

**FACTORS INFLUENCING GROWTH AND DEVELOPMENT OF SMALL AND
MEDIUM ENTERPRISES IN KENYA, A CASE OF HURUMA DIVISION,
NAIROBI COUNTY.**

By

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DECLARATION

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

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DEDICATION

This research project is first dedicated to my beloved family members, who have offered me support from the time I started. Thank you and May God bless you abundantly.

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First my gratitude goes out to The Almighty God for his continued guidance and wisdom throughout the journey from the beginning to the completion of this research proposal. Secondly I wish to acknowledge the contribution of many people who contributed to the completion of this research project. I am sincerely grateful to my supervisor; Dr. Harriet Kidombo for her dedicated effort, support and advice in the design of this research project and close supervision up to the completion of the work. I also acknowledge my classmates Peter Ngatia, Angelea Nguku, Alice Mbukus and Cyrus Ndogo for their support, contribution, encouragement and positive thinking.

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ABSTRACT

Small and Micro Enterprises (SMEs) play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50% of new jobs created in 2005 but despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months. The objective of this research was to assess the influence of Education and training, peer influence, Entrepreneur's innovativeness, Registration process and licences and physical infrastructure on growth and development of SMEs in Kenya. In order to realize this purpose, this study adopted descriptive survey employing the use of questionnaires and interviews to collect data from a sample size of 120 entrepreneurs in Huruma who was selected using stratified random sampling. Data was analysed using descriptive statistics such as percentages, frequencies, figures and tables. Using statistical package for social sciences (SPSS) data was analyzed based on descriptive statistics and Pearson's Product Moment Correlation Co-efficient was used to establish relationships between independent and dependent variable. The study revealed that there is a positive relationship between Growth and Development of SMEs and education and training skills, Business registration Process, Innovativeness and Physical Infrastructure of magnitude 0.216, 0.236, 0.064 and 0.202 respectively. The positive relationship indicates that there is a correlation between the factors and the Growth and Development of SMEs in Huruma. This infers that Business registration Process has the highest effect on the Growth and Development of SMEs in Huruma, followed by Education and training, then Physical Infrastructure, Innovativeness while peer influence has negative weak correlation with the growth and development of SMEs in Huruma. The study found out that education and training affected SME growth and development and that majority of the respondents had not attended any form of training on business management it therefore recommends that training policies should be introduced to the SMEs owners. As county governments look at SMEs as a way of providing employment to the many unemployed youths, they should consider investing in these people by providing education and training. Since Entrepreneur's individuals' innovativeness affects SME growth and development of the business, it is recommended that stakeholders should provide funds to enable innovativeness and adoption on the current technologies. The Government on the other hand should come up with easy procedures in registration process and licensing of the SMEs.

LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---------------|--|
| CBOs | Community based organizations |
| EPZ | Export promotion council |
| FGD | Focus group discussion |
| GDP | Gross Domestic Product |
| GOK | Government of Kenya |
| ICT | Information Communication Technology |
| ISP | Internet service providers |
| KADET | Kenya Agency for the Development of Enterprises and Technology |
| KEBS | Kenya bureau of standards |
| KIPI | Kenya industrial property institute |
| KIRDI | Kenya industrial research and development Institute |
| KNFJKA | Kenya national federation of Jua Kali association |
| KSH | Kenya Shillings |
| SME | Small and medium enterprises |
| UN | United Nations |
| UNEP | United Nations Environmental Programme |
| VAT | Value added Tax |

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small- and medium-sized enterprises (SMEs) are considered the engines of growth in developing countries. In developed countries, SMEs have historically played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. Taking these experiences into account, African countries should not overlook the importance of promoting SMEs in the same regard. However, considering the situation of most African countries, there are several impediments that have to be removed in order for SMEs to flourish. Recently, the strong presence of Asian SMEs in Africa and increasing competition have negatively affected local SMEs. (Hallberg, 1999).

In the case of developed countries, for example Germany, the economy is characterised as having strong SMEs and about two-thirds of the workers are employed by these enterprises. Furthermore, in newly industrialised Asian countries, SMEs have become the driving force in their rapid growth. For example, SMEs account for 99% of all enterprises and 88% of all employees in South Korea. Some of the world's leading Korean companies such as Samsung and LG were once small enterprises. From these examples, it is clear that SMEs are important to the development process and that it would be beneficial for African countries to promote SMEs for further growth (Otero and Rhyne, 1994).

It goes without saying that SMEs in Africa have played a significant role in the macro economy. In the case of South Africa, the most economically developed African country; SMEs generated more than 55% of all jobs and 22% of the country's Gross Domestic Product (GDP). Despite the importance of SMEs, SMEs in other African countries have generally shown asymmetrical development. Unlike that of South Africa and the other powerhouse, Mauritius - two notable examples of countries with vibrant SMEs – most countries have relied on oil or other natural resources for their economic development. Additionally, in some countries such as the Democratic Republic of the Congo, most

local SMEs went bankrupt due to the civil war. Long-lasting civil wars have undermined the foundations for many SMEs.(McCormick and Pedersen 1996).To further complicate matters, in many countries, the lack of infrastructure and environmental conditions such as unattractive tax regimes and legal systems, small local markets, and corruption have hampered the development of SMEs. All of these factors have resulted in an uncertain environment for local entrepreneurs. As a result, local businesses tend to stay in the informal sector and do not contribute to national economic growth.

In Kenya, it goes without saying that SMEs have played a significant role in the macro economy. In the case of South Africa, the most economically developed African countries SMEs generated more than 55% of all jobs and 22% of the country's Gross Domestic Product (GDP). Despite the importance of SMEs, SMEs in other African countries Kenya included have generally shown asymmetrical development. To further complicate matters, in many countries, the lack of infrastructure and environmental conditions such as unattractive tax regimes and legal systems, small local markets, and corruption have hampered the development of SMEs. All of these factors have resulted in an uncertain environment for local entrepreneurs. As a result, local businesses tend to stay in the informal sector and do not contribute to national economic growth (Ouma, 2002).

Small and medium manufacturing enterprises in Kenya's manufacturing sector are defined as enterprises with fulltime employees not exceeding 100 or annual sales turnover not exceeding Ksh 150 million. The development of competitive and resilient small and medium enterprises (SMEs) forms an integral component of Kenya's initiatives to be globally competitive and prosperous nation with a high quality of life by 2030 (GoK, 2007). The challenges posed by increased liberalization, new entrants to the market, increased standards requirements and technological developments require SMEs to raise efficiency levels, strengthen inter-firm linkages and respond timely to market changes. At the same time, greater integration into the global economy provides opportunities for SMEs to participate in the international value chain and supply chains networks. This will enable SMEs to move up the value chain and adopt new technologies, particularly information and communication technology (ICT). Only SMEs that are

capable of harnessing technology and knowledge to develop high value-added products of superior quality will be able to compete globally (GoK, 2007).

In the case of developed countries, for example Germany, the economy is characterized as having strong SMEs and about two-thirds of the workers are employed by these enterprises. Furthermore, in newly industrialized Asian countries, SMEs have become the driving force in their rapid growth. For example, SMEs account for 99% of all enterprises and 88% of all employees in South Korea. Some of the world's leading Korean companies such as Samsung and LG were once small enterprises. From these examples, it is clear that SMEs are important to the development process and that it would be beneficial for African countries to promote SMEs for further growth. The small and Medium Enterprise (SME) sector has an important role to play in economic development, poverty reduction and employment creation in developing economies (Hallberg, 2000). The SME sector is the sector in which most of the world's poor people are working. The sector largely exceeds the average economic growth of national economies in many countries and contributes significantly to employment creation. Accordingly governments and donors alike have recognized the important role of the SME sector for overall development. As a result, many government policies are geared towards supporting SME sector growth through a variety of programmes that range from tax incentives to technical assistance, from regulatory provisions to policy interventions, training and other types of business development services (Kagiri, 1995). SMEs cut across all the sectors of Kenya's economy and provide one of the most prolific sources of employment and are the breeding ground for large industries which are critical to industrialization.

Today these enterprises are found all over the country and have a great potential to create a variety of jobs, while generating wide spread economic benefits. The Kenya Government Baseline Survey (1999) defined SMEs as enterprises in both formal and informal sectors employing 10-100 workers. Small-scale enterprises are those that employ 11-50 workers. Medium enterprises employ 51 to 100 workers. The same definition will be adopted in this study. The manufacturing sector is viewed as a leading edge of modernization and job creation. It is however not clear how infrastructural

factors, human capital factors and governance factors affects growth and development of SME in Kenya. Many studies have been conducted in relation to SMEs but few, if any, study the effects of these factors on the growth and development of SMEs in Kenya. This study sought to make a contribution in this area and thus investigated the extent to which the infrastructural factors, human capital factors and governance factors have affected the growth and development of SMEs in Kenya.

1.2 Statement of the Problem

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. With the government of Kenya pledging to create 500,000 jobs annually, it is evident that the majority of these jobs will come from small and medium enterprises sector. Therefore it is evident that with proper development strategies, the sector is capable of providing and surpassing the government's target of creating 500,000 jobs annually. The lower Kenyan SME employs 1-2 workers while over 70% employ only one person. The lower end of SME is confined to subsistence and low value activities. Only a few SME grow to employ 6 employees or more. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). This phenomenon has made it very difficult if not impossible for SME to grow into large scale enterprises.

Studies have shown that the SME sector in Kenya is a strong contributor to the national Gross Domestic Product. (McCormick & Dorothy 1988). However most studies in the past on SMEs and their growth have focused on accessibility to credit and inflation in the country as the main factors inhibiting growth and development of SMEs in Kenya. It should be noted that the current government has promised to provide 1 million jobs to the many unemployed youths in the next 5 years and the government has identified the SME sector as the one to provide these jobs. This promise comes at the back drop of a similar promise by the previous government and out of which nothing much was achieved. Why then is the SME sector not providing these jobs? And are there factors that inhibit this sector from growing? These were the concerns of the researcher and hence the essence of

this study was to critically analyze the factors influencing growth and development of SMEs in Kenya.

1.3 Purpose of the Study

This study was aimed at establishing and analyzing the numerous challenges influencing growth and development of SMEs face in Huruma Division Nairobi County.

