

**NON-FINANCIAL CONSTRAINTS HINDERING GROWTH OF SME'S IN KENYA:  
THE CASE OF PLASTIC MANUFACTURING COMPANIES IN INDUSTRIAL  
AREA IN NAIROBI COUNTY**

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**DECLARATION**

This research project is my original work and has not been presented for an award of degree or certificate at any University or college.

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**Supervisor’s Approval**

This research project has been submitted to us for examination in its present form with approval as University Supervisor.

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This research project has been submitted for examination with my approval as chairman of department.

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## **DEDICATION**

This research project is dedicated to my family.

## **ABSTRACT**

It is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However many problems encounter SMEs and as a result, many firms do not reach their full potential and fail to grow. In addition it is generally known and accepted that there is a high mortality rate of SMEs within the first two years. Given this high failure rate, it becomes vital to research the factors/characteristics/management abilities that are required to enable the SME to survive and indeed progress to the growth phase of the organizational life cycle. This study sought to determine the non-financial factors affecting the growth of SMEs in Kenya. The study employed a cross sectional research design to achieve the objectives. The target population under study were the licensed SMEs by Nairobi City Council in 2013. Of the licensed SMEs in Kenya, an estimated 50,000 licensed SMEs are located in Nairobi of which at least 100 SMEs were randomly selected as the sample size. The study used a questionnaire to collect the required data. The data was collected, coded, quantified and analysed quantitatively and qualitatively. Quantitative data was analysed with the use of statistical package for social sciences (SPSS). The findings indicate that entrepreneurial influences, advertising, technology and innovation, laws and regulations, business location and competition influence the growth of SMEs in Kenya. The study recommends that managers undergo training on how to manage and advertise the SMEs, SMEs should invest in new innovations and technologies and corruption should be tackled by the government

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

The chapter highlights the background information on small and medium enterprises in Kenya. A statement of the problem is presented that describes the key issues or the problem being studied. The various objectives are also included in this chapter including research questions and significance of the study. The scope of the study also describes the boundaries of the research.

#### **1.1 Background of the Study**

The number of small and medium enterprises has been increasing rapidly for the last two decades with the majority based in the rural areas. According to the national and small enterprise baseline survey (GoK, 2007); about 1.3 million small enterprises were in Kenya employing about 2.4 million people. Their share to GDP was estimated at 18.8% second to agriculture having increased from 13.8 in 1993. The Economic strategy for wealth and employment creation 2003 – 2007 (GoK, 2007), indicates that about 25% of all households engage in some form of small business activity with the majority depending on their business for al household income. In 2012 the SME segment contributed over 80% of the countries employment with majority of new jobs being created in that sector (430,000 out of 503,000 new jobs created in 2011) and contributes about 20% to the country's GDP (GoK, 2012).

Studies by Hatega (2007), Kauffmann (2005) and the IFC (2006) indicate the importance of SMEs in Sub-Saharan Africa where SMEs cover more than 95 percent of all firms in Sub-Saharan Africa. A number of factors have contributed to the rapid expansion in the sector. One of the factors is the general decline in the economic performance of the Kenyan

economy as a result of recession and liberalization of the 1980's. This resulted in a number of large companies to adjust to the economic realities by becoming lean through retrenchment and downsizing. The effect of this was massive job losses and reduced employment opportunities in the formal sector.

Small and medium enterprises are widely recognized the world over for their role in the social, political and economic development. The importance of the sector is particularly apparent in its ability to provide reasonably priced goods, services, income and employment to a number of people (Kauffmann, 2006). It is for this reason that there has been a growing interest and concern by the government and development agencies for the improved performance and growth of the small and medium enterprises.

Recent empirical studies show that SMEs contribute to over 55% of GDP and over 65% of total employment in high-income countries, Figure 1. SMEs and informal enterprises account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries (Schneider, 2006). The relative importance of SMEs and the informal sector (shadow economy) are inversely associated with economic development. In low-income countries, especially in the least developed economies, the contribution of SMEs to employment and GDP is less than that of the informal sector, where the great majority of the poorest of the poor make a subsistence level of living. Therefore, an important policy priority in developing countries is to reform the policies that divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities (Meyer-Stamer, 2004).

In middle-income countries, formal SMEs contribute about 20% more to employment and GDP than the informal enterprises. Thus, in these countries, eliminating factors that

discourage informal enterprises from entering the formal SME sector would also bring about gains in economic terms. This is evidenced by the fact that SMEs contribute over 3 times as much as the informal sector in both total employment (~65%) and GDP (~55%) in high-income countries, and that these countries are also taking initiative to bring as many informal enterprises as possible into the formal sector (IFC, 2006).

SMEs are an important source of export revenues in some developing economies. An interesting observation is that SMEs contribute a larger share of manufactured exports in more industrialized East Asian economies (56% in Chinese Taipei, more than 40% in China) and in India (31.5%) than the less industrialized African economies (<1% in Tanzania and Malawi). Medium-sized enterprises also have higher export potential than small enterprises with up to 50 employees (IFC, 2006).

Lambin (2004) observes that historically, the informal and small business sector has played an important role in the process of labour absorption. Due to the important role played by the small business, the South African government has put in place programmes to encourage growth of the sector through such interventions as creation of an enabling legal framework, access to markets, finance, training, infrastructure, capacity building, taxation and financial incentives among others (Eeden, 2004).

The Kenya situation is no different from the rest of the world in as far as the recognition and support of the small business is concerned. However, the emphasis on the sector, which has been recognized as informal, and “Jua Kali” did not take place until after 1972 following the ILO report on the World Employment program.

The report laid a lot of emphasis on the possibilities of the informal and small business sector creating employment and generating income for the majority of the Kenyan people. As a result of this recognition, the sector was given considerable attention in the subsequent

Governments plans. The session paper No. 1 of 1986 and No. 2 of 1992 for instance highlighted the importance of the sector to strengthen the Kenyan economy through its potential for employment creation and poverty reduction.

The permanent secretary in the Ministry of Trade and Industry David Nalo while emphasizing the need for value addition through processing observed that the contribution of manufacturing to national wealth had stagnated at 10% for the last three decades despite the country having a relatively developed economic base (Daily Nation 24.11, 2006). Sessional Paper No. 2 (Republic of Kenya, 2005) and Ministry of Economic planning report on SMEs (Republic of Kenya, 2007) also, show that three out of five SMEs fail within their first three years of operation.

## **1.2 Small and Medium Enterprises in Kenya**

The importance and contribution of SMEs to achieving macroeconomic goals of nations, especially in developing nations, has attracted the attention of scholars in the entrepreneurship discipline in recent years (Shelley, 2004). A complex global environment in which SMEs survive, grow and thrive is, therefore, considered an important objective of policy makers in both developed and emerging economies around the world. SMEs are generally known for their labour intensive activities and also for their use of local resources. Support for SMEs is a common theme because it is recognized that SMEs contribute to the national and international economic growth.

According to the MSE Baseline Survey conducted in 1999, the sector employed 2.4 million persons. This increased to 5.1 million persons in 2002 as per the 2003 Economic Survey and translates to 675,000 jobs per year. The level of employment within Micro and Small Enterprises (MSEs) in 2002 accounted for over 74.2% of the total number of persons engaged in the country. This is evidence that, with proper development strategies, the sector is capable

of providing and surpassing the government's target of creating 500,000 jobs per year. Small enterprise baseline survey; Central Bureau of Statistics (Central Bureau of Statistics, 2004) also indicates that there is high rate of failure and stagnation among many start-up businesses.

The survey reveals that only 38% of the businesses are expanding while 58% have not added workers. According to the survey, more enterprises are most likely to close in their first three years of operation. This is confirmed by the recent study conducted by the Institute of Development Studies (RoK, 2008) University of Nairobi which used a sample of businesses operating in Central Kenya. This study revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth.

According to Kenya Economic Survey (RoK, 2008) , out of the total 543.3 new jobs created in Kenya in the year 2009, Micro, Small and Medium Enterprises (MSMEs) created 426.9 of them. This was 89.9% of the total new jobs created in Kenya that year. In the same year, the sector contributed KSh. 806,170 million of GDP which is 59 percent of total Gross Domestic Product (RoK, 2009). The Kenya economic survey (2010) notes that this same sector generated 390.4 thousand new jobs which translated into 87.6 percent of the total jobs generated in 2009.

Sessional Paper No. 2 of 1992 and national baseline survey (1999), cluster enterprises in the following order; micro enterprises- 1-9 employees, small enterprises 10-49 employees; medium enterprises 50-99 employees, large enterprises -100 and above (RoK, 2012). According to the Economic Survey (RoK, 2012), the SME sector contributed 79.8% of new jobs created in the year 2011 in Kenya. Consequently, the Kenya's development plans for the 1989-1993; 1994-1996 and 1997-2001 periods put special emphasis on the contribution of small and medium size enterprises in the creation of employment in the country (RoK, 2012). Job creation in this sector went up by 5.1 percent in 2011.

Analysis by province shows that Nairobi County recorded a 5.4 increase (RoK, 2012). According to the sessional paper No.2 of (2005), SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries.

### **1.3 Statement of the Problem**

According to RoK (2012), SMEs contributed to seventy percent of the Gross Domestic Product (GDP) 2011, in Kenya. In the United States, 99.7 per cent Heneman *et al.*, (2000), China, 99 per cent (Cunningham and Rowley, 2008), Europe, 99 per cent (Rauch et al, 2008), Holland, 95 per cent, Philippines, 95 per cent and Taiwan, 96.5 per cent (Man and Wafa, 2007) as well as Malaysia, 99.2 per cent (Man and Wafa, 2007); National SME Development Council (2009); Saleh and Ndubisi (2006). Within the developed and developing countries of the world, it is now generally accepted by policy-makers at local, regional and national level, that small- to-medium sized enterprises (SMEs) are becoming increasingly important in terms of employment, wealth creation and the development of innovation (Nieman, Hough and Nieuwenhuizen, 2003).

With the spread of capitalism and globalization, entrepreneurship continues to gain importance (Rwigema and Venter, 2004; GEM, 2005b; Dawson, Lee, Lim, Pathak, Chang and Li, 2006). Statistics show that there is no better way to provide a broad basis for rapid economic growth than to dramatically increase the number of active entrepreneurs in a society (Pretorius, van Vuuren and Nieman, 2005b). Linked with entrepreneurship is the SME sector. The important contribution of a dynamic SME sector to economic growth has been widely acknowledged (Henning, 2003). SMEs are said to be major components of many economies (Miller, Besser, Gaskill and Sapp, 2003). As a result, most governments, bilateral and multilateral agencies as well as nongovernmental organizations worldwide have policies in place to assist entrepreneurship development (Robertson, Collins, Medeira and Slater, 2003).

