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Socio-Economic Factors That Affect Small and Medium Enterprises in  
Kariokor Market, Kamukunji Constituency, Nairobi County, Kenya.

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**DECLARATION**

I declare herewith that this thesis is entirely my own original work and that it has never been submitted to any institution of higher learning other than The Catholic University of Eastern Africa for academic credit. Any information from other sources has been acknowledged and referenced.

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## **DEDICATION**

I dedicate this work to my wife and my brother Dr. Costello Garang Riiny who stood by me during the whole course. I devote this work with much affection to my brother who has given me financial support and attention during my years of study.

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## ACRONYM/ ABBREVIATIONS

<b>MDG</b>	:	Millennium Development Goal
<b>NEEC</b>	:	National Economic Empowerment Council
<b>NEE</b>	:	National Economic Empowerment
<b>SPSS</b>	:	Statistical Packages for Social Science
<b>GDP</b>	:	Gross Domestic Product
<b>SMEs</b>	:	Small and Medium Enterprise
<b>MNCs</b>	:	Multinational Corporations
<b>EAC</b>	:	East African Community
<b>KNBS</b>	:	Kenya National Bureau of Statistics
<b>RBT</b>	:	Resource Based Theory
<b>UNDP</b>	:	United National Development Programme
<b>EU</b>	:	European Union
<b>USD</b>	:	United States Dollar

## ABSTRACT

In sub-Saharan Africa, small and medium-sized enterprises, or SMEs, have become the most important pillars of growing economy. In fact, they produce 80 percent of all jobs and represent nearly 90 percent of all businesses in Sub-Saharan Africa. This sector in Kenya contributes significantly to its economy by way of taxes, utilization and conservation of local resources, foreign exchange, provision of goods and services. However, the sector is characterized by a number of challenges of which access to financial resources is most significant. The overall objective of this study is to understand social economic factors such as the access to finance by SMEs, alternative sources of funding to SMEs and accessibility to microfinance services. The study looked at the factors that affect small and medium enterprises in Kariokor market as the representative case study. Research design is in form of a descriptive study, data was collected using Questionnaires that was administered to the target population; the research used contingency theory and resource based theory. Simple random sampling methods was used to draw samples of the cases used for this study. The research used conceptual framework in conceptualizing the factors affecting small and medium enterprises. The data was analyzed by generating descriptive statistics such as percentages, and measures of central tendency. The data was presented by using tables and figures. SPSS (statistical software package) was used to generate the descriptive statistics and to establish the relation between the dependent and the independent variables of study. The findings will act as a reference point to other researchers in the same field thus facilitating their studies the study findings will provide relevant information that will help the government in planning and also to formulate and implement policies. The data was coded and analyzed qualitatively and quantitatively using SPSS. The study found out that access to finance, laws and regulation and availability of management experience are the key socio-economic factors affecting the performance of businesses in Kariokor Market. The study sought to establish the factors affecting the performance of micro and small enterprises in Kariokor Market in Nairobi County. A total of 274 questionnaires were administered and the study managed to obtain 200 completed questionnaires representing 73% response rate. The study therefore recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing, both National and County governments of Kenya should lessen the time taken to obtain license by reducing bureaucracy and illuminating some hurdles along the way. further a research is needed covering all the markets in the county to find out whether the same factors are affecting other traders and research that covers medium and large farms.

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter contains the background to the study, the statement of the problem, research objectives and questions, study assumptions, the justification and significance of the study. The scope and delimitations, as well as the site description, limitations of the study are also covered here. Lastly, the chapter dwells on the theoretical and conceptual frameworks and the operational definitions of a few terminologies used in this study

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

Small and medium enterprises are taken by European Union (EU) as an important ingredients in shaping European economy. The EU considers small and medium enterprises as key to driving economic growth, innovation, job creation, and social integration in the EU. However, in official statistics SMEs can currently only be identified by employment size as enterprises with fewer than 250 persons employed. This is a huge category and encompasses enterprises with different ownership structures and varying numbers of employees and levels of economic activity. To facilitate better analysis and understanding of the heterogeneity of SMEs, the 2014 microdata linking project linked data from structural business statistics and business registers (Airaksinen, 2015).

In Canada Small enterprise is defined as a business employing fewer people than 100 paid employees while a medium enterprise business is defined as one with at least 100 and fewer than 500 employees. Starting from December 2013, there were about 1,107,540 employer businesses in Canada, of which 1,087,803 were small. Small businesses make up 98.2 percent of employer businesses, medium-sized businesses make up 1.6 percent of employer businesses and large businesses make up 0.1 percent of employer businesses. In sum SMEs employed about 10 million individuals, or 89.9 percent of employees. Canadian high-growth firms are present in every economic sector and are not just concentrated in knowledge-based industries (Allen, 2013)

In terms of employment, the highest concentrations of high-growth firms in Canada during the 2006–2009 period were in construction (4.9 percent of all firms); business, building and other support. In sub-Saharan Africa, Small and medium-sized enterprises, or SMEs, have become the most important pillars of growing economy. In fact, they produce 80 percent of all jobs and represent nearly 90 percent of all businesses in Sub-Saharan Africa. It's Africa Small and Medium Businesses Program plans to provide assistance to African financial institutions that support SME growth over the course of four years. It has received an impressive \$125 million in funding from the United States (Logan, 2015).

In East African Community (EAC), there are myriads conditions facing SMEs. This takes factors related to the nature of SMEs, but also regulatory factors and the legal and contractual environment. The study done by the banks has also noted the reluctance attitude of east African governments to support SMEs sector. However, as has been observed banks have learned to adapt to their environment and have adapted through innovation and differentiation. The African Development Bank concludes that 'this trend should be encouraged through reforms to soften the negative impact of those obstacles which are hindering the further involvement of banks with SMEs'. Encouraging SMEs in East Africa is important for employment. The study has noted that earlier research found that SMEs on average contribute to 60 percent of total formal employment in the manufacturing sector in various countries (Pietro, 2012).

The informal sector in Kenya is viewed as an important ingredient for employment creation, poverty alleviation and economic growth. This has been compelled by the increasing awareness within the government that large projects in the industrial sector are less likely to generate the requisite employment opportunities, given the high capital intensity of output in the sector (Kinyua, 2014).

The number of small businesses is growing rapidly in Kenya as evidenced by the growing activities within (Namusonge 2004; Sessional paper, 2005). Every sector of operations has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors as well as internal business factors (management expertise, resources, individual characteristics (Okibo & Makanga, 2014).

In the dynamism and turbulence, small businesses are affected more than the large organizations because the response to environmental changes is different in small businesses than in large companies, which may exit from one business area and have resources and strategic choices not available to small business enterprises. It's necessary to study the management factors that are in place in the informal sector, that is, investigate individual business adjustment policies in relation to the state policies, the current business performance factors. The role of MSMEs in the promotion of national development in Kenya has been well- documented (Sessional Paper No. 2, 2005).

According to the 2006 Economic Survey, employment within the Sector accounted for 74.2 per cent of the total persons in employment. The sector contributes up to 18.4 per cent of the country's Gross Domestic Product (GDP). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization (Berge, 2013).

As per Kenya Vision 2030, it is expected that Kenya would have been transformed into a newly industrialized nation. If the country has to make this leap, then the small enterprises are expected to play a key role in this transformation. To play this role, the small enterprises must succeed and the failure rate characterizing the sector be minimized if not abolished. It is also noteworthy that most of the businesses in this sector remain micro, employing less than five people and having such a high mortality rate as such, they never graduate into large or even medium organizations. Research findings report that many do not celebrate their third birthday (Sessional Paper, 2005).

In both developing and developed countries, small and medium scale enterprises play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth (Ogujiuba & Ohuche, 2004). The role played by micro, small enterprises (MSE) in the global economy cannot

be overemphasized. The enterprises form the backbone of global economy as they constitute 99% of all the enterprises in the world (Capital Markets Authority, 2010).

In Kenya, MSEs contribute over 80% of the country's employment and over 40% of the country's Gross Domestic Product (KNBS, 2012). The sector further contributes to the Kenyan economy by way taxes, utilization and conservation of local resources, earning and conserving foreign exchange, provision of goods and services among others. However, the sector is characterized by a number of challenges related to access to financial resources which translate to impediments in enterprise growth. Despite the role played by the sector, it has been characterized by a number of challenges. The Capital Markets Authority (2010) found out in their study that SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale (Dahir, 2015).

Challenges associated with access to financial resources are constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and management capacity, so they have difficulties securing finances from finance institutions because such institutions or banks are reluctant to lend to small business due to the perceived high credit risk (Kariuki, 1995). This leads them to be shunned by commercial banks and other finance institutions for advancement of loans due to lack of proper financial records, collateral requirement and weak management structure. Externally they are constrained by high transaction costs for loans, stringent loan conditions and lengthy application process. The term SMEs is an acronym for "Small and Medium scale Enterprises". In this case these are firms or businesses which are small and medium in sizes (Allen, 2007).

Majority of the SMEs are micro enterprises with fewer than 10 employees, while 70 per cent of them are one person, own account workers. This means that majority of SME entrepreneurs are operating at the bottom of the economy, with a significant percentage falling among the 53 percent of Kenyans living below the poverty line of USD 1 per day. The latter are largely for subsistence and engage in economically uncompetitive activities both in urban and rural areas (Kihonge, 2014).

At the fore front of challenges in Kenya lies the high unemployment rate among young people, which is estimated to be double the national level of unemployment of 12.7 percent. Those young people who have a job are often engaged in low-paying work. Hence, most of the unemployed people disproportionately stem from the youth segment of the population and belong to the bottom 40 percent of the income distribution (UNDP, 2013).

The development of Small and Medium Enterprises is important for Kenya to be recognized globally as a progressive and prosperous nation. Small and medium enterprises, according to the National Micro and small enterprises Baseline survey of 2014, contribute 20 percent to the GDP of Kenyan economy and 80 percent to the Kenya's employment. These statistics indicate the importance of the small and medium enterprises in the development of Kenya (Kinyua, 2014).