1.4 Objectives of the Study

The objectives of this study were to:

- i. To determine the extent to which education and Training of an entrepreneur influence SME growth and development in Huruma.
- ii. To determine how peer pressure influences the growth and development of SMEs.
- iii. To establish the influence of an entrepreneur's individuals' innovativeness on SME growth and development in Huruma (Nairobi).
- iv. Establish the influence of Registration process and licences on SME growth and development in Huruma (Nairobi).
- v. Examine the influence of physical infrastructure on growth and development of SME in Huruma.

1.5 Research Questions

- i. To what extent do education and training influence growth and development of SME in Huruma?
- ii. To what extent does peer pressure influence growth and development of SMEs?
- iii. To what extent does an individuals' innovativeness influence growth and development of SME?
- iv. To what extent do Registration process and policies influence growth and development of SME?
- v. How does physical infrastructure influence growth and development of SME in Huruma?

1.6 Significance of the Study

Firstly, the study specifically deals with the strategies, characteristics and other activities which small businesses, with their limited financial and manpower resources, can adopt to become successful. This was intended to help existing and potential entrepreneurs and small business advisors to consider the different goals and types of success which small business can achieve. Secondly, this study would be useful to other groups involved in the development of small businesses, such as business advisors, counselors and enterprise agencies and to teachers in educational institutions which run management courses for prospective and established entrepreneurs.

Through this study, the government would be able to formulate strategies and policies for improving business conditions, boosting the capacity of SMEs, improving the performance of SME leading to their ultimate success, expanding the financial sector and strengthening links firms which will permanently increase SME access to finance. Lastly, the factors influencing the success of SMEs provided by various authors will be compared with those provided by the entrepreneurs themselves so as to draw a comprehensive conclusion.

1.7 Delimitation of the Study

The study only covered SMEs in Huruma where entrepreneurs across all sectors were considered and the findings can only be generalized to other SMEs in other parts of the country.

1.8 Limitations of the Study

Since most of the respondents were business people, most of the time they were busy serving customers and this meant that a lot of time was used in data collection since the researcher had to wait till all the customers had been served. This however only applied to those enterprises that had the owner as the person attending to the customers. Language is a great barrier to good communication; some respondents were conversant with English language used in the questionnaire while others were not. For those who could not understand English, interpretation into Kiswahili was done. Harsh climatic conditions and poor roads in the area hindered accessibility.

1.9 Assumptions of the Study

It was assumed that the respondents answered questions as asked correctly and truthfully. It was also assumed that the owners of enterprises will co-operate and be supportive; which they did.

1.10 Definition of significant Terms

An entrepreneur: a person who recognizes a commercial opportunity in relation to the surroundings acquires and organizes the necessary resources and coordinates the activities required for explain the opportunity commercially (Charantimath, 2006).

Entrepreneurship education: Refers to the art of developing programmes to promote self- employment for SMEs (Charantimath, 2006).

Government policy: Government actions designed to affect economic activity and pursue one or more economic goals. Also called economic policies. The four common types of government policies are: fiscal, monetary, regulatory, and judicial.

Physical Infrastructure: The term infrastructure refers to the substructure or underlying foundation or network used for providing goods and services; especially the basic installations and facilities on which the continuance and growth of a community, State, depend.

Innovativeness: In business, innovation is something that is new or significantly improved, done by an enterprise to create added value either directly for the enterprise or indirectly for it customers (Business Council of Australia 1993, p.3)

Jua Kali: The term literally means “hot sun” in Kiswahili referring to enterprises under the hot sun without adequate shelter. In fact, even fully formalized small-scale firms, with substantial employment refer to themselves as Jua Kali

Peer pressure: It's when nothing is actually said to you, but because you see others doing something, you feel pressure to do the same.

Small and medium enterprises: small businesses that have been financed by a one or only a few people or whose businesses operations are geographically localized and are not dominant compared to bigger firms in the same industry and whose numbers of employees does not exceed 10 (Longenecker, Moore, Petty and Palich (2006)).

1.11 Organization of the study

The research project is organized in five chapters .Chapter one focuses on the background of study that introduces the key concepts and context of the study , statement of problem that established the research gap, objectives, research questions, scope of study, significance of study, limitations and delimitations of the study, basic assumptions and definition of significant terms and organization of study.

Chapter two focuses on literature review where different works relevant to the study are reviewed and gives a detailed account of challenges influencing growth and development of SMEs. It also presents the theories guiding the study, characteristics of SMEs, Factors influencing the growth of SMEs, the effects of education and training on the growth and development of SMEs. It finally presents the conceptual framework and chapter summary.

Chapter three focuses on the research design, target population, sampling procedure and sample size, target population, data collection methods, validity and reliability of data collection, operational definition of variables and data analysis.

Chapter four focuses on the presenting data collected from the field, its analysis, and finally the interpretation of the findings on challenges influencing growth and development of SMEs face in Huruma Division Nairobi County. The data is presented in form of tables, charts and graphs.

Chapter five provides the summary of the findings from chapter four, and also the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to assess the challenges influencing growth and development of SMEs face in Huruma Division Nairobi County.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this section literature is reviewed to assess the state of SMEs in Kenya, their characteristics and the various factors that have affected on the growth and development of small and medium enterprises (SME) in Kenya. Much of the discussion about SMEs have for a long time been based on the perception that industrialization of countries is a process leading from small scale to large scale production. The irony was that small and medium enterprises continued to exist. This existence was viewed as an anomaly to be avoided (McCormick & Pedersen 1996). This chapter reviews literature related to SMEs in general and factors influencing their growth and development. Particularly, the chapter will discuss theories related to SME growth, characteristics of SMEs, education and training, peer pressure, innovativeness; registration process, infrastructure and government policy on SMEs. The conceptual frame work will also be discussed.

2.2 Theories of SME growth

Over the last two decades in particular, growth SMEs have received considerable attention from researchers and policy-makers around the world for reasons identified by Turok (1991) as there being a considerable interest within the field of small firms policy and research in the identification of features that distinguish firms which grow from those that stand still or fail. This is thought important if more selective small firms policies are to be developed. Identifying distinctive features of more and less successful firms may also provide insights into the factors influencing small firm development and hence improve understanding of the growth process. (Gibb & Davies 1991)

2.2.1 Stochastic models of firm growth

Developed mainly in the field of economics, which, in summary, suggest that 'many factors affect growth and, therefore, there is no dominant theory' (O'Farrell & Hitchens, 1988). In this context, it is important to be aware of Gibrat's (1931) law of proportionate effect which proposes that business growth rates are independent of enterprise size. O'Farrell & Hitchens (1988) cite empirical evidence which upholds Gibrat's law for

manufacturing SMEs; and they also allude to empirical support for the proposition that the variability of growth rate decreases with increasing enterprise size.

2.2.2 Theories that have their origins in the Field of Economics

Theories that have their origins in the field of economics according to which SME growth is viewed as a series of phases or stages of development through which the business may pass in an enterprise life-cycle. These are the most prevalent explanatory devices employed by researchers and policy-makers for explaining growth in SMEs. Unfortunately, over time there have been a great many stage models of growth proposed in the literature, and there is a bewildering range from which to choose for the purposes of research and policy-making. The number and nature of growth or development stages in these models vary widely from author to author, as do their emphases. (O'Farrell & Hitchens (1988)

2.3 Characteristics of Small and Medium Enterprises.

According to ILO (1972) SMEs are considered to have unique characteristics which influence the way they respond to their business environment. They are normally found in small underdeveloped niches of the market. They are not able to compete with large organizations in mass markets. Their markets normally have low entry costs and low exit costs as well. SMEs rely heavily on indigenous resources which also influence their location. Majority of SMEs are family owned and in most cases are a one person band. The problem with the one-man show is that it is difficult for the owner –manager to know everything and be able to carry out the jobs which in large organizations are done different functions (Torrence 1987).

SMES are small scale in operations making their survival be relatively more sensitive to environmental dynamics than larger organizations (Standworth &Curran 1992). Because of their small sizes, their owners normally deal with many unknowns since they do not have the resources to investigate the market before taking the risk. Their size also influences the speed and magnitude with which they establish their markets. Lack of money is also a factor in their size constraining research and expansion, which result in operating under –capacity. Entrepreneurs in this sector lack time as they work with

limited resources and make decisions alone .The danger is that it makes the situation very volatile as they could also lose all their investment in only one decision.

2.4 Factors influencing the growth and development of SMEs

Foley and Green (1989) note that, despite the large number of SMEs and their diverse range of activities, they do all have one thing in common: in one way or another, they are all striving to be successful. Success in business can be interpreted in many different ways. The most common adopted definition of success is financial growth with a high level of profits. However, other definitions of success are equally applicable and many businesses set themselves alternative goals. Some gain satisfaction and attain success by developing new products. Havard Business School (1998) notes that, the leading indicators of business success cannot be found in financial data alone. Quality, customer satisfaction, innovation, market share-metrics like these often reflect a business's economic condition and growth prospects better than it's reported earnings.

2.5 Education and training and SMEs growth and development

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error (Anderson, 1993). As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept. Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well equip to carry out managerial routines for their enterprises (King and McGrath, 2002).

Education and skills are needed to run micro and small enterprises. However lack of basic skills in business management and entrepreneurship is a major drawback in the growth and development of SME sector (Sessional paper No 2 of 2005) the integration of entrepreneurial training into the country's education system, exposure of potential SME entrepreneurs to modern business management skills and creation of an environment that permits SMEs to emerge and flourish, has been a major challenge. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

The juakali informal sector for example has proved that it can be a factor that can boost economic growth in Kenya. In this sector, practical skills need to be developed at low cost and with financial support; various types of small scale technology could be developed for labour-intensive enterprises that could absorb hundreds of young job seekers. However, those who run the businesses in this sector lack adequate business skills mainly attributed to low levels of education. It is not sufficient to know how to produce a high quality product. The producer must also know how to sell it effectively and how to control the financial side of the business and in doing that the entrepreneur must be skilled in business. K-rep research paper Series No 24 (1995).

2.6 Peer pressure and SMEs growth and development

The foundation of a good business is a good business opportunity. As an entrepreneur, you want to fill a need in the marketplace. Unfortunately, many businesses are started solely to fulfill an entrepreneur's ego (or, to put it less harshly, to satisfy one of the entrepreneur's interests).