Despite the dynamics that led to the rapid growth of the SME sector, and the numerous efforts by government to assist the development of this sector; the SMEs sector is notoriously volatile and experiences a high degree of business closure and shrinkage (Baard and Van Den Berg, 2004; Eriksson and Kuhn, 2006). This implies that SMEs are limited in their ability to create long-term sustainable employment and may also be responsible for the greatest number of job and wealth losses (Ahwireng-Obeng, 2003).

Despite the many challenges and difficulties of the SMEs, the sector has great potential for increased employment creation (Miller et al., 2003). While many SMEs fail, others survive beyond infancy and adolescence, becoming major success stories, creating wealth for their founders and jobs for the communities they serve (Thornhill and Amit, 2003).

Survival, success and growth of small business (or failure and bad performance) have been of interest to researchers for many years and have thus become the subject of a lot of analysis (Perks and Struwig, 2005). Researchers have been struggling to uncover the primary determinants of new venture success (or failure), and thus have been trying to come up with a comprehensive list of the factors that play a role in the success (or failure) of new ventures (Baron 2004b; Pretorius et al, 2005a).

Clearly a very large number of variables are involved (Baron, 2004a; GEM, 2005a). While some analysts suggest that the dynamics of the growth of businesses remains a black box (Dockel and Ligthelm, 2005), others have argued that the success of enterprises is a function of a combination of both external and internal factors (Markman and Baron, 2003). While the determination of success and growth in large corporate firms is well researched, similar studies on SMEs are less common and many unknowns remain (Perks and Struwig, 2005; Praag and Versloot, 2007). Thus the purpose of this study is to fill the gap that exists in identifying the subset of the non-financial factors affecting the growth of SMEs in Kenya.



## **1.4 Objectives**

### **1.4.1 General Objective**

This study was guided by the following overall research objective:

- (i) The main objective of this study was to determine the non-financial factors affecting the growth of SMEs in Kenya.

### **1.4.2 Specific Objectives**

The study was guided by the following specific objectives:

- (i) To determine how owner entrepreneurial Influences and education of employees influences the growth of SMEs in Kenya
- (ii) To determine how advertising affects the growth of SMEs in Kenya
- (iii) To determine how innovation and technology affect the growth of SMEs in Kenya
- (iv) To establish how laws and regulations affect the growth of SMEs in Kenya
- (v) To determine how SME business location affect the growth of SMEs in Kenya
- (vi) To establish how market competition affects the growth of SMEs in Kenya

## **1.5 Research Questions**

In order to fulfil the studies objectives, the study was guided by the following research questions:

- (i) How does the owner entrepreneurial Influences and education of employees influence the growth of SMEs in Kenya?
- (ii) How does advertising affect the growth of SMEs in Kenya?
- (iii) How does innovation and technology affect the growth of SMEs in Kenya?
- (iv) How do laws and regulations affect the growth of SMEs in Kenya?
- (v) How does SME business location affect the growth of SMEs in Kenya?
- (vi) How does market competition affects the growth of SMEs in Kenya?

## **1.6 Value of the Study**

The study findings will be of great importance to the management since it will address the most critical factors pertaining to non-financial factors which influence the growth of SMEs in Kenya. This will contribute to a greater understanding on various challenges SMEs in Kenya go through in trying to attain sustainable growth. The study will also be important to investors who increasingly rely on services provided by SMEs.

The study findings of this study will be of critical importance to the government as it will bring into light various policies which are detrimental to the growth of SMEs in Kenya and address these factors according to the research recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter reviews previous studies on SME growth factors.

#### 2.1 The Small Business Sector

Policy makers who have been confronted with growing concerns about the increases in unemployment, lack of job creation, poor economic growth and globalisation believe that entrepreneurship is the solution to these concerns (Thurik and Wennekers, 2004).

Storey (2003) noted that politicians around the globe have, over the past decade, emphasised the importance of small enterprises as mechanisms for job creation, innovation, and the long-term growth and development of economies. However, the media coverage in the European economy on business, in general, contains over 95% of column space for large businesses even though, in the European economy 95% of all firms are in fact small and provide more than half of all jobs in Europe, yet little media coverage is afforded to these entities.

There are a number of terms used when referring to a small business. These include the term Small Medium and Micro sized enterprise (SMME) as in the case in Kenya and Africa in general, Small Medium sized enterprise (SME) and, the generic term, small business or small firm. This study focuses on SMEs since they are regarded as the ones with the potential for job creation and makes a substantial contribution to GDP of Kenya (Rwigema and Venter, 2004).

The “small firm”, like the term entrepreneurship, has numerous definitions (Culkin and Smith, 2004). The ‘objective’ measures which one would want to use to define a small firm cannot be agreed upon by the various researchers. For example, the different sectors of an economy

will have different interpretations of the word 'small'. Some authors use turnover as a measure; some use the number of employees; some use profitability or net worth as a measure. Some researchers use a combination of measures like number of employees and turnover.

In order to overcome the conflicting opinions of a small firm, the Department of Trade and Industry in the UK (Culkin and Smith, 2004) provided the following definitions or classifications of small, micro, medium and large sized enterprises: Micro-firm: 0 - 9 employees; Small firm: 0 - 99 employees (includes micro); Medium firm: 50 - 249 employees; and Large firm: over 250 employees.

The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turn-over (KWFT, 2006).. Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an SME. In developing countries the number of employees and size of assets or turnover for SME tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies (KWFT, 2006).

However, there is no standard definition of SME in Kenya. Lenders' definitions vary, but typically they define SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings (FSD, 2008).

## **2.2 The Role of the Small Firm**

Many authors have pointed out that SMEs are important because they contribute to:

The GDP: SMEs comprise a high percentage of businesses and account for between 30% and 60% of the GDP of many countries (Praag and Versloot, 2007).

Economic development: SMEs are seen to be the engine that drives economic progress because they develop new markets (including exports); they ensure continuous renewal of stagnating industries, they are a source of economic diversity and they develop vibrant commercial culture (Santrelli and Vivarelli, 2007; Pretorius and van Vuuren, 2003; Henning, 2003:2; Miller et al, 2003).

Wealth creation: SMEs create wealth by stimulating demand for investment, for capital goods and trading (GEM, 2006; Robertson et al, 2003).

Job creation: SMEs are labour intensive and account for over half of the employment in the private sector (Ligthelm and Cant, 2002; GEM, 2002b).

Economic flexibility: SMEs' ability to quickly manufacture smaller quantities puts competitive pressure on larger firms to boost productivity, thus enhancing economic flexibility (Gibbon, 2004).

Innovation and technology transfer: SMEs provide a nursery and proving ground for product differentiation, market innovation, technological change and entrepreneurship (Rwigema and Venter, 2004; OECD, 2002b).

Local resources: Most SME products tend to originate from indigenous crafts that reflect local technologies, local raw materials and the local knowledge base (Luiz, 2001:54; Bannock, 2002; Romijn, 2001).

Development of skills: SMEs provide opportunities for individuals to upgrading their human capital and realize their full potential (Gbadamosi, 2002).

Socio-economic transformation: SME promotion has become a political necessity, as they are a means for bringing social change; equitable distribution of employment and income generating opportunities; exploring the entrepreneurial talents of natives; the empowering of marginalized segments of the population; improving communities' standard of living; creating conditions for sustainable livelihoods and eliminating conditions of extreme poverty (Ladzani and van Vuuren, 2002; Mogale, 2005; Tustin, 2001).

Crisis or hardship: SMEs are said to be particularly important during times of crisis or hardship related to conflict, depression, recession and natural disasters, as SMEs are likely to be more resilient and people turn to SMEs to seek new means of generating income to cope with these shocks (Gurol and Atsan, 2006; USAID, 2003).

It is generally presumed that SMEs development has positive impact on economic growth of a country through employment generation. With the development of SMEs, particularly through process innovation, allocative as well as distributive efficiencies would be amplified. The production capacity of industrial units will increase which helps in expansion of the businesses. Through employment generation, income availability would increase which may assist in boosting the social standard. Ultimately consumption would increase which has positive impact on national income through national income equation; ( $Y=C+I+G+X-M$ ). But it is one side of the coin. The other side indicates that there is no impact of SMEs development on economic growth as Cravo (2010) has highlighted in his study. There are some important factors like investment policy, external sector policies, which have greater impact on economic growth rather than SMEs development.

Cravo (2010) has analysed the impact of strong SME's sector on economic growth of Brazilian economy. The author examines the relationship between the small and medium enterprise (SME) sector and economic growth for a panel of 508 Brazilian micro-regions for

the period 1980–2004. It observes the significance of SME sector with respect to two main variables; the share of the SME employment in total employment, and the level of human capital in the SME sector. Moreover, it examines how these aspects of SMEs influence the economic growth in regions with dissimilar level of development. The empirical findings show that Brazilian SME sector has no significant correlation with economic growth but SMEs' human capital is more important for growth in more developed regions.

This proposition does not fit for all the countries as the experience in other countries (Bangladesh and China) show that there is positive correlation between SME sector and Economic growth. According to some studies, SMEs are the starting point for the development in countries which are in transition and making struggle their best for industrialization (Cravo, 2010). SME's are one of the potential sources of employment generation, investment and aliened economic activities. The management of SME is easier than the large scale industries. Less capital is required for start up the SME business. The study has suggested that even if a person has fewer amounts, he should use it for capital formation. According to the study, in Pakistan, if the strategic planning for SME development is made successful, then middle class entrepreneur can play a pivotal role for the development of the country.

While entrepreneurship is behaviour focusing on opportunities rather than resources, this type of behaviour is present in both small and large firms alike (Thurik and Wennekers, 2004). Small businesses can be seen as the simple running of a firm for a living, such as shopkeepers, professional people, and franchisees. However, if the small firms engages in the introduction of new products and processes that change the industry, these firms are identified as Schumpeterian in nature (Thurik and Wennekers, 2004), which, by implication, would make them entrepreneurial in nature. Rwigema and Venter (2004) warn that not all small firms are entrepreneurial, despite making a significant contribution to the economy. The average

shopkeeper, selling everyday items, is not classified as entrepreneurial due to the absence of innovation and change.

This observation implies that small firms can be vehicles for entrepreneurship, since entrepreneurship has as a dimension of innovation (Thurik and Wennekers, 2004). Thurik and Wennekers (2004) observed that, during the first decades of the last century and more than ever in today's times, that small businesses are vehicles for entrepreneurship contributing not only to employment and social and political stability, but also to innovative and competitive power.

### **2.3 SME contribution**

There has been a tremendous increase in the number of small firms operating in most of the advanced countries around the globe since the late 1960's with North America, Asia and Western Europe "undergoing an entrepreneurial renaissance" (Calvin, 2002). These small firms are considered, by many governments, as critical for the creation of employment and ultimately for the creation of wealth.

