

The suitability for purposive sampling in this study was due to the fact that a sampling frame for Restaurants and the common business Stalls in the CBD is not available. Though non-probability sampling does not involve the use of randomization, to get a representative sample, the researcher relied upon expert sampling. In this case, we identified units which were considered as having particularly high quality of information for sampling.

We targeted 15 key informants who possessed the highest quality of information that would satisfy the study objectives from the owners of business Stalls and Restaurants within the CBD of Nairobi. For purposes of gathering data for the other attributes of the study, the researcher interviewed 70 members who are engaged in these enterprises as workers.

3.6 Methods of Data Collection

The Primary method of data collection was interviews and observation. The researcher conducted oral interviews for owners of stalls and restaurants, while managers and employees of these enterprises responded on self-administered questionnaires. Data was also obtained through observation. The researcher made observations on whether the location of the enterprise directly affects the productivity of the business or if management practices indeed determine which enterprise survives. Broadly, the key informants as well as use of secondary data summed up the responses to the bulk of our research objectives.

The fact that the study collected qualitative data, case study approach ensured that the researcher intently looked at the focus of the study. Case study refers to the collection and presentation of detailed information about a particular participant or small group, frequently including the accounts of subjects themselves (Feagin, 1991; Gilgun, 1994). According to Feagin (1991), the case study looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group and only in that specific context. Researchers do not focus on the discovery of a universal, generalizable truth, nor do they typically look for cause-effect relationships; instead, emphasis is placed on exploration and description (Gilgun, 1994; Armisted, 1984). In this project, case study was useful in collecting data since the researcher dwelled on specific participants being stall owners and restaurant operators as well as managers and employees of SMEs within the CBD of Nairobi.

3.7: Tools of Data Collection

The researcher employed four tools of data collection. The first tool was questionnaires which were self-administered. This was used to collect primary information from SME employees. The questionnaires were hand-delivered and filled in individually by the employees of the SMEs.

The second tool was the Key Informant guide. This tool was administered to the owners of SMEs and geared towards collecting qualitative data on the operations of the businesses. Qualitative data thus collected shall be used to supplement the quantitative data.

Thirdly, the researcher used an Observation Guide to make selected observations to confirm information from interviews. Fourthly, secondary sources of data like relevant reports, theses, dissertations, books, journals and manuals were reviewed to supplement in-depth interviews and observations. These sources of data helped to compare and clarify primary information as well as ascertaining varying perspectives from the reviewed literature.

3.8: Ethical Considerations

Ethical considerations are important in research because they help to prevent abuses as well as to explain responsibility. This study sought to ensure that the civil authorities and the informants in this study are properly informed of what the research process entailed and the ethical procedures to be followed.

Communication procedures were used to inform participants in the study and also to seek their consent or otherwise to their voluntary participation. The ethic of informed consent was applied. Informed consent has to do with the principle of research ethics which require that participants in a research are informed of all features of the research before they decide whether or not to participate (Kidder (1981:447) Any information that should be confidential is treated thus and participants shall be assured so at the point of being asked to give their informed consent or dissent. Participants were also made aware of the fact that they are at liberty at any time to withdraw their consent should they deem it fit to do so for any reason.

At the end of the study, the findings will be disseminated through a university departmental presentation, the university library and copies of the same sent to the National Councils of Science and Technology, which issues research permits in Kenya.

3.9: Reliability and Validity

Measurement experts (and many educators) believe that every measurement device should possess certain qualities. Perhaps the two most common technical concepts in measurement are reliability and validity. Any kind of assessment, whether traditional or "authentic," must be developed in a way that gives the assessor accurate information about the performance of the individual. At one extreme, we wouldn't have an individual paint a picture if we wanted to assess writing skills.

Reliability is that degree of consistency between two measures of the same thing. (Mehrens and Lehman, 1987; Cozby, 2009; Buttner, 1997). Worthen et al. (1993) define reliability as the measure of how stable, dependable, trustworthy, and consistent a test is in measuring the same thing each time.

On the other hand, validity in the area of scientific research design and experimentation refers to whether a study is able to scientifically answer the questions it is intended to answer. It is the extent to which certain inferences can be made from test scores or other measurement. (Mehrens and Lehman, 1987; Worthen et al., 1993). To ensure reliability and validity of the tools, the researcher did a pretesting with a selected portion of the respondents.

3.10: Data Analysis

The data generated from the study was both quantitative and qualitative in nature. The quantitative data was analyzed through the Statistical Package for Social Sciences. For qualitative data, the researcher proceeded to examine raw data in order to find linkages between the research objectives and the outcomes in reference to the research questions. This made it possible to triangulate data in order to strengthen the research findings and conclusions. It was possible through categorizing, tabulating, and recombining data to address the initial propositions of the study, as well as conducting cross-checks of facts and discrepancies in accounts.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter presents data analysis as well as the findings from the study. The general objective of this research project was to investigate the socio-economic challenges to management practices of SMEs. The findings of the research were presented based on the research questions and objectives of the study. The statistics were calculated and analysed using SPSS program.

4.1.1 Data Analysis

The researcher used expert sampling technique whereby only those observation units that possessed high quality information were targeted and participated in the study. From this sampling criterion, the researcher settled on 15 key informants-the entreprenuers who furnished the study. Through use of purposive sampling technique, the researcher also interviewed 70 employees who work in these SMEs and include those in the Restaurants-hospitality sector and those working in the business Stalls. In the hospitality sector challenges were more pronounced hence emphasis was made to capture them.

From the data collected, an anaysis was made and conclusions drawn to that effect.

4.1.2 Personal Characteristics of the Respondents

This section represents the personal characteristics of the respondents in the study. The characteristics were based on sex, age, marital status and level of education.

a) Gender

The outcome in terms of analysis on gender for the hospitality sector revealed that, 11 out of 15 enterprises were owned by male while 60 percent of the employees in these establishments were female with only 40 percent representing male workers.

Ownership of these enterprises was largely dominated by males because socio economically, they are advantaged as opposed to females.

The hospitality sector is a highly capital and finance intensive economy hence requiring a huge investment both at start up and operational levels. Entrepreneurs here lamented that catering equipment as well as business space acquisition were some of the impediments they encountered due to cost. In addition, basic knowledge and training on hospitality management is crucial for the success of the enterprise. The cost of financing especially restricted females to venture into other sectors besides hospitality leaving males to dominate.

On the contrary, it was noted that a higher representation of employees was by females making 60 percent of the work force. The hospitality sector is labor intensive with majority of the jobs being non skill oriented hence being very competitive and attractive. Most roles are trained in house and favorable for females especially customer service. A good majority of waiters, cashiers, customer relations were a preserve of females leaving males with roles such as security, cleaning and food production.

Consequently, entrepreneurs reported that female workers were more willing to receive lower wages than males and that they were more honest than their counterparts. In conclusion, females were more trainable naturally for their tasks than males. This trend explains the reason for female majority in the sector.

Table 4. 1: Percentage Distribution of Respondents by Entrepreneurs Gender

Sex	Frequency	Percent
Male	11	73.3
Female	4	26.7
Total	15	100.0

Table 4. 2: Percentage Distribution of Respondents by Employees Gender

Sex	Frequency	Percent
Male	28	40.0
Female	42	60.0
Total	70	100.0

In a nutshell, it was conceived that males entrepreneurs were capable of handling and effectively dealing with stress that emanate from these establishments and can endure long working hours, as opposed to their female counterparts who prefer other business ventures.

Consequently, more females were employed in this sector because their tasks are somewhat straight forward, simple and naturally endowed to fit them. As they compete to take up these positions so does their numbers reduce demand hence driving down their wage bargain and in the long run, they become favorites for the job. Therefore, the result from this analysis is valid.

b) Age

Age as a personal characteristic is a key factor in SME management. In this study, it was noted that a higher percentage of entrepreneurs were above the age of 40 years old. This is explained by the principle of accumulated personal savings coupled with years of experience in the sector. Worth noting here is that, individuals in this age group have equally mastered the skills and have adequate knowledge of running the trade. For additional funding and financing, this group is capable of raising collateral and other requirements.

Incidentally, younger people were less represented as owners or entrepreneurs because of limitation in resources. With these in mind, they could not certainly be enthusiastic risk takers hence their low representation. Most young persons interested in the hospitality sector would rather engage as employees for purposes of gaining experience and later own their facilities.

Table 4. 3: Percentage Distribution of Respondents by Entrepreneurs Age

Age	Frequency	Percent
31-35years	2	13.3
36-40 years	3	20.0
41 and above years	10	66.7
Total	15	100.0

Moreover, employment in the hospitality sector is largely youthful with entrepreneurs preferring to engage freshly trained or semi trained persons as opposed to older individuals. Most non-technical tasks in this sector for example, restaurant service, cashiering, customer relation and cleaning are predominantly a preserve for this age group of between 18 and 23 years of age. Most individuals' fresh from some form of training are easily incorporated here and progressively improve on their skills on the job.

Most fresh job seekers exhibit a tremendous level of enthusiasm and open mindedness for learning hence good for the enterprise. Sadly, since they are so available in the market, business people poorly remunerate them.

On the flip side, the researcher found out that older employees in this sector were mainly charged with the responsibility of handling more technical duties such as food production and accounting. This ensured the continuity of the business since they were better experienced and competent on the job. They also earned better wages hence retained longer in service.

Table 4. 4: Percentage Distribution of Respondents by Employees Age

Age	Frequency	Percent
18-23 years	43	61.4
24-29 years	14	20.0
30-35 years	9	12.9
36 and above years	4	5.7
Total	70	100.0

c) Marital Status

As observed in part (b) above in our findings, 66.7 percent of the entrepreneurs were above the age of 41. This goes without saying that pertaining marital status, these individuals were in business to support their families hence majority were married and raising a family.

Personal as well as family commitments kept the entrepreneurs forging forward in pursuit of business profitability. Most of them reported to plough back profits in order to increase value for their customers.

Similarly, for the employees, those that worked in the technical departments were married due to their statuses in the organisation. They were advanced in age and capable of raising families with good remuneration drawn as opposed to their counterpart in the non-technical departments. Those in the sector that were not married formed the bulk of our study because they consist of the non-specialised department which is dominant in the sector.

Table 4. 5: Percentage Distribution of Respondents by Entrepreneurs Marital Status

Status	Frequency	Percent
Married	12	80.0
Single	1	6.7
Divorced	2	13.3
Widowed	0	0
Total	15	100.0

Table 4. 6: Percentage Distribution of Respondents by Employees Marital Status

Status	Frequency	Percent
Married	14	20.0
Single	54	77.1
Divorced	2	2.9
Widowed	0	0
Total	70	100.0

d) Level of Education

Education is a crucial factor in the management of any business. Well educated entrepreneurs tend to manage their enterprises fairly in a sustainable manner. They are able to coordinate management principles in the day to day operation of the businesses they run. In addition, educated entrepreneurs are better risk takers since they are able to predict situations beforehand and rightfully condition their enterprises in coping with them such that the economic effects are manageable.

In our findings, we noted that hospitality sector is quite a sensitive industry that requires proper management skills because it is associated with public health and sanitation of higher standards. Equally, the kind of investment herein is capital intensive hence the need to ensure recovery of cost through better customer experience. Therefore, the sector requires accurate controls and systems for higher return on investment (ROI). Focus is also on minimization of pilferages and wastes in order to avoid losses.

The study found out that most of the entrepreneurs had a good education to manage their facilities.

Table 4. 7: Percentage Distribution of Respondents by Entrepreneur Education

Education level	Frequency	Percent
University and Tertiary	11	73.3
Secondary education	4	26.7
Primary education	0	0
Total	15	100.0

On the same vein, the researcher also analyzed the level of education for the hospitality sector employees and found out the following; that, a good majority of the employees were well educated and trained. This indicated or pointed to the fact that educated people were more willing to take up any available jobs in the economy. Employment opportunities were very scarce hence very competitive when available and so, those with education and training were better placed to grab the chances and perform the tasks at hand.

In the sector, employers preferred engaging individuals who were educated because they believed this group was easy to understand the trade and therefore capable of grasping additional skills within limited time. They are equally easy to manage due to the fact that they took instructions and absorbed systems quickly such as operating the point of sale (POS) equipment and software. Nonetheless, educated people lamented that white collar jobs were hard to come by these days hence, any opportunity would justify competition.

The hospitality sector is ideally a labor intensive venture therefore consistently employing additional workforce is in order.

Seemingly, both not so educated and educated individuals have their crucial services required by the establishment and fit pretty well. Non-technical positions are mainly taken up by individuals with basic education while the educated ones making the technical employees. SME is the backbone of Kenya's economy and significantly supports the country in alleviating the problem of unemployment. The numerous positions available though not very well paying go a long way in ensuring that individuals are meaningfully engaged in the nation building.

Table 4. 8: Percentage Distribution of Respondents by Employees Education

Education level	Frequency	Percent
University and Tertiary	34	48.6
Secondary education	25	35.7
Primary education	11	15.7
Total	70	100.0

In conclusion, the level of education for both the entrepreneurs and the employees in the sector is regarded as an edge over other SME sub sectors because more educated individuals were found in the hospitality. The sector seemed to operate fairly competently.

