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**EFFECT OF ACCESS TO CREDIT ON GROWTH OF SMALL AND
MICRO ENTERPRISES IN KENYA: CASE OF BOUTIQUES IN THE
NAIROBI CENTRAL BUSINESS DISTRICT**

BY

HENRY K. MAYABI

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
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DECLARATION

I, the undersigned, declare that this research project is my original work and has not been submitted for a degree in another University or for any award to any other college, Institution or University.

Name: Henry K. Mayabi

Signature..........Date.....9/5/2013.....

This research project has been presented for examination with my approval as University supervisor.

Mr. Gerald Atheru

Lecturer, Kenyatta University

Signed-----Date-----

For and on behalf of Kenyatta University

Chairman: Department of Accounting and Finance

DEDICATION

I dedicate this thesis to my family members and friends for their support and encouragement through the entire course of this study.

ACKNOWLEDGEMENT

It would not have been possible to write this project without the awesome support offered to me. Above all, I would like to thank my Almighty God for life, strength, knowledge and blessings in completing this project.

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OPERATIONAL DEFINITION OF TERMS

- Access** The ability to have recourse available for business activities.
- Boutique** Refers to small cloth/ textile shops within the Central Business District accommodated within exhibition halls.
- Credit** A source of finance provided by financial and non-financial institutions with arrangement of repayment at an agreed interest rate.
- Growth** Refers to the direct outcome of investment into business activities with indicators such as number of staff, financial position, stock levels and number of sale outlets.

ACRONYMS/ ABBREVIATIONS

CAMPARI	- Character of the borrower, Amount to be borrowed, Margin or profit from lending, Purpose of the loan, Ability to repay, Repayment amounts, Insurance for the loan
CBS	-Central Bureau of Statistics
DA	- Development Agencies
GDP	-Gross Domestic Product
ICEG	- International Congress of E-Government
KES	- Kenyan Shillings
LDCs	- Less Developing Countries
MFIs	- Micro-Finance Institutions
NGO	- Non Governmental Organization
NCBD	- Nairobi Central Business District
OECD	- Organization for Economic Corporation and Development
SME	- Small and Micro Enterprises

ABSTRACT

The role of the financial sector in promoting economic growth is well acknowledged, dating back to early economists. As much as credit is essential in the growth of enterprises and on overall economies, the lack of access to credit has been widely regarded as a hindrance to such growth. Small and Micro Enterprises (SMEs) in Kenya have been boosted in accessing credit through government schemes as well as Micro Finance Institutions. This study seeks to analyze the effect of access to credit on the growth of SMEs. The researcher expects to investigate and explain the relationship between access to credit and the high entry into SME and specifically the boutique business.

The study takes on a descriptive approach with its focus on boutique business in the rapidly growing Nairobi Central Business District. Data collection is undertaken by use of questionnaires administered to a sample consisting of business owners and sales people. Data collected was analyzed through the use of SPSS analytical tool and tables with inferential statistics created to answer the aims and objectives of the study.

The findings and conclusions of this study indicated that for businesses to grow there has to be a level of accessed credit as shown by the significant relationship of between access to credit and level of funds and financial management skills hence leading the researcher to conclude that an increase in access to credit leads to growth of SMEs funds and financial management skills while the same relationship exists between access to credit on level of stocks and impact on human resources.

The researcher recommends the uptake of credit for small businesses wishing to grow their stocks, level funds and improving their human resource in terms capabilities in terms of numbers, experience and remuneration.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and micro enterprises (SMEs) are one of the fastest growing industrial sectors in the world today. SMEs are noted around the world as a vital sector to the economic development of a country and are often referred to as the backbone of society's growth (Hallberg, 2001).

The importance of SMEs is obvious, but until now there is no unified definition of it. There has been considerable discussion related to the appropriateness of categorizing SMEs based on the number of employees. According to Doole and Lowe (2007) a number of definitions of the small and micro sized firm sector exist, but the most commonly used terms relate to the number of employees in the company. The European Union, for example, has recently changed its definition of SMEs from those firms employing less than 500 staff to those employing less than 250. This characterization effectively includes 99 percent of all firms in Europe, and accounts for roughly 50 percent of employment (Doole & Lowe, 2007).

While individually an SME may not have a significant impact on the economy like the large corporations do, their collective social, environmental and economical impact is significant. Over the last few decades, the contributions of the SMEs sector in the development of the largest economies in the world have created interest on the uniqueness of the SMEs and this has succeeded in overruling previously held views that SMEs were only "miniature versions" of larger companies (Al-Shaikh 1998; Gaskill *et al.* 1993). SME's are engaged mostly in activities such as carpentry, masonry, barber/beauty salon, food vending i.e. fresh food, trade and meal preparation and sales/petty trading. Most SME's operate as sole traders or family businesses.

A research paper by OECD indicated that SMEs make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD, 2000).

In a review of the cost of credit in Kenya FSD (2009) notes that credit is crucial in the growth of enterprises, and enterprise growth is essential to the growth of employment and the overall economy. In many developing countries, including Kenya, bank lending is a prime source of credit to enterprises.

However, FSD (2009) noted that fewer than 20 percent of SMEs in Kenya have ever received credit from formal financial institutions. The access is limited due to challenges in assessing SME risk in a cost-effective manner. Lenders in Kenya address this risk-assessment problem either by not lending to SMEs at all or by requiring collateral and charging high interest rates. According to Mwangi and Sichei (2011) lending institutions refer to the CAMPARI framework for credit assessment which looks at Character of the borrower, Amount to be borrowed, Margin or profit from lending, Purpose of the loan, Ability to repay, Repayment Amounts, Insurance for the loan or security. This leads to most SMEs being rated as credit-unworthy in most cases.

The Government has however identified the sector as one of the key drivers of vision 2030. The sector is expected to play an effective role as an engine for economic growth, poverty eradication and unemployment creation and is crucial in meeting projected development objectives of Kenya. In a bid to accelerate growth and reduce poverty Governments and other agencies (financial and non-financial) have played a huge role in promoting SME growth and development in Kenya and in the world. Through capacity building of business associations and financial institutions in the sector, SMEs have been able to benefit and significantly

grown in returns and increased assets. Micro-finance institutions have also developed over the years in response to the widespread need for finance among small and micro institutions that are unable to secure loans through the conventional banking system (Atieno, 2001). Micro finance bodies in Kenya now offer small loans among the rural poor, micro and small scale entrepreneurs.

Therefore, this study seeks to analyze the effect of access to credit on the growth and especially concentration of SMEs in clothes vending (commonly known as exhibitions or boutiques) in the Nairobi Central Business District (NCBD). The researcher expects to investigate and explain the relationship between access to credit and the high entry into SME and specifically the boutique business.

1.1.1 Nairobi business profile

Nairobi's early growth was fuelled by rural migrants and an explosion of growth took place between 1979 and 1989 when 772 624 newcomers came to the city (NEMA, 2003). At the time most of businesses were owned by Indians and consisted of large stores which have also now been renovated to accommodate more businesses. According to the Nairobi City Council Licensing department there are 69,067 small and micro trader shops or retail services and a significant number of them are in apparel trade (NCC, 2011).

Dining (2010) carried out a survey on sectoral distribution of SME in Kenya and the results were that SMEs are distributed as bars/hotel/restaurants 6%, trade 64%, other services 15%, construction 2% and manufacturing 13%. Boutiques are part of the trade sector that specialise in the clothing or apparel business in Kenya and in recent years have mushroomed in various streets and avenues of Nairobi Central Business District (NCBD). In the last 5 years various buildings in and around the NCBD have renovated office space to cater for smaller form of

business including cyber cafes, photocopy stands, jewelry stores, phone accessory shops and boutiques among many others.

1.2 Statement of the problem

The role of the financial sector in promoting economic growth is well acknowledged, dating back to the early economists like Schumpeter (1911) who strongly argued in support of finance-led growth indicating that businesses and enterprises with adequate financial access have greater potential to grow. In the years between 1970 and 1990 governments and development partners unveiled credit schemes that targeted particular sectors, enterprises, regions and groups of peoples through Development Banks, MFIs and direct government assistance bilaterally or otherwise.

Such schemes have existed and continue to exist in Kenya with the latest such schemes being the women and youth development funds. The two schemes are designed to improve access of credit to women and the youth – two groups who tend to be marginalized from formal credit markets. In similar fashion, the government has also designed a credit scheme for the SMEs to deal with their credit access problems.