#### **2.3.1 The United States of America**

Longenecker *et al.*, (2003) provides statistics indicating that the USA's 23 million small businesses continue to be a strong driving force in their economy. The small businesses absorb 52% of the private work force and contribute 51% to GDP in the USA (Longenecker *et al.*, 2003). Elmuti and Kathawala (1999) also suggest that a study conducted by the Small Business Administration in the USA revealed that small business accounted for half of all new innovations in the USA.

#### **2.3.2 The United Kingdom and the European Community**

According to Burns (2003) and Day (2004) small firms in the United Kingdom employ 62% of the labour force and contribute 25% to GDP. In the European Community as a whole,



small firms employ 66% of the work force. Burns emphasises the major role small firms' play in the European Community, by citing the employment generated by small firms in various European countries. He suggests that small businesses contribute 79%, 63% and 60% to employment creation in Italy, France and Germany respectively. According to SENET (2004) over 99% of the 3.2 million businesses in the UK are small medium sized enterprises (SMEs) and they account for more than two thirds of the business turnover.

### **2.3.3 People's Republic of China**

According to the US Embassy (2002) the growing significance of SMEs in China's economy is worth noting. Chinese and foreign experts estimate that SMEs are now responsible for approximately 60% of China's industrial output, and employ around 75% of the workforce in China's cities and towns. It is believed that SMEs are responsible for creating most new urban jobs, and have created opportunities for workers laid-off from state- owned enterprises that re-enter the workforce.

The brief overview of the contribution that small businesses make towards the economies of the abovementioned countries emphasises the importance of the small business sector. Governments around the world have realised just how important this sector of the economy is for the future growth of their respective countries. For the South African government, the growth and development of the small business sector is also playing a major role in addressing the imbalances of the past as it is seen as a vehicle to create much needed employment and wealth.

The strong interest in entrepreneurship is largely due to finding that new business enterprises are the primary source of new employment opportunities (Praag, 2007) suggest that entrepreneurship has a critical role to play in the economic development of especially poorer nations of the world. This view is supported by Sweeney (2006) who suggests that "the

ability of an economy to adapt to change and to continue economic progress would seem to be weakened if there is not a continuing infusion into the total economic system, at a numerically high level, of new products, new markets and new jobs generated by small firms. In addition, a strong small firm sector provides for the widespread and rapid diffusion of technical change and innovation on which economic growth is ultimately based.”

In summary, recent evidence does indicate that small firms and entrepreneurship do indeed play a major role in the world economy and that they do constitute the bulk of enterprises in most economies around the globe.

#### **2.4 Measuring Growth**

When researching factors affecting growth it necessary to first define firm growth and growth is measured. Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and relative employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment. Output and market share vary greatly within industries and is therefore hard to compare, total assets also depends on the industry's capital intensity and changes over time and profits is not that relevant unless measuring size over a long period of time. Therefore sales and employment are the two most important indicators measuring firm's size and growth. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments. Sales figures are on the other hand affected by inflation and exchange rates and it is difficult to compare sales figures between industries. That is why it is important to use multiple growth indicators to study firm growth (Davidsson, Delmar & Gartner, 2006).

In developing countries SMEs are usually competing with price over added value. On the other hand SMEs in developing countries have generally a lower productivity than in

developed countries and because a country's productivity level is a major indicator of improved living standards, added value should be seen as one of the important indicators of growth (Lind, 2005).

## **2.5 Internal factors**

Margi Lévy and Philip Powell argued that growth is determined by a combination of the entrepreneur, strategy and the firm organization. The author also defined key influences on SMEs growth, internal factors that reveal how decisions and features effect the growth of a firm.

**Entrepreneurial Influences** - A firm's growth is dependent on the managerial knowledge (Macpherson & Holt, 2007). Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees (Thassanabanjong *et al.*, 2009). The SME owner has considerable personal influence over a firm's strategies, tactics and operations to engage in decision process across the firm. As a result, although a flat, informal organizational structure is likely to exist, decisions making tends to be quite centralized around the owner. The entrepreneurs' personality and behaviour are to be causal factors for or against growth-orientated achievement. It is characteristic of small business that power decision are centralized at the level of owner-manager, so his or her personality, skills, responsibilities, attitude and behaviour will have decisive influence on business strategy (Levy and Powell, 2005)

Market competition has a larger affect for SMEs chance of survival and uncertainty is high as most of the smaller companies tend to have smaller share of the capital. This leads SMEs to have one or two major customers and are do not have big influence on prices. Larger companies with higher market share usually determine prices (Levy and Powell, 2005).

**Education of employees** - SMEs face difficulties employing and retaining skilled graduates, because they prefer to work for LEs that can offer higher salary, job security and career possibilities. In order to meet the demands of the fast changing work environment which is typically associated with SMEs it is essential that smaller firms ensure that they are able to attract, retain and motivate high quality employees with effective transferable skills through the existence of a strategic training plan and a specific budget for training (Jameson, 2004).

**Marketing** - According to Brush *et al.*, (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. SMEs generally do not have the knowledge or information about other markets, thus, this limit their ability to market their products to larger groups of customers and expand their business.

**Technology** - SMEs tend to have low productivity and they are weak in terms of competition which is the result of using inefficient technology, not maximizing machinery utility and not improving in technology due to the limitation of funding and most SMEs are mainly users of technology, not adaptors of technology (OSMEP, 2007a).

The World Bank (2009) claims that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms.

**Innovation** - Innovation also plays a crucial role in now day business and it is regarded as a key characteristic of SMEs, mainly due to the attitude of the manager. Innovative companies are able to respond within the bounds of the knowledge about existing products or services to changes required by the customer within their niche market (Levy and Powell, 2005)

The impacts of globalization have pressured SMEs to greater demands. Innovation relies on bringing together different types of research and utilizing this knowledge to design new products, therefore innovation greatly relies on research and development investments.

Normally developed countries allocate about 3% of GDP to R&D activities. Some developing countries, including China, India and Brazil, have rapidly increased their R&D expenditure, to levels with those of the world's most developed countries (Morrison, 2006)

## **2.6 External factors**

**Financial support-** According to Guffey, business plan is essential when you start your own business. Unless you can count on the bank of your relatives you will need financial backing such as a bank loan or venture capital supplied by investors. A business plan is critical for securing financial support (Guffey, 2008)

Throughout the region, SMEs do not have an easy access to credit and equity finance. This is because of the weak banking institutions in the region, the absence of capital markets, and the weak legal framework for credit and collateral. Finance in general are critical issues for growing businesses, forming the primary resource base from which other factor inputs are acquired. There are various ways the business owners can finance the growth of their firms but the fundamental decision is whether or not to accept external equity finance return for part ownership of the business. If owners allow external equity finance they choose to relinquish part of their control to either a financial institution or other individuals.

Financing the firm is essential and getting access to finance plays a crucial role on firm's growth process. For many lenders it is almost impossible to assess the risks of an investment this is mainly because of the high level of uncertainty (World Bank, 2006).

**Laws and regulations** - The World Bank researchers argued that constraints that are facing for the growth of SMEs are complex tax systems (World Bank, 2006) Also another shortcoming in South Eastern Europe is low level of trust in the court system to enforce claims, and the need to pay significant bribes for access to basic public services.

For SMEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Actions need to be done in improved infrastructure, costs and IT training and in information relating to the business opportunities that e.g. e-commerce can generate (Harvie and Lee, 2005)

**Business location**- The location of your business must be accessible to the customer base and should be built to ensure efficient accessibility for future clients. When choosing a location the business must take into account the costs of moving or establishing their business in the location. According to one online article source (ezinearticles) when choosing locations many different factors must be taken into account. The labour costs, transport, proximity to suppliers, workforce disruption, language factors, and exchange rates are some of the essential location factors.

According to Herzong *et al*, (2009) the change that initiates a location search is the need for new production capacity to meet market demand. The change that that initiates a location search could be changes in perceived market opportunities, or changes in the entrepreneur's own situation. After location consideration the decisions makers they can gather information on the tax levels, wage-rate levels, and other cost levels at various locations.

**Competition** - Defining competition can be done in several ways. It is important that in any discussion of competition is to recognize that, entering into competition and organization is seeking competitive advantage; this competitive advantage is the key of corporate success. (Walley, 2008)

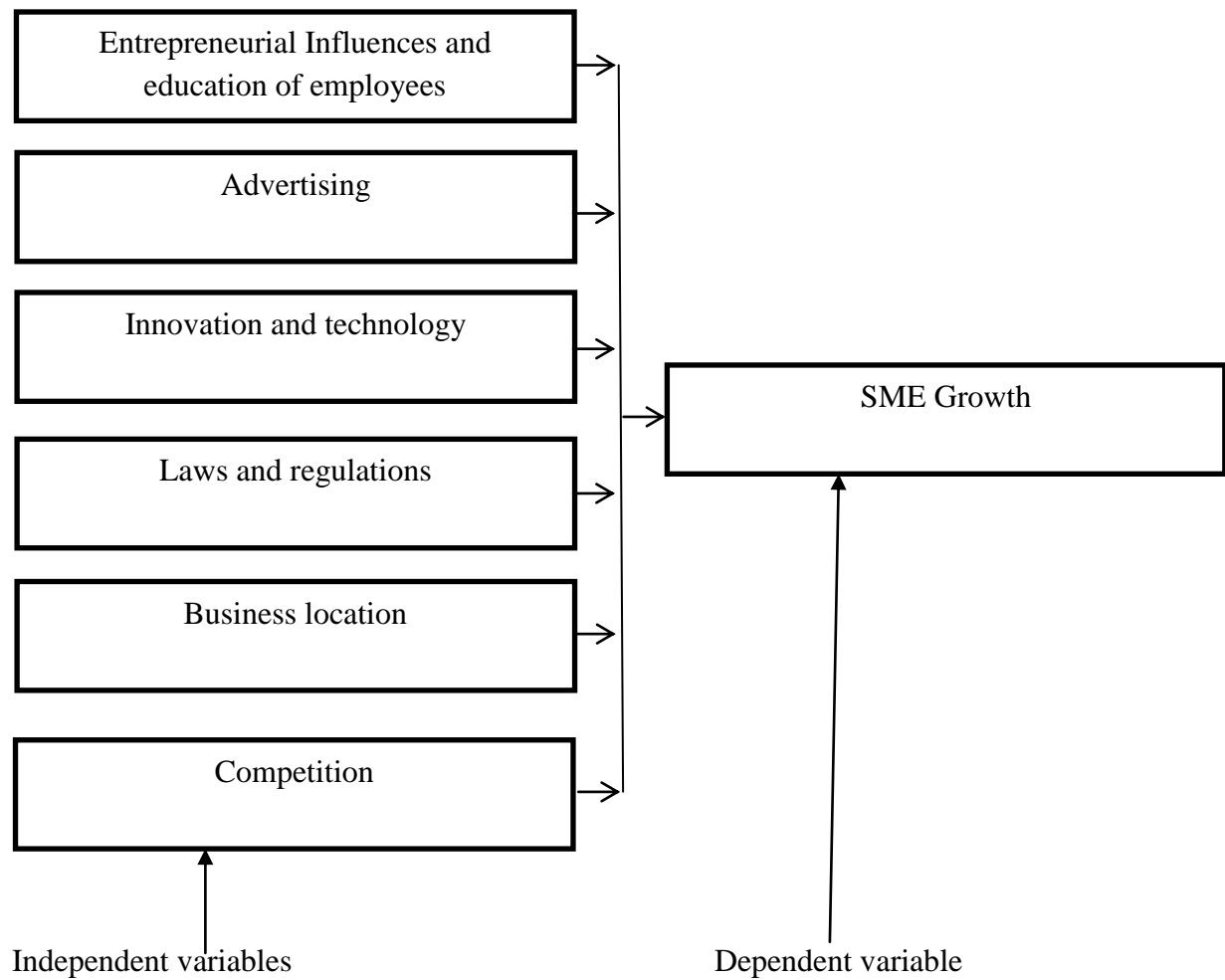
A survey for SMEs in developing countries was made by World Bank. The survey demonstrates that to any individual firm, competition poses a threat to survival. Even though competition is a threat to survival, it is the competition that that drives firms to improve productivity and therefore drives growth.