Finally, the researcher observed many other challenges which include resource and capital mobilization, acquisition of business space especially at prime locations, constant training of workforce in light of high employee turnover and others which are discussed in the subsequent following section.

4.2 Barriers to Effective Implementation of good Management Processes in SMEs

SMEs are faced with various constrains that impact on their management processes. These constraints are both internal and external with the external ones being mainly beyond the owners/managers capability to control and mitigate against. Most internal challenges to the enterprise can be managed or overcome with efficient and effective implementation of proper and good management processes. An example of a challenge that is internal to the enterprise as revealed by the study is high labor turnover. This impediment can be overcome by the enterprise investing in a good human resource management process that incorporates incentivizing labor force when targets are attained or surpassed. When a structured reward and punishment system is adopted within the firm the result is greatly favorable for both parties and motivation level rises too.

Motivated employees tend to be more productive and attentive to the client needs and service. The resultant effect in such a scenario is higher staff retention level of good employees hence better returns.

This study was interested in establishing the challenges or barriers to effective implementation of good management practices. The barriers or challenges analyzed include the following as researched in the hospitality sector of SME;

(a) Competition

Competition is a business relation in which two parties compete to gain customers. In the hospitality SME sector, the study found out that stiff competition amongst sector players led to price wars. This is a situation in which businesses strive to outwit the competition by keeping the price of commodities and service relatively low so that through volume sales they would attain their targeted profit margins.

The researcher observed that in most instances, the enterprises kept their operational costs on the down low so much such that the kind of service rendered to customers was so basic hence, allowing them to retain profit mark up. A perfect scenario was witnessed in four fish and chips outlets whereby, management resolved in serving customer meals on take away polythene bags so that utensils cost and cost of labor for dish washing is eliminated. This in effect ensured low commodity prices throughout the competition, a strategy referred to as price differentiation as a means of tackling stiff competition.

In this regard, competition becomes a barrier to effective good business process implementation in the sense that quality service which is paramount to enterprise sustainability is overlooked at the expense of low price on service and commodities.

Therefore, we conclude that stiff competition led to poor quality service delivery hence, low customer satisfaction rate. Quality service is essential to customer retention and satisfaction which in turn leads to business sustainability.

Similarly, the retail market is thought to be highly price sensitive such that a slight price change upwards results in customers seeking service in the competition. Nonetheless, lowering the quality of service in order that prices remain low is indeed counterproductive and may be unethical practice or a form of unfair business practice for the competition.

Subsequently, as much as these enterprises manage to trounce the competition through price differentiation, they encounter tremendous interruption of business flow from authorities such as the county public health department.

The resultant effect here is that the sustainability of the enterprise is hampered through constant business interruption and litigations on grounds of breach of by laws.

As much as competition is beneficial to the general customers by way of keeping prices at the dictates of market forces of supply and demand, public health is of utmost importance and that is where government comes in to enforce laws and regulations.

(b) Employee Recruitment

It is a good management practice to have a defined procedure of handling employee issues starting from identification of qualities in personnel, shortlisting and eventually recruiting.

Once in the organization, employees have concerns that should regularly be looked into by the management which include but not limited to welfare needs. Happy employees make a happy customer and in turn a happy investor. It is in essence a three pronged analogy whereby, the management takes care of the employee, the employee takes care of the customer and the customer takes care of the investor.

Incidentally, this study realized that most entrepreneurs engaged workers either directly known to them or referred to them by people known by the investor. This process of recruitment has biasness and hence tends to lock out potentially qualified employees. It was noted for instance that 70 percent of the enterprises were headed by a very close family member or relative of the investor. The rationale was that security of finances was assured and that entrepreneurs espoused confidence in business secrets remaining intact within the management in spite of high competition endeavoring to buy business ideas.

As a consequence of this practice, business growth was hindered as no upward mobility would be realized in the wake of bias recruitment and positioning in the enterprise. Fresh ideas are lost due to high employee turnover and structure of decision making process. In the long run, this form of management is never sustainable and would lead to winding up of business.

Apparently, entrepreneurs tend to rely upon this style of management because of what they term as untenable regulation from the labor ministry. They would rather employ relatives and people known to their relation for the simple reason that this group would not strictly follow directives on employment regulation. Such include, insurance cover for employees known as workman's compensation, leave days and over time payment, statutory deductions like NSSF, PAYE and NHIF which are entitlement for all workers, would be relaxed and not adhered to. These employees too have a sense of belonging to the enterprise and therefore would not demand some of these rights and obligations.

(c) Financial Accounting

Financial accounting determines the financial performance of the enterprise because it relays the value worth of the business either through its assets, liabilities, profit and loss or through business forecasting.

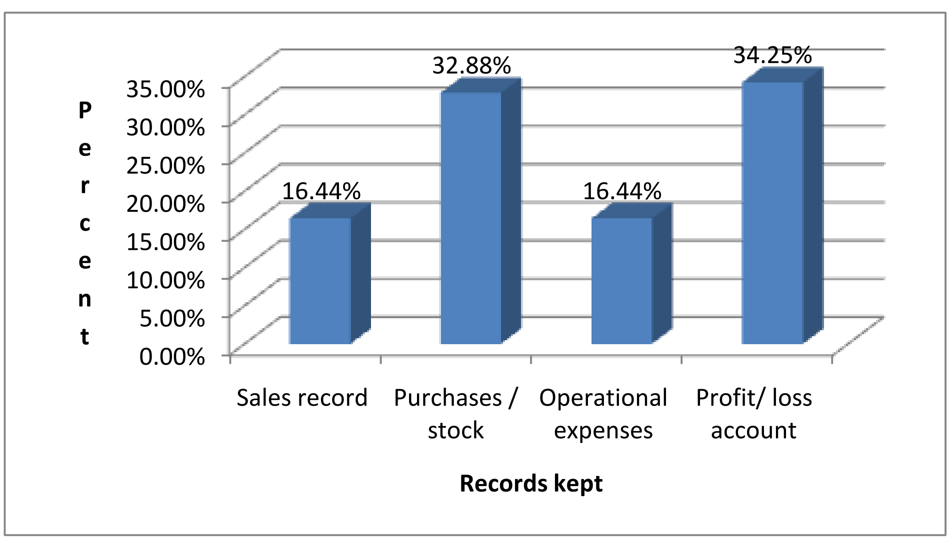
Proper book keeping ensures that the business stays on course to meet its set objectives. A successful enterprise manager must constantly monitor the expenditure level vis-a-vis revenue in order to stay in business. This can only be done through proper financial accounting.

From our research, we realized that all the enterprises interviewed took book keeping exercise seriously albeit with lack of proper business training to conduct the same. The records kept largely were basic for purposes of day to day running of trade. Entrepreneurs kept records regarding stock levels and sales volume per day. For the sake of filling tax returns, enterprise owners compiled inventory on expenditure and revenue from the recordings.

Besides these basic records, enterprises require detailed and comprehensive accounting records that would support prospective funding and finances or grants from organizations such as Kenya tourism development corporation (KTDC) for the case of hospitality sector and the industrial and commercial development corporation (ICDC).

However, in this study it was revealed that 50 percent of the entrepreneurs had basic knowledge on proper accounting practice and hence relied on intuition to manage complex business decisions. They did not keep appropriate records that would inform long term strategizing of their enterprises. The ideal situation would call for the deployment of external accounting personnel which in turn translates to additional overhead cost. Lack of proficiency in accounting then becomes a barrier to effective business management and hence impedes sound decision making process. The shallow financial accounting done at this level only serves to place the short term goals and aid in some decision making endeavor which is not sustainable for business posterity.

Figure 4.1 Financial Records kept by Entrepreneurs



(d) Marketing

Marketing is the commercial process involved in promoting and selling and distributing a product or service. There are many forms of marketing that are geared towards ensuring that an enterprise gains brand recognition hence higher sales volume and customer retention.

Tele-marketing, tele-selling or tele-commerce is an interactive medium for promotion and sales by use of telephone.

From this description, it is inevitable that marketing is a vital ingredient for ensuring that enterprises get a fair market share to push products and services. Marketing in trade is therefore an integral activity that enables continuity of business because when goods and services get noticed in the market they tend to sell more hence more revenue.

The cracks of the matter is that marketing is a skillful art that requires competence and considerable amount of resources and finance in order to position the commodities or service to the intended consumers. Most organizations have an elaborate and dedicated marketing team whose role is to constantly campaign in the market for their commodities.

Apparently, SMEs that were interviewed lamented that they lacked the resources to venture into actual marketing because of the high cost of doing business. Therefore, they resorted to traditional means such as word of mouth and goodwill to stay in business.

Cost of marketing then becomes a hindrance to the sustainability of this sector of the economy followed by the high cost of acquiring business space especially within the CBD where the study was conducted. These expenses overwhelmed entrepreneurs so much such that they could not endeavor to finance marketing for their enterprises.

In addition, marketing also entails proper display and packaging of the enterprise in order to attract and retain customers to the business. It was noted that only a small fraction of the enterprises cared about their image while the rest actually carried about their trade in a business as usual fashion which in the long run proved to be counterproductive. The general environment of these enterprises was not impacting positively to customer satisfaction because only basic maintenance was carried out by a number of enterprise owners. It depicted a notion of survival for as long as they existed.

(e) Training and Development

Training and development are crucial components of good business practice because they endeavor to uplift and maintain good standards of business. From these standards employees become more empowered to handle responsibilities more competently and ensure customer satisfaction which in the long run benefits the enterprise as a whole. Trained employees are more confident and make less error thus reducing business losses.

Good managers constantly monitor training needs for their staff in the course of business and develop them in order to meet the challenges of today and tomorrow.

From our study, it was noted that SMEs in the hospitality sector do not take Training and Development seriously which hinders implementation of good business practice. Enterprise owners suggested that they lack resources to send employees for skills advancement courses and therefore opted to poach talented members from the competition or recruit from the over supplied job market. They would rather employ persons who had better skills in the market than train their own staff members in such competences. Entrepreneurs strived to bring down their operational cost by all means and hence T and D was never prioritized although they reckon the importance to the business growth and sustainability.

What was noticeable was that the rate of staff turnover was high due to the fact that room for upward mobility was absent because individuals had no capacity to advance skills hence, low morale.

The resultant feature of such scenario is loss of clientele that would otherwise associate with the employees staying longer in the organization. Training and development enhances business innovation and prepare personnel to adapt to the ever changing customer needs and wants hence sustaining growth and good market share for the enterprise. For an entrepreneur to remain competitive in the sector, they should focus on training and development on human resource.

(f) Security

Enterprises are great investments in the economy and therefore have to be secured from any would be threats and aggression. In order to secure the business assets that actually include customers, business owners have to employ security apparatus and personnel to safe guard these interests. They do so by contracting security firms, investing in surveillance equipment and constantly liaising with local security agency to register any security concerns.

Apparently, these measures are too costly and that means that resources meant for business development are then channeled towards security matters.

The hospitality sector SMEs in the CBD sort services from security firms though they lamented about the ever increasing cost of engaging those services on the backdrop of other prevailing business challenges. The extra need for securing the enterprise meant little emphasis was put in improving the business operation with a view of enhancing sustainability. The other competing interests include better menu content, improved ambiance, employee welfare and staff training and development.

It is inevitable that if security matters were ignored, customers would be afraid of patronizing hence loss in business. The recent terrible wave of Al shabaab insurgence into the country has led to more and more caution by members of public and so additional need for deliberate demonstration of care and security is necessary. Cooperation between business players and security agency is ultimately the key to ensuring safety for all.

(g) Compliance

Compliance means acting according to certain acceptable standards, and being in conformity with the regulation pertaining to the business practice.

Within the hospitality sector, several authorities are charged with the responsibility of ensuring that businesses operate as stipulated in the acts. The local authority act on public health ensures no harm or injury to members of public as they consume goods and services offered by the enterprises.

The Kenya revenue authority on its part ensures timely contribution of taxes to the national government by businesses. The county government regulates businesses by issuance of permits and charging of levies and fees. NHIF and NSSF are statutory bodies that look into the welfare of employees.

From our study, it was noted that 70 percent of the enterprises did not fully comply with the business regulations. They instead engaged in malpractices with the enforcement officials by offering bribes and taking short cuts to receive approvals for doing business. These actions or inaction therein amount to corruption and impunity that in turn causes high levels of noncompliance.

In such instances, compliance then becomes a crucial barrier to business growth because so much is required from enterprises that the owners opt to take corners. In so doing they encounter numerous interruptions in the course of trade from the enforcement officials.

Entrepreneurs maintain that there are far too many statutory requirements to be fulfilled by businesses and until some are done away with or merged and cost reduced, compliance will always be a great challenge for them.

(h) Business Location

From the study, it was revealed that some locations in the CBD were considered prime while others not very attractive for setting up hospitality sector businesses. Areas such as bus terminus, business malls, and avenues along the CBD were prime locations while lanes, back streets and basements were not prime locations for these enterprises. As the name prime suggests, so is the cost of acquiring such business spaces.