Many of these small and medium enterprises start out as sole proprietorship with own savings or a group come together to start a venture with their savings but as operations expand the need for financing arises (Rateeq, 1989). and Jalil (2006) noted that inadequate access to Sharia compliant capital could lead to failure of the small and medium enterprises with statistics showing that 3 out of 5 ventures fail within the first few months of the operations. Conventional banks and financial institution would not be a solution for the Muslim businessman observing the Sharia, thus the need for the Islamic Microfinance institution to fill the gaps left out by these institutions (Ahmad & Ahmad, 2005).

## **1.2. Statement of the Problem**

The Kenya National Bureau of Statistics (KNBS, 2007) found out that three out of five businesses in Kenya failed within the first few months of operation and even those that continued 80% failed before the fifth year. Yet there is little study to understand the reason behind the failure of SMEs. According to Daily Nation Media newspaper, Data from Kenya National Bureau of Statistics released on 17, October, 2015 showed that 2.2 million micro, small and medium enterprises closed shops in the last five years. In 2015 the highest percentage of closures was recorded at 35.4% (Nation, 15 February, 2017). SMEs have unique issues, which affect their growth and profitability and hence limit their ability to contribute effectively to sustainable

development of the economy. The issues that inhibit the growth of SMEs include; legal and Regulatory framework, cultural aspects, lack of managerial skills and lack of finances.

The SMEs continue applying inadequate and inappropriate technology which according to (Wanjohi & Mugure , 2008) pose a great challenge to small business by slowing their work and offering poor quality service which leads to them loosing and not attracting more clients. They continue struggling to acquire and retain new clients due to the slow and low quality service that they offer to their clients. Despite the vital role of SMEs in building a competitive private sector and contributing significantly to economic growth and job creation, SMEs are facing more challenges around the world in general and in developing countries in particular these challenges include the cumbersome legal and regulatory constraints, lack of access to external financing, low human resources capacities, lack of management skills and training, and low technological capacities. Since SMEs in Kariokor market employ a huge population, their positive performance can bring hope to the problem of unemployment in Nairobi County. The purpose of this study is to determine the social economic factors that affect small and medium enterprises in Kariokor market.

### **1.3. Research Objectives**

The main objective of this study is to determine the socio economic factors that affect small and medium enterprises in Kariokor Market.

#### **1.3.1. Specific Objectives are as follows**

- i. To investigate how access to finance affects small and medium enterprises in Kariokor market.
- ii. To determine how legal and regulatory framework affect small and medium enterprises in Kariokor market.
- iii. To evaluate how culture values of individual entrepreneurs affect success of small and medium enterprises in Kariokor market.
- iv. To determine how lack of managerial skills affect small and medium enterprises in Kariokor market.

### **1.3.2: Research Questions**

- i. Does access to finance affect small and medium enterprises in Kariokor market?
- ii. To what extent does legal and regulatory framework affect small and medium enterprises in Kariokor market?
- iii. What is the role of culture on success of small and medium enterprises in Kariokor market?
- iv. How accessible to managerial skills of small and medium enterprises in Kariokor market help in its growth?

### **1.3.3. Premises or Assumptions**

The researcher is on the assumption that interviewees will be in a position to give information to the researcher and the questions will be answered truthfully and satisfactorily. The researcher also assumes that the responders will answer questions in timely manner without waste of time to ensure the research is current and is addressing its audience appropriately. It is further assumed that the selected instrument for this study is valid, reliable, and appropriate to the study's focus.

### **1.4: Justification of the Study**

There is scarcity of literature touching on the areas concerning small and medium enterprises. Therefore, the proposed study will build on study to determine the social economic factors that affect small and medium enterprises in Kariokor market. The scarce availability of reliable and valid data continues to be one of the key obstacles in understanding small and micro entrepreneurs. This study will help in both broadening the already existing data and build on the locally scarce available data.

### **1.5. Significance of the Study**

The researcher believes that this research project will first assist national government in planning and coming up with policies regarding how to protect and nurture SMEs in

Kenya, the research would then help the county government of Nairobi as well as National Government in their efforts to formulate policies on planning so as to assist them build holistic policies that will include all traders in the county including small and micro entrepreneurs. For the purpose of policy formulation that will create a suitable environment for the small and micro entrepreneur to increase business growth and the consequent social standard improvement.

The knowledge generated by this study will enable other researchers to improve and develop a better understanding on the subject. Further, the documented report of this study will be easily acquired in the library and it will equip the learners with more knowledge and skills area under study. The study will further make a myriad contribution to the literature on the social economic factors that affect small and medium enterprises in Kariokor market. Will be part of articles that will be useful to researchers who want to further in this study and to other wider stakeholders in academic circles.

#### **1.6. Scope and Delimitation of the Study**

This research is to establish the social economic factors that affect small and medium enterprises traders, the study will be confined to Kariokor market located in Kamukunji constituency in Nairobi County. The researcher believes that this will give enough ground to generalize the findings and provide adequate population and sample for the study and therefore give reliable results and findings. However, the study will be carried out between the month of December 2016 and February 2017. However, it is assumed this would give a reflection of what happening to Kenyan small scale enterprises. The researcher would not look at the rate of taxes and book of accounts of Kenya Revenue Authority.

#### **1.7 Limitation of the Study**

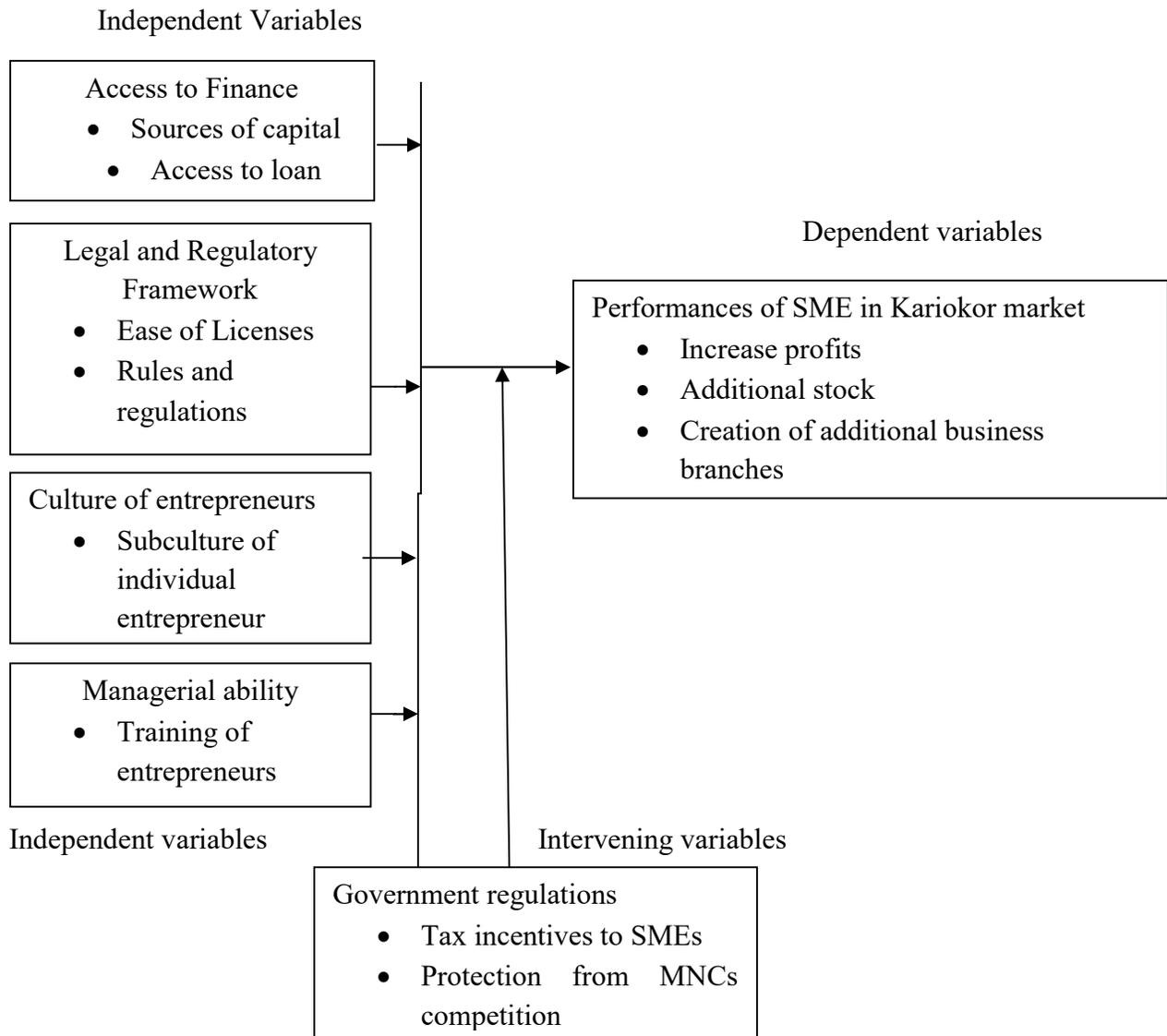
There may be from time to time when the respondents may not be co-operative in answering the questions posed to them and the researcher will have to be friendly and patient with them till they complete the questionnaire. Showing them the importance of the study and how it will improve the operations of the organization if the recommendations are adapted.

Some respondents may restrict participation in the study, whereby the respondents may not feel free enough to answer questions that are posed to them fearing victimization. The researcher will assure the SMEs owners and Managers that the findings of the research are purely academic purposes and will not be used elsewhere or for any other reasons.

## 1.8. Conceptual Framework

Figure 1.

Conceptual Framework



## **1.9. Operational Definition of Terms used in the study**

According to me the stated below are the operation definition of terms used in the study

**Annual Turnover:** It refers to the total revenue earned the whole year in running SMEs.

**Entrepreneur** : It refers to a person or individual who organizes and manages a business crafts systems in an organization for economic development.

**Collateral** : This term refers to the security for getting a loan.

**Copious** : A term that refers too many.

**Finance** : It refers to any money that is used to boost the operation of SMEs

**Investment** : Refers to saving and putting money in the start of SMEs.

**Policy** : May be defined as a procedure to an action that assumes consistency in way of doing business.

**Technology** : Can be defined as the usage and knowledge of tool, techniques in SMEs

**Small and Medium Enterprises:** these are business that employ from 100 to 500 employs

**Socio-Economic factors:** These are factors that affect performances of SMEs

## CHAPTER TWO

### LITERATURE REVIEW

The purpose of this chapter is to review relevant empirical studies selected from global, regional and national/local levels guided by the titles drawn from the research objectives in Chapter One. The chapter is presented in two sections namely the review itself and the chapter summary

#### **2.1. Review of Empirical Studies.**

##### **2.1.1. Access to Finance and Performance of SMEs**

In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital and leasing. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also limit (Allen, 2007).