In 2002 there were several surveys conducted for the obstacles that arise in SME growth in Kosovo, and the main obstacle was “unfair competition” that includes taxation, the informal economy and public services is considered as the main barrier, the intensity of which has remained constant throughout the years (Dinh, Mavridis & Nguyen, 2010).

**Globalization** - Perhaps the most significant source of change impacting many organizations today is the increasing globalization of organizations and management. This occurs because firms to control costs, especially to reduce labour costs. Of course another reason why firms are becoming more global is the response to competition. (Griffin & Moorhead 2009) SMEs that are internationally active are generally growing faster than their domestic equivalents. This gives pressures to SMEs to develop environmental strategies to remain competitive. Many SMEs lack the resources to meet the global challenge to internationalize.

## 2.7 Conceptual Framework

Figure 2. 1 Conceptual Framework



Source: Adaptation from reviewed studies.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter focuses on the research design and methodology that was employed to gather data for the study. In this chapter, the researcher discusses the research design, sources and type of data, sampling design, and data collection techniques and instruments as well as data collection procedures and data analysis.

#### 3.1 Research Design

Research design is the general plan of how one goes about answering the research questions. It is important to highlight the two main methods when investigating and collecting data - quantitative and qualitative. A quantitative approach is strongly linked to deductive testing of theories through hypotheses, while a qualitative approach to research generally is concerned with inductive testing (Saunders *et al.*, 2003). The main focus of this study is quantitative. However some qualitative approach was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

This study used a cross sectional approach. That is, it was be undertaken at a particular point in time. This approach has been credited due to the fact that it allows analysis the relations of variables under study using linear regression as long as the sampling units for the study are many. It also allows greater flexibility in terms of money and time as well as avoiding the hardship of hunting for respondents more than once to produce high response rate. These reasons justify why this study became a cross sectional study.

### **3.2 Population**

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that the population of interest is homogeneous. And by population the researcher means the complete census of the sampling frames. Population studies also called census are more representative because everyone has an equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda (2003).

The target population under the study were the registered SMEs in Nairobi. Of the registered SMEs in Kenya an estimated 50,000 registered SMEs are located in Nairobi (Nairobi City Council, 2012). The SMEs employing 1-50 persons were chosen for the study. These respondents were the owner managers and senior managers (employees).

### **3.3 Sampling Techniques**

The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2003). A convenient sample of 100 SMEs was studied. The sample was selected from the list of registered businesses operating in Nairobi obtained from the Nairobi City Council. In order to carry out a scientific study, every 500th business on the list was selected as a respondent until the desired 100 respondents was reached.

### **3.4 Data Collection Method**

The study used a questionnaire to collect the required data. A questionnaire is a data collection instrument that sets out in a formal way the questions designed to elicit the desired information. It consisted of a list of structured questions, un-structured questions and Likert

rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Close ended questions have the advantage of collecting viable quantitative data while open-ended questions allow the respondents freedom of answering questions and the chance to provide in-depth responses. Questionnaire is preferred because it is efficient, cheap and easy to be administered. The questionnaires were administered through drop and pick to identify respondents with a brief explanation on their purpose and importance.

### **3.5 Data Analysis**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. A descriptive analysis was employed. Descriptive statistics were used to summarize the data. This included percentages and frequencies. All quantitative data was measured in real values by normalizing. Multiple regressions were used to measure the quantitative data which was analysed using the SPSS. Tables and other graphical presentations as appropriate were also used to present the data collected for ease of understanding and analysis. This generated quantitative reports through tabulations, percentages, and measure of central tendency. Cooper and Schindler (2003) notes that the use of percentages is important for two reasons; first they simplify data by reducing all the numbers to range between 0 and 100. Second, they translate the data into standard form with a base of 100 for relative comparisons.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter is organized as follows: the first section provides a detailed analysis of the non-financial factors affecting the growth of SMEs in Kenya. Further, the relationship between the various variables and growth are discussed. The second part provides a discussion of the findings. Descriptive and inferential statistics have been used to discuss the findings of the study.

#### 4.2 Response Rate

The study sought to gather information from managers or any individual working on selected SMEs in Kenya on the non-financial factors affecting the growth of SMEs in Kenya. The research was designed to gather information from 100 firms. However, of the total 100 firms selected, 73 firms responded constituting 73% of the total population responded. According to Mugenda and Mugenda (1999) this response rate was excellent since a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

**Table 4. 1 Response Rate**

	Frequency	Percentage
Responded	73	73
Not responded	27	27
Total	100	100

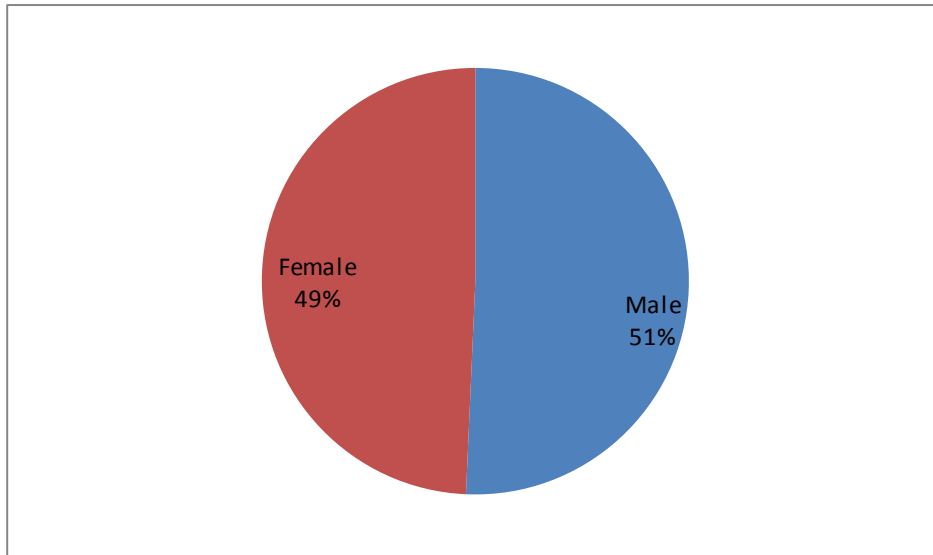
#### 4.3 General Information

The study sought to find out the general characteristics of the population.

### 4.3.1 Gender of the Respondents

The study sought to find out the gender of the respondents. The findings are shown in Figure 4.1.

**Figure 4. 1 Gender of the Respondents**



The findings indicate that 50.7% (N=37) of the respondents were male while 49.3% of the respondents were female. This indicates an almost equal distribution of female and male respondents in the study.

### 4.3.2 Age of the Respondents

The study sought to find out the age of the respondents. The findings are shown in Table 4.2.

**Table 4. 2 Age of the Respondents**

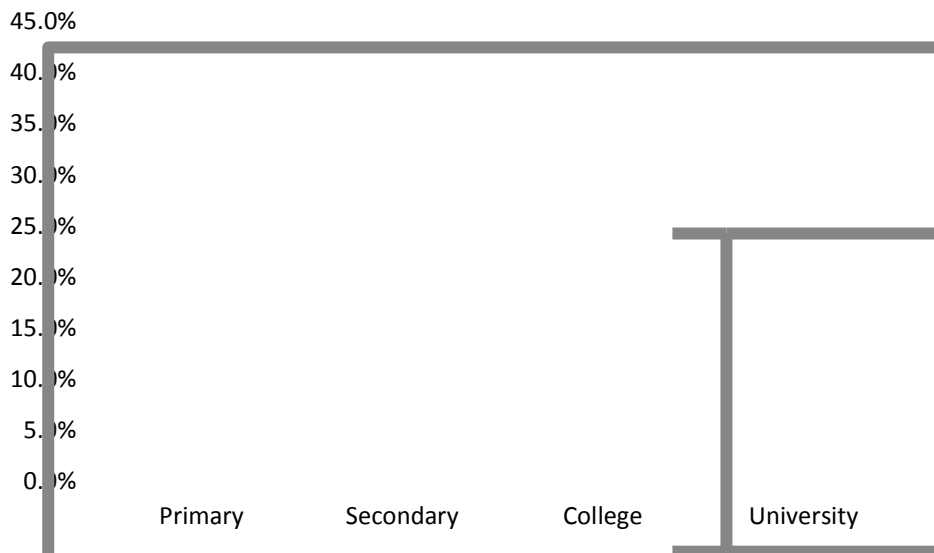
	Frequency	Percent
Below 20years	4	5.5
21-25 years	29	39.7
30-35 yrs	23	31.5
36- 40 years	12	16.4
40- 50 years	5	6.8
Total	73	100.0

The findings indicate that 39.7% of the respondents were aged 21-25 Years, 31.5% were aged 30-35 years, 16.4% were aged 36-40 years, 6.8% were aged 40-50 years while 5.5% were aged below 20 years.

### 4.3.3 Level of Education

The study sought to find out the level of education of the respondents. The findings are shown in Figure 4.2.

**Figure 4. 2 Level of Education**



The findings indicate that 39.7% of the respondents had college education, 31.5% had university education, 24.7% had secondary education while 4.1% had primary education.

### 4.3.4 Number of Years Respondent Has Worked in the Enterprise

The study sought to find out the number of years the respondents had worked in the enterprise. The findings are shown in Table 4.3.