Starting and operating a small or micro business includes a possibility of success as well as failure. SMEs in Kenya are estimated at 7.5 million and contributed 40% of the Gross Domestic Product in 2008 (Economic Survey, 2009). The National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings in 1999, found that there were 1,289,012 micro and small enterprises in the country, employing 2,381,250 people in 1999 in Kenya while the earlier results of the 1993 National Baseline Survey of the Micro and Small Enterprises in Kenya (GEMINI PROJECT) estimated that there were 910,455 micro and small size enterprises in Kenya offering employment to 2,050,855 people (Parker

and Torres, 1994). This findings point at a general picture of an increase in small and micro enterprises in Kenya.

Previous studies such as Wanjau, Gakure and Kahiri (2010) on SME growth in Kenya have focused on the contributions of quality initiatives towards growth and industrialization of manufacturing small and medium enterprises. Available literature also suggests that some SMEs have grown in the recent past through expansion of shops and in products being sold (Kinyanjui & McCormick, 2003; Kamau and Munandi, 2009). Mwangi and Ouma (2012) assess the relationship of access to credit and social capital noting that social capital enhances financial inclusion through increased access to informal loans. Further research on the above studies could be done as they only provide partial insight on growth and mainly focused on quality and quantity initiative as well as competition and without due regard to how the growth of SMEs relates to recent moves to open the credit market to SMEs and none of this studies had done a case study on boutiques within the Nairobi central business District. Crijs (2001) identifies resources, external factors such as the market and social factors, organizational factors and entrepreneurial orientation as the success factors for growth in his integrated model for business growth. Mwangi (2011) in his descriptive analysis of access to credit in Kenya finds that illustrates that there is an increase in access to credit in 2009 (39.62%) up from 36.58% in 2006.

This study will therefore investigate the relationship between access to credit and the growth of boutiques in the Nairobi Central Business District in terms of expansion of human, physical and financial resources as well as on the managerial skills.

1.3 Objectives of the Study

The general objective of the study is an investigation into the effect of access to credit on the growth of boutiques in the Nairobi Central Business District.

1.3.1 Specific Objectives

The study's main objective will be guided by the following specific objectives:

- i. To find out the effect of access to credit on the number of human resources in boutiques in the NCBD.
- ii. To find out the influence of access to credit on the level of funds available for expansion of boutiques in the NCBD.
- iii. To find out the effect of access to credit on growth of stock levels of boutiques.
- iv. To determine whether financial management skills of boutiques in the NCBD are influenced by the access to credit.

1.4 Research Questions

- i. Does access to credit affect the number of human resources of boutiques in the NCBD?
- ii. How does access to credit influence the level of funds available for expansion of boutiques?
- iii. What is the effect of access to credit on the level of stocks of boutiques within the NCBD?
- iv. Does access to credit influence the level of financial management skills of boutique owners within the NCBD?

1.5 Significance of the study

A study of the effects of access to credit on growth of SMEs in the NCBD is vital because it provides information that will enable effective measures to be undertaken to improve

infrastructure, policies and other factors that lead to the success of SMEs. It will also enable the entrepreneurs to have knowledge as to where and how to channel efforts in order to improve their performance. The study is also expected to contribute towards increased literature on the size of the SME sector.

The study will be of more importance to:

Financial institutions: This will help enrich their collection of knowledge and hence they can be able to positively give advice to their customers with confidence when offering credit facilities, they can also be able to monitor growth of the SME customers and thus maximize on their profit.

Academicians: It is good for academicians because the study will expand their knowledge base and form the basis for further research.

Entrepreneurs: The study will help small and micro scale entrepreneurs in the county to understand the benefits of credit to their businesses and the findings assist in making decisions on location and sourcing of finance for expansion purposes.

1.6 Justification

In countries like Kenya, where the SME sector is one of the dominant sectors of the economy offering employment to a significant percentage of the population, the level and speed of economic development is determined to a great extent by the growth of the sector. This sector is composed of small, fragmented and informal institutions. Therefore, the sectors growth implies the growth of improved services and products from augmenting technological change and appropriate economic incentives and assistance to these entrepreneurs. The Kenya Government has influenced the concentration of SMEs by coming up with policies to designate areas, however, the NCBD has recently experienced a wave of SME entrants whereby buildings have been transformed from office space to small business locations.

Therefore, a study is required on this and other aspects of SME growth so as to device effective and appropriate micro and small business policies and strategies.

1.7 Scope of the Study

The study aims at investigating the relationship between access to credit and growth of businesses within the NCBD that fall into the definition of small and micro enterprises. More specifically, it will focus on SMEs that are in the clothes business in the NCBD with the majority of the businesses having started operations in 2007.

1.8 Limitations of the Study

The study might face the following limitations; the study is based in one region (Nairobi) and the attitudes of the respondents towards the study may significantly influence their responses. The study is confined to the case of boutiques hence the research findings may not be easily generalized.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

Growth has been traditionally been viewed as an aggregate production function, whose existence is tied to the assumption of optimal resource allocation within a business or the economy. During the last two decades, researchers and scholars have had a renewed interest in analyzing business growth, coming up with various measures and advances in understanding business growth. On the other hand, the theoretical understanding of growth has also progressed on various fronts including technological innovation, returns, interaction with population, human capital and in growth.

2.1.1 Growth Theories

The world's wealth grows, thanks to the growth of knowledge (Arrow, 1962). According to Arrow (1962) new ideas are got when old ideas are used. This process is referred to as 'Learning by doing' and the learning process operates at the level of the industry as a whole in that each producer learns from the experience of other producers. Romer (1990) recognizes the importance of research indicating that the more researchers we have, the faster we can grow. However, Jones (1995) argues that science cannot be all there is to growth and development indicating that in order to put new ideas into practice there requires resources and skills. In Lucas (1988) model there exists a world in which countries share the same technology but not the skills of their workers.

Models by Barron and Sala-i-Martin (1995), Mokyr (1992), Lucas (1999) point at incentives and inequality having major influence on the growth and development of an economy.

2.1.2 Theory of competitive equilibrium on business growth

You (1995) on equating the firm with the entrepreneur, points out that the size of the firm is determined by the efficient allocation of given resources including entrepreneurial resources under given technologies. Accordingly, the observed firm size is the efficient size, in the sense that long run costs are minimized at that point. Growth follows from the assumption of profit-maximizing behavior and from the shape of the cost functions. A firm will therefore grow until it has reached the size where long run marginal costs equal price, which is assessed as the “optimum” size of the firm.

Lucas (1978) in his review of the theory on competitive equilibrium to explain business growth assumes that a firm’s output is a function of managerial ability as well as capital and labour. Lucas postulates therefore one production technology subject to constant returns to scale, and a separate managerial technology with diminishing returns to scale or “span of control.” Managers with higher abilities (i.e., higher efficiency levels) will therefore have lower marginal costs and therefore will produce larger outputs. However, firm expansion will be limited due to decreasing effectiveness of the manager as the scale of the firm increases. An implication of the Lucas model is that, for a small business to grow, the small business owner must be willing and able to relinquish many day-to-day control functions and delegate those tasks to an enlarged, specialized management team.

2.1.3 Theory of entrepreneur choice and business growth

Theories of small business growth have extended analysis of the decision to start a business to that of the decision to grow the business. According to Davidsson (1991), firm growth is an indication of continued entrepreneurship. Economic theories take the willingness to grow a business for granted, by assuming profit maximization. However, empirical evidence suggests that small business owners are reluctant to grow even if there is room for profitable

expansion and that profitable firms of different sizes co-exist within industries. Thus, Davidsson (1991) argues that growth is a choice of the owner-manager and that profit maximization is only one of the possible motives for business growth.

2.1.4 Theories of stage of growth and development

According to the influential theory of Churchill and Lewis (1983), growth is part of the natural evolution of a firm. The authors identify five stages of growth: existence, survival, success, takeoff and resource maturity. In each stage of development a different set of factors is critical to the firm's survival and success. Growth thresholds may exist as obstacles to the transition from one stage to another. Accordingly, in the take-off stage – most relevant in a study of rapid growth – there are two major concerns or obstacles to firm growth: the ability of the owner to a) hire new people and b) delegate responsibility. The business will also need enough cash to satisfy the greater demand for financial resources brought about by growth.

2.2 Empirical Literature

According to Herrington et al. (2009) growth impediments originate in two places: within the individual owner and without, that is to mean in the environment. The external impediments such as information, credit markets and demand are more likely to change, and change more quickly with conditions and circumstances than internally generated impediments.

According to Davidsson and Wiklund (2000) a typical growth firm is one that experiences relatively stable growth in sales over considerable time, and where this growth in sales is at least to some extent accompanied by accumulation of employees and assets, so that organizational and managerial complexity increases with growth.

According to Herrington et al. (2009) access to finance is a major problem for the African entrepreneur. Lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in Africa. Stiglitz and Weiss (1981) termed the lack of finance as the finance gap. This suggests that new SMEs without finance may not be able to survive and grow.

