A SURVEY OF FACTORS THAT INFLUENCE GROWTH AND PERFORMANCE OF SMALL-SCALE CURIO AND HANDICRAFT BUSINESSES IN NAIROBI, KENYA.

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DECLARATION

I hereby declare that this research project is my original work and has not been presented for a degree in any other University.

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ABSTRACT

The purpose of this study was to get the factors that influence growth and performance of small scale curio and handicraft businesses in Nairobi, Kenya. Growth refers to the increase in spatial number or complexity for concrete entities in time or increase in some dimensions for abstract or hard-to-measure entities. It also refers to the mode of growth i.e. how growth parameters vary with time. (GEMINI1991). Bernadine et al (1995) defines performance as the outcome of work as it provides the strongest linkage to the strategic goals of the company, customer satisfaction and economic contribution. He says that performance measures should be set up when setting objectives and they should be specific, measurable, attainable and reliable and time bound. The objective of the study was to find out the factors affecting the growth and performance of small-scale curios and handicrafts in Nairobi, Kenya. Other specific objectives include legislation, market, funding and entrepreneurial and management skills. The study is considered important to various stakeholders including the owners of the curios and handicrafts. The government especially the Ministry of Trade and Industry and other researchers

The research adopted a descriptive research design and the population size was 201 that included small scale curio and handicraft traders from four different locations in Nairobi. A sample size of 20% was drawn from the population; a systematic sampling technique was used to select the respondents. Data was collected by use of questionnaire method with both closed and open ended questions. Data was analyzed using descriptive statistics including frequency distribution tables, means, mode and standard deviation.

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At the end of study the researcher established the factors that influence growth and performance of small scale curio and handicraft businesses in Nairobi, Kenya.In addition it was established how legislation, Entrepreneurial and management skills, Funding and market influence growth and performance of small scale curio and handicraft businesses in Nairobi.

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ABBREVIATIONS

SME-Small and Medium Enterprises

GOK-Government of Kenya

ILO-International Labour Organisations

MSE-Micro and Small enterprises

MFI-Micro Finance Institution

DEFINITION OF TERMS

Growth refers to the increase in spatial number or complexity for concrete entities in time or increase in some dimensions for abstract or hard-to-measure entities.

Performance is the outcome of work as it provides the strongest linkage to the strategic goals of the company, customer satisfaction and economic contribution.

Funds/Capital- entrepreneurs face certain critical issues and problems which bear on financing of entrepreneurial ventures such as value creation, selling the idea and covering of risk. Therefore an understanding of financial requirements is especially vital for both small and large enterprises.

Legislation- Legislation and regulatory policies affect the growth of micro-enterprises and can be categorized into fiscal policy, monetary policy, exchange policy, import policy and labour policy.

Management and entrepreneurial skills - Managerial and entrepreneurial skills are important in making decisions which are non-routine and strategic in nature. Training empowers owners and employers with skills to make better decisions and provide better quality goods and services.

A market is a group of people who have a need, purchasing power and the desire and authority to spend money on goods and services, and ideas.

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CHAPTER ONE
INTRODUCTION

1.1 Background of the study

The history of organizing, managing and assuming business risks (entrepreneurship) in Sub-Saharan Africa is a long one. Many records dating as far as the 11th century show a beehive of trade activities along Trans-Africa caravan routes (World Bank, 1989).

One time, a system of operational customs and rules has been established in many cities and towns across the continent. Many markets for various goods and services have been created. Micro-enterprises sector in Kenya is predominantly informal sector was traditionally ran in the form of small industries in many African homes. These enterprises mainly dealt with blacksmithing activities (Maundu, 1992). The advent of the Asian community to Kenya at the turn of the last century marked the gradual shift of 'home-based' micro-enterprises activity to urbanized enterprises.

There is no generally accepted definition of a micro and small enterprise. Classification of a business into large -, medium-, small- or micro-enterprises is a subjective qualitative judgment. Numerous efforts have been made by academics and also policy makers on the definitions of this area of economic activity (World Bank, 1989,Visser, 1997). Three criteria are mainly used in literature to define Micro and Small scale Enterprises (MSE) (Bigsten et al, 1999).

The first one, based on number of employees, defines MSEs as those enterprises below a certain number of workers (it can range from less than 10 to less than 50employees). The second criterion concerns the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply to with the legal obligations concerning safety, taxes and labour laws. The third criterion defines MSEs by their limited amounts of capital and skills per worker the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based (Ronge, et al. 2002).

The term MSE incorporates firms in both the formal and informal sectors. However, in Kenya the terms MSEs and informal sectors firms are characterized by: ease of entry; small scale of activities; self-employment with a high proportion of family labour; little capital and equipment; labour intensive technologies; lo skills; low level of organization with little access to organized markets, informal credit, education and training, services and amenities; cheap provision of goods and services or provision of goods and services otherwise unavailable; low productivity and low incomes (Charmes, 1999). The activities of MSEs also have very little compliance with administrative requirements. What distinguishes the informal sector from the formal sector is that the former are mainly unincorporated business units of the household sector.

Among the initial urban micro-enterprises introduced were motor-mechanics, carpentry masonry, tinsmith and blacksmith (Maundu 1992). With time, the indigenous Kenyans soon entered the market and gradually expanded the industry by producing a wide range of such items as jikos (braziers), cooking and frying pans, steel windows, tin lamps, motor spares and leather artifacts (Maundu 1992). Today the micro-enterprise represents an enormous conglomeration of products in many towns and villages across the republic of Kenya. Growth of Kenya's micro-enterprise sector has in the recent past increasingly become a phenomenon in the economic, social and political life. Thus according to ILO 1994 report, world over the sector was expected to generate 93% of additional urban jobs in the 1990s. The Kenyan government since 1972 when ILO for the first time used the term "informal sector" has recognized the importance of micro-enterprises in the informal in terms of its capacity to create employment and technology development.

Reports of several surveys conducted by the Ministry of planning and National Development estimate that there were over 600,000 Kenyans who are employed in 35,000 micro and small enterprises. (ROK1992) Thus, since independence, the Kenyan Government together with its

development partners has spent colossal amounts of resources (man-hours and money) implementation policies and programs and to build institutions specifically aimed at sparing growth and eventual graduations of micro and small scale enterprises into medium scale enterprises. For instance, the Kenya's sixth national development plan of 1989-1993 and subsequent development plans as well as Session papers of 1986 and 1992 proposed more detailed measures to promote micro-enterprises. As a matter of fact, even today still there is no other important question in the Kenyan economic arena, than that on how growth of micro-enterprises in terms of productivity can be raised. (Gichira, 1992)

Kenya is facing major development challenges in this globalizing world. Most immediate are the persistent and increasing poverty, low incomes, declining industrial and agricultural activity, high rates of unemployment and underemployment, depleted infrastructure and worsening investment and business environment among others. (Kimuyu, Wagacha and Abagi, 1999)These challenges are more or less interrelated and largely impinge upon businesmen and women. For example, declining and/ or low incomes implies a declining and/ or low purchasing power of Kenyans for products emanating from business. Among others, curio and handicraft dealers are facing such challenges. Ncebere (1999) argues that the business environment today is very dynamic and is changing constantly whereby a businessperson can make profits or losses within a very short time frame.

This sorry state is however not unique to Kenya. Africa as a whole is attracting less and less investments and business due to what has been termed as high transaction costs. World Bank (2000) advances that the cost of doing business in Africa is generally high relative to other areas, Trade and taxation policies are often high, costly and often unreliable electricity, local transport is expensive and unreliable, seaports and airports are corruption zones, compound the problems not to mention the sporadic political and social instability brought by civil conflicts and the refugee crises.

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1.1.1 Curios operation in Kenya

Curios and handicrafts are usually items such as woodcarvings, traditional artifacts and ornaments, clay products, soapstone art, sisal products, among others (www.magicalkenya.com). This study intends to zero-in on woodcarvings as one of the handicrafts made in small-scale settings by mostly labor-intensive entrepreneurs. By so doing, this study will attempt to survey the kind of challenges that face small-scale entrepreneurs dealing with woodcarvings in Nairobi vicinity.

Tourism fluctuation has been found to have effects on the business. This is a demand-side challenge since tourism is a vent for these entrepreneurs to market their products in a country that is growing at a very small rate per annum. A supply side constraint arises out of the environmental impact the products have on the forestry resources. Wooden carvings are mostly made from indigenous trees such as Ebony and Mahogany. Thus, introducing the environmental variable would go a long way in explaining some of the challenges these dealers are facing. That is, indigenous trees are shrinking in number, the supply of these carvings is shrinking. The challenges facing curio and handicraft dealers in Kenya are not unique however. They are more or less the same problems that face small-scale entrepreneurs dealing with other products.

Generally, this sector has been called the "jua kali" sector, or in more colloquial terms, the "informal sector". These enterprises have captured the attention of scholars, organizations or international stature and home governments. They have become pivotal especially in bolstering employment (usually semi-skilled or unskilled) and thus incomes (Odera, 1989).Small-scale curio and handicraft dealers rely heavily on the tourist flows into the country. (Mwaniki, 1985) supply-side and also rely on natural resources arising out of forestry raw materials. More so, like other small-scale enterprises, they are characterized by easy-entry/ easy-exit rules; they are labor-intensive and more often than not, they rely on skills acquired outside the formal education system, (Odera, 1989).

An example of an item sold by curios include;the shukka which is the blanket sheet worn by most Maasai, always red blended with black, blue or other colours. They are warm and functional blankets, ideal for the chill of early mornings on Safari. Maasai beadwork is astonishingly intricate and beautiful, combining thousands of tiny coloured beads with cowrie shells and leatherwork. Each of the many designs of bracelets, necklaces and ceremonial adornments has its own particular traditional meaning and purpose. Today, Maasai beading has become so popular that it is possible to find many more modern beadwork items. These include rings, watchstraps, sandals and even mobile phone covers.Also popular are Maasai Spears, Shields, Simis (swords) and Rungus (clubs), all weapons carried by young Morans or warriors. These items are often beautifully handcrafted as well as functional. The Rungu, as well as being a formidable weapon, is also of great traditional importance. A ceremonial rungu, often decorated with beading, is always held by each speaker at a tribal gathering. The way it is held signifies a great deal about what is being said(www.magicalkenya.com)

1.1 Statement of the problem

Small scale enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country, accounting for 12-14% of GDP (ROK, 1999) Thus the government and its developmental partners have spent so much resources in implementing policies and programs and to building institutions specifically aimed at sparing growth of micro and small-scale enterprises. However, results to date are largely unsatisfactory (Gichira, 1992)

Arising out of the background of this study is that there are challenges facing the small-scale enterprises. These challenges are either demand-side or supply-side constraints which may end up affecting the market.

Curios and handicraft dealers are also facing the same problems, more so with respect to the small-scale entrepreneurs dealing with wooden carvings. As adumbrated above, these dealers are facing both supply-side and demand-side constraints. Supply-side challenges have to do with the raw material arising out of reducing forest reserves. Demand-side challenges arise out of the fluctuating tourist volumes. Other challenges like Finance, Legislation, and managerial skills of the entrepreneurs also face these small scale traders in one way or the other. These challenges to entrepreneurs dealing with Curios and handcraft necessitate a research problem.

How are small-scale entrepreneurs in wooden carvings dealing with these challenges? Most studies about small-scale enterprises or the so-called 'informal sector' have largely dealt with either demand-side constraints (Odera, 1989) or supply-side constraints (Ayako, 1979). There lacks a comprehensive analysis not only of the two-pronged issues but also a research that purposefully studies the challenges facing the small-scale entrepreneurs of wooden carvings in Kenya as the literature review will reveal.

This academic lacuna then becomes not only our research quest but also the justification for this study. This study attempted to relate Finance, Legislation, Managerial skills and Market variables with performance of small scale curios and handcraft businesses in Nairobi, and how they impinge individually and collectively on the entrepreneurs engaged in this business. This study was thus an attempt to inquire about the existence of a spurious or non-spurious relationship between, on the one hand small-scale enterprises dealing with wooden carvings and on the other hand, factors that influence growth and performance of these firms.

1.2 Objectives of the study

The objectives of this study included:

Broad Objective

To determine the factors that influence growth and performance of small scale curios and handcraft businesses in Nairobi, Kenya.

Specific Objectives

1. To find out financial related issues affecting the growth and performance of small scale curios and handicrafts in Nairobi.
2. To investigate the effects of legislation on growth and performance of small scale curios and handicrafts in Nairobi.
3. To determine the effect of proprietor's management and entrepreneurial skills on growth and performance of small scale curios and handicrafts in Nairobi.
4. To determine the effect of the market on the growth and performance of small scale curios and handicrafts in Nairobi.

1.3 Research Questions

The study aimed to answer the following questions:

1. How does financing affect the growth and performance of small scale curios and handicrafts in Nairobi?
2. What are the effects of Legislation on growth and performance of small scale curios and handicrafts in Nairobi?
3. How does the management and entrepreneurial skills of the curios proprietors affect growth and performance of small scale curios and handicrafts in Nairobi
4. To what extent does the feature of the market affect the growth and performance of small scale curios and handicrafts in Nairobi?