This can often be seen in the restaurant and bar industry, where too many entrepreneurs open shop because it's a "cool" thing to do. Such businesses rarely succeed. The success of a business solely lies in being able to fill an unmet need in the market, unfortunately many entrepreneurs engage in business due to personal and selfish gain controlled by their egos. This also drives us to realize that many entrepreneurs are driven to start a business because their friends/colleagues are doing the same. There is nothing more destructive than to pick a business which you cannot fully embrace or which costs you a lot of money to sustain. K-rep research paper Series No 24 (1995)

2.7 Entrepreneur's Innovativeness and SMEs growth and development

Experience shows that innovativeness has little to do with the technology used. Being innovative is a state of mind, a particular way in which a business perceives itself and its surroundings. A strong focus on technologies may even have a negative influence on innovativeness. No matter how outstanding and ingenious a new technology, in the end it is the market which determines the success or failure of an innovation.(Hallberg, 1999).If you are entering a line of business that is already flooded then what additional value are you giving consumers? if you are offering the same product the same way at the same price, why would consumers purchase your products....unfortunately though many businesses go to business without having this in mind and consequently fail. Many obstacles to innovation in SMEs are also stressed in the abundant innovation literature written on the issue of SMEs. The lack of financial resources, inadequacy of management and marketing, lack of skilled workers, weakness in external information and linkages, and difficulty in coping with government regulations, to name a few, are all factors that limit their competitiveness. SMEs may be unable to exploit new products because of the limited organizational and marketing capabilities.

Lack of innovativeness among SMEs has also been due to Personnel problems, where small businesses lack the number of skilled workers needed to realize innovations. This has meant that as an SME you are stuck to your workers who lack skills. Other limiting factors are the funds and the frequently limited access to suitable sources of financing. The budget available to fund innovations tends to be too small, resulting in a lack of

stamina for projects with a long preparatory phase. According to Hallberg, 1999 undersized project portfolio contributes to lack of innovativeness in SMEs. Usually, small businesses can only take on a few innovation projects at a time, which makes it difficult to balance the economic risk. Lastly, Lack of information and knowledge also causes lack of innovativeness in SMES. SME are often undersupplied with information. Furthermore, the systematic information which is available is often fragmentary. (Foley & Green 1989).

2.8 Registration process and licences and SMEs growth.

There has been complains regarding tedious registration and certification processes in Kenya. Various bodies have their requirements and require money and time. One option left to an entrepreneur is to evade the process but this proves more expensive at the end because of penalty given. For instance, for an entrepreneur running chemical related business, a certificate is needed from the Ministry of Health or similar authority to show that the products or services offered have been analyzed and found to be safe. The authorities may also require the product to conform to legal standards regarding composition (Republic of Kenya Sessional paper No. 2 of 1992)

2.8.1 Interest Rates policy

The areas of economic policies relate to interest rates. The level of interest rates is determined by a government appointed group. A rise in interest rates raises the costs to business of borrowing money, and also causes consumers to lower their expenditure (leading to a fall in business sales). High lending rates affect business because they influence both their own direct costs and the ability of their customers to borrow and spend. Though these capital-intensive businesses can transfer the extra cost incurred from borrowing expensive loans to the consumer through pricing power, experts say it's unfortunate many of them have the least price elasticity and are least able to offset increased borrowing costs with higher prices. Since SMEs often borrow short term loans to cover shortfalls in expenditure, higher interest rates will translated to costly shortfalls, since the businesses will have to pay more interest back to lenders. This will in one way or the other see a drop in borrowing by the SMEs, which will lead to either production of substandard products and services or the hike of prices.

2.8.2 Taxation policy

The tax plays important role in the growth of Small and Medium Enterprises (SMEs). In the low-income country like Kenya, role of SMEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax-system to the environment specific SME growth needs can be considered an important agenda for the policy makers. Keeping this issue at focus, the study aimed to explore the managers/executive officers' perception of tax-system effectiveness in promoting SMEs growth in the Country.

Taxation policy has an effect on and business costs directly, for example, an increase in corporation tax (on business profits) has the same influence as a rise in costs. Enterprises can pass some of this tax on to consumers in higher prices, but it will also have an effect on the bottom line. Other business taxes include VAT(value added tax). VAT is actually passed down the line to the end user but the administration of the VAT system is a cost for business. Some of the SMEs do not make high profits hence with high taxes in places, they are unable to sustain themselves leading to their closure. Assessing the impact of tax systems on SMEs is not simply a matter of looking at tax rates. Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SMEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy.

2.9 Physical Infrastructure and growth of SMEs

Physical infrastructure is the totality of basic physical facilities upon which all other economic activities in the system significantly depend (Ukpong and Iniodu, 1991). According to Hirschman (1958), infrastructures are those services without which primary, secondary and tertiary production activities cannot function. These infrastructures can be extended to include education, public health to transportation, communication, power and water supply. Infrastructure therefore, can be seen as both a final good providing services directly to consumers and intermediate input that enter into

the production function of other sectors and raises the productivity of the factors employed. The New Growth Theory (Endogenous Growth Model) developed by recognizes the influence of policy variables like infrastructure provision in production function. Infrastructure therefore, can serve as an externality variable that can facilitate the production function of private sector, thereby improving the efficiency of the factors of production and growth. Kessides (1993) argues that: infrastructure contributes to economic growth both through supply and demand channels by reducing cost of production, contributing to the application of modern technology, raising the economic returns of labour (by reducing workers' time in non- productive activities or improving health), Infrastructure contributes to rising quality of life by creating amenities, providing consumption goods (transport and communication services) and contributing to macroeconomic stability and that Infrastructure does not create economic potential; only develops it where appropriate conditions (i.e. other inputs such as labour and private capital) exist.

Infrastructure contributes to economic development through the promotion of private sector development by increasing access to the factors of production, goods and market (Tsauni, 2005). By extension, an efficient transport network enhances the growth potential of a country and is liable system of energy generation and distribution brings modern technologies and processes to SMEs. In addition, infrastructure could enable SMEs to work cooperatively and achieve economies of scale, and ensure price and non-price competitiveness. High transport costs associated with movement of goods from the rural to urban areas in particular is becoming more vulnerable as fuel keep increasing. Furthermore, a dependable system of energy at an affordable price is essential to all economic activity and failure to provide accessible power sources is a constraint to production efficiency and competitiveness. Obadan (2004) submits that infrastructural deficiencies are the frequent complaints by all businesses in many countries, domestic and foreign owned firms, alike. It is noteworthy that power failure, transport costs and other infrastructural problems among SMEs poses the greatest difficulties to continued business activity. Building physical and social infrastructures have become a cornerstone for business development.

3.0 Government policy on SMEs and growth

The ballooning of SMEs in every sector of the economy has been indicative of investor's interest in the Kenyan economy even as these small and medium enterprises struggle to fight to stay afloat. Two national baseline surveys that have been commissioned by the government to measure the growth of the SME sector identified that SMEs in the informal sector had impressively grown from 900,000 enterprises providing jobs to 1.3 million Kenyans in 1993, to 1.3 million enterprises employing 2.3 million Kenyans in 1999. Recent studies however has put that figure at an all-time high with one study commissioned by the International Poverty Centre estimating that in 2006 small enterprises went up to 1.9 million and created 4.4 million workers. Experts have predicted that the figures will go even higher buoyed by investor confidence and a growing interest from various sectors to support the sector.

Already the Kenyan government has taken the driver's seat in championing SME sector as key to shaping the Vision 2030 Kenyan dream. "SMEs are central in creating a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live thus increasing competition and contributing to a more equitable distribution of income. The government guided by Sessional Paper No 2 of 2005 launched the 4k MSE 2030 initiative under the first five years 2007 to 2012 of Vision 2030. The Institutions that were to work under the 4K initiative include the Kenya Industrial Research and Development Institute (KIRDI), the Kenya Industrial Property Institute (KIPI), The Kenya Bureau of Standards (KEBS), and the Kenya National Federation of Jua Kali Association (KNFJKA).

The initiative is tasked with Ensuring SMEs produce quality products that meet both local and international standards, while enhancing consistency and cooperation with other sectors. The specific objectives are to: upgrade the SME products; build capacity for to manufacture upgraded products; promote innovation and technology transfer; instill a culture of quality and standardization; promote use of intellectual property as a tool of trade and business. Already the initiative has recorded encouraging results since it was set

up. It has managed to train over 1,000 SMEs on mass production of quality products while diversifying on their portfolios. “It has been a very encouraging process. We have seen those trained apply what they get to their businesses. The result has been so many SMEs especially those in the manufacturing and telecommunication sectors.

The government also recently set aside Sh. 1 billion to be used in the creation of five small and medium enterprise industrial parks that are modeled along the Export processing Zones and which are expected to create roughly 10 million jobs once set up. The decision to create the industrial parks was inspired by Cabinet’s approval to transform the country’s Export processing zones to all inclusive Special Economic Zones, which are a step ahead of the EPZs. Special Economic Zones is a geographical region that has more liberal laws than the typical laws governing investment and trade, the purpose of which is to attract mostly foreign investors. The Special zones include an array of designated zones including free trade zones, industrial estates, export processing zones, free ports and enterprise zones. The zones put in place necessary infrastructure and facility to ensure optimum performance of the enterprises which include being set up on the Nairobi Kampala railway, while getting rid of bureaucracy and stringent regulations that are characteristic of the current registration processes. The Micro and Small enterprises Bill awaiting discussion in parliament is another landmark attempt by the government to empower the SME sector to drive the process to the attainment of Vision 2030. The Bill targets businesses with an annual turnover of less than Ksh500,000 or companies that employ less than 10 people and manufacturing plants who have an investment and capital base of less than Ksh 10 million.

The bill seeks to create a department in the Ministry of Labour that will specifically be mandated with marketing goods and services of the SMEs to both the local and international markets. The department to be called “the National council for Small enterprises, will also be the link between government and the enterprises communicating government decision to the SMEs and voicing the concerns and needs of the SMEs to the government. The bill will also regulate the ever burgeoning SME sector while ensuring that only the SMEs that meet the set guidelines are represented. It will establish a credit Bureau where SMEs keen on expansion can access credit and financial services including

free financial advice. This will consolidate the government's efforts to reach the informal sector after having successfully implemented the Joint Loans Board Credit Scheme, a revolving credit fund which gives access to affordable credit SMEs. The scheme covers the whole country and has since 1954 extended over Ksh 600 million to over 40, 000 SME owners. "There has been a lot of pressure for the government to pass the bill which has been sitting in parliament for the last ten years.