Resources play a role helping the organisation from one phase to the other, with particular emphasis placed on obtaining cash or financial resources, personnel, managerial or leadership talent and in developing organisational systems, procedures or policies in a more formalised manner (Welbourne et al., 1998). Empirical evidence suggests that managers do think in terms of the 'stage' of their company (Eggers et al., 1994).

2.3.1 Access to credit and human resources

All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2004). SMEs in Kenya contribute significantly to employment. Whether business owners can access adequate and appropriate finance to grow their human resources is a particular concern for policymakers.

According to Cassar (2004) unlike with basic education, graduates are usually able to internalise the benefits in the form of higher wages. Higher wages require businesses to invest more of their capital, or retained profits in the human resource function. There is a danger that the benefits to society and to the business are forfeited to the extent that skilled workers permanently emigrate. This risk is greater in small-sized economies than in the larger ones, where return migration is common. Cassar (2004) notes that one way to lower the incentive for skilled workers to migrate and to reap the full benefit of a countries' investment in its own human resources is to pay attention to the size of the financial returns from higher education. Labour market policies as well as business policies that result in compressed wage

structures crimp the size of the financial returns that subsequently accrue. More generally, a better business environment lifts the financial returns to investing in education, improving the human resources in the market and reduces the incentive to emigrate and favours return migration.

Additionally, workers who are credit constrained will not be willing to accept lower wages, and firms which are credit constrained may not be able to pay workers more than their marginal product (Becker, 1962). Credit constrained firms are usually not observable, and are identified according to indirect criteria such as the response of wages to current and future jobs (Booth and Bryan, 2005).

2.3.2 Access to credit and level of financial resources (Funds)

According to a CFIB (2001) study debt is by far the predominant source of external financing among small firms, even though there are barriers associated with debt financing for small firms. Personal and corporate guarantees required in order to obtain financing from banks and the higher interest rates charged to smaller firms are the most common barriers to small business debt financing. With regard to equity financing, empirical evidence suggests that there are two principal reasons for the low incidence of external equity in small firm financing. Small business owners are reluctant to use external equity financing, because they do not want to lose control of their firms, even if that comes at the expense of the growth of the firm (Ward, 1993).

Rowe and Mason (1987) point out that the use of numerical descriptors in the form of financial ratios is very useful in showing the extent to which company revenue and profit objectives are achieved. According to Walsh (1997) a Conference Board Survey of financial indicators in 57 companies indicated that return on assets, return on sales, and return on equity were the most important performance measures employed. These measures

were among those used by Peters and Waterman (1982) to discriminate among excellent and non-excellent companies. Krueger (1992) has also emphasized the use of return on assets as an important performance measure in management analysis.

According to Mukhopadhyay and Amirkhalkhali (2004) the relationship between profit and growth seems obvious: profit provides the funds for growth. A firm can grow internally through investments in development projects in various ways. For example, it can grow by taking advantage of internal economies of scale, or product and industry diversification, or geographical expansion at home and abroad. It can take advantage of technological opportunities to grow through research and development, leading to product and process innovations. Or, it can grow through mergers and acquisitions. But, in all these cases, availability of internal funds makes it easier for a firm to undertake the growth projects and hence the case for profitability being an important element to business growth or expansion. Mukhopadhyay and Amirkhalkhali (2004) continue to note that even though a part of the capital for expansion may be obtained by borrowing, the availability and cost of external funding would generally be lower when a greater proportion of the funding is internal

2.2.4 Access to credit and level of physical stocks

Davidsson et al. (2009) explains that firms showing above-average profitability rates have demonstrated that they were capable to create value for their customers, establishing a resource-based competitive advantage over their competitors. Accordingly, firms following only those growth opportunities that match the most with their resource base are those which at the same time would exhibit a path of profitable growth. If they pursue growth opportunities that are not aligned with their resources they would not be able to create value.

Scarborough and Zimmerer (2006) identify some of the broad categories of physical resources as being transport, fixtures and fittings, plant and machinery, furniture and office equipment, resale stock, raw materials and components, and materials and consumables.

Assessing the needed physical resources of a business requires the entrepreneur to go through the list and to allocate realistic prices or costs to each item. These will be used to feed into the budgetary plan and cash flow forecasts. Minor items will probably be paid for at the time of purchase, but for major items of capital expenditure like machinery or vehicles, decisions must be made about how these will be financed. According to Scarborough and Zimmerer (2006) businesses need to obtain and repay loans to buy equipment, or the payment of hire-purchase deposits and the subsequent phasing of payments for plant or vehicles.

2.2.5 Level of financial management skills and access to credit

Gartner (1988) defines an entrepreneur as someone who creates new independent organizations. The concept of the entrepreneur as a rational decision maker is very much in contrast with the approaches to firm location that have characterized the late twentieth and the early twenty-first centuries. These approaches assign a very important role to personal characteristics of the entrepreneur, to the network of both personal and business relationships around the firm, and to influences on the spatial economic system that includes rent costs and other premises costs such as electricity and water (Brons and Pellenbarg, 2003).

Schumpeter (1934) defined entrepreneurs as innovators who implement entrepreneurial change within markets, where entrepreneurial change has five manifestations: the introduction of a new (or improved) good; the introduction of a new method of production; the opening of a new market; the exploitation of a new source of supply; and the re-engineering/organization of business management processes.

Kallon (1990) found that the capital needed to initiate a business is significantly negative when related to the rate of growth for the business. He also found that access to commercial credit did not contribute to entrepreneurial success in any significant way, and if it did, the relationship would be negative. Management such as accounting, finance, personnel, and

management issues, have been cited as a major cause of business failure for small businesses in the literature. Tushabomwe-Kazooba (2006) found out that that poor recordkeeping and a lack of basic business management skills are major contributors to small business failure in Africa.

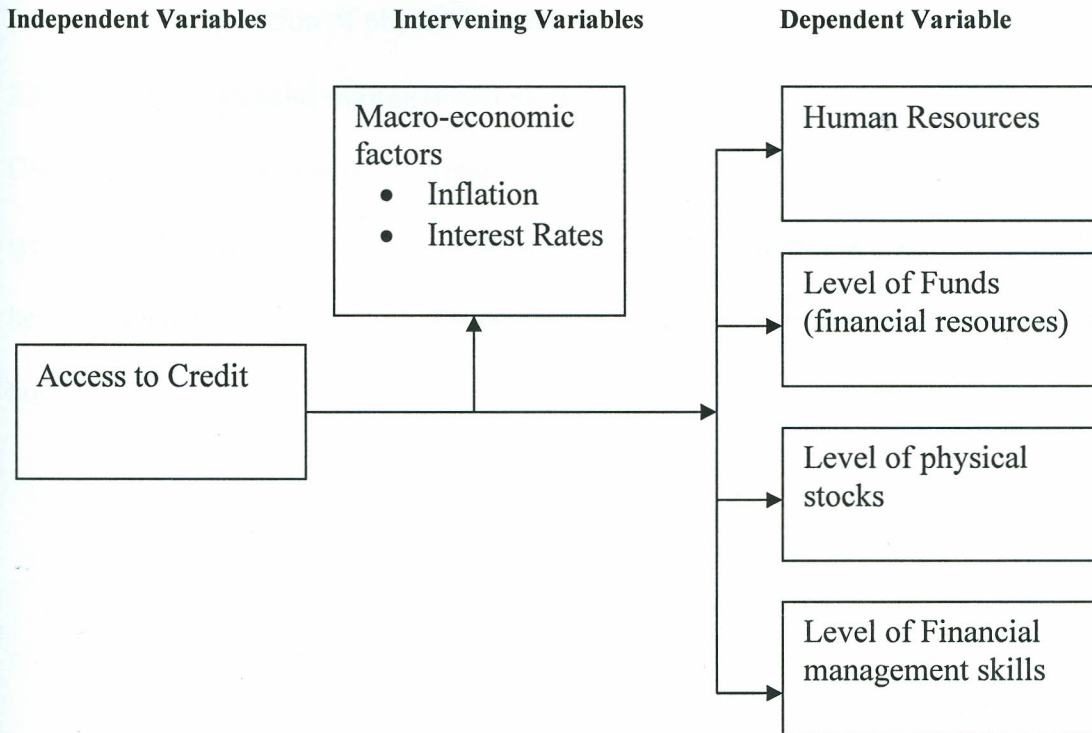
Many SMEs owners or managers lack managerial training and experience. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill, 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made (King and McGrath 2002). Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may be ill prepared to face changes in the business environment and to plan appropriate changes internally and increase the desire to grow, leadership and management.