Access to finance is essential for improving SME competitiveness, as traders have to invest in new technologies, skills and innovation. Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum. There are institutional issues covering a spectrum from the macro level to the micro level, which are accompanied by capacity deficiencies (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative than pointing it out as their number one obstacle: they need to mobilize joint advocacy and recommendations, based on sound analyses, through their membership organizations. Most significantly, SMEs must implement sound business practices and

continuously invest in good internal management systems: in accounting, planning, financial, operations and human resource management (Abuzayed, 2012).

In South Africa Eeden (2004) found finance as one of the most prominent constrains. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs. Insufficient financing is as much a problem as lack of finance and as a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit Margins are usually little to support growth. Harper (2004) notes that businesses like grain millers and tailors are unable to compete with large manufactures of ready-made goods because they have to wait until a customer provides them with raw material or money to buy it. Some may be unable to get started until a customer pays the deposit, which will be used to buy the raw material (David Smallbone, 2012).

Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by Daniels (2003) show how SMEs are constrained by finance. Studies undertaken by Kiiru, Mirero and Masaviro (1988) for Kenya Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (1992) established that finance will be rated among the biggest problem.

Lack of access to credit/ finance is almost universally indicated as a key problem for SMEs. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives who are not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the period of the year 2008

testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the ‘little investors,’ which allow them the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi & Mugure, 2008).

SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. These obstacles come at two levels. In least developed economies, and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing. In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral, absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary (Kinyanjui, 2006).

The obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such services: essential services they would need when they approach banks and other types of lenders.

In many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs. As a result of scarcity of finance,

small enterprises are unable to expand, modernize or meet urgent orders from customers. Capital is therefore necessary for the long-term survival and growth of small enterprises. It should also be noted that more money than required can be much of a problem as less money. More money means high cost for money in terms of interest and may also lead to un-worthwhile investments (Choochote, 2012).

Research point to finance as one of the key constraints to small enterprise growth. This is worsened by the absence of financial markets in the developing countries. Small enterprise owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. This means that they cannot access finance to enable them to grow. Ngobo (1995) makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, extra bank charges, inability to evaluate financial projects and lack of financial management skills as hindrances to small enterprise growth. Under developed financial markets impose additional constraints.

There are no financial instruments and no independent financial sources that are market driven. Lack of access to credit/ finance is affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance (Allen, 2013).

### **2.1.2. Legal and Regulatory Framework**

Despite of various interventions aimed at improving the business environment in Kenya, the legal and regulatory framework is bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. However, SMEs are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size. As a result most of informal

enterprises have failed to formalize and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises. The tax regime in Kenya is also unfavorable for SMEs development. Taxes are many, rather high and collected by various authorities including Kenya Revenue Authority and the County Government. Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high. Whereas taxation of businesses is a necessity for national economic development, the present tax regime imposes a major burden on SMEs (Abuzayed, 2012).

The regulatory or legal requirements will be summarized to include registration of the company name with the registrar of companies, acquiring a personal identification number and Value Added Tax with the Kenya Revenue Authority, Trade License with the ministry of Trade, and finally the Local authority (County Government) licenses. To start a business in Kenya is not easy although the government has tried to hasten the process. There is no one-stop in doing business and various institutions are involved including; Registrar of Companies, Ministry of Trade, Kenya Revenue Authority, National Social Security and, National Hospital Insurance Fund, Local Authorities/County Governments like Nairobi City County and National Environment Management Authority and most recently the National and Construction Authority (Kinuthia, 2010).

All these government bodies issue regulatory documents and the SMEs owners may not have the resources to acquire the documents or may even not be aware of the need to acquire some of them which leave them with constant battles with the authorities thus affecting the operations of the business. The legal requirements can be summarized to include registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number and Value Added Tax with the Kenya Revenue Authority, Trade License with the ministry of Trade, and finally the Local authority licenses. Employees are registered for Pay As You Earn with KRA with monthly deductions depending on one's salary, the National Social Security Fund (NSSF), NHIF with a monthly contributions of Kenya shillings 320 but under review. Prudent to take insurance cover for the business and employees (Allen, 2013).

The current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act 2012) provide a window of opportunity through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution of SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy (Kigguddu, 2000). Research by Harper (2004) observes that governments that are not concerned with the promotion of small enterprises should examine the impact of its policies and programmes on the small businesses. Mann et al (2004) makes a similar observation that government regulation about wages, taxation, licensing and others are among the important reasons why the informal sector business develops.

Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. SMEs are said to face a “liability of smallness.” Because of their size and resource limitations, they are unable to develop new technologies or to make vital changes in existing ones. Still, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided (Wanjohi, 2009). Policy initiatives in revitalizing the SME sub-sector should not be only government engineered, but all the stakeholders in development arena should take frontline (Gikonyo, 2010).

### **2.1.3. Cultural influence and SMEs**

Before 1800, the chief contact of sub-Saharan Africa with Europe was through the traffic in slaves for the New World. Increasing Western commercial penetration from the end of the eighteenth century and ultimate political dominance in Africa coincided with a massive Christian missionary enterprise. While there is no culture that is against or pro entrepreneurship, Western culture of capitalism and socialist culture of the East tend to impact on the entrepreneurship. Americans are capitalist while China is a communist state (Gikonyo, 2010).

Culture may be defined as all the behaviour and the related products which men and women as members of the human society acquire by means of symbolic interaction. More specifically, a culture is the organized way of life including values, norms, institutions and

artifacts that are unique to a given people and is passed on from a generation to another by learning (Abbasali & Milad, 2012). A culture that values an individual who successfully creates a new business will spawn more venture formation than one that does not. The formation of different cultural values in different societies influence the decision to create new businesses, therefore not all societies foster entrepreneurial activity and innovation (Andreu, 2014).

It may be true that no culture is totally for or against entrepreneurship, never the less a capitalistic political culture spawns more desire for personal enterprise development than a socialistic culture. The perception that starting a new company is desirable results from an individual's culture, sub- culture, family, teachers and peers. In countries where establishing a new business and making money are not highly valued and failure may be a disgrace, the business formation rate may not be high. Many sub-cultures that shape value systems operate within a cultural framework. Supportive environments lead to individuals planning for new enterprises, for example the family, the teachers, and schools offering entrepreneurship and innovation courses and peer network. Some cultural factors which are relevant in Entrepreneurship (Wennberg, 2012).

Although it is still very controversial to define culture, some authors have come up with definition of culture. Culture is defined as the set of basic values which contribute to shaping people behavior and perception in a society (Abbasali & Milad, 2012). The notion includes the pattern of feeling and acting which are learned and shared by people over a long period of time living with in the same environment. What we know is that the differences in entrepreneurial activities among countries and regions cannot be fully explained by institutional and economic variables (Krueger, 2013)

Large part has been attributed to culture which may influence entrepreneurship. For instance, a supportive culture would lead to social legitimation, making entrepreneurship career more valued and socially recognized in that culture, thus creating favorable institutional environment. Cultural norms and practices are known to shape individual's entrepreneurial behaviors. Durability depends on the individual values from his/her social and cultural environment (Krueger, 2013).

During colonialism, Kenya adopted capitalist ideology which greatly influence its business outlook. It is estimated that today, Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-farm employment seekers, has an employment growth rate of 12 to 14 percent, contributes 30 percent of total employment and 3 percent of GDP'. To its credit, Kenya, unlike most developing countries, has in official development policies recognized informal enterprise as more than a residual employer for the survival of poor households. In its Sessional Paper Number 2 of 1992, Small Enterprise and Jua Kali Development in Kenya, the government identifies the small-scale and Jua Kali enterprise sector for support to assist it to "graduate into the formal sector" and to become a major player in the creation of new jobs and economic growth (Kuratko & Hodgetts, 2008).

Strictly speaking, the term Jua Kali refers to the full range of enterprises employing between 1-49 workers in all sectors. Access to technical and managerial training, work sites, involvement of Jua Kalis in technological innovation, and creation of a positive enabling environment are key elements in the Government's Jua Kali development strategy'. The Kenyan economy has seen a rebound growing at 3% after experiencing a jolt as a result of the post-election violence of 2008 (Majeed, Makki, Saleem, & Aziz, 2013).

From a negative growth in 2001, the economy experienced a high of over 7% in 2007 before hitting the floor in 2008. Vision 2030, Kenya's development blue-print estimates a 10% growth by 2017 to support a vibrant economy towards a newly industrialized state by 2030. A major driver is the informal sector of SMEs. The legal requirements can be summarized to include registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number (PIN) and Value Added Tax (VAT) with the Kenya Revenue Authority (KRA), Trade License with the ministry of Trade, and finally the Local authority licenses. Employees are registered for Pay As You Earn (PAYE) with KRA with monthly deductions depending on one's salary, the National Social Security Fund (NSSF), NHIF with a monthly contributions of Kenya shillings 320 but under review. Prudent to take insurance cover for the business and employees (Orodho, 2005).

To start a business in Kenya is not easy although the government has tried to hasten the process. There is no one-stop in doing business and various institutions are involved namely:

Registrar of Companies, Ministry of Trade, Kenya Revenue Authority, and National Social Security Fund, local Authorities like Nairobi, Mombasa, and Kisumu, National Environment Management Authority (NEMA). Many others are involved depending on the line of business. However for foreign investors, KenInvest offers facilitation and hastens the process. Intellectual property protects applications of ideas and information that are of commercial value. It protects one's inventions and innovations. The rights stop others from piracy, counterfeiting and imitating (Muscettola, 2014).