1.5 Significance of the Study

The study would benefit a number of groups among them the owners of the curios and handicrafts who will use it to understand what affects growth of their business. The government especially the Ministry of Trade and Industry would also benefit from the study as it may use its findings to formulate favorable

policies on small scale curios and handicrafts. This would not only promote growth of the small scale businesses but hasten the country's industrialization process. Other researcher would also benefit from the findings of the study as it form bases of further research.

1.6 Scope of the study

The scope of the study was small scale curios and handicrafts operating in the Nairobi area and its environs. There are various small scale enterprises in Nairobi which engage some element of diversity in their activities but the study was only to look at the ones which are involved with curios and handicrafts.

1.7 Limitations of the study

The study was constrained by a number of factors that include- First, the management of the curios and handicrafts were not be willing to divulge some information. To minimize this limitation the respondent were given assurance that the data collected were to be used strictly for the purpose of the study, Secondly some workers of the curios and handicrafts were constrained by their education level thus were not giving appropriate responses to the questions used thus a lot of explanation was required.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter deals with literature that has been reviewed and will continue to be reviewed for the purpose of the study. The literature is mainly on the factors that influence growth and performance of small scale curios and handicrafts in Nairobi.

2.2 Curios and Handicrafts Literature

A plethora of literature exists pertaining to curios and handicrafts, production and sales/ marketing. This review intends to cover the entire literature pertaining both local and international literature. The latter pertains a summary of literature in and around Africa and Europe while the latter is a summary of what has been written about the curios and handicraft sub-sector in Kenya.

Kayano (1979) surveys the technology of Japanese curios and handicraft traditional industry and the role played by the Japanese craftsmen in providing both employment and/ or incomes in rural set-ups and also contributing to the larger economy. Mackenzie and Taussig (1980) survey the handicrafts industries in North Eastern district of Botswana and recommend necessary policy measures that can be adopted to streamline the curios and handicraft sub-sector. These include: reducing taxes on the raw materials, encouraging the entrepreneurs by offering ready markets for their produce, subsidizing the costs of freight so that they could export, and lastly, arranging seminars for the entrepreneurs in the industry as a means of teaching them of the opportunities in the market.

Livingstone (1986) and Havnevik (1983) survey the curios and handicraft industry in Tanzania and how this small-scale industry can be assisted and promoted so that maximum benefits can be accrued. For instance, Havnevik (1983) zeros-in on small-scale industries in the Rufigi district in Tanzania. Karsten (1972)

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investigates the 'economics' of handicrafts in traditional societies in Southern Ethiopia. Other scholars have surveyed the same impact in India, Romania and Rome. On the other hand, other scholars have written teaching guides or manuals for educators involved in disseminating curios and handicrafts knowledge.

Locally, not much has been written about the curios and handicrafts sub-sector. The literature that exists either assesses supply-side constraints such as Chesaro(1981) who pursues the marketing problems facing the women entrepreneurs in Kikuyu division, Kiambu district; or Oludhe (1983) who investigates the traditional elements of major commercial crafts in Kenya. Mwaniki (1985) investigates one variable of this study; tourism. Mwaniki (1985) investigates, albeit scantly how Kenya's handicrafts are sold to tourists arriving in the country. Atieno (1988) surveys the case of marketing handicrafts by Kenyan entrepreneurs and their difficulties.

All in all, both literature types address pivotal issues that affect the sub-sector but fail to address both the relationship between the sub-sector and the tourist influx or departures together with the environmental variable. This study will fill in this academic lacuna.

2.2.1 Growth and Performance

Growth refers to the increase in spatial number or complexity for concrete entities in time or increase in some dimensions for abstract or hard-to-measure entities.It also refers to the mode of growth i.e how growth parameters vary with time.(GEMINI1991)The contribution of SME's is significant to the growth of many national economies including Kenya's and the potential is still enormous. This may partly explain the keen interest policy makers have in this sector. It's seen as a tiger that's waiting to be unleashed to solve the problems of many countries particularly the developing countries (G.O.K 2005). Studies undertaken in Ghana

,Kenya, Zimbabwe and Cameroon revealed that some micro-enterprises operating in the manufacturing sector of African economies make the transition to large micro-enterprises. About half of the firms surveyed which started off as micro enterprise graduate into small enterprises.The ages of the firms range between a few months and 25 years.(World Bank ,1993)

Timmons et al(2007) asserts that it is the boundaries between stages that new ventures seem to experience transition. The most important and challenging task for the founding enterpreneur is coping with crucial transitions and change in management tasks as the firm grows. They identify the stages of growth as follows: *The research and development stage*-this is also known as the nascent stage which is characterised by a single aspiring enterpreneur, or small team doing the investigation and due diligence for their business idea. This stage is usually short lasting from a few months to years:*Startup stage*- this usually covers the first two to three years but may even extent further.It is characterised by direct and exhaustive drive,energy ,enterpreneurial talent talent of a lead enterpreneur and a key team member or two:*High growth stage*-this is a period characterised by a magnitude of change ,this usually occurs due to a firm increasing its market which reflect on its profits;*Maturity stage*-At this stage the firm is no longer interested in survival but maintaining a steady and profitable growth and the *Stability stage*-this stage is characterised by the firm maintaining its performance in almost all aspects and thus the growth becomes constant as there is little to improve on.Timmons et al (2007) finally points out that higher potential ventures do not stay small for very long.While an enterpreneur may have done a good job of assessing an opportunity,marshalling resources,planning and so forth,growth may still not be achieved as anticipated.

For an entrepreneur to grow he must understand the implications such as increased demand for output and service and even better prices by customers.The needs of the entrepreneur alter as he evolves and a cycle has been developed to represent this in four stages:

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Startup stage-the firm is in its infancy or early years of operation and the market is still small.Funding is a challenge due to low revenues and the firm struggles to meet its expenses like rent, stocks ,wages, licenses and fund are usually sourced from outside the business. In this stage the potential for failure is high if it survives it moves to the next stage.

Early growth stage-Revenues begin to grow at an increasing rate. Strategies include attracting customers from competitors.Additional funding is required due to expansion to bigger premises, more stocks, more employees, higher wages and general expenses and therfore competition is defined.

Rapid Growth stage-In this stage revenues are growing very fast. Customers reach peak and startegies may include protecting the market share and expanding the market.Intensified marketing has to be undertaken. another strategy is to lower costs and lower prices to maintain customers.

Maturity stage-during this stage sales fall off and competiton is very stiff, new products may be introduced to replace old ones, price wars continue resulting in deep price discounting. Owners can harvest the business or develop new products and/or new startegies to revitaliza the growth of the firm.(Hisrich and Peter,2002).

Horizontal growth This is buying companies or vendors in your specific market. eg Company A competes with Company B and in an effort to expand their business, Company A acquires Company B. Looking at this purely on the level of buying competitors, you could say that buying your competitor out can be perceived as being scared of competition, not being a good enough company to just drive your competition out of business, so on and so forth.***Vertical growth*** however involves the company expanding itself in size through the varios aspects that will increase its performance as a single entity rather than incorporating other organisations(www.simonorourke.com)

Bernadin et al (1995) defines performance as the outcome of work as it provides the strongest linkage to the strategic goals of the company, customer satisfaction and economic contribution. He says that performance measures should be set up when setting objectives and they should be specific, measurable, attainable and reliable and time bound. Armstrong (2005) however states that performance measures should be evidence by wheteher or not the intended results have been achieved and the extent to which the job holder has produced results. Such performance measures can be in finance (volume, returns, costs impact,customer service and quality) or even time (speed, turn around delivery, lead time).

Performance indicators; These are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization. They will differ depending on the organization. A business may have as one of its Key Performance Indicators the percentage of its income that comes from return customers. Whatever Key Performance Indicators are selected, they must reflect the organization's goals, they must be key to its success, and they must be quantifiable (measurable). Key Performance Indicators usually are long-term considerations. The definition of what they are and how they are measured do not change often. The goals for a particular Key Performance Indicator may change as the organization's goals change, or as it gets closer to achieving a goal (management.about.com).

The performance of a small enterprise is critical to its competitiveness because due to its size, any small dip in performance can have detrimental effects than would be the case for bigger ones. Rice et al (2000) points out that there are possible internal and external factors that can affect the competitiveness hence performance of small and medium enterprises relative to larger ones. To increase its competitiveness small firms improve the internal factors and/or make the external factors more favourable. The internal factors are the knowledge and capabilities of the managers and their knowledge about technologies, marketing and management. External factors include prices,

reliability of supply, availability and cost of finance, illegal trade practices by big players and Government support.

Objectives that need to be set in terms of performance are sales,market shares, growth, productivity, quality and reliability as well as social responsibility.Sales include turn over, trends ,achievement of targets and sales growth.Market share is the proportion of the category market that is taken by particular firm's goods.Trends refer to the way business is performing month to month, quarter by quater or year by year. Quality and reliability measures include number of goods returned, customer complaints and customer feedback (Lucey ,2000).

2.2.2 Funds / Capital

Entrepreneurs face certain critical issues and problems which bear on financing of entrepreneurial ventures such as value creation, selling the idea and covering of risk. Therefore, an understanding of financial requirements is especially vital for both small and large enterprises. Small enterprises usually have a larger problem as they may be viewed as not being debt-worthy (Simmons et al, 2007). Accessing financial services by micro-entrepreneurs are one of the constraints limiting their benefits from credit facilities. In most cases the access problem, especially among formal financial institutions, is one created by the institutions through their lending policies. This is described in the prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes for small enterprises, reliable access to short term and small amounts of credit is more valuable. (Schmidt & Crop, 1987).

Dondo (1994) asserts that most micro-entrepreneurs use their own savings as a start capital thus presents a serious constraint due to the low income levels of the entrepreneurs. He adds that availability of capital is a prerequisite in determining the type and size of the business one engages in. Unlike larger modern sector enterprises, micro-entrepreneurs usually require small starting and working capital. Majority of the businesses in the micro-enterprise are informally financed. His study pointed out that up to 94 % of micro-entrepreneurs get their initial capital from

saving, up to 6% from friends, while between 4 and 7% from friends. The study further showed that less than 2% of surveyed enterprises had access to credit from the formal private and government leading agencies or NGOs to start their businesses. Schmidt&Kropp (1987) argue that the type of financial institution and its policy often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

Micro-enterprises require long-term funding. However, because of inherent risks perceived by banks, their cost of finance is generally quite expensive. The challenge then is how to assist the "missing middle" in accessing finance. It is important to appreciate the banker's point of view as they are in business to make profit for their shareholders. They also have a duty to their depositors and thus are quite averse to taking undue risks. Whilst a bank's job is to assist in financial intermediation, it is not obliged to lend to anyone that it does not wish to do business with. Ideally small business customer should have well established systems for gathering information and forecasting and would find no difficulty in keeping their bankers informed of their current financial position and prospects. However a vast majority of small enterprises are unable or unwilling to provide such information and, therefore, a bank is obliged to deal with them as it finds them. (Abuodha, 2000)

Most small and medium enterprises are undercapitalized yet they require financing for a variety of needs as they grow over time. They require funds when they need to expand. Financing of stocks and assets are the key costs of many micro-enterprises (Meredith et al (2003). An assessment by the government (GOK, 1986) established that the growth of the micro enterprise sector was hampered by lack of credit facilities, high interest rates and unconducive environment. The government noted biased lending and allocation of funds against SME's by financial institutions and this was exacerbated by lack of experience of dealing with credit institutions by SME's. The governments notes

further in Sessional Paper No.2 of 1992 that in spite of considerable progress of outreach efforts by lending institutions SME's still do not get adequate access to credit and insurance services. They are also perceived as risky. Thus the limited access to financial services is brought about by lack of collateral by SME's and lack of capacity by financial institutions to provide appropriate finance to the sector which hinders their growth.

2.2.3 Legislation

Studies undertaken by Dessing 1990; Liedholm and Mead, 1992 and Mulat 1996 on legislation and regulatory policies, factors that affect the growth of micro-enterprises can be categorized into fiscal policy, monetary policy, exchange policy, import policy and labour policy. Dessing (1990) adds that the policy changes resulting from the fiscal and monetary reforms open many opportunities for micro-enterprises, this is seen in cases where micro-enterprise products and goods are good substitutes of large enterprises output, it is possible that the impact of a fall in real income due to adjustment policies ands increase demand for the former through the substitution effects, Tesfachew (1992) and Mukat (1996) argue that this would be a positive development for micro-enterprises since it may involve not only a shift in demand but also a movement in factors of production from large enterprises to micro-enterprises.

Regulatory restrictions are one area in which entrepreneurs need to be facilitated in order that they become formal and grow. One of its goals is to harmonize all trade licensing to make them friendly to SME's, If regulations are friendly such as ensuring that registration process and tax rates are clear and affordable then SME's will openly operate and contribute to the economy more than at present.(G.O.K Sessional paper 1, 1996).Meredith et al (2003) asserts that while licensing aims at preventing illegal business by traders and putting in place an orderly system of operations, many SME's feel that paperwork and procedures are designed to lock them out of the formal sector. The regulations are in essence, a disincentive to growth by small businesses yet national

development goals and policies in Kenya encourage their growth. They further state that compliance with laws and regulations requires SME's to file numerous returns pertaining to zoning instructions, public health and safety among others. The laws should not be stringent as to apply the same standards as used by large enterprises.

