Journal of Poverty, Investment and Development
ISSN 2422-846X An International Peer-reviewed Journal
Vol.9, 2015


# Factors Influencing Growth of Small and Microenterprises in Nairobi Central Business District

Dr. Francis Ofunya Afande, PhD., FCIM (UK).
Dedan Kimathi University of Technology, P.O. Box 657,10100, Nyeri Kenya
offunya@gmail.com

**Abstract**
**Aims:** The study sought to examine the factors influencing growth of Small and Medium Scale Enterprises in Nairobi Central Business District in Kenya. The study was guided by the following specific objectives: to examine the extent to which access to credit influences growth of SMEs in Nairobi CBD; to explore the extent to which age of the firm influences growth of SMEs in Nairobi CBD; and to assess the extent to which level of education of the entrepreneur influences growth of SMEs in Nairobi CBD. The specified econometric model has firm growth as the dependent variable, and the independent variables include access to credit, age of the firm and education level.
**Study design:** The study adopted a descriptive research design.
**Place and duration of the study:** Given the nation-wide spread of SMEs in Kenya, the population of interest in this study included all registered SMEs in manufacturing sector of Nairobi CBD. The study took a period of one month.
**Methodology applied:** The study targeted 80 questionnaires, however 75 questionnaires were successfully filled and returned (93.8%) response rate. The collected data from the questionnaire and secondary sources was systematically organized in a manner to facilitate analysis. The data pertaining to profile of the respondents and the organizations were analyzed using content analysis. Quantitative data was analyzed using content analysis while quantitative data was analyzed using descriptive statistics, which include frequencies, percentages, means cores and standard deviations. In order to establish the relationship between the independent and dependent variables, inferential statistics were used. A Statistical model was specified to examine the effect of access to credit on the growth of the SMEs in Nairobi CBD.
**Results:** The factors were ranked in terms of extent of influence of each factor on growth of SMEs, where only responses related to (5) a very great extent; (4) to a great extent; and (3) to a moderate extent were considered. The rankings show that whereas access to credit was considered as having the highest positive influence on growth of SMEs, educational level of the entrepreneur was ranked second and age of the SMEs was ranked third. Multiple regression analysis was employed to evaluate constraints to customer satisfaction by determining the magnitude and or direction of the relationship between the study variables.
**Conclusion:** There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments; there is a need to harmonize those policies and strategies as well as the instruments for implementing them; and the legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector.
**Keywords:** Access to credit, small and medium scale enterprises, firm growth, start-up capital, survey method, econometric method.

## 1 INTRODUCTION

Small and medium scale enterprises (SMEs) are lifeblood of most economies. SMEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine (Abor & Quartey, 2010). The most frequent argument for small firms is that they are a source job creation (Storey, 1994). On the average SMEs represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large - scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and effective SMEs sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy's benefits.

The particular presence or qualities of small firms makes them a chosen vehicle in a number of policy fields. For example, their flexibility has placed them at the centre of labor market and employment policy. They also make a major contribution to regional development and particularly, at local level, they may play a significant role in service provision enabling others to participate in the workforce (Hanley and O'Gorman, 2004). Cobbold *et. al*. (2008) argued that SMEs are particularly important in supporting economic growth and livelihoods in developing countries. There is also a consensus that if all stakeholders are to show serious commitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness

meaningful transformation and prosperity. The importance and contribution made by small firms in an economy has attracted widespread attention from researchers from the time small business research gained significant momentum in the early 1970's (Rutherfoord and Weller, 2002). Work undertaken by Birch (1979) and Storey, (1994) which gathered together the evidence from a wide range of studies has provided policy makers and commentators with evidence of the contribution that small firms make, the difficulties they experience and various attempts and reasoning for government intervention in the sector.

Policy-based development lending to Africa over the past 20 years, known as structural adjustment lending, have not solved African problems. According to Sachs *et al.,* (2004), Africa remains trapped in poverty and debt. For the reasons mentioned, poverty remains a major challenge to development and stability in Africa. In order to improve the economic conditions and poverty issues in Africa, small businesses can play a vital role because SMEs have been generally regarded as the driving force of economic growth and poverty reduction. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris and Gibson, 2006; Sauser, 2005; Eeden *et al.,* 2004; Arinaitwe, 2006; Kiggundu, 2002; Yusuf and Schindehutte, 2000; Monk, 2000; Goedhuys and Sleuwaegen, 2000; Birch, 1981, 1987).

Any strategy for poverty alleviation in Africa must include support, encouragement, and promotion SMEs. While the contributions of small businesses to development are generally acknowledged, entrepreneurs are faced with many obstacles that limit their growth and survival. Research on small business development has shown that the rate of failure in developing countries is higher than in the developed world (Arinaitwe, 2006). It is also essential to understand the problems facing small business development in Africa because they are significantly different and unique from those being faced in developed countries. Problems facing the growth and survival of SMEs in Africa can be generally classified into four broad categories: (i) administrative; (ii) operating; (iii) strategic; and (iv) exogenous problems. Literature search shows that to date, very little research has been conducted on the factors constraining the growth and survival of small businesses in Kenya, and in particular, the effects of access to credit on growth of the Small and Micro Enterprises, especially in Nairobi CBD. Thus, gaps exist with respect to understanding the effects of access to credit on growth of the Small and Micro Enterprises in Nairobi CBD.

### 1.1.1 Small and Micro Enterprises

The term SMEs has been severally defined by institutions, regions and based on number of people employed, sales or assets. In Egypt, they are businesses employing between 5 and lees that 50 people. In Vietnam, they are firms employing 10 and 300 employees. According to the World Bank, a venture employing up to 300 people with US$15 million in annual revenue, and US$15 million in assets is an SME. But to the Inter-American Development Bank, an SME is a business employing up to 100 employees and earning not more than US$3 million in revenue (Dalberg Global Development Advisors, 2011). Furthermore, European Union defines SMEs as a venture that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.' Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total.

Similarly, the NBSSI (1998) provided an operational definition of small business. According to this body, a small business is any business that employs up to 29 people. They are divided into micro, small and medium enterprises micro enterprises, employing up to 5 employees with fixed assets (excluding land and building) not exceeding the value of $10,000; small enterprises – employ between 6 and 29 employees or having fixed assets excluding land and building not exceeding $100,000 and medium enterprises – employ between 30 and 99 employees with fixed assets of up to$1m. According to International Institute for Environment and Development, when the firms are classified by sizes, the assessments of SME firms get ranged with employee size that is less than a 100. From the definitions provided, it is obvious that there is empirical consensus on the use of number of employees in defining a small business, although the actual employee size differs from one definition to the other.

SMEs can broadly be defined as businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers. (Republic of Kenya, 2005). It is now widely recognized that MSEs have an important role to play in the growth and development of countries through job creation and distribution of the benefits of economic development (CBS *et al,* 1999). Even more importantly the sector can help boost productivity by increasing competitive pressure within the economy.

### 1.1.2 Small and Micro Enterprises perspective in Kenya

It is estimated that there are 7.5 million1 SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country. The sector's contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008. The Small Enterprise Sector or Informal Sector provided approximately 80% of total employment and contributed over 92% of the new jobs created in 2008 according to the Economic Survey of 2009. The sector therefore plays a key role in employment creation, income generation

and is the bedrock for industrializing the Country in the near future. Due to their characteristics, SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors.

Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts. To overcome some of the constraints, the government and other relevant stakeholders have designed programmes and policies that are market driven and market non-distorting to support SMEs. Government has, for example, created stable macroeconomic conditions, liberalized the economy, and encouraged the growth of micro-financing business.

To its credit, Kenya, unlike most developing countries, has in official development policies recognized informal enterprises as more than a residual employer for survival of poor households. Since Independence, the Government has recognized the potential of the MSE sector in employment creation and poverty reduction in its numerous policy documents. The *Sessional Paper No. 1 of 1986 on Economic Management for renewed growth* was the first to give explicit recognition of the sector's role in economic growth and development. Its recommendations led to the publication of *Sessional Paper No. 2 of 1992*, *Small Enterprises and Jua Kali Development in Kenya,* that identified the small-scale and Jua Kali[1] 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. This was followed by Sessional Paper No. 2 of 2005 on *Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*. The Government through the Ministry of Labour is currently working on a MSE Bill which is expected to be presented in parliament soon.

With the introduction of structural adjustment policies during the 1980s and 1990s there was an increasing tendency to see the small enterprises as a more integrated part of the economy, partly because many small traders distribute formal sector products and partly because they to some extent serve the same markets. Therefore, the small enterprise sector was expected to thrive where the formal sector was successful while crisis in the formal sector would lead to crisis in the small enterprise sector. The small-enterprise sector was therefore expected to develop pro-cyclical with the formal sector (Pederson, 2005). According to the Economic survey 2004, employment within the SMEs sector increased from 4.2 million persons in 2000 to 5.5 million persons in 2003 accounting to 75.3 percent of the total persons engaged in 2003. The sector contributes up to 18.4 per cent of the country's Gross Domestic Production (CBS *et al,* 1999). The SMEs sector should therefore not only be seen as a provider of goods and services, but also as a driver of competition and innovation, enhancing the enterprise culture which is necessary for private sector development and industrialization (Republic of Kenya, 2005).

In recognition of these potential roles of the sector, successive governments in Kenya have continued to articulate policy measures and programs to achieve industrial growth and development, including direct participation, alone or jointly with the private sector, interest groups, assistance from external agencies, provision of industrial incentives and adequate finance as stated in the Kenya's Economic Stimulus Programme. However, the poor performance of the industrial sector, especially when emphasis was on large scale enterprises in the course of implementing the strategy of the Kenya government, led to the renewed emphasis or focus on the SMEs as the driving force in the industrial sector. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the effects of access to credit and growth of SMEs in Nairobi CBD.

### 1.2 Statement of the Problem

The role of micro, small and medium enterprises (MSMEs) has been identified in both developed and developing economies. It has been found that it is not only the big businesses that provide the foundations of the nations economies, but small enterprises also play significant role in developing the economies of nations. In view of their crucial role, some developed countries have initiated strategic, financial and counseling programmes to support them. Few of such examples in some developed economies include the USA where the government through the Small Business Administration provide loans, advice, export counseling, as well as legal assistance on exports; the United Kingdom now has a Minister for Small Firms within the Department of Trade and

[1] The term Jua Kali, literally means "hot sun" in Kiswahili referring to enterprises which carry out their businesses under the hot sun without adequate shelter or workshop space. In fact, even fully formalized small-scale firms, with substantial employment, refer to themselves as Jua Kali

Industry and a Small Business Service which gathers evidence, analyses the needs of small business. There is also the annual National Small Firms Policy and Research Conferences, organized by the Institute for Small Business Affairs, the main fora for researchers, practitioners, and policymakers, enabling them to come together each year to share the latest thinking in the field. In Korea the institute of economic affairs (IEA) and the Korea Development Institute (KDI) of the Republic of South Korea entered into a form of collaboration to help develop a policy framework for SMEs in the country and assist them to grow to greater heights.

In order to help promote small business growth in Japan, the state provides various types of support. First, there is active support for the self-help efforts of motivated start-ups, growth, and technical innovation. Also there is reinforcement of article-making technologies and technical development infrastructure, and promotion of smooth access to and use of management resources such as human resources, technologies, funds and information. In addition, there is enhancement of the potential of academia, industry, and government through promotion of collaboration among them and advancement of mutual exchange and education for article-making technologies and innovation. Not all, there is the holding of training workshops and seminars and improvement of the common infrastructure of SMEs to actively use information technology (IT) and promote business innovation to cope with the IT revolution (SME Agency, 2008).

SMEs have been found to contribute to employment generation, gross domestic product, entrepreneurial skill development and innovation to many developing countries (Cook & Nixson, 2000; Agyapong, 2011). But inadequate research in the sector poses policy constraint in that area in the developing countries. This continues to be the situation in Kenya where research interest in the critical role of small businesses in economic growth still remains very low despite small businesses widespread. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Support for these entities has been ad hoc, irregular and uncoordinated. Despite their contribution to the development of the country, they are confronted with the problem of raising adequate funding. Besides funding, there is scarcity of literature on other factors that influence growth of the SMEs, especially Nairobi CBD, which is the administrative and commercial capital of Kenya, in which most the SMEs are situated. This research is aimed to address this gap. The study therefore sought to examine the factors that influence growth of SMEs in Kenya and more specifically in Nairobi CBD.

### 1.3 Objective of the Study

To assess the factors influencing growth of SMEs in Nairobi Central Business District

### 1.4 Specific Objectives

The study was guided by the following specific objectives:

(i) To examine the extent to which access to credit influences growth of SMEs in Nairobi CBD.
(ii) To explore the extent to which age of the firm influences growth of SMEs in Nairobi CBD.
(iii) To assess the extent to which level of education of the entrepreneur influences growth of SMEs in Nairobi CBD.