**Table 4. 3 Number of Years Respondent Has Worked in the Enterprise**

	Frequency	Percent
1- 2 Yrs	6	8.2
2-4 Yrs	33	45.2
4-6 Yrs	13	17.8
6- 10 Yrs	21	28.8
Total	73	100.0

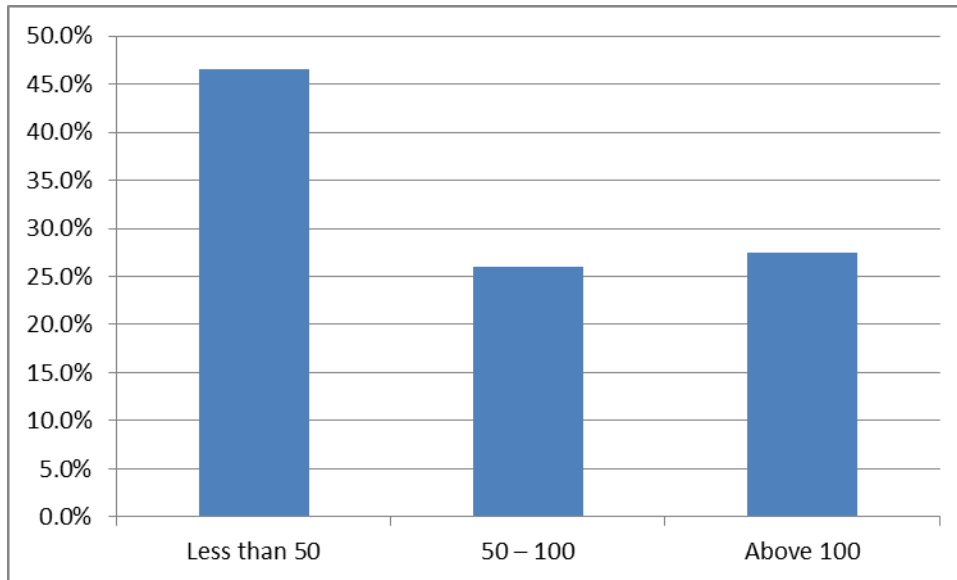
The findings indicate that 45.2% of the respondents had worked in the enterprises for 2-4 years, 28.8% for 6-10 years, 17.8% for 4-6 years and 8.2% for 1- 2 years.

### 4.3.5 Total Number of Employees in Department

The study sought to find out the total number of employees in the respondents department.

The findings are shown in Figure 4.3.

**Figure 4. 3 Total Number of Employees in Department**



The findings indicate that 46.6% of the respondents had less than 50 employees in their departments, 27.4% had above 100 employees while 26% had 50-100 employees in their departments.

## 4.4 Growth

### 4.4.1 Current Work Situation in Respondents Company

The study sought to find out the current work situation in the respondents company. The findings are shown in Table 4.4.

**Table 4. 4 Current Work Situation in Respondents Company**

	Frequency	Percent
Sales/Revenue:	33	45.2
Number of Employees:	40	54.8
Total	73	100.0

The findings indicate that 54.8% of the respondents indicated that there was an increase in number of employees while 45.2% indicated an increase in sale/revenue in the company.

#### 4.4.2 Company's Growth Strategy

The study sought to find out the company's growth strategy. The findings are shown in Table 4.5.

**Table 4. 5 Company's Growth Strategy**

	Frequency	Percent
Increasing the revenue of the company	15	20.5
To expand the business	58	79.5
Total	73	100.0

The findings indicate that 79.5% of the respondents indicated that the company's growth strategy was to expand the business while 20.5% of the respondents indicated the company's growth strategy was to increase the revenue of the company.

#### 4.4.3 How the Company Measures Growth

The study sought to find out how the company measures growth. The findings are shown in Table 4.6.

**Table 4. 6 How the Company Measures Growth**

	Frequency	Percent
By using income	38	52.1
By using sales	28	38.4
By using business partners	7	9.6
Total	73	100.0

The findings indicate that 52.1% of the respondents indicated that their company measures growth by income, 38.4% by using sales while 9.6% used business partners.

#### 4.4.4 Company Growth Metrics

The study sought to rate the companies using various growth metrics. The findings are shown in Table 4.7



**Table 4. 7 Company Growth Metrics**

<b>Statement</b>	<b>Poor</b>	<b>Fair</b>	<b>Good</b>	<b>Very good</b>	<b>Excellent</b>	<b>Mean</b>	<b>Std. Deviation</b>
Sales growth	50	6	13	4		1.6027	.96810
Relative employment growth	1	56	14	2		2.2329	.51426
Assets	13	14	40	6		2.5342	.88321
Market share	3	38	21	9	2	2.5753	.86471
Profits	3	25	33	9	3	2.7808	.86997
Output	3	23	34	13		2.7808	.78610

The findings indicate that the respondents rated fair the sales growth (Mean=1.6027) the relative employment growth (Mean=2.2329) and assets (Mean=2.5342). The respondents also rated market share, profits and output as good as shown by means of 2.5753, 2.7808 and 2.7808 respectively. This indicates that the SMEs experience good markets shares, profits and output but have fair sales growth, relative employment and assets growth.

#### **4.5 Entrepreneurial Influences**

The study sought to find out how various Entrepreneurial Influences influence the growth of SMEs in Kenya.

##### **4.5.1 Ease in Finding Skilled Employees**

The study sought to find out the ease in finding skilled employees. The results are shown in Table 4.8

**Table 4. 8 Ease in Finding Skilled Employees**

	Frequency	Percent
Easy	48	65.8
Difficult	25	34.2
Total	73	100.0

The findings indicate that 65.8% of the respondents found it easy while 34.2% found it difficult. This indicates that most of the respondents found it easy to find skilled employees

#### **4.5.2 Training of Employees**

The study sought to find out how employees are trained. The results are shown in Table 4.9

**Table 4. 9 Training of Employees**

	Frequency	Percent
Through concrete and specific demonstrations	40	54.8
They are already trained before being employed	32	43.8
Not trained	1	1.4
Total	73	100.0

The findings indicate that 54.8% of the respondents indicated that employees are trained through concrete and specific demonstrations, 43.85 indicated that employees are already trained before being employed while 1.4% indicated they are not trained. This indicates that most of the employees are trained through concrete and specific demonstrations and are already trained before being employed.

#### **4.5.3 Problems in Attracting Skilled Labour and Skilled Business Leaders**

The study sought to find out if SMEs in Kenya face problems in attracting skilled labour and skilful business leaders. The results are shown in Table 4.10

**Table 4. 10 Problems in Attracting Skilled Labour and Skilled Business Leaders**

	Frequency	Percent
Yes	52	71.2
No	21	28.8
Total	73	100.0

The findings indicate that 71.2% of the respondents indicated that SMEs in Kenya face

problems in attracting skilled labour and skilful business leaders while 28.8% of the respondents indicated that SMEs in Kenya do not face problems in attracting skilled labour and skilful business leaders. This indicates that most of the respondents agreed that indicated that SMEs in Kenya face problems in attracting skilled labour and skilful business leaders.

#### 4.5.4 Entrepreneurial Influences on Growth of Business

The study sought to find out to what extent the following entrepreneurial influences affect the growth of businesses. The results are shown in Table 4.11

**Table 4. 11 Entrepreneurial Influences on Growth of Business**

<b>Statement</b>	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate extent</b>	<b>Little extent</b>	<b>Not at all</b>	<b>Mean</b>	<b>Std. Deviation</b>
Managerial knowledge	55	15	3			1.2877	.53953
Training of the employees to influence the effectiveness, efficiency and motivation of the employees	8	55	10			2.0274	.49924
Quality of SME owners decisions on firms strategy, tactics and operations	33	13	25	2		1.9452	.95584
The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement	18	31	12	12		2.2466	1.01079
Centralization of power decisions	23	21	27	2		2.1096	.89072
SME owners personality	4	18	45	6		2.7260	.69242
SME owners responsibilities	36	8	11	18		2.1507	1.27662
SME owners attitude and behaviour	4	23	45	1		2.5890	.61994
SME owners business strategy	5	9	34	18	7	3.1781	1.00475
Skilled employees	12	16	22	16	7	2.8630	1.21695
Skilled employee retention	5	14	24	24	6	3.1644	1.05427

strategies							
Firms budget for training employees	41	14	17	1		1.6986	.87694

The findings indicate that managerial knowledge influences the growth of SMEs in Kenya to a very great extent as shown by means of 1.2877, Firms budget for training employees, Training of the employees to influence the effectiveness, efficiency and motivation of the employees, Centralization of power decisions, SME owners responsibilities, The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement affects the growth of SMEs to a great extent as shown by means of 1.6986, 2.0274, 2.1096, 2.1507 and 2.2466 respectively. The findings also indicate that SME owners attitude and behaviour, SME owners personality, Skilled employees, Skilled employee retention strategies and SME owners business strategy affect the growth of SMEs to a moderate extent as shown by means of 2.5890, 2.7260, 2.8630, 3.1644 and 3.1781 respectively.

This indicates that managerial knowledge influences the growth of SMEs in Kenya to a very great extent, Firms budget for training employees, Training of the employees to influence the effectiveness, efficiency and motivation of the employees, Centralization of power decisions, SME owners responsibilities, The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement affects the growth of SMEs to a great extent. The findings also indicate that SME owner's attitude and behaviour, SME owner's personality, skilled employees, skilled employee retention strategies and SME owner's business strategy affect the growth of SMEs to a moderate extent.

#### **4.6 Advertising**

The study sought to find out how various advertising factors influence the growth of SMEs in Kenya.

#### 4.6.1 Market Factors Influencing the Growth of the Company

The study sought to find out to what extent the following market factors affect the growth of businesses. The results are shown in Table 4.12

**Table 4. 12 Market Factors Influencing the Growth of the Company**

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean	Std. Deviation
The communication of product features	41	14	17	1		1.6986	.87694
The pricing of products and services	5	50	7	1	10	2.4658	1.11905
The implementation of sales and marketing efforts	29	8	35	1		2.1096	.96554
Marketing strategies to win and retain customers	4	43		26		2.6575	1.03036
Constant product development to sustain sales	29	3	30	11		2.3151	1.15322
Effective distribution channels	3	37	14	19		2.6712	.91370
Information about other markets	13	9	29	11	11	2.9726	1.26900
Limited market size	5	11	23	31	3	3.2192	.98948

The findings indicate that the communication of product features, The implementation of sales and marketing efforts, Constant product development to sustain sales and The pricing of products and services affect the growth of SMEs to a great extent as shown by means of 1.6986, 2.1096, 2.3151 and 2.4658 respectively while Marketing strategies to win and retain customers, Effective distribution channels, Information about other markets and Limited market size affect the growth of SMEs to a moderate extent as shown by means of 2.6575, 2.6712, 2.9726 and 3.2192 respectively.