This scenario makes businesses compete fiercely to occupy and maintain their enterprises in these location while landlords keep pushing rent higher and higher. In the long run, cost of business operation escalates hence making owners explore unorthodox means of survival. They compete unfairly, evade taxes, operate without approval from the authority and skip statutory remittances. Some traded in counterfeits and illegal products just to break even or make a profit.

Key respondents in the study envisioned a scenario where by the local authority would spread resources all over the county to spur balanced investment by entrepreneurs. Social amenities such as; lighting, garbage disposal, water supply and security makes locations attractive for investment. This eventually would ensure enterprises get spread out evenly and hence bring down the high cost of business space.

4.3 Other Business Challenges

The study was keen to report on the other challenges that entrepreneurs face in the course of doing business. Some of the challenges reported include; first and foremost, limited space for business expansion. As business progressed more space was required to make improvements and add value for ultimate customer satisfaction. This is not to be because business space is scarce and when available was too costly to pay for. Most entrepreneurs were forced to contend with the situation thus operate below capacity.

Secondly, operational cost for the hospitality sector was found to be too high because businesses were required to pay more levies and fees as opposed to their counterparts located outside the CBD. These costs included car park fees or loading zones, garbage collection fees, service charge for occupancy and security. They also incurred extra cost for transportation of commodities to their premises and resorted to logistically operate squarely during off peak hours when there was less traffic. This meant that business closed too late or opened very early thereby involving the presence of staff members.

Thirdly, the ever changing trends in consumer desires and needs. Most customers these days are fairly young, exposed and informed hence require modern, stylish, trendy and unique experiences to be attracted to the business setup. Enterprises dealing in fashion wear, telecommunication gadgets, restaurants and cafes all have to keep up with the emerging consumer desires in order to remain relevant in business. For the case of hospitality sector, entrepreneurs invest heavily on improving ambiance, entertainment, staff presentation, menu content, crockery and furniture in order to appeal to this group of consumers. It is a daunting challenge to satisfy all these needs within the competition.

Similarly, it was reported that tough legislation is yet another business challenge. Currently there are other business legislation besides taxation that hampers the growth and development of SMEs in the economy. Such legislation includes the standardization mark of quality and the national environmental management authority certification. These requirements tremendously increased the cost of procuring goods for onward production and the time taken to have the enterprise certified to do business by such agency as NEMA. Every time renewal of business permit was due, a fresh environmental audit report by an authorized personnel was required which was expensive to contract. Hotels and restaurants authority also demands that all eating places meet certain standards, be registered and issued a separate license for operating the facility. The music copyright society of Kenya and the Kenya association of music producers licenses are yet additional permits that enterprises must acquire in order to keep entertainment equipment such as television sets within the facility.

The anti-counterfeit authority is yet another body that tries to ensure that only legitimate products circulate in the economy by impounded illegal ones. However, entrepreneurs lamented that this body was ineffective because there has been an influx of counterfeits in the market which led to legitimate stock taking too long on shelves due to cheap poor quality ones flooding the market. For instance bottled and canned products were the ones most affected by this occurrence in the hospitality sector.

These pieces of legislation meant that the overall operational cost for doing business would rise over time.

Finally, enterprises reported the unreliability of the supply chain as yet another business challenge especially for imported goods. The suppliers' complaints were over insufficient foreign currency and fluctuating exchange rates and high custom duty for clearing stocks at the port of entry. This in effect had a bearing on the final price to the consumer and the profitability of the enterprise. For commodities required for periodic maintenance of the facility for example lighting, business owners had to make prior arrangements to have good costing factored in.

Lastly, another challenge faced by SMEs here involves seasonality of raw material for production of service. In the hospitality sector items such as fish, vegetables, fruits, and potatoes are highly seasonal yet integral components in production of service. Entrepreneurs have got to delicately balance all the seasons of abundance and scarcity when pricing the food items so that the flow of customers is regular throughout the year. Customers always look for competitive prices and good quality.

In summary, based on this report, it is clear that entrepreneurs are faced with all sorts of challenges some peculiar to their trade and some cut across the SME sector. For those that were beyond the enterprise control, owners were seen to employ mechanisms of coping albeit with significant impact on the profitability to their businesses. In a nutshell therefore all these challenges were a great stumbling block to the good management process of SMEs and their eventual sustainability and development. They need to have a more proactive strategy for both short term and long term goals attainment in order to remain profitable in business.

4.4 Financing of SMEs

SME, in Kenya have difficulties in growth due to lack of finance. They hardly grow beyond start-up stage. Others go out of business at a very early stage (Bronwyn, 1995). A study undertaken by Hallberg (1998), and Mead & Liedholm (1998) reveals that access to finance is an important ingredient to development of SME. They have few alternatives to accessing finance other than relying on their retained earnings to finance their investments.

Notwithstanding the financial difficulties faced by SMEs presently in Kenya, alternative sources of funds have to be sought to sustain this important sector.

Venture capital is a form of financing that is quite prevalent in the developed countries and plays a big role in enhancing growth of SMEs by providing equity capital. There are two forms of this venture capital; private and public/government. In countries where both forms of venture capital participate in financing SME, there are value-adding investors who bring significant benefits of their business know. The presence of both private and government venture capital is evidence that firms have a wide range of different assured alternative sources of finance.

Although there have been venture capital firms in Kenya since 1970s, their impact on SME has not been significant. Some of the private venture capital firms in Kenya include; Kenya Equity and term financing which supports existing companies that wish to expand rather than start-up operations. Acacia Fund limited provides risk capital to new or expanding enterprises, including the reorganization, rationalization and reconstruction. Aureos East Africa which provides private Equity and loan facilities has replaced the activities of Acacia (The Finance Mail vol. 9 no. 6, 2003). Kenya Management Company limited, which provides equity, related investments in private sector to companies with high growth potential to expand well-run businesses.

Donor backed public/government Debt Corporation that offer venture capital includes:

i. Industrial credit and development corporation (ICDC) provide capital directed at profitable existing small and medium sized industrial or commercial projects seeking expansion, modernization, restructuring or diversification of existing activities. They also support business start-ups with firm prospects for financial and technical development. However its performance has been poor in the recent past and the World Bank which is the major source of its funds has called for liquidation.
ii. Industrial Development Bank (IDB), which is a subsidiary of ICDC, currently restructuring its operations to serve SMEs better.
iii. Commonwealth Development Corporation.

The crack of the matter is that most SME entrepreneurs interviewed in this paper did not seek these forms of capital mobilization due to the bureaucracy attached to the process. They raised capital through own savings, borrowed from friends and family, cheap loans, and inheritance. Growth and expansion would not be attained because of limited finances and hence stagnation or even closure of business after a short span of time. The cost of acquiring funding for SME is inhibiting in spite of the central bank's determination to lower interest rates. The financial and commercial institutions have not been kind enough to lower their lending rates thereby denying potential enterprise owners much desired capital for doing business. Below is an illustration of how SMEs finance their enterprises.

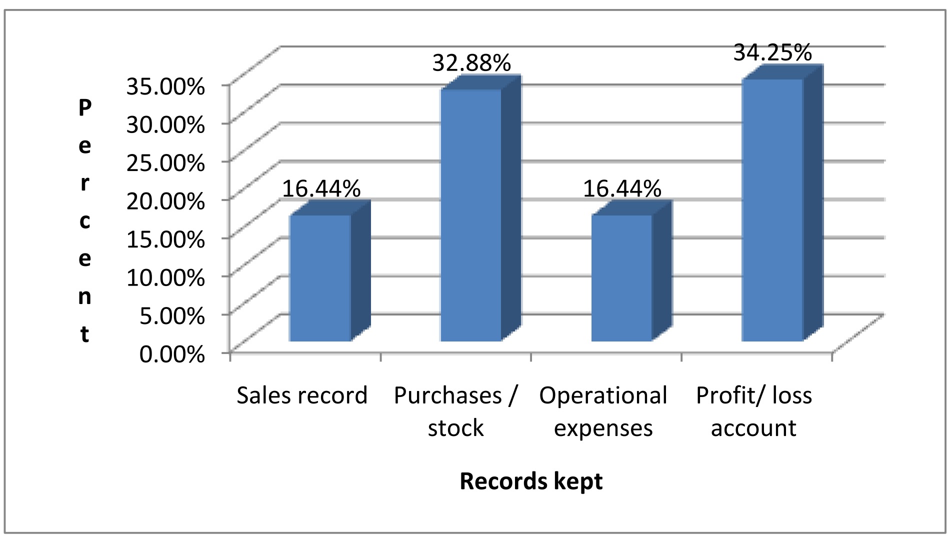
Table 4. 9: Percentage Distribution of Respondents by Source of Capital

Source of capital	Frequency	Percent
Savings	8	53.3
Friends & Family	2	13.3
Loans	4	26.7
Inheritance	1	6.7
Total	15	100.0

4.5 Financial Management

Financial management entails a whole spectrum of proper and healthy analysis of business operation through adequate record keeping of the financial engagements for the enterprise. In order to determine the financial management of SMEs, these study tracked as shown in (Figure 4.1), the type of financial records kept by these enterprises. They include records such as; profit and loss records, purchases/stock records, sales records and Operational expenses records. Based on these records, the owners ought to engage services of auditors to dissect into the books with a view of balancing the results. Since they did not audit their books, it is evident that the financial management of these SMEs can only be relied on to make short term decision but not long term goals. This occasion may be attributed to lack of competent human resource that have the knowledge on financial management to be able to structure and keep reliable financial record that can be used in major decision making for the enterprises. The ideal situation here would be to engage accounting or auditing firms to undertake financial management on behalf of the owner so that sound position is taken to develop and sustain the enterprise.

Figure 4.1 Types of Financial Records



4.6 Business Premises Acquisition

The study was interested in the cost of renting business premises for SME in Nairobi city and in doing so, the researcher summarized in (Table 4.10) the amount of rent paid by owners of the enterprises. The reflection of this result is no surprise considering the high demand for space in the city and the big market for any investment therefore resulting in a heavy inflow of investors seeking business space within the city centre.

This situation can be considered as a drawback for entrepreneurs seeking to establish SMEs in the city. Those already established risk to have their operational cost swelling due to high and steadily increasing space rent in the city. Based on their size and market niche SMEs would find it difficult to operate where the rents are higher than their returns. Overall, rent for premises is very high within the CBD of Nairobi.

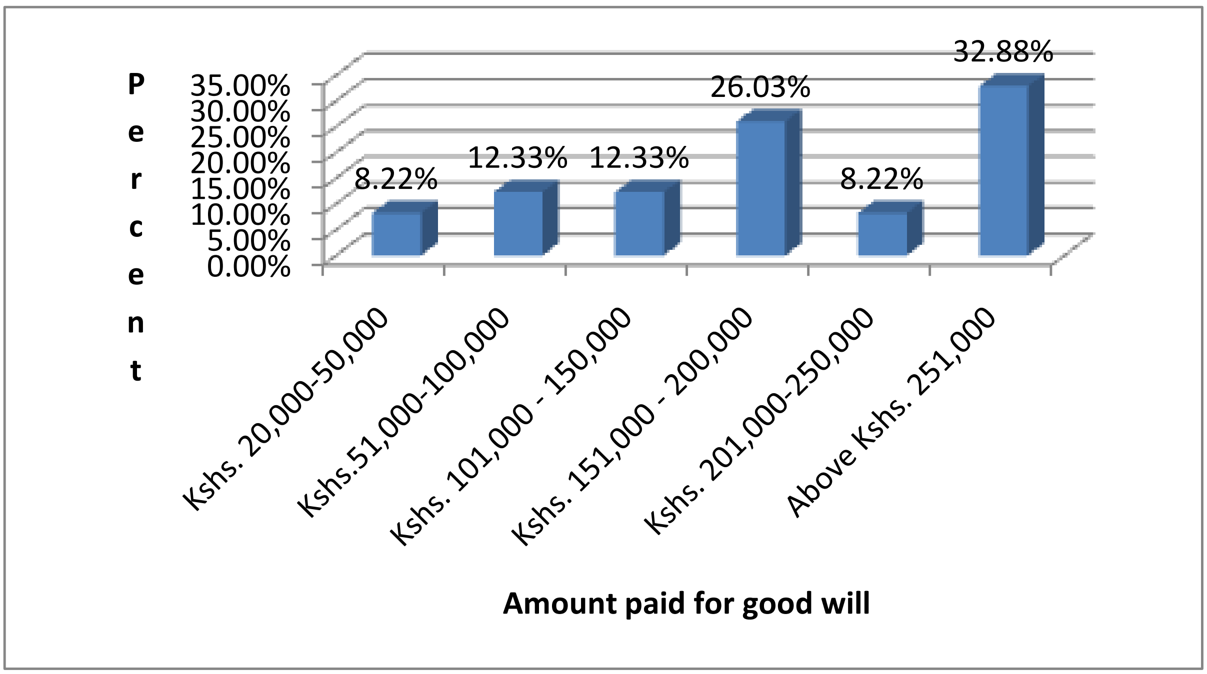
Table 4. 10: Percentage Distribution of Respondents by Monthly Rent

Amount	Frequency	Percent
Ksh 5,000-20,000	1	6.7
Ksh 21,000-30,000	2	13.3
Ksh 31,000-40,000	3	20.0
Ksh 41,000-50,000	7	46.7
Ksh 51,000-above	2	13.3
Total	15	100.0

The study brought to light yet another issue in this sector known as good will. In order for one to own a business premises in the city Centre, they ought to raise colossal amounts of resources paid in monetary form to the owner of the space often one-off or sometimes annually. Besides, landlords also collect service charge fees for facilitating security, garbage collection and maintenance of premises. The emerging trend of good will for one to acquire a business premises poses a great challenge due to the huge amount of capital one needs for establishing an SME in the city of Nairobi. Alongside routine expenses such as high cost of electricity, water and statutory fees, entrepreneurs have increased period within which to get returns on their investment (ROI). With the increased number of players in SMEs sectors desiring to establish their businesses in the city, the good will is set to increase even higher in the near future hence, making it a costly affair to own and manage business within the city Centre and particularly prohibiting for new start-ups.