### 1.5 Justification for the Study

The marketplace is placing an increasingly large amount of emphasis on SMEs. Studies on factors influencing growth of SMEs, especially in Africa are very scarce. Ideally, it is the role of Universities and other institutions of higher learning to prepare their students to excel in their chosen field. Today's generation of academics will be the ones that will continue the transition from conventional business to sustainability. Those individuals that are able to understand the role SMEs play in the economic development, and hold a competitive advantage over those that lack this understanding. This is the impetus for this study.

### 1.6 Significance of the Study

This study sought to raise ideas and issues in the hope that the various stakeholders and persons directly addressing issues related to promotion mix in relation to sales volumes of organizations will continue the discussion. Specifically, the findings of this study, it is hoped, will be beneficial to various key stakeholders as discussed in the subsequent sections.

***The management of SMEs:*** The management of SMEs will gain a better understanding of the link between access to credit and growth of the SMEs. On the basis of the findings of the study, the management of SMEs will seek to access credit from financial institutions form an informed point of view.

***The Government:*** The SMEs sector is vital to the economic growth of the country. It is a source of revenue to the government through taxation and it also offers employment opportunities to the citizens. The Government is charged with the responsibility of ensuring protection to both the industry players and the citizens. On the basis of the findings of this study, the Government will make informed decisions when formulating policies related to regulation of financing SMEs.

***Central Bank of Kenya:*** Central Bank of Kenya (CBK) is charged with the responsibility of regulating the financial services sector and enforcing the relevant government policies. CBK will acquire insight into the involvement of financial service providers with SMEs and accommodate it in their policies where applicable.
***Academicians and Researchers:*** The symbiotic relationship between access to credit by SMEs and their growth will have been an explored concept. The academic world should definitely consider the enormous potential of this strategic intersection. The study will make a significant contribution to the growing body of research on access to credit by SMEs. The findings may also be used as a source of reference for other researchers. In addition, academic researchers may need the study findings to stimulate further research in this area and as such form a basis of good background for further researches.

### 1.7 Scope of the Study

The study focused on all registered SMEs in manufacturing sector of Nairobi CBD. The SMEs included all the manufacturing industries engaged in batik tie and dye, dressmaking, furniture production, weaving, bee making, poultry production, wood carvers, bakers and others in Nairobi CBD because most of the SMEs in the area are engaged in these activities. The study participants were the owners of the SMEs. Review of literature reveals that the factors influencing growth of SMEs include: total current investment; access to credit; age of the firm; start-up capital; the level of education of the entrepreneur; and annual turnover. For purposes of this study, the following factors were considered: access to credit; age of the firm; and level of education of the entrepreneur.

## 2 LITERATURE REVIEW

### 2.1 Introduction

In order to address the aim of the research, it is of importance to have established a sound literature base around which the study was built. This chapter presents a review of the literature related to the purpose of the study, and is organized according to the following specific objectives of the study. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books and dissertations.

### 2.2 Importance of Small and Micro Enterprises

The contribution of the SMEs to total employment and fostering gross domestic product (GDP) growth has been vastly empirically examined (Ayyagari *et al.,* 2003; Beck *et al.,* 2003, Beck and Demirgu¨c¸-Kunt, 2005; Klapper *et al.,* 2002). Estimations on the SMEs' economic importance are different. Ayyagari *et al.,* (2003) concluded on a sample of data from 76 countries from 1990 to 1999 that SMEs contributed to total employment with more than 17 percent in low-income countries, 36 percent in medium-income countries and 57 percent in high-income countries. This sector also participated with more that 15, 39 and 51 percent in the GDP of low-income, medium-income and high-income countries, respectively. Finally, formal and informal SME sector's contribution to GDP is around 65-70 percent in all countries.

The same empirical research realized that higher level of education, lower inflation rates and higher level of financial intermediary development tend to be statistically important determinants of SMEs' development, while more open economies and greater policy distortions have significantly negative impact on this sector's development. Also, lower cost of entry, more efficient insolvency procedures, lower costs of contract enforcement and rigid labor market regulation encourage SMEs' development. Generally, more developed institutional, legal and financial support and lower corruption presence positively affect the SMEs' performance.

Klapper *et al.* (2002) conducted a cross-country survey that encompassed data on 97,000 private and publicly traded firms from 15 Central and Eastern European countries in 1999, out of which 82 percent were SMEs. Micro firms with less than ten employees as well as state-owned enterprises, non-profit organizations and financial firms were excluded from the research. The economic importance of SMEs in the development of this region can be demonstrated through some of the most notable facts. Across countries and on average, the SMEs employed approximately 30 percent of the total number of employees. The average size of an SME was 35 employees. They concluded that there is interdependence between the size of the SME sector and growth. Either the SMEs are providers of intermediate goods and services to large firms at a large-scale or the SME sector itself originates growth.

Beck *et al.* (2003) investigated SMEs' development influence on GDP growth and poverty reduction from 1990 to 2000 using data from 76 developed and developing countries. This is the first empirical research that put into effect some skeptical views on SMEs prevalent economic importance. Although it was proved that more developed countries have a more developed SME sector, the empirical research failed to show that the SMEs accelerate growth or even its impact on poverty reduction. Rather than firm size, competitive and sound business environment to all sizes of business fosters economic growth and alleviates poverty. Beck and

Demirgu¨c¸-Kunt (2005) continued to examine obstacles to the SMEs' growth and policy recommendations to overcome them. They apostrophized that in the absence of well-developed institutions, it is optimal for firms to stay small.

The growth of the SME sector is highly constrained without institutional capacity building. Finally, they concluded that the use of factoring and leasing may be beneficial for SME financing. There are commonly accepted prejudices on the SME sector position inside the national economy that it is critically important for creating jobs, reducing poverty, encouraging the innovation process and increasing competition, that it makes industrial structure more flexible, promotes economic dynamism and finally that it adjusts to economic shocks faster with lower costs. Biggs (2002) provokes some skeptical views on SMEs prevalent position. Gross rate of job creation is higher in the SME sector, but job sustainability, wages, benefits and working conditions are better in larger firms.

It is also widely accepted that SMEs boost employment more than large firms because they are more labor intensive. As Voordeckers and Steijvers (2008) stated: [. . .] for SMEs there is a tendency to adopt labor intensive techniques which involve mainly a large proportion of variable instead of fixed operating costs. This causes a lower operation leverage which reduces the effect of change in sales on earnings before interest and taxes and thus reduces variability in earnings and reduces the risk to pay back their debt. However, Biggs (2002) accepts that firm size is not a reliable predictor of labor intensity. In addition, he points out that due to an organic structure of capital in the SME sector, innovations are related more to skill-intensive industries or to the so-called high technology that can be a seedbed for future industrial expansion, while capital intensive or with lower technology, large firms develop innovation in improving operating process.

As a result of the relative importance and market dominance of large firms that are fostered by government policy, an upgrade of SMEs' capabilities in technology transfer, human resource development and financing capacity is being reduced. Market deviations of economic model have to be strengthened by institutional support in a segment of legal, financial, infrastructure and organizational support to SMEs. In order to promote entrepreneurship and improve the business environment of the SME sector, institutional support should encompass education and training programs, support and encouragement the business start-up process, improvements of legislation and regulation, re-examination of the fiscal treatment of the SME sector, promotion of new technology in production process and cluster and business incubator development.

For transition countries, Dallago (2003) suggests fostering modernization and competitiveness of individual SMEs by stimulating investment activity, promoting SMEs vertical integration with domestic and foreign companies as well as horizontal integration among the SMEs. He also concludes that neutral government policy that consists of building a more favorable SME context with macroeconomic stabilization, development of financial markets and flexibility of labor markets is necessary. Investment projects and upgrade of the capabilities of the SME sector are limited with insufficient financial capacities, especially in a period of financial crisis. Interest rate sensitivity of the SME sector is coherent with increased credit risk and enlarged fragility potential. Institutional support can be visible in direct microloans from state-owned financial institutions, subsidy in interest and grace period in relation to commercial banks, guarantee funds and special fund lines from world-wide specialized financial institutions. The experience of the Republic of Croatia may serve as a warning that institutional support is not properly validated and measured in fund allocation and client selection with high social costs connected with inefficient use of public funds.

Theoretical disputes on the relative importance of the SME sector for the overall economic system are modest and in the future potentially endless without uniform and coherent epilogue. On the other side, political promotion of the SME sector development as a precondition for economic growth is quite consistent, both in developed and developing economies. Still, the evaluation of SMEs' economic importance is somewhat exaggerated due to some statistical illusions. SMEs participation in the overall number of companies may be high, but contribution to total assets, turnover or long-term investments is rather slight. The SME sector absorbs a significant number of employees, but it turns out that this sector is an engine for job creation just as it is for job destruction.

In addition, SME is often promoted as innovative sector, but the truth is that this is a rather heterogeneous group that consists mostly of "livelihood" enterprises while growth and innovation-oriented companies are few. Thus, at the beginning of the last century, Schumpeter admitted that large-scale enterprises are the most powerful engine of progress. Domination of neoclassical economy apostrophizes SME sector's importance. However, it turns out that this is a more ideological scenario that is hiding real difficulties of this sector in order to encourage investment cycles. Rather than widely accepting a spontaneous development of the SME sector with special reference to transition countries, policy strategies should be put into effect. Simple proclamation of the firm size as a determinant of economic growth may potentially reduce economic efficiency if various subsidy policies are linearly established and additional value of the projects should become a less important criterion. SMEs' access to financial resources may be unfavorable, but policy response should still be targeted to specific areas of concern, rather than provide financial support to any enterprise just because of its

size.

Government support to the SME sector should take various forms apart from financial availability. Implementing law and order, building up SMEs capacities with professional human resource assistance, offering advisory and overall infrastructure support are some of them. One more reason for development of these support mechanism is that a considerable number of small firms starts as the last resort of households in the need of income that invest in business or guarantee with their personal assets. If not educated and properly supported, entrepreneurship may become a poverty trap for them. Therefore, the skeptical views on SMEs' prevalent role and performance should be welcomed, at least in academic sphere. However, most of the large and successful enterprises once started as small ones. They overcame their financial constraints because of specific product innovation, whose development was probably not a capital intensive one or was supported with some grant schemes. Significant number of SMEs still suffers from market failure in finance, technology transfer and learning.

Thousands of pages were written on the importance of SMEs out of which the greatest part was a kind of propaganda of this sector's super-power. On the other hand, the dominance of foreign ownership in the banking sector is a usual suspect for their lack of appropriate financing. Therefore, this research undertook empirical examination of credit rationing phenomenon in foreign-owned bank with special reference to SMEs. Optimal interest rate was set on a higher level before economic crisis and with its appearance it amplified thus increasing the refinancing costs and reducing credit supply which was more than ever needed and required. In order to reduce the deviations in the economic development, government and related institutions developed various programs and established assistance funds to enterprises of all sizes. However, the usually adopted measures of support to SMEs have only a political character with real cause of system problem hidden in associative character of market like presumption of common welfare.

## 2.3 Factors influencing growth of SMEs

### *2.3.1 Access to credit*

Limited access to finance faced by SMEs has drawn considerable attention from both academics and practitioners for many decades. Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008; Levine 2005; Rajan and Zingales 1998; Townsend and Ueda, 2003). At the firm level, lowering financial constraints can enhance entrepreneurial activity, contributing to jobs, innovation and income (Beck *et al.,* 2005; Paulson and Townsend 2004). A recent survey has suggested that limited access to finance still remains one of the key constraints for Thai small business (NESDB 2004; Bank of Thailand 2009; Wesaratchakit *et. al.,* 2010) and worldwide (Schiffer and Weder, 2001).

Small enterprises and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 per cent of the population has access to the banking sector (Basu, Blavy & Yulek, 2004)**.** According to HFC Bank (2004), SMEs in Ghana tend to be marginalized or have limited access to credit. Coupled with the fact that few informal supports exist by way of business angels and personal savings, this tends to affect their ability to adopt modern technology (UNIDO, 2002). It has been found that only few of these businesses are financed from commercial bank loans, government assistant programs or other informal sources (Osei, Baah-Nuakoh, Tutu & Sowa, 1993; Bani, 2003). Similarly, Abor and Biekpe (2006) pointed out that, access to finance is a dominant constraint facing SMEs in Sub-Saharan Africa. It must be noted that access to funding is not the only constraint to SME development (Liedholm, MacPherson & Chuta, 1994), finance and access to funding are often the major challenge for SMEs development (see Bigsten *et al.,* 2000; Buatsi, 2002.). It should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources.