#### **2.1.4. Managerial skills and SMEs**

The management of small and medium enterprises is one of the vital ingredients for the success of the business across the world especially in Europe and America. It calls for training in how to manage your business before it becomes profitable. The need to main effective working capital management within Small and Medium Scale Enterprises (SMEs) remain pivotal to solvency and liquidity of SMES. Most SMES do not care about their working capital position, most have only little regard for their working capital position and most do not even have standard credit policy. Many do not care about their financial position, they only run business, and they mostly focus on cash receipt and what their bank account position is (Kinuthia, 2010).

For the purpose of this study, Standard working capital ratios were used to measure the effectiveness of working capital in the selected firms. The firms selected show signs of overtrading and illiquidity, concerns were on profit maximization without taken cognizance of payment of creditors. The firms exhibit low debt recovery over credit payment. It is recommended that for SMEs to survive within Kenya economy they must design a standard credit policy and ensure good financial report and control system. They must give adequate cognizance to the management of their working capital to ensure continuity, growth and solvency (Abbasali & Milad, 2012).

The reason observed across countries varies but key contributing factor is the structure and the size of the economy and the extent of government borrowing, the degree to which SMEs lending practiced by the domestic finance. A competitive in SMEs market segment in Kenya where a large number of commercial banks targeting different market segments. Additionally in

Kenya there are lively markets for the hire purchase and voice discounting provided by the banks to SMEs which deliver to government and larger enterprise with reputable payment histories. The enabling environment in which SMEs operate in theory provide information on prospect borrowers through credit bureaus. In Kenya, the Micro, Small and Medium enterprises are variously referred. They fall under the popular informal sector called Jua Kali as they largely start in the open sun under no roof. The sector employs over 80% and is currently receiving a lot of government attention as its seen as the solution to the crippling unemployment especially for the youth. Over 65% of Kenyan population is youthful and unemployed (Berge, 2013).

It is estimated that today, Kenya's informal sector constitutes 98 percent of all businesses in the country, absorbs annually up to 50 per cent of new non-farm employment seekers, has an employment growth rate of 12-14 percent, contributes 30 percent of total employment and 3 percent of GDP'. To its credit, Kenya, unlike most developing countries, has in official development policies recognized informal enterprise as more than a residual employer for the survival of poor households. In its Sessional Paper Number 2 of 1992, Small Enterprise and Jua Kali Development in Kenya, the government identifies the small-scale and Jua Kali enterprise sector for support to assist it to "graduate into the formal sector" and to become a major player in the creation of new jobs and economic growth. Strictly speaking, the term Jua Kali refers to the full range of enterprises employing between 1 to 49 workers in all sectors. Access to technical and managerial training, work sites, involvement of Jua Kalis in technological innovation, and creation of a positive enabling environment are key elements in the Government's Jua Kali development strategy'. The Kenyan economy has seen a rebound growing at 3% after experiencing a jolt as a result of the post-election violence of 2008 (Majeed, Makki, Saleem, & Aziz, 2013).

## **2.2. Chapter Summary**

Literature review aims to maximize the accuracy of determining that there is need to thoroughly and critically select the most appropriate past activities. This literature review has set out to explore and critically analyze the concept social economic factors that affect small and medium enterprises and the challenges that come with it. It is aimed at providing a theoretical and conceptual basing from which a methodology for research is developed, an analytical framework

chosen, relevant data collected and consequent analyses carried out towards drawing conclusions on social economic factors that affects small and medium enterprises. The gap in the research posits that there is scarcity of literature touching on the factors affecting small and medium enterprises in Nairobi. Therefore, the proposed study will build on the local literature on factors that affect performance of small and medium market traders. Similar studies have focused on the challenges faced by SME traders but this study will concentrate on what affects their performance. The impact of access to finance, legal and regulatory framework, cultural factors and availability of managerial skills are yet to be researched as a single intervention in factors affecting small and medium enterprises in Kariokor Market. The scarce availability of reliable and valid data continues to be one of the key obstacles in understanding small and micro entrepreneurs in Kenya. This study will help to build on the locally scarce available data.

### **2.3. Theoretical framework.**

This section presents contingency and resource based theories in explaining the research findings.

#### **2.3.1 Contingency Theory**

According to Scott (1981) the best way to organize depends on the nature of the environment to which the organization must relate. The work of other researchers including Paul Lawrence, Jay Lorsch, and James D. Thompson complements this statement. They are more interested in the impact of contingency factors on organizational structure. Their structural contingency theory was the dominant paradigm of organizational structural theories for most of the 1970s. A major empirical test was furnished by Pennings who examined the interaction between environmental uncertainty, organization structure and various aspects of performance. This theory has been used widely in researches on measuring performance and effectiveness of an organization and it claims that there is no optimum method to systematize a firm and the organization structure of the company (Battilana, 2012).

In other words, contingency theory argues that the most appropriate structure for an organization is the one that best fits a given operating contingency, such as technology, or environment. As every company faces its own set of internal and external constraints as well as special environmental incidents that affect in distinctive levels of environmental uncertainties,

there is no one optimal organization design for every company because every company has different organizational culture and different perspective towards risk (Danese, 2013).

It can be concluded that there is ‘no one best way’ or approach in management or doing things, different situation calls for different approach to handle, manage, and solve the arising issue concerned. Management and organization is an ‘Open system’, which embrace anomalies or challenges every now and then, which requires ‘adaptable’ and ‘situational’ solution in order to overcome or solve the problem or issue concerned (Scot, 1981). The Contingency theory did not go without criticism leveled against it. For example, critiques believe that this model has little or no flexibility that means it is rigid model. Fiedler has an assumption that a natural style of a leadership is a fixed given and it is related to his personality characteristics. He thought natural leadership style would be the most effective style of leadership. But, he didn’t consider the fact that a leader can’t always apply natural leadership style in every situation (Mikes, 2013).

### **2.3.2 The Resource Based Theory**

The resource based theory was first propagated by Birger Wernerfelt in his article “A Resource Based View of the Firm” (Wernerfelt, 1984). However, the resource based view has been a common interest for management researchers and numerous writings. A resource based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney& Pandian 1992). Resource based view explains that a firm’s sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, and non - tradable ,non- substitutable, as well as firm specific (Barney, 1999).

The two wrote about the fact that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred or copied and simultaneously, add value to the firm while being rare. A criticism that has persisted is that the resource based theory is a duplication that has failed in its responsibility to fulfill the core criteria for a true theory argue the RBV does not contain the law like generalizations that must be expected. Rather, it assumes an analytic statements that are

tautological, true by definition that cannot be tested (Kraaijenbrink, 2009). However, given its simplicity to use and its direct validity, the RBV's core message is very appealing, and can easily be grasped and taught, this makes it relevant for this study. Resource based theory and contingency theory were used to enhance our knowledge and look at the importance of flexibility and organizational performance in running SMEs. Superior inter-firm flexibility are proposed to influence SME market place success.

## CHAPTER THREE

### RESEARCH DESIGN AND METHODOLOGY

This chapter covers the methodology used in conducting the study. It includes the method for data collection and analysis. Information about the research, research design, area of the study and justification, population, sample size, sample, sampling techniques, ethical issues, validity and reliability are also included.

#### 3.1. Research Design

A research design is the plan on how to answer research questions (Saunders, Lewis & Thornhill, 2007). Research designs range from exploratory studies, inferential statistics, descriptive studies, explanatory studies. The research adopted a mixed research design and will be in form of case study that will focus on social economic factors that affects small and medium enterprises in Kariokor market; Case studies are in depth investigations resorting to a complete well organized feature for the subject being studied. The study investigated a certain aspect intensively and comprehensively to get the background aspect and the current status. This idea was borrowed from (Mugenda and Mugenda, 2003) who define case study as an in-depth investigation of an individual, group, institution or phenomenon. The study is viewed as an example of a class of events or group of individuals or institution.

According to Grill and Johnson (2006), a descriptive design is concerned primarily with addressing the particular characteristics of a specific population of subjects. A cross-sectional descriptive study design will be adopted for this study and information will be collected using structured interviews and questionnaires. Both qualitative and quantitative data were collected. According to Sekeran (2008), descriptive research design is type of design used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. Orodho (2012) states that a descriptive research design is suitable where the study seeks to describe and portray characteristics of an event, situation, and a group of people, community or population. The study hence considered this design appropriate

since it facilitated gathering of reliable data describing the social economic factors that affects small and medium enterprises in Kariokor market.

### **3.2. Site Description, Study and Target Population**

Kariokor Market is situated in Kamkunji Constituency in Nairobi County, it is one of the oldest markets in Kenya which has been in existence for decades. It is a hub of manufacturing activities with Small and medium enterprises (SME) specializing in production of a wide array of footwear and other items made from a range of materials. Items produced from Kariokor are consumed locally and regionally with the main activity conducted by small and medium enterprises in the Market being leather works. Kariokor Market houses over 200 stalls and hundreds of small and medium enterprises engaged in a wide variety of production of footwear and other leather items from a wide range of materials including leather, fabric, and canvas among others.

Borg and Grall (2009) described target population as a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. According to Mugenda & Mugenda, (2003) defined target population as a complete set of individuals, case or objects with the same common observable characteristics. Due to the very nature of the specific skills and experience required for this type of research, this study utilized purposive targeting by engaging individuals with management expertise from the various strata's. The target population age between 18-50 years of this study comprised of the merchants of Kariokor market as shown in the table below

**Table 1: Study Target Population**

Category	Target Population	Percentage
Clothes Shops	300	28
Pharmacies	280	28
Restaurants	104	28
Butcheries	229	28
Retail shops	52	28
Total	965	28%

### **3.3. Sample and Sampling Techniques**

Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population. It is a subset of sampling units from a population. A subset is any combination of sampling units that does not include the entire set of sampling units that has been defined as a population. Target population is the specific group relevant to a particular study. It is the totality of cases that conform to certain specifications which defines the elements that are included or excluded from the target group, which in my study are merchants of Kariokor market (Mugenda, 2003).

The target groups for this study were SME's in various categories from clothes shops, pharmacies, restaurants, butcheries, retail shops (kiosks) were given the questionnaires. Since this about 20 percent of the entire merchants of Kariokor market it represented a reasonable size where conclusion can be deduced. The study used employee simple random method, in particular maximum variation sampling (heterogeneous sampling) which has exhibited a wide range of attributes, behaviors, experiences, incidents, qualities, situations, and so forth. The basic principle behind maximum variation sampling is to gain greater insights into a phenomenon by looking at it from all angles (Mugenda, 2003).