3.1 Conceptual framework

The conceptual model figure 1 posits that growth and development of SME (dependent variable) are influenced by education and training, peer pressure, innovativeness, registration process, infrastructure as(independent variable). Government policy on SMEs is the intervening variable that may also influence the relationship between the independent and dependent variables.

From available literature, there are clear indicators that there are a lot of areas which can be researched on. It is evident that a great deal of research needs to be done with respect to SMEs in Kenya and Africa at large. There exist gaps in research, which includes assessment of challenges facing small scale enterprises in Kenya.

3.2 Conceptual Framework

Independent Variable

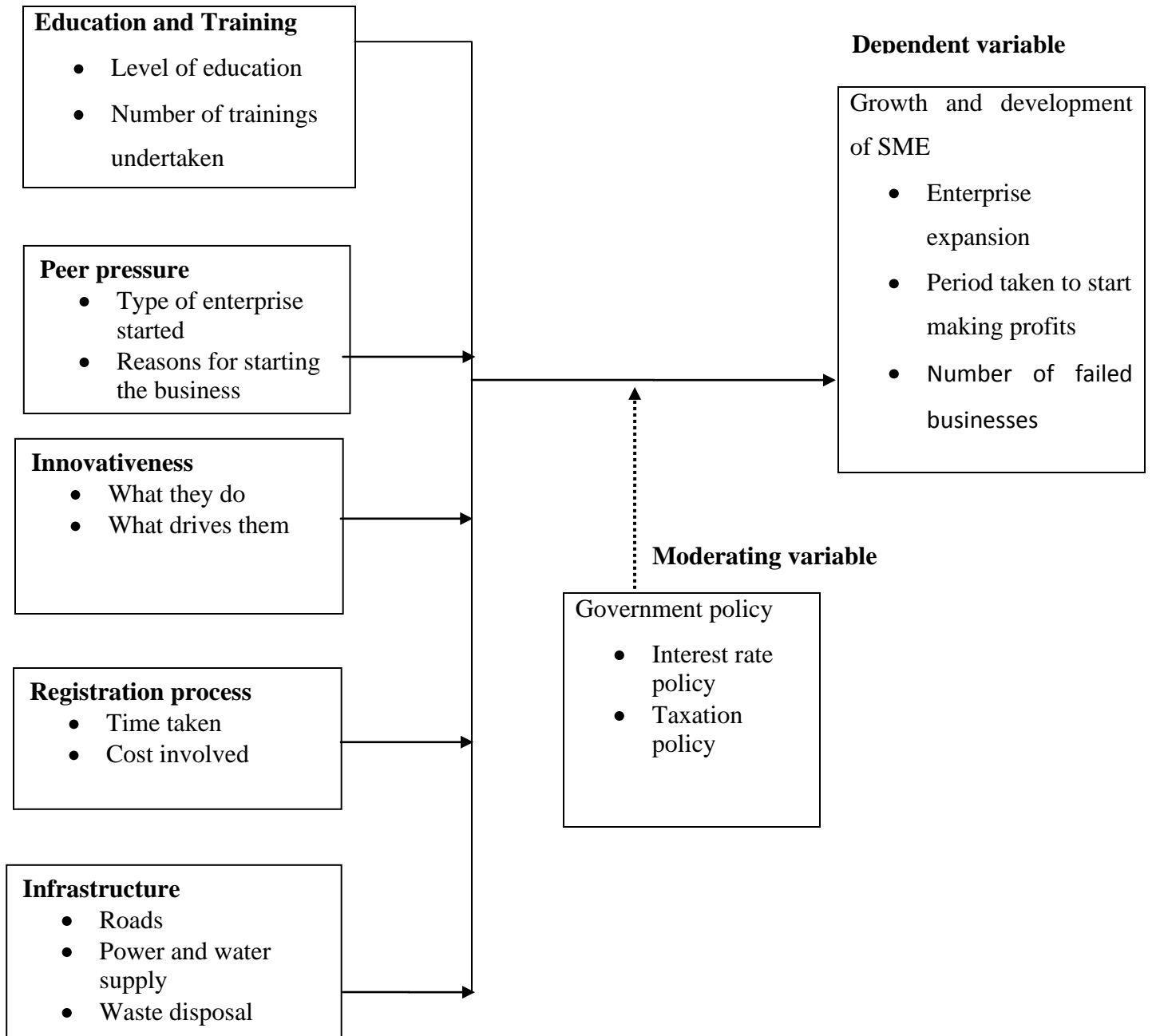


Figure.1: Conceptual framework

Training is crucial to business growth and survival. Entrepreneurs need to plan, organize, control, coordinate and direct the activities of the enterprise. Equipped with business managerial training entrepreneurs are assured of their business's survival and also growing significantly. Though education one gets to develop essential skills that are critical in a certain area. Education will give one skills on planning, budgeting and market analysis. Without proper or even basic education it is difficult for one to start and enterprise and leads it into growth. Small and medium enterprises are stated because you have seen someone else doing it. Not much thought is given into the venture in terms of planning and market research. This has meant that there is a high mortality rate within the sector as many of the enterprises started this way never get to see their second year.

The SME sector offers quite large giving an individual many options on what activity to engage in. The sector will involve both substance and sell of fast moving products. Lack of innovativeness has made people to not think outside the box and start something different but rather just start an enterprise that you have seen you neighbor run. This is even without planning and has led to unhealthy competition leaving many SMEs to fail. Excessive legal and regulatory requirements inhibit SME growth and development. Legal and regulatory challenges impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation.

Physical Infrastructures are those services without which primary, secondary and tertiary production activities cannot function. These infrastructures can be extended to include education, public health to transportation, communication, power and water supply. For goods to reach where a business enterprise is located there is need for a good roads network. Bad infrastructure increase the cost of doing business and since most of these business are small, they in the long run end up not making enough profits and some will not make any profits at all. To promote them there is a need to have proper infrastructure of roads, waste disposal and other physical amenities.

3.2 Summary of Chapter Two

The chapter has literature related to SMEs and factors influencing growth and development of SMEs. Both theoretical and empirical literatures will be reviewed. Particularly, the chapter discussed theories related to SME growth, characteristics of SMEs, education and training, peer pressure, innovativeness; registration process, infrastructure and government policy on SMEs. The conceptual frame work was also discussed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Leedy (1993) describes research as the systematic process of collecting and analyzing information in order to increase our understanding of the phenomenon with which we are concerned or interested. He further suggests that it involves the interpretation of data to draw conclusions. The aim of research methodology was to produce reliable and valid data that is free from personal biases and other errors. This involves measurement that must be both reliable and valid (Cooper and Schindler, 2003). Leedy (1993) defines research methodology as the approach by which the meaning of data is extracted and is a continuous process. The research methodology gives the direction to follow to get answers to issues that are of concern in research. This chapter focuses on the research methodology of the study, the research design, the target population, the sampling procedure and methods of data collection.

3.2 Research design

Orodho (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Kothari (2003) refers to it as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with the research purpose. It is the conceptual structure within which research is conducted, and it constitutes the blue print for collection, measurement and analysis of data. This study adopted descriptive survey. Given that Huruma comprised SMEs of all kinds, its findings were generalized to reflect the factors influencing growth and development of SMEs in Kenya.

3.3 Target Population

The Huruma informal settlement is situated in the Northeast quadrant of Nairobi, Kenya's capital city and consists of six villages: Kambi Moto, Mahira, Redeemed, Ghetto, Gitathuru and Madoya. Rural migrants to the city began constructing these settlements on land belonging to the Nairobi City Council approximately 28 years ago.

The six villages occupy a total land area of 4.1 hectares (10.2 acres). The target population for this study comprised of all Small and Medium Enterprises in Huruma. It includes all business that fall under SME. The number of employees' will be used to define the size of firms as in (McCormick & Pedersen 1996) where SMEs were defined as firms that have less than 50 employees. The study adopted this definition as it is the official definition by the government. Nairobi has the highest number of SMEs. According to the National Baseline Survey by Central Bank and K-Rep (1999), Nairobi and Mombasa contribute about 61% of SMEs population in Kenya. For this study 600 registered entrepreneurs was the target population considering that Huruma an area has many SMEs. Cluster sampling was adopted to get the target population. The target population comprises all kinds of SMEs in Huruma divided into various business categories as shown in the table below.

Table 3.1: Categories of SMEs in Huruma

| No | Business category | Total |
|-----------|-----------------------------|--------------|
| 1 | Second hand clothes | 200 |
| 2 | Hotels/restaurants | 50 |
| 3 | Fresh fruits and vegetables | 20 |
| 4 | Kiosks/General shops | 100 |
| 5 | Pharmacies/chemists | 50 |
| 6 | Tailors | 100 |
| 7 | Metal works | 30 |
| 8 | Shoes | 40 |
| 9 | Cobblers | 10 |
| | Total | 600 |

3.4 Sample Procedure

The proportionate stratified random sampling method was the most applicable sampling method to pick from the various classes or categories of Small Businesses. Huruma is divided into three phases. Phase 1, 2 and 3. Taking charge of each phase the researcher and the research assistants carried out the study. A questionnaire was administered to

qualify them into the study population and the criteria for selection was all SMEs in different sectors (see table 3.2).

Mugenda and Mugenda (2003) suggested that if objectively selected, a sample of between 10-30% of the population is considered adequate for generalization of the findings. Following the high level of homogeneity among the target respondents especially as regards business operation challenges, this study used simple random sampling technique to select 20% of the respondents from each category. The distribution of the sample was based on proportional allocation is as shown in table 3.2.