In analyzing the impact of regulations on micro-enterprises the specific types of regulations covered can be classified into: restriction on availability of foreign exchange, restriction on type of ownership of enterprises, labour regulations on wages, hiring and firing, price controls on output or input, restriction on location of firms, restriction on firm activities and the total cost of acquiring licenses (Biggs et al,1996). Creating a level playing field should involve re-evaluating the costs and benefits of regulations that place a disproportionate burden on micro-enterprises, implementing regulations with the flexibility needed by micro-enterprises, and placing greater emphasis on competition and procurement policies to open micro-enterprises' to access the markets. Efficient targeting of public expenditure should be confined to those services and target groups that are underserved by the market, while government should strive to develop private market for services suitable for micro-enterprises, therefore stimulating market development on both demand and supply side. (World Bank, 1999)

Wuyts (2000) considers the nature of policies on the micro-enterprise sector to depend on the extent to which the sector is demand or supply constrained. If activities in the sector are mainly labour intensive, there is an infinite supply for its goods because of the surplus labour in developing countries. Demand enhancing policies are prescribed to induce growth in the sector. If on the other hand activities of the sector are constrained by lack of competitiveness or productivity collapses, supply enhancing policies are prescribed. He further observes that despite the focus on demand-enhancing policies, too much emphasis on such demand side policies is too restrictive because the informal sector may suffer from supply constraint. The policy prescriptions that focus entirely on the demand side miss out the possibility that there may be other

factors that determine the viability and competitiveness of labour-intensive production in the informal sector.

Supply side policies focus on intervention on providing human, financial, technological and physical resources to support the growth of small enterprises. The basic rationale behind such policies is that if these resources are inadequate then small enterprises will be unable to meet the demands of the market or to compete effectively with imported goods or those from the formal sector. However confusion concerning the exact nature of assistance that should be given and the intervention necessary to boost supply occurs.
(Wuyts, 2000)
Most urban authorities in Kenya operate on colonial by-laws that are yet to be reviewed. These policies are deficient and the urban authorities have not only failed to enforce them, but in reality given their form and coverage, they are not possible to enforce. While the basic idea is that licensing originally intended to enable entrepreneurs conduct their business productively and profitably, it has become a stumbling block. In spite of the number of people who can be licensed being limited, once a license is given, it is shrouded with many other outdated restrictive requirements relating to public health, building requirements, and other regulations outlined in the Local Government Act. This has resulted to most traders evading the licenses and therefore flouting most regulations laid down by authorities. Thus there is need for Local Authorities to put in place relevant policy framework reviews of the existing by-laws if they are to conform to government policy of enhancing performance of micro-enterprises.The kenyan government has not been a major source of demand for micro-enterprise products. Empirical evidence however indicates that direct government purchases typically account for less than one percent of the total demand for micro-enterprise manufactured goods thus the growth of the micro-enterprise is limited (Gichira ,1992)

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2.2.4 Management and entrepreneurial skills

Surveys of small business failure maintain that entrepreneurs often have good ideas and are competent but "they do not have a clue on how to run a business underlying appreciation of business fundamentals" (Barron, 2000). Cant et al (1999)points out that identification of their problems and development of appropriate training programmes to address these problems which will assist in equipping micro business owners with the necessary managerial skills to survive in today's competitive environment. Ligthelm et al (2002) observed that the deficiencies in the internal environment are the major cause of failures in small and medium enterprises and that they revolve around among others management skills. This problem comes from some specific management issues such as a lack of business management training and skills, inability to act as an entrepreneur and limited family business culture. They finally point out that management behavior and actions that are lacking include: Inability to set strategic goals, plan forward, reluctance to seek advice, lack of management commitment and unwillingness to adapt to change.

The International Center for Economic Growth (2001) states that most entrepreneurs start a business because of reasons such as availability of funds and opportunities then embark to learn about it while operating it, This results in a steep learning curve and higher chances of failure. Skills upgrading enable the informal sector to adopt new technology which results to higher productivity Naituli et al(2006) on the growth rate of an enterprise states that it's significantly influenced by the education level of the proprietor Kanungo (2003) adds that although the need for technical and business skills are recognized,financial institutions,government and micro-finance institutions do not actively promote the skills among the entrepreneurs. Mochache (2005) underscores the importance of training and how it enhances growth and competitiveness of SME's. Training empowers owners and employers to make better decisions and provide better quality goods and services. He further notes that the training duration is influenced by the competency required for the particular trade.

Managerial skills are important in making decisions which are non-routine and strategic in nature.

Ligthelm et al (2002) states that financial management is a crucial field within the endogenous environment of the small and medium enterprises thus presents numerous potential obstacle. Management competence is often determined by the availability of management and financial information. They add that management cannot exert control over exogenous problems that manifest themselves in the economic,socio-demographic, political, technological and international spheres. The most prominent problems facing medium sized enterprises' success is the state of the economy, compliance with legislation, resource scarcity, crime, corruption and rapidly changing technology. A study by Brink (1997) pointed out that entrepreneurs experienced problems with understanding the impact of technological development and state of the economy on the success of their business thus an effect on their growth.

Mcrae (1991) asserts that the potential of the education system to contribute further to growth of an entrepreneurship culture has not been harnessed. The superior performance of high growth firms is partly explained by the owners' level of education and training entrepreneurial skills whether formal or informal enable the owner of a business to seek growth and utilize opportunities to make profit. Namusonge (1998) adds that without the requisite skills the goal of Kenya attaining the industrialization through SME's will not be possible. The acquisition of relevant business skills is critical for their growth. He recommends the formulation of a comprehensive entrepreneurship development policy to nurture entrepreneurs..

2.2.5 Market for curios and handicrafts

A market is a group of people who have a need, purchasing power and the desire and authority to spend money on goods and services, and ideas. A target market is a more specific group of consumers on whose needs and wants a firm focuses its marketing efforts.(Ferrell et al ,2008)

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City curio traders are losing out on sales from their lucrative buyers as more tourists shop from traders who have shifted base to game parks and even abroad.Those in Nairobi are facing a tighter trade despite record tourist numbers last year, few stop in Nairobi's central business district, many preferring direct flights to destinations like the Coast and game parks where curios are also sold in plenty. Some traders have also been exporting curios abroad, allowing tourists who do not want to carry home bulky and heavy carvings to buy them from shops in their home countries. Some products are even sold and shipped from the Internet.Traders at the Nairobi's City Market say a flooded market and the fact that many tourists dont spend time in Nairobi are the prime reasons.In the market, tourists in khaki shorts handle small animal carvings or buy graceful sculptures carved out from Kenya's finest wood.To them the curios might be small mementos of a vacation or business trip to Kenya, but their purchases mean everything to carvers (www.bermudahotelnairobi.com.,2008)

A market is an aggregate of people who as individuals or within organizations have a need for certain products and the ability, willingness and authority to purchase such products. Marketers usually see the sellers as consulting an industry and the buyers constituting a market. Marketers are keenly interested in markets since each nation's economy and the whole world consists of complex interesting sets of markets that are linked through the exchange process. Hence marketers work to understand the needs and wants of a specific market and to select the markets that they can best serve best, and in turn develop products and services that can create value and satisfaction for customers in the market resulting in profitable long term customer relationships(Dibbs and Simkin ,2006) Nature tourism in Kenya, which plummeted some 90 per cent during the recent post-election violence, can play a key role in restoring the country's stability, economy and biodiversity.This has affected industries that gain from the tourist market and also those that obtain raw materials from nature. Tourism, based in the main around Kenya's fabled wildlife and natural landscapes, has historically been a centre-piece of the economy and for job creation (www.un.org)

Churchill et al (1998) points out that the organizations whose objectives include growth in sales and profit can use any of the strategies in the product/market matrix which are market penetration, market development, product development and diversification. Organisations may grow their markets by selling to new customers(market development) and selling more to its present customers(market penetration).In addition, they also assert that organizations may grow their markets by selling new products(product development) and by selling more of its existing products (diversification).

2.3 Critical Review

In most of the written literature on small and medium enterprises, there has been a major concern on the sector in general but not much on the curios and handcrafts. This study addressed issues concerning the factors affecting growth and performance of small scale curios and handicrafts in Nairobi, Kenya. Although the small scale curios and handicrafts may incorporate all that the study covers there is a possibility of other factors that may still be inherent to their growth. Some issues pointed out provide solutions, but on the other hand bring out other emerging issues, an example being brought out by Meredith et al (2003) who asserts that while licensing aims at preventing illegal business by traders and putting in place an orderly system of operations, many SME's feel that paperwork and procedures are designed to lock them out of the formal sector. The regulations are in essence, a disincentive to growth of small businesses yet national development goals and policies in Kenya encourage their growth. They further state that compliance with laws and regulations requires SME's to file numerous returns pertaining to zoning instructions, public health and safety among others.

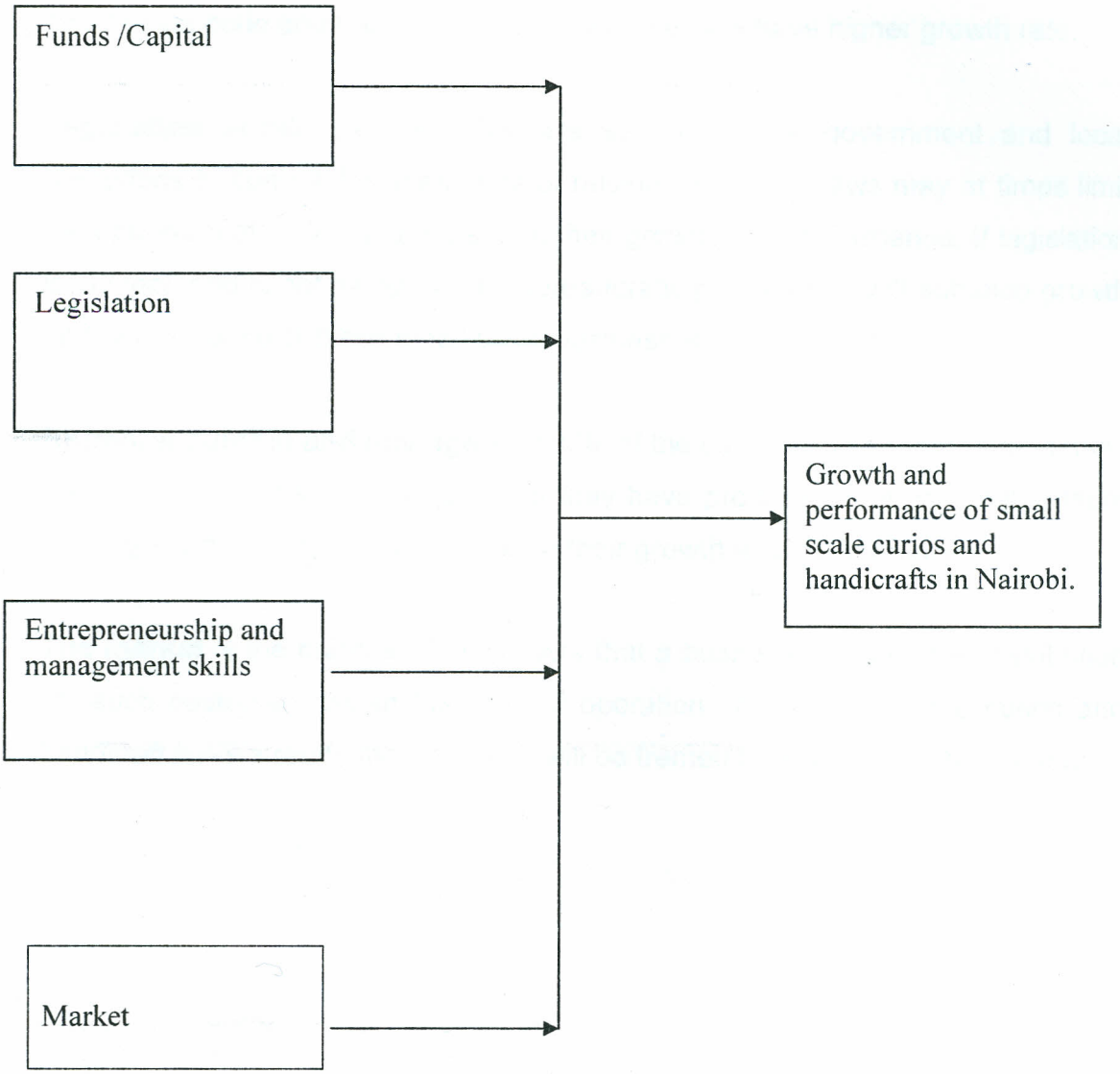
2.4 Summary and gaps filled by the study

Not much research has been done on the factors affecting the growth and performance of small scale curios and handicrafts in Nairobi even though they

have been in operation for a long period. Relevant literature on the subject is also not readily available and if available it is old thus making it inappropriate for strategy formulation and decision making. The study therefore intends to fill theses gaps.

2.5 Conceptual Framework.

Figure 2.1 Conceptual Framework



Independent variables (Dependent variable

Source: Author 2008

2.6 INTERPRETATION

Growth and performance- growth and performance involves an increase in the scope of business, an increase in sales and finance which is reflected in the profits that a business realizes.

Funds/Capital are required by curio entrepreneurs to enable them undertake their business undertakings and may enable expansion of their business thus enhance their growth and performance. If funds are availed to Entrepreneurs of small scale curio and handcraft businesses, they will have higher growth rate.

