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**ENTREPRENEURSHIP DEVELOPMENT**

**Research Project**

**Factors Influencing Start-up, Growth and Survival of Small and Medium Manufacturing Industries in Kenya: A case study of Baba Dogo and Kariobangi Light Industries**

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*Factors influencing  
start-up, growth and*

## ABSTRACT

The Kenyan economy is faced with serious problems of low incomes, unemployment and poverty, largely caused by high growth rate of labour-force in comparison to growth in employment opportunities.

As a result of this, the Kenyan government has adopted various policies to boost employment creation away of eradicating poverty. One of the targeted areas is the development of the SME sector, which received a major boost with the adoption of the sessional Paper No. 2 of 1992. Despite adoption of this paper, success has been to a limited extent, something that is attributed to poor policy implementation and coordination among other factors.

The SME sector is expected to play a major role in alleviating poverty through employment and income generation hence its importance cannot be overemphasized. This study is set to look at the factors that hinder or encourage growth of enterprises in the small and medium sector.

This study was based in the Baba Dogo and Kariobangi light industries, located in the Eastlands area of the city of Nairobi, whose residents largely constitute of the low class of the Kenyan society. Success of these industries will go a long way in alleviating poverty in the region. A sample size of 30 firms was randomly chosen from the firms in this area. Data was collected through questionnaires and observations. The data was analysed using descriptive statistics.

The study has come up with factors influencing startup and growth of SMEs in these two localities. The research study came up with a number of factors that affect startup and growth of SMEs, both internal and external to the enterprises, which include, lack of product research and development, lack of clear growth strategies, lack of training and human resource development, poor risk management, among others explained in this report.

In conclusion, the researcher has made recommendations based on observed factors. The recommendations, which need to be effected either by the government regulation or by the entrepreneurs themselves.

## ACRONYMS AND ABBREVIATIONS

CBS	Central Bureau of Statistics
ESCWA	Economic and Social Commission for Western Asia.
GDP	Gross Domestic Product
IDS	Institute for Development Studies
ILO	International Labor Organization
SME	Small and Medium Enterprises
UCLA	University of California
UN	United Nations

## **CHAPTER ONE**

### **1. INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

At present, the Kenyan economy is faced with the serious problem of unemployment, low incomes and poverty, which has been caused by labourforce growth being higher than the growth in employment. During the 8<sup>th</sup> national development planning period, the modern sector employment grew by 1.8% per annum while during the same period; the labourforce grew by 3.5% per annum, (National Development Plan, 2002 – 2008).

To reverse this trend, the Kenya government has embarked on various policies spelt out through national development plans, sessional papers, annual budgets and public investment programs among others. One area that has received prominence as a tool to reduce unemployment, poverty and low incomes is the development of small and medium enterprises. Focus on this sector first came into the limelight after publication of the ILO report of 1972 on employment, incomes, and inequality, which recommended that the government should support and promote the sector as a way of reducing unemployment and stimulate economic growth, (Ndege, 1990).

##### **1.1.1 THE KENYA GOVERNMENT RECOGNITION & SUPPORT FOR THE SECTOR**

Since independence the government has committed substantial funds to implement policies and programs and to build institutions specifically aimed at promoting the, the start up and growth of the small enterprises. The biggest

milestone towards the development of the sector was the adoption of the sessional paper no. 2 of 1992, which spelt out specific programs in support of startup and growth of enterprises in the sector chief among them:

- Development of entrepreneurship education and culture.
- Improve availability and access to credit by the small and medium enterprises.
- Creation of enabling environment through improved infrastructure, and common services.
- Research on technology and product markets.
- Market expansion.
- Development of exports market.
- Development of favorable legal and regulatory framework.

The paper noted that by 1992 satisfactory results had not been achieved due to poor coordination among implementation agencies among other reasons. Despite adoption of this paper and implementation of recommended programs, success has been to a limited extent with only four out of the eight policies for entrepreneurship development being partially implemented, (Gichira, 1997).

### **1.1.2 DEFINING SMALL AND MEDIUM ENTERPRISES**

Definition/classification of enterprises has proved to be difficult in clear-cut terms, with several definitions being adopted by different writers and researchers. Criteria used include turnover, plant and machinery usage, nature of industry activity and number of regular employees, (Binwe, 1993). Another criteria used is the characteristics of enterprise regarding entry, ownership, technology, etc, (ILO, 1972).

For the purpose of this research, the number of employees engaged in an enterprise will be used as a basis for definition with regard to size, whereby, the

small and medium enterprise, (SME), will include those employing between 1 and 50 people. This is in line with the definition by the sessional paper no.2 of 1992. This of course will include micro enterprises, which employ between 1 and 50 people.

## **1.2 PROBLEM STATEMENT AND JUSTIFICATION**

Small and medium sector is gaining prominence in many developing countries as a strategy for social-economic development owing low savings mobilization and limited technology. In the 1989 – 1993 development plan, the sector was expected to generate 587,000 jobs, which was 31% of the national target. The small-scale enterprise sector contribution to the National economy now and in the future cannot be overemphasized. The national baseline survey of 1999, (CBS, 1999), cites the sector's contribution as 18.9% of the national GDP and employing 2.3 million people. Despite the obvious importance of this sector, and deliberate efforts by the government to promote startup growth and survival in the sector, success has been limited, (Gichira, 1997). Further, performance of the modern sector has been poor with falling direct foreign investment and harsh business environment, hence cannot provide the needed job opportunities. This has led to a shift in focus towards the SMEs.