Table 3.2: Sample size

| No | Business category | Total Population | Sample Proportion | Sample Size |
|--------------|-----------------------------|------------------|-------------------|-------------|
| 1 | Second hand clothes | 200 | 20% | 40 |
| 2 | Hotels/restaurants | 50 | 20% | 10 |
| 3 | Fresh fruits and vegetables | 20 | 20% | 4 |
| 4 | Kiosks/General shops | 100 | 20% | 20 |
| 5 | Pharmacies/chemists | 50 | 20% | 10 |
| 6 | Tailors | 100 | 20% | 20 |
| 7 | Metal works | 30 | 20% | 6 |
| 8 | Shoes | 40 | 20% | 8 |
| 9 | Cobblers | 10 | 20% | 2 |
| Total | | 600 | | 120 |

3.5 Data collection Method

Data collection involves consulting primary and secondary data sources in order to elicit information, facts, evidence, proofs or truth regarding the research problems. The study used both primary and secondary sources of data. According to Kathori (2003), primary data was collected from the immediate source for the purpose of the study. Data collection also involved gathering both numeric information as well as text information so that the final database represented both quantitative and qualitative information. In this study, data collection was done by administering a semi-structured questionnaire, (see Appendix II), to each category of small business people through face to face interviews and drop and pick methods. The questionnaire was adequately prepared and it provided

for both open and closed ended questions in order to capture the objective of the study. It was divided into sections, A, B, C, D, E, F and G. Sections A-F captured the entrepreneur's personal details, the enterprise's basic details and factors influencing growth and development of SMEs from entrepreneurs' perspective. Section G captured the extent to which the factors highlighted in the literature review influenced the growth and development of SMEs.

3.6 Validity of the research instrument

Orodho (2004) contends that validity concerns the accuracy with which the items generated measures what is supposed to validate. The study was confined to 120 out of 600 small and medium enterprises. In this study, multiple sources of evidence were used as a way to ensure construct validity. Consulting experts in the subject of matter was also undertaken to ensure validity.

3.7 Reliability of the research instrument

Mugenda and Mugenda (1999), defines reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trails. The study applied systematic questions in the questionnaire. To increase the reliability of the data to be collected the researcher employed test-retest technique in which the instrument of research were administered twice to the same subjects. The pilot test of the instrument was then done on one of the subjects to ensure that the desired data or results were obtained.

3.8 Ethical Considerations in the Study

The purpose of the research was clearly stated to the respondents, privacy and anonymity was maintained during the research. Oral consent was also obtained from each respondent before any interview or discussion was conducted.

3.9 Operational definition of Variables

Operational definition of variables is operationalizing or operationally defining a concept to render it measurable. It is done by looking at the behavior dimensions, indicators, facets or properties denoted by the concept, translated into observable and measurable elements to develop and index of the concepts. Measures can be objective or subjective.

Table 3.3: Operational Definition of Variables

| Variable | Type of Variables | Indicators | Measurement | Scale of Measurement | Type of Analysis |
|------------------------------|-------------------|--|---|----------------------|------------------|
| Education and training | Independent | Level of education Trainings done | Certificates Number of trainings done | Nominal Ordinal | Descriptive |
| Peer pressure | Independent | Type of enterprise started Reasons for starting the business | Goods or services sold | Nominal | Descriptive |
| Innovativeness | Independent | Adoption of new technology | News ways of doing business | Nominal | Descriptive |
| Registration process, policy | Independent | Time taken to register the business Cost involved in registering the business | Availability of business licence | Nominal | Correlation |
| Physical Infrastructure | Independent | State of the Roads Availability of Power Water supply Waste disposal | Number of premises with electricity and water Availability of a sewer line | Nominal | Correlation |
| Government policy on SMES | Moderating | Current legislation | Policies in operation | Nominal | Descriptive |
| Growth of SMEs | Dependent | Number of employees Expansion | Period taken to expand | Nominal | Correlation |

3.9 Data analysis

The researcher organized data according to the methodology in the study. The data was edited to be free from inconsistencies and incompleteness and this involved the scrutiny of the instruments in order to detect and reduce as much as possible errors, incompleteness and misclassification in the information obtained from the respondents. The qualitative data generated from open-minded questions in the questionnaire was analyzed in themes, content and categories identifying similarities and differences that emerge to supplement the quantitative data.

Primary data was organized into a descriptive statistical summary for ease in interpretation and analysis. The data was run through the statistical package for Social Science (SPSS) in order to obtain effective results. Mean scores was used to analyze the data from Section A to E of the questionnaire in order to obtain an average estimate of the results so as to arrive at a comprehensive conclusion on the factors influencing growth and development of SMEs. Cross tabulations was used to enable comparison of the relationship between variables. Pearson Product Moment Correlation Co-efficient were used as inferential statistics to establish relationships between the relevant independent and dependent variables.

3.10 Summary of Chapter Three

This chapter dealt with the research design which was used. The researcher applied cluster sampling. The target population was 120 Small and medium enterprises across all sectors. The sampling procedure was stratified simple random sampling and the method of data collection was by use of questionnaire.

**CHAPTER FOUR:
DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

4.1 Introduction

This chapter presents data collected from the field, its analysis, and finally the interpretation of the findings on establishing and analyzing the numerous challenges influencing growth and development of SMEs face in Huruma Division Nairobi county.

4.2 Response Rate.

The study targeted 120 participants in the Small and Medium Enterprises in Huruma. Out of the targeted respondents, 101 participants filled and returned the questionnaires giving a response rate of 84%. The response rate is excellent and agrees with Mugenda and Mugenda (2003) prescribed significant response rate for statistical analysis, which they established at a minimal value of 50%.

4.3 Background information.

Gender

The study sought to find out the gender of the respondents. The findings are presented in table 4.1

Table 4.1: Gender Distribution

| | Frequency | Percent |
|--------|-----------|---------|
| Male | 55 | 54.5 |
| Female | 46 | 45.5 |
| Total | 101 | 100.0 |

From the findings, the study found out that majority (54.4%) of the respondents was male while 45.5 % of the respondents were female.

Age

The study sought to establish the age of the respondents. The findings are presented in table 4.2.

Table 4.2: Age Distribution

| | Frequency | Percent |
|----------------|-----------|---------|
| Below 20 Years | 3 | 3.0 |
| 21-30 Years | 33 | 32.7 |
| 31-40 years | 41 | 40.6 |
| 41-50 years | 13 | 12.9 |
| Above 50 Years | 11 | 10.9 |
| Total | 101 | 100.0 |

From the findings, the study established that majority (40.6%) of the respondents were between the age of 31 and 40 years. 32.7% of the respondents were between the age of 21 and 30. 12.9% of the respondents were between the age of 41 and years. 10.9% of the respondents were aged above 50 years while 3.0% of the respondents were aged below 20 years.

How long the respondents have been in this business

This section sought to determine how long the respondents had been in their business.

The findings are presented in table 4.3.

Table 4.3: Period in Business

| | Frequency | Percent |
|---------------|-----------|---------|
| Below 5 Years | 12 | 11.9 |
| 6-10 Years | 42 | 41.6 |
| 11-15 years | 36 | 35.6 |
| Over 16 year | 11 | 10.9 |
| Total | 101 | 100.0 |

From the data findings, the study found out that 41.6% of the respondents had been in their businesses for 6 to 10 years. 35.6% of the respondents had been in their businesses for 11 to 15 years. 11.9% of the respondents had been in their businesses for less than 5 years while 10.9% of the respondents had been in their businesses for over 16 years.

4.4 Influence of Education and Training on the performance of SMEs.

Through this research, the researcher sought to find out the educational levels, the training, and the extent to which education and training affected the performance of SMEs.

4.4.1 Education level

In this study the educational levels of the respondents was looked into. The findings are presented in table 4.4

Table 4.4: Education level

| | Frequency | Percent |
|--------------------|-----------|---------|
| None | 6 | 5.9 |
| Primary | 18 | 17.8 |
| Secondary | 51 | 50.5 |
| College University | 26 | 25.7 |
| Total | 101 | 100.0 |

From the findings, the study found out that 50.5% of the respondents had achieved secondary level as their highest level of education. 25.7% of the respondents had achieved College University as their highest level of education. 17.8% of the respondents had achieved primary as their highest level of education while 5.9% of the respondents had not achieved any level of education.

4.4.2 Entrepreneurial Training

Table 4.5 illustrates whether the respondents had ever attended any training on business management.

Table 4.5: Training

| | Frequency | Percent |
|-------|-----------|---------|
| Yes | 47 | 46.5 |
| No | 54 | 53.5 |
| Total | 101 | 100.0 |

From the findings, the study established that Majority (53.5%) of the respondents had not attended any form of training on business management while 46.5% of the respondents had attended training on business management.

4.4.3 Subjects covered in the Training

This section sought to find out the subject covered by the respondents in the training on business management they attended. The findings are presented in table 4.6

Table 4.6: Subjects covered in the training

| | Frequency | Valid Percent |
|---------------------------|-----------|---------------|
| How to keep records | 18 | 38.3 |
| How to source goods | 2 | 4.3 |
| How to run a business | 10 | 21.3 |
| How to borrow capital | 3 | 6.4 |
| Business Management | 10 | 21.3 |
| Customer service | 3 | 6.4 |
| Human resource management | 1 | 2.1 |
| Total | 47 | 100.0 |

From the findings, the study found out that of those respondents who had attended training on business management, majority (38.3%) had covered subjects on how to keep

records. 21.3% of the respondents had attended training whose subject was on business management. 21.3% of the respondents had attended training whose subject was on how to run a business. 6.4% of the respondents had attended training whose subject was on how to borrow capital. 6.4% of the respondents had attended training whose subject was on customer service. 4.3% of the respondents had attended training whose subject was on how to source goods while 2.1% of the respondents had attended training whose subject was on human resource management.

4.4.4 The Sponsor of the Training

In this study the researcher sought to establish who had sponsored the training the respondents had attended on business management. The findings are presented in table 4.7

Table 4.7: The Sponsor of the training

| | Frequency | Percent |
|---------|-----------|---------|
| Myself | 19 | 18.8 |
| My Bank | 14 | 13.9 |
| Other | 14 | 13.9 |
| Total | 47 | 46.5 |

The study findings revealed that majority (18.8%) of the respondents sponsored their own training, 13.9 % of the respondents were sponsored by their banks while as 13.9% of the respondents had other sources of sponsorship.

4.4.5 Evaluating Performance of the Business

Table 4.8 demonstrates the responses as to whether the respondents evaluated the performance of their business.

Table 4.8: Evaluating Performance of the Business

| | Frequency | Percent |
|-------|-----------|---------|
| Yes | 95 | 94.1 |
| No | 6 | 5.9 |
| Total | 100 | 100.0 |

The data findings revealed that majority (94.1%) of the respondents evaluated the performance of their business while as 6% did not evaluated the performance of their business. For those who answered yes, the study sought to establish the frequency the respondents evaluated the performance of their business.