With low level of technological support (because they are unable to finance technological resources) they cannot get adequate amount of production and subsequently sales and profits. This obviously leaves small business in a vicious cycle of financial constraint. In view of this, it is often imperative that external capital injections are necessary to help boost small business performance. Besides, several empirical studies have recognized the issue of financial constraint as the main problem thwarting the speedy growth of small businesses in developing economies including Kenya (Arthur, 2003; Mensah, 2004; Deakins, North, Baldock, & Whittam, 2008). Other studies have in developing economies have found funding as the major problem of SMEs. These studies have made varying recommendations, but SMEs continue to be constrained by funding as suggested by the empirical studies cited earlier on. Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants and develop a list of business angels to assist small businesses.

**Gaps in access to finance:** The financing gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Some argue that the fundamental reasons behind SMEs' lack of access to funds can be found in their peculiar characteristics, while others argue

that SMEs suffer from financing gaps because of market imperfections on the supply side (Park *et al*., 2008). Park *et al*. (2008) further argued that SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of SMEs who require financing from financial institutions and other providers of finance. The financing gap for SMEs is most prominent in capital market financing. Most countries, including the developed ones, have problems in SME financing through capital markets (Park *et al*., 2008: 1).

Park *et al*. (2008) also reviewed that substantial financial gaps exists in a large numbers for both Organisation for Economic Co-operation and Development (OECD, 2006) and non-OECD countries. The results of their studies indicated an 80% financial gap in OECD countries and a 90% financial gap in non-OECD countries. Furthermore, a break-down of debt and equity also indicate significant gaps except for debt in OECD countries. Several authors and researchers have alluded to the financial gap, but a few of them attempt to find solutions to closing that gap. One of the most important theories that focused on financing gap analysis is the credit rationing theory by Stiglitz and Weiss (1981). In their formulation, Stiglitz and Weiss (1981) argued that agency problems (a conflict of interests between management (agents) and the shareholders (owners) of the organization) and information asymmetries are the major reasons why SMEs have constrained access to finance. They argued that only SMEs know their real financial structure, the real strength of the investment project and the effective intention to repay the debt, that is, firms have superior private information (asymmetric information).

Hence, the bank manager makes decisions under asymmetric information, and operates under a moral hazard and adverse selection risk. Therefore, government subsidies can be used by financial institutions as collateral against some projects. Stiglitz and Weiss (1981) explained the choice among different financing sources under conditions of asymmetric information and credit rationing. Asymmetric information can lead to credit rationing conditions by modifying the risk-return distribution; this fact encourages banks to refuse capital for investments and produces divergence between capital demand and supply (Alfo and Trovato, 2006). Constrained access to finance derived from financial institutions' credit rationing behavior might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks.

Therefore, asymmetric information can explain asymmetric distribution of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost. The firm accepts to invest only in riskier projects which can produce higher income levels, which are needed to cover debts. The result is that the lender cannot avoid selecting the riskier project and therefore must accept the risk of the firm. In the presence of excess demand, the lender has different maxima corresponding to the rates with the lower adverse selection likelihood for credit rationing (Stiglitz and Weiss, 1981).

Furthermore, rationing conditions reduce access to financial resources not only for new investment, but also for employment creation and poverty alleviation. Another facet of credit rationing is that financial institutions personnel/ managers may have to bear personal responsibilities for nonperforming loans if the loans are given to SMEs without government guarantees, hence agency problems exist. Managers have the responsibility to protect the depositors' interest hence will operate under credit rationing conditions. Start-up SMEs are more likely to be affected by information asymmetry problems. Deakins *et al*. (2008) argued that information asymmetries are more acute in new and technology-based propositions. They argued that at an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur.

Especially with manufacturing or technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. There are also some categories of owners of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there may be asymmetries arising from location as well as sector. For example, owners of SMEs in rural environments may face difficulties with access to bank finance. From Stiglitz and Weiss (1981)'s credit rationing theory discussed herein, two most important gaps emerged as the major reasons why SMEs experience constrained access to financial resources. These are information asymmetry gap and agency problems. Furthermore, from an analysis of the financial markets' behavior we can review the following bases for credit rationing behaviors which restrict access to finance for SMEs.

**Bases for credit rationing behaviors:** Quite a substantial number of authors attempted to draw conclusions on various issues relating to credit rationing behaviors of financial institutions. One of the notable contributions is by Green (2003). In his study, Green (2003) argued that limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the

financial system, the lack of liquidity, and inexperience in small-scale lending in many of these countries. Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas disproportionally disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications.

Banks advance four main reasons for their reluctance to extend credit to small enterprises viz, high administrative costs of small-scale lending, asymmetric information, high risk perception and lack of collateral. Although the reasons apply to industrial as well as developing and emerging economies, they tend to be more significant in the latter. SMEs typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and banks often find that processing small SME loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs (Malhotra *et al.,* 2007). Since most of the administrative costs of lending are fixed, that is, they are independent of the size of the administered loan, economies of scale arise; the larger the loan, the lower the per unit costs of extending credit.

Furthermore, administrative costs also include information gathering costs, for example visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them. In the case of developing and emerging economies, these difficulties, and therefore the costs involved, are multiplied (Green, 2003). However in a study by Cziraky *et al*. (2005) it was concluded that, among all SME loan requests, banks preferred smaller firms that requested smaller loans. The results suggest that individual banks differ in their criteria and in their loan-size preferences and that there is no positive correlation between the bank's size and its loan size preference.

Another basis for credit rationing is asymmetric information. A prerequisite for the efficient allocation of resources by market forces is that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders. The lenders are thus faced with uncertainty both with respect to the expected rates of return of the project they are financing and with respect to the integrity of the borrower. This uncertainty increases with the length of the loan. Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure. The problem of asymmetric information will be more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk; small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Green, 2003).

***Bridging gaps in access to finance:*** Malhotra *et al*. (2007) contends that, experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include; according to Holtmann *et al*. (2000) the following: a Loan analysis that focuses on the prospective client's ability to pay (cash flow). Less emphasis should be placed on collateral. The analysis should be highly standardized, and loan processing times kept to minimal; entitle repeat borrowers to increasingly larger loans; loan officers should bear full responsibility throughout the entire life of the loan and should be paid performance based salaries. If payment problems occur, there should be a powerful incentive structure in place for immediate follow-up; appropriate decision-making and control mechanisms should be in place and supported by a strong Management Information System (MIS) and information technology (IT) to assist in the management and administration of the loan portfolio (Holtmann *et al*., 2000).

In another study, Park *et al*. (2008) argued that many banks have developed tools, such as credit scoring models and other sophisticated techniques, to discriminate between high-risk and low-risk borrowers, thus reducing the risk of lending to SMEs. Despite, the potential for the above mentioned methodologies of being effective in addressing the access to finance challenge for SMEs, applying these approaches fail to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources. Therefore, there is a need to find effective ways to ensure that the information gap between financial institutions and SMEs is closed.

It is also paramount to ascertain whether an actual gap really exists or not. According to Brierley (2001) it is essential to distinguish between actual gaps or imperfections, and perceptions of gaps. The issue of gaps in the financial markets is therefore complicated because in financial markets it is an accepted industry practice for suppliers of capital to refuse to sell to some potential buyers. Furthermore, a potential buyer of a loan must not only be willing to pay the going price of the loan (for example, interest rates), but must also satisfy the bank that the principal (capital loaned) will be returned (Brierley, 2001). For example, one can think of suppliers of capital as the purchasers of risky promises to pay. This argument suggests that some firms will be, and should be, denied financing based on their failure to furnish sufficient information or if the information supplied is evident that they are a risky investment.

The observation that some firms cannot obtain capital is therefore not prima facie evidence of a gap. A gap or imperfection may however be implied if particular categories of firms that ought to receive financing are systematically unable to obtain it. Therefore, it should be borne in mind whether an actual gap or a perceived gap is in question to ensure that policy makers do not channel resources towards addressing a perceived gap which might not be of any relevance. Public sector initiatives to support the financing of small firms are best justified if market imperfections result in the private sector not providing finance to deserving firms adequately (Brierley, 2001).

Conversely, in the absence of market failure, such initiatives may themselves cause distortions. Non-viable firms may be subsidized, at public expense, and may compete with other viable firms. It is therefore essential to determine the extent to which, if any, particular categories of small firms are systematically disadvantaged, rationed, with respect to access to capital. For policy issues on this matter to be most effective, it is necessary to develop a widely accepted and empirically supported framework around the notion of capital market imperfections. Otherwise, unfounded perceptions of specific types of financial market "gaps" may inappropriately drive public policy (Equinox Management Consultants Ltd., 2002). For instance, in South Africa, policy debates for the past have failed to close the financial gap between SMEs and providers of financial resources. This is evident in a widespread outcry by SMEs because of their lack of access to finance and unacceptably low levels of entrepreneurial activities in the country. Various authors have revealed that access to finance challenges is the main reasons for low entrepreneurial growth and SME survival in the country (Herrington *et al*., 2008). Quiet substantial factors are a major reason why SMEs are denied access to finance. Although these factors centre much on the asymmetric information problem, it is paramount to discuss them separately at this juncture in order to gain a clear picture of the access to finance challenges facing SMEs.

### 2.3.2 Age of the firm

Sutton (1997), Caves (1998), and Audretsch and Klepper (2000) have recently summarized the existing theoretical and empirical insights about firm dynamics. They note that a small firm has a lower likelihood of survival and at the same time firm size is found to be negatively related to growth. This evidence (mostly concerned with developed countries) amounts in the words of Geroski (1995) to a stylized fact, which contradicts the often cited Gibrat's Law. The empirically observed positive relationship between firm size and the likelihood of survival can be interpreted theoretically within the framework of noisy selection introduced by Jovanovic (1982). This contribution can be characterized as a passive learning model in which information is gathered at no cost. Entrants do not know their own cost structure and assuming that firms differ with regard to efficiency, they incur different costs when producing the same levels of output. Since entrants do not know their exact abilities their performance is unknown, so each participant has to go through a learning process, accumulating information from actual market experience.

Entrepreneurs gradually discover whether their abilities are good enough to meet prior expectations, and if not they will typically exit the industry. Consequently, in the model of Jovanovic (1982) efficient firms survive and experience growth, whereas overoptimistic firms eventually close down. The longer a firm has been in the market the more knowledge it has about its own abilities, so in this model the probability of survival is positively related to firm age. In sum, Jovanovic predicts that firm survival increases with size and age.

A critique of the Jovanovic approach is that he assumes no technological progress. Ericson and Pakes (1995) therefore propose to extend the analytical framework to a model of active learning where technological advances are allowed for. Firms are aware of the distribution of their profits, but they are uncertain about the profitability of a given innovation. This is due to the random outcomes of innovations and actions of other actors in the market. Firms explore the market actively and invest in order to enhance productivity. The firm survives and grows if successful firms grow and otherwise they will eventually exit the industry. Pakes and Ericson (1998) have subsequently shown that the passive learning model fits the description of the retail sector, while the active learning model turns out to be more appropriate for the manufacturing sector.

However, as Caves (1998) argues, the passive and active learning models need not be mutually exclusive. Besides firm age and size, it has also been suggested that firm level innovations should be considered a driving force behind firm dynamics. In Jovanovic and MacDonald (1994) experienced firms are more capable of pursuing innovations, and during the process of technological change technological laggards exit because successful innovators force down prices. Moreover, Klepper (1996) argues that firm size and the ability to appropriate returns from innovations may be related. He highlights the importance of firm size in appropriating returns from innovations and, in his analytical framework, price declines eventually limit further entry so older firms with the best innovative capabilities get larger shares of the industry output.

Jovanovic (1993) focuses specifically on the issue of diversification and discusses how this can improve the probability of survival. Gaining market power, avoiding risk, having access to funds, making products compatible and reaping efficiency gains are in his view some of the potential benefits from diversification. He develops a general equilibrium model of the degree of diversification by firms, and it turns

out that it is more efficient to make two products rather than one at a larger scale. Liedholm and Mead (1999) point out that the above theoretical models are somewhat limited in their choice of explanatory variables. There are other important variables, which may affect firm dynamics, and the key determinants of managerial ability are also left out. Consequently, in generating more comprehensive hypotheses about the determinants of firm dynamics the analyst must ultimately move beyond variables identified in the theoretical literature, seeking inspiration from empirical sources.

The empirical evidence from developed countries about firm dynamics is substantial. However until the papers by Hall (1987), Evans (1987a, 1987b) and Dunne *et al.* (1988, 1989) econometric problems regarding heteroscedasticity, specification and sample censoring were not properly addressed. Controlling for these problems, it emerges that larger firms have lower growth, but a larger probability of survival, consistent with the predictions of the Jovanovic (1982) model. Doms, Dunne and Roberts (1995) also support this result by showing that older and larger firms in the US manufacturing sector have higher survival rates and lower growth rates. Controlling for capital intensity, productivity, and technology usage does not change the results. Studies covering other countries (Mata *et al.*, 1994 and Baldwin, 1995) confirm that the length of survival is a function of entrant and industry characteristics.