This research study set out to investigate the factors; legal, social, economic and political that hinder or encourage growth of small and medium scale industries within the Baba Dogo and Kariobangi light Industries area. The study will examine both internal and external factors.

The justification of this study is based on the social-economic problems the Kenyan economy is going through in terms of unemployment, low incomes and inequality. The results of this study can be replicated in other sectors within the SME sector to give interventionist mechanisms to encourage startup and growth of enterprises in the sector. Identification of such factors will assist policy implementers to accelerate the driving forces while reducing the opposing forces to the startup growth and survival of the enterprises in the sector.

### 1.3 RESEARCH QUESTIONS

- What problems have been experienced by individual entrepreneurs in the startup and growth of their enterprises?
- What factors, (internal and external), encouraged startup, growth and survival of the enterprise?
- What particular support would individual expect from the government at startup and growth stages.
- What are the social characteristics of the entrepreneurs, that encouraged startup, and growth of enterprises?

### 1.4 SCOPE AND NATURE OF THE STUDY

This study is based in the Baba Dogo and Kariobangi light industries, as a case study, with the aim of establishing the factors that influence start up, growth and survival small and medium manufacturing industries in Kenya, accounts for 13.4% of the enterprises in the SME sector, (CBS, 1999). The two sites were chosen due to the high concentration of small and medium manufacturing industries. The researcher chose the manufacturing sector due to ease associated with access and availability of records owing to the fixed abode and formal nature of the business as compared to other enterprises in the SME sector.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This Chapter reviews past studies undertaken in relation to small and medium enterprises, more so on factors influencing their startup, growth and survival.

#### **2.2 FACTORS THAT AFFECT START-UPS & GROWTH OF SMALL AND MEDIUM ENTERPRISES:**

For small medium enterprises to start and grow, studies so far conducted, conclude more or less in the same line that key factors that would lead to a sustainable SME sector includes a mix of the following:

- A comprehensive national SME policy aiming to create SME friendly environment for its development and sustainability;
- Commitment by governments to put human, financial and other relevant national resources to the service of SMEs;
- Creation and development of national SME support institutions and net works (workshop on SMEs, Chisinau, 19-20 November, 1998).

##### **2.2.1 LACK OF PROPER TRAINING OF AN ENTREPRENEUR AS A FACTOR**

Odhiambo, (1999) researched on role of non-financial Business development services offered to small and micro-enterprises in Nairobi and found that most participants in this sector did not have proper education and training. He observed that participants in small

businesses needs training on marketing, accountancy, business linkage and information provision, and technical assistance and skills training. Lack of such basic training can react negatively to the growth of any business venture unless the entrepreneur has enough funds. Scarborough & Zimmerer (1996,) noted that in most small businesses, management inexperience or poor decision making is the chief cause of failing enterprises.

Some research has indicated that lack of an indigenous entrepreneurial class and a generally low level of managerial skills have been identified as major constraint on the development of many African economies (Kilby, 1969; Harris, 1970).

To a large extent, owner/managers with experience and training in the modern sector are concentrated in modern small enterprises which are directly linked to the formal sector, (world bank, 1979), either through subcontracting or by forward linkages. Only less than 10% of the respondents among small entrepreneurs indicated that their prior experience had been in modern, large scale industries (Gerry, 1974; Aryee, 1976; Van Dijk, 1978). However, technical skills gained in formal sector do not expose the entrepreneurs to financial management or business organization, (Liedholm and Chuta, 1976. Kilby, 1962; Aryee, 1976; Van Dijk, 1978)

Kilby (1962) also found out that there is a tendency on the part of small-scale entrepreneurs to diversify their holdings of small-scale activities rather than to reinvest profits in expanding a single enterprise. Similar findings were also found to be true by other researchers such as Marris and Somerset (1971); Harris (1971) and Child (1977). Such tendencies will stifle the growth of the enterprise.

Entrepreneurship is key to the growth or stagnation of individual firms (McCormick 1992). The entrepreneur need to remain open and renewing oneself for an entire life and career in order to respond to a constantly changing environment, which s means that for small and medium enterprises to grow, they should be headed by entrepreneurs with adequate business management skills.

World Bank, (1994), attributes low skill levels as one of the major constraints to informal sector growth and development in Kenya. Yambo, M. (1991) noted that in Kenya, apart from the informal sectors own entry level apprentice training, very little skill upgrading is available for informal sector clients. Digolo, O. (1988), notes that lack of managerial and entrepreneurial skills and appropriate technology are major constraints to the competitiveness and growth of the informal sector enterprises. Skills upgrading and on-the-job training is not readily available in Kenya and a vast majority of entrepreneurs seems to rely on informal training which is inadequate.

### **2.2.2 GOVERNMENT POLICIES AND REGULATIONS ON SMALL AND MEDIUM ENTERPRISES AS A FACTOR INFLUENCING THEIR START-UPS AND GROWTH:**

Small and medium enterprises operate in environments determined by government policies. However, owing to their sizes, SMEs are more vulnerable to business environmental weaknesses than large enterprises (UN, 2001). In Kenya, the government support for small-scale enterprises is documented in a number of government publication e.g. national development plans,

However, before this recognition, laws and regulations covering the start-ups of small-scale enterprises were not very clear and sometimes were viewed as punitive to small-scale enterprises. World Bank, (1994), noted that although the Kenya government has undertaken various actions to remove the constraints hampering market efficiency, potential informal entrepreneurs still face various institutional barriers to entry, handicaps to survival and growth, and impediments to transition from informal to the formal sector. A host of acts - from trade licensing Act and local government Act has made most informal businesses illegal and subject to persecution.