According to OECD (2000) one reason why people pursue higher levels of education is its anticipated benefits in the labour market, not only in terms of the types of jobs for which they will be qualified, but also in terms of the ability to find employment, remain employed, and receive at least a living wage. The greater the market's rewards, the greater the incentive to continue with one's education and gain rewards of higher levels of education

Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out SMEs in Kenya are not quite well equipped in terms of education and skills. Research 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 invest more financial resources to skills and management and thus addressing entrepreneurial orientation.

2.3 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Author, 2013

Explanation

2.3.1 Human Resource

Refers to the level or numbers of human resources available to improve status of the business or accomplish business objectives. Human resources can be measured in numbers, experience, qualification or remuneration.

2.3.2 Level of funds

Refers to the ability of the business to finance its chosen growth strategy in relation to new products, distribution channels and production capacity.

2.3.3 Level of physical stocks

This refers to the level of stock that is cost effective, in terms of sustaining the business in a profitable and economic manner. Lack of internal financial resources may lead to sourcing for credit for acquisition of physical resources.

2.3.4 Level of financial management skills

Owners of business depend on financial management skills in making decisions on which type of funding methods to use for achieving business objectives. The use of credit can also be channeled to improving key aspects of financial management such as bookkeeping and budgeting among others.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

According to Kerlinger (1986) “Research design is the plan and structure of investigation so conceived so as to obtain answers to research questions. Cooper and Schindler (2003) summarizes the essentials of research design as an activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity.

The study took up a descriptive research design as it aims at explaining the characteristics of the population and enables the researcher to summarize and organize data in an effective and meaningful manner. A descriptive research design provides tools for collection, describing statistical data and summarizing it into a simple and understandable form. It is convenient method because it can be completed relatively quickly and it’s cost effective (Polit and Beck, 2004).

3.2 Area of Study

Nairobi Central Business District was preferred as the area for this study due to the high population of boutiques concentrated in the business district.

3.3 Target Population

The targeted populations of this study included owners of boutiques located in the NCBD. According to the NCC (Oct, 2012) there are 2200 boutique businesses operating in and around the NCBD. The research primarily targeted boutiques since they are the SMEs which have been increasing in number and concentration in the NCBD in the last few years.

3.4. Sample size and Sampling Technique

The purpose of sampling is to gather information about the population under consideration at minimum cost, time and human power. This is best achieved when the sample possesses all the characteristics of the population. The research project adopted a simple random sampling approach by adopting the rule of thumb that provides for a 5% for a large population of between 1,001 and 5,000 subjects (Gay, 1995). The researcher thus settled on a sample size of 110 respondents drawn from the population of boutiques in the NCBD.

3.5. Data Collection Procedure

The study used both primary and secondary data to come up with conclusive information on the how access to credit leads to growth of boutiques in the Nairobi central business district. Primary data will constitute of responses from the sampled population while secondary data composes of books, journals and articles related to the study's variables.

3.5.1 Primary Data Collection

The method used in collecting data for this study consisted of semi-structured questionnaires having open and closed ended questions and observation guide. The adoption of multiple methods or triangulation in social research has been endorsed by various researchers because they help to overcome flaws inherent in the use of one method. For example, Patton (1990) argues that "Combinations of interviewing, observation, and document analysis are expected in much social science field work." He argues that studies which adopt only one method are more vulnerable to errors linked to that particular method than studies that use multiple methods in which different types of data provide cross-data validity checks.

The primary data was obtained using interviews through questionnaires. The primary data in this case generated qualitative and descriptive information. The researcher administered the questionnaires by use of drop off method. Questionnaires were administered on the people

engaged in sales (either owner or sales person) at the time of the study to cut on cost as this forms the large part of the sample population.

3.5.2 Secondary Data Collection

Secondary data collection was mainly done through content analysis of existing literature, newspapers, bulletins, Ministry of trade and Nairobi City Council publications. The thematic study of these materials was used to countercheck and substantiate the findings of the ground study.

3.6. Data Analysis and Presentation

The data analysis method used to analyze the data was both qualitative and quantitative data analysis. According to Chandarn (2004) qualitative data is that data that has a non-numerical attributes that are related to the qualities, values or value assessment such as people's opinions while quantitative data relates to data that is numeric in nature.

Processing and analyzing raw data was done using Statistical package for social scientist (SPSS) data analysis program which was utilized to generate inferential and descriptive statistics; mean, standard deviation, frequencies, charts and percentages from the respondents to establish the relative importance and weight of each variable as well as correlation of the variables. MS excel spread sheet tools were also utilized in presenting the quantitative data. This involved frequencies and cross tabulations among the selected variables.

Data was then presented in form of text, tables, pie charts and graphs. A Multivariate Analysis of Variance Model (MANOVA) was used to test the significance of association, whereby the variables of the interest here are the growth factors influenced by the access to credit as the independent variable and the measurements of growth of the SMEs as the dependent variables. Thus the null hypothesis was that the higher the level of the access to credit results in enhanced growth within the SMEs other things held constant. The researcher

thus obtained F Values for each dependant variable and interpreted the specific effect or contribution in order to understand the relationship of the independent variable on each dependent variable. The SPSS program was used to compute the multivariate analysis of the variance by coming up with the F Values of each dependant variable and the significant effect of the independent variable on all the dependent variables.

The F Value is computed using the equation:

$$F \text{ Value} = \frac{\text{Variance between sample means}}{\text{Variance expected by chance (error)}}$$

Simple MANOVA is computes as follows:

$$V_i = a_1V_1+a_2V_2+a_3V_3$$

Where

V_i = Independent variable

a = coefficient of dependent variable

V = Dependent variables

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Data analysis and presentation

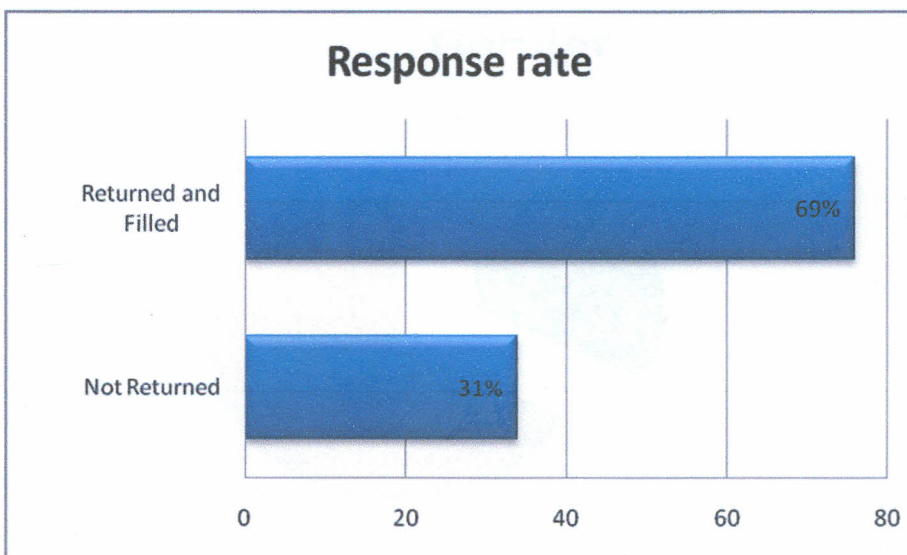
4.1.1 Response rate

Table 4.1 Response rate

Questionnaires	Frequency	Percentage
Not Returned	34	31
Returned and Filled	76	69
Total	110	100

Source: Author, 2013

Figure 4.1 Response rate



The questionnaires handed to respondents were 110 out of which 69% was returned when fully filled and 31% included questionnaires that were returned unfilled and those that were not returned. According to Gay (1995) a response rate of 50% is adequate and therefore that of 69% is also adequate for data to be analysed and interpreted.