The findings indicate that the communication of product features, The implementation of sales and marketing efforts, Constant product development to sustain sales and The pricing of

products and services affect the growth of SMEs to a great extent while Marketing strategies to win and retain customers, Effective distribution channels, Information about other markets and Limited market size affect the growth of SMEs to a moderate extent.

#### **4.7 Technology and Innovation**

The study sought to find out how various technology and innovation factors influence the growth of SMEs in Kenya.

##### **4.7.1 Involvement of the Firm in New Innovations and Technology**

The study sought to find if the respondents firm had been involved in the following new innovations in the last 36 months. The results are shown in Table 4.13

**Table 4. 13 Involvement of the Firm in New Innovations and Technology**

	Frequency	Percent
Introduced a totally new product?	42	57.5
Acquired completely new technology?	27	37.0
Upgraded an existing product line?	4	5.5
Total	73	100.0

The findings indicate that 57.5% of the respondents indicate that the firm had been involved in introducing as new product, 37% had been involved in acquiring completely new technology while 5.5% had upgraded an existing product line

##### **4.7.2 Innovativeness of Kenyan Enterprises**

The study sought to find the innovativeness of Kenyan enterprises. The results are shown in Table 4.14

**Table 4. 14 Innovativeness of Kenyan Enterprises**

	Frequency	Percent
Very Innovative	44	60.3
Moderately Innovative	25	34.2
Not Innovative	4	5.5
Total	73	100.0

The findings indicate that 60.3% of the respondents indicated that Kenyan enterprises are very innovative, 34.2% indicates they are moderately innovative while 5.5% indicated they are not innovative. This indicates that most Kenyan enterprises are very innovative and moderately innovative.

#### 4.7.3 Influence of Technology and Innovation Factors on Growth of SMEs

The study sought to find the influence of technology and innovation factors on growth of SMEs. The results are shown in Table 4.15

**Table 4. 15 Influence of Technology and Innovation Factors on Growth of Business**

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean	Std. Deviation
Low productivity due to using inefficient technology	62	8	3			1.1918	.49039
Not maximizing machinery utility	13	57	1	2		2.6986	5.14157
Not improving in technology due to the limitation of funding	27	15	31			2.0548	.89583
SMEs are mainly users of technology, not adaptors of technology	9	31	15	18		2.5753	.99886
New investments in new technology	19	26	27	1		2.1370	.82184
Building up existing capacity and to improve the quality and productivity of production	13	22	18	20		2.6164	1.07536
Development of higher value-added products that will improve the competitiveness for firms.	16	8	31	12	6	2.7808	1.20470
Quick responses to customer demands	38	14	7	14		1.9589	1.18367
Bringing together different types of research and utilizing this knowledge to design new	3	53	16	1		2.2055	.52596

products							
New research and development investments	20	14	29	10		2.3973	1.03735

The findings indicate that Low productivity due to using inefficient technology affects SMEs growth to a very great extent as shown by a mean of 1.1918, Quick responses to customer demands, Not improving in technology due to the limitation of funding, New investments in new technology, Bringing together different types of research and utilizing this knowledge to design new products, New research and development investments affect the growth of SMEs to a great extent as shown by means of 1.9589, 2.0548, 2.1370, 2.2055 and 2.3973 respectively. The findings also indicate that SMEs are mainly users of technology, not adaptors of technology, Building up existing capacity and to improve the quality and productivity of production, not maximizing machinery utility and Development of higher value-added products that will improve the competitiveness for firms as shown by means of 2.5753, 2.6164, 2.6986 and 2.7808 respectively.

This indicates that Low productivity due to using inefficient technology affects SMEs growth to a very great extent, Quick responses to customer demands, Not improving in technology due to the limitation of funding, New investments in new technology, Bringing together different types of research and utilizing this knowledge to design new products, New research and development investments affect the growth of SMEs to a great extent. The findings also indicate that SMEs are mainly users of technology, not adaptors of technology, Building up existing capacity and to improve the quality and productivity of production, not maximizing machinery utility and Development of higher value-added products that will improve the competitiveness for firms affects the growth of SMEs to a moderate extent.



## 4.8 Laws and Regulations

The study sought to find out how various laws and regulation factors influence the growth of SMEs in Kenya.

### 4.8.1 Governmental Law Restrictions That Influence In the Growth of SMEs

The study sought to find out if there are there any governmental law restrictions that influence in the growth of your company. The results are shown in Table 4.16

**Table 4. 16 Governmental Law Restrictions That Influence In the Growth of SMEs**

	Frequency	Percent
VAT tax rate	23	31.5
No protection of local (home) products	34	46.6
Non-support with proper provision of essential business services like with electricity, water etc.	16	21.9
Total	73	100.0

The findings indicate that 46.6% of the respondents indicates that No protection of local (home) products was a restriction on the growth of SMEs in Kenya, 31.5% indicates VAT tax rate while 21.9% indicated Non-support with proper provision of essential business services like with electricity, water etc. as a restriction on the growth of SMEs in Kenya.

This indicates that No protection of local (home) products, VAT tax rate and Non-support with proper provision of essential business services like with electricity, water etc. as a restriction on the growth of SMEs in Kenya.

### 4.8.2 Extent to Which Laws and Regulations Influence the Growth of SMEs

The study sought to find out the extent to which various laws and regulations influenced the growth of SMEs. The results are shown in Table 4.17

**Table 4. 17 Extent to Which Laws and Regulations Influence the Growth of SMEs**

<b>Statement</b>	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate extent</b>	<b>Little extent</b>	<b>Not at all</b>	<b>Mean</b>	<b>Std. Deviation</b>
Complex tax systems	52	20		1		1.3151	.54966
Low level of trust in the court system to enforce claims,	33	27	12	1		1.7397	.78222
Need to pay significant bribes for access to basic public services.	7	31	21	14		2.5753	.91162
Basic business infrastructure	17	14	26	13	3	2.6027	1.15157
Low levels of information from governments on business opportunities to entrepreneurs	1	45	21	1	5	2.5068	.85185

The findings indicate that the respondents indicated that Complex tax systems affects the growth of SMEs to a very great extent as shown by a mean of 1.3151, low level of trust in the court system to enforce claims affects the growth of SMEs to a great extent as shown by a mean of 1.7397 while Low levels of information from governments on business opportunities to entrepreneurs, Need to pay significant bribes for access to basic public services and Basic business infrastructure affects the growth of SMEs to a moderate extent as shown by a means of 2.5068, 2.5753 and 2.6027 respectively.

This indicates that Complex tax systems affects the growth of SMEs to a very great extent, low level of trust in the court system to enforce claims affects the growth of SMEs to a great extent while Low levels of information from governments on business opportunities to entrepreneurs, Need to pay significant bribes for access to basic public services and Basic business infrastructure affects the growth of SMEs to a moderate extent.

#### 4.9 Business location

The study sought to find out how various business location factors influence the growth of SMEs in Kenya.

##### 4.9.1 Importance of Location of Business

The study sought to find the importance of the location of the business. The results are shown in Table 4.18

**Table 4. 18 Importance of Location of Business**

	Frequency	Percent
Very important	29	39.7
Moderately important	23	31.5
Not important	21	28.8
Total	73	100.0

The findings indicate that 39.7% of the respondents indicated the location of the business to be very important, 31.5% to be moderately important while 28.8% considered the location of the business to be not important.

##### 4.9.2 Extent to Which Location Factors Influence the Growth of SMEs

The study sought to find out the extent to which various location factors influenced the growth of SMEs. The results are shown in Table 4.19

**Table 4. 19 Extent to Which Laws and Regulations Influence the Growth of SMEs**

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean	Std. Deviation
Accessibility of the business location to the customers base	36	26		1	10	1.9452	1.34258
Efficient accessibility for future clients	19	41	3	10		2.0548	.92632
Costs of moving to business location	7	22	40	4		2.5616	.74510
Costs of establishing their	19	31	8	15		2.2603	1.06754

business in the location							
Labour costs on location	24	22	17		10	2.3151	1.31103
Transport costs on location	37	22	10	4		1.7397	.89795
Proximity to suppliers	7	49	16	1		2.1507	.59328
Workforce disruption on location	13	25	27	8		2.4110	.91037
Language factors	19	13	12	29		2.6986	1.24371
Exchange rates	24	19	10	13	7	2.4521	1.36464

The findings indicate that transport costs on location, accessibility of the business location to the customers base, efficient accessibility for future clients, proximity to suppliers, costs of establishing their business in the location, labour costs on location, workforce disruption on location and exchange rates affect the growth of SMEs to a great extent as shown by means of 1.7397, 1.9452, 2.0548, 2.1507, 2.2603, 2.3151, 2.4110 and 2.4521 respectively while language factors affect the growth of SMEs to a moderate extent as shown by a mean of 2.6986.

This indicates that transport costs on location, accessibility of the business location to the customers base, efficient accessibility for future clients, proximity to suppliers, costs of establishing their business in the location, labour costs on location, workforce disruption on location and exchange rates affect the growth of SMEs to a great extent while Language factors affect the growth of SMEs to a moderate extent.

#### **4.10 Competition**

The study sought to find out how various competition factors influence the growth of SMEs in Kenya.

##### **4.10.1 Problems with Competition**

The study sought to establish the kind of competition the SMEs were facing. The results are shown in Table 4.20

**Table 4. 20 Problems with Competition**

	Frequency	Percent
Unfair competition	16	21.9
Fair competition	57	78.1
Total	73	100.0

The findings indicate that 78.1% of the SMEs were facing fair competition while 21.9% of the SMEs were facing unfair competition.

This indicates that most of the SMEs were facing fair competition while the minorities were facing unfair competition.

**4.10.2 Extent to Which Competitive Factors Influence the Growth of SMEs**

The study sought to find out the extent to which various competitive factors influenced the growth of SMEs. The results are shown in Table 4.21

**Table 4. 21 Extent to Which Competitive Factors Influence the Growth of SMEs**

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean	Std. Deviation
competitive advantage	27	34	11	1		1.8082	.73895
Competition has led to competitive advantage in the firm	28	23	21	1		1.9315	.85519
Competition drives the firm to improve productivity	17	28	27	1		2.1644	.79954
Competition drives growth in our firm	7	42	10	11	3	2.4658	1.00114

The findings indicate that competitive advantage, Competition has led to competitive advantage in the firm, Competition drives the firm to improve productivity and Competition

drives growth in our firm affects the growth of SMEs to a great extent as shown by means of 1.8082, 1.9315, 2.1644 and 2.4658 respectively.

This indicates that competitive advantage, Competition has led to competitive advantage in the firm, Competition drives the firm to improve productivity and Competition drives growth in our firm affects the growth of SMEs to a great extent.