World Bank, (1994) notes that enterprises in Kenya are required to register and obtain various licenses which may inhibit starting and expanding informal sector enterprises because they involved complicated process and high monetary and transaction costs that may encourage corrupt practices at the end of the day.

The Kenyan patent law also act as hindrance to the start-ups and growth of small and medium enterprises since it has a negative impact on technology advancement, (Juma, 1989). Lack of patent protection deterred investors initially interested in commercializing the stove and some of its variants.

Non-compliance with legal requirements, however bureaucratic they are, makes such trade or business activities illegal and licensing as a concept means all the rules that operate to authorize or permit the carrying out of any trade or business activity must be observed (Nyamweya, 1995). The cost of compliance can be high in the Kenyan context.

Government policies that may impact negatively into the start-ups and growth of small enterprises into six broad categories, (Kibwana 1989; Juma 1989; House, etal 1990), i.e. licensing, registration; regulation of premises; labour laws; taxes; debt

Child (1977); Wynne- Roberts (1978); Liedholm and Chuta; (1976) in their research noted that in Kenya, Sierra Leon and Cameroon, small firms producing manufactured goods are not entitled to duty drawbacks on imported intermediates of the same scope and magnitude as large scale firms are. Thus, this inequality creates bottlenecks to growth of such enterprises. However, even in countries where the legal entitlements are the same for all sizes of firm the problem of the inability of small firms to deal with bureaucracy remains a problem and hindrance to growth and survival of small enterprises.

Harper, (1987), noted that policy environment can hinder the start-up and growth of small and medium enterprises in areas such as official considerations; inappropriate standards; employee protection; fiscal incentives; licenses education; infrastructure and misguided assistance.

Arroyo and Nebelung (2002), found out that micro and small enterprises are at a disadvantage when they are faced with many overlapping and contradicting regulation and laws administered by different government agencies. Such could not encourage start-ups and growth of small and medium enterprises.

### **2.2.3 CAPITAL AS A FACTOR INFLUENCING START-UPS & GROWTH OF SMALL AND MEDIUM ENTERPRISE**

Capital is an essential element for any business regardless of its size, but more importantly the way a firm uses its capital will determine its potential for growth and survival. Harper, (1987) observed that shortage of capital is in some cases an illusion, since closer investigation reveals that substantial sums lie unused in unproductive assets; large numbers of small enterprises, however, do succeed in employing the little capital which is at their disposal, in the most profitable way, and could make economic use of further resources. He observed further that labour intensity, or low use of capital, is one major advantage over large ones. It can be argued that although capital scarcity is indeed a problem for the owners of some these enterprises, it forces them to employ people rather than machinery, and thus to contribute more efficiency to alleviating the universal problem of unemployment. World Bank, (1976), argued that evidence shows that small enterprises exist within a segmented capital market, and that they are largely excluded from access to commercial and public banks is widespread in Africa.

McCormick, D. (1992), observed that firms could only grow if they can get sufficient capital, labour and material. Brock and Evans (1978), and Viner (1931) noted that basic economic analysis of the relationship of access to necessary resources to firm size shows that firms with bigger endowment of a scarce factor of production can produce a given level of output at lower cost. Scarborough, M, N, & Zimmerer, T.W. (1996) observed that if the business is to grow and expand, an entrepreneur generally needs additional financial resources. Large firms have the ability to attract the best human resource to run the business and invest into any technology given its financial ability.

### **2.3 SMALL MEDIUM ENTERPRISES AS A SOURCE EMPLOYMENT AND POVERTY ERADICATION MECHANISM**

In the early day days of independence, most African countries relied on the large enterprises as a means for employment creation. This saw the rise of large industries established through government investment, (parastatals), and private foreign investment. However, the large formal sector has failed to meet the challenges of employment creation and income generation due to slow economic growth and declining levels of investment, (National Development Plan, 2002-2008). The performance of government ventures has been wanting with many of them failing due to poor management making them unviable, (ILO, 2002). As a result, employment within the large declined and attention has turned to the MSE sector for job creation. According to the national development plan, (2002 – 2008), the sector's employment growth is targeted at an average of 10% per year.

However Harper, (1987) states that in the long run, the ability of SMEs to create jobs depends on how efficient an enterprise is run. This means that for the sector to achieve the goal of job creation and poverty reduction, they must be efficiently run for growth and survival.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1 RESEARCH DESIGN**

The researcher preferred an applied research approach with the purpose of discovery of hitherto, hidden and not very obvious factors which may encourage or hinder enterprises in the industry but have been ignored by industry stakeholders. This will help the researcher come up with recommendations geared towards improving the growth and survival strategies of small and medium enterprises in Kenya by applying the results to specific problems identified on the ground.

#### **3.2 POPULATION OF INTEREST**

The population of interest in this study is small and medium manufacturing enterprises in Baba Dogo and Kariobangi light industries areas. Such enterprises are the specific population for which generalization about the findings can be made. The findings of this research should be applied strictly to the category of enterprise mentioned as population of interest.

#### **3.3 SAMPLE DESIGN**

Though the names and sizes of the targeted industries could be found in the manufacturers directory at the ministry of trade and industry, the researcher chose to conduct pre-survey study to identify targeted population in the two sites under study. This was mainly aimed at eliminating errors associated with the reliance on such a directory, such as missing names or non-registered enterprises. The sample

design was therefore done out of physical survey rather than relying on any list already in existence.

### **3.5 SAMPLE SIZE**

The researcher chose at random 15 small and medium manufacturing enterprises from each study site, (Baba Dogo and Kariobangi). The sample size for the study was therefore 30 small and medium manufacturing enterprises, which considers adequate to give desired result given its.