Legislation entails the laws that are set up by the government and local authorities to control the operations of businesses. Such laws may at times limit the operation of curios and impact on their growth and performance. If legislation is in place and is not hampered by bureaucratic processes it will enhance growth and performance of these small scale businesses.

Entrepreneurship and managerial skills of the curio owners and operators play a part in their decision-making and if they have proper skills it will enable them make good decisions that will enhance their growth and performance.

The market is the number of customers that a business has and the distribution of such customers within the area of operation of the curio. If the curios and handcraft have a ready market, there will be tremendous growth in this sector.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research design, target population, data collection procedure and data analysis procedure.

3.1 Study Design

The study adopted a descriptive research design. According to Kothari (2004), descriptive research design is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem.This is because the method is appropriate for collecting both descriptive and explanatory data. In this case the researcher went to the population in a bid to tackle the topic of the study.

3.2 The Target Population

The target population consist of all 201 small scale curio and handicraft traders at the village market, Maasai market, around Globe cinema roundabout, (normally on Tuesdays), high Court parking(on Saturdays) and curios within the city center.(City Council of Nairobi,2007) and (Village market 2007) which is depicted below:

Table 3.1 Target Population

Market	Frequency
Village Market	19
Maasai Market	104
High court parking	63
City Center	15
TOTAL	**201**

Source; Author (2008)

3.3 Sampling Design

From the above population of 201, a sample size of 20% was drawn by use of stratified random sampling. According to Mugenda & Mugenda (1999), a

representative sample is one that is at least 10% of the population of interest. In addition to this, this sampling technique should be used when the population of interest is not homogenous. The population of the small scale curio and handicraft in this study are situated in different locations.

Table 3.2 Sample Design

Population

Market	Frequency	Sample ratio	Sample size
Village Market	19	0.2	4
Maasai Market	104	0.2	21
High court parking	63	0.2	12
City Center	15	0.2	3
TOTAL	**201**	**0.2**	**40**

Source; Author (2008)

3.4 Data Collection procedures

Data was collected mainly by use of questionnaire method. This was due to the size of the sample which was relatively large and also as it was time saving. The researcher used drop and pick method where the research tools was dropped and collected after being filled. A bit of observation was considered by the researcher to supplement the answers and make opinions on the topic of the study. The questionnaire had both open ended and closed questions.

3.5 Data Analysis

Data has been analysed by use of descriptive statistics. This includes the use of frequency distribution tables, charts or percentages. It was also considered measures of central tendency especially mean, median and mode and measures of dispersion especially standard deviation. The SPSS (scientific program fro social scientist) and Microsoft Excel were used to analyse the data.

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3.6 Expected output

The study has revealed the factors that influence the growth and performance of small scale curio and handicraft businesses in Nairobi.The study tackled the contribution of funding, entrepreneurial and management skills, Market and legislation on growth and performance of small scale curios and handicrafts.

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CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND FINDINGS

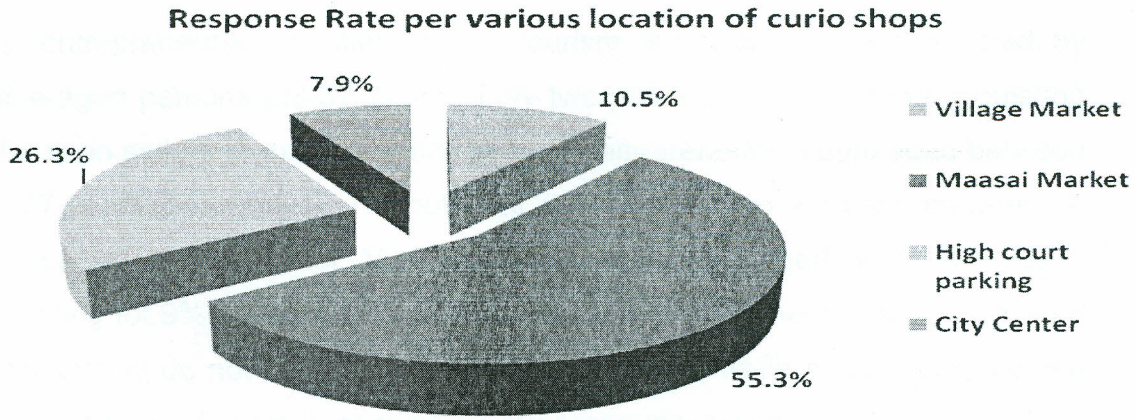
4.0 Introduction

This chapter presents the findings from data collected through the use of questionnaires, interviews and by personal observations of the activities taking places in different curio shops visited by the researcher in the study region. Business owners filled the questionnaires. The information gathered has been analyzed using the statistical package for social science (SPSS), presented and discussed as per the objectives of these study.

4.1 Response Rate

The researcher targeted to interview 40 people out of which 38 responded. This translates to 95.0%. The sample size is statistically representative and is therefore representative of the total populations hence allows generalization of results to the entire populations. Of the total respondents, majority (55.3%) were from Maasai market, 26.3% were from High court parking, 10.5% were from Village market while 7.9% were from city center. The chart below summarizes the findings.

Figure 4.1



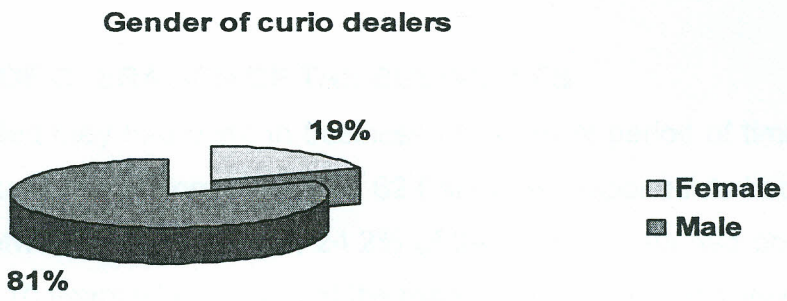
Source: Field data (2008)

4.2. BACKGROUND INFORMATION

4.2.1 GENDER DISTRIBUTIONS OF CURIO OWNERS

There appears to be a clear distribution of occupation in relation to gender. Majority (81.0%) of the curio sellers identified and interviewed were men selling wood products, drawings etc. whilst women were 19.0%. Observation made during the study shows that all these respondents depend on both the local and international tourism that purchases their products. The chart below summarizes the findings.

Figure 4.2

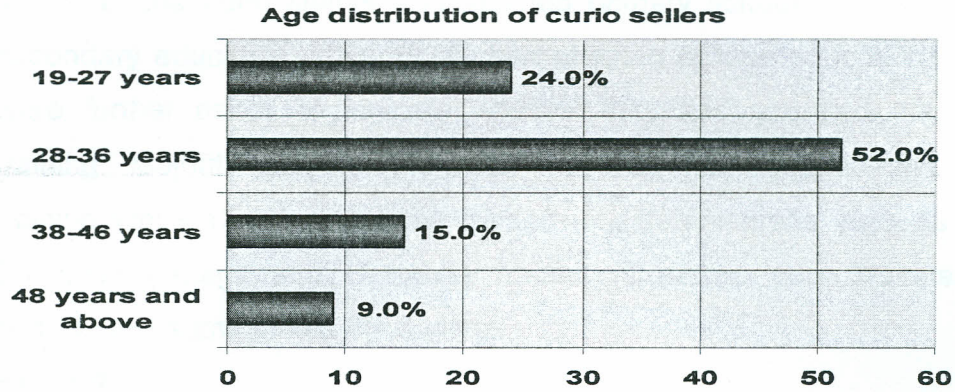


Source: Field data (2008)

4.3 AGE DISTRIBUTIONS OF CURIO OWNERS

Most entrepreneurial activities in this tourism sub-sector were conducted by middle-aged persons (28-37 Years). Fifty two percent (52.0%) of the population of the curio sellers represented this class of entrepreneurs. Youth aged between 19 - 27 years, accounting for about 24%, with mature persons aged between 38 – 47 years accounting for 15% and those that were aged above 48 years, accounting for 9% appeared to be involved in few entrepreneurial exploits. Young people simply do not have the capital for investment, while most mature people feel that they are too old to engage in entrepreneurial activities.

Figure 4.3

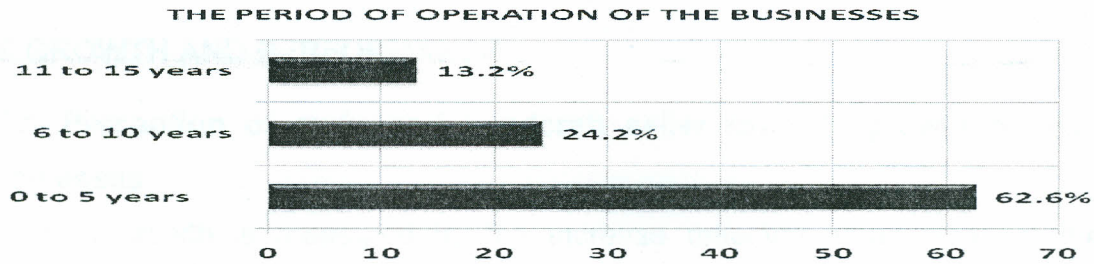


Source: Field data (2008)

4.4 THE PERIOD OF OPERATION OF THE BUSINESSES

Curio seller indicated they had been in business for different period of time. The following observations made from the study; 62.6% of the respondents had been in operation for between 0 and 5 years; 24.2% of the respondents had operated for between 6 and 10 years while 13.2% of the respondents operated between 11 and 15 years. The period that a business has been existence determines its growth if the conditions are favorable and stable. Businessmen/women who have been operating their businesses for a long period had developed most business skills. The chart below summarizes the findings.

Figure 4.4



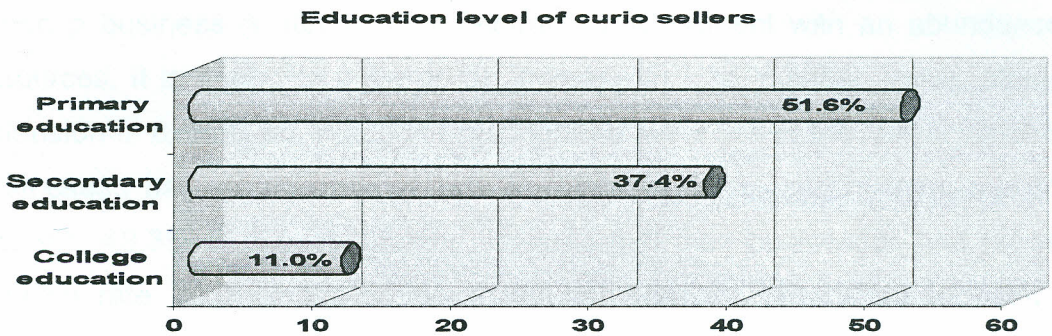
Source: Field data (2008)

4.5 EDUCATION LEVEL OF CURIO SELLERS

Education attainment can affect business growth since those educated are able to plan and organize their business activities effectively in a business if a

business is in a conducive environment. The finding of this study indicates that 43.0% of the curio sellers had attained primary school education, 42.0% had secondary education while 15.0% had attained college education. Respondents were further asked to indicate whether they had acquired any professional training. Majority (87.4%) indicated that had not acquired any professional training while 12.6% had been trained in different areas such as Accounting, Business management, Computer training, Customer care Secretarial etc. The chart below summarizes the findings.

Figure 4.5



Source: Field data (2008)

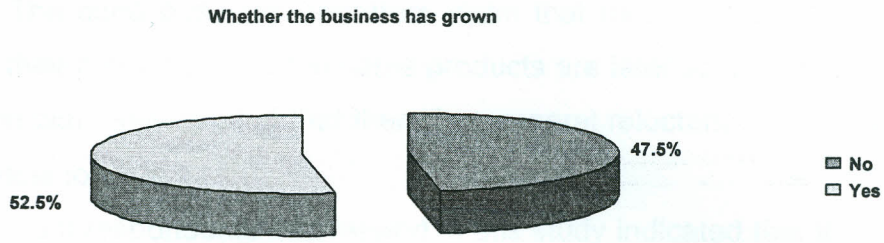
Some the problems affecting the curio sellers in this sub-sector include: the lack of capital, absence of adequate visitor during the low seasons, and lack of activities that could lure visitors to their businesses since the hotels were offering the same services.

4.6 GROWTH AND PERFORMANCE

4.6.1 Perception of curio and handcraft seller towards growth of their businesses

Business growth is measured by the increase reflected in all areas of the business. This includes customer base, sales, profit, staff establishment etc. In this study, 47.5% of the respondent indicated that their businesses had grown while 52.5% indicated that their businesses had not recorded any growth. Lack of growth may have resulted to various business constrains. The chart below summarizes the findings.