### 3.3.1 Sample Size

According to Mugenda and Mugenda (2003), a sample of 10-30% is good enough if well-chosen and the elements in the sample are more than 30. Mugenda and Mugenda (2003) further explains a simplified formula for calculating sample size of a population that is less than 10,000 as below:

$$nf = n/1 + n/N$$

Where:

$nf$  = the desired sample size when the population is less than 10,000

$n$  = the desired sample when the population is more than 10,000

$N$  = the estimate of the population size

Therefore:

$$nf = 384/1 + 384/965 = 274$$

From the calculation of table 3.1. We derived this number shown.

**Table 2. Sample Size**

Category	Target Population	Percentage	Sample
Clothes Shops	300	28	84
Pharmacies	280	28	79
Restaurants	104	28	29
Butcheries	229	28	67
Retail shops	52	28	27
Total	965	28%	274

### 3.4. Methods and Instruments of Data Collection

Research instrument are measurement device for instance, survey, test, questionnaire. This research used questionnaires as main research instrument.

### **3.4.1. Questionnaires**

The Questionnaires were used in soliciting answers from the respondents through interviews as well as sending questionnaires to the participants to fill them at their own time and send them back. There were lists of standard questions prepared to fit a certain inquiry. The questionnaires contained both closed ended questions so as to facilitate structured responses for the rating of various attributes whilst open ended questions which will help to provide additional respondents information. According to Arodho (2015) questionnaires measures likelihood of straight, even and blunt answers. This can be superior to an interview because social communion operates strongly in a face of situation that may prevent the person from expressing what he feels to be socially or professionally unacceptable views. The Likert-type format was used because according to Kiess and Bloomquist (2009), this format yields equal-interval data, a fact that allows for the use of more powerful statistical statistics to test research variables. Questionnaires are preferred since according to Kothari (2004) the information obtained from questionnaires was free from bias and researchers influence and thus accurate and valid data was gathered.

### **3.4.1 Research/ Data collection Procedures**

Primary data presented the actual information that was obtained for the purpose of the research study. Primary data was gathered through the use of questioning method in form of a semi structured questionnaire. The questionnaires were self-administered via email and hand delivery to a total of 200 respondents with the respondents having the option of emailing back the completed questionnaire or having it picked by the researcher for data analysis.

Secondary data was collected from documented sources such as books, journals, published and unpublished research works and internet literature. For the main purpose of this research, the study collected primary data but relied on the secondary data for the literature review.

### **3.5. Reliability and Validity**

#### **3.5.1. Validity**

The study used both face and content validity to ascertain the validity of the questionnaires. Content validity draws an inference from test scores to a large domain of items similar to those on the test. Content validity is concerned with sample-population representativeness. Gillham (2008) stated that the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

#### **3.5.2. Reliability**

In order to address the factors that affect reliability of the data, the researcher reduced random error by accurate coding, unambiguity of instructions to the interviewees as well as reduction of interviewee's bias. To test the reliability of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A reliability co-efficient of  $\alpha \geq 0.7$  was considered adequate. In this case, a reliability co-efficient of 0.805 was registered indicating a high level of internal consistency for the Likert scale.

##### **3.5.2.1 Factor analysis**

Factors analysis is an statistical method employed in identifying variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors (Williams, 2010). Tabachnick and Fidell recommended that inspecting the correlation matrix for correlation coefficient over 0.30. Hair (1995) categorized these using another rule as  $\pm 0.30$  is equal minimal,  $\pm 0.40$  is equal to important and  $\pm 0.50$  is practically important. If no correlation go beyond 0.30 then the researcher should reconsider whether factor analysis should be used. It is to be observed that factorability of 0.30 indicates that the factors account for 30% relationship within the data. Or it would indicate that a third variables have too much variance and hence becomes impractical. We are going to use factor analysis in measuring effects of finance, cultural aspects, and managerial skills as well rules and regulations that affect small and medium enterprises.

### 3.6. Data Analysis Procedures

#### 3.6.1 Qualitative Data

Qualitative data was analyzed using descriptive statistics, means, frequency and standard deviation. The questionnaire was checked for completion. Mugenda and Mugenda (2003) further noted for applied policy research where the objectives of the investigation are predefined, and a specific outcome or recommendations are expected. They further noted that data collected from the field work is difficult to be interpreted unless it is cleaned, coded and analyzed. Finally, these entries will be used to define concepts, map the range and nature of phenomena, create typologies and find associations between themes with a view to providing explanations for the findings (Orodho, 2012). The open-ended questions of the questionnaire were analyzed in the same way. In addition, the frequencies of statements relating to certain topics were counted. The topics was then ranked accordingly. The ranking was used as an indicator for importance of the topic and for detection of gender-specific differences.

#### 3.6.2. Quantitative Data

The quantitative questionnaire data was analyzed using inferential statistics with the aid of (statistical packages for social sciences) SPSS version 20.1. Based on the findings of the descriptive analysis further analysis was used to give the outcome; we discussed the findings and conclusion drawn. The data was analyzed using simple inferential statistics such as percentages, means, modes, standard deviation and frequencies. The study used multivariate regression analysis to establish relationship between the independent variables and the dependent variables by the use of the following regression.

Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Y = Business performances (Dependent Variables)

X<sub>1</sub> to X<sub>4</sub> = Independent variables

X<sub>1</sub> Access to finance

X<sub>2</sub> = Legal and Regulatory framework

$X_3$  = Cultural determinants

$X_4$  = Managerial ability

$\beta_0$  = Coefficient of model

$\beta_1$  to  $\beta_4$  = Beta Coefficient of determination

$\epsilon$  = Stochastic error term

### **3.7. Ethical Considerations of the Study**

The researcher first of all ensured there was letter of authorization from the Catholic University of Eastern Africa authorizing researcher to go ahead and collect research data, then additional authorization letter from government of Kenya is required. The researcher was guided by the following ethics during the period of the study; Honesty- the research strived for honesty in all communications. Honestly report data, results, methods and procedures, and publication status. Objectivity- the researcher strived to avoid bias in experimental design, data analysis, data interpretation, peer review, personnel decisions, grant writing, expert testimony, and other aspects of research where objectivity is expected or required. Integrity- the researcher kept promises and agreements; act with sincerity; strive for consistency of thought and action.

## CHAPTER FOUR

### DATA PRESENTATION AND INTERPRETATION OF FINDINGS

This chapter presents the findings of the study, which was to determine factors affecting small and medium enterprises in Kariokor Market in Kamukunji, Nairobi County. The chapter has been sectioned into; response rate, respondent's demographic information and the factors affecting small and medium enterprises with reference to Kariokor Market.

#### 4.1: Presentation of Research Findings

The researcher distributed questionnaires to 200 respondents and a response rate of 73% was achieved which was favorable for the study. According to Mugenda and Mugenda (2003) for generalization purposes a response rate of 50% is adequate, while that of 60% is good but a response rate of 70% as excellent. The response rate of over 73% for this study was therefore excellent and acceptable. As shown in table 4.1 below. The results are based on a response rate of 73% (n=200).

##### 4.1.1 Response Rate

**Table 3 : Response Rate**

Category	Frequency	Percentage
Responded	200	73
Did not respond/ Incomplete questionnaires	74	27
<b>TOTAL</b>	<b>274</b>	<b>100</b>

#### 4.1.2 Demographic Information of the Respondents

**Table 4 : Gender of the Respondents**

Category	Frequency	Percentage
Male	82	35
Female	118	65
<b>TOTAL</b>	<b>200</b>	<b>100</b>

The gender characteristics of respondents operating small and medium enterprises in Kariokor Market is dominated by females 65 % against males who are 35%. The gender representation of the respondents indicates that, views on factors affecting small and medium enterprises in Kariokor Market were represented by all gender, and no single opinion can be attributed to a particular gender.

#### 4.1.3. Age of Respondents

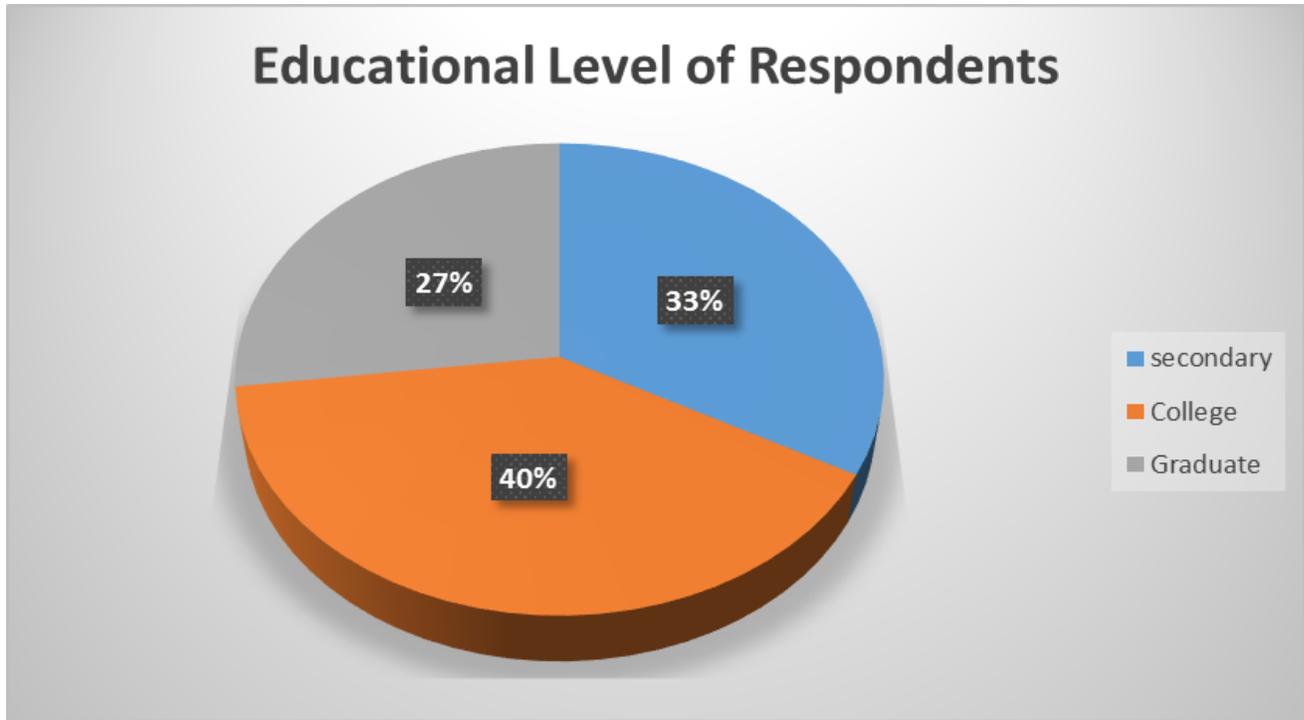
**Table 5. : Age Groups of the Respondents**

Category	N	Percentage
18-28 Years	48	24%
29-39 Years	86	43%
40-50 Years	68	34%
<b>TOTAL</b>	<b>200</b>	<b>100</b>

Majority of the respondents operating SMEs in Kariokor Market are dominated by age group 29 to 39 years who constitute 43%, followed by 40 to 50 years at 34% and 18 to 29 years who constituted 24% as tabulated in table 4.3 above.