Figure 4.2 below illustrates the amounts paid as goodwill by enterprises interviewed in this study.

Figure 4.2 Amount paid for Good Will



4.7 Analysis of Location

There was a need to establish the locality of SMEs within the city divisional zones as portrayed in Table 4.11. It was established that 60.0% of the enterprises reviewed were located within the city CBD, 26.7% of them were located in the city zone of transition, while those located in the residential or inner city of the city were represented by 13.3%. The study indicates that most of the SMEs reviewed were strategically located in the busiest parts and streets of the city namely; Moi Avenue, Tom Mboya Street, Luthuli Avenue, River Road and Ronald Ngala Street. The location of enterprises within this area can be termed as the best locations for any business to thrive quickly however; the challenge of acquiring such location is significant in this case for the particular enterprises. The best locations were considered prime and attracted fierce competition for the enterprises to establish shop. Landlords on their part take full advantage to maximize on rent per every space available because demand outweighed supply.

Table 4. 11: Percentage Distribution of Respondents by Business Location

Location	Frequency	Percent
CBD	9	60.0
Zone of transition	4	26.7
Residential/inner city	3	13.3
Total	15	100.0

4.7.1 Age of the Enterprise

The age of SMEs in their current location was verified and the study found out that (Table 4.12), 33.3% of the entrepreneurs reported that they had operated the same business for less than one year in the current location, 40.0% of them said they operated for between 2-3 years in the current location, 13.3% of them said it was between 3-4 years old in the location, 6.7% said it was between 4-5 years old in business while the same percent 6.7% reported it was more than 5 years old in the current location. Based on this result, it is clear that majority of the SMEs are below 3 years old in their current location and doing the same trade. This can be attributed to the current trend that has seen many former huge business stores, being redesigned into much more smaller units that present an array of variety of commodities and services to the consumers. The cubicles in the name of business stalls or exhibition are perceived to be convenient for entrepreneurs who only need small spaces to conduct their activities. With the development and rapid expansion of the city, it is expected that city planners and developers will consider while putting up infrastructure, the need to accommodate SMEs.

Broadly, we can also imply that most SMEs in the city are in their inception stages and for them to achieve the desired growth there is need for good management practice, consistent decision making process and proper financial management. This exhibition concept has exponentially increased the cost or renting business space in the CBD thereby forcing entrepreneurs to buy space away from the City Centre and setup their businesses.

Table 4. 12: Percentage Distribution of Respondents by Enterprise Duration in Business

Years in Business	Frequency	Percent
0-1 year	5	33.3
2-3 years	6	40.0
3-4 years	2	13.3
4-5 years	1	6.7
5 years and above	1	6.7
Total	15	100.0

4.7.2 Entrepreneur Business Experience

The experience of the entrepreneurs in the business was verified and the study found out that (Table 4.13), 33.3% had stayed in that kind of business for a period between 5-9 years, 20.0% were in business for 1-4 years, those that had stayed for 10-14 years were represented by 26.7% while those in the business for over 15 years represented by 20.0%. This result indicates that a good majority of entrepreneurs running SMEs in Nairobi city have been in that kind of business for a period of 9 years which makes them resilient enough to deal with business challenges. They have created own mechanisms of coping with intense competition by providing services at low cost so as to break even and in good times make profits.

In addition, our view is that feedback mechanism can be employed as an essential tool for entrepreneurs to get information about the market as opposed to, relying on their experience of running their enterprise, as a way of identifying the market trends and improving their products and services to fit the market. For entrepreneurs in the CBD we contended that business to them was a kind of life whereby every effort was deployed to ensure that they stayed relevant and claim their market share. Precise judgment and consequent good decision was necessary for the business and this guaranteed them continuous customer flow because they understood client needs thoroughly and endeavored to satisfy them.

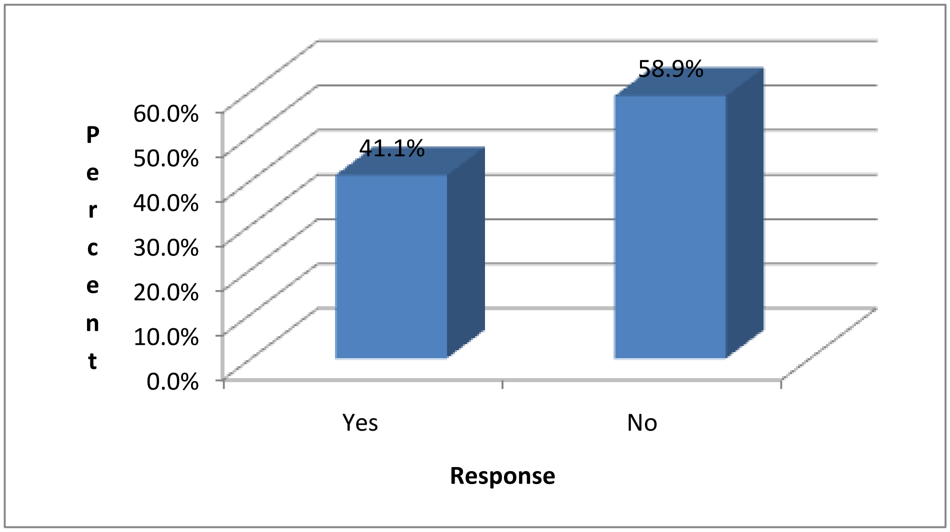
Table 4. 13: Percentage Distribution of Respondents by Entrepreneur Business Experience

Years in Business	Frequency	Percent
1-4 years	3	20.0
5-9 years	5	33.3
10-14 years	4	26.7
15 years and above	3	20.0
Total	15	100.0

The study further analyzed whether the entrepreneurs had operated in any other location in the CBD as shown in Figure 4.3, 41.1% of them said they had operated at another location in the CBD while the rest 58.9% said that they had never operated at another location near the CBD. Based on this result, it is clear that most of the enterprises had never operated in any other location in the city. This strengthens the fact that space is very competitive in the CBD hence not many businesses could afford to vacate present established location.

The study was also interested in finding out the period of time that those who had ever operated in another location in the CBD had carried out their business in those locations. It was discovered that, 53.1% had carried out business in a different location for 1-2 years, 6.4% carried out business in a different location for less than a year, those who were in the said location for 3-5 years were represented by 12.5%, 18.8% of them said they had carried out business in the location for 6-8 years while those who were in the said location for 9-10 years were represented by 9.4%. This shows that majority of the entrepreneurs will change business locality within the first 2 years of business. The change of business location presents an additional cost to the enterprise. This change of location was due to business incapability to generate the desired profits to maintain the overhead expenditure which may have been caused by poor marketing strategy and high competition.

Figure 4.3 Businesses in a Different Location



The researcher was interested in knowing the factors that made the respondents choose the current location for doing their business. As shown in table 4.14, majority of them said it was because the location was near their target market (40.0%), a considerable number of them (20.0%) said that availability of space made them choose the location, while a few of the respondents chose the location because of less competition (13.3%). Others chose the location because of fair rent, with this group being represented by 26.7%. It is believed that majority of entrepreneurs would rather choose a location where they would find a ready market for their products and services. Most enterprises in the CBD thrive on the never ending walk-in clientele hence great competition for spaces located on the front ground floor parts of the buildings. Here, target customers are reached with much ease as opposed to those businesses located at the back streets or top most floors of buildings. Whenever space is perceived much cheaper for rent, equal rush is experienced in occupying and maintaining and businesses tend to stay longer at that place. It is inevitable to get a location with no competition although most entrepreneurs prefer setting up shop where the competition is not very severe. In so doing, they are assured of a prompt return on investment and probably speedy expansion of the business to accommodate more customers.

Table 4. 14: Percentage Distribution of Respondents by Business Location

Choice	Frequency	Percent
Near the target markets	6	40.0
Availability of space	3	20.0
Fair rent	4	26.7
Less competition	2	13.3
Total	15	100.0

4.7.3 Linkage with Larger Firms

The study sought to ascertain whether the SMEs are linked to any big firms or whether the owners were members of any Business organization or Network that facilitates distribution of goods and services. To this end, we endeavored to find out whether the entrepreneurs had any linkage with larger firms as illustrated in Table 4.15. Majority (86.7%) of the SMEs had no linkage with larger firms while those who had linkage with larger firms were only 13.3%. It was established that those who had links with large firms created the linkage for supply purposes. Having a link with large firms is advantageous in the sense that, it is possible to get supplies on credit and also get consultancy services with an aim of improving service and product quality. It is a prerequisite especially for those desiring to expand their business even with limited capital to establish this linkage. Having a huge number of the SMEs with no linkages to larger firms is an impediment to the survival and prosperity of such enterprises, bearing in mind the immense benefits that would accrue from such business relationship. Secondly, linkages with larger firms would somewhat compel SMEs to organize proper record keeping in tandem with modern business practice which in turn would help improve on their efficiency and credit worthiness. The best practice world over is to create and strengthen business linkage between large and small and medium businesses for purposes of effectively controlling supply chains and maintenance of good quality products.

Table 4. 15: Percentage Distribution of Respondents by Linkage with Larger Firms

Linked	Frequency	Percent
Yes	2	13.3
No	13	86.7
Total	15	100.0

The fact that not many enterprises were linked to larger business would explain the reason why most entrepreneurs wind up business shortly after inception.

4.7.4 Membership to Business Association

An investigation was also carried out to identify the number of business entities that belonged to any association. Here, it was revealed that a large number of them do not belong to any association (86.7%) while those who were members to some form of association accounted for 13.3%. This result indicates that although SMEs are small in nature, their owners are reluctant to join any association. Belonging to an association can be advantageous in the sense that, it provides a forum within which the SMEs can forward their grievances pertaining to business or seek support on means of enterprise development. Having the majority of enterprises without membership to a recognized association would greatly hamper the business operation in the event of contention especially with government agencies. A case in point is the recent increment in the fees charged by the Music Copyright Society of Kenya (MCSK) which was vehemently opposed by the Pubs, Entertainment and Restaurants Association of Kenya (PERAK). This association was able to lobby for fairness on behalf of their members. Lack of representation by the association means that business owners are left on their own to resolve issues that commonly affect this sector. It is costly and inefficient to go it alone hence making it an arbitrary mandate for government agencies to impose levies that are exorbitant due to the fact that no reasonable outfit would sanction those decisions against the business community. These associations are equally important because they form a basis for statistical analysis of enterprises represented for purposes of policy formulation.

Table 4. 16: Percentage Distribution of Respondents by Business Association

Membership	Frequency	Percent
Yes	2	13.3
No	13	86.7
Total	15	100.0

4.7.5 Influence of Owner/Manager on Success / Growth of Enterprise

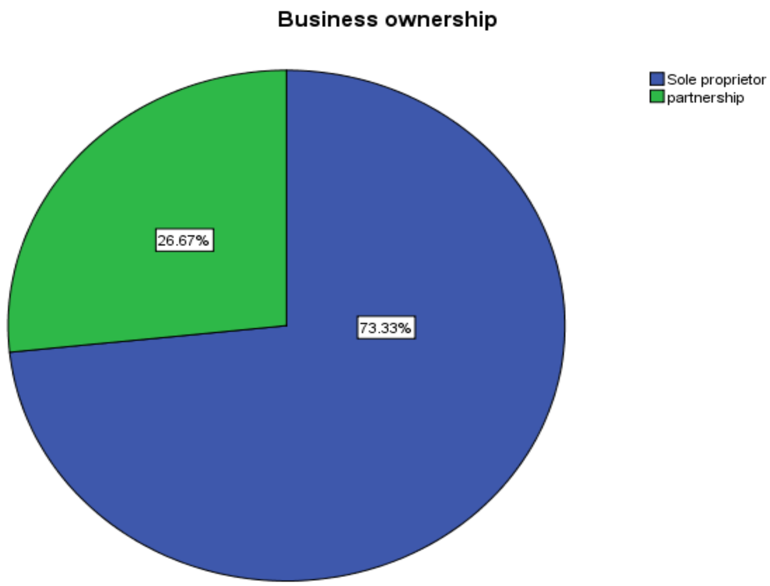
The managerial competences of the owner/ manager are crucial for the success of the business enterprise as it was revealed through the study of enterprises in the city of Nairobi. The study highlighted the practices and decision making process in these enterprises and how the decisions made, ultimately affect the success of the business. A clear illustration is seen in the next discussion here below.