Figure 4.6

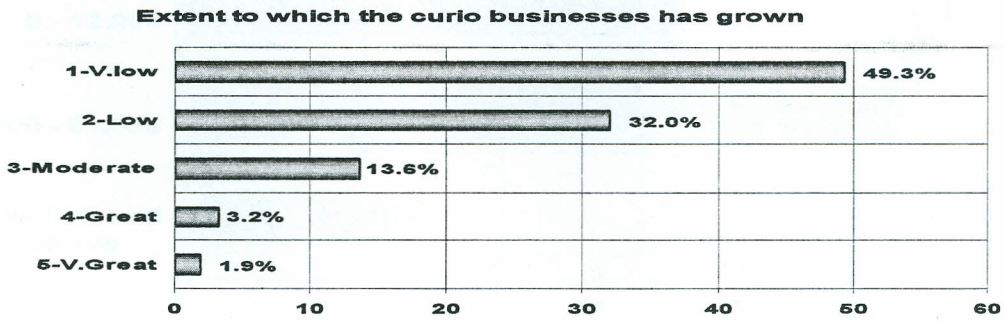


Source: Field data (2008)

4.6.2 Extent to which curio businesses has grown

When a business is started in a favorable environment with an abundance of resources, it is bound to undergo an increase in size, number, value, strength; extension or expansion. When the respondents were asked the rate at which their businesses had experienced growth in terms of sales, assets, new branches, size etc, 49.3% of the respondent indicated that their businesses had grown at very low rate, 32.0% indicated the growth has been low. 13.6% stated that it had been registered moderate growth, 3.2% indicated that it had been great while only 1.9% of the respondent indicated that they had experienced growth at a very great extent. The researcher would in this case suggest that majority of the businesses had registered low growth rates. The chart below summarizes the findings.

Figure 4.7



Source: Field data (2008)

4.6.3 Reasons for low business growth

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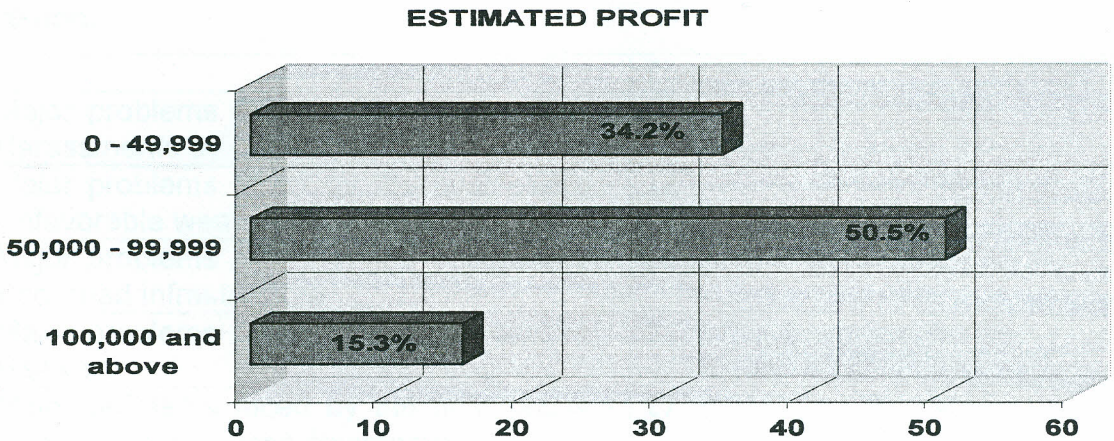
The perceived main problem in the curio business is lack of markets for the products. The curio business operators claim that most of them are paid very poorly for their products while the same products are later sold expensively to the tourist. The curio sellers sited that there is a general reluctance to purchase craft items by local tourists.

However, most respondents interviewed in this study indicated that they are able to make a decent livelihood from this activity. Generated incomes are used in satisfying such need as sending children to school, being able to pay for their house rents but not re-invested to their businesses.

4.7 ESTIMATED PROFIT

Profits form a source of funds to be ploughed back to business to increase / expand production. Every businessperson projects his/her estimated profits at the beginning of each operation cycle and reviews the performance at the end. In this study, majority 50.5% of the respondent indicated an estimated profit in the last 1 years of between Kshs.50,000-99,000, 34.2% of the respondent indicated an estimated profit of less than Kshs. 50,000 while 15.3% respondent estimated a profit of above Kshs.100,000. The chart below summarizes the findings.

Figure 4.8



Source: Field data (2008)

4.7.1 Factors which affects growth and performance of small-scale curios and handicrafts in Nairobi

Running of business has never been an easy thing since there are many day to day problems that crops up as one tries to give the best services to customers. This study found out that the Nairobi city council workers are fond of harassing business people even after complying with all the regulations required of the government. They still look for a reason to harass people as it was cited by 10% respondents. Unfavorable weather was sited by 20% respondents, 1.7 % sited poor infrastructures, 3.3% sited insecurity in the area, hawkers problems was sited by 8.3% respondent, competition with other same type of businesses was sited by 45% respondents, Counterfeit products was sited by 1.7%, high rents was sited by 20% respondents, inadequate finances was sited by 31.7% respondents, poor management skill was sited by 3.3% respondents, high taxation rates was sited by 18.3% while lack of market was sited by 20% respondent. All the above mentioned problems are said to have caused the business in the study region to perform poorly and slow growth. The table below summarizes the findings.

Table 4.1. Major problems experienced by business people in the study region.

	Frequency	Percentage
Major problems faced by the businesses - Harassments by council workers	6	10%
Major problems faced by the businesses - Unfavorable weather conditions	12	20%
Major problems faced by the businesses - Poor road infrastructure	1	1.7%
Major problems faced by the businesses - Hawkers	5	8.3%
Major problems faced by the businesses - Competitive business environment	27	45%
Major problems faced by the businesses - Counterfeit products	1	1.7%
Major problems faced by the businesses - High rent	12	20%
Major problems faced by the businesses -	1	1.7%

Insecurity		
Major Problems faced by the businesses - Power rationing	2	3.3%
Major problems faced by the businesses - Inadequate finance	19	31.7%
Major problems faced by the businesses - Poor managerial skills	2	3.3%
Major problems faced by the businesses - High taxation rates	11	18.3%
Major problems faced by the businesses - Market	12	20.0%

Source: Field data

4.8 PROPOSED SOLUTIONS

When problems are identified every effort should be made to seek solutions. The study sought to know the suggested solutions to the problems encountered by the entrepreneurs in the study regions and found out the following; repairing of drainage system was sited by 6.7% respondents, 3.3% want the government to deal with counterfeit products, 3.3% respondents indicated that bank interest rates should be removed or reduced. This will encourage many people to borrow funds that they can use to boost their business. Twenty percent (20%) respondents indicated that roads should be repaired to reduce the cost of transportation and quicken the delivery services and goods to the customers. Twenty one point seven (21.7%) respondents indicated that government should reduce the multiple and high taxes levied. They cited that even though people pay taxes the funds are not used to improve infrastructure. Ten percent respondents indicated that the government should curb hawking since hawkers don't pay rent license, taxes, etc and thus able to sell their goods at cheaper prices than in shops thus reducing the number of customers for the established SME'S. 20% respondents indicated that they would like the rent charges to be reduced as much of business profit goes to paying rents rather than being ploughed back to the business. If the above is done, business community in the study area are bound to grow and deliver better services to the community as a whole. The table below summarizes the findings.

Table: 4.2. Proposed solutions to problems experienced by businesspersons in the study region.

	Frequency	Percentage
Proposed solutions-repair of drainage system	4	6.7%
Proposed solutions-government to reign on counterfeit products	2	3.3%
Proposed solutions-reduce bank interest rates	2	3.3%
Proposed solutions-reduce rents	12	20.0%
Proposed solutions-repair roads	5	8.3%
Proposed solutions-reduce taxes	13	21.7%
Proposed solutions-curb hawking	6	10.0%

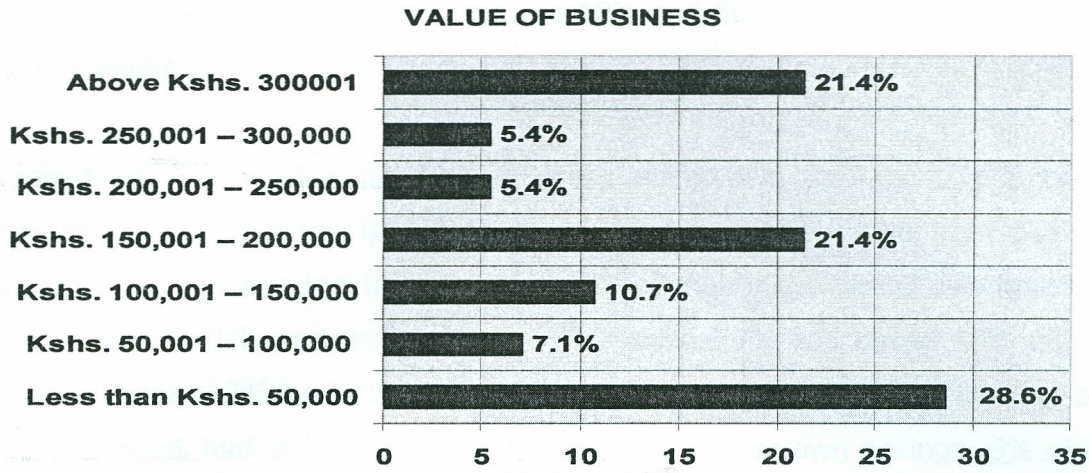
Source: Field Data

4.9 FUNDS /CAPITAL

Capital Base of Curio Sellers

Assets represent property and it determines the wealth of an individual or a business. An individual's assets might include cash, bank deposits, and stocks, rights to future pension payments, and a house and its contents. Assets can be used to secure a loan from banks and other money sources. The larger the amount of assets owned by an individual or a company, the more the amount of money they can be given as a loan by banks. This study revealed that 28.6% respondents had assets worth less than Kshs. 50,000. Businesses that had between Kshs. 50,001 – 100,000 were 7.1%, those that had between Kshs. 100,001 – 150,000 were presented by 10.7% respondents, between Kshs. 150,001 – 200,000 were 21.4%, between Kshs. 200,001 – 250,000, and between 250,001 – 300,000 were presented by 5.4% respectively, while those that had more 300,001 were 21.4%. The graph below summarizes the finding the findings.

Figure 4.9



Source: Field Data 2008

4.10 PROPORTION OF INITIAL CAPITAL FOR BUSINESS OBTAINED FROM DIFFERENT FINANCE SOURCES

In most cases, people prefer to save and start a business with their own funds and supplement the additional capital using borrowed funds. There are others who save some money but still need to borrow additional capital to start up a business. The study revealed that 81.7% of the respondents started their businesses without borrowing from MFIs.18.3% borrowed over 90% of the initial capital from MFIs, 8.3% borrowed 60% of the initial capital form MFIs, 3.3% borrowed 30% of their initial capital from MFIs and 1.7% respondents indicated that they borrowed 80% of their initial capital from MFIs. Those who borrowed over 10% of their initial capital from MFIs were 1.7%.

There are some who borrowed from friends and relatives. This study revealed that 78.3% of the respondent did not borrow from friends and relatives.10% of them indicated that they borrowed 20% of their initial capital from friends and relatives, 5% borrowed 30% of their initial capital from friends and relatives. 3.3%

indicated that 40% of their initial capital was borrowed from friends and relatives, while 1.7% indicated that they borrowed 10% and 50% respectively from friends and relatives.

Majority of SME's start up their business using own savings. 22.9% of the respondent indicated that they financed 100% of their initial capital from their own savings. 25% respondent indicated that 50% of their initial capital was from their own savings, 20% had no savings of their own. 8.3% had saved 80% of their initial capital, 6.7% had 70% of their initial capital from their own savings and another 6.7% had 20% of their initial capital from their own savings. 5% of the respondent had saved 40% of their initial capital. 3.3% of the respondent indicated that they received 60% of their initial capital from their own savings. Another 3.3% had saved 30% of their initial capital while the same percentage (3.3%) had saved 10% of their initial capital.

Another source of the initial capital is SACCO where 81.7% of the respondent indicated that they did not borrow from. 11.7% respondents indicated that they borrowed 50% of their initial capital from SACCO. 3.3% borrowed 30% of their initial capital from SACCO, while 60% and 40% of initial capital was borrowed by 1.7% respectively.

Another source of funds is welfare groups. In this study, 81.7% of the respondent indicated that they did not borrow any money from the welfare groups. 6.7% of the respondent indicated that they borrowed 50% of their initial capital from the welfare groups. 5% of the respondent borrowed 20% of their initial capital from the welfare groups. 3.3% respondent borrowed 40% while 1.7% another 1.7% of the respondent indicated that they borrowed 10 and 30 percent of their initial capital from welfare group respectively.

Bank loans are another source of capital as indicated by the respondents. In this study,76.7% of the respondent indicated that they did not borrow any funds from the Bank.6.7% respondent indicated they borrowed 40% of their initial capital

from the bank loan,5% respondent received 50% of their initial capital from bank loan,3.3% respondent indicated they borrowed 20% of their initial capital from bank as a loan. While 1.7% of the respondent indicated that they received 10%, 30%, 60%, 80% and 100% of their initial capital respectively from a bank loan. The table below summarizes the findings.

Table 4.3 Proportion of initial capital obtained from different sources.