Regarding innovative firms Gort and Klepper (1982) show that technological and knowledge conditions determine the relative ease with which new firms are able to innovate and therefore survive. Complementing this study, Audretsch (1991, 1995) suggests that technological opportunities are very important in the long run for new firm competitiveness. More specifically, considering the US manufacturing sector he finds that in industries where small firms have a relatively higher innovation rate as compared to larger firms the survival rate of small firms is higher. Agarwal and Audretsch (2001) also suggest that the relationship between the likelihood of survival and firm size is dependent on technology and on the stage of the industry life cycle. Moreover, as documented by Audretsch and Mahmood (1995) exit hazard is greater in more innovative industries and evidence suggests that the probability of exiting is higher when industry unemployment is high. Yet, this is more so for new establishments than among diversifying entrants.

Although evidence from developed countries is substantial it is not clear whether the above conclusions concerning firm dynamics carry over to developing countries. First of all, Tybout (2000) documents, in an excellent survey of the empirical literature concerning manufacturing firms in developing countries, that there is no serious scale inefficiency problem in developing countries. Survey based evidence suggests that the potential efficiency gains from increasing plant size are probably much smaller than one might think. Moreover, Söderbom and Teal (2004) show for firms in Ghana's manufacturing sector that human capital does not appear to be quantitatively important in determining productivity. Liedholm and Mead (1998, 1999) have made great efforts to uncover the characteristics of the African region. Using data from eight countries they confirm that firm age and firm size are important variables in analyzing the enterprise life cycle. Location, composition of activities, labor force characteristics and gender of the entrepreneur also turn out as important determinants of firm survival and growth.

McPherson (1996) looks at five African countries, and his findings confirm that the level of human capital, location, sector, and gender are important determinants of growth. Consistent with the results obtained from analyzing developed countries he also finds an inverse relationship between enterprise growth and firm age and size, respectively. In a related paper, McPherson (1995) finds that the Jovanovic (1982) theory of firm evolution does not hold in his sample of four African countries. Size and the probability of exiting the industry are not negatively related. Moreover, Daniels and Mead (1998) show somewhat surprisingly that location and access to credit do not seem to influence the levels of profit significantly in Kenya. In addition, they document that higher education and being a male entrepreneur are associated with higher profit levels. Hence, in the African regional context standard theories of firm dynamics may be inadequate. Liedholm (2002) investigates the determinants of survival and growth of SMEs in Africa and Latin America. Firms located in urban and commercial areas are more likely to survive and human capital also plays a crucial role. Again size and growth are central features in describing firm dynamics. Sector, location and gender also play a significant role in determining enterprise growth. In particular, it is shown, that enterprises run by male entrepreneurs grow more rapidly than those run by females.

### 2.3.3 Education level of the entrepreneur

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999). As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the

most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favourable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the challenges SMEs in Nairobi face and how they manage those challenges.

Given that SME managers are more able to create and manage viable firms with increased human capital, it is reasonable to include human capital indicators in the following analysis. The human capital is seen in the light of a stock of individual knowledge, capability, and skills that are economically usable and all those skills acquired through education and talents, (OECD, 2001). Human capital is an important input for organizations, especially for the owners' continuous improvement mainly concerning knowledge, skills, and abilities. Furthermore, the Owner - manager relationship is one of the most common characteristics of SMEs, and to elaborate on this, the majority of SMEs are in most cases owned and managed by the same individuals. On the other hand, large firms are normally managed by a team of professionals appointed by the shareholders of the firms. Therefore, the characteristics of owner – managers such as the level of education and experience do have impacts on the access that they have (or otherwise) to the external finance.

Following this, Storey, (1994) mentions that the better the human capital, the greater the firm viability of the start-up; consequentially, access to debt capital should be greater for these firms. Besides, Coleman (2000) who has examined education, gender and years of experience and access to external finance has found some evidence of education being positively related to external loan access. In the same context, Irwin and Scott (2010) have explored into some of the barriers to the aspect of raised bank finance faced by SMEs, the barriers of which specifically include the impact of personal characteristics. They have found that the educational level has made little difference to sources of finance, except for those educated with A-level who has been found to have frequently turned to friends and family for financial assistance and remortgaged their homes as another method of financial resource.

Unlike the results of these studies, the negative relationship between the use of bank financing and years of experience is found by Cassar, (2004). Also, similarly, Ed Vos *et al*., (2007) have found that less educated SME owners tend to use the external financing more, while higher educated SME owners are less likely to resort to the external financing. Astebro and Bernhardt (2003) also find out that a significant negative correlation exists between having a bank loan and the level of education of the SME owners. Based on the human capital theory, the education and experience of the owner- manager are likely to influence firms to access bank loan.

## 2.4 Theoretical Framework

This section presents the theoretical framework upon which this study is anchored.

### *2.4.1 Overview*

The theoretical framework for this study is based on several prior studies (Okpara and Wynn, 2007; Tushabomwe-Kazooba, 2006; Harris and Gibson, 2006; Eeden *et al.,* 2004; Goedhuys and Sleuwaegen, 2000; Mambula, 2002; Chrisman and Leslie, 1989; Ansoff, 1965). The study adapted Ansoff's (1965) framework for classifying the types of decisions needed to start and maintain a successful business and analyzing common problems faced by small business owners. This framework categorized small business constraints as administrative, operating, strategic, and exogenous. Administrative constraints focus on the organizational structure and its capability to obtain and develop necessary resources. These problems include personnel, finance, and management issues. Operating constraints deal with issues of allocating resources in an efficient manner and are more common in the functional areas of a business.

Examples include marketing, operations, and inventory management. Strategic constraints involve the ability of small business owners to match their product or service with the demands of the external environment (Harris and Gibson, 2006). This requires that business owners understand the nature of their business and the needs of their customers. Business owners with strategic issues will need assistance with general management and marketing issues. Another area that has been identified in the literature, which is particularly important to small businesses in Kenya, is the area of exogenous constraints. These constraints include infrastructure issues, corruption, technology, and demand conditions. Figure 1 shows the conceptual framework for the study.

### 2.4.2 Theories of Growth of Small and Micro Enterprises

Various theoretical models have been developed which describe the growth of SMEs. One class of theoretical

models focuses on the learning process, either active or passive, and the other models refer to the stochastic and deterministic approaches.

***Passive Learning Model:*** In the Passive Learning Model (PLM) (Jovanic 1982 cited in Agaje 2004), a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates (Stranova, 2001, Cunningham and Maloney 2001 and Goedhuys, 2002).

***Stochastic and Deterministic Approaches:*** The other set of growth theories of firms include the Stochastic and Deterministic Approaches The stochastic model, which is also known as the Gibrat's Law, argues that all changes in size are due to chance. Thus, the size and age of firms has no effect on the growth of SMEs. According to Becchetti and Trovato (undated) empirical of the law has indicated that it only considers size and age as potential variables which may significantly affect firm growth by neglecting other explanatory variables which may significantly affect firm growth. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics (Becchetti and Trovato, undated and Pier Giovanni et al., 2002).

### 2.5 Empirical Literature

A number of studies have been conducted on microfinance and SMEs in Kenya. For instance, China Microfinance Industry Assessment Report provided by the China Association of Microfinance gives the definition of microfinance in China, and examines the impacts of microfinance development at macro, meso, and micro levels, spanning over agricultural industry, financial markets, and social vulnerable groups such as women and farmers (He, Du, Bai, and Li, 2009).

Many studies then have focused on each level specifically. Li (2006) concludes that microfinance has offered an effective finance method for the construction of new socialist rural regions and has won the support of agriculture and farmers. Dyar, Harduar, Koenig, and Reyes (2006) together examine the impact of microfinance on gender inequality in China and have discovered that there are many benefits to providing microfinance to women, despite lack of conclusive evidence on significantly reducing gender inequality. Microfinance allows women to enjoy greater economic power, better living quality, and stronger social and political empowerment. Park, Ren, and Wang, (2004) assess the potential role of microfinance for financial reform in China and suggest that China's financial reforms have yet to create an institutional space in which microfinance can operate, thrive, and expand. Therefore, expansion of microfinance will almost definitely have to await substantial further progress in creating a well-developed commercial, financial system. In the meantime, however, microfinance programs are competing with China's official financial institutions and levying pressure on the practice and reform of the rigid state-owned financial institutions.

In addition to research on reform, studies have also been conducted on the structure of microfinance. Sun (2008) studies the policy and legal framework for microfinance and suggests that governments will have to continue to focus on improving the legal and political environment for microfinance if the industry is to continue to grow and prosper. Park and Ren (2001) study the nongovernmental and governmental microfinance programs from cultural perspective and find that nongovernmental programs perform well in aspects of reaching the poor (targeting), guiding financial and operational performance (sustainability), and establishing program benefits (impact). Meanwhile, Tsai (2004) points out four reasons for the existence of informal microfinance service: the limited supply of formal credit; limits in state capacity to implement its policies; the political and economic segmentation of local markets, and the institutional weakness of many microfinance programs.

To study the development of SMEs in, Chen (2006) gives an overview of the historical development and current status of SMEs worldwide and examines major political initiatives contributing to the development of SMEs. Liu and Yu (2008) look into the structure of Africa's financial system and argue that insufficient development of rural SMEs and regional divergence in SME development are important causes of urban-rural income inequality. Shen, Shen, Xu, and Bai (2009) further examine how bank size, discretion regarding credit, incentive schemes, industrial competition, and institutional environment could affect lending.

Previous studies have also shown that a number of factors hamper the growth of small businesses, including lack of capital or financial resources, however, the degree to which limited financial resources alone are a major obstacle to business development is still controversial. For example, findings show that additional capital is often not required to carry out a successful business activity and that lack of capital can be compensated through creativity and initiative (Hart, 1972; Harper and Soon, 1979; Godsell, 1991; Dia, 1996). In

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

On the other hand, some researchers have argued that small businesses are under-capitalized. Many entrepreneurs tend to depend upon their own or their family's savings to start and operate a business; this means of capitalization is limited. Thus, access to capital remains a challenge. For example, Kallon (1990) found that 65.6 percent of the firms studied depended upon personal savings as their sole source of capital, 10.9 percent had access to family savings, 9.4 percent used commercial banks, and 7.8 percent drew resources from partners and shareholders and other sources. Keyser *et al.,* (2000) found that in Zambia, a lack of starting capital was a common problem for entrepreneurs, as only 24 percent of entrepreneurs received a loan to start their business.

Another study by Koop *et al.* (2000) found that the amount of starting capital was positively related to business success. Research on the role of capital in determining the success or failure of small businesses in Africa is contradictory and, therefore, remains unclear. This magnifies the importance of this study: gaining a better understanding of the role of capital in the success or failure of small business in Nigeria becomes vital. Overall, most small businesses cannot meet the requirements for commercial loans because they lack collateral, and those who do meet the requirements still find them prohibitively expensive in terms of repayment terms (Kiggundu, 1988; Trulsson, 1997; van Dijk, 1995 Kiggundu, 1988; Trulsson, 1997; van Dijk, 1995; Gray *et al.,* 1997).

Management problems, including accounting, finance, personnel, and management issues, have been cited as a major cause of business failure for small businesses. The findings of a study by Tushabomwe-Kazooba (2006) revealed that poor recordkeeping and a lack of basic business management skills are major contributors to small business failure in Africa. The lack of management experience often makes it difficult for business owners to succeed. Researchers have also identified other factors hindering the success of small businesses, such as poor bookkeeping, inexperience in the field of business and the lack of technical knowledge, poor managerial skills, lack of planning, and lack of market research (Lussier, 1996; Mahadea, 1996; Murphy, 1996).

Other acknowledged factors which negatively affect small business development include corruption, poor infrastructure, poor location, failure to conduct basic market research, and the economy (Tushabomwe-Kazooba, 2006; Mambula, 2002). For example, Kiggundu (2002) argued that the major challenges that face African businesses include, bribery, dishonest, and other illegal business conducts. These activities have hampered business entrepreneurial in sub-Saharan African in general and Kenya in particular. These unethical activities enable those in positions of power, control, and influence to make fast and illegal money. In general, corruption affects people in different occupations, including small businesses.

In addition to undermining the legal framework, national integrity, and regulatory system, it also undermines the trust and confidence of business owners (Langseth and Stapenhurst, 1977; Pop, 2002). Practically every African country has its own version of corruption at a great cost to entrepreneurs, the economy, public administration, and society at large. However, the impact of corruption on small business development still remains unclear from prior research. An understanding of the specific impact of corruption on small business development is, therefore, crucial in terms of developing strategies to address the issue.