4.7.6 Business Ownership Vis a Vis Decision Making Process

The study revealed the various forms of SME ownership. As illustrated in Figure 4.4, a big percent (73.3%) of SMEs in the city of Nairobi are owned through sole proprietorship. However those owned through partnerships were only 26.7%. This result indicates that most of the key decisions made concerning the enterprise are the prerogative of the owner or manager. Hence, the success of the enterprise depends on the owner/ manager decision making skills and their leadership styles being crucial for the sustainability and growth of the enterprise. In a situation whereby the owner/ manager had no competence in business management or lacked technical knowhow, the enterprise was seen to be in management crises which affected performance and profit making viability and productivity. Hence, those enterprises that were found to be owned individually or sole proprietary performed much better because there was one center of power therefore reached decisions much quicker than those in partnerships.

On the contrary, enterprises under partnerships exhibited more prudence and professionalism in their overall organization and structure. They appeared more and better managed in the outset. We too found out that partnership enterprises had bigger output performance than sole owned business because of the combined investment volume by the partners. Partners reported that they consult widely when taking business decisions a reason why they withstand severe shocks and uncertainties yet remain a float in business.

Figure 4.4 Business Ownership



The importance of decision making process for the success of SMEs was stressed in other findings. In one particular finding, it was revealed that, there are two key factors that impact on the way most of these SMEs are managed. First, decision making is concentrated on one or two owner/ managers (Greenbank, 2000; Keasey and Watson, 1993). In yet another finding, it was clear that owner/managers often work at both the management and operational levels and therefore acquire information about the market and the performance of their business through personal experience, rather than relying on feedback mechanisms from other sources (Greenbank, 1999).

During our study we inquired whether there were any forms of organization structure in the sampled SMEs. In doing this, the researcher interviewed employees in these establishments to ascertain their responsibility in the enterprise. The study found out that (Table 4.17) , majority (74.3) of the employees were operational or subordinate staffs, 17.1 were in supervisory level, 2.9 in managerial level while 5.7% were in sales. Based on these results, it was concluded that majority of SMEs operate on a flat organization structure whereby majority of the employees are on one level and doing similar responsibility. The owner/managers assume all the decision making roles which results in alienation of employees hence the feeling of demotivation.

Table 4. 17: Percentage Distribution of Respondents by Responsibility

Position	Frequency	Percent
Managerial	2	2.9
Supervisory	12	17.1
Operational/subordinate	52	74.3
Sales	4	5.7
Total	70	100.0

4.7.7 Entrepreneurs Business Management Training

As illustrated earlier in Table 4.7, the entrepreneurs had a remarkable academic qualification with 73.3 % of them having attained a university education or Tertiary education and 26.7% having attained secondary education. However the study was keen to establish their level of training in specific business that they engaged in. Entrepreneurs' business training was investigated; the result showed that 53.3% of the entrepreneurs had no business training, while only 46.7% claimed to have some form of business training. It can be argued from this result that entrepreneurs' lack of business training resulted in some sort of incompetence in their management practices. This resulted in entrepreneurs making short term decisions and not being in position to proactively solve the challenges that face this sector. Having such a big number of entrepreneurs with no business training proves that business training and management is deficient in the sector.

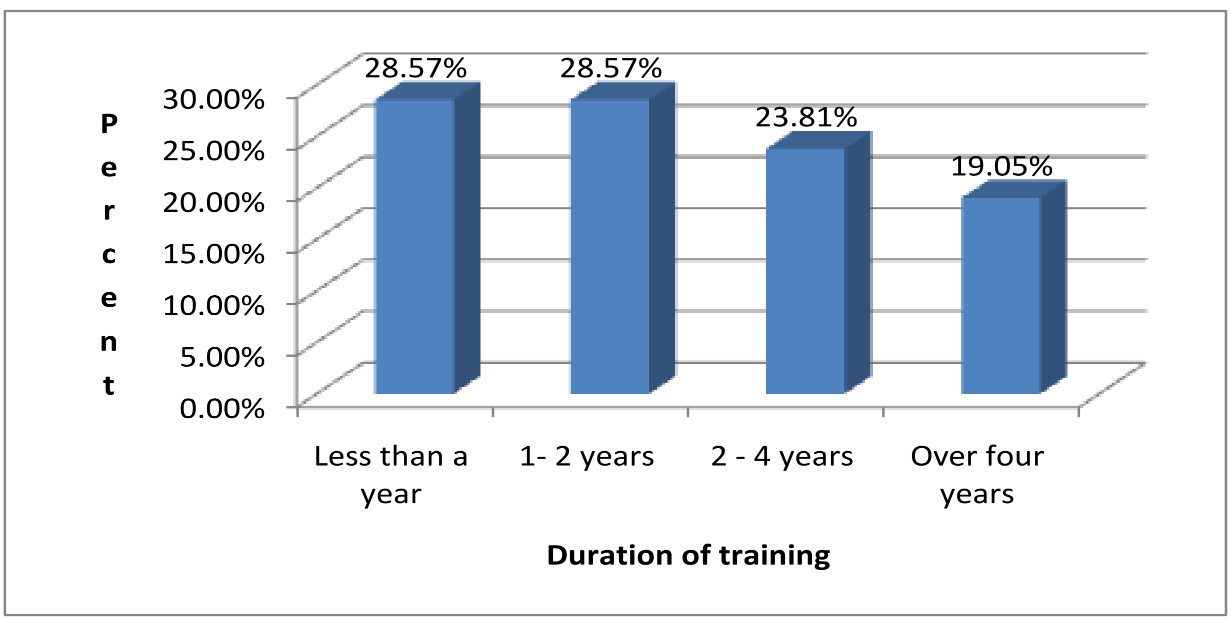
Table 4. 18: Percentage Distribution of Respondents by Business Management Training

Trained	Frequency	Percent
Yes	7	46.7
No	8	53.3
Total	15	100.0

Those who had undergone training were asked to state the duration of their training and the study found out that (Figure 4.5), 28.6% said it took less than a year, a similar percent (28.6) said it took 1-2 years while 23.8% said it took them 2-4 years. Those who said it took them over 4 years have a representation of 19%. These results indicate that majority (57.1%) of the entrepreneurs had less than two years of business training perhaps preferring short business courses. The short term courses were not sufficient for them to be properly equipped with business management techniques, taking into consideration they are key decision makers in both managerial and operational level.

Business management training is an integral part of entrepreneurship development because it is through this training that business owners are equipped or anchored to analyze, interpret circumstances and formulate models that withstand factors such as stiff competition from peers. They are able to segment their markets to create a niche for themselves or even differentiate products and services. As these skills are acquired the overall business performance is enhanced hence realizing sustainability. Management training ensures that the enterprise runs competently while taking care of customer needs and changing business trends. Training mainly covers areas of customer care, financial accounting, business design and work reengineering, business process formulation and occupational health and safety.

Figure 4.5 Length of Training



The study sought to establish whether the entrepreneurs needed any kind of business training. As shown in table 4.19, 73.3% of them said yes, while 26.7% of them said they do not need. This result shows that entrepreneurs valued additional knowledge to be able to improve on their management practices. Those who said they do not need business training supported their position by claiming that their enterprises required experience only or that they felt too old to get back to class for training.

Table 4. 19: Percentage Distribution of Respondents by Business Training Need

Training	Frequency	Percent
Yes	11	73.3
No	4	26.7
Total	15	100.0

4.8 Analysis of SMEs Human Resource

The researcher was concerned with how enterprises staffed their businesses and how they recruited and retained the workforce. To this end, seventy employees were sampled and report made on the responses given about their participation in the enterprise. This exercise was conducted in order to determine the potential of SMEs in creating job opportunities and the need for good human resource management practices. The human resource must carefully be managed in order to yield good results, and sustain development and growth in the sector.

The study verified the number of employees that enterprises have and found out that (Table 4.20), 7.14% of the enterprises had no employee since the enterprise owners worked on their own, 28.57% of them had 1-4 employees while 22.86% of them had 5-8 employees. Furthermore, 24.29 percent reported having 9-12 employees while 17.14% of them had above 13 employees.

Based on this result it is evident that the SME sector has potential of creating job opportunities to a considerable number of individuals given their sheer numbers in the economy. Since the average is about five employees per enterprise, then the ripple effect is that many individuals find engagement in the SME sector. The management of human resource is crucial for the enterprise wellbeing and the entrepreneur leadership style is critical in leading team players towards achieving the organizational objectives. This finding supports Ngethe and Ndua (1984) argument that, the informal sector in urban Centre plays an important role in employment and income generation.

Table 4. 20: Percentage Distribution of Respondents by Employment

Number of Employees	Frequency	Percent
None	5	7.14
1-4	20	28.57
5-8	16	22.86
9-12	17	24.29
13- Above	12	17.14
Total	70	100.0

The kind of training Employees in the SMEs sector possess was analyzed and from the illustration in Table 4.21, the researcher presents that 80% of the work force is formally trained while a mere 20% had no formal training. For purposes of sustaining the enterprises, entrepreneurs reckoned that employing individuals capable of working under minimal supervision was paramount for business success. Nonetheless, 20% of the workers in these establishments who were untrained served as non-technical staff and fitted in the operations within the sector.

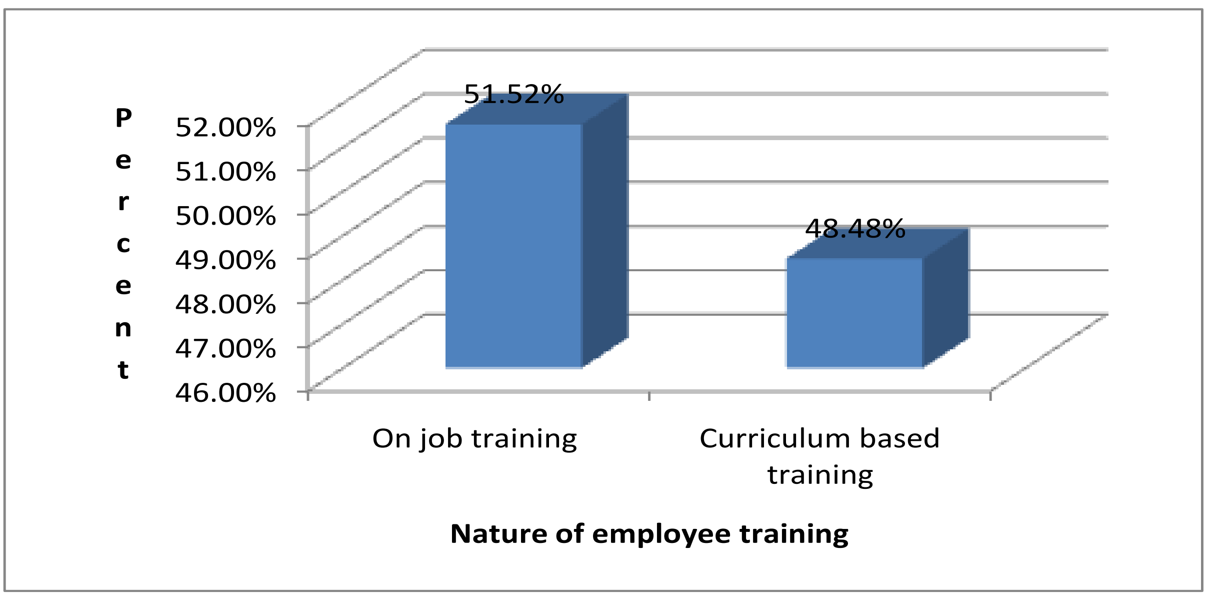
Enterprise owners cited engagement of this group because they provided cheap labour and still performed integral duties in the sector. Such duties include Cleaner services, Porter and Guarding. The Entrepreneurs also reported that trained manpower was expensive to hire and maintain within the sector hence, inclusion of the untrained ones complimented their businesses profitability.

Table 4. 21: Percentage Distribution of Respondents by Formal Training

Employee training	Frequency	Percent
Formal	56	80.0
Non-formal	14	20.0
Total	70	100.0

The nature of employee training was investigated and (Figure 4.6), revealed that majority (51.5%) of them obtained training while on the job while 48.5% had a curriculum based training. On job training may incur an additional cost to the entrepreneur especially in situations where the establishment experiences high staff turnover. Similarly, it is an easier way of obtaining cheaper labor and creating some sort of employee retention strategy because individuals stay longer learning the skills of trade. The Entrepreneurs who were our key informants also observed that, in-house trained staffs tend to be tailor made for the specific duties and hence more efficient employees.