Table 4.9: Frequency of Performance Evaluation

| | Frequency | Valid Percent |
|-----------------|-----------|---------------|
| Weekly | 44 | 45.8 |
| Every two weeks | 11 | 11.5 |
| Monthly Yearly | 9 | 9.4 |
| Daily | 32 | 33.3 |
| Total | 96 | 100.0 |

The data findings revealed that majority (45.8%) of the respondents evaluated the performance of their business on weekly bases, 11.5% of the respondents evaluated the performance of their business after every two weeks, 9.4% of the respondents evaluated the performance of their business on weekly bases and 33.3% of the respondents evaluated the performance of their business on daily bases.

4.4.6 Education and Knowledge Acquired influence to Growth of Business

Ways in which education and knowledge acquired influenced the growth of the business was another area that the research focused on. The findings were presented in table 4.10.

Table 4.10: Education and knowledge acquired influence to growth of business

| | Frequency | Valid Percent |
|--|-----------|---------------|
| Improved my record keeping | 31 | 39.7 |
| Improved my level of accountability | 22 | 28.2 |
| Improved my relationship with customers | 4 | 5.1 |
| Enabled me access loans | 6 | 7.7 |
| Enabled me manage the business better | 10 | 12.8 |
| Enabled me to relate well with suppliers | 2 | 2.6 |
| Other | 3 | 3.8 |
| Total | 78 | 100.0 |

From the findings, 39.7% of the respondent indicated that the education and knowledge acquired lead to improved record keeping, 28.2% indicated that it lead to improved the level of accountability, 5.1% indicated that it lead to improved relationship with customers, 7.7% indicated that it enabled access loans, 12.8% indicated that it enabled manage the business better, 2.6% indicated that it enabled to relate well with suppliers and 3.8% indicated that the education and knowledge acquired affected other areas in the business.

4.4.7 Education and Training influence on Performance of SMEs

The study sought to find out the extent to which education and training affected the performance of SMEs. The finding are represented in table 4.11

Table 4.11: Education and training influence to performance of SMEs

| | Frequency | Valid Percent |
|-------------------|-----------|---------------|
| Very great extent | 28 | 29.2 |
| Great extent | 28 | 29.2 |
| Moderate extent | 14 | 14.6 |
| Little extent | 4 | 4.2 |
| No extent | 22 | 22.9 |
| Total | 96 | 100.0 |

From the findings, 29.2 % of the respondent indicated that the education and training acquired affected the performance of the business to a very great extent, another 29.2% of the respondent indicated that it affected the performance of the business to a great extent, 14.6% of the respondent indicated that it affected the performance of the business to a moderate extent, 4.2% of the respondent indicated that it affected the performance of the business to a little extent and 22.9 % of the respondent indicated that it affected the performance of the business to a no extent.

4.5 Peer pressure on the growth and development of SMEs

The study set to find out the influence that peer influence had on the kind of business and their performance in Huruma Estate. The findings were as discussed in below:

4.5.1 Influence by friends and age mates to start business

The respondents were requested to indicate whether they had been influenced in any way by their friends and age mates to start their current businesses. The findings were as discussed in table 4.12

Table 4.12: Influence of Friends and Age mates

| | Frequency | Percent |
|-------|-----------|---------|
| Yes | 59 | 58 |
| No | 42 | 42 |
| Total | 101 | 100 |

From the findings of the study, majority 58% of the respondents had been influenced by their friends and age mates to start businesses while 42% had not. These findings show that the respondents had influence on one another especially on how to start and run their businesses.

The study went further to investigate the extent to which the influence from friends and age mates had influenced the performance of their enterprises. The findings were as shown in table 4.13

Table 4.14: Influence from Friends and Age Mates to SMEs

| | Frequency | Percent |
|------------------|-----------|---------|
| Improved greatly | 63 | 62% |
| No effects | 28 | 28% |
| I do not know | 10 | 10% |
| Total | 101 | 100% |

From the findings of the study 62% of the respondents indicated that it greatly improved business performance, 28% indicated that it had no effect while a minority 10% di not know its effect on business performance.

The study further sought to establish whether the respondents shared business experiences with their friends. From the findings, the respondents indicated that they shared their experiences with their friend. However they indicated that there was a limit as regards what information and business experience and tricks that could be shared.

4.6 Registration Process, Licenses on the growth and development of SMEs

Under registration process, licenses and policy, the study sought respondents view on business registration status, regulatory challenges including taxation, processes involved in business registration and its challenges, and licensing. The findings are discussed below:

4.6.1 Business Registrations on the growth and development of SMEs

The study sought to establish the status of the business registration of the respondents the findings are presented in table 4.14

Table 4.154: Business Registrations

| | Frequency | Percent |
|-------|-----------|---------|
| Yes | 68 | 67.3 |
| No | 33 | 32.7 |
| Total | 101 | 100.0 |

From the data findings, majority (67.3%) of the business were registered while as 32.7 % of the business were not registered. These findings show that majority of the entrepreneurs in Huruma estate were registered.

4.6.2 Regulatory challenges experienced in running business

This section describes the Regulatory challenges experienced in running business of the respondents, the findings are presented below:

4.6.2.1 Taxation on the growth and development of SMEs

The findings on the extent to which taxation affected the growth of SMEs in Huruma are presented in the table 4.15.

Table 4.16: Taxation

| | Frequency | Percent |
|------------------|-----------|---------|
| Very challenging | 61 | 60.4 |
| Challenging | 27 | 26.7 |
| Not challenging | 13 | 12.9 |
| Total | 101 | 100.0 |

From the data findings, majority (60.4%) of the respondents indicated that taxation was very challenging, 26.7% indicated it was challenging while 12.9% indicated it was not challenging.

4.6.3 Procedure involved in business registration on the growth and development of SMEs

The findings on the extent to which procedure involved in the business registration influenced the growth and development of SMEs are presented in table 4.16

Table 4.17: Procedure Involved in Business registration

| | Frequency | Percent |
|------------------|-----------|---------|
| Very challenging | 67 | 66.3 |
| Challenging | 21 | 20.8 |
| Not challenging | 13 | 12.9 |
| Total | 101 | 100.0 |

From the data findings, majority (63.3%) of the respondents indicated that the procedure involved in business was very challenging, 20.8% indicated it was challenging while 12.9% indicated it was not challenging.

4.6.4 Licensing on the growth and development of SMEs

The extent to which Licensing influenced the growth and development of SMEs in is presented in table 4.17

Table 4.18: Licensing

| | Frequency | Percent |
|------------------|-----------|---------|
| Very challenging | 64 | 63.4 |
| Challenging | 24 | 23.8 |
| Not challenging | 13 | 12.9 |
| Total | 101 | 100.0 |

From the data findings, majority (63.4%) of the respondents indicated that Licensing was very challenging, 23.8% indicated it was challenging while 12.9% indicated it was not challenging.

4.6.5 Registration effects to growth and expansion of SMEs

The extent to which business Registration affected the growth and expansion of the SMEs in Huruma was as presented in Table 4.18

Table 4.19: Registration effects to growth and expansion of business

| | Frequency | Percent |
|-------------------|-----------|---------|
| Very great extent | 4 | 4.0 |
| Great extent | 33 | 32.7 |
| Moderate extent | 27 | 26.7 |
| Little extent | 16 | 15.8 |
| No extent | 21 | 20.8 |
| Total | 101 | 100.0 |

From the data findings, majority (4.0%) of the respondents indicated that business registration affected the growth and expansion of the business to a very great extent, 32.7 % indicated it was to a great extent, 26.7% of the respondents indicated that business registration affected the growth and expansion of the business to a moderate extent, 15.8 % of the respondents indicated that business registration affected the growth and expansion of the business to a little extent and 20.8 % of the respondents indicated that business registration to a little extent.

4.7 Entrepreneur’s Innovativeness on the growth and development of SMEs

The research sought to establish the extent to which Entrepreneur’s innovativeness influenced the growth and development of SMEs. The findings are presented below

4.7.1 Influences to start the Business

Findings on the factors that influenced entrepreneurs to start their businesses is presented in table 4.19

Table 4:19: Influences to start the Business

| | Frequency | Valid Percent |
|--|-----------|---------------|
| Availability of ready market | 37 | 36.0 |
| Lack of employment | 52 | 52.0 |
| New way of doing things in my business | 2 | 2.0 |
| Business runs across our family | 10 | 10.0 |
| Total | 100 | 100.0 |

From the study findings 36 % of the respondents indicated that availability of ready market is what influenced them to start the business, 52 % of the respondents indicated that lack of employment is what influenced them to start the business, 2 % of the respondents indicated that new way of doing things in business is what influenced them to start the business while as 10% of the respondents indicated that business runs across their family.

4.7.2 Use of Technology in Business

The findings on whether the respondents used technology in different areas of their business is indicated in table 4.20

Table 4.20: Use of Technology in Business

| | Frequency | Percent |
|--------------|-----------|---------|
| Production | 7 | 6.9 |
| Purchase | 41 | 40.6 |
| Distribution | 7 | 6.9 |
| Payment | 37 | 36.6 |
| Other | 9 | 8.9 |
| Total | 100 | 99.0 |

From the study findings 6.9 % of the respondents indicated that they used technology in production, 40.6 % of the respondents indicated that they used technology in purchase, 6.9 % of the respondents indicated that they used technology in distribution, 36.6 % of

the respondents indicated that they used technology in payment, 8.9 % of the respondents indicated that they used technology in other area of the business.

4.7.3 Raising more Capital required for Business

Table 4.21 represents the findings on how the respondents raised more capital required for the business.

Table 4.21: Raising more capital required for your business

| | Frequency | Percent |
|----------------------|-----------|---------|
| From Friend | 10 | 9.9 |
| From Family | 39 | 38.6 |
| From Merry Go Rounds | 34 | 33.7 |
| From Banks | 14 | 13.9 |
| Purchase on Credit | 1 | 1.0 |
| Other | 3 | 3.0 |
| Total | 101 | 100.0 |

From the study findings, 9.9% raised more capital required for the business from friends, 38.7% raised more capital required for the business from family, 13.7% raised more capital required for the business from merry go rounds, 1.0 % raised more capital required for their businesses from Banks, 1.0 % raised more capital required for their businesses from purchase on credit and 1.0 % raised more capital required for their businesses from other sources.