The studies cited in this brief review have indicated that issues such as lack of finance, poor management, corruption, lack of infrastructure, and poor accounting/bookkeeping are major obstacles to small business development in Africa. However, it is important to point out that there are other factors that impact small business development in Africa that must be investigated. Such factors include low demand for products and services, and inability to use or acquire technology. One of the major contributions of small business ownership is that it allows people, especially the poor, to enter the economic and social mainstream of society (Harris and Gibson, 2006). Nigeria will rely upon small businesses to drive economic growth and eliminate poverty. The business failure rate in Nigeria indicates that new and young businesses are in dire need of assistance. To provide such assistance, it is necessary to identify the problems they face.

### *2.5.1 Growth of SMEs*

According to USAID (2002), the standard measure of growth used in studies of SMEs firms is the change in the number of workers since start up. This variable is relatively easy for respondents to remember and does not need to be deflated. In addition, Liedholm and Mead (1999) contend that job creation is an important social goal and development objective and policies to support small enterprises are frequently justified on their supposed employment effects (Liedholm and Mead, 1999; Voulgaris *et al.,* 2003). This study also emphasizes employment growth.

The definition of employment includes working owners (entrepreneurs) because of job creation for owners may be equally valuable as jobs created for others from a social welfare point of view. Workers on external contracts are also included. It also includes paid part-time and full time family members. On the other hand, unpaid family helpers and apprentices are excluded, because their relationship is more frequently part time and casual and because they cannot be reliably measured in all years (USAID 2002).

Some studies, however, show the biases that might arise from use of employment as an exclusive measure of growth instead of alternative indicators such as changes in sales, outputs, or assets (USAID 2001). This is because of the seasonal nature of most SMEs employment, from the prevalence of part time work and from the extensive use of unpaid family labor including children as well as the slowly growing nature of employment, which appears to increase with a lag after a sizeable growth in real sales (USAID 2001). Some critics also raise the issue of job quality to the forgoing argument against using employment as a measure of growth. They contend that most Small Medium sector employment is presumed to bring less pay and fewer benefit.

Accordingly, Acs and Audretsch (1990) cited in Ajare (2004) define SMEs growth as an average change in sales. However, according to Gupta (1996) cited in Voulgaris et al 2003, enterprise performance and profitability is not related to growth of sales, since some companies may be able to maintain high profits ,even with a declining growth rate Some analysts of the growth of small businesses suggest the need to define employment effects to the context and aspirations of the potential beneficiaries' .Poor jobs, which require few skills, and are short term, intermittent and lowly paid may still be better than nothing for the unemployed and underemployed. In addition, they can provide flexible options for individuals, such as women, who have extensive competing obligations. They may also provide opportunities for men to live with their families, rather than migrating for work.

Liedholm and Mead (1999), contend that the growth of employment remains to be a substantial measure of firm growth. If there is a need for an objective, neutral, and relatively easily applied definition for use in research, employee number is probably the best unit of measurement. Studies, which took employment as an indicator of enterprise growth, indicate that small firms are contributing to a greater degree for annual number of jobs created. In analyzing employment growth, some researchers choose to use annual compound growth rates or simple annual employment growth while others use the rate of total the number of employment change since start up. The compound annual growth is usually preferred.(Liedholm and Mead, 1999; Liedholm, 2001; USAID, 2001 and Goedhuys 2002).

### *2.5.2 SMEs and Economic Growth Development*

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits (Advani, 1997). SMEs have been noted to be one of the major areas of concern to many policymakers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to with stand adverse economic conditions because of their flexible nature (Kayanula & Quartey, 2000). SMEs are more labor intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995). They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labor intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labor intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula & Quartey, 2000).

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry *et al.*, 2002).

From an economic perspective, however, enterprises are not just suppliers, but also consumers. This plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry *et al.*, 2002).

In a study conducted on evaluation of funding SMEs in Nigeria by Ogboru, (2007). It was found out

that SMEs were fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership. The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Nigeria. SMEs not only contribute significantly to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic or local capital formation and achieve high levels of productivity and capability.

Access to financing continues to be one of the most significant challenges for the creation, survival and growth of SMEs, especially innovative ones. The problem is strongly exacerbated by the financial and economic crisis as SMEs and entrepreneurs have suffered a double shock: a drastic drop in demand for goods and services and a tightening in credit terms, which are severely affecting their cash flows. Governments are responding generally by three types of measures aimed at: (i) supporting sales and preventing depletion of SMEs' working capital; (ii) enhancing SME's access to liquidity; (iii) helping SMEs to maintain their investment level. The present report brings to the attention of governments recommendations to tackle the long-standing deficiencies in the SME financial environment, as well as to prepare SMEs and entrepreneurs for a phase of innovation-led growth.

In October 2008, the OECD Working Party on SMEs and Entrepreneurship (WPSMEE) started a debate on the impact of the global crisis on SMEs and entrepreneurs' access to finance and on government responses in this area. A survey among member and non-member countries was subsequently conducted in January and February 2009 to gather information on the situation and on the measures adopted or to be adopted by governments, in order to contribute to *the OECD Strategic Response to the Financial and Economic Crisis* launched by the Secretary General. Twenty-nine countries, the European Commission and the European Investment Fund responded to the questionnaire.

However, the current status of SMEs access to credit, to reflect the effort the government put in a promoting SMEs growth and development is yet to yield the desired result. According to Mensah, (2004) there are many who believe that the single most important factor constraining the growth of SMEs sector is the lack of finance. There are many factors that can be accounted for this lack of finance. Some of these factors are a relatively undeveloped financial sector with low levels of intermediation, lack of institutional and legal structures that facilitate the management of SME lending risk, and high borrowing cost and rigidities in interest rates. Due to the persistent financing gap, many interventions have been launched by the government and development partners to stimulate the flow of financing to SMEs over the and above what is available from existing private sector financial institutions.

### *2.5.3 General Constraints to SME Development*

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs.

The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services like National Board For Small scale Industries (NBSSI) , there is still a skills gap in the SME sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey *et al.*, 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank Doing Business Report (2006) cited in Abor & Quartey(2010), indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. It takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues. Meanwhile, the absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SMEs' access to foreign technologies (Kayanula & Quartey, (2000).

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede SMEs' expansion into international markets (Aryeetey *et al.*, 1994). They also lack the necessary information about foreign markets. One important problem that SMEs often face is access to capital (Lader, 1996). Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook & Nixson, 2000).

A large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity, or indeed to financial services more generally (Parker *et al.*, 1995). In competing for the corporate market, formal financial institutions have structured their products to serve the needs of large corporate organizations. A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (see BEES, 1995; Graham and Quattara, 1996; Rwingema and Karungu, 1999).

The situation is not different in the case of Kenya, access to finance has been identified as a dominant constraint facing the Kenyan Small and Micro Enterprises (SME) sector.(Abor & Bikpe,2006). *A priori*, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green *et al.,* 2002). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons.

### 2.6 Conceptual Framework

The conceptual framework for the study is depicted in figure 2.1 below.

**Independent Variables** **Dependent Variable**

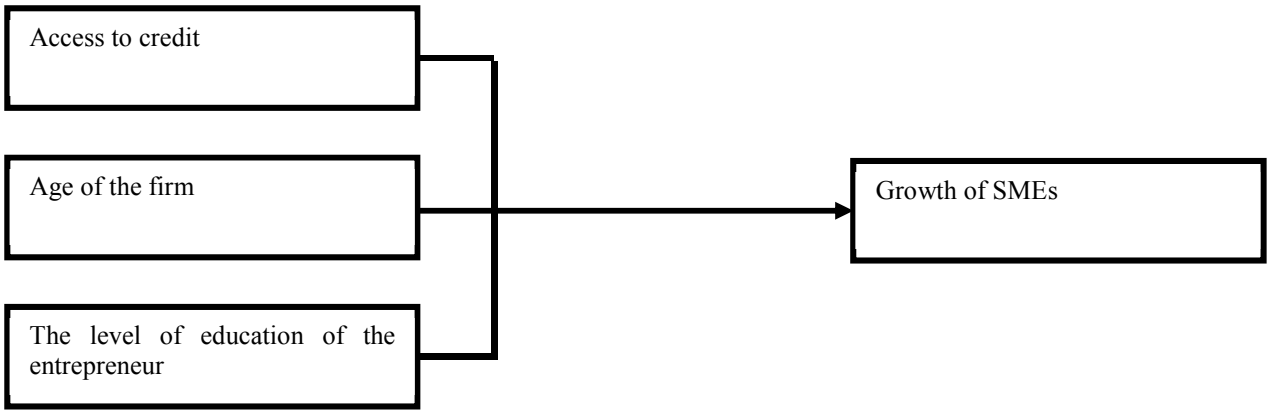



**Figure 2.1: Conceptual Framework**
**Source:** Author, 2013.

#### 2.6.1 Relationship between Independent Variables and Dependent Variable

This section presents the relationship between the independent variables and the dependent variable.

***Access to credit:*** Availability of credit from formal sector like financial institutions and banks and also availability of credit from the informal sector like personal savings and family assistance for the last two years. Those SMEs that have access to credit from formal and informal sector are expected to grow. A value of one (1) was given to a firm that had access to credit and zero (0) to a firm that never had access to credit

***Age of the firm:*** Firm age is defined as the absolute number of years of existence since the start up. Older firms grow faster than the younger ones because of the experience over the years. Thus there prevail a positive relationship between the enterprise grow and its age.

***The level of education of the entrepreneur:*** It is expected that entrepreneurs with higher level of education would be more likely to grow than those with however level of educations (indicator variables, one for

Elementary school, two for Secondary, three for HND/ Degree and four for Master Degree and above.

### 2.7 Research Gaps

From the foregoing, little research has found the connection between microfinance and the growth of SMEs. We have seen the research conducted in Africa that aims to find the impact of microfinance on entrepreneurial development in various parts of the world. However, countries in Africa are less developed. The paper shows that microfinance plays a crucial rule in the revenue and profit growth of SMEs. However, these researchers have not focused on the link between access to credit and growth of Small and Micro Enterprises, especially in Kenya. The establishing the link between access to credit and growth of Small and Micro Enterprises would be a vital major step in addressing the issue, especially from policy formulation perspective.

## 3 METHODOLOGY

### 3.1 Introduction

This chapter articulates methodology for the research. In the previous chapter, literature pertaining to the study was reviewed, the theories and models used when conducting the study were discussed and research gaps identified. This chapter discusses the criteria for determining the appropriate methodology for the study, the research design, including the target population, data collection methods, research procedures, data analysis, interpretation and presentation are described. The following sections provide a detailed description of the research methodology used in the study.

### 3.2 Research Design

Research design is the master plan for collection and analysis of data which aids in answering the research questions. Research design is the general plan of how the researcher went about answering research questions. It specifies the sources from which the researcher intends to collect data, measurement and analysis of data, (Saunders, Lewis and Thornhill, 2009). Various authors recommend the use of descriptive design (Orodho, 2004) contends that, to produce information that is of interest to policy makers even in business descriptive design is helpful. This involved collection of information by administering questionnaires and interviewing a sample of individuals. The study adopted a descriptive research design. A descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variable of interest in a situation (Kothari, 2008). Regression analysis was undertaken to measure relationships between the independent variables and the dependent variable.

### 3.2 Population of the Study

Given the nation-wide spread of SMEs in Kenya, the population of interest in this study included all registered SMEs in manufacturing sector of Nairobi CBD. The SMEs included all the manufacturing industries engaged in batik tie and dye, dressmaking, furniture production, weaving, bee making, poultry production, wood carvers, bakers and others in Nairobi CBD because most of the SMEs in the area are engaged in these activities.

### 3.3 Sampling Techniques and Sample Size

The sampling frame for the study included all the registered manufacturing SMEs in Nairobi CBD. The sampling size of the research was 80, which represent both SMEs that access credit from the formal financial institutions and non-formal financial institutions and those that did not. This helped the researcher to track the effect of credit accessibility and its effect on growth of SMEs. The sampling size of 80 was from the SMEs in Nairobi CBD using simple random sampling technique which is a probability sampling method which draws a portion of a population so that each member of the population has an equal chance of being selected. In other words, in a random sampling all possible samples of fixed size have the same probability of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member.