The sample comprised of detergent manufacturers, soft drink and beverage processors, metal and wood fabricators, plastic fabricators, cosmetic manufacturers, accessories manufacturers and garment and woven manufacturers.

### **3.5 DATA COLLECTION TECHNIQUES**

The data to be used for this study will be mainly primary data and to a very small extent observation was also used. The questionnaire to be used for the study consists of both open and close-ended questions. Likert attitude scale questions were also used.

### **3.6 DATA ANALYSIS TECHNIQUES**

The data was analyzed using descriptive statistical techniques such as percentile, frequencies and mean. Bar charts and pie charts were also used to present the findings in a more meaningful manner.

## 4. RESULTS AND DISCUSSIONS

### 4.1 INTRODUCTION

The objective of this chapter is to present the results of the research study. The data has been analysed using simple descriptive statistics such as frequency tables, contingency tables and percentages in order to promote easy understanding for wider acceptance and application among the would be and principle players in the sector under study. Bar charts and Pie have also been used.

### 4.2 DISTRIBUTION OF RESPONDENTS ACCORDING TO INDUSTRY AND LEVEL OF EDUCATION.

Table 1 a level of education per Industry rate.

LEVEL OF EDUCATION	INDUSTRY (SECTOR)													
	Detergent		Soft drink & beverage		Metal & wood		Plastic		Cosmetic		Garment & woven		Accessories	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
NONE	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PRIMARY	-	-	-	-	1	17	-	-	-	-	-	-	-	-
“O” LEVEL	1	25	1	25	2	33	-	-	1	33.3	2	33.3	1	25
“A” LEVEL	1	25	2	50	1	17	1	33.3	1	33.3	2	33.3	1	25
POLYTECHNIC / TECHNICAL	2	50	-	-	2	33	1	33.3	1	33.3	1	17	2	50
UNIVERSITY	-	-	1	25	-	-	1	33.3	-	-	1	17	-	-
TOTAL	4	100	4	100	6	100	3	100	3	100	6	100	4	100

#### Key

Freq. = Frequency % = Percentage

Source: Primary data

<b>LEVELS OF EDUCATION</b>	<b>INDUSTRY</b>	
NONE	-	-
PRIMARY	1	3.3%
“O” LEVEL	8	26.7%
“A” LEVEL	9	30%
POLYTECHNIC / TECHNICAL	9	30%
UNIVERSITY	3	10%
<b>TOTAL</b>	<b>30</b>	<b>100%</b>

From the two tables above, table 1 (a) indicates that soft drink and beverage processors have 25% owner manager with University education while 33.3% in plastic fabrication industry also have the same education level. It is obvious from the above table that plastic fabricator sector have the most educated owner/ manager followed by soft drink and beverages processors, whose explanation the researcher deduced to be the complex process and advanced technology required. Metal and wood fabrication, garment and woven manufacturers have the least educated owner / manager at 17% having primary education certificate. On analyzing the sector as whole (small and medium manufacturing industry) majority of owner / manager have “A” level education (30%) as indicated in table 1 (b) “O” level holders and polytechnic or technical education is second (27.6%).

Majority of owner / Manager of small and medium enterprises were found to be fairly educated. Most owner managers, (29/30) have O level education and above.

#### **4.3. REASONS BEHIND START – UPS OF SMALL AND MEDIUM MANUFACTURING ENTERPRISES.**

Many entrepreneurs started such ventures out of personal interest coupled with experience gained in formal sector while others started them given their professional background. Others started such venture after conducting a research on career objectives areas that they would like to venture into. This research found out that people who were

previously employed either in private sector or public sector were given some professional training that exposed them to the trade practices of the particular industries. This coupled with their experiences at work motivated them to start-up a small or medium manufacturing firms. This was more so in detergent, soft drink and beverage processing and cosmetics where 100% of those entrepreneurs were former employees in the formal sector, which the researcher again attributed to the complexity and advanced technology required in these industries.

**Table 2: Distribution of respondents according to what motivated them to start up small and medium manufacturing enterprises.**

REASON FOR START-UP	INDUSTRY													
	Detergent		Soft drink beverages		Metal & wood		Plastic		Garment woven		Accessories		Cosmetics	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Academic Background					1	16.7	1	33.3	1	16.7	2	50		
Family background					2	33.3	1	33.3	1	16.7				
Experience gained in formal sector	4	100%	4	100%	1	16.7	1	33.3	1	16.7	2	50	3	100
Others / not specific					2	33.3			3	50				

From table 2, it is revealed that owner managers from the formal sector were most prevalent hence; previous experience plays a crucial role in promoting successful growth of SMES.