	<10%	20%	30%	40%	50%	60%	70%	80 %	90%	100%	None
Proportion of initial capital obtained from-MFI	1.7%	1.7%	3.3%	1.7%		8.3%		1.7 %	18.3 %		81.7 %
Proportion of initial capital obtained from-friends and relatives	1.7%	10.0 %	5.0%	3.3%	1.7%						78.3 %
Proportion of initial capital obtained from-own saving	3.3%	6.7%	3.3%	5.0%	25.0 %	3.3%	6.7	8.3 %		22.9 %	20.0 %
Proportion of initial capital obtained from-SACCO			3.3%	1.7%	11.7 %	1.7%					81.7 %
Proportion of initial capital obtained from-welfare group	1.7%	5.0%	1.7%	3.3%	6.7%						81.7 %
Proportion of initial capital obtained from-bank loan	1.7%	3.3%	1.7%	6.7%	5.0%	1.7%		1.7 %		1.7%	76.7 %
Proportion of initial capital obtained from-others											

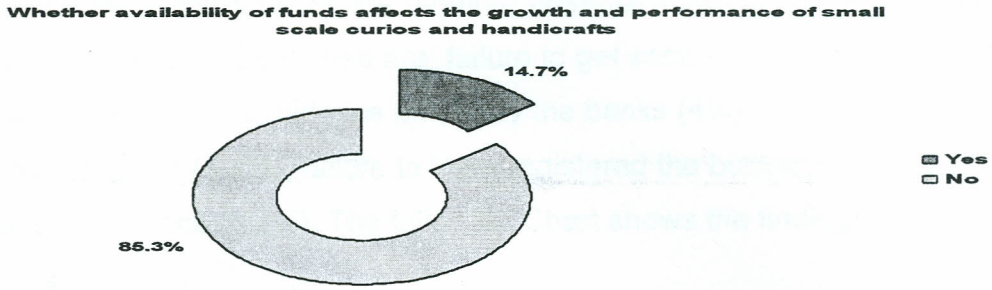
Source: Field data 2008

From the above analysis it is evident that the most common source of start-up capital is own savings from employment and other businesses ventures, followed by borrowing or support by relatives and friends, from welfare groups and followed by micro-finance institutions respectively.

4.11.1 Whether availability of funds affects the growth and performance of SMEs

SMEs experience various problems that limit their growth resulting to slow progression to medium and large enterprises. Majority 85.3% indicated that access to funds may affect the growth of their business positively if available or negatively if not accessed. Only 14.7% respondents who sited that it has no effects. The chart below summarizes the findings.

Figure 4.10

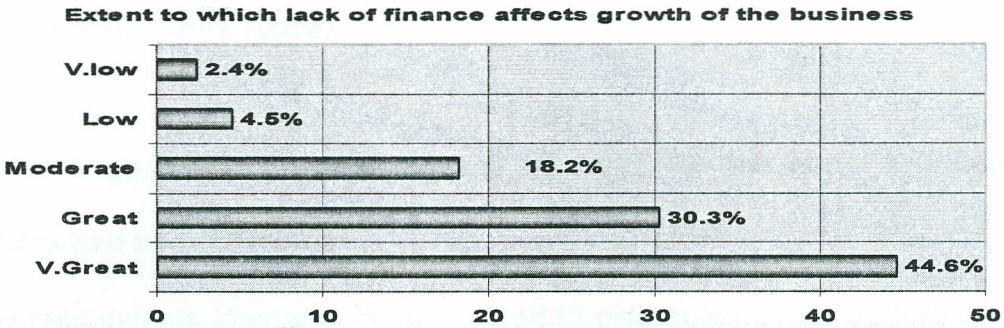


Source: Field data (2008)

4.11.2 Extent to which lack of finance affects growth of the business

Further analysis revealed that lack of access to funds affects business growth to a very great extent, as was indicated by 44.6% respondents. 30.3% indicated that it can affect their businesses to a great extent, 18.2% indicated that it affect their businesses moderately, 4.5% sited that it can affect their businesses lowly while 2.4% indicated that it will have a very low effects. The chart below summarizes the findings.

Figure 4.11



Source: Field data (2008)

4.11.3 Challenges experienced in accessing credit from the banks

When respondents were requested to state challenges they encounter in accessing credit from the banks, the four key challenges emerged. 36.1% mentioned lack of tangible sufficient security for the credit, 14.6% insufficient banking (failure to effectively operate the business account leading to low credit

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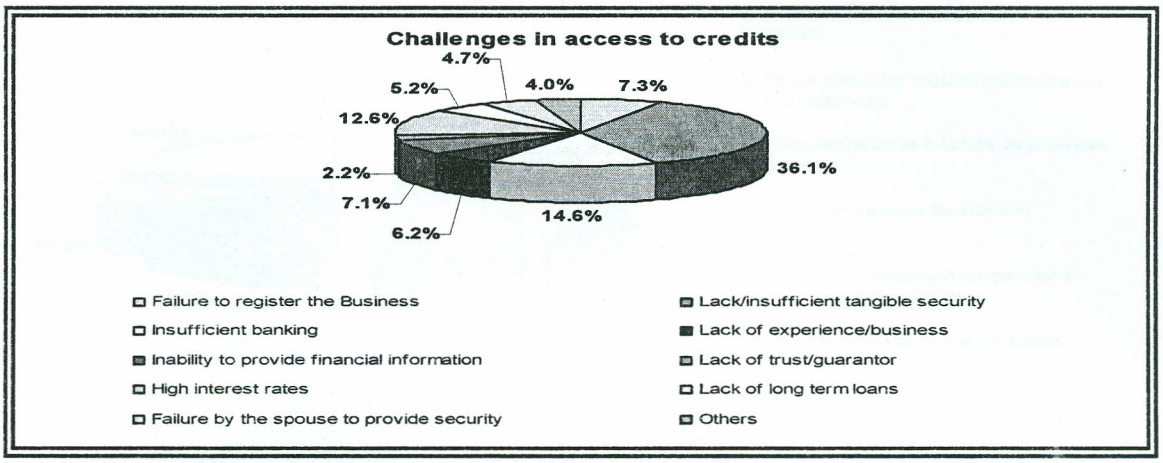
rating), 12.6% high interest rates (the cost of capital being higher than return on investment) while inability to provide required financial information mentioned by 7.1%. Other challenges mentioned are: failure to get security from their spouses (4.7%), lack of trust and confidence on the by the banks (4%), delay in processing the credit (5.2%), failure to have registered the business (7.3%) and lack of long-term loans (6.2%). The following Chart shows the findings.

Figure 4.12



Source: Field data (2008)

4.11.4 Suggestions on how access to credit for the curio and handcraft sellers can be improved.

The respondents interviewed were asked to give suggestions on how access to business credit can be improved. The following suggestions were give: 22.4% suggested that commercial banks should reduce the interest rate charged to their customers on loans secured. 20.4% suggested that banks should relax the security requirement and instead assess the viability of the enterprise. 14.7% indicated that time taken to process loans should be reduced to acceptable waiting periods. 16.1% indicated that banks should assist respondents with access to stable market that can guarantee a steady flow of income to repay loans. 10.2% indicated that financial institutions should stop discrimination on

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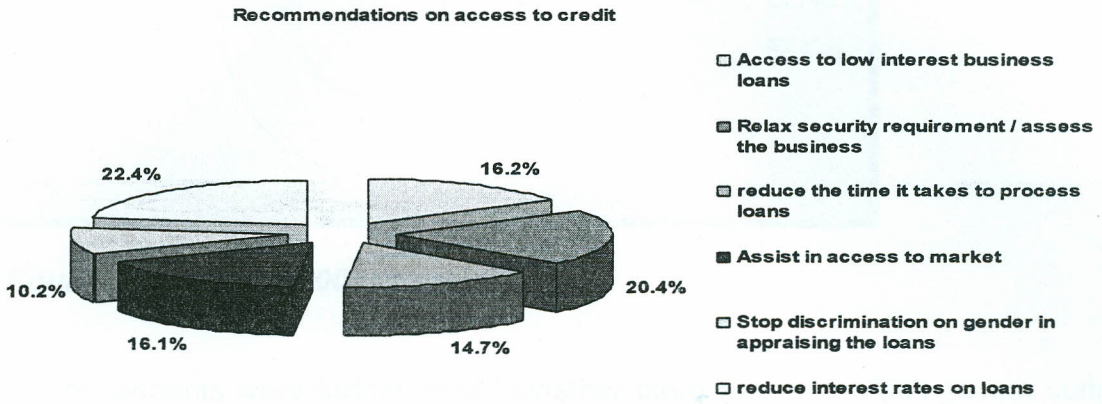
gender in appraising the loans. Also other suggestions were mentioned which includes, (the need for the banks to build confidence with women customers just like men, reduction of the cost of capital, since it is higher that the returns from the business and commercial banks to address the unrealistic criteria when appraising loans. The chart below summarizes these findings.

Figure 4.13

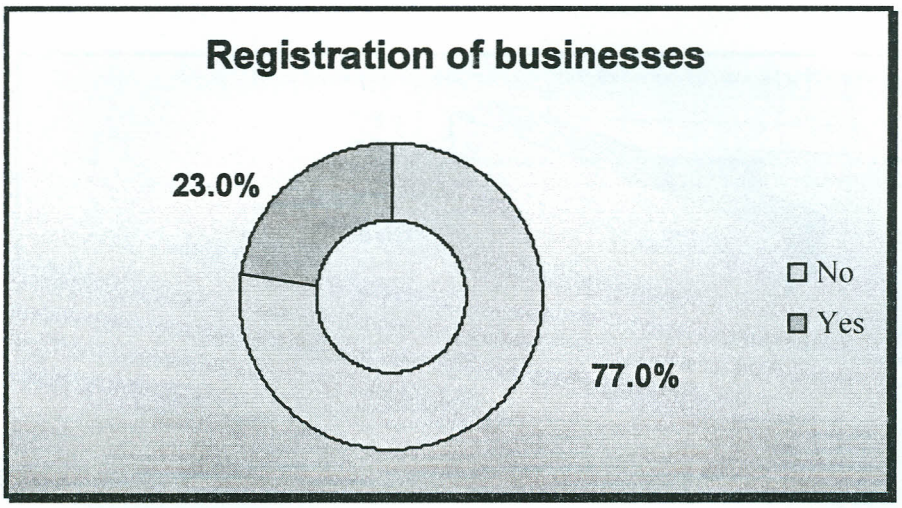


Source: Field data (2008)

4.12 LEGISLATION

Registration of a business gives it legal status and it is one of the factors that creditors consider when they are evaluating loan applications. In Kenya, it is a requirement that all business activities be registered with the registrar of companies and that no business should operate without a trading license. However due to corruption and the current perception with the members of the public that once a business is registered, one must pay income tax and that monitoring of the tax payment becomes easy after registration, many people avoid registering their businesses. On the other hand, unregistered businesses cannot operate a bank account and therefore the benefits derived from banking are not available to such businesses. The study revealed that most of the businesses visited were not registered (77%) although some were operating under a trading license. The study also revealed that there exist many licensing bodies, a situation which calls for the need to harmonize them.

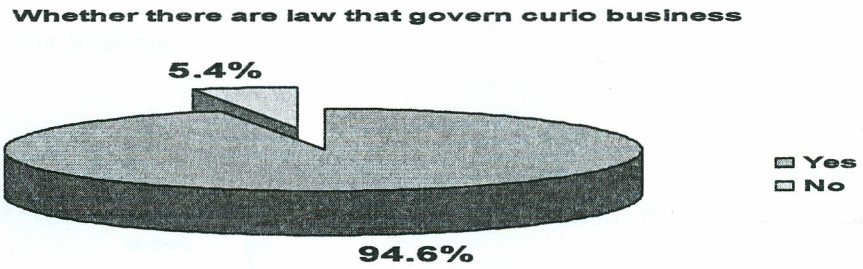
Figure 4.14



Source: Field data (2008)

The respondents were further asked whether there are laws which govern curio businesses, 94.6% indicated that they are in place while 5.4% indicated that they are not in place.

Figure 4.15

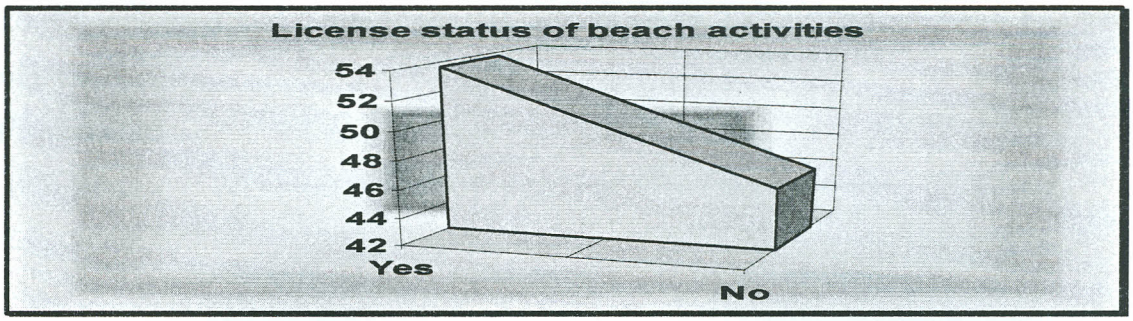


Source: Field data (2008)

4.12.1 LICENSING STATUS OF THE BUSINESSES AND THE LICENSING BODIES

The study findings indicated that 53% of the respondents' businesses were licensed whereas 47% were not. The graph below summarizes the findings.