### 3.3 Data Collection

The study used both primary and secondary data. Data collected for a specific purpose are known as primary data. The essence of obtaining such data is to ensure that the exact information wanted for the study was obtained. The secondary data was obtained from other sources such as; articles, journals which were relevant to the study, past research work, dissertation and thesis containing the necessary data relevant to the study. The instrument to be employed for this study was a well structured questionnaire. The questionnaires were administered by means of interview and mail methods. Ten enumerators conducted the interviews. The enumerators were well trained by the researcher. The questionnaires were administered to the owner of SMEs in Nairobi CBD to ascertain whether the credit accessibility could lead to the growth of SMEs. The questionnaires for this study were designed in two parts. Part one covers questions on the Bio data of then SMEs owners. This

requires such details of the respondents as sex, age marital status, level of education, position of the respondent in the enterprise and the working experience of the respondents in the Enterprise. The second part contains the questions relating to the business background information. The responses for the second part form the basis of the data presentation and analysis.

The questions were both open and closed ended questions. The open ended questions gave the respondents freedom to decide the detail and the length of his/her answer. It enabled the respondents to give a more adequate presentation of his/her particular case and convey flexibility in his choice. The closed ended questions, however, were designed to keep the questionnaire to a reasonable length and this encouraged response and validity in terms of the representativeness of the return. It also minimized the risk of misinterpretation unlike the open ended question. Lastly, it permitted easier tabulation and interpretation by the researcher. The question on whether to use either of the questionnaires can be resolved on the basis of validity and reliability.

### 3.4 Data Analysis

The Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. SPSS is preferred because of its ability to cover a wide range of the most common statistical and graphical data analysis. The collected data from the questionnaire and secondary sources was systematically organized in a manner to facilitate analysis. The data pertaining to profile of the respondents and the organizations were analyzed using content analysis. Cooper and Schindler (2005) states that content analysis may be used to analyze written data from experiments, observations, surveys and secondary sources. Quantitative data was analyzed using content analysis while quantitative data was analyzed using descriptive statistics, which include frequencies, percentages, means cores and standard deviations. In order to establish the relationship between the independent and dependent variables, inferential statistics were used.

#### 3.4.1 Specification of the Model

A Statistical model was specified to examine the effect of access to credit on the growth of the SMEs in Nairobi CBD. It is a multiple regression model where the growth of the firm is made the dependent variable with a host of independent variables. Among the independent variables are; total investment, access to credit, startup capital, age of the firm, educational level and annual turnover.

Thus we have; the multiple regression model of the form:

$FGi=BO + B1iAC + B3iAF + B5iEL + e$i

Where:

$FG$ = Firms Growth
$AC$ = Access to Credit
$AF$ = Age of the Firm
$EL$= Educational Level
$e$ = the error term
$i$ = 1…..n, where n is the number of firms
$B$'s = are multiple regression coefficients estimated.

The expected signs $B1,>0$, $B2>0$, $B3>0$, $B4>0$, $B5>0$ and $B5>0$

The determinants of growth of SMES include; access to credit, age of firm, number of employees, total investment, total income, sales output, educational level, startup capital, asset base etc. All these enhance growth of an Enterprise but in this study the researcher used number of employees. This was because these indicators were more feasible and can be easily remembered by the owners of SMES. In order to test the validity of the choice of indicators of growth of SMEs, a pilot survey was conducted in other to ascertain and detect any ambiguity in the choice of these indicators of growth. Those that were irrelevant and scaring to the respondents were removed.

#### 3.4.2 Estimation Techniques

The Ordinary Least Squares (OLS) technique was used in estimating the specified econometric model. Apart from its simplicity, it gives reliable estimates. The estimation software was the Microfit Version 4.0.

#### 3.4.3 Evaluation Techniques

Statistical techniques were used to evaluate the estimated specified model. The Adjusted coefficient of determination (R-bar squared) was used to test the best fit line. The R-bar squared also measures the explanatory power of the specified model. The t-ratio was used to determine the significance of the stated variables. The F-Statistic was also used to test the joint significance of the independent variables. It must be pointed out that in a cross section data analysis of this nature, the significance of the F-statistic is crucial as compared to the value of the R-bar squared.

### 3.5 Reliability and Validity

This section presents the reliability and validity of research instruments.

### 3.5.1 Reliability

Miller (2009), defines reliability as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. In short, it is the stability or consistency of scores over time or across raters. Reliability of the questionnaire was be tested by pre-testing the questionnaire with a selected sample. The pre-testing assisted in enhancing the clarity of the questionnaire. A pilot study was conducted to find the instruments reliability and the procedures of administration. Reliability co-efficient was obtained by correlating the scores of odd numbered statement with the score of even numbered statement in the questionnaire. The researcher used test-retest to ascertain the coefficient of internal consistency or reliability. The instrument was administered twice to the same group of subjects at an interval of two weeks. The scores of the first and the second were correlated using Pearson product moment correlation coefficient formula

$$r = \frac{N\sum xy - \sum x \sum y}{[(\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]^{\frac{1}{2}}}$$

Where $\sum xy$ = sum of the gross product of the value of each variable

$(\sum x)(\sum y)$ = Products of the sum of x and the sum of y

N = total number of items

A coefficient of 0.7 was obtained. According to Kothari (2004) a coefficient of 0.5 and above is deemed reliable

### *3.5.2 Validity*

According to The Center for the Enhancement of Teaching, validity refers to how well a test measures what it is purported to measure. Validity is the accuracy and meaningfulness of inferences based on the research results. It is the degree to which results obtained from analysis of the data actually represent the phenomenon under study. It is the correctness and reasonability of the data. It refers to getting result that accurately reflects the concept being measured. In relation to construct validity that is the instruments measure the variables that they are supposed to measure and not other variables. Expert opinion from supervisors was sought to assess the validity of the data collection instruments. The researcher also improved validity, by matching assessment measure to the goals and objectives and by making useful adjustments to the research instruments after the pilot study.

### 3.6 Ethical Considerations

Hammersley, and Traianou (2012), emphasizes that some of the most important ethical principles in educational research are; minimizing harm, harm include among others financial and reputational consequences for the people being studied; protecting privacy; this means to keep data confidential; and respecting autonomy; that is showing respect for people in the sense of allowing them to make decisions for themselves, notably about whether or not to participate. In this study the researcher treated all the gathered information with utmost confidentiality to safeguard the public reputation of organizations and people concerned. Informed consent was obtained by informing the respondents the purpose of the study and benefits of participation, so as to provide sufficient information so that a participant can make an informed decision about whether or not to continue participation.

## 4 RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presents the findings of the study, the analysis of the data obtained and presentation. The findings were analyzed using simple percentages and presents in form of tables, graphs and pie charts. To facilitate the analysis of data, a number of questions were posed to the respondents by use of questionnaires which indicated more realistic results regarding the respondent's selection of alternatives. The study targeted 80 questionnaires, however 75 questionnaires were successfully filled and returned (93.8%) response rate. The response rate is summarized and presented in table 4.1 below.

**Table 4.1: Response Rate Analysis**

| Response Rate | Frequency | Percentage |
|---|---|---|
| Response | 75 | 93.8 |
| No Response | 5 | 6.2 |
| **Total** | **80** | **100** |

**Source: Author (2013)**

## 4.2 Background Information

### *4.2.1 Background information of the firms that participated in the study*

**Registration status of SMEs:** The respondents were asked to state whether their respective businesses were registered. The responses are summarized and presented in table 4.2 below.

**Table 4.2: Registration status of firms**

| Response Rate | Percentage |
|---|---|
| Response | 67% |
| No Response | 33% |
| **Total** | **100** |

The findings show that majority of the respondent SMEs (67%) were registered as compared to 33% that were not registered.

***Period of existence of respondent SMEs:*** Respondents were asked to specify the period of time in years that their respective businesses had been operational, with a view to determining the extent to which they had the ability to provide objective responses to the study questions. The responses are summarized and presented in figure 4.1 below.

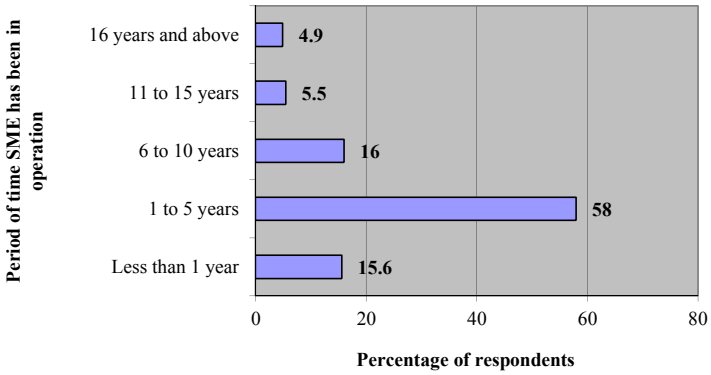



**Figure 4.1: Period of existence of respondent SMEs**

The findings in figure 4.2 above show that (15.6%) of the businesses have been in existence for less than a year, (58.0%) have been in existence for a period of between 1 to 5 years, (16.0%) of the businesses have been in existence for a period of between 6 to 10 years, (5.5%) of the business had been in operation for between 11 and 15 years, and (4.9%) of the businesses have been in existence for more than 16 years. The findings shows that at least (84.4%) of the businesses have been in existence for a period exceeding 5 years, hence the responses were expected to be objective.

***Number of full time employees:*** The respondents were then asked to state the number of full time employees in their respective organizations. The researcher sought to determine the size of operations of the various businesses. Responses are summarized and presented in figure 4.2 below.

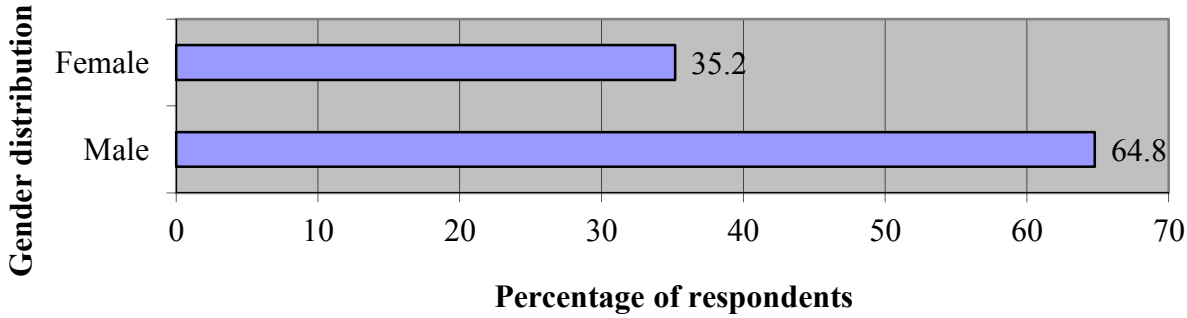

**Figure 4.2: Number of full time employees**

The findings in table 4.2 above shows that majority the respondents (98%) have less than 25 full time employees, (16%) of the respondents have 26 to 50 employees and (0.3%) of the respondents have between 51 to 75 employees. None of the respondent SMEs had over 76 full time employees.

### *4.2.2 Background information of the respondents*

***Gender distribution of respondents:*** Respondents were asked to indicate their gender, with a view to determining the gender distribution of the owners/managers of SMEs in Nairobi CBD. It is enshrined in the reviewed Kenya Constitution that all positions of employment should adhere to the one third rules, where no single gender should constitute more than two thirds of the employees. This was an important indicator of the gender parity of the staff of the SMEs in Nairobi CBD. The finding of the study are summarized and presented in figure 4.3 below.




The findings in figure above shows that majority of the respondents (64.8%) are male and (35.2%) of the respondents are female. The findings indicate that ownership/management positions of the respondent SMEs in Nairobi CBD are male dominated.

***Age distribution of respondents:*** Respondents were asked to indicate their age by ticking as appropriate against given age brackets. The responses are summarized and presented in figure 4.4 below

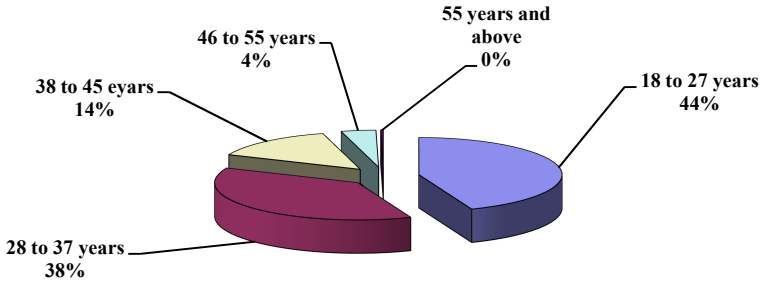



**Figure 4.4: Age distribution of the respondents**

The findings in figure 4.4 above shows that majority of the respondents (44%) are aged between 18-27 years, (37.5%) of the respondents are aged between 28-37 years, (14.3%) of the respondents are aged between 38-45 years, (3.9%) of the respondents are aged between 46-55 years and (0.3%) of the respondents are aged over 55 years.