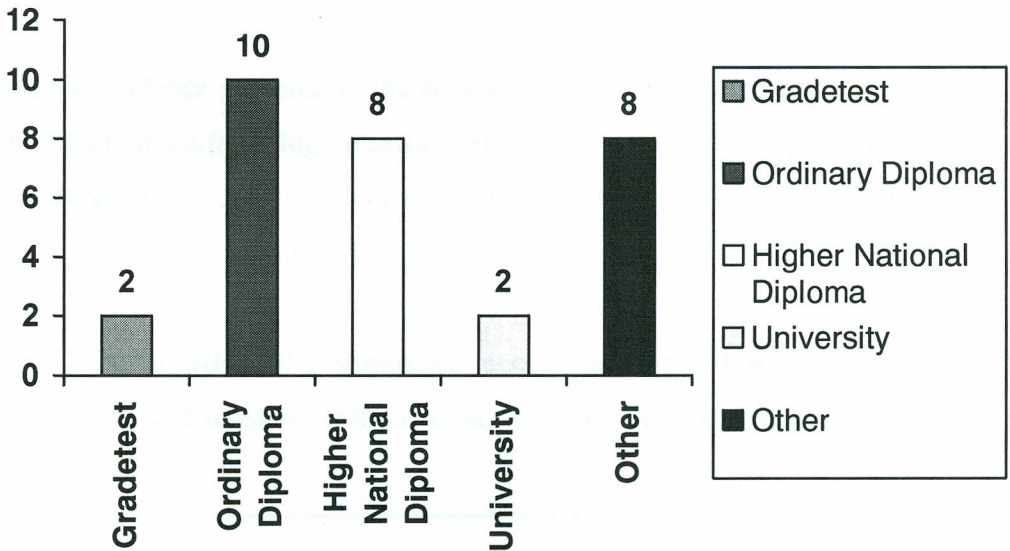
Under others the respondents quoted economic reasons and lack of employment as main motivation to starting a business. In all other sectors owner managers cited valid reasons for starting up ventures. In the garment and weaving industries, 50% were not specific leaving the researcher with a view that the motivating factor was easy entry.

In the garment and woven manufacturing sector 50% of the entrepreneurs started up their business out of lack of employment and economic reasons. In the accessories sector, (spare parts fabrication), majority were previously employed and gained their experiences from the modern sector and 50% of the respondents did so out of personal interest and professional background.

#### **4.4. DISTRIBUTION OF RESPONDENTS ACCORDING TO THEIR ACADEMIC QUALIFICATION**

This section sought to find out whether those in the small and medium manufacturing enterprises have had any professional training/qualification achieved before or in the course of their business. The result show that majority of the entrepreneurs have academic qualifications, some of which are directly related to their specific industries.

**Table4: Distribution of Respondents According to their Professional Qualification.**



Source: Primary Data.

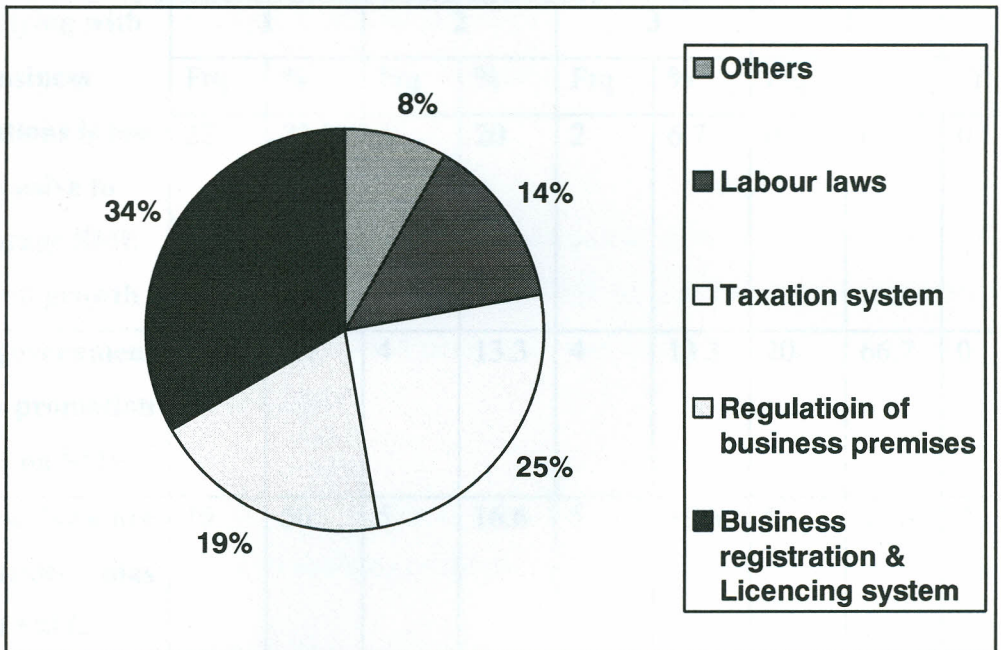
As indicated in the table 4 above 6.7% of the entrepreneurs in small and medium manufacturing industry have grade test professional qualification. . The other 6.7% are University graduates who did food science at University level. 26.7% are holders of higher national diploma and the same percentage (i.e. 26.7%) hold varied professional qualifications such as certificate in carpentry, certificate in library science, accountancy, e.t.c. Ordinary Diploma had the highest percentage 33.3 % and the holder are scattered in the different sector of the small and medium manufacturing industry.

In conclusion, academic/professional qualification seems to be a major factor contributing to start and growth of SMES whereby such qualifications help to build capacity for management scope of the owner/managers.

#### 4.5 THE IMPACT OF LEGAL ENVIRONMENT ON SMALL MEDIUM MANUFACTURING INDUSTRIES AS FAR AS THEIR START-UP, GROWTH AND SURVIVAL STRATEGIES ARE CONCERNED.

From the evidence gathered in the survey, majority of entrepreneurs in the small and medium manufacturing industries rely on adopted and appropriate technology to produce their products that does not require patent protection. As such, legal issues regarding patenting were not regarded as a problem.

**Table 5 Distribution of respondents according to the laws or policies they regard as having negative influence on their business strategies.**



It is clear from the pie chart above that majority of respondents are not satisfied with the Business registration and Licencing procedures (34%). The other area that needs to be looked into is the taxation (25%), which closely followed by regulation of business premises (19%). Labour laws scored 14% while others scored 8%. Others mentioned

were city by laws and health requirements, which were cited as being vague and at times contradictory, leading to corrupt practices.