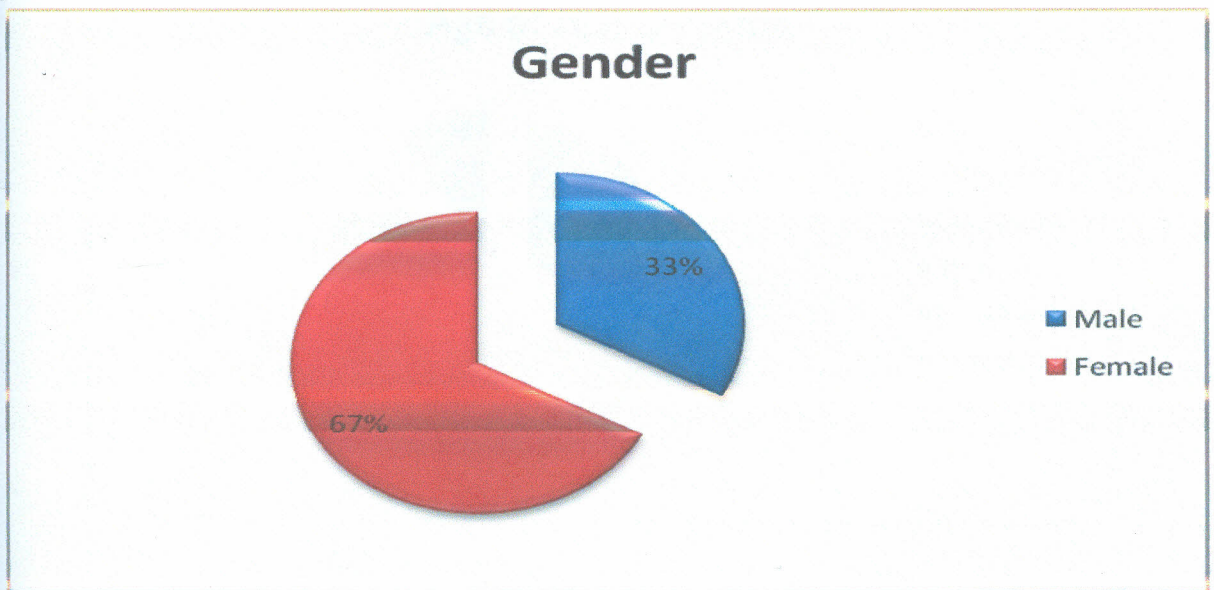
4.1.2 Gender

Table 4.2 Gender

Gender	Frequency	Percent
Male	25	24.0
Female	51	49.0
Total	76	73.1

Source: Author, 2013

Figure 4.2 Gender



The gender distribution of the study was such that there were 67% female and 33% male. The reason for more females is that majority of the boutique attendants are female and are more preferred to men as the clothing sold is mostly female.

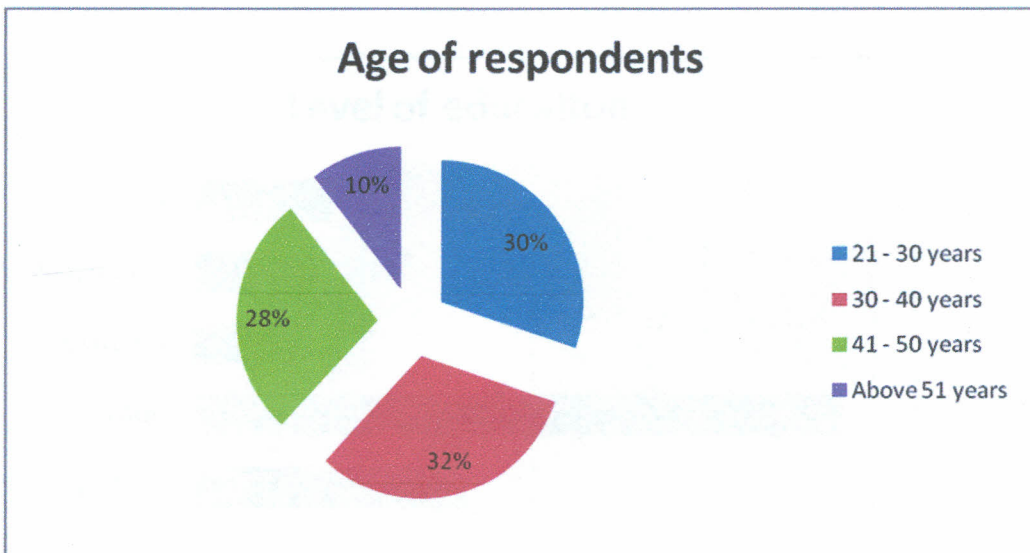
4.1.2 Age of Respondents

Table 4.3 Age of respondents

Age	Frequency	Percent
21 - 30 years	23	30.3
30 - 40 years	24	31.6
41 - 50 years	21	27.6
Above 51 years	8	10.5
Total	76	100.0

Source: Author, 2013

Figure 4.3 Age of respondents



The respondents were made up of both workers and owners of the boutiques and hence the variations in ages. The majority belonged to the age group of 21 to 40 years (62%) while those that were above 51 years were only 10%. The age of the respondents in this case does not influence the responses to the questionnaire.

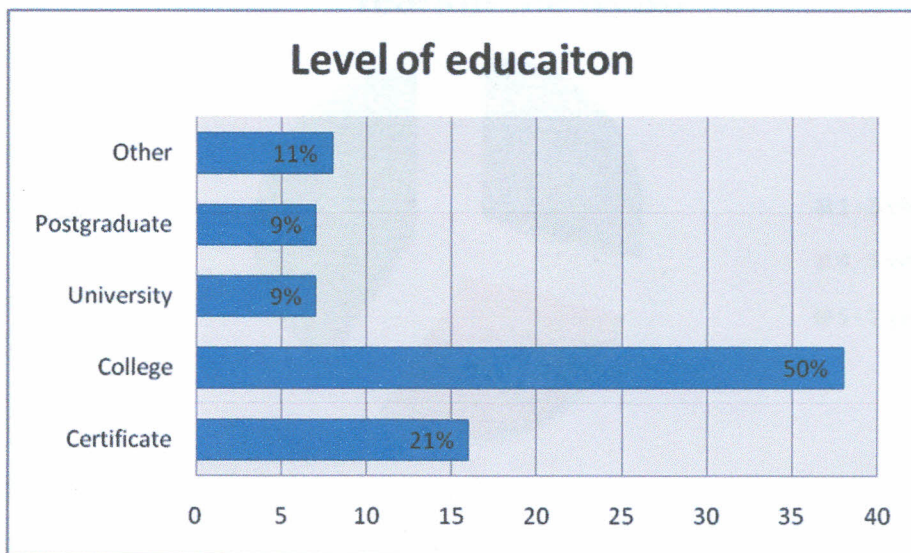
4.1.3 Level of Education of Respondents

Table 4.4 Level of education

Education level	Frequency	Percent
Certificate	16	21.1
College	38	50.0
University	7	9.2
Postgraduate	7	9.2
Other	8	10.5
Total	76	100.0

Source: Author, 2013

Figure 4.4 Level of education



The majority of the respondents in the study have an education level of post secondary certificate with 50% attaining college level, 9% university level and 9% second degree level while the remaining 41% included certificate of secondary school holders and some who did not complete the secondary school examinations. The understanding of the questionnaire is therefore high as a large number of the respondents are learned.

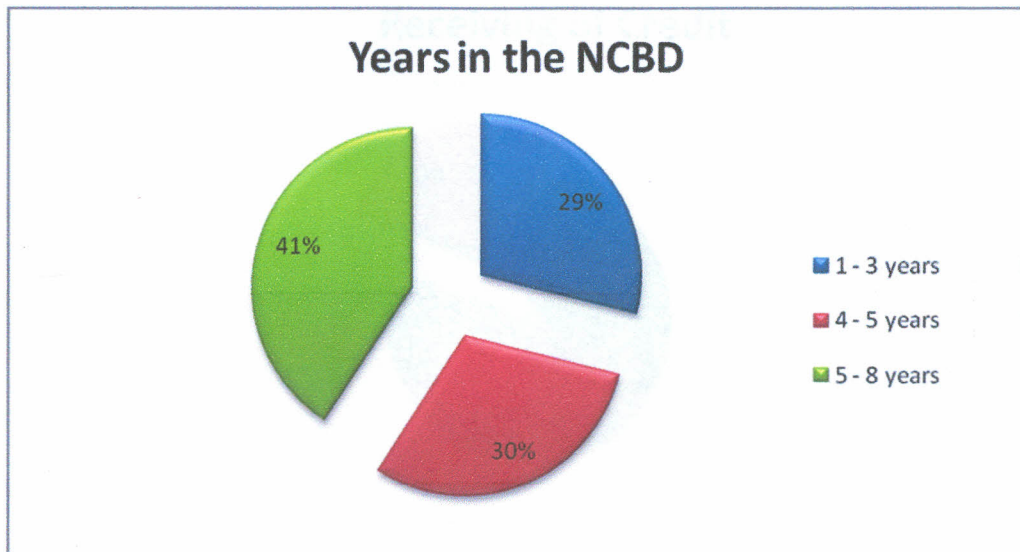
4.1.4 Years of operation in the NCBD

Table 4.5 Years in the NCBD

Years	Frequency	Percent
1 - 3 years	22	28.9
4 - 5 years	23	30.3
5 - 8 years	31	40.8
Total	76	100.0

Source: Author, 2013

Figure 4.5 Years in the NCBD



The data collected shows that majority of the sampled businesses had been in operation for more than 5 years within the NCBD, this is reflected as 41% in figure 4.4. 29% of the boutiques had been in operation for 1 to 3 years while 30% had been there for 4 to 5 years. This means that the respondents will be aware of the merits and demerits of operating in the NCBD in relation to credit and growth.