#### **4.10.3 Main Changes in the Kenyan SME Situation during the Past Years**

The study sought to find out the main change in the Kenyan SME situation over the past years. The results are shown in Table 4.22

**Table 4. 22 Main Changes in the Kenyan SME Situation during the Past Years**

	Frequency	Percent
Change of Tax rate	20	27.4
Better functioning of Kenya Revenue Authority	13	17.8
More qualified and experienced manpower (workers)	26	35.6
Expansion of Internet and IT	8	11.0
Support with basic legislation remedies for business	3	4.1
There is presence of practical government institution engagement in providing better space for SMEs in Kenya	3	4.1
Total	73	100.0

The findings indicate that 35.6% of the respondents indicated that More qualified and experienced manpower (workers) was the main change in the Kenyan SME situation, 27.4% indicated it was the change in the tax rate, 17.8% indicated better functioning of Kenya Revenue Authority, 11% indicated the expansion of Internet and IT, 4.1% indicated support with basic legislation remedies for business and 4.1% indicated there is presence of practical government institution engagement in providing better space for SMEs in Kenya.

This indicates that the main changes in the Kenyan SME situation include change of tax rate, better functioning of Kenya Revenue Authority, more qualified and experienced manpower (workers) and an expansion of internet and IT

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter provides a summary of the findings of this study. The first section provides a summary of the findings. The other sections provide the conclusions of the study, the limitations of the study, suggestions for further research and recommendations for quality and practice in that order.

#### 5.2 Summary of Findings

##### 5.2.1 General Information

The findings indicate an almost equal distribution of female and male respondents in the study; 39.7% of the respondents were aged 21-25 Years, 31.5% were aged 30-35 years, 16.4% were aged 36-40 years, 6.8% were aged 40-50 years while 5.5% were aged below 20 years; 39.7% of the respondents had college education, 31.5% had university education, 24.7% had secondary education while 4.1% had primary education; 45.2% of the respondents had worked in the enterprises for 2-4 years, 28.8% for 6-10 years, 17.8% for 4-6 years and 8.2% for 1- 2 years and 46.6% of the respondents had less than 50 employees in their departments, 27.4% had above 100 employees while 26% had 50-100 employees in their departments.

##### 5.2.2 Growth

On the growth of SMEs 54.8% of the respondents indicated that there was an increase in number of employees while 45.2% indicated an increase in sale/revenue in the company; 79.5% of the respondents indicated that the company's growth strategy was to expand the business while 20.5% of the respondents indicated the company's growth strategy was to increase the revenue of the company; 52.1% of the respondents indicated that their company measures growth by income, 38.4% by using sales while 9.6% used business partners and the

SMEs experience good markets shares, profits and output but have fair sales growth, relative employment and assets growth.

### **5.2.3 Entrepreneurial Influences**

On entrepreneurial influences the study found out that most of the respondents found it easy to find skilled employees, most of the employees are trained through concrete and specific demonstrations and are already trained before being employed, and most of the respondents agreed that indicated that SMEs in Kenya face problems in attracting skilled labour and skilful business leaders. In addition the study found out that managerial knowledge influences the growth of SMEs in Kenya to a very great extent, Firms budget for training employees, Training of the employees to influence the effectiveness, efficiency and motivation of the employees, Centralization of power decisions, SME owners responsibilities, The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement affects the growth of SMEs to a great extent. The findings also indicate that SME owner's attitude and behaviour, SME owner's personality, skilled employees, skilled employee retention strategies and SME owner's business strategy affect the growth of SMEs to a moderate extent.

### **5.2.4 Advertising**

On advertising the study found out that the communication of product features, The implementation of sales and marketing efforts, Constant product development to sustain sales and The pricing of products and services affect the growth of SMEs to a great extent while Marketing strategies to win and retain customers, Effective distribution channels, Information about other markets and Limited market size affect the growth of SMEs to a moderate extent.

### **5.2.5 Technology and Innovation**

On technology and innovation the study found out that 57.5% of the respondents indicate that the firm had been involved in introducing as new product, 37% had been involved in



acquiring completely new technology while 5.5% had upgraded an existing product line. In addition the study found out that most Kenyan enterprises are very innovative and moderately innovative. This indicates that Low productivity due to using inefficient technology affects SMEs growth to a very great extent, Quick responses to customer demands, Not improving in technology due to the limitation of funding, New investments in new technology, Bringing together different types of research and utilizing this knowledge to design new products, New research and development investments affect the growth of SMEs to a great extent. The findings also indicate that SMEs are mainly users of technology, not adaptors of technology, Building up existing capacity and to improve the quality and productivity of production, not maximizing machinery utility and Development of higher value-added products that will improve the competitiveness for firms affects the growth of SMEs to a moderate extent.

#### **5.2.6 Laws and Regulations**

On regulations and laws the study found out that No protection of local (home) products, VAT tax rate and Non-support with proper provision of essential business services like with electricity, water etc. as a restriction on the growth of SMEs in Kenya, corruption was a problem for Kenyan SMEs. In addition the study found out that complex tax system affects the growth of SMEs to a very great extent and low level of trust in the court system to enforce claims affects the growth of SMEs to a great extent while Low levels of information from governments on business opportunities to entrepreneurs.

#### **5.2.7 Business location**

On business location the study found out that 39.7% of the respondents indicated the location of the business to be very important, 31.5% to be moderately important while 28.8% considered the location of the business to be not important. In addition the study found out that transport costs on location, accessibility of the business location to the customers base, efficient accessibility for future clients, proximity to suppliers, costs of establishing their

business in the location, labour costs on location, workforce disruption on location and exchange rates affect the growth of SMEs to a great extent while Language factors affect the growth of SMEs to a moderate extent.

### **5.2.8 Competition**

On competition the study found out that most of the SMEs were facing fair competition while the minority were facing unfair competition. This indicates that competitive advantage, Competition has led to competitive advantage in the firm, Competition drives the firm to improve productivity and Competition drives growth in our firm affects the growth of SMEs to a great extent.

In addition the study found out that the main changes in the Kenyan SME situation include change of tax rate, better functioning of Kenya Revenue Authority, more qualified and experienced manpower (workers) and an expansion of internet and IT.

### **5.3 Discussions**

On entrepreneurial influences the study found out that most of the respondents found it easy to find skilled employees, most of the employees are trained through concrete and specific demonstrations and are already trained before being employed, and most of the respondents agreed that indicated that SMEs in Kenya face problems in attracting skilled labour and skilful business leaders. In addition the study found out that managerial knowledge influences the growth of SMEs in Kenya to a very great extent, Firms budget for training employees, Training of the employees to influence the effectiveness, efficiency and motivation of the employees, Centralization of power decisions, SME owners responsibilities, The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement affects the growth of SMEs to a great extent. The findings also indicate that SME owner's attitude and behaviour, SME owner's personality, skilled employees, skilled

employee retention strategies and SME owner's business strategy affect the growth of SMEs to a moderate extent.

In SMEs a manager is often the only leader and strategist of the company, as it is in the case of the companies researched. A manager's views, experiences and knowledge together with the strategy have great influence in all operations of the company. In all the researched companies the manager of the company was part of all actions of the company from financing to marketing.

The managers have years of experience in their field of work and also some background education. Their interest and motivation to learn more and develop their companies has an influence on the growth of the company. The fact that Kenya has such a high percentage of new businesses in recent years proves the enthusiasms and interest in business.

In small businesses where the decision making is centralized around the manager or owner his/ her motivation and encouragement also reflect straight to the employees. The motivation and teaching skills of SME owners in Kenya have even a greater influence in employee motivation because of the difficulties to recruit skilled labour. The managers themselves guide the new employees to their jobs and reflect their views onwards.

The managers mentioned to have difficulties finding skilful workers and they have had to plan specific orientation programs for employees. The planning of the orientation takes time and also the actual orientation which leads to growth slowing down. The lack of skilled labour in Kenya demands companies to allocate more money and time to show the employees the ropes. It takes resources from focusing on developing the company. Training and developing the staff is of course crucial to every company to ensure quality and efficiency, but It is also hard for SMEs in Kenya to retain the employees they have trained when they

cannot offer competitive compensation to the employees because external factors. In Kosovo the training often has to start right from the basics.

On advertising the study found out that the communication of product features, The implementation of sales and marketing efforts, Constant product development to sustain sales and The pricing of products and services affect the growth of SMEs to a great extent while Marketing strategies to win and retain customers, Effective distribution channels, Information about other markets and Limited market size affect the growth of SMEs to a moderate extent.

SMEs in Kenya have not been able to invest in marketing yet because of lack of resources in education. The managers in Kenya did mention marketing as a lack in their operations but as it often is they didn't see it as significant as for example developing distribution channels, investing in technology and pricing competition. The marketing department being limited to the manager will slow down the company's expansion projects.

On technology and innovation the study found out that 57.5% of the respondents indicate that the firm had been involved in introducing as new product, 37% had been involved in acquiring completely new technology while 5.5% had upgraded an existing product line. In addition the study found out that most Kenyan enterprises are very innovative and moderately innovative. This indicates that Low productivity due to using inefficient technology affects SMEs growth to a very great extent, Quick responses to customer demands, Not improving in technology due to the limitation of funding, New investments in new technology, Bringing together different types of research and utilizing this knowledge to design new products, New research and development investments affect the growth of SMEs to a great extent. The findings also indicate that SMEs are mainly users of technology, not adaptors of technology, Building up existing capacity and to improve the quality and productivity of production, not

maximizing machinery utility and Development of higher value-added products that will improve the competitiveness for firms affects the growth of SMEs to a moderate extent.

Again the researched companies have great interest and plans for developing and upgrading their company's technology base. The managers have realized that investing in technology will improve competitiveness especially against the illegally operating companies, because technology improves quality and the illegal companies can only compete in price. Acquiring new technology is in all the researched companies' strategies and it is seen as a profitable way to increase productivity and quality to gain competitive advantage. The financing of the new technology on the other hand was in some cases difficult. No outside investments were available and mostly the technology investments were financed with company's own resources.

On regulations and laws the study found out that No protection of local (home) products, VAT tax rate and Non-support with proper provision of essential business services like with electricity, water etc. as a restriction on the growth of SMEs in Kenya, corruption was a problem for Kenyan SMEs. In addition the study found out that complex tax system affects the growth of SMEs to a very great extent, low level of trust in the court system to enforce claims affects the growth of SMEs to a great extent while Low levels of information from governments on business opportunities to entrepreneurs.

Unfair competition occurs in Kenya due to lack implementation of economic laws. Some positive changes has occurred in establishing rule of law (both substantive and procedural), but it has not been firmly established nor socially accepted (Hoxha & Capelleras 2010).

In order for SME to succeed it is vital that Kenya can build an adequate legal framework business. This includes well working court that ensures that disputes are resolved in an effective and timely fashion. As an example court in Kenya needs to protect in issues such

intellectual and industrial property rights, clarity over and ownership and minimal bureaucratic burden for small businesses.