In conclusion, business registration and licenses system are the biggest hurdle to start up and growth of businesses under the legal environment. Otherwise, respondents were in agreement that apart from the process and fees involved when starting up small and medium manufacturing industries, the Kenya government has an open policy that allows start-up of such industries so long as it does not infringe Kenyan laws.

**Table6: Distribution of respondents on their opinions in few selected areas considered crucial to study.**

Statements	Ratings									
	1		2		3		4		5	
	Frq	%	Frq	%	Frq	%	Frq	%	Frq	%
<b>Complying with business regulations is too expensive to encourage SME start-up growth</b>	22	73.3	6	20	2	6.7	0	0	0	0
<b>The government has no promotion policies on SME</b>	2	6.7	4	13.3	4	13.3	20	66.7	0	0
<b>Business laws are structurally bias against SME.</b>	15	50	5	16.6	5	16.6	5	16.6	0	0

Source: Primary Data

#### KEY

1. Definitely agree
2. Agree
3. Don't agree

4. Definitely disagree
5. No opinion
6. Frq. – Frequency

From the above 6, 93.3% view complying with business regulations in Kenya as being too expensive to encourage start-up growth of such venture and is a definite bottleneck to start up SMEs.

On the other hand respondents do not to agree that the government has no promotional policies on small and medium enterprises. Only 20% agreed while 80% disagreed, which shows that the entrepreneurs are aware of deliberate efforts by the government to promote SMEs.

Respondents view business laws as structurally biased against small and medium enterprises as 50% strongly support the statement / sentiment and another 16.6% agree leaving out only 33.2% who disagree.

From field discussions, respondents view government policies as meant to attract international investors. For example, for a firm to get investment allowance or exemptions a number of conditions and terms to be met are beyond the reach of small and medium local entrepreneurs.

In conclusion, the small and medium enterprise operators feel that government environment should create an enabling environment for all firms regardless of the size.

#### **4.7 EMPLOYEES' TRAINING AND METHODS OF TRAINING IN SMALL AND MEDIUM MANUFACTURING ENTERPRISES.**

All enterprises surveyed offer limited training to their employees in most cases offering in-house or on the job training to their employees. The tendency is to employ people with required expertise. None of the firms surveyed sponsor their employees for national or international professional examinations or, sponsor their employees to attend workshops or seminars relevant to their professions.

Closely related to training, none of the firms was found to engage in research and development for their products.

#### **4.8 DISTRIBUTION OF RESPONDENT ACCORDING TO SCHEMES OFFERED TO EMPLOYEES.**

Seventy two percent, (72%) of the small and medium manufacturing industries under survey only offer schemes which are mandatory or obliged by law to their employees i.e. national social security funds (NSSF), national hospital insurance fund (NHIF) and accident covers. Majority of these employees in the industry do not enjoy any other scheme. This has a negative impact on staff morale and productivity thus negatively affecting growth of such enterprises.

#### 4.9 DISTRIBUTION OF RESPONDENTS ABOUT THEIR AWARENESS ON ANY GOVERNMENT OR NON-GOVERNMENTAL ORGANISATION THAT OFFERS FINANCIAL OR NON-FINANCIAL ASSISTANCE TO THE SAME.

The study reveals that majority of respondents are aware of organizations offering financial and non-financial assistance.

**Table 7: Response to awareness of existence of financial and non-financial assistance.**

AWARE	FREQUENCY	PERCENTAGE
YES	24	80
NO	6	20
APPROACH FOR ASSISTANCE	FREQUENCY	PERCENTAGE
YES	23	75
NO	7	25

**Source: Primary Data.**

From the table above 80% of the respondents are aware of the existence of institutions that offer financial and non-financial assistance to the small and medium enterprises and out of those 75% have actually approached such organizations or institutions for assistance. However, the respondents rate the assistance accorded to those who have approached such institutions differently. This means that despite existence of such assistance, it will not be any benefit to growth of the SMEs when the owner/managers do not consider it useful.

#### **4.10 BUSINESS STRATEGIES FOR SMALL AND MEDIUM MANUFACTURING INDUSTRIES.**

Most, (90%) of the SMEs normally have short-term strategies with very few having what can be termed long term strategies. Most of the owner/manager could only hope that the donor community will release funding for Kenya, which will bring the economy back to normal, to enable their businesses to grow.

The respondents also believe that the new government might initiate new policies aimed at assisting small and medium enterprises which will be different from earlier policies “which were aimed at pleasing donors rather than to helping them”.

In the absence of clear business strategies their businesses are left exposed to external factors such as adverse economic trends.

On the other hand, 80% small and medium manufacturers lack access to information processing and technology even the most basic one like use of personal computers. This has clearly inhibited growth within the sector.

#### **4.11 DISTRIBUTION OF RESPONDENTS ACCORDING TO HOW THEY MANAGE BUSINESS RISKS**

Evidence indicates that most small and medium manufacturing industries do not insure their business and only take compulsory business insurance covers. They prefer to take safe product line and to avoid risky ventures. The insurance covers they have are like accident-at-work insurances and motor vehicle insurances for firms with vehicles.

Lack of insurance cover compromises survival of businesses in case of risks.

#### 4.12 DISTRIBUTION OF RESPONDENTS' VIEWS ON FACTORS AFFECTING THEIR BUSINESS

**Table 8: Respondents views on factors affecting their businesses/**

<b>FACTORS</b>	<b>PERCENTAGE</b>
High staff turn over	3%
Lack of market for products	23%
Lack of raw materials	9%
Lack of funds	31%
Lack of proper infrastructure	14%
Political uncertainty in the country	16%
Other factors	4%

Table 8 shows that among other problems 31% of the respondents cite lack of credit as the single most constraining problem followed by lack of markets for their products at 23%. The two have a negative effect of inhibiting growth. Other notable problems mentioned were infrastructure (14%), and lack of raw material, which inhibit growth by raising the cost of conducting business.