Figure 4.16



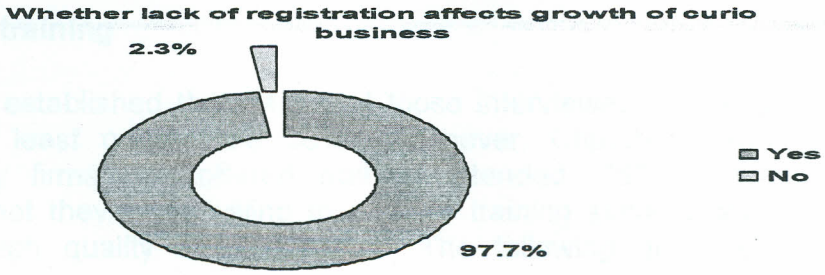
Source: Field data (2008)

When asked to state the licensing authority, various answers were given, indicating that different were licensed by different bodies. This include double licenses form the local authority and ministry of Tourism and Wildlife.

4.12.2 Effect of Legislation status to the growth and performance of small scale curios and handicrafts.

The findings of this study show that the registration status affects growth as was indicated by 97.7% respondents while 2.3% indicated otherwise. The chart below summarizes the findings.

Figure 4.17

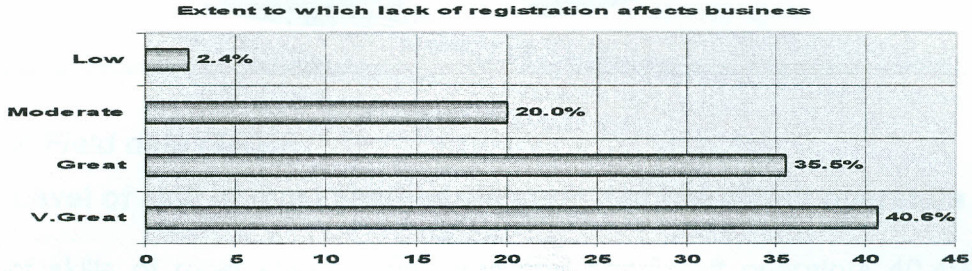


Source: Field data (2008)

4.12.3 Extent to which Legislation affects business.

The effects to which legislation affect businesses was stated to be at very great extent by 40.6% respondents, 35.5% indicated it greatly affects their businesses, 20.0% indicated that it has moderate effects while 2.4% indicated that it has low effects.

Figure 4.18



Source: Field data (2008)

4.12.4 Suggestions to improve legislation

The respondents felt that there was need for the government to reduce the number of licenses, the time taken to process a license and the cost of the licenses. Interestingly, there were businesses which had more than one license from the same licensing body. This occurred where activities within a business may be clustered under different licensing codes hence the activities requiring their own licenses.

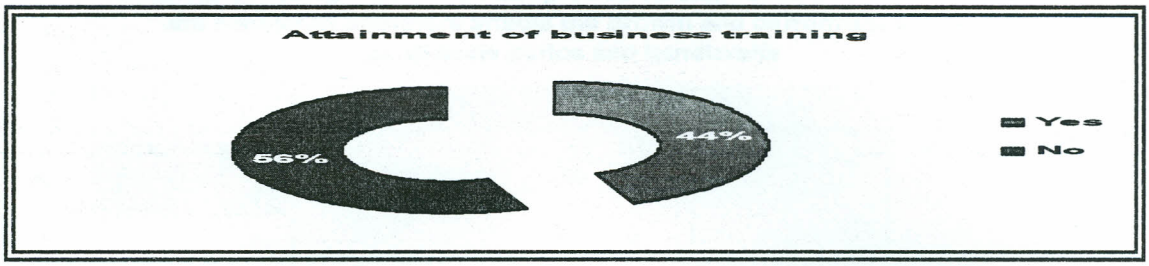
4.13 MANAGEMENT AND ENTREPRENEURIAL SKILLS

Access to training

This study established that 44.0% of those interviewed had acquired business training at least once while 56% had never. Churches, some NGOs and consultancy firms had offered training attended. 75% of the respondents indicated that they were willing to procure training services as long as it was relevant, high quality and affordable. The following graph summarizes the findings:

Figure 4.19

Access to business training

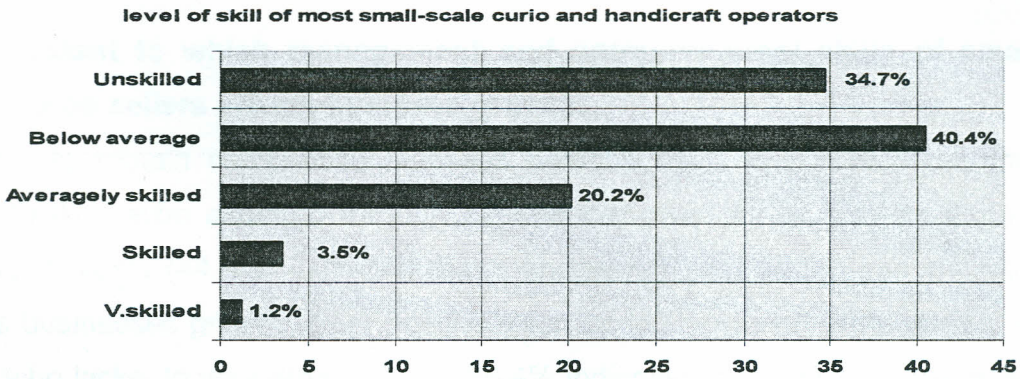


Source: Field data (2008)

4.13.1 Level of skill of most small-scale curio and handicraft operators

Level of skills of most small scale curio and handicraft operators 40.4% was below average, 34.7% were unskilled, 20.2% had average skills 3.5 were skilled while 1.2% were very skilled. The chart below summarizes the findings.

Figure 4.20

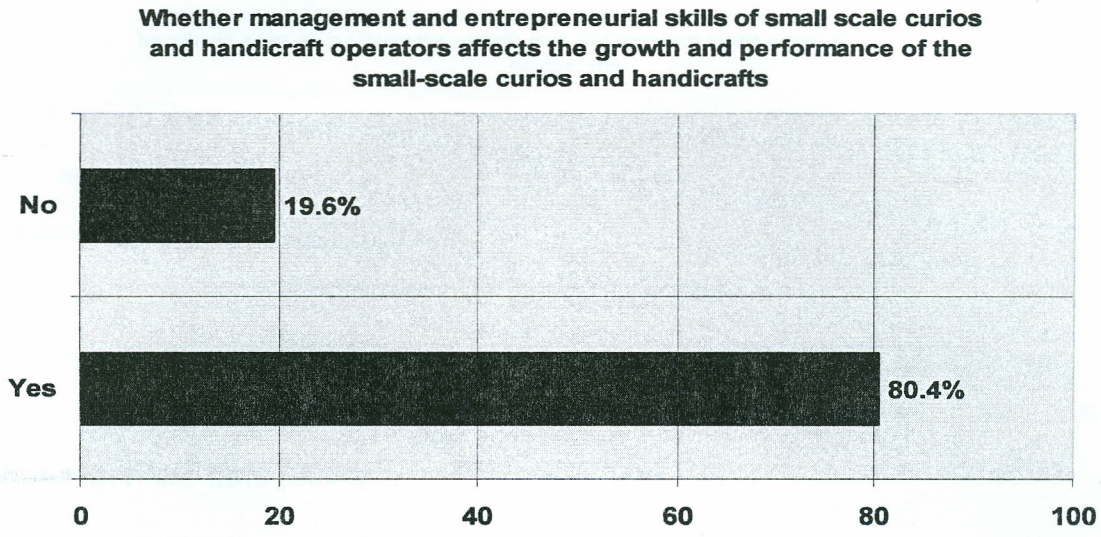


Source: Field data (2008)

4.13.2 Whether management and entrepreneurial skills of small-scale curios and handicraft operators affects the growth and performance

Majority of the respondents (80.4%) indicated that managements and entrepreneurial skills of small scale curios and handicraft operators affects the growth and performance of the small curios and handicrafts. The chart below summarizes the finings.

Figure 4.21

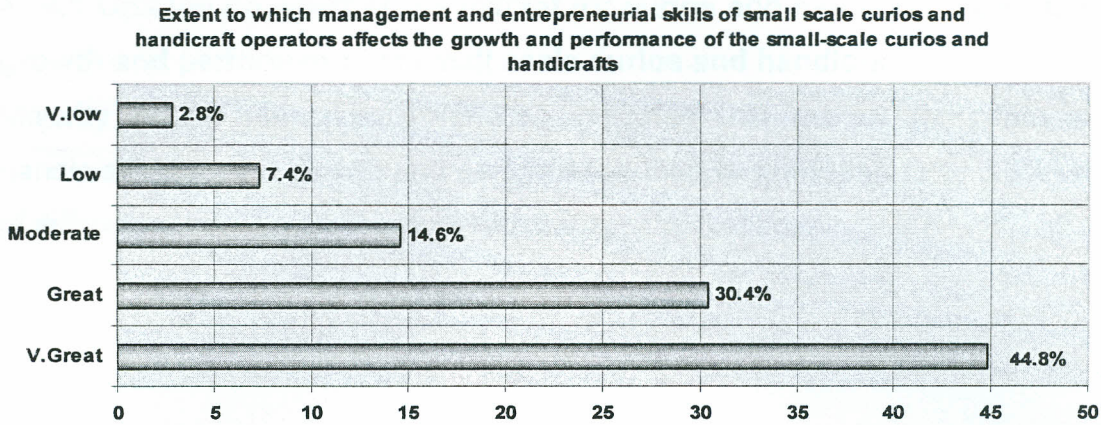


Source: Field data (2008)

4.13.3 Extent to which management and entrepreneurial skills of small-scale curios sellers affects business growth.

In order to remain competitive business persons need to build/improve their skills. Skills maybe acquired through experience, coaching as well as through training. Majority (44.8%) indicated that management and entrepreneurial skills affects businesses growth either positively for those who have, or negatively for those who lacks, to very great extent. 30.4% indicated that it affects businesses to a great extent, 14.6% indicated that it has moderate effects, 7.4% stated that it has low effects while 2.8% stated that it affects businesses to very low rate. The chart below summarizes the findings.

Figure 4.22



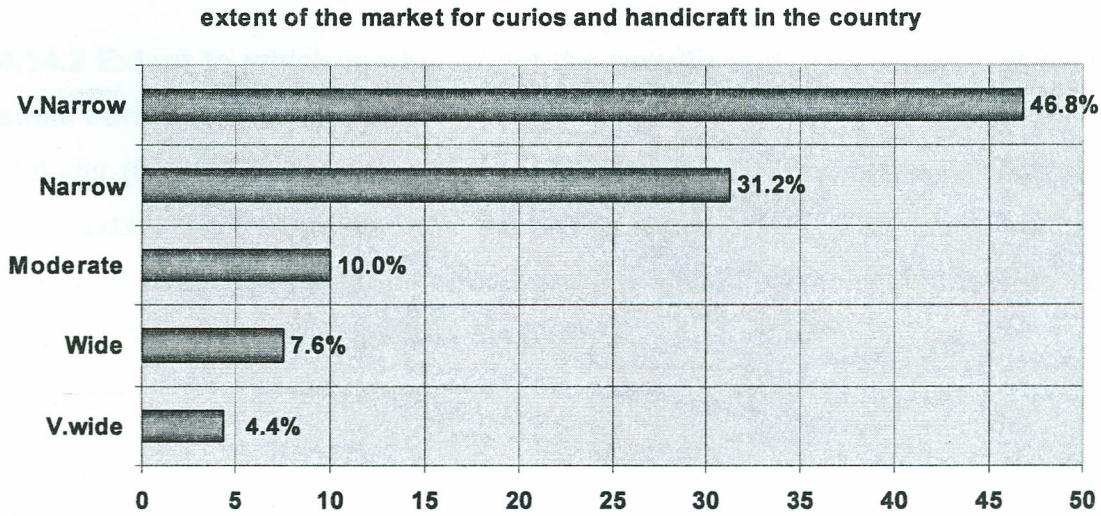
Source: Field data (2008)

4.14 MARKET

Extent of the market for curios and handicrafts in the country

The findings of this study shows that the local market for curio is very narrow as was indicated by 46.8% respondents, 31.2% indicated that its narrow, 10.0% indicated that it moderate, 7.6% stated that it's wide while 4.4% indicated that it's very wide. The chart below summarizes the findings.

Figure 4.23

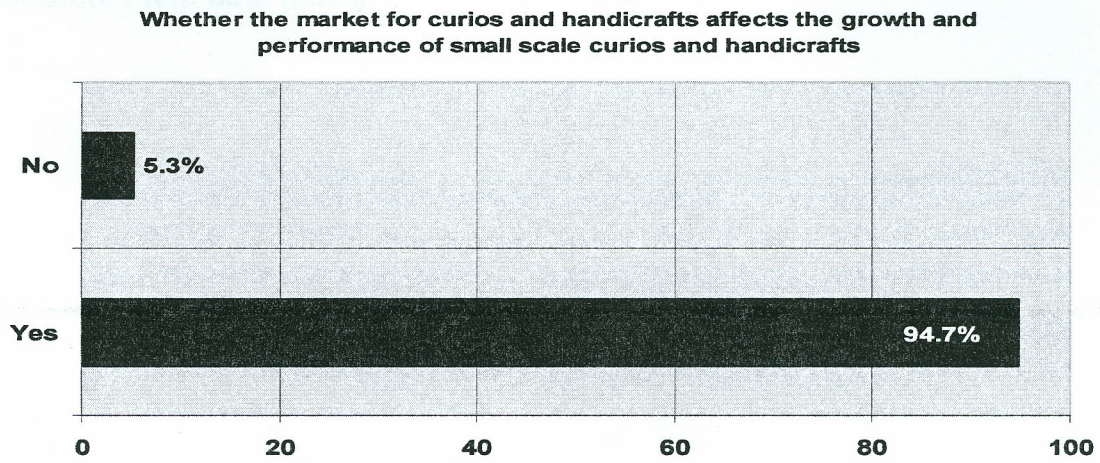


Source: Field data (2008)

4.14.1 Opinion on whether the market for curios and handicrafts affects the growth and performance of small scale curios and handicrafts

Majority of the respondents (94.7%) indicated that market for curios and handicraft affect the growth and performance their businesses. Only 5.3% were of different view. The chart below summarizes the findings.