On business location the study found out that 39.7% of the respondents indicated the location of the business to be very important, 31.5% to be moderately important while 28.8% considered the location of the business to be not important. In addition the study found out that transport costs on location, accessibility of the business location to the customers base, efficient accessibility for future clients, proximity to suppliers, costs of establishing their business in the location, labour costs on location, workforce disruption on location and exchange rates affect the growth of SMEs to a great extent while Language factors affect the growth of SMEs to a moderate extent.

On competition the study found out that most of the SMEs were facing fair competition while the minority were facing unfair competition. This indicates that competitive advantage, Competition has led to competitive advantage in the firm, Competition drives the firm to improve productivity and Competition drives growth in our firm affects the growth of SMEs to a great extent. To any individual firm, competition poses a threat to survival, but in the same time competition is the main factor of economy growth as it derives firms to improve productivity and therefore drives growth. (Dinh, Mavridis & Nguyen 2010)

In addition the study found out that the main changes in the Kenyan SME situation include change of tax rate, better functioning of Kenya Revenue Authority, more qualified and experienced manpower (workers) and an expansion of internet and IT.

All SMEs studied have identified that fair competition and some unfair competition is the main obstacle for firms' growth in Kenya. Another great competition is received from abroad. Kenyan consumers tend to purchase products that are imported from abroad rather than the domestic ones. This indicates that the trust toward manufacturing companies in Kenya is low.

Another reason why consumers purchase foreign products is the quality. Domestic products tend to be low-quality products.

In summary entrepreneurial Influences and education of employees, advertising, innovation and technology, laws and regulations affect the growth of SMEs in Kenya, SME business location affect the growth of SMEs in Kenya and market competition affects the growth of SMEs in Kenya.

#### **5.4 Recommendations**

Based on the findings of this study, it is recommended that SMEs in Kenya should:

- (i) That the managers of the SMEs attend management development courses to enhance their knowledge and skills in terms of managing their businesses.
- (ii) That the managers of the SMEs should understand the significance of marketing management. The reliance on key customers requires managers to develop strong customers relationship but also that they continually assess the state of their relationship by regularly conducting formal customer satisfaction surveys.
- (iii) That the SMEs should invest in new technologies and innovation for continued growth and capture of new market segments
- (iv) Government laws and regulations should be looked at by policy makes to enable the SMEs to conduct businesses with ease.

#### **5.6 Recommendations for Future Research**

This study can be repeated with a wider population of study across all industries in Kenya so as to get findings that are applicable to all industries in Kenya where concerning budgeting. The study can also be done using secondary data instead of relying on primary data. The assumption is that the weaknesses of the Likert scale concerning objectivity will be mitigated

by the use of secondary data. There should be a study to make the study applicable across time by conducting a time series cross-sectional study instead of the onetime study as was done by this survey.

In addition a study on the impact the personal characteristics of the manager will have on growth of the business and a comparative study between the retail, manufacturing and services sectors on the issues of growth



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## APPENDICES

### Appendix I: Research Questionnaire

1. Gender

Male  Female

2. Age

Below 20years  21-25 years  26- 30yrs   
30-35 yrs  36- 40 years  40- 50 years   
Above 50 years

3. Level of education

Primary  Secondary   
College  University

4. No of years worked in the enterprise

Below One Yr  1- 2 Yrs  2-4 Yrs   
4-6 Yrs  6- 10 Yrs  10 -15 Yrs   
Above 15 Yrs

5. What is the total number of employees in your department: Please tick one

Less than 50   
50 – 100   
Above 100

### Growth

6. How is the current situation of your company? Income:

Sales/Revenue:   
Number of Employees:

7. What is your company's growth strategy?

Increasing the revenue of the company   
To expand the business   
To hire more employees

8. How do you measure growth in your company?

By using income   
By using sales

By using business partners

By using how regional the company is

9. How would you rate your company based on the following metrics?

	Poor	Fair	Good	Very good	Excellent
Sales growth					
Relative employment growth					
Assets					
Market share					
Profits					
Output					

**Entrepreneurial Influences**

10. Do you feel it is easy to find skilled employees?

Easy

Difficult

11. How do you train your employees?

Through concrete and specific demonstrations

They are already trained before being employed

Not trained

12. Does SMEs in Kenya face problems in attracting skilled labour and skilful business leaders?

Yes

No

13. To what extent do you think the following entrepreneurial influences affect the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Managerial knowledge					
Training of the employees to influence the effectiveness, efficiency and motivation of the employees					
Quality of SME owners decisions on firms strategy, tactics and operations					
The SME owners personality and behaviour are to be causal factors for or against growth-orientated achievement					
Centralization of power decisions					



SME owners personality					
SME owners responsibilities					
SME owners attitude and behaviour					
SME owners business strategy					
Skilled employees					
Skilled employee retention strategies					
Firms budget for training employees					

**Advertising**

14. To what extent do you think the following marketing factors influence the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
The communication of product features					
The pricing of products and services					
The implementation of sales and marketing efforts					
Marketing strategies to win and retain customers					
Constant product development to sustain sales					
Effective distribution channels					
Information about other markets					
Limited market size					

**Technology and Innovation**

15. Has your firm in the last 36 months been involved in the following

Introduced a totally new product?

Acquired completely new technology?

Upgraded an existing product line?

16. Do you have all the needed technology in your company? If not, what are the obstacles to purchase them?.....

17. How innovative are Kenyan enterprises?

Very innovative

Moderately innovative

Not innovative

18. To what extent do you think the following technology and innovation factors influence the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Low productivity due to using inefficient technology					
Not maximizing machinery utility					
Not improving in technology due to the limitation of funding					
SMEs are mainly users of technology, not adaptors of technology					
New investments in new technology					
Building up existing capacity and to improve the quality and productivity of production					
Development of higher value-added products that will improve the competitiveness for firms.					
Quick responses to customer demands					
Bringing together different types of research and utilizing this knowledge to design new products					
New research and development investments					

### Laws and Regulations

19. Are there any governmental law restrictions that influence in the growth of your company? If there are, can you mention some of the obstacles?

VAT tax rate

No protection of local (home) products

Non-support with proper provision of essential business services like with electricity, water etc.

20. To what extent do you think the following laws and regulation factors influence the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Complex tax systems					
Low level of trust in the court system to enforce claims,					
Need to pay significant bribes for access to basic public services.					
Basic business infrastructure					
Low levels of information form governments on business opportunities to entrepreneurs					

### Business location

21. How important is location for your company?

Very important

Moderately important

Not important

22. To what extent do you think the following business location factors influence the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Accessibility of the business location to the customers base					
Efficient accessibility for future clients					
Costs of moving to business location					
Costs of establishing their business in the location					
Labour costs on location					
Transport costs on location					
Proximity to suppliers					
Workforce disruption on location					
Language factors					
Exchange rates					

### Competition

23. How is the competition in your business field and local area? .....

24. Are you facing any problems with the competition? What kind of problems?

Unfair competition

Fair competition

25. To what extent do you think the following competition factors influence the growth of your business?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
competitive advantage					
Competition has led to competitive advantage in the firm					
Competition drives the firm to improve productivity					
Competition drives growth in our firm					

26. What are the main changes in the Kenyan SMEs situation during the past years?

Change of Tax rate

Better functioning of Kenya Revenue Authority

More qualified and experienced manpower (workers)

Expansion of Internet and IT

Support with basic legislation remedies for business

There is presence of practical government institution engagement in providing better space for SMEs in Kenya [ ]

## Appendix II: Sample List

1	A Plus PVC Technology Co Ltd
2	Acme containers Limited
3	Additive&Chemicals Essential -ACE
4	Adix plastics limited
5	Advert Plastic Enterprises
6	Aesthetics Limited
7	Afro plastics Kenya
8	Afrtech Enterprises
9	Alankar Industries Ltd
10	ashut-engineers
11	Asili plastics limited
12	Autosterile EA limited
13	Bahati venture LTD
14	Bayer East Africa Limited
15	Beta Healthcare International Limited
16	Betatrad Kenya Limited
17	Bonar Limited
18	Bulk Medicals Limited
19	comet plastics limited
20	Complast Industries Limited
21	Cosmos Limited
22	Crown industries Limited
23	Curacid America corporation
24	Dajohn Enterprises LTD
25	Dantex Industries Limited
26	Dodhia Packaging Limited
27	Doshi Enterprises limited
28	Elgon Kenya Ltd
29	Fibreglass and General LTD
30	Flexpac International Limited
31	General plastics Limited
32	Henkel Fibreglass LTD
33	Infusion Kenya Limited
34	Jamlack Industries LTD
35	Jamsons Industries Limited
36	Jaydees Knitting factory limited
37	kachra-jivraj limited
38	Ken Aluminum products limited
39	Kenapen Industries Limited

40	Kenleather enterprises limited
41	Kenpoly Manufacturers LTD
42	Kenya industrial plastics limited
43	Kenya Litho
44	Kevroe Plastics (EPZ) Ltd
45	King Plastics Industries
46	Kissan Enterprises
47	Laboratory and Allied Limited
48	Malplast industries ltd
49	Manhar Brothers Limited
50	Mars Chemical Engineers Limited
51	Medivet products Limited
52	Meenakshi Kenya Ltd
53	Mepal plastics
54	Millenium Plastics
55	Minolta Industries LTD
56	Mitul Enterprises
57	Nairobi bottlers limited.
58	Nairobi Plastics Ltd
59	Nas plastics company
60	Nedlex polymers
61	Novelty Manufacturing limited
62	Packaging Manufacturer Ltd
63	Packaging Materials Limited
64	Palamco Enterprises
65	Pan plastics LTD
66	Paras industries Limited
67	Parit Enterprises Limited
68	Pharma Limited
69	Plastic products co limited
70	Plastic-electronics-ltd
71	Polymasters limited
72	polymed East africa Limited
73	polymers-extrusion
74	Premier Industries Limited
75	R & R Plastics Ltd
76	Raneem-plastic-industries
77	Rosavie EPZ limited
78	Safepak
79	Sai manufacturers
80	Sai Raj

81	Samura Engineering Ltd - Plastics Division
82	Sanpac Africa Limited
83	Sara EA ltd
84	Saracoatings world LTD
85	Serafric co LTD
86	Shriji plastics limited
87	Skyplast manufacturers limited
88	Specialised fiberglass
89	Springbox Kenya limited
90	Steam systems
91	Stewah Engineering Works
92	Sumaria industries ltd
93	Sunplast Ltd
94	Talani Plastics manufacturers limited
95	Thermopak ltd
96	Twinchem
97	Uni-plastics limited
98	United Traders Limited
99	Vitaplast Limited
100	Wax & polypack limited

**Source:** Nairobi City Council, Business licensing department. (2013). *Business list*.

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