## CHAPTER FIVE

### 5.1 RESEARCH FINDINGS

The research findings showed that factors that influence on the start-ups of small and medium enterprises included: -

- (1) Experience gained from the formal sector acts as a reinforcing factor to startup and survival of SMEs. Such experience gives the owner/manager an insight into a specific industry. This was more so where complex processes were involved.
- (2) Personal influence and family backgrounds of the entrepreneur influenced the decision to start up enterprises. This was especially where businesses were inherited or the trade runs in the family. Such family back up ensured growth and survival of a given firm.
- (3) Level of entrepreneur's educational background assisted in growth and survival of the firms as the better the education the better the capacity for entrepreneurship capability.
- (4) Information or assistance obtained or given to the entrepreneur by a non-governmental or government agency. Such assistance was found to be inappropriate and hence not conducive to growth and survival of the enterprises.
- (5) Economic conditions have adversely undermined growth and survival of enterprises in this sector.
- (6) Lack of clear growth strategies means that most of the entrepreneurs leave their businesses' success to chance. They are unable to foresee pitfalls thus undermining success.
- (7) Lack of access to affordable credit, which means that the businesses cannot expand in the face of inadequate internal resources.
- (8) Lack of training and human resource development adversely affecting staff productivity.

- (9) Lack of product research and development. This reduces the competitiveness of their products in the market as well as incurring high cost of production
- (10) Poor risk management, which compromises business survival.
- (11) Poor access to information on products, markets, raw materials inhibit growth and survival SMEs.

All such factors, as above act each on it's own or together to influence start-up and growth of SMEs.

## **5.2 RECOMMENDATIONS OF THE STUDY**

From the findings of the study, some recommendations were made within the framework of the observations and conclusion of the study. They have been divided into two, government oriented and firm oriented

### **5.2.1 Government oriented**

- (1) The government should create a friendly legal environment. Registration and licensing procedures should be streamlined with a one-stop shop approach.
- (2) The government should encourage employers/employees from SMEs to enlist in government-training institutions in order to acquire some technical/business knowledge at subsidised fees. This should be done through some arrangements involving the owner/manager and such government institutions.
- (3) The government should create some tax-free incentives to the entrepreneurs who want to start-up such enterprises for some number of years after the start-ups.
- (4) There is need for the government to streamline business registration and licensing procedures.
- (5) Entrepreneurship education should be included in the curricular of professional training programmes to equip graduates with necessary tools for business start up and growth.

### **5.2.2 Firm oriented**

- (1) Small and medium manufacturing enterprises should take bold steps in undertaking Research and Development and also be involved in risk taking as growth strategies.

- (2) The owner/managers need to invest in training and development of their staff mainly to boost productivity.
- (3) Entrepreneurs need to embrace strategic planning of their business to ensure sustained growth. This should encompass short term, medium term and long term strategies.
- (4) Entrepreneurs should invest in information technology for ease of access to information and data processing.
- (5) The entrepreneurs insure their businesses against adverse human and natural occurrences.

Finally, there is need to replicate the present study using small and medium enterprises from the service industry and firms in the rural areas to find out if similar results will be achieved.

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## APPENDIX 1

### FIELD RESEARCH QUESTIONNAIRE

THE RESEARCHER IS A POSTGRADUATE STUDENT AT KENYATTA UNIVERSITY AND IS CURRENTLY INVOLVED IN COLLECTING DATA FOR HIS PROJECT ENTITLED **“FACTORS INFLUENCING START – UPS, GROWTH AND SURVIVAL STRATEGIES OF SMALL AND MEDIUM MANUFACTURING INDUSTRIES IN KENYA: A CASE STUDY OF BABA DOGO AND KARIOBANGI LIGHT INDUSTRIES, NAIROBI”**. YOUR FIRM WAS CHOSEN FOR THIS STUDY AND YOUR CO-OPERATION IN THIS REGARD WILL BE HIGHLY APPRECIATED. HOWEVER, DATA OBTAINED HEREIN WILL BE USED EXCLUSIVELY FOR ACADEMIC PURPOSES AND ALL RESPONSES WILL BE TREATED AS CONFIDENTIAL.

#### SECTION A (PERSONAL DATA)

##### Q1

- a) Nature of Business .....
- b) Formal education of the owner/manager background (Highest)

None

‘A’ Level

Primary

Polytechnic/Technical

‘O’ Level

University Education.

c) Professional qualification of owner/Manager (please tick as many as is applicable)

- Grade test
- Ordinary Diploma
- Other
- Higher National Diploma
- University

(Specify)

.....

d) What was your (owner/Manager) previous occupation?

- None
- Farmer
- Civil Servant
- Military/Police Officer
- Employee in Private Sector
- Banker
- Engineer
- Other (specify).....

e) What in particular (Owner/Manager) motivated you to start such a noble venture?

- Personal interest
- Influence from friends
- Family background
- Professional background
- Experience gained in formal Sector
- Other (specify) .....

f) What is your (Owner/Manager) other source of income apart from this firm, requiring your equal attention?

- None
- Owning another service firm
- Owning another manufacturing firm
- Employed
- Other (Specify)

.....

**SECTION B (LEGAL ASPECT)**

**Q2**

a) What would you say about the Kenyan patent law as far as business innovation is concerned?