Figure 4.24

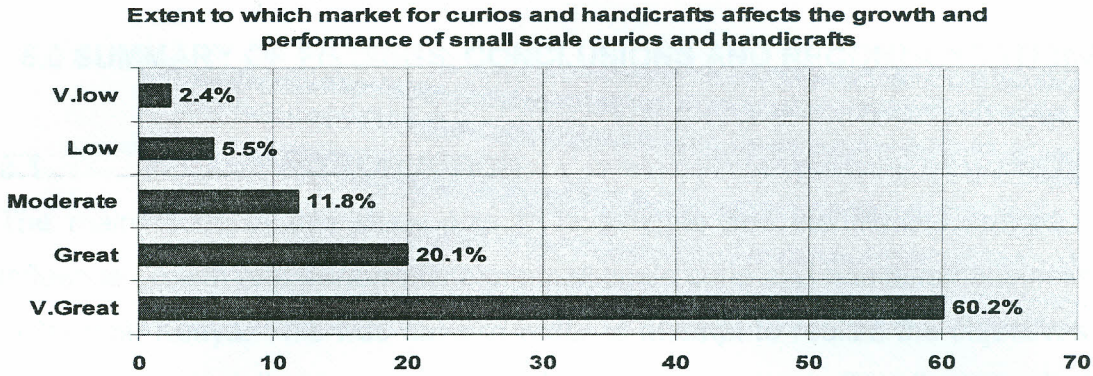


Source: Field data (2008)

4.14.2 Extent to which market affect the growth and performance of small-scale curios and handicrafts.

Majority (60.2%) of the respondents indicated that market affects growth to a great extent, 20.1% indicated that the effects is just great, 11.8% indicated that it moderate, 5.5% sited that the effects are low while 2.4% indicated that its very low. The chart below summarizes the findings.

Figure 4.25



Source: Field data (2008)

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The main focus of this study was to investigate and identify the factors that influence growth and performance of small-scale curio and handicraft businesses in Nairobi, Kenya. This was done in order to attempt to realize the objectives of this study as detailed in chapter 1. How does financing affect the growth and performance of small scale curios and handicrafts in Nairobi, What are the effects of Legislation on growth and performance of small scale curios and handicrafts in Nairobi, how does the management and entrepreneurial skills of the curios proprietors affect growth and performance of small scale curios and handicrafts in Nairobi, and what effect does the availability of market have on growth and performance on these businesses.

5.2 SUMMARY OF FINDINGS / ANSWERS TO RESEARCH QUESTIONS

Most of the businesses that were sampled out during this study are retail in nature. Their activities involved selling of curio and handware. They sold goods to individuals making purchases for themselves or their families. Some retailing businesses were found to be selling a combination of goods. For example, curio sellers were selling curios and also air time.

FINANCING / CAPITAL

Many businesses in the study region operate without enough capital. This is due to the fact that borrowing is viewed as an expensive venture and many people joining business are not sure whether the business they are starting would meet credit repayment and other charges related to credit. This is why the main source of start up and additional capital was from the family and own source. The study also revealed that one does not require a lot of money to start an SME business as the respondent indicated that the mean initial capital was Kes.40,500/=.

Seventy per cent (70%) of the respondent indicated that they started their businesses with an amount less than Kes.5,000/= while 81% started with an amount less than Kes.10,000/=

Majority of the respondents 85.3% indicated that access to funds affect the growth of their business positively if available or negatively if not accessed, whereas only 14.7% respondents who sited that it had no effects. (Figure 4.10)

Banks should stop discrimination on gender in appraising the loans. Banks need to build confidence with women customers just like men, reduction of the cost of capital, since it is higher that the returns from the business and commercial banks to address the unrealistic criteria when appraising loans.

LEGISLATION

In Kenya, it is a requirement that businesses are registered with the registrar of companies and that no business should operate without a trading license. However due to corruption and the current perception with the members of the public that once a business is registered, one must pay income tax and that monitoring of the tax payment becomes easy after registration, many people avoid registering their businesses. On the other hand, unregistered businesses can not operate a bank account and therefore the benefits derived from banking are not available to such businesses. Also an unregistered business lacks legal ownership and may have problems incase enforcement of the Kenyan law is necessary. The findings of this study show that the registration status affects growth as was indicated by 97.7% respondents on figure 4.17

MANAGEMENT AND ENTREPRENEURIAL SKILLS

Management problem was sited to be the most common problems affecting business community in the sampled businesses. Most businesses were operating without any business plan hence unclear targets. A demotivated workforce leads to low productivity. Managerial training could solve this.

The study established that 44.0% of those interviewed had acquired business training at least once while 56% had never. Churches, some NGOs and consultancy firms had offered training attended. 75% of the respondents indicated that they were willing to procure training services as long as it was relevant, high quality and affordable. :

The study revealed that 80.4% of the respondents (Figure 4.21) indicated that managements and entrepreneurial skills of small scale curios and handicraft operators affects their growth and performance.

MARKET AND COMPETITIVE BUSINESS ENVIRONMENT

Poor access to markets and marketing information has been a major problem experienced by many businesses that were sampled out in this study. The products and services being offered by many businesses that were sampled out were so many than the number of customers available. Also many businesses doing the same type of business were concentrated in the same place thus making pricing of their products and services to be low so as to attract customers. New markets need to be created.Competition although good leads to high quality goods and efficient delivery of services. It has however phased out the small SMEs who are not able to cope up due to lack of money.

The study revealed that the market for curios and handicraft affect the growth and performance of their businesses represented by 94.7%of the respondents. Only 5.3% were of different view. In addition to this, the study also showed that the local market for curio is very narrow as was indicated by 46.8% respondents, 31.2% indicated that its narrow, 10.0% indicated that it moderate, 7.6% stated that it's wide while 4.4% indicated that it's very wide (figures 4.23 and 4.24).

5.3 CONCLUSIONS

On financing, majority of the respondents 85.3% indicated that access to funds affect the growth of their business positively if available or negatively if not accessed, whereas only 14.7% of the respondents who sited that it had no effects. This shows that availability or lack of funds affect the growth and

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performance of curio and handcraft businesses in Nairobi. The findings of this study further shows that the government legislations affects growth as was indicated by 97.7% respondents.

On managements and entrepreneurial skills, The study revealed that 80.4% of the respondents indicated that managements and entrepreneurial skills of small scale curios and handicraft operators affects their growth and performance.

On markets, the study revealed that the market for curios and handicraft affect the growth and performance of their businesses represented by 94.7% of the respondents. Only 5.3% were of different view. In addition to this, the study also showed that the local market for curio is very narrow as was indicated by 46.8% respondents, 31.2% indicated that its narrow, 10.0% indicated that it moderate, 7.6% stated that it's wide while 4.4% indicated that it's very wide (figures 4.23 and 4.24).

On legislation, the findings of this study showed that the registration of business and other legislation requirements affects growth and performance of businesses dealing with curio and handcraft in Nairobi as was indicated by 97.7% respondents.

5.4 RECOMMENDATIONS

The Study recommends that commercial banks should reduce the interest rate charged to their customers on loans secured. Further, banks should relax the security requirement and instead assess the viability of the business enterprise.

Bank should reduce the interest rate that they charge to their customers who have secured some loans with them. They should also reduce the time it takes to process a loan from most of them and also the unrealizable criteria they uses to vet people that requires loans from them.

The big banks should also give loans to MFIs who in turn will have adequate money that they can led to MSEs. There charges should be friendly to encourage more MFIs to secure loans with them. The study recommends that there is need for the government to reduce the number of licenses, the time taken to process a

license and the cost of the licenses. The taxes charged by Kenya revenue authority are very high and needs to be reduced. It is further recommended that in order to remain competitive, business persons need to build/improve their skills. Skills maybe acquired through experience, coaching as well as through training.

The study recommends that the association of curio and handicraft dealers should market the products on behalf of their member into the overseas market to reduce the local competition and individual marketing costs. The Ministry of Tourism can display the product when attending the overseas tourism exhibition to widen the market. The finance lending houses should assist the SMEs to access stable market that can guarantee a steady flow of income to repay their loans.

5.5 SUGGESTIONS FOR FURTHER STUDY

The present study sought to shed light on the factors affecting growth of small and micro enterprises dealing with curio and handcraft in Nairobi. It has become evident in the course of this study that it would be useful to carry out further research in the following related areas since a number of serious gaps in the state of knowledge about Small and Micro enterprises sector were identified. Among these are:

a) There is no evidence of comparative studies of women and men in MSEs dealing with curio and handcraft.

b) There are limited studies on the factors affecting the start-up conditions of Small and Micro enterprises dealing with curio and handcraft.

c) There is inadequate research/data on the financing of Small and Micro enterprises dealing with curio and handcraft at different stages of growth.

d) There is an absence of research on the differential impacts of micro-finance and training initiatives for MSEs dealing with curio and handcraft.

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APPENDIX I

QUESTIONNAIRE

SECTION A

INTRODUCTION

1. Sex (A) Male (B) Female

2. Department .....

3. Designation.....

4. Years Worked

(A) 0-5 (B) 5- 10 (C) 10-15 (Cross the appropriate answer)

5. Highest Education Level

(A) Primary

(B) Secondary

(C) University

(D) Postgraduate

(E) Others (Specify).....

SECTION B

GROWTH AND PERFORMANCE

6. Growth refers to the increase in numbers or may encompass improvements in the way that an enterprise conducts its business. Do you think there has been any growth experienced by small-scale curios and handicrafts in Nairobi, Kenya?

☐ Yes

☐ No

7. If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

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8. Please explain your answer

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9. What is the level of increase in profits that this curio and handicraft has experienced in the past years?

☐ Above 90%

☐ 45-90%

☐ 20-45%

☐ 1-20%

☐ 0%

10. In your opinion what do you think affects the growth and performance of small-scale curios and handicrafts in Nairobi?

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11. What do you think can be done to improve growth and performance of small-scale curios and handicrafts in Nairobi?

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SECTION C

FUNDS /CAPITAL

12. In what range does your capital base lie?

☐ Above 600000

☐ 400000-600000

☐ 250000-400000

☐ 100000-250000

☐ Below 100000

13. What are the main sources of funds for growth by the small scale curios and handicrafts?

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14. In your opinion do you think availability of funds affects the growth and performance of small scale curios and handicrafts?

☐ Yes

☐ No

15. If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

16. What do you suggest should be done with regard to accessibility to funds to improve growth and performance of small scale curios and handicrafts?

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SECTION D
LEGISLATION

17. Are there any laws which govern the operation of small-scale curios and handicrafts?

☐ Yes

☐ No

18. Do you think Legislation affects the growth and performance of small scale curios and handicrafts?

☐ Yes

☐ No

19 If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

20. Do you think the laws governing the operation of small-scale curios and handicrafts are appropriate?

☐ Yes

☐ No

21. Please explain your answer?

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22. What do you suggest can be done on legislation to improve growth and performance of small-scale curios and handicrafts?

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SECTION E

MANAGEMENT AND ENTREPRENEURIAL SKILLS

23. What is the level of skill of most small-scale curio and handicraft operators?

5-V.skilled

4-Skilled

3-Averagely skilled

2-Below average

1-Unskilled

24. In your opinion do you think the management and entrepreneurial skills of small scale curios and handicraft operators affects the growth and performance of the small-scale curios and handicrafts?

☐ Yes

☐ No

25. If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

26. Please explain your answer,

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27. What do you suggest on management and entrepreneurial skills of small scale curios and handicraft operators to improve the growth and performance of small scale curios and handicrafts?

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SECTION F
MARKET

28. Curios and handicrafts are mainly bought by tourists who visit the country and by locals. In your opinion, what is the extent of the market for curios and handicrafts in the country ?

5-V.wide

4-Wide

3-Moderate

2-Narrow

1-V.Narrow

29.Please,explain your answer,

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30.In your opinion do you think that the market for curios and handicrafts affects the growth and performance of small scale curios and handicrafts?

☐ Yes

☐ No

31 If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

32.What do you suggest on market related issues to improve the growth and performance of small scale curios and handicrafts?

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SECTION G

CONCLUSION

33. State whether you agree or disagree with the following statements;-

(i) Funds/Capital are very critical in growth and performance of small scale curios and handcraft businesses.

If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

(ii) Legislation is in place, and it is very easy to get necessary licenses from local Authority and Government, this will improve growth and performance of small scale curio and handcraft businesses.

If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

(iii) Availability of market of curios and handcraft will enhance growth and performance of small scale entrepreneurs dealing with these items.

If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low

(iv) Entrepreneurs managerial scales are very crucial to the growth and performance of curios and handcraft businesses.

If Yes, to what extent?

5-V.Great

4-Great

3-Moderate

2-Low

1-V.low