4.7.4 How to Reach Customers

Table 4.22 represents the findings on how the respondents reached their customers

Table 4.22: How to Reach Customers

| | Frequency | Percent |
|-----------------------------------|------------|--------------|
| By offering competitive prices | 45 | 44.6 |
| By offering good display of goods | 29 | 28.7 |
| By offering a variety of goods | 16 | 15.8 |
| By advertising (please specify) | 11 | 10.9 |
| Total | 101 | 100.0 |

From the study findings 44.6% of the respondents reached their customers by offering competitive prices, 28.7 % of the respondents reached their customers by offering good display of goods, 15.8 % of the respondents reached their customers by offering a variety of goods ,10.9 % of the respondents reached their customers by advertising.

4.7.5 Innovation influence on growth of SMEs

Influence innovation had on the growth and development of the business in Huruma is as presented in table 4.23

Table 4.23: Innovation Influence on Growth of SMEs

| | Frequency | Percent |
|----------------------------|------------|--------------|
| Increased customer numbers | 33 | 32.7 |
| Increased sales | 31 | 30.7 |
| Increased profitability | 35 | 34.7 |
| Increased stock levels | 2 | 2.0 |
| Total | 101 | 100.0 |

From the study findings, 32.7% of the respondents indicated that innovation has helped to increase the number if customers,30.7% indicated that innovation has led to increased sales,34.7% of the respondent indicated that innovation has led to increased profitability and 2% indicated that innovation has led to increased stock levels.

4.7.6 Competitor

The findings on whether pricing was influenced by competitors is presented in table 4.24

Table 4.24: Competitor

| | Frequency | Percent |
|-------|-----------|---------|
| Yes | 86 | 85.1 |
| No | 15 | 14.9 |
| Total | 101 | 100.0 |

From the data findings, majority (85.1%) of the respondents indicated that their pricing was influenced by their competitors while as 14.9% of the respondents indicated that their pricing was not influenced by their competitor.

4.7.7 Influence of Innovation on growth and development of SMEs

The study sought to establish the extent to which innovations influenced the growth and development of their business. The findings were represented in table 4.25

Table 4.25: Influence of Innovation on growth and development of SMEs

| | Frequency | Percent |
|-------------------|-----------|---------|
| Very great extent | 12 | 11.9 |
| Great extent | 38 | 37.6 |
| Moderate extent | 31 | 30.7 |
| Little extent | 9 | 8.9 |
| No extent | 11 | 10.9 |
| Total | 101 | 100.0 |

From the study findings, 11.9% of the respondents indicated that innovations influenced the growth and development of their business to a very great extent to a very great extent, 37.6% indicated that innovation influenced the growth and development of their business to a great extent, 30.7% of the respondents indicated that innovations had a positive effect on the growth and development of their business to a moderate extent, 8.9% of the

respondents indicated that innovations influenced the growth and development of their business a little extent and 10.9% of the respondents indicated that innovations did not influence the growth and development of their business to any extent.

4.8 Physical Infrastructure on the growth and development of SMEs

The study sought to establish whether the physical infrastructure affected the growth and development of SMEs in Huruma. The findings were as presented in table 4.26

Table 4.26: Physical infrastructure influence on SMEs

| | Frequency | Percent |
|---------------|-----------|---------|
| No influence | 25 | 24.8 |
| Small extent | 20 | 19.8 |
| Middle extent | 37 | 36.6 |
| Large extent | 19 | 18.8 |
| Total | 101 | 100.0 |

From the study findings, 24.8% of the respondents indicated that physical infrastructure had no influence over the business enterprise, 19.8% indicated that physical infrastructure affected the business enterprise to a small extent, 36.6% indicated physical infrastructure affected the business enterprise to a middle extent and 18.8% indicated that physical infrastructure affected the business enterprise to a large extent.

4.8.1 Factors contributing to the growth and development of SMEs

The study computed the mean and the standard deviation to find out the extent to which the following factors have contributed to the growth and development of their business

Table 4.27: Factors contributing to the growth and development of SMEs

| | Mean | Std. Deviation |
|-----------------------------------|--------|----------------|
| Education and training | 3.1188 | 1.72213 |
| Peer influence | 2.4059 | 1.34297 |
| Innovativeness | 2.4455 | 1.22862 |
| Registration process and licences | 2.1485 | .97351 |
| Physical Infrastructure | 2.4158 | 1.17701 |
| Government policy on SMEs | 2.2277 | 1.19064 |

From the study findings, it was established that education and training contributed to the growth and development of their business to a moderate extent as shown by a mean of 3.1188. On peer influence it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.4059. On Innovativeness it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.4455. On registration process, policy and licenses it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.1485, On physical infrastructure it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.4158 and finally on government policy on SMEs it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.2277.

Table 4.28 Inferential Statistics

| | | Growth and Development of SMEs | Education and training | Business registration Process | Peer pressure | Innovativeness | Physical Infrastructure |
|--------------------------------|---------------------|--------------------------------|------------------------|-------------------------------|---------------|----------------|-------------------------|
| Growth and Development of SMEs | Pearson Correlation | 1 | | | | | |
| | Sig. (2-tailed) | | | | | | |
| Education and training | Pearson Correlation | 0.216 | 1 | | | | |
| | Sig. (2-tailed) | 0.031 | | | | | |
| Business registration Process | Pearson Correlation | 0.236 | 0.481 | 1 | | | |
| | Sig. (2-tailed) | 0.018 | 0 | | | | |
| Peer Influence | Pearson Correlation | -0.01 | 0.236 | -0.039 | 1 | | |
| | Sig. (2-tailed) | 0.918 | 0.018 | 0.697 | | | |
| Innovativeness | Pearson Correlation | 0.064 | -0.504 | -0.375 | -0.024 | 1 | |
| | Sig. (2-tailed) | 0.527 | 0 | 0 | 0.811 | | |
| | N | 100 | 101 | 101 | 100 | 101 | |
| Physical Infrastructure | Pearson Correlation | 0.202 | 0.194 | 0.392 | 0.076 | 0.313 | 1 |
| | Sig. (2-tailed) | 0.044 | 0.052 | 0 | 0.455 | 0.001 | |

The data presented before on education and training skills, peer influence, registration process, innovativeness, and physical infrastructure were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors (education and training skills, peer influence, registration process, innovativeness, and physical infrastructure) and the Growth and Development of SMEs. According to the table, there is a positive relationship between Growth and Development of SMEs education and training skills, Business registration Process, Innovativeness and Physical Infrastructure of magnitude 0.216, 0.236, 0.064 and 0.202 respectively. The positive relationship indicates that there is a correlation between the factors and the Growth and Development of SMEs in Huruma. This infers that Business registration Process has the highest effect on the Growth and Development of SMEs in Huruma, followed by Education and training, then Physical Infrastructure, Innovativeness while peer influence has negative weak correlation with the growth and development of SMEs in Huruma.

4.9 Summary of Chapter Four

The preceding chapter has presented the findings obtained by the study. The findings are presented in form of frequency tables which are enhanced by an explanation of the data interpretations. The chapter is organized as per the study's objectives. The study first presented the demographic information about the respondents then proceeded to present findings on the first objective which was on the influence of education and training on the performance of SMEs in Huruma. Then the effects of peer influence on the growth and development of SMEs. The chapter also presents the findings on the effects of registration process, licenses and policy on the growth and development of SMEs in Huruma. The study then presents data findings on the effects of individual innovativeness on growth and development of SMEs and finally the effects of physical infrastructure.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, DISCUSSIONS, CONCLUSION AND

RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was on establishing and analyzing the numerous challenges influencing growth and development of SMEs in Huruma Division Nairobi County.

5.2 Summary of the findings

The study findings established that a majority (54.4%) of the respondents were male, (40.6%) of the respondents were between the age of 31 and 40 years ,41.6% had been in their businesses for 6 to 10 years and 50.5% of the respondents had achieved secondary level as their highest level of education. Majority (53.5%) of the respondents had not attended any form of training on business management and out that of those respondents who had attended training on business management, majority (38.3%) had covered subjects on how to keep records, (18.8%) of them sponsored their own training.

On education and training, 50.5% of the respondents had achieved secondary level as their highest level of education. 25.7% of the respondents had achieved College University as their highest level of education. As to whether the respondents had ever attended any training on business management, 53.5% of the respondents had not attended any form of training on business management while 46.5% of the respondents had attended training on business management. On the subjects covered in the training, 38.3% had covered subjects on how to keep records. 21.3% of the respondents had

attended training whose subject was on business management. On sponsor of the training, 18.8% of the respondents sponsored their own training, 13.9 % of the respondents were sponsored by their banks while as 13.9% of the respondents had other sources of sponsorship.

On whether they had been influenced in any way by their friends and age mates to start their current businesses, majority 58% of the respondents had been influenced by their friends and age mates to start businesses. Further the study established the influence from friends and age mates, greatly improved business performance as indicated by 62%. The study further sought to establish whether the respondents shared business experiences with their friends. From the findings, the respondents indicated that they shared their experiences with their friend. However they indicated that there was a limit as regards what information and business experience and tricks that could be shared.

From the data findings, majority 67.3% of the business were registered 63.3% indicated that the procedure involved in business was very challenging while (63.4%) of the respondents indicated that Licensing was very challenging. 4.0% of the respondents indicated that business registration affected the growth and expansion of the business to a very great extent, and 20.8 % of the respondents indicated that business registration to a little extent. Further 36 % of the respondents indicated that availability of ready market is what influenced them to start the business while as 52 % of the respondents indicated that lack of employment is what influenced them to start the business.

Majority (85.1%) of the respondents indicated that their pricing was influenced by their competitors, 11.9% indicated that innovations affected the growth and development of

their business to a very great extent to a very great extent, 24.8% of the respondents indicated that physical infrastructure had no influence over the business enterprise and 36.6% indicated physical infrastructure affected the business enterprise to a middle extent. From the study findings, it was established that education and training contributed to the growth and development of their business to a moderate extent as shown by a mean of 3.1188 and government policy on SMEs it was established that it contributed to the growth and development of their business to a little extent as shown by a mean of 2.2277.