***Highest academic qualification:*** The respondents were asked to state the highest level of education they had attained. It is assumed that the higher the level of education of a respondent, the more objective the responses that the respondent is able to provide. The findings are summarized and presented in figure 4.3 below.

**Table 4.3: Highest academic qualification**

| Academic qualification | Percent | Mean score | Standard deviation |
|---|---|---|---|
| Primary school | 3.6 | | |
| Secondary school | 29.6 | | |
| College education | 59.9 | | |
| University education | 6.8 | | |
| **Total** | **100.0** | **2.70** | **0.65** |

The findings in table 4.3 above shows that majority of the respondents (59.9%) are college graduates, (29.6%) of the respondents qualified for secondary education, (6.8%) of the respondents are university graduates and (3.6%) of the respondents qualified up to primary school. The findings show that majority of the respondents, (66.7%)

had at least attained a tertiary college education certificate. The responses provided were thus expected to be objective.

***Period of time respondent has managed the business:*** Respondents were asked to indicate the period of time they had managed the business, with a view to determining their ability to articulate issues pertaining to their respective businesses. It is expected that the longer one serves in an organization the more one understands operations of the organization, and hence the higher the ability to articulate issues related to the organization. The responses are summarized and presented in table 4.4 below

**Table 4.4: Time period respondent management the business**

| Period of management | Valid Percent | Mean score | Standard deviation |
|---|---|---|---|
| Less than 1 year | 18.2 | | |
| 1 and 5 years | 55.7 | | |
| 6 and 10 years | 20.2 | | |
| 11 and 15 years | 1.6 | | |
| 16 years and above | 4.2 | | |
| **Total** | **100.0** | **2.18** | **0.90** |

The findings in table 4.4 above shows that majority of the respondents (55.7%) have managed their businesses for a period of between 1 and 5 years, (20.2%) of the respondents have managed their businesses for a period of between 6 and 10 years, (18.2%) of the respondents have managed their businesses for less than a year, (4.2%) of the respondents have managed their businesses for more than 16 years and 1.6% of the respondents have managed their businesses for a period of between 11 and 15 years.

***Whether the SMEs had ever accessed credit:*** The respondents were asked to indicate if they had ever accessed credit to start or expand their SMEs. The responses are summarized and presented in table 4.5 below.

| Access to credit | Percentage |
|---|---|
| Yes | 18.2 |
| No | 55.7 |
| **Total** | **81.8** |

Findings show that majority of the respondents (81.8%) had never accessed credit to facilitate start-up or expansion of their SMEs. Further, the respondents who had never accessed credit were asked to list and briefly explain the reasons for their inability to access credit. The responses are summarized and presented follows: the main obstacles from the SME's point of view are (a) lack of information and advice from financial institutions; (b) complexity and inconvenience related to the loan application process. Many documents are required by banks and the average loan application process takes longer than 30 days; (c) inadequate qualification of SMEs; (d) Expenses/fees and interest rate charged; (e) lack of collateral.

### 4.3 Descriptive statistics

In order to meet the three specific objectives of the study, (i) to examine the extent to which access to credit influences growth of SMEs in Nairobi CBD; (ii) to explore the extent to which age of the firm influences growth of SMEs in Nairobi CBD; and (iii) to assess the extent to which level of education of the entrepreneur influences growth of SMEs in Nairobi CBD, the respondents were provided with a listing of some of the factors that influence the growth of SMEs. With respect to your enterprise, please indicate the extent to which each of the factors has influenced growth of your enterprise by ticking as appropriate against given alternatives. Where 5 = to a very great extent; 4 = to a great extent; 3 = to a moderate extent; 2 = to a low extent; and 1 = to no extent at all. The responses are summarized and presented in table 4.5 below.

**Table 4.5: Factors influencing growth of SMEs in Nairobi CBD**

| Factors influencing growth of SMEs | Extent of influence (Percentage) | | | | |
|---|---|---|---|---|---|
| | to a very great extent | to a great extent | to a moderate extent | to a low extent | to no extent at all |
| Access to credit | 47 | 32 | 12 | 6 | 3 |
| Age of the SMEs | 39 | 36 | 11 | 7 | 7 |
| Educational level of the entrepreneur | 37 | 35 | 15 | 8 | 4 |
| **Total** | | | | | |

***Rankings of the factors influencing growth of SMEs in Nairobi CBD:*** The factors were then ranked in terms of extent of influence of each factor on growth of SMEs, where only responses related to (5) a very great extent; (4)

to a great extent; and (3) to a moderate extent were considered. The responses are summarized and presented in table 4.6 below.

**Table 4.6: Rankings of the factors influencing growth of SMEs in Nairobi CBD**

| Factors influencing growth of SMEs | | Percentages | | | |
|---|---|---|---|---|---|
| | to a very great extent | to a great extent | to a moderate extent | Total | Ranking |
| Access to credit | 47 | 32 | 12 | 91 | 1 |
| Age of the SMEs | 39 | 36 | 11 | 86 | 3 |
| Educational level of the entrepreneur | 37 | 35 | 15 | 87 | 2 |

The rankings show that whereas access to credit was considered as having the highest positive influence on growth of SMEs (91%), educational level of the entrepreneur was ranked second(87%) and age of the SMEs (86%) was ranked third.

### 4.4 Regression Analysis

Multiple regression analysis was employed to evaluate constraints to customer satisfaction by determining the magnitude and or direction of the relationship between the study variables. The analysis was carried out at a 95% confidence level. Table 4.7 below presents the findings from the regression analysis. Thus we have; the multiple regression model of the form:

$FGi=BO + B1iAC + B3iAF + B5iEL + ei$

Where:

$FG$ = Firms Growth
$AC$ = Access to Credit
$AF$ = Age of the Firm
$EL$= Educational Level
$e$ = the error term
$i$ = 1…..n, where n is the number of firms
$B$'s = are multiple regression coefficients estimated.
The expected signs $B1,>0$, $B2>0$, $B3>0$, $B4>0$, $B5>0$ and $B5>0$
The determinants of growth of SMES include; access to credit, age of firm, number of employees, total investment, total income, sales output, educational level, startup capital, asset base etc.

**Table 4.7: Regression analysis**

| Coefficients | | | | | | |
|---|---|---|---|---|---|---|
| | | Unstandardized Coefficients | | Standardized Coefficients | | |
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 2.659 | .178 | | 14.930 | .001 |
| | Access to Credit | .126 | .041 | .583 | 3.048 | .004 |
| | Age of the firm | .005 | .037 | .351 | .128 | .049 |
| | Educational level of the entrepreneur | .088 | .061 | .317 | 1.439 | .159 |

a. Dependent Variable: Financial inclusion

**Model Summary**

| Model | F | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|---|
| 1 | 19.34 | .801 | .641 | .493 | .20123 |

Findings in Table 4.7 indicate that the three factors (access to credit, age of the firm and educational level of the entrepreneur) have a positive (F=19.34) and significant (P<0.05) relationship to financial inclusion. The findings also indicate that only access to credit (p<0.05) is the only statistically significant factor influencing growth of SMEs in Nairobi CBD. The multiple R shows the relationship multiple linear relationships between the Dependent variables and independent variables. R-Square is the square of the sample correlation coefficient between outcomes and the predicted values. Substituting the co-efficients in table 4.7, the study model was: Y = 2.659 + 0.126 AC + 0.005AF + EL0.088 + 0.2. The findings indicate that geographical coverage has the highest

contribution to financial inclusion since a change in 1 unit of access to credit accounts for a 12.6% change in growth.

## 5.0 CONCLUSION

### 5.1 Introduction

This chapter provides the summary of what the findings entails answers to research questions, conclusions of the researcher findings and there after gives the recommendation of the research study so as to assist the bank increase its market share. Finally the study has provided the suggestions for further research to this study.

### 5.2 Summary of findings

The study sought to examine the factors influencing growth of Small and Medium Scale Enterprises in Nairobi Central Business District in Kenya. The study was guided by the following specific objectives: to examine the extent to which access to credit influences growth of SMEs in Nairobi CBD; to explore the extent to which age of the firm influences growth of SMEs in Nairobi CBD; and to assess the extent to which level of education of the entrepreneur influences growth of SMEs in Nairobi CBD. The survey targeted 80 Small and Micro Enterprises in the manufacturing sector from Nairobi Central Business District. However, 75 questionnaires were successfully filled and returned (93.8%) response rate. A summary of the findings is presented below.

The findings show that majority of the respondent SMEs (67%) were registered as compared to 33% that were not registered. The findings also show that (15.6%) of the businesses have been in existence for less than a year, (58.0%) have been in existence for a period of between 1 to 5 years, (16.0%) of the businesses have been in existence for a period of between 6 to 10 years, (5.5%) of the business had been in operation for between 11 and 15 years, and (4.9%) of the businesses have been in existence for more than 16 years. The findings show that at least (84.4%) of the businesses has been in existence for a period exceeding 5 years, hence the responses were expected to be objective.

The findings also show that that majority the respondents (98%) have less than 25 full time employees, (16%) of the respondents have 26 to 50 employees and (0.3%) of the respondents have between 51 to 75 employees. None of the respondent SMEs had over 76 full time employees. The findings in figure above shows that majority of the respondents (64.8%) are male and (35.2%) of the respondents are female. The findings indicate that ownership/management positions of the respondent SMEs in Nairobi CBD are male dominated. The findings show that majority of the respondents (44%) are aged between 18-27 years, (37.5%) of the respondents are aged between 28-37 years, (14.3%) of the respondents are aged between 38-45 years, (3.9%) of the respondents are aged between 46-55 years and (0.3%) of the respondents are aged over 55 years.

With respect to academic qualifications, the findings in table 4.3 above shows that majority of the respondents (59.9%) are college graduates, (29.6%) of the respondents qualified for secondary education, (6.8%) of the respondents are university graduates and (3.6%) of the respondents qualified up to primary school. The findings show that majority of the respondents, (66.7%) had at least attained a tertiary college education certificate. The responses provided were thus expected to be objective. Majority of the respondents (55.7%) have managed their businesses for a period of between 1 and 5 years, (20.2%) of the respondents have managed their businesses for a period of between 6 and 10 years, (18.2%) of the respondents have managed their businesses for less than a year, (4.2%) of the respondents have managed their businesses for more than 16 years and 1.6% of the respondents have managed their businesses for a period of between 11 and 15 years.

With respect to accessibility to credit, findings show that majority of the respondents (81.8%) had never accessed credit to facilitate start-up or expansion of their SMEs. Further, the respondents who had never accessed credit were asked to list and briefly explain the reasons for their inability to access credit. The responses are summarized and presented follows: the main obstacles from the SME's point of view are (a) lack of information and advice from financial institutions; (b) complexity and inconvenience related to the loan application process. Many documents are required by banks and the average loan application process takes longer than 30 days; (c) inadequate qualification of SMEs; (d) Expenses/fees and interest rate charged; (e) lack of collateral.

In order to meet the three specific objectives of the study, (i) to examine the extent to which access to credit influences growth of SMEs in Nairobi CBD; (ii) to explore the extent to which age of the firm influences growth of SMEs in Nairobi CBD; and (iii) to assess the extent to which level of education of the entrepreneur influences growth of SMEs in Nairobi CBD, the respondents were provided with a listing of some of the factors that influence the growth of SMEs. With respect to your enterprise, please indicate the extent to which each of the factors has influenced growth of your enterprise by ticking as appropriate against given alternatives. Where 5 = to a very great extent; 4 = to a great extent; 3 = to a moderate extent; 2 = to a low extent; and 1 = to no extent at all. The factors were then ranked in terms of extent of influence of each factor on growth of SMEs, where only responses related to (5) a very great extent; (4) to a great extent; and (3) to a moderate extent were considered. The rankings show that whereas access to credit was considered as having the highest positive influence on

growth of SMEs (91%), educational level of the entrepreneur was ranked second(87%) and age of the SMEs (86%) was ranked third.

Multiple regression analysis was employed to evaluate constraints to customer satisfaction by determining the magnitude and or direction of the relationship between the study variables. The analysis was carried out at a 95% confidence level. The findings indicate that the three factors (access to credit, age of the firm and educational level of the entrepreneur) have a positive (F=19.34) and significant (P<0.05) relationship to financial inclusion. The findings also indicate that only access to credit (p<0.05) is the only statistically significant factor influencing growth of SMEs in Nairobi CBD. The multiple R shows the relationship multiple linear relationships between the Dependent variables and independent variables. R-Square is the square of the sample correlation coefficient between outcomes and the predicted values. Substituting the coefficients in the study model was: Y = 2.659 + 0.126 AC + 0.005AF + EL0.088 + 0.2. The findings indicate that geographical coverage has the highest contribution to financial inclusion since a change in 1 unit of access to credit accounts for a 12.6% change in growth.