**Figure 2**

**Educational Level of respondents**



The result indicated that the majority of the respondents had college degrees of education at 40%, respondents who had secondary education were 33% while 27% had graduate degree as tabulated in figure 2. The results show that education play a role in the success of the enterprises as percentages have indicated. The highest of the group with 40% have gone to college.

**Table 6:**  
**Kind of business the Respondents Run**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Clothing shop	70	35
Pharmacy	18	9
Restaurants	38	19
Butchery	26	13
Retail shops(kiosks)	50	25
<b>TOTAL</b>	<b>200</b>	<b>100</b>

As indicated in the results respondents were asked to indicate type of business they run; 35% indicated Clothing shops, 25% indicated retail shops, 19% indicated restaurants, 13% indicated butchery and 9% indicated pharmacy as shown in table 4.5 above. Most of the respondents according to this percentage run clothing shops, according to respondents selling clothes bring in quick money allowing them to continue with business. The clothing shop is followed by retail shops at 25%, according to respondents, retail shops bring much profits and that is the reason for their choice. Restaurants at 19% follow, then followed by butchery at 13 % and at the bottom with least number is pharmacy at 9%.

**Table 7**  
**Respondents duration in business**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
1 m to 11 months	8	4
1 year-4 years	40	20
5 years-10 years	96	48
11 years-20 years	58	29
<b>TOTAL</b>	<b>200</b>	<b>100</b>

As indicated in the results respondents were asked to indicate how long they have been in business majority of SMEs owners 48% have been in business between 5-10 years, followed 29% indicated 11-20 years, 1-4 years were 20% while 4% have been in business in less than a year as tabulated in table 4.6 above.

### 4.1.3 Access to Finance

**Table 8:**

Access to finance.

	<b>Strongly agree</b>		<b>Agree</b>		<b>Neutral</b>		<b>Disagree</b>		<b>Strongly disagree</b>	
Ease of access becomes considerably more important in the context of getting loans.	(106)	53%	(46)	23%	(10)	5%	(26)	13%	(18)	9%
Restriction of finance regarding SMEs.	(46)	23%	(114)	57%	(12)	6%	(26)	13%	(16)	9%
Provision of loans by relatives and friends incase business capital.	(26)	13%	(46)	23%	(24)	12%	(76)	38%	(32)	16%
Provision of grants by government to SMEs.	(76)	38%	(46)	23%	(12)	6%	(32)	16%	(18)	9%

Respondents were asked several questions on access to finance as factor affecting small and medium enterprises and the response were as follows on ease of access becomes considerably more important in the context of getting loans 53% strongly agreed, 23% agreed, 5% were neutral and 13% disagreed while 9% strongly disagreed; second question was if respondents gets Restriction of finance regarding SMEs 23% strongly agreed, 57 % agreed, 6% were neutral and 13% disagreed while 9% strongly disagreed; third question asked was if provision of loans by relatives and friends incase business capital 13% strongly agreed, 23 % agreed, 12% were neutral and 38% disagreed while 16% strongly disagreed and lastly was if provision of grants by government to SMEs 13% strongly agreed, 23% agreed, 6% were neutral and 16% disagreed while 9% as shown in table 4.6 above. The study findings are in agreement with other studies done across Africa, Ngobo (1995), Kibera and Kiberam (1997) and Chijoriga and Cassiman, (1997) point to finance as one of the key constraints to small enterprise growth. SMEs owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges.

**Table 9**  
**Respondents sources of business capital**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Bank loan	8	4
Family and Friends	40	20
Personal Savings and Chamaa	96	48
Women and Youth Fund	58	29
<b>TOTAL</b>	<b>200</b>	<b>100</b>

As shown in table 4.7 respondents were asked to indicated sources of business capital, Majority 48% indicated personal savings and chamaa, 29% indicated women and youth fund while 20% indicated family and friends and finally 4% indicated bank loan.

Respondents were asked the process of getting a loan from the bank. The study revealed that the SMEs were not comfortable with the interest rate and felt that this was the main financial impediment for business growth with 96% of the respondents indicating that financial information and time consuming loan enforcement mechanism affected business growth, another parameter that affected operations of business was the lack of collateral for loans, respondents also felt that the transaction costs for loans was very high. SMEs owners prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements.

Respondents were asked if government provide sources of cheaper capital to start up business they all indicated no. The study concludes that the stringent requirements to access finances are the main reason why most SMEs cannot access finances. This is in line with a study conducted by the Financial Sector Deepening Kenya (FSD, 2008) , which showed that SMEs face numerous hurdles in accessing finance, denying them an important growth line at best or accessing it at a very high cost. The study alludes that access to finance is being constrained by exacting legal requirements by banks and other finance institutions, lack of a standardized and shared information registry and expensive and time consuming enforcement mechanisms.

#### 4.1.4 Legal and Regulatory Framework

**Table 10**

Legal and regulatory framework as factor affecting small and medium enterprises

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Ability and ease of access to license to operate SMEs.	(76) 38%	(46) 23%	(12) 6%	(32) 16%	(18) 9%
Provision of tax holidays or exemptions by the government.	(26) 13%	(46) 23%	(24) 12%	(76) 38%	(32) 16%
Protection of SMEs from external competition and from Multinational companies.	(106) 53%	(46) 23%	(10) 5%	(26) 13%	(18) 9%
Affordability of license to operate SMEs in Nairobi.	(46) 23%	(114) 57%	(12) 6%	(26) 13%	(18) 9%

Respondents were asked several questions on legal and regulatory framework as factor affecting small and medium enterprises and the response were as follows on the ability and ease of access to license to operate SMEs 38% strongly agreed, 23% agreed, 6% were neutral while 16% disagreed and 9% strongly disagreed; second question was if the provision of tax holidays or exemptions by the government 18% strongly agreed, 46 % agreed, 7% were neutral and 13% disagreed while 9% strongly disagreed; third question asked was if protection of SMEs from external competition and from multinational companies 53% strongly agreed, 23 % agreed, 5% were neutral and 13% disagreed while 9% strongly disagreed; the fourth question was affordability of license to operate SMEs in Nairobi 23% strongly agreed, 57% agreed, 6% were neutral and 13% disagreed while 9% strongly disagreed as shown in table 4.8 above. The findings are in agreement with a study conducted by Wanjohi (2009). Unfavorable regulatory environment does not only scare away potential investors but also squeeze revenues for those in operation. These calls for County and National government to create conducive legal and regulatory business environment that will facilitate the growth and development of SMEs.

Respondents were asked to indicate how long it takes to get a license for operation majority indicated 1 to 3 months before obtaining the original permit, Other than license

respondents were asked if there are any other requirements needed to start up a business they outline the following: a trading license, a fire clearance certificate, an advertising signage license, health certificate, and a food hygiene license.

#### 4.1.5 Cultural Factors

**Table 11**

**Cultural factors.**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Learning business skills from parents and family members which contributed to your business success.	(130) 65%	(62) 31%	(8) 4%	(0) 0%	(0) 0%
Punishment by parents during childhood for failing to be successful in some activities	(18) 9%	(30) 15%	(6) 3%	(26) 13%	(100) 50%
Personal desire to be independent since childhood and its influence on your business success.	(142) 71%	(46) 23%	(12) 6%	(0) 0%	(0) 0%
Hard work and internal focus of control and its contribution to the success of your business	(130) 65%	(62) 31%	(8) 4%	(0) 0%	(0) 0%
Peer group generates very strong influences on young people's behavior in relation to success in business	(26) 13%	(46) 23%	(24) 12%	(76) 38%	(32) 16%

Respondents were asked several questions on cultural factors as factor affecting small and medium enterprises and the response were as follows on learning business skills from parents and family members which contributed to your business success 65% strongly agreed, 31% agreed, 4% were neutral and none disagreed or strongly disagreed; second question was if punishment by parents during childhood for failing to be successful in some activities 9% strongly agreed, 15% agreed, 3% were neutral and none disagreed or strongly disagreed; third question asked was if personal desire to be independent since childhood and its influence on your business success 71% strongly agreed, 23% agreed, 6% were neutral and none disagreed or strongly disagreed; the fourth question was if hard work and internal focus of control and its contribution to the success of your business 65% strongly agreed, 31% agreed, 4% were neutral and none disagreed or

strongly disagreed and final question was if peer group generates very strong influences on young people's behavior in relation to success in business 13% strongly agreed, 23% agreed, 12% were neutral and 38% disagreed while 16% strongly disagreed as shown in table 4.9 above.