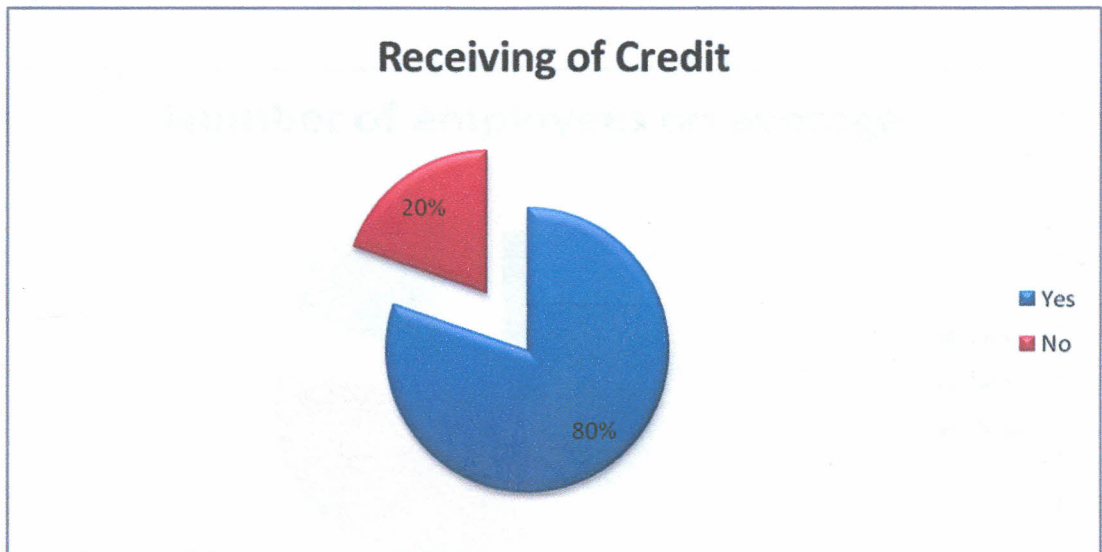
4.1.5 Receiving credit from Financial Institutions

Table 4.6 Receiving credit

Response	Frequency	Percent
Yes	61	80.3
No	15	19.7
Total	76	100.0

Source: Author, 2013

Figure 4.6 Receiving of credit



When asked whether their businesses have ever received credit from financial institutions in the area, 80% said yes while only 20% indicated not having received but explained that they had applied for loans that were not granted. This means that the respondents will have the relevant information on the impact of credit on the growth of the business and not deviate much from the truth by giving opinions.

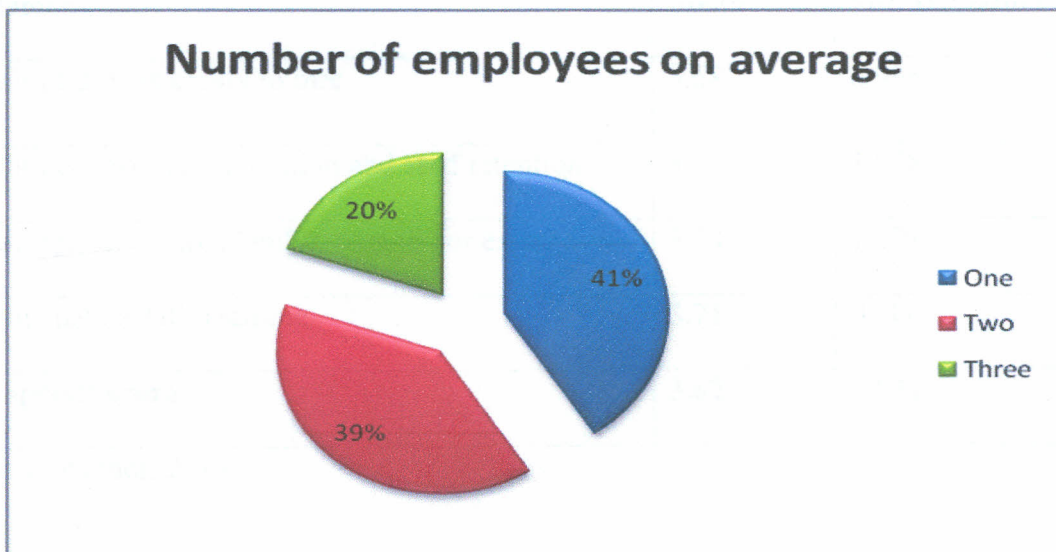
4.1.6 Number of employees on average

Table 4.7 Number of employees

Number of employees	Frequency	Percent
One	31	40.8
Two	30	39.5
Three	15	19.7
Total	76	100.0

Source: Author, 2013

Figure 4.7 Number of employees



The data collected showed that the businesses employed one to three people on average whereby 41% indicated that the business had one employee, 39% said they had 2 while 20% said they had three.

The data collected showed that the businesses employed one to three people on average whereby 41% indicated that the business had one employee, 39% said they had 2 while 20% said they had three.

4.1.7 Impact of Access to Credit on Human Resource Growth

Table 4.8 Impact of credit on HR growth

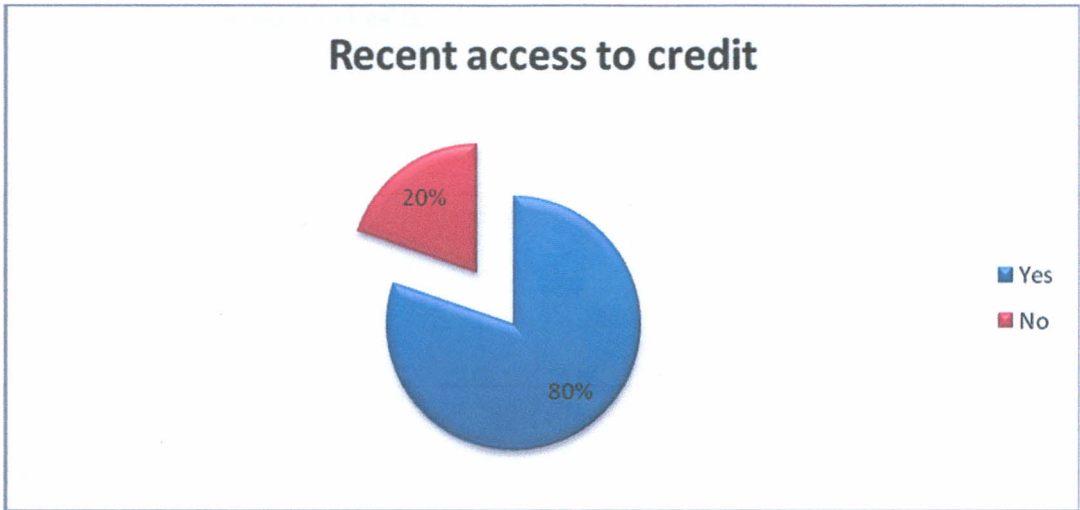
Statement	Mean	Std. Deviation
Credit Improves ability to hire	3.68	0.996
Credit improves remuneration and staff retention	3.72	1.078
Credit influences availability of staff for expansion	3.34	1.271
Credit enables HR Training	3.71	0.780
Composite score	3.62	1.031

Source: Author, 2013

The data collected above indicates a composite mean score of 3.62 with standard deviation of 1.031 across the means for the impact of access to credit on the growth of human resources. The data shows that majority of the respondents were neutral to the statements relating access to credit and human resource growth. The data also shows that the inclination was towards the agree response that the researcher can conclude that the respondents showed access to credit assists a businesses human resource grow in terms of the businesses ability to hire more staff, improve the remuneration of the staff leading to staff retention, influencing availability of staff for expansion purposes and enables training of the staff.

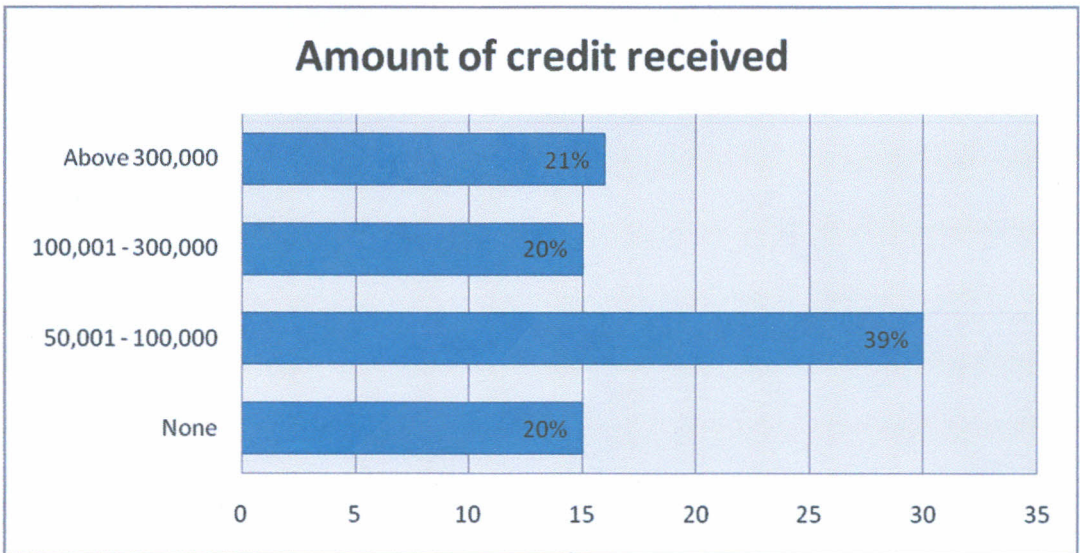
4.1.8 Recent access to credit

Figure 4.8 Recent access to credit



When asked whether they had recently accessed any credit from a financial institution, majority (89%) said that they had while only 20% said they had not.