5.3 Discussion of Findings

On the influence of education and training on the performance of SMEs, the study established that majority of the respondents had achieved secondary level as their highest level of education. These findings are consistent with those of Anderson (1993) who argued that many SMEs owners or managers lack business training and experience. They develop their own approach to management, through a process of trial and error King and McGrath (2002) adds to this by arguing that majority of those who run SMEs are ordinary lot whose educational background is lacking hence may not well equip to carry out managerial routines for their enterprises. This could explain the reason as to why some few entrepreneurs sponsored their training to acquire the necessary skills to manage their businesses. Another majority had not attended any form of training on business management majority of the respondents had attended training on business management in areas like keep records, business management, running a business, customer service, sourcing of goods and human resource management. Some entrepreneurs sponsored their own training while others relied on donations. The knowledge acquired in the training helped SMEs by Improving their record keeping, improving level of accountability,

improving the relationship with customers, enabling them access loans, enabling them manage the business better and enabling them to relate well with suppliers. This training is relevant because as Wanjohi and Mugure (2008) argued, most of those running SMEs in this sector have at least attained college level education. Education and training skills also affected the performance of SMEs to a great extent.

On the relationship between peer pressure and the performance of SMEs, the study established that the respondents had been influenced by their friends and age mates to start businesses. Majority of the respondents also indicated that peer influence greatly improved business performance. The respondents shared their experiences with their friend as regards what information and business experience and tricks that could be shared. These findings are consistent with those of K-rep research paper Series No 24 (1995) where it was established that most SMEs were influenced by their peers on what businesses to start which greatly affected the performance of their business as they all ended up opening similar business thus bringing about high levels of competition.

On the influence of innovativeness and SMEs growth and development, the respondents indicated that availability of ready market and lack of employment is what influenced them to start the business. These findings are consistent with those of Foley & Green (1989) who argued that lack of information and knowledge also causes lack of innovativeness in SMES. Majority of the respondents indicated that they used technology in production, in purchase, in distribution, in payment and in other area of the business. The findings show that the entrepreneurs used information technology in their different operations. Hallberg (1999) argued that with high levels of innovation, SMEs would be able to gather the much needed energy that would grow their business to profitability.

The respondents indicated that they reached their customers in different ways. Some reached them by offering competitive prices, offering good display of goods, offering a variety of goods and by advertising. The respondents indicated that innovation affected Growth of Business through increased customer numbers, increased sales, increased profitability and increased stock levels. Hallberg (1999) argued that the adoption of technology improves business performance.

On the registration process and policies and SMEs growth, the study established that majority of the entrepreneurs had registered their business although quite a number had not. The entrepreneurs acknowledged that regulations challenges influenced their registration process including other mandatory requirements to operate their businesses. The study established that licensing affected the growth of the business in Huruma Estate.

On the physical infrastructure, the respondents indicated that physical infrastructure had no influence over the business enterprise. Physical infrastructure affected the business enterprise to a small extent. These findings are in contradiction with the findings of Hirschman (1958) who argued that infrastructures are those services without which primary, secondary and tertiary production activities cannot function and that these infrastructures can be extended to include education, public health to transportation, communication, power and water supply. Kessides (1993) posits that: infrastructure contributes to economic growth both through supply and demand channels by reducing cost of production, contributing to the application of modern technology, raising the economic returns of labour (by reducing workers' time in non- productive activities or improving health), Infrastructure contributes to rising quality of life by creating amenities, providing consumption goods (transport and communication services) and

contributing to macroeconomic stability and that Infrastructure does not create economic potential; only develops it where appropriate conditions (i.e. other inputs such as labour and private capital) exist.

5.4 Conclusions

From the findings the study concludes that education and training affected SME growth and development. This was specifically in terms of management skills inadequacy. The entrepreneurs who had received training and were well educated performed better than their colleagues who were not well educated. However, this was not uniform across board as performance and growth of the SMEs was a function of many factors some of which were beyond the scope of this study.

The study further concludes that the entrepreneurs shared information about their businesses with their friends and family. In fact, some entrepreneurs were influenced by their friends and family members to start business. However, the extent to which information about their businesses was shared was limited as some information was considered confidential and business secrets.

The study also concludes that an individuals' innovativeness affects SME growth and development of the business. Through innovations, SMEs are able to deliver quality services to their customers that outperform their competitors. This gives the SMES an added competitive advantage. The study finally concludes that the registration process and policies affected SME growth and that licensing was very challenging. Through registration, the SMEs could gain advantages like accessing credit from financial institutions as their businesses could act as security.

5.4 Recommendations

The study found out that education and training affected SME growth and development and that majority of the respondents had not attended any form of training on business management it therefore recommends that training policies should be introduced to the SMEs owners. As county governments look at SMEs as a way of providing employment to the many unemployed youths, they should consider investing in these people by providing education and training.

The study also found out that an individuals' innovativeness affects SME growth and development of the business, it therefore recommends that the stakeholders should provide funds to enable innovativeness.

The study further found out that the registration process and policies affected SME growth and that licensing was very challenging it therefore recommends that the government should come up with easy procedures in registration process and licensing of the SMEs.

5.5 Recommendations for Further Research

This study focused on establishing and analyzing the numerous challenges influencing growth and development of SMEs face in Huruma Division Nairobi County, it therefore recommends that a similar study should be done on challenges influencing growth and development of SMEs face in Nairobi County as a whole. Further study should be done on growth strategies employed by SMEs in Nairobi County as a whole.

The study further recommends that another study on factors affecting the performance of Micro enterprise be carried out at these are the future's SMEs. By nurturing micro enterprises, future SMEs will be born.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER TO THE RESEASRCH PARTICIPANTS

Bramuel Kitisha Kedogo
P.o Box 8867-00100
Nairobi.
Tel: 0725-759875

Dear sir/madam

Iam Bramuel Kitisha Kedogo from the University of Nairobi carrying out a study on the factors inflecting growth and development of SMEs in Huruma. The research will be submitted for partial fulfillment for the degree of Masters of Arts in Project Planning and Management.

I hereby request you to answer the following questions as honestly as possible. This information will be kept completely confidential and anonymous asn will not be used for any other purpose apart from the stated research

Thank you so much for your time and cooperation

Yours truly,

Bramuel Kedogo

APPENDIX II: QUESTIONNAIRE TO THE RESPONDENT

Hello, my name is **BRAMUEL KITISHA KEDOGO** a Masters of project planning and management student at University of Nairobi. I am carrying out a research on **“FACTORS INFLUENCING GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRICES (SME) IN KENYA. A CASE OF HURUMADIVISION: NAIROBI COUNTY.** The information you give will be used exclusively for academic purposes and treated with utmost confidentiality.

SECTION A: GENERAL INFORMATION

1. What are your names (Optional)?
2. What is your gender? Male Female
3. What is your Age? Below 20 Years 21-30 Years 31-40 years
41-50 years Above 50 Years
4. What is your country of origin?.....
5. What is the name of your business?
6. What is the nature of your business?
7. How long have you been in this business?.....
Below 5 Years 6-10 Years 11-15 years Over 16 year
8. How much capital did you initially invest into your business? Ksh

SECTION B

Education and training

9. Education level

None Primary Secondary
College University Other

10. Have you attended any form of training on business management?

Yes No

11. If yes, please indicate the subjects covered in the training

How to keep records
How to source goods
How to run a business
How to borrow capital
Business Management
Customer service
Human resource management
Other Please explain-----

12. Who was the sponsor of the Training

Myself My Bank Other Please specify -----

13. Do you evaluate the performance of your business

Yes NO

14. If yes, how often

Weekly Every two weeks Monthly Yearly Other
Please specify -----

15. In what ways the education and knowledge acquired affected the growth of your business

- Improved my record keeping
- Improved my level of accountability
- Improved my relationship with customers
- Enabled me access loans
- Enabled me manage the business better
- Enabled me to relate well with suppliers
- Other -----

16. To what extent has education and training affected the performance of your business?

(Please tick one)

- Very great extent
- Great extent
- Moderate extent
- Little extent
- No extent

SECTION C

Peer Influence

17. Were you influenced in any way by your friends and age mates to start this business?

- Yes No

18. If yes, how has their influence affected the performance of your business?

- Improved greatly No effect I do not know

19. Do you share business experiences with your friends?

Yes No

20. How has this sharing influenced the performance of your business?

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

SECTION D

Registration process, licenses and policy

21. Is your business registered Yes No

22. How long did it take you to register your business by getting a licence

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

23. How much did it cost you to get the licence

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

24. If your business is not registered, what are the reasons for the same.....

.....
.....

25. Below are some of the regulatory challenges experienced in running business. Please indicate the extent to which they have affected the growth of your business:

| | Very challenging | Challenging | Not challenging |
|--|--------------------------|--------------------------|--------------------------|
| a) Taxation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Procedure involved In business registration | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c) Licensing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d) Others. | | | |
| Specify..... | | | |

26. To what extent has business registration affected the growth and expansion of your business?

| | |
|-------------------|--------------------------|
| Very great extent | <input type="checkbox"/> |
| Great extent | <input type="checkbox"/> |
| Moderate extent | <input type="checkbox"/> |
| Little extent | <input type="checkbox"/> |
| No extent | <input type="checkbox"/> |

SECTION E

Innovativeness

27. What influenced you to start the business?

| | | |
|--|--------------------------|---------------|
| Availability of ready market | <input type="checkbox"/> | |
| Lack of employment | <input type="checkbox"/> | |
| New way of doing things in my business | <input type="checkbox"/> | |
| Business runs across our family | <input type="checkbox"/> | |
| Other | <input type="checkbox"/> | Specify ----- |
| ----- | | |

28. Do you use technology in either of the following areas in your business?

Production Purchase Distribution Payment Other

(Specify) -----

29. How did you chose the location of your business.....

.....

30. Did you have a business plan before you started.....

31. If yes what are the contents of your business plan?.....

.....

.....

32. Is your pricing influenced by your competitor? Yes No

33. Please specify any competitive advantage you have over your competitors.....

.....

.....

SECTION F

Physical infrastructure

34. To what extent has physical infrastructure affected your enterprise

No influence

Small extent

Middle extent

Large extent

35. What are some of the ways physical infrastructure has affected your business

.....

.....

.....

36. Which aspect of physical infrastructure affects your business most

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

SECTION G

To what extent would you say each of the following factors have contributed to the growth and development of your business? Use a scale of 5, Where 1=not at all; 2= little extent; 3= Moderate extent; 4=great extent; 5=very great extent

| Factor | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| Education and training | | | | | |
| Peer influence | | | | | |
| Innovativeness | | | | | |
| Registration process, policy and licences | | | | | |
| Physical Infrastructure | | | | | |
| Government policy on SMEs | | | | | |