Respondents were asked if family upbringing played any roles in their business acumen, 42 % indicated their acquired business training through seminars and workshops organized by microfinance institutions and commercial banks while 58% indicated through formal training in colleges and university , then explain if no the explain how you acquired business skill. 32% indicated that their parents operate similar business. The findings concur with Nasser (2003) and Rwigema and Venter (2004) cultures that emphasize achievement and social recognition for all forms of entrepreneurial success are more conducive to entrepreneurship. Communities with low entrepreneurial culture may discourage entrepreneurs, who fear social pressure and being ostracized

#### 4.1.6 Managerial Skills

**Table 12**

**Managerial skills**

		<b>Strongly agree</b>		<b>Agree</b>		<b>Neutral</b>		<b>Disagree</b>		<b>Strongly disagree</b>	
Having studied entrepreneurship in high school, college and university and its contribution to business startup.	(106)	53%	(46)	23%	(10)	5%	(26)	13%	(18)	9%	
Ease of access to managerial skills from government institutions	(26)	13%	(46)	23%	(24)	12 %	(76)	38%	(32)	16%	
Use of the skills learnt during training in running your business and contributes to its success.	(130)	65%	(62)	31%	(8)	4%	(0)	0%	(0)	0%	

Respondents were asked several questions on managerial skills as factor affecting small and medium enterprises and the response were as follows on having studied entrepreneurship in high school, college and university and its contribution to business startup 53% strongly agreed, 23% agreed, 5% were neutral and 13% disagreed while 9% strongly disagreed; second question was if the ease of access to managerial skills from government institutions 13% strongly agreed, 23 % agreed, 12% were neutral and 38% disagreed while 16% strongly disagreed; third question asked was if the use of the skills learnt during training in running your business and contributes to its success 65% strongly agreed, 31 % agreed, 4% were neutral and none disagreed or strongly disagreed as shown in table 4.10 above. The findings are in line with findings by Thapa (2007) who indicates that there is a positive association between education and small business success. The likelihood of failure was also found to be associated with the owner/manager’s work experience prior to business launch and education. Human capital is the most critical agent of SME performance. Research by King and McGrath (2002) indicates that education and skills are needed to run micro and small enterprises. They further suggest that those with more education and training are more likely to be successful in the SME sector.

The result indicated that the majority of the respondents had secondary level of education at 33%, respondents who had college education were 40 % while 28% had graduate degree. 42 % indicated their acquired business training through seminars and workshops organized by microfinance institutions and commercial banks while 58% indicated through formal training in collages and university. Finally responded agreed that education plays an important role in managing business. Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Studies suggest that those with more education and training are more likely to be successful in the SME sector.

#### 4.1.7 Regression Analysis

The researcher conducted a moderated regression analysis to explain the age of respondece conducting business at Kariokor Market. The scores to be regressed were computed through factor analysis (data reduction) and then saved as variables. Regression analysis was conducted using Statistical Package for Social Sciences (SPSS).

**Table 13**

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.589 <sup>a</sup>	.338	.323	3.05918E5

a. Predictors: (Constant), duration in business, educational level, Gender, Age of respondents, types of business

In a model summary above, the “R” value is used to indicate the strength and direction of the relationship between the variables. When the value of the test gets closer to 1 the stronger the relationship. As shown in Table 12, R= 0.589. This shows there was an overall strong and positive relationship between the variables. The R-Square in the study was found to be 0.323. This value indicates that the independent variables (Access to legal and regulatory framework,

Access to Finance, Availability of Management Experience and Cultural aspects) this explains the 32.3% of the variance in the performance of businesses at Kariokor Market.

**Table 14**

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.695E11	4	1.174E11	1.449	.222 <sup>a</sup>
	Residual	1.013E13	125	8.101E10		
	Total	1.060E13	129			

a. Predictors: (Constant), Managerial skills, Legal and regulatory framework, Cultural aspect, Financial aspect

b. Dependent Variable: Business Performance

As tabled in The ANOVA in table 13 above. It describes the variance accounting for the model. The statistical F tests whether the expected values of the regression coefficients are equal to each other and that they equal zero. A large value of F of 1.449 and a small significance level ( $P < .000$ ) two tailed, posits that the four predictor variables are not equal to each other and can be used to predict the dependent variable performance of businesses.

### **Analysis of Coefficients of Determinants**

The Unstandardized Coefficients of determination under the B column in Table 15 (model 2) were used to substitute the unknown beta values of the regression model. The beta values indicated the direction of the relationship. A positive or negative sign indicates the nature of the relationship. The significant values (p-value) under sig. column indicate the statistical significance of the relationship or the probability of the model giving a wrong prediction. A p-value of less than 0.05 is recommended as it signifies a high degree of confidence

**Table 15.**  
**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0.500	0.782		2.155	.033	4.881	24.120
	Financial aspect	0.579	0.412	.110	1.213	.227	-3.581	62.738
	Legal and regulatory framework	0.797	0.023	-.189	-2.124	.036	-14.435	-75.160
	Cultural aspect	0.188	0.603	.029	.326	.745	8.293	78.669
	Managerial skills	0.248	0.524	-.044	-.499	.619	-3.819	91.324

a. Dependent Variable: Business Performance

At 95% confidence interval, a significant value (p-value) of 0.001 and F-value of 1.499 was registered as shown in Table 14. This shows that the regression model has a probability of less than 0.001 of giving the wrong prediction. Hence, the regression model used above is a suitable prediction model for explaining the factors influencing the performance of businesses in Kariokor Market.

The equation for the regression model is expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

$$Y = 0.5 + 0.782X_1 + 2.15X_2 + 0.33X_3 + 4.881X_4 + 24.12X_5$$

Where; Y = SMEs performance (Dependent Variable)

X1 – X4 – Independent Variables X5 – Moderating Variable

X1 = Business Information Services

X2 = Access to Finance

X3 = Availability of Management Experience

X4 = Access to Infrastructure

X5 = Government Policy and Regulations  $\beta_0$  = Co-efficient of the model  $\beta_1 - \beta_5$  = Beta Co-efficient of Determination  $\epsilon$  = Stochastic Error Term

## 4.2. Chapter Summary

The researcher distributed questionnaires to 274 respondents and a response rate of 73% was achieved which was favorable for the study. In all the distributed questionnaires, the total of 200 fully filled were returned. Of all the respondents, 82 were males and 118 were females. The gender characteristics of respondents operating small and medium enterprises in Kariokor Market is dominated by females 65 %. It should be understood that majority of the respondents operating SMEs in Kariokor Market are dominated by age group 29 to 39 years who constitute 43% meaning more youth are taking up the challenge of entrepreneurship and are excelling in running their own businesses. The result also indicated that the majority of the respondents had secondary level of education at 33 %, respondents who had college education were 40 % while 28% had graduate degree.

Majority interviewed 48% indicated personal savings and chamaa, 29% indicated women and youth fund while 20% indicated family and friends and finally 4% indicated bank loan. Respondents were asked to indicate how long it takes to get a license for operation majority indicated 1 to 3 months before obtaining the original permit, Other than license respondents were ask if there any other requirements needed to start up a business they outline the following a trading license, a fire clearance certificate, an advertising signage license, health certificate, and a food hygiene license. Responders also indicated that Communities with low entrepreneurial culture may discourage entrepreneurs, who fear social pressure and being ostracized. Finally responded agreed that education plays an important role in managing business. Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of

education and skills. Studies suggest that those with more education and training are more likely to be successful in the SME sector.

## **CHAPTER FIVE:**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter provides a summary of the study, discussions and conclusions drawn from the study conducted. The researcher then presents the major limitations of the study and the recommendations for both the research and for the policy change and practice.

#### **Summary**

The study sought to establish the factors affecting the performance of micro and small enterprises in Kariokor Market in Nairobi County. A total of 274 questionnaires were administered and the study managed to obtain 200 completed questionnaires representing 73% response rate. The questionnaires contained questions that addressed the objectives of the study.

#### **5.1. Access to Finance**

After analysis, the study has established that access to finance is a very important ingredient in starting and sustaining success of the business. Most of the people interviewed had excess to capital through personal savings and chamaas. A frequent excess to capital exposes businesses in Kariokor Market to better opportunities to a great extent while it also leads to improved business performance. The study also found out that access to capital for businesses is very challenging to a great extent, not all the relatives are willing to loan them out. Overall, access to finance affects the performance of business and this exposes them to the dangers of closing down businesses. SMEs owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges.

## **5.2 Legal and Regulatory Framework**

The study established that the business owners faced steep legal and regulatory framework measures in running their businesses. Only those who complied with the law are allowed to operate businesses. The entrepreneurs also said they face a lot of competition from Multinational companies who have more resources and the clout to continue operating. Respondents said obtaining licenses takes at least one to three months to get original permit, Other than license respondents are facing an additional trading license, a fire clearance certificate, an advertising signage license, health certificate, and a food hygiene license among others.

## **5.3. Cultural factors**

According to the study, most of the responders have agreed that culture is one of the factors that led to their success, with many expressing that their family upbringing and the recognition by the community contributed to their success. Cultures that emphasize achievement and social recognition for all forms of entrepreneurial success are more conducive to entrepreneurship. Communities with low entrepreneurial culture may discourage entrepreneurs, who fear social pressure and being ostracized.

## **5.4. Managerial Skills**

The study found out that majority of the respondents are educated and have done at least secondary education and above. The majority have college diploma and others are have Bachelor degrees citing education as one of the factors that has helped them in running their businesses. The study further found out that availability of managerial skills and experience affects businesses in Kariokor Market to a great extent while the respondents felt that training on managerial skills are required in the businesses to a great extent. Further, the respondents reported that they do not get trainings on business management skills frequently. Overall, availability of managerial experience affected business performance only to a moderate extent.

## **Conclusion**

The objective of the study was to establish the socioeconomic factors affecting the performance of micro and small enterprises in Kariokor Market in Nairobi County. The study found that access to finance affect success of enterprises at Kariokor market, with most of the entrepreneurs saying their businesses are dependent on capital which they get from their saving with some respondents saying their relatives help them in raising capital. Legal regulation is another factor affecting business given that there are a lot of regulations along the way before business see the light of the day. Cultural factors play a role in one success in the enterprises with respondents saying their upbringing play important role in their success in business. The study concludes that access to finance, laws and regulation and availability of management experience are the key socio-economic factors affecting the performance of businesses in Kariokor Market. These three have the potential of leading to improved business performance. The other key factor that was found to affect performance of micro and small enterprises in Kariokor Market positively is cultural factors that favor business acumen.

## **Recommendation**

- **Access to Finance**

The study found out that most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. The study therefore recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing.