Figure 4.9 Amount of credit



The data collected indicates that of the 80% who had recently accessed credit a majority had received between Ksh 50,000 and Ksh 100,000. Significantly, 21% of the respondents

indicated receiving more than Ksh. 300,000 in credit. The amounts in credit given are high and therefore can improve status of a business in a significant way.

4.1.9 Impact of credit on level of funds

Table 4.9 Impact of credit on level of funds

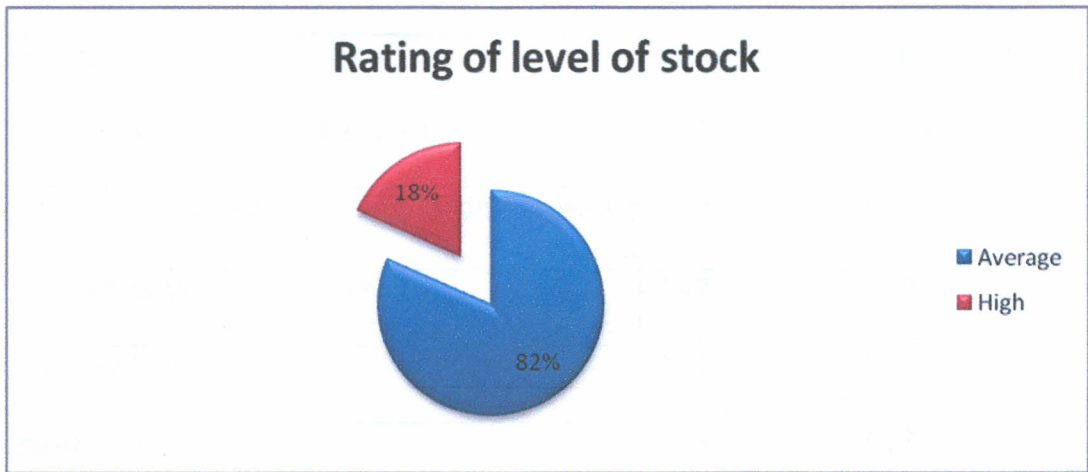
Statement	Mean	Std. Deviation
Majority of SMEs start up with Credit	2.88	1.296
Lack of Surplus Profits Leads to Credit	3.51	1.101
Credit enables expansion plans	3.91	1.288
Composite	3.43	1.228

Source: Author, 2013

The data collected above shows a composite score of 3.43 on related statements towards the impact of access to credit on the level of funds. The data collected shows a moderate impact as majority of the respondents indicated being neutral more than agreeing or disagreeing at a standard deviation of 1.2.

4.1.10 Rating on level of stocks

Figure 4.10 Rating on level of stocks



Out of the five choices given for the question on the rating of the level of stock, majority of the responses were either average or high whereby 82% indicated that their level of stocks were average while 18% had a high level of stock. This shows that the businesses have an average to high movement of stock from their businesses in terms of sales demanding for a complimentary response in the stock levels.

4.1.11 Impact of availability of credit on stock levels

Table 4.10 Impact of availability of credit on stock levels

Statements	Mean	Std. Deviation
SMEs take up credit for stock purchase	3.63	1.274
Lack of Credit for purchasing stock hinders growth	3.82	1.314
SMEs can grow stock without credit	3.47	1.227
Loans not for Increasing stocks	2.41	1.110
Composite Scores	3.33	1.231

Source: Author, 2013

The researcher calculated a composite of the means so as to identify the impact of availability of credit on stock levels and found a moderate impact whereby the majority of respondents had indicated a neutral response to most SMEs taking up credit for purchasing of stock, that lack of credit for purchasing hinders growth, SMEs can grow stock levels without accessing credit and that financial institutions do not offer loans for the sole purpose of increasing stock levels. The data collected means that the level of availability of credit does not have a significant extent of impact on the growth of stock levels which are most probable impacted by direct sales more.

4.1.12 Use of credit to enhance skills

Table 4.11 Use of credit to enhance skills through training

Response	Frequency	Percent
Yes	53	69.7
No	23	30.3
Total	76	100.0

Source: Author, 2013

Figure 4.11 Use of credit to enhance skills through training



The data collected above indicates a situation where majority (70%) of the respondents say that credit is accessed for the sole purpose of enhancing book keeping and budgeting skills of the staff through training. This means that the availability of credit thus has a direct impact on the growth of the level of financial management skills within the SMEs.

4.1.13 Influence of credit on financial management skills for SMEs

Table 4.12 Influence of credit on financial management skills

Statements	Mean	Std. Deviation
Lack of credit hinders skills acquisition	4.24	1.272
SMEs able to make decision on type of funds	4.22	1.091
SMEs lack of Business Plan	3.43	1.517
Skills Increase SME ability to grow	4.18	1.140
Composite Score	4.02	1.255

Source: Author, 2013

When asked to agree or disagree with related statements on the impact of credit on acquisition of financial management skills, a composite score of 4.02 of the means indicates that the respondents were more in agreement than disagreement with the statements that indicated credit having an impact on the level of financial management skills.

4.2 Model Analysis

4.2.1 Correlation of the Variables

The aim of this is to indicate the potential existence of causal/ linear relations between the variables. Since correlation, if any, may be indirect and unknown, the researcher also assesses the statistical significance of the relation between the dependent variables so as to ensure they are independently observed and measured.

Table 4.13 Correlation of the variables

Variables		Impact on Human Resources	Impact on level of funds	Stock Levels	Financial Mgt Skills
Impact on Human Resources	Pearson Correlation	1	.815**	.725**	.584**
	Sig. (2-tailed)		.000	.000	.000
	N	76	76	76	76
Impact on level of funds	Pearson Correlation	.815**	1	.674**	.613**
	Sig. (2-tailed)	.000		.000	.000
	N	76	76	76	76
Stock Levels	Pearson Correlation	.725**	.674**	1	.557**
	Sig. (2-tailed)	.000	.000		.000
	N	76	76	76	76
Financial Management Skills	Pearson Correlation	.584**	.613**	.557**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	76	76	76	76

** Correlation is significant at the 0.01 level (2-tailed) N is the number of responses

The data above indicates that the dependent variables in the study did not have a significant linear relation to each other as indicated by the 2-tailed significance of 0.00 for each variable. The Pearson correlation coefficient was used to assess the strength of the dependence of the variables and the researcher found large differences in regards to the impact of access to credit on the dependent variables and therefore a strong correlation which can be defined by a non-linear equation as it is not statistically significant. A non linear relationship means that a change in one of the dependent variables does not cause any change in the other dependent variable and that the impact of access to credit on one of the variables does not cause a significant change in the other.

4.2.2 Four-Way Anova

Table 4.14 ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Impact on Human Resources	Between Groups	47.476	1	47.476	7.484	.008
	Within Groups	469.405	74	6.343		
	Total	516.882	75			
Impact on level of funds	Between Groups	.018	1	.018	.002	.968
	Within Groups	826.022	74	11.162		
	Total	826.039	75			
Impact on Stock Levels	Between Groups	39.961	1	39.961	3.866	.053
	Within Groups	764.815	74	10.335		
	Total	804.776	75			
Impact on Financial Management Skills	Between Groups	.030	1	.030	.004	.948
	Within Groups	531.917	74	7.188		
	Total	531.947	75			
Composite (MANOVA - Between group)				21.87129	2.839171	0.494379

Source: Author, 2013

The data presented above is a reflection of the statistically significant difference between the variables group means. The data shows an F-Value of 2.8 indicating the un-likelihood of the data happening by chance and that some of the variables are impacted differently by access to credit than the others. There is also a statistically significant difference in the mean impact of credit on the variables.