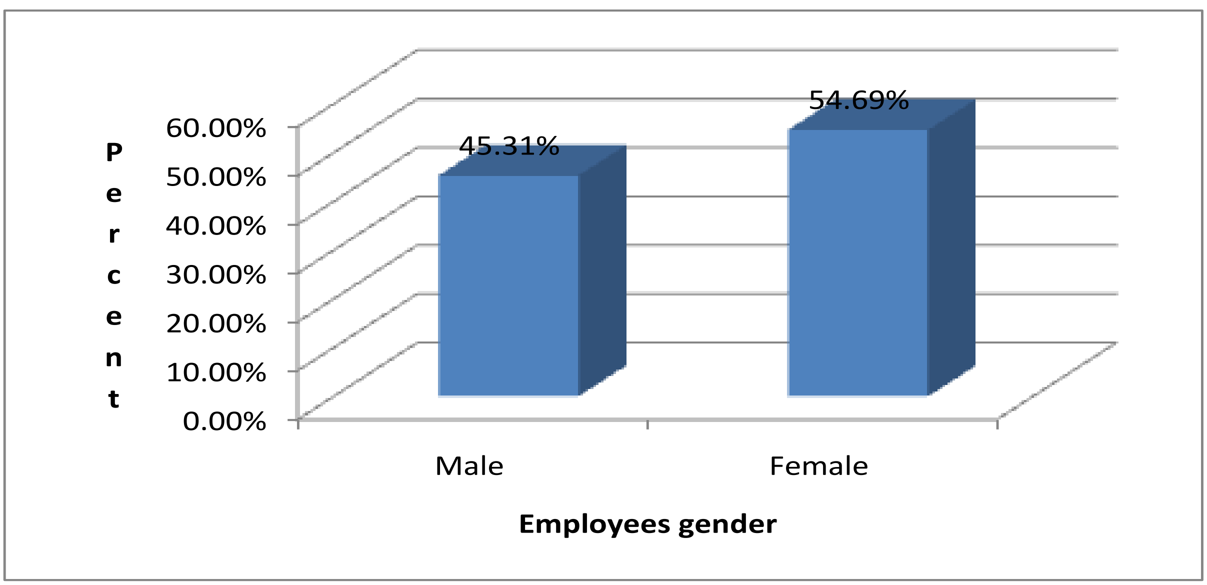
Figure 4.6 Nature of Employee Training



4.8.1 Entrepreneur Staff Gender Preference

The gender of the employees in SMEs was verified (Figure 4.9); the study found out that majority of the entrepreneurs (54.7%) preferred to work with female workers as compared to male workers (45.3%). The reason for this disparity according to our key informants is that, female employees were perceived to be more attractive and appealing to customers especially in enterprises that dealt with fashionable goods as well as in Restaurants. Their male counterparts were considered knowledgeable and informed and were mainly engaged in technical duties such as sale of ICT gadgets and even in the production especially for restaurants. Female employees were the majority across the SME sector and formed the bulk of the workforce. They comfortably fitted in most of the activities at the enterprise that were non-technical and equally managed to sell more products and services as opposed to their male counterparts. As earlier discussed, female employees were paid lower wages basically because of the nature of their jobs which were perceived as being simple. They therefore were preferred by the enterprise owners as opposed to males.

Figure 4.7 Employee Gender

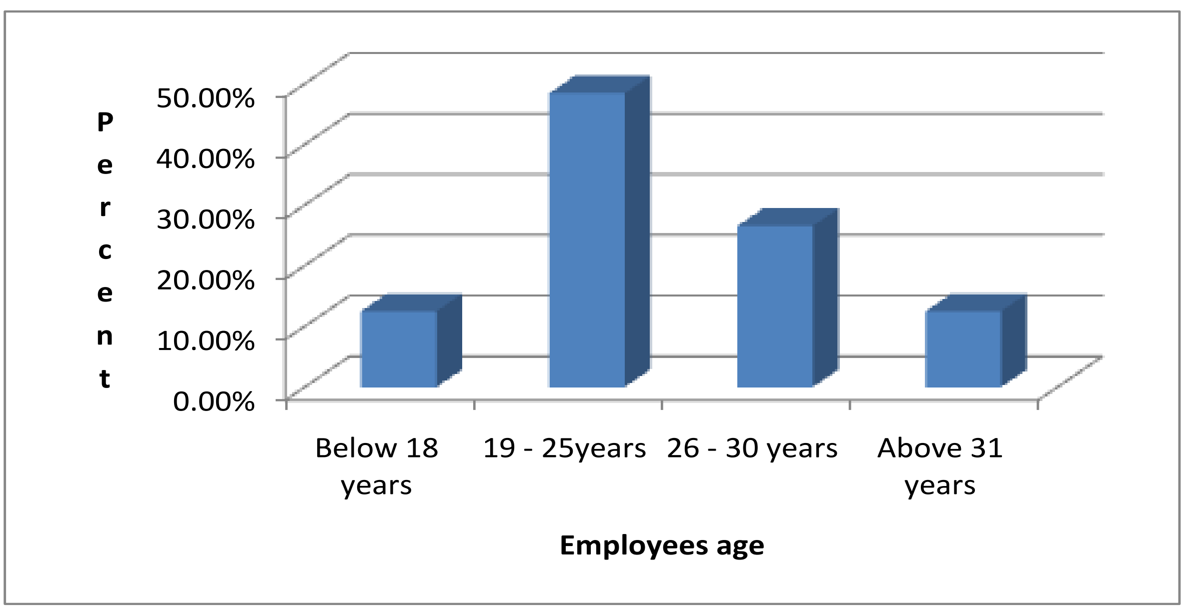


4.8.2 Entrepreneur Staff Age Preference

The age of the employees in the reviewed SMEs was verified and the study found in (Figure 4.8), that majority (48.4%) of employees were between the ages of 19-25 years, while those between the ages of 26-30 years were represented by 26.6%. Those above the age of 31 years were 12.5%. It was also found out that employees below the age of 18 had a considerable representation (12.5%). It can be inferred that, entrepreneurs prefer to work with employees below the age of 25 years; this can be attributed to their ease in taking orders and also their minimal responsibility hence comfortable with considerably low salaries. This age group may not be instrumental when it comes to giving ideas for enterprise growth hence the entrepreneur is left with the sole responsibility for decision making.

In addition, the age group is considered dynamic and fairly adaptable to new environment since most of these individuals are fresh from school and willing to challenge their skills in the responsibilities conferred to them. They learn quickly and are eager to make the best out of any situation. As they juggle between several career choices, some end up liking the positions they land in the SME and continue training themselves to better their skills. They form the bigger chunk of employees in this sector

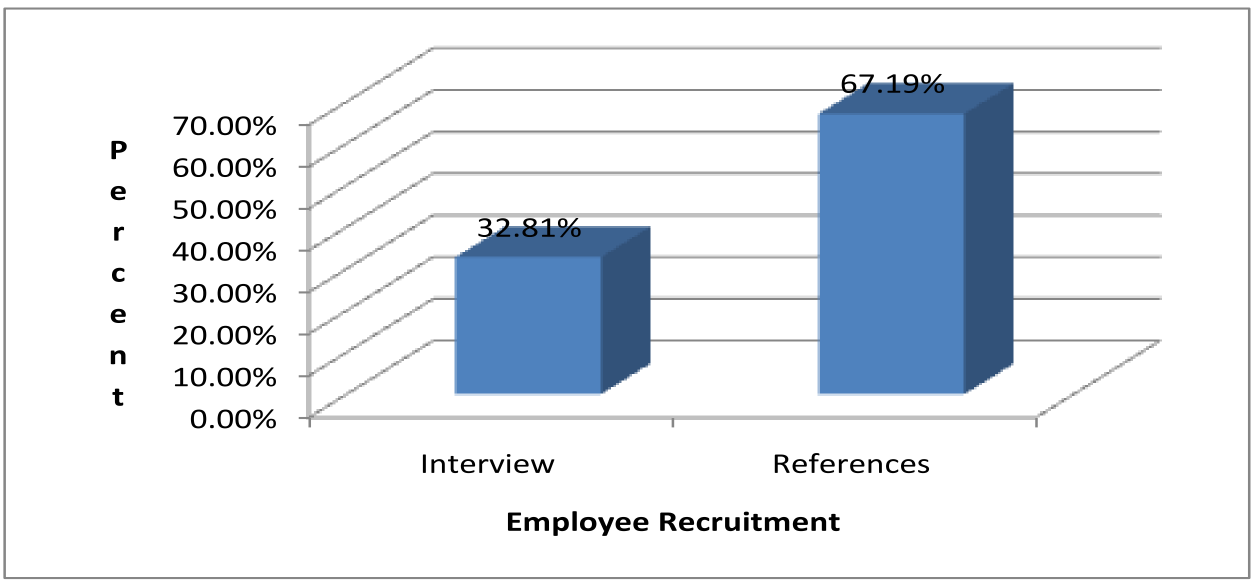
Figure 4.8 Employees Age Preference



4.8.3 Employee Recruitment

The recruitment procedures by the entrepreneurs were put to test and the study found out that (Figure 4.9), 67.2% of the entrepreneurs recruited their staff through reference while only 32.9% were recruited through interviews. In analyzing this result, it can be argued that most employees were recruited through references which can be attributed to the entrepreneurs' reliance on goodwill as opposed to posting of job advertisements. The implication of these is having employees closely related to the boss which may sometimes create conflicts when the employees close relation to management compromises service delivery to customers. In such a scenario staff members become too complacent and familiar to a point where business is regarded as a family affair. This also makes the job environment too casual hence lowering the employees' productivity. Although SMEs employment of friends and relatives can be viewed as a strategy for minimizing the wage bill, it is not recommended since employees do not find motivation to perform their duties concisely.

Figure 4.9 Employee Recruitment

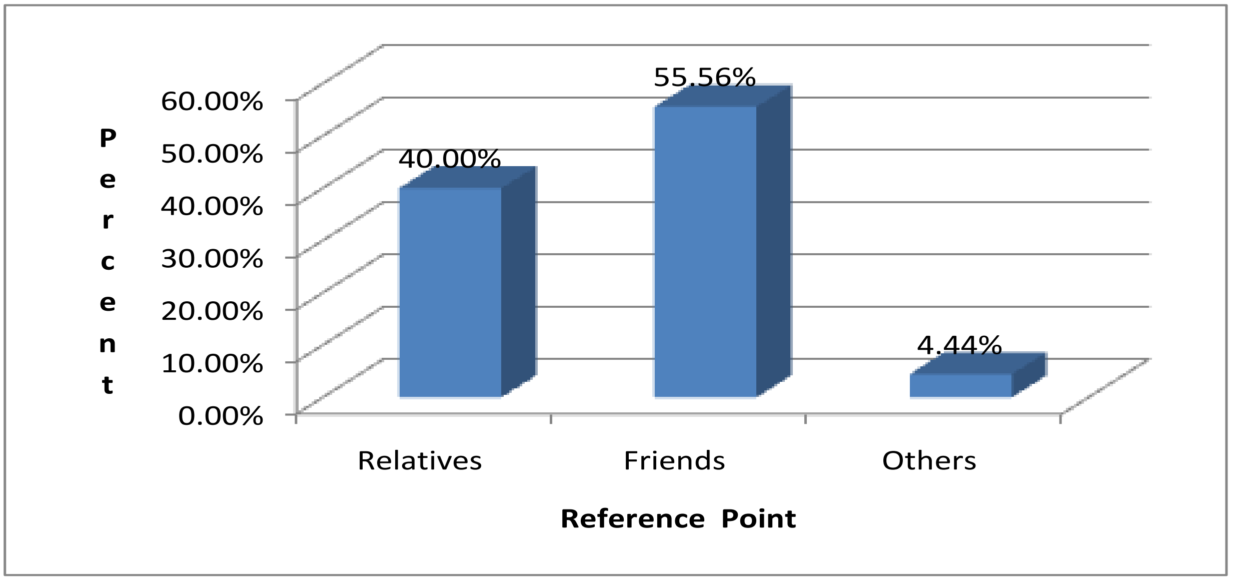


4.8.4 Reference for Employee Recruitment

Employees had a similar response on the issue where, 34.3% of the employees claimed to have been hired through interview while 65.7% of them were hired through reference from friends and relatives of the enterprise owner.

The study verified further on who the reference were for employment and found out that (Figure 4.10) 40% of the entrepreneurs said that their reference point were relatives while 55.6% of them said their friends were the reference point. 4.4% mentioned other references. This result indicates that the entrepreneurs experience a lot of non-formal relationship with the employees due to creating an over simplified recruitment procedure. Almost all the employees were known to the owner through a close source or relation. This created an atmosphere of familiarity between management and staff and posed a challenge especially on disciplinary cases.

Figure 4.10 References for Employee Recruitment



4.8.5 Dominant Problems Experienced by Employees

The study further verified whether the entrepreneurs were instrumental in employees' motivation. The researcher asked the employees to state the dominant problem they face at their work place. According to Table 4.22, long working hours and being overworked were stated as a problem by most (21.4% each) of the employees, 17.1% talked of harsh penalties for mistakes, 14.3% talked of strict management, 11.4 mentioned rude customers as a problem to them while 10% talked of low wages as a problem at their work place. It can be argued from these results that most of the cited problem can be resolved by proper management practices.

Managers/owners of SMEs were believed to be lacking the technical knowhow on principles of human resource management. Constant training in the best practice of handling staff matters is crucial for effective SME management and sustainability. Good human resource management also reduces friction between employees and the management because clear set rules of engagement is adhered to at all times. Customers equally are better attended to and complains channeled properly through the hierarchy for amicable resolution. A better understanding staff team is capable of satisfying customer needs and is motivated to perform well.

Table 4. 22: Percentage Distribution of Respondents by Employee Concerns

Concern	Frequency	Percent
Low pay	7	10.0
Harsh penalties for mistakes	12	17.1
Strict boss/management	10	14.3
Overworked	15	21.4
Long working hours	15	21.4
Rude customers	8	11.4
Others	3	4.3
Total	70	100.0

4.8.6 Choice of Current Work Position /Place

The study further inquired about the employees' choice of job at current work place. The researcher found that (Table 4.23), 40% of the employees choose their current work place because it was the only opportunity while those who chose their post because it was their career/dream job were represented by 25.7%. Employees who chose to be employed in the enterprise because it was well paying were represented by 9% and those whose qualification matched the job were represented by 12%. Those who were driven by good working conditions were 3%. This result shows that majority of employees work in their current work place just because it was the only opportunity available; it makes this type of work force difficult to deal with since they are not pleased with their current work place hence, bound to put their interest first and be less concerned with general well-being of the enterprise.

Moreover, the performance of each individual staff member impacts directly on the survival of the enterprise. The more employees are not satisfied with their positions in the business, the greater the chance of poor overall output. This explains why SMEs have high employee turn-over rate. Loyalty towards the enterprise is limited to the fact that employees have a source of livelihood but the moment business slumps; they take off for greener pastures. This trend is not conducive for the sustainability of SME sector of the economy.

Table 4. 23: Percentage Distribution of Respondents by Work Choice

Choice	Frequency	Percent
Availability	28	40.0
Career/dream job	18	25.7
Good Reward	9	12.9
Matched qualification	12	17.1
Good working condition	3	4.3
Total	70	100.0

4.8.7 Analysis of Employees' Employment History

The study inquired how long employees had worked in their current enterprise as shown in (Table 4.24); the finding shows that 8.6% had been in the enterprise for more than 10 years, 20% of the employees had been in the enterprise for less than a year, 32.9% had been in their current enterprise for between 2-4 years. Those who have been in the current employment for 5-7 years were represented by 27.1% while those who had stayed in the current position 8-10 years were represented by 11.4%.

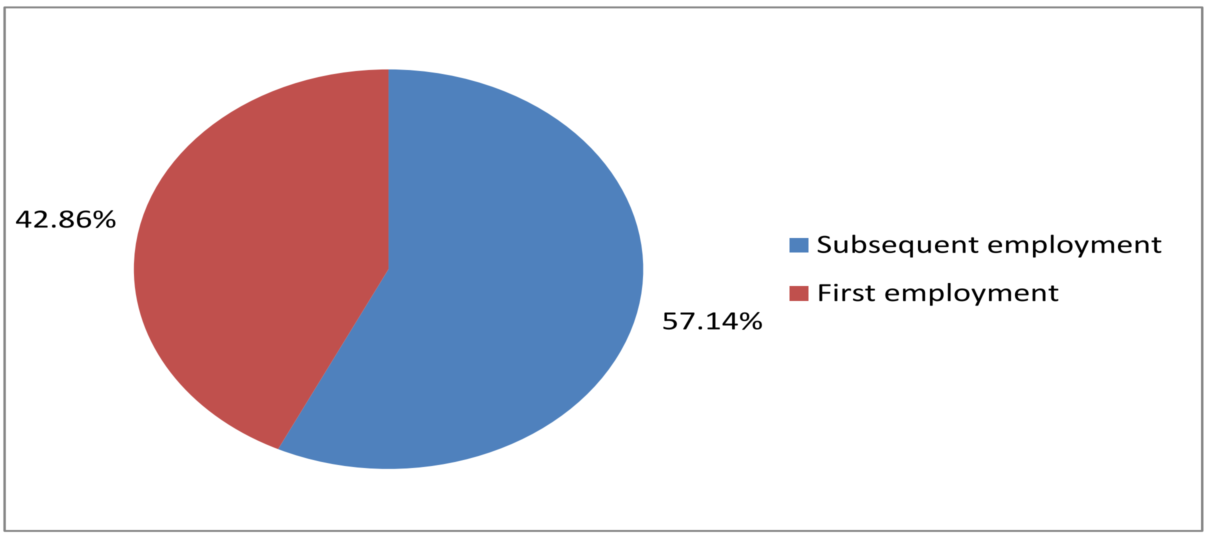
This result indicates that majority of employees have been in their current work place for a period of less than 4 years, it can be deduced from this result that the sector is faced with a challenge of high employee turnover. Employee retention is a great challenge in SMEs due to poor recruitment procedures and weak human resource management. It has been established that in order to retain good employees, the management has to deliberately deploy clear and working human resource processes so as to continuously monitor progress of staff operation in the business. The processes involve; assessment of individual competences to perform tasks and recommendation for training on need basis. Matching of jobs with staff capabilities and establishing of rewards and punishment schemes and adequate remuneration for work done and contract formulation policy. All these ingredients are principles of good human resource management and practice and should therefore enhance the potential and development of SME sector thus maintaining high caliber personnel.

Table 4. 24: Percentage Distribution of Respondents by Length of Employment

Duration employed	Frequency	Percent
Less than 1 year	14	20.0
2-4 years	23	32.9
5-7 years	19	27.1
8-10 years	8	11.4
Above 10 years	6	8.6
Total	70	100.0

The study verified the employees' history of employment, Majority (57.1%) of the employees reported to have been employed in other organizations before. Those who had never secured employment elsewhere prior to current job were represented by 42.9%, this result indicates that most of the employees had been employed elsewhere. The remarkable number of employees who had never worked anywhere else shows that the sector attracts an inexperienced labor force. It can also be concluded from the result that, there is a high level of employee turnover in the sector based on high number of employees who reported that they had worked elsewhere.

Figure 4.11 History of Employment



4.8.8 Terms of Service

The terms of service of the employees in the SME sector was verified and the study found that, (Table 4.25) most of the respondents were employed on a permanent basis represented by (74.3%) and those who were not permanently employed were 25.7%. Majority of the employees in this sector claimed to have been employed on permanent basis; due to their relationship with the management. They felt a sense of belonging to the enterprise, hence believed that they were indispensable. Being permanently employed according to them meant that they could determine when to leave the enterprise. A permanent employee is one who has stipulated reference point in the letter of appointment with proper laid down procedure of operation, benefits and privileges stated explicitly during appointment. Such benefits include; paid leave time, sick leave, medical allowance or insurance and pension scheme.

Table 4. 25: Percentage Distribution of Respondents by Terms of Service

Term/ Service	Frequency	Percent
Permanent employment	52	74.3
Casual employment	18	25.7
Total	70	100.0

4.8.9 Employee Perception towards the Enterprise

The researcher was keen to determine whether the respondents would recommend friends to apply for vacancy in the organization. As shown in (Table 4.26), it was clear that majority (72.9%) of the workers would recommend their friends for vacancy in the organization, while 27.1% said they would not. This result implies that though the employees were not necessarily happy with their work, they are happy it keeps them going. Most of them confessed that they would recommend the enterprise to their friends in spite of the aforesaid challenges. There was good sense of adherence to employment requirements as stipulated by law and most organizations paid wages fairly well and contributed the statutory charges like NHIF and NSSF.

Table 4. 26: Percentage Distribution of Respondents by Employee Perception

Perception	Frequency	Percent
Recommendable	51	72.9
Not recommendable	19	27.1
Total	70	100.0

4.9 Main Types of Business in the SME Sector

The kind of goods and services offered by the SME determined the business type and location that the entrepreneur would set up. This was analyzed in the study of SMEs in Nairobi city as shown in Table 4.27. Most (32%) of the SMEs deal with computer and mobile phones sales and services, 24% of them were beauty shops or boutiques, 12% of them were hardware or construction materials shops while 9.3% were food staff groceries or shops. Health related establishments and chemists were represented by 8% while stationeries and book shops were represented by 4%. Enterprises offering other assorted services (consultancy, restaurants, Agro vets and animal feeds) were represented by 10.7%.

The finding of this study brings to light the extent to which the SMEs have spread out to cover all the sectors of trade. The result is crucial since it proves the importance of SMEs in driving a developing economy.

It is therefore argued that SMEs hold a crucial stake in the future of the country's economy. These results also share a similar view with Thassanabanjong et al., (2009a) in their statement that, SMEs are found in every sector of the economy and play a vital role. Consumers are faced with an assortment and variety of products and services to select and satisfy their needs. Due to competition in the sector, customers benefit immensely on good pricing because the market force is in full spirit and tends to standardize quality and prices.

Most goods and services become readily available and in constant supply hence propelling suppliers to source for more commodities. Similar types of SME entities tend to concentrate in particular locations which make it easy for suppliers and consumers to access the market. It equally enables policy and opinion shapers to collect important data pertaining to the sector.

Table 4. 27: Percentage Distribution of Respondents by Business Type

Type of business	Frequency	Percent
Food stuff grocery/shops	7	10.00
Hardware/ construction materials	9	12.86
Beauty shop/boutique	18	25.71
Restaurants/ Cafes	6	8.57
Stationery/bookshop	3	4.29
Electronics, computer services/ mobile phone shop	19	27.14
Others	8	11.43
Total	70	100.0

4.9.1 Supply Source for SME Commodities

The study was interested in finding out the source of supplies for the SMEs in Nairobi city and it was revealed that, (Table 4.28) 36% of the SMEs get their supplies from manufacturers and factories, 22.7% get them as imported material, 5.3% of them get them from farmers while others stated other sources (local distributors, international distributors, Jua kali artisans). The results imply that SMEs are a significant sector in the distribution chain.

It is arguable that the growth of the sector will impact greatly in all the strong hold of economy more so the local industries and agriculture sector. This is a huge market that once tapped into by local distributors assures of constant flow of commodities in the economy. SME ensures a broader distribution of commodities in the entire economy and allows other investors to add value to existing services.

This result is in support to the argument that, SMEs are considered as the backbone of economic growth in all countries and they contribute to provision of job opportunities, act as supplier of goods and services to large organizations (Singh et al., 2008; Garengo et al., 2005; McAdam et al., 2000).

Table 4. 28: Percentage Distribution of Respondents by Source of Supplies

Supply source	Frequency	Percent
Farmers	4	5.71
Factory/manufacturers	22	31.43
Grocery market	8	11.43
Import	17	24.29
Others	19	27.14
Total	70	100.0

4.10 The Role of Government Policies on Development of SMEs in Kenya

The study was interested in revealing the effects of government policies on development of SMEs in Kenya. Government policies come in the form of policy framework, regulations and taxation regimes. In this study, the researcher earlier through the literature review established the importance and crucial role played by SMEs in the country's economy in terms of job creation and as a major distribution channel for many manufactured goods. In spite of government benefiting from the ingenuity of entrepreneurs, it was found to offer minimal direct funding and instead imposed heavy tax regimes on businesses. According to the study, 60% of the SMEs obtained their capital through owner's savings. This is a clear indication that the government is not actively involved in the development of these sector or its policies are not efficient enough to yield visible results.

Nonetheless, governments throughout the world are nowadays turning their attention to small-scale enterprises. This is because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the populations' concerned (White Paper on International Development, 2000.) therefore small and medium enterprises (SMEs) are now viewed as important in even and equitable economic development.

Kenya's policy on SMEs as outlined in the Sessional paper number 2 (RoK, 2005) clearly show that the sector is not only a provider of goods and services but also a driver in promoting competition, innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. The sector effectively responds to challenges of creating productive and sustainable employment opportunities, promoting economic growth and poverty eradication in the country. The Sessional paper further provides a framework that will support research and development to boost SMEs' access to appropriate technologies; encourage innovation and promote product design, development and quality control. SMEs will play a significant role in contributing to the national goal of wealth creation and making Kenya an industrialized country.

Lack of access to credit is a major constraint inhibiting the growth of SME sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SMEs continues to be a constraint in the growth and expansion of the sector. Formal financial institutions perceive SMEs as high risk and commercially unviable. As a result only a few SMEs access credit from formal financial institutions in the country.

Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable (Institute of Economic Affairs & Society for Economic Development [IEA/SED] 2001). Several organizations including business associations, voluntary organizations and other non-governmental organizations have set up programs to enhance the factors that influence development of SME especially as it relates to enterprise growth and development. The types of assistance offered by these organizations vary with some giving financial assistance, others training and extension services, pre-constructed commercial shades or assisting in marketing of products (Admati, & Pfleiderer, 1994). Despite the large number of assistance programs, the growth and development of SME has not been satisfactory. Ventures have collapsed as soon as assisting organizations pull out of the project, and remaining ones have remained small.