- **Laws and Regulatory Framework**

The study recommends that both National and County governments of Kenya should lessen the time taken to obtain license by reducing bureaucracy and illuminating some hurdles along the way. In comparison to Kenya, business environment, the process of obtaining business takes only five working days in Rwanda to get a license to operate a business while it takes only two weeks in Tanzania. The government of Kenya should also protect small and medium

enterprises from big business who tend to disadvantage smaller businesses that are coming up. The laws favoring start up and growth of SMEs should be formulated.

- **Cultural factors**

While there is no culture that is against or pro entrepreneurship. The study recommends that parents encourage their children to be independent at the younger age to avoid dependency syndrome. A child taught to be always independent would lean toward starting up their own businesses. The communities should continue encouraging those trying to be independent and celebrate those running their own businesses. Any behavior that encourages laziness should be abandoned.

- **Availability of Managerial Skills**

The government should start offering basic business and financial management skills as this will enable the Kariokor market SMEs to make informed investment decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities. Parents should also offer training to kids that have shown interest in businesses.

### **Areas for Further Research Study**

This study was concerned with socio economic factors that affect small and medium enterprises in Kariokor market in Nairobi County. It did not cover the whole county, therefore a further a research is needed covering all the markets in the county to find out whether the same factors are affecting other traders and research that covers medium and large farms. Researchers are encouraged to research on them. In future, other SMEs in other towns should be involved to enable the researcher to make adequate conclusions. This research didn't concern itself with the challenges and possible solutions hindering SMEs from accessing financing by credit giving institutions. In future, researchers should strive to establish the challenges and the possible solutions. A comparison should be done between the financial performance of SMEs that have received microcredit and the ones that have not received the financing. This will help in shedding light on whether accessing microcredit helps the SMEs to perform better than other business.

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**APPENDIX I**  
**PROPOSED RESEARCH BUDGET**

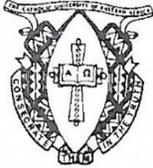
Activity	Inputs	Unit	Cost (Kshs)	Total
<b>Preparation</b>				
	• 4 reams of printing paper	4	500	2,000.00
	• Printing services	1	2,500	2,500.00
	Sub-total 1			4,500
<b>Piloting</b>	• Printing,	50	20	1,000.00
	• Photocopying	25	2	500.00
	• Transport and Communication	2,000	1	2,000.00
	Sub-total 2			3,500.00
<b>Actual research organization and data collection and analysis and binding</b>	<b>Computer stationery</b>			
	- 2 reams of printing paper	2	500	1,000.00
	- Printing services	80	20	1,600.00
	- Traveling to gather information			2,000.00
	- Research assistance			5,000.00
	- Others expenses unforeseen			3,000.00
	Sub-total 3			12,600.00
<b>GRAND BUDGET TOTAL</b>				<b>20,600.00</b>

**APPENDIX II**

**PROJECTED WORK PLAN**

ACTIVITY TO BE UNDERTAKEN	Dec 2016	Feb-April 2017	May-July 2017
Write and submit the draft thesis to the supervisor for reading and corrections	█	█	
Defense of the thesis before the panel		█	
Questionnaire pretested and the necessary corrections made to the research instrument		█	
Field work-collection of data		█	
Data analyzed and interpreted Presentation of the final report to the supervisor		█	█
Final Defense		█	█

APPENDIX III



**THE CATHOLIC UNIVERSITY OF EASTERN AFRICA**

**A. M. E. C. E. A**

**Faculty of Arts & Social Sciences  
Department of Social Sciences &  
Development Studies**

**P.O. Box 62157  
Nairobi - KENYA  
Telephone: 891601-6  
Fax: 254-20-891084  
E-mail: admin@cuea.edu**

Our Ref: CUEA/ACA/DDS/ 16/2

18<sup>TH</sup> April 2017

**TO WHOM IT MAY CONCERN**

Dear Sir/Madam,

**RE: REQUEST TO ASSIST MASTERS STUDENT ON RESEARCH –  
PETER MABIOR RIINY ADM NO. MPM/1028918**

I wish to introduce to you and confirm that the above named is a student of Master of Arts in Development Studies in this institution. He is authorized by the university, through the Department of Social Sciences and Development Studies, to undertake his research in the sector of SMALL AND MEDIUM ENTERPRISES.

Mabior's study location will be in KAMUKUNJI NAIROBI COUNTY where he intends to carry out his study titled: "SOCIAL ECONOMIC FACTORS THAT AFFECT SMALL AND MEDIUM ENTERPRISES IN KARIOKOR MARKET, KAMUKUNJI CONSTITUENCY, NAIROBI COUNTY, KENYA".

The student requests your assistance to either access information or facilitate contacts in the field to supply him with the relevant data during his research.

I wish to assure you that this study is purely for academic purposes in the university thereafter, it being part of the mandatory requirements for acquiring the masters' degree.



Please avail to him any assistance he may need in this regard  
I will be quite happy to respond to you immediately.  
Thank you in advance.

Sincerely yours,



Michael T. Okuku  
for **Head of Department,**  
**Social Sciences & Development Studies**  
Cell: 0722 551 382 email: [maikol@cuea.edu](mailto:maikol@cuea.edu)



cc **Dr. Simon Njuguna**

1<sup>st</sup> Supervisor

**Mr. Daniel Ogachi**

2<sup>nd</sup> Supervisor

**Prof. Alloyce Ayacko,**

Director

Research, Innovation and Graduate Training - CUEA

**The Chief Executive**

National Council for Science, Technology and Innovation (NACOSTI)  
UTALII HOUSE, NAIROBI

**THIS IS TO CERTIFY THAT:**

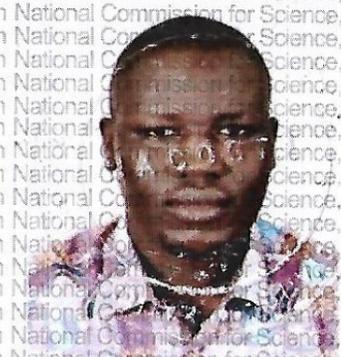
**Permit No : NACOSTI/P/17/81271/16866**

**MR. PETER MABIOR RIINY  
of CATHOLIC UNIVERSITY OF EASTERN  
AFRICA, 0-200 Nairobi, has been  
permitted to conduct research in  
Nairobi County**

**Date Of Issue : 28th April,2017  
Fee Received :Ksh 2000**

**on the topic: SOCIO-ECONOMIC  
FACTORS THAT AFFECT SMALL AND  
MEDIUM ENTERPRISES IN KARIOKOR  
MARKET, NAIROBI COUNTY, KENYA.**

**for the period ending:  
28th April,2018**



**Applicant's  
Signature**

**Director General  
National Commission for Science,  
Technology & Innovation**

**APPENDIX IV:**  
**QUESTIONNAIRE**

My name is Peter Mabior Riiny, a student of Catholic University of Eastern Africa researching on factors affecting small and medium enterprises in Kariokor Market. I would like to ask you some questions. This questionnaire will last approximately 30 minutes. All the information provided will be kept strictly confidential and will only be used for the purpose of this study. Your participation will be highly appreciated.

**Instructions**

**Tick the appropriate response. Where the question is opened, write in the space provided**

1. Gender? (Tick one) Male ( ) Female ( )

2. What is your age group?

(i) 18-28Years ( ) ii) 29-39 years ( ) iii) 40-50 years ( )

3. What is your highest level of education? (Tick one)

(i) Secondary ( ) (ii) College ( ) (iii) Graduate ( )

4. What type of business do you run? Tick any

i) Cloth shop ( ) ii) Pharmacies ( ) iii) Restaurants ( ) iv) Butcheries ( ) v) Retail shops ( )

5. How long have you been in business?

i) 1 to 11 months ( ) ii) 1-4 years ( ) iii) 5-10 years ( ) iv) 11-20 years ( )

**PART B: MAIN ISSUES OF THE STUDY**

Please indicate your overall evaluation of all part B sections that applies to your organization by placing a check mark X in the relevant box below using the following scale;

5. Strongly Agree (SA)      4. Agree (A)      3. Neutral (N)  
 2. Disagree (D)      1. Strongly Disagree (SD)

Access to Finance	SA	A	N	D	SD
1. Ease of access becomes considerably more important in the context of getting loans					
2. Restriction of finance regarding SMEs?					
3. Provision of loans by relatives and friends incase business lacks capital.					
4. Provision of grants by government to SMEs?					

5. Explain how you got capital to start up your business?  
 .....  
 .....

6. What is the process of getting a loan from the bank? Please explain the process.  
 -----  
 -----

7. How often do relatives come to your aid in case your business needs more capital?  
 -----

8. Does government provide sources of cheaper capital to start up business? If yes, then please explain this process  
 -----  
 -----

Legal and Regulatory framework	SA	A	N	D	SD
1. Ability and ease of access to license to operate SMEs					

2. Provision of tax holidays or exemptions by the government.					
3. Protection of SMEs from external competition and from Multinational companies					
4. Affordability of license to operate SMEs in Nairobi					

5. How much and how long does it take to get a license for operation?

-----

6. Other than license is there any other requirements needed to start up a business? please explain

-----

7. Do you and your colleagues fully comply with stated requirements above?

-----

<b>Cultural factors</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
1. Learning business skills from parents and family members which contributed to your business success.					
2. Punishment by parents during childhood for failing to be successful in some activities					
3. Personal desire to be independent since childhood and its influence on your business success					
4. Hard work and internal locus of control and its contribution to the success of your business					
5. Peer group generates very strong influences on young people's behavior in relation to success in business.					

6. Did your family upbringing play any roles in your business acumen? If yes, then explain if no the explain how you acquired business skill

-----

7. Is any of your parents a business person? If yes, what type of business?

-----

8. How do people in your village view your success? Do they encourage you to succeed?  
Please briefly tell us the way you are encouraged.

-----

<b>Managerial skills</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
1. Having studied entrepreneurship in high school, college and university and its contribution to business startup.					
2. Ease of access to managerial skills from government institutions					
3. Use of the skills learnt during training in running your business and contribute to its success					

4. How far have you gone with your education? Have you completed secondary school.....

5. Have you ever attended any course regarding business management and for how long?  
-----

6. Do you believe education plays an important role in managing your business? In what way, please explain.  
-----  
-----

Thank you for your patience