However the calculated F-Values for financial management skills and level of funds is less than 1 showing that the relationship with access to credit is true and that a change in the access to credit causes a similar change in the two dependent factors. The factor of independence used was the previous access to credit at 74 degrees of freedom within the groups and 1 degree of freedom between the variables. This means that all known factors making up the groups were used in the calculations of the F-Values.

The researcher was limited by SPSS V17 that could not calculate MANOVA directly without using ANOVA, used the amount of credit accessed as an independent factor for the Post Hoc Test to reveal the impact of access to credit on each dependent variable and found no statistically significant differences between the access to credit and dependent variables which leads the researcher to reject the null hypothesis that the higher the level of the access to credit results in enhanced growth within the SMEs other things held constant. The alternative to this is that higher access to credit results in a positive change in determinants of SME growth at different levels.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of this study was to establish the effect of access to credit on the growth of small and micro enterprises, and specifically looking at the case of boutiques in Nairobi Central Business District. To achieve this, a models discussed in Chapter 3 (MANOVA) was used to predict the relationship between the dependent (growth factors) and independent variable (Access to credit). Correlation was performed on the values obtained to establish if there is a relationship between the variables computed under the model, the nature of the relationship and the strength of the relationship.

Data was collected using questionnaires self administered by the respondents. Processing and analyzing of the raw data was done using SPSS data analysis program which generated inferential and descriptive statistics such as mean, the standard deviation and frequencies. The data is then presented in charts and tables from the respondents to establish the relative importance and weight of each variable. MS excel spread sheet tools are also used in presenting the quantitative data.

5.2 Key Findings

5.2.1 Impact of Access to Credit on Human Resources

The study found that a large percentage of the businesses had accessed credit previously. Majority of the respondents indicated that they agreed or strongly agreed that credit helps in

hiring more staff, avails extra staff for expansion purposes, improves staff retention through better remuneration and enables the HR to train its staff.

5.2.2 Impact of Access to Credit on Level of funds

In relation to the second objective, the study finds that access to credit is not significantly related to starting up a business as indicated by the respondents that disagreed that credit is sourced mostly for starting the business in comparison to those who source for credit for the purpose of improving their funds levels due to limited surplus profits. The study also finds that credit is identified as a major determinant in expansion plans.

5.2.3 Impact of Access to Credit on Level of Stocks

The study finds that majority of the businesses have a average to high stock level. In regard to the level of credit acquired by the businesses majority indicate that they do use the credit to expand their stock levels and therefore a significant relationship exists between the access to credit and the stock levels. The Post Hoc Test in relation to the level of using credit for improving level of stocks shows a significant relationship between for those who accessed more than Ksh. 300,000. The study also finds that more than half of the respondents also indicating that the businesses can grow their stocks without credit from financial institutions.

5.2.4 Impact of credit on Financial Management Skills

In regards to finding out whether the access to credit relates to the level of financial management skills the study finds that majority of the businesses do take up credit for the sole purpose of training staff on book keeping and budgeting. The study also finds that business owners are able to make decisions on the type of credit that they deem fit for their businesses.

5.3 Conclusion

The study aimed at assessing the impact of access to credit on the growth of small and micro businesses in Nairobi Central Business District. The level of access to credit in the area is high as more than 50% of the sampled businesses have accessed credit ranging from Ksh. 50,000 and more than Ksh. 300,000. The credit is used for improving human resources through trainings, improving their reimbursements, improving the level of funds available for expansion and improving the level of stocks. The study concludes that for businesses to grow there has to be a level of accessed credit as shown by the significant relationship of the variables calculated using the ANOVA model for four dependent variables and composite scores to get MANOVA. A significant relationship between access to credit and level of funds and financial management skills hence leads the researcher to conclude that an increase in access to credit leads to growth of SMEs funds and financial management skills while the same relationship exists between access to credit on level of stocks and impact of human resources.

5.4 Recommendation

Based on the findings of the study, the researcher would suggest for further examination of the different uses of credit by small and micro businesses and how it affects their growth using comparison and ex-post facto analysis. The researcher recommends the uptake of credit for small businesses wishing to grow their stocks, operational funds and improving their human resource capabilities and skills.

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APPENDIX I: QUESTIONNAIRE

INSTRUCTIONS:

Kindly answer the following questions by writing a brief answer or ticking in the space or boxes provided respectively.

PART A: BACKGROUND INFORMATION

Please tick (√) as appropriate

1. Kindly indicate your age bracket.

21-30 years ()

30-40 years ()

41-50 years ()

Above 51 years. ()

2. Level of education

Certificate ()

College ()

University ()

Postgraduate ()

Others (please specify).....

3. How many years have you operated your boutique business in the NCBD?

Less than 1 year ()

1 - 3 years ()

4 - 5 years ()

5 - 8 years ()

4. Have you received or applied for credit from a financial institution following the start of your business?

Yes () { Received () Applied () }

No ()

PART B: Impact of Credit on Human Resource Numbers

1. How many employees work in your boutique on average?

- One () Two () Three ()
 Four () More than Four () Please state

2. Please indicate the extent to which you agree or disagree to the following statements relating to access to credit and its impact on human resources growth.

1 = strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = strongly agree

Statements	1	2	3	4	5
Access to credit improves the ability to hire more staff for the business.					
Access to credit influences the number of staff available for opening new outlets.					
Access to credit has helped to improve remuneration of business staff and thus retain an adequate number of staff.					
Access to credit enables the business to train its human resources					

PART C: Impact of Access to Credit on level of funds

1. Have you recently accessed credit for the sole purpose of increasing the funds for business operation?

- Yes [] No []

2. What amount did you receive?

- Less than 10,000 [] 10,001 – 50,000 [] 50,001 – 100,000 []
 100,000 – 300,000 [] Above 300,000 []

3. Please indicate the extent to which you agree or disagree to the following statements relating to access to credit and its impact on level of funds.

1 = strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = strongly agree

Statements	1	2	3	4	5
Majority of SME get funds to start their business through credit					
SMEs require credit to improve their operating funds because of limited surplus profits					
Credit enables the owners of the business to meet their expansion plans					

PART D: Impact of Credit on Stock levels

1. In your own opinion, how would you rate your level of stock?

Very Low [] Low [] Average []

High [] Very High []

2. Indicate your level of agreement with the following statements relating to availability of credit to finance expansion in stock levels for SMEs. 1 = strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = strongly agree

Statements	1	2	3	4	5
Most of SMEs seek credit for purchase of business stock.					
Lack of credit for purchasing stock hinders growth of SMEs					
SMEs can grow their stock levels without accessing credit					
Financial institutions do not offer loans for the sole purpose of increasing stock levels.					

PART D: Impact of Credit on level of financial management skills

1. Is credit used to enhance bookkeeping and budgeting skills through training?

Yes [] No []

2. Indicate your level of agreement with the following statement relating to the influence of credit on financial management skills for SMEs. 1 = strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = strongly agree.

Statements	1	2	3	4	5
Lack of credit reduces the ability of business owners to further their skills in bookkeeping and budgeting.					
Business owners are able to make decisions on type of funds and whether long term or short term as a result of access to credit.					
Most SME businesses do not have a business plan which reduces their chances of access to credit and business growth.					
Financial management skills such as bookkeeping and budgeting increases the ability of SMEs to grow.					

THANK YOU FOR PARTICIPATION

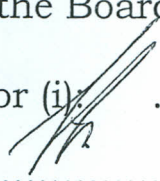


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CERTIFICATION OF CORRECTIONS

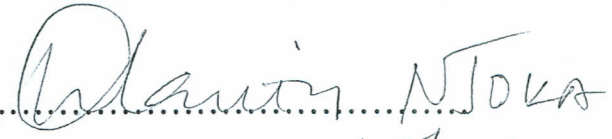
Name of student: Henry Kusena Nyagabi
Reg. No: 553/CIV/PT/21091/2010
Date of Defence: 12/2/2013

I certify that the student has done all the corrections as recommended by the Board.

Name of Supervisor (i):  Gerald K. Atherton
.....
SIGNATURE DATE
21/2/13

Name of Supervisor (ii):
.....
SIGNATURE DATE

I certify that the student has done all the corrections as recommended by the Board.

Name of Corrections Assistant:  Daniel Njoka
.....
SIGNATURE DATE
15/03/2013

APPENDIX III: RESEARCH BUDGET

ACTIVITY	COST
Stationeries	5,000
Transport	2,000
Printing	3,000
Research costs (Internet and library)	3,000
Lunches	3,000
Miscellaneous	5,000
TOTAL	21,000

APPENDIX IV: RESEARCH SCHEDULE

ACTIVITY	PERIOD (2013)
Objective Setting	January
Introduction and problem statement	January
Literature Review	February
Proposal Writing and presentation	February
Data Collection	March
Data Analysis	March/ April
Report Writing and presentation	April/ May

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