## 5.3 Conclusions

In view of the findings of the study, the following conclusions are drawn:

### *5.3.1 Influence of credit access to growth of SMEs*

SMEs are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies. SMEs contribute significantly to the economic development of the country in the area of employment, creativity and entrepreneurship. In the course of setting up and operating, they face financial and non financial challenges. Although both challenges have the tendency to slow down the growth of these businesses, the one that is often highlighted is that of access to credit.

From the above, the study concludes as follows:

There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments; There is a need to harmonize those policies and strategies as well as the instruments for implementing them; The legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector; In Kenya, banks do not pay sufficient attention to the development of SMEs. The role of Governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful SME development;

There is a great need for improving different aspects of financial services for SMEs such as seed money, leasing, venture capital, and investment funding. There is a lack of long-term loans; interest rates are still high, etc. All these limit the development of SMEs; Diversification of financial support for start-ups, growing and successfully operating SMEs will significantly contribute to the creation and development of SMEs; It is necessary to take into account in all support programmes the different needs of micro, small and medium-sized enterprises; There is a need for the elaboration of a set of instruments for the monitoring, evaluation and follow-up of different aspects of SME support programmes and activities; and The creation of a system of education and training on different aspects of SME activities for entrepreneurs is crucial to the development of the sector.

### *5.3.2 Age of the firm*

This study sought to assess the influence of age of the firm on growth of SMEs by using the number of employees as an indicator of growth. The generally held view is that age has a significant effect on the growth and performance of SMEs, since mature firms have more experience and a superior financial position to execute their business activities than their less mature counterparts. Moreover, they are also more likely to enjoy economies of scale and be in a better position to leverage their resources. Findings of this study show that indeed firm maturity (age) indeed has a significant effect on business size in terms of number of employees in a firm. The results suggest that firms operating for more than 10 years have a higher number of employees than those operating for fewer years, i.e. that maturity influences small-firm growth in terms of number of employees. This is certainly consistent with the findings of other studies, which suggest that age is an important factor in determining business growth. In addition to the impact of size and age, the study confirmed the findings of previous empirical studies.

### *5.3.3 Education level of the entrepreneur*

Sessional Paper No.2 of 1992 on Small Enterprise and "Jua Kali" Development in Kenya, published in 1992 outlined the contributions of the small enterprise sector to the national economy, the key ones being the following: employment creation; enhancing the participation of indigenous Kenyans in the economy; promotion of local savings and investments; promoting the development of entrepreneurship and managerial skills among local Kenyans; and engendering the acquisition of skills among workers. Policies for improving the performance of the sector included measures geared towards the promotion of research, inter-firm linkages,

technical training and technology extension. Most respondents in this survey named appropriate business training as very important contributing factors to growth. Lack of business management training facilities was also perceived as a major barrier to growth. One of the reasons for this could be the fact that the majority of respondents had not been formally trained in the skills needed to operate an enterprise professionally. This points to a need for the design and delivery of specific business and technical training programmes by national and regional institutions responsible for fostering the growth of women-owned businesses.

As for example, very little specialization originates from the lack of education and training opportunity and these issues must be resolved by the policy of the government through its institutions (because the private interest are reluctant to invest in theses sartorial issues). The entrepreneurs generally come from the rural areas and lack formal and non formal education, and very often lack industrial or business experience and skills. In short, they lack the dynamism to embark on changes. On the other hand, the institutional and policy regimes of the country also fail to create a conducive environment to use appropriate/progressive technology.

## 5.4 Recommendations

This section presents the recommendations for the study.

### *5.4.1 Influence of credit access to growth of SMEs*

In view of the constraints identified in accessing credit by the SMEs, there is the need to look for an alternative model to funding SMEs. The study has identified an alternative model to financing SMEs, which are presented below:

The central government must work hand in hand with the private sector financial services provide to curb the problems facing SME sector in terms of access to financing. The effectiveness of government subsidies in addressing access to finance challenges facing SMEs is controversial issues that need to be empirically investigated. It is therefore paramount to assess the effectiveness of the policy recommendations in the Kenyan literature as well as monitor progress in as far as improving access to finance by SMEs is concerned.

There is the need for SMEs to network or form partnership; pool financial resources and sometimes have joint projects. Such a fund can help these businesses to take such a step. This is because as they interact they could identify common areas of strategic partnership and collaborations.

Secondly, such a Fund would SMEs have access to funds with less or no strings attach to it and possible at no or less costs of capital. Again they would be under relatively lesser pressure to payback without interest compared with loans from banks or other lenders. Also SMEs would access funds without any collateral.

There is the possibility of donor support (from international and domestic agencies) if there is the evidence that the fund is being managed well. Again not only members have access to cheap capital, they could also benefit from investment of their fund in a pool.

SMEs could benefit from additional group training and counseling. The peer-to-peer check would self as a monitoring system for businesses. Members would have a say in how the fund is managed

It is proposed that the government establishes a central data bank on national business activities, including those of SMEs. The system should maintain comprehensive and objective data sets relating to the financing of SMEs, particularly on demand for and supply of financing. To operationalize the system, cluster groups could be established to facilitate provision of cluster specific finance advice and support. Data must also be available in the ethnic languages to ensure that all groups in Kenya have maximum exposure to finance options. It will also be important that the database and general financial information are available in both electronic and non-electronic format, due to variations in computer usage among SMEs. SME financing data will be useful to researchers and policy makers in areas such as: guiding beneficial interventions; avoiding market distortions; identification of real finance gaps within the SME sector; and isolating market bias against specific target groups.

Information on sources of finance needs to be more readily available to SMEs and their advisors. Reliable information is a foundation of effective markets. Currently, the information structures are not clear as information on SME activities is not centralized, hence, government and its agencies should make information provision a core part of their strategy for SME access to the much needed sources of finance. It is therefore suggested that the government should establish a business portal to not only harmonize, but also facilitate provision of online support services to the maximum number of financial and other services. The portal will help facilitate access to global and local markets, enforce appropriate business regulations, enable efficient business processes and stimulate domestic demand for information and communication technologies (ICTs). To ensure that the portal offers the intended benefits, government should develop a subsidized training package for SME-registered operators through tertiary level institutions and other credible advisory service providers such as accounting and computer training organizations.

It is further suggested that computer knowledge could mitigate the perceived problem of access to sources of finance and/or bank products. This could be possible through electronic commerce, business record keeping and information seeking on available alternative sources of finance. Lack of technical skills and

awareness of the benefits of e-commerce may be mitigated through training and programmes to create awareness. In addition, SME operators should be educated through awareness programmes on the existence, access and use of alternative sources of finance such as non-bank credits from suppliers, customer advances, leasing, hire purchase, venture capital, factoring and angel finance.

Lastly, it is proposed that a national business angel network (NBAN) be established under an investment promotion centre to promote and coordinate angel investment in Kenya. The network could be useful for providing an analysis of regional investors and potential investment opportunities. This can also be used as a first point of call by SMEs to obtain financing information on private investors' money.

### 5.4.2 Influence of age of SMEs to growth

### *5.4.3 Influence of level of education of entrepreneur to growth of SMEs*

Based on findings of the study, it is expected that the stakeholders, who include the Government, the SME owners and the agencies offering various support mechanisms to the SMEs will gain a better understanding of the impact of human capacity building on performance of Small and Medium Enterprises. The following measures are recommended in order to enhance capacity building of SMEs in Kenya:

This study identifies that the research, management, and policy development of training in the SME sector needs to be more open and flexible in order to address the idiosyncratic nature of SME requirements. HRM practices in small firms vary greatly and using static models to define the management training and advice needs of small firms is not tenable.

Research, management and policy instruments of training support will need to interact with, and be responsive to, the subtle distinctions of context that will moderate what is more appropriate, and more likely to be welcomed, in the small business sector.

Factors such as difficulties in accessing training, difficulties in SMEs finding time for their employees to do enough training, rapid changes causing significant adjustments to training needs; cost of training prohibits some firms from engaging in training; and they can rarely afford to invest in formal off-site group training sessions. It is recommended that if training is to be offered to SMEs it should encourage as little time away from the workplace; it should be flexible and inexpensive.

The study findings reveal that level of education positively influence the growth of the SMEs. It is therefore recommended that the Government plays a leading role in supporting formal education for the owners and managers of SME. This should include development and maintaining a series of clear and relevant core messages covering what an apprenticeship is and replacing unfounded prejudice with the message that an apprenticeship is both positive for SMEs and the economy at large, and a valid career path alongside the option of going into Higher Education. To ensure consistency, such information should be automatically disseminated to the community of which SMEs are a part (i.e. their peers, advisors, trade associations, Chambers of Commerce, providers etc) and other organizations that promote apprenticeships for use under their own brand. It should also form the core of more inspirational, inspiring and accessible content on the Government website.

Considering that there are many opportunities and entry levels to open for any body wishing to pursue higher education in Kenya, and the various flexible modes of learning, the entrepreneurs should be encouraged to seek higher education.

Clear benefits are recognized for the firm, such as improvement of skills and education level. The extent to which SMEs are active in terms of training, largely depends on whether the business manager sets value on employee development. If employee development is embedded in the company ethos, generally all employees participate in training activities

## 5.5 Recommended areas for further research

Future research should consider the relationship between e-readiness, information asymmetry and SME financing; This study focused on SMEs in Nairobi CBD and Kenya is such a big economy to generalize these findings to other business centres. Therefore, future research opportunities can be exploited by conducting the same study in other business districts; and In the study, the independent variables were: access to credit, age of the firm and education of entrepreneurs. Further research could be explored of the other factors influencing growth of SMEs, which include start-up capital, initial capital invested and annual turnover.

## REFERENCES

Abor, J., & Biekpe, N. (2006). Small business financing initiatives in Ghana. Problems and Perspectives in Management, 4(3), 69-77.

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. International Research Journal of Finance and Economics, (39), 218-228.

Acs, Z.J. and D. Audretsch (1990), The Economics of Small-Firms: A European Challenge, Kluwer Academic Publishers, Dordrecht.

Agarwal, R. and Audretsch, D.B. (2001). “Does Entry Size Matter? The Impact of the Life Cycle and

Technology on Firm Survival", Journal of Industrial Economics, 49, 21-43
Anheier H.K and Seibel H.D (1987), `Small Scale Industries and Economic Development in Ghana', Business Behaviour and Strategies in Informal Sector Economies, Verlag Breitenbech, Saarbruckh, Germany.
Arthur, P. (2003) .The implications of state policy for micro-enterprise development. In: Tettey, Wisdom; Puplampu, Korbla;
Aryeetey E, Baah-Nuakoh A, Duggleby T, Hettige H & Steel W.F (1994), `Supply and Demand for Finance of Small Scale Enterprises in Ghana', World Bank Discussion Paper No. 251.
Aryeetey E, Hettige H, Nissanke M & Steel W (1997), `Financial Market Fragmentation and Reforms in Ghana, Malawi, Nigeria, & Tanzania', The World Bank Economic Review, Vol. 11 No. 2 PP 195-218.
Aryeetey, E. (2001). On-lending to savings collectors in Ghana. The World Bank, Washington, DC, Studies in Rural and Micro Finance, 12, Africa Region.
Aryeetey, E., & Ahene A. A. (2005). Changing regulatory environment for small-medium size enterprises and their performance in Ghana. Centre on regulation and competition working paper series, paper no.103
Astebro, T. & Irwin B. (2003). Start-up financing, owner characteristics, and survival . Journal of Economics and Business. 55: 303-319.
Åstebro, T., M. Johannsen and A. MacKay, (2000). The Impact of Intangibe Assets and Financial Distress on Acquisition Probability and Price, Proceedings, Entrepreneurial Finance Workshop, Jönköping International Business School, Sweden, pp: 9-30. Asian J. Bus. Manage., 4(1): 58-67, 2012
Audretsch, D.B. (1991). "New Firm Survival and the Technological Regime", Review of Economics and Statistics, 68, 520-526.
Audretsch, D.B. (1995). "Innovation and Industry Evolution". MIT Press, Cambridge, Massachusetts.
Audretsch, D.B. and Klepper, S. (2000). "Innovation, Evolution of Industry and Economic Growth", Elgar Reference Collection. International Library of Critical Writings in Economics, Cheltenham, U.K. and Northampton, Mass.
Audretsch, D.B. and Mahmood, T. (1995). "New Firm Survival: New Results Using a Hazard Function", Review of Economics and Statistics, 77, 97-103.
Ayyagari, M., Beck, T. and Demirgic-Kunt, A. (2003). Small and medium enterprises across the globe: a new database. Documento de trabajo de Políticas de Estudio No. 3127. Banco