In order for Kenya to achieve vision 2030, SMEs should be enabled to grow into large enterprises and not stay as they are forever!

4.11 The Sustainability of the SME Sector in Kenya

The study was interested in establishing the importance of this sector and finding out its impact on the Kenyan economy for the future. Amidst challenges espoused in the study, the future of Kenyan economy will greatly depend on SMEs and the capability of the sector sustaining itself. The researcher contends that the impact of venture capital on growth of SME is real and practical as established by the foregoing notes. Venture capital's investment in SME has facilitated wealth creation in ways that people's lives have been improved. This finding reaffirms the correlation between SME development and poverty alleviation. A considerable contribution to economic growth has been locally witnessed and measured. Venture capital is profitable for enterprises in Kenya even in an inauspicious political and economic climate. The impact touches on both economic and social-cultural factors.

The economic impact of venture capital has been realized by SME in sales growth, profit, asset and improvement in management of finance and other resources. The social impact from venture capital perspective include the employment opportunities created which has improved people's lives and alleviated poverty among the employees. It is evident that employees have joined cooperatives which help them to bridge cash flow problems. The increased profits imply wider revenue collection for government expenditure through tax. Also, venture capitalists do not just provide funds but add value to SME, that is, they are not only involved in financing but also spur entrepreneurs who are responsible for economic growth.

The future of SME in Kenya is dependent on how well the sector is capable of utilizing the available initiatives for financing in order to develop. Venture capital involvement on its part has demonstrated that the partnership implicit in equity capital is as important as the finance and that these two aspects of the relationship are mutually reinforcing. Venture capital not only assists SME in the provision of funds but also in the internal operations of the business especially in policy formulation. Therefore venture capital has demonstrated the business case for SME investment. Nurturing them at crucial junctures in their development and laying the foundation for an emerging generation of locally owned large enterprises. Venture capital is the fund to use to boost equity capital in the business.

Overview

The research findings of this study were deemed satisfactory to answer the research question well and achieved the set objectives of the study. The analysis of the findings reveals that the barriers experienced by SMEs in their effort to implement good management practices in their enterprise include, lack of funding, incompetent labor force, lack of linkage with big firms, high operational cost, strict legislation, heavy taxation, competition, rapid change in consumer behaviors, technology and fashion trends and dynamics.

The owners/manager influence on managerial activity analysis showed that most SMEs were owned through sole proprietorship or partnerships. All the decisions including financial, marketing and human resource were made by the owners. The enterprises lacked a well-defined organizational structure that would inform employees of their duties and responsibilities hence, resulting in de-motivation and lack of career goals.

A big number of owners were found to be lacking business training key to prudent decision making process within the organization thereby relying upon experience to be the driving force behind the business operation. Most entrepreneurs who make sensitive decisions through such means are bound to make decisions which are not quite reliable.

The work force in the sector was found to consist majorly of young people (below the age of 25 years). This work force was found to have minimal experience and could not be relied upon in offering innovative ideas since most of them hardly stayed on the same job for long. They were found to be low caliber type of employees. The finding shares a similar school of thought with Khan et al. (2007) when they observed that, SMEs face the resource constraints in terms of finance, time, people and a general lack of knowledge and expertise relative to current improvement methodologies and frameworks. A similar school of thought is brought afore by Grando and Belvedere (2006), when they suggested that due to lack of human and financial resources SMEs were barred from adopting new technological solutions and innovative managerial practices so they hardly improved their overall performances.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study was concerned with management of SME and the socio-economic impediments to good business practices for enterprises within the CBD of Nairobi city. The research was spurred by the increased growth in this sector and its contribution to the economic growth and job creation. Poor managerial practices by the owner/ managers of these enterprises lead to collapse or slow down the tempo or reduce productivity in the sector. The managerial fault in the sector was brought about by the type of decisions made on finances, marketing and human resource by the owners/ managers. Managers' lack of technical training in business management exacerbated the situation.

The study was therefore concerned with finding out the barriers experienced by SMEs in their effort to implement good management practices in their business. The study spread further to establish the influence of owners/managers activities on the success and growth of SMEs; it also interested the researcher in this study to ascertain the role of government policies on development and sustainability of SMEs in Kenya. The study was also keen to verify the background characteristics of SME owners that contributed to success or failure of the sector.
Conducted in the city of Nairobi, we interviewed managers/owners and employees of the enterprises and utilized both qualitative and quantitative research methods. The results were analyzed using SPSS program.

In finding out the barriers experienced by SMEs in their effort to implement management process in their business, the study investigated the location of the business, the level of education of the owners and also the employees. The study was also keen to note whether the entrepreneurs had any kind of business training. In the same concern, the study verified the existence of competition and other challenges in the sector. We further looked at the financing and capital requirements for one to start an SME in the city Centre.

Further, the study sort to establish the influence of owners/managers activities on the success and growth of SMEs through recognizing that, decisions are a monopoly of the business owner. The form of business ownership, recruitment process, and financial record kept by the management of the enterprise were also interrogated. In ascertaining the role of government policies on development and sustainability of SMEs in Kenya, we espoused the various challenges brought about by government policies on SMEs management in terms of strict legislations and taxation regimes. The study also noted governments' responsibility in formulating policy framework, regulations and levies pertaining to business ownership and management with an aim of developing the sector.

Finally, the researcher was concerned about the background information of labor force in this sector. In order to establish this, the researcher investigated the employees in terms of level of education, age, employment history, length of employment and terms of service. With these results, conclusions were drawn and made known in order to inform future research works in this field of study.

5.2 Conclusion

Based on these findings, the study concludes that SMEs in Nairobi city are faced with various socio-economic challenges. In fulfilling objective no.1, finding out the barriers experienced by SMEs in their efforts to implement good management practices, the study revealed that these barriers presented themselves in terms of competition, fast changing business trends, government legislations, counterfeits, heavy taxes and high operating cost. The other barriers experienced were poor financial record keeping, lack of linkage with bigger firms, high cost of rental space and lack of financing from financial institutions.

The second objective was to establish the owners' managerial activities on the success and growth of SMEs. From the findings, it is evident that most enterprises are led by the owners who make all the decision as pertaining, financial, marketing and human resource management. The recruiting in these SMEs is mostly through social network of friends and relatives. It is also true that most of the entrepreneurs have no business training and rely on their experience in making decisions. The labor force in this sector was found to be lacking formal training and it was also confirmed to be composed of young people below the age of 25. This attribute of human resource was found to be lacking the prerequisite techniques and were not instrumental enough in coming up with ideas for business expansion and growth.

The third objective was on the role of government policies on development of SMEs in Kenya which was found to be significant. Heavy taxation, tough business legislation, lack of control of counterfeits was found to affect the management and growth of SMEs.

5.3 Recommendations

Following the findings of the study the researcher recommends the following:

(i) Enterprise owners and managers should retrain on business management principles and strategy to cope with challenges.

(ii) Employees in the sector should be professionalized and developed for optimal productivity.

(iii) Large firms in the economy should integrate with the SME for sustained economic growth.

(iv) SMEs should subscribe to business associations that champion their collective interests within the sector.

(v) Government should devote state departments with express mandate of policy formulation geared towards mitigating challenges faced by the sector.

(vi) Funding and capital mobilization should be a priority by all stakeholders.

(vii) Local authority should enhance service delivery and provision of infrastructure so as to attract more investors and reduce competition for certain city business locations.

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APPENDICES

APPENDIX 1: KEY INFORMANT GUIDE FOR THE ENTREPRENEUR/MANAGER

I am Alfred Muchai, a postgraduate student of the University of Nairobi pursuing a master's degree in Sociology specializing in Entrepreneurship Development. I am conducting a study to establish the socio-economic challenges to management practices of small and medium enterprises. I am here to conduct an oral interview on this area of study. The information you shall provide shall be treated with total confidentiality.

Background Information

1. Age________________________
2. Gender: Male ( ) Female ( )
3. Marital status:
   Married ( ) Single ( ) Divorced ( ) Widowed ( ) Separated ( )
4. Number of dependants (if any)_______________
5. Years of formal education completed ______________________
6. Highest class completed
   Primary education ( ) Secondary Education ( ) Tertiary ( ) University ( )

Nature of Business and mode of operation

7. Location of the restaurant
   Part of the city_______________________________________
   Street ____
8. Business ownership
   Sole owner ( )
   Partnership ( )
   Other (Specify)____
9. Main dishes usually sold
   ____
10. Where do you get your supplies from?

ITEM	**SOURCE**	**ITEM**	**SOURCE**

11. Do you face any competition? Explain?

____

____

____

____

12. A part from competition, what other challenges do you face as a retail stall entrepreneur?

____

____

____

13. Do you have any kind of business training?

Yes ( )

No ( )

14. If yes, please explain.

____

____

Which institution (s) did you train in?

____

____

15. How long did the training last?

____

____

16. Do you think you need any kind of business training?

Yes ( )

No ( )

17. If No explain briefly

____

____

If yes what type of training would you need to help you improve the performance of your business?

____

____

18. (a) How many employees do you have?________________________________

(b) Employee(s) gender?

Male ( )

Female ( )

19. Employee (s) ages

Below 18 years ( )

19 years 25 years ( )

25 years -30 years ( )

Above 30 years ( )

20. How many of them have formal training?________________

21. Nature of their training

22. How long have you been in this kind of business?______________________________

23. Why did you choose the restaurant business?

____

____

24. Have you operated in any other location of the CBD?

Yes ( )

No ( )

25. If yes, how long did you carry out your business in that location?

____

____

26. Why did you choose the present location?

____

____

____

27. Are you a member of any association?

Yes ( )

No ( )

28. If yes, what role does it play in your business?

____

____

29. What kind of financial records do you keep?

____

____

30. How detailed are they?

____

____

31. Amount of money paid as salary to oneself per month at present

Less than Kshs. 5,000 ( )

Kshs 5,000 –Kshs. 9,999 ( )

Kshs 10,000-Kshs. 14,999 ( )

More than kshs. 15,000 ( )

32. How much amount of gross revenue does your business generate per month?

____

33. How does clustering affect the performance of your business?

____

____

APPENDIX 2: INTERVIEW GUIDE FOR STALL OWNERS

1. Age________________________
2. Gender: Male ( ) Female ( )
3. Marital status:

   Married ( ) Single ( ) Divorced ( ) Widowed ( ) Separated ( )
4. Number of dependants (if any)_______________
5. Years of formal education completed ______________________
6. Highest class completed

   Primary education ( ) Secondary Education ( ) Tertiary ( ) University ( )
7. Location of retail stalls

   ____
8. How did you choose the location of your business you are in now?

   ____

   ____
9. How long have you been in this kind of business?

   ____
10. Age of the stall?

    ____
11. Rent paid per month?

    ____
12. Do you have any retail stall anywhere else?

    Yes ( )

    No ( )
13. If yes, how many?______________________
14. Where?_______________________________
15. What kind of goods do you sell? (in respective stalls, if you have more than one stall)

    ____

    ____
16. Where do you buy your goods from?

____

____

17. Why did you choose the retail stall business?

____

____

18. Do you keep financial record(s)?

Yes ( )

No ( )

19. What kind of financial record(s) do you keep?

____

____

20. How many employees do you have?__________________________

21. What are/ is there level(s) of education?

____

____

(a): Do you have any linkage with any large firm?

Yes ( )

No ( )

(b) If yes why?____

____

APPENDIX 3: INTERVIEW SCHEDULE FOR EMPLOYEES

1. Personal details

i. Age______________________________

ii. Sex

Male ( )

Female ( )

iii. Highest level of education:

No schooling ( ) Primary incomplete ( ) Primary ( )

Secondary ( ) Tertiary ( ) University ( )

2. How long have you been employed in this business?

____

3. Why did you choose to be employed in this business?

____

____

4. Have you been employed in another stall before coming here?

Yes ( )

No ( )

5. How many hours do you work per day?______________________

6. What exactly do you do here?

____

____

7. Are you employed permanently?

Yes ( )

No ( )

8. How best would you describe the retail stall business?

____

____

9. What kind of problems do you experience as an employee in this kind of business?

____

____

10**.** What is your relationship with the entrepreneur?

a) Relative

b) Not related

11. How were you identified for employment in the stall business?

a) By referral

b) Through recommendation

c) Through an interview

12. Do you experience any managerial problems for example, late salary payment or staff unresolved disputes?

13) If so, please explain briefly whether the management made any effort to address the issues and if you were contended.

14) Have you ever experienced government officials' interaction in the course of your duty including the city council inspectorate?

15) If the answer above is yes, kindly evaluate the experience and some of the issues queried by the said official.

16) In your own opinion, give feedback on how different your business would have been treated to your satisfaction in regard to the government position on your type of business.

17) Would you candidly advice a colleague to seek employment in the same sector? Give reasons for your position.

18) Do you regard the enterprise you are employed in to be viable and sustainable? Give your reasons.