- It protect foreign interest rather than home industries, hence discriminative or bias
- Give little attention to local innovation
- Other (Specify)
- .....
- .....

b) In what area(s) do you think Kenyan law or policies act as negative influences to the start-ups growth and survival strategies of small and medium enterprises?  
(tick as many as appropriate)

- None
- Labour laws
- Business registration and licensing system
- Taxation system
- Regulation of Business Premises
- Other (Specify)
- .....
- .....

c) State your opinion on the following statement(s)

(i) Complying with business regulations is too expensive to encourage start-up or growth of small and medium enterprises in Kenya.

- |   |  |
|---|--|
| <input type="checkbox"/> Definitely agree | <input type="checkbox"/> Definitely disagree |
| <input type="checkbox"/> Agree            | <input type="checkbox"/> No opinion          |
| <input type="checkbox"/> Don't agree      |  |

(ii) The Kenya Government does not have any specific promotional policy(ies) on small and medium enterprises

- |  |                                      |
|--|--------------------------------------|
| <input type="checkbox"/> Definitely agree    | <input type="checkbox"/> Don't agree |
| <input type="checkbox"/> Agree               | <input type="checkbox"/> No opinion  |
| <input type="checkbox"/> Definitely disagree |                                      |

(iii) Business laws in Kenya are structurally biased against small and medium enterprises as opposed to large/formal enterprises.

- |   |  |
|---|--|
| <input type="checkbox"/> Definitely agree | <input type="checkbox"/> Definitely disagree |
| <input type="checkbox"/> Agree            | <input type="checkbox"/> No opinion          |
| <input type="checkbox"/> Don't agree      |  |

d) What policies or laws or by laws in Kenya do you think favour start-up, growth and survival strategies of small and medium enterprises?

.....

.....

.....

.....

e) What statute(s), policies or by laws do you think the Government of Kenya should implement, improve or delete in order to create enabling environment for start-ups, growth and survival of small and medium enterprises (Please state specific ones and whether the Government should delete, improve or implement).

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

**SECTION C (SOCIO ECONOMIC ASPECT)**

**Q3**

a) How many employees does your firm have?

- 1 - 10
- 10- 50
- 51 - 100

b) Does your firm offer any professional training to the employees?

- Yes  No

c) If the answer to (b) is yes, what sort or nature of training

- Sponsoring employees to attend and sit for national or international professional examinations
- Give employee's study leave on a self-sponsored professional courses.
- Sponsoring employees to attend workshops, seminars relevant to the field where they operate
- Other (specify)

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

c) How much do you pay your employees (basic salaries) on a monthly basic?

- Kshs.1, 000 - 10,000
- Kshs.11, 000 - 200,000
- Kshs.20, 000 - 30,000

Other (specify)

.....

e) Which of the following schemes do you offer to your employees? (Tick as many as Appropriate)

- Unlimited medical cover for the employees and their immediate families
- Contributory medical scheme that caters for the employees and their immediate families
- Accident cover for incidences that occur at work
- Contributory retirement benefits
- National Social Security Funds (NHIF)
- Other (specify) .....

f) Do you know of any Government or Non-Governmental organization that offers financial and non-financial assistance to small and medium enterprises?

- Yes  No

g) If your answer to question (f) is yes, have you ever approached any for assistance?

- Yes  No

h) If your answer to question (g) is yes, how can you rate the assistance given to your business?

- Very appropriate to my business
- Appropriate to my business
- Inappropriate to my business
- Very inappropriate to my business

i) What do you regard as a hindrance to the growth and expansion of your business currently (tick as many)

- High staff-turn over
-

- Lack of market for products
- Lack of raw materials
- Lack of funds
- Lack of proper infrastructures
- Political uncertainty in the country
- Other (specify) .....

(j) Is your business insured?

- Yes  No

(k) If the answer to question (k) is No, how do you manage business risks?

- Safe product line
- Diversified holding
- Avoiding risk ventures.  Other (specify) .....

(l) Do your firm engage in any Research and Development for new product line or on improvement of existing product or marketing strategy?

- Yes  No

(m) Which of the following information Technology is accessible to your firm? (Tick as many)

- Personal computers
- E-mail
- Web site
- Network among firms in the industry locally or International via Internet
- CAD (CAM in manufacturing)

(n) What is your current strategy (ies) for your business growth?

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

(o) In your view, what external factors do you think will help your current optimistic strategies work?

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

(p) What in the past do you think has made your enterprise to survive despite problems that may have forced similar enterprises to shrink or collapse?

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

**APPENDIX 2**  
**RESERCH BUDGET**

<b><u>ITEM</u></b>	<b><u>COST (KSH)</u></b>
Stationary	4,000
Transport	3,000
Remuneration	5,000
<u>Secretarial Services</u>	<u>2,000</u>
<b>Total</b>	<b>14,000</b>

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**APPENDIX 3**  
**WORK SCHEDULE**

<b><u>Section</u></b>	<b><u>Ready By</u></b>
Abstract	15 <sup>th</sup> April 2004
Introduction	30 <sup>th</sup> April 2004
Literature Review	30 <sup>th</sup> May 2004
Methodology	7 <sup>th</sup> June 2004
Proposal Presentation	15 <sup>th</sup> June 2004
Data Collection Starts	30 <sup>th</sup> June 2004
Data Collection complete	15 <sup>th</sup> July 2004
Analysis Complete	7 <sup>th</sup> August 2004
Draft Report Presented	30 <sup>th</sup> August 2004
Final Report Presented	15 <sup>th</sup> September 2004
Research Complete	30 <sup>th</sup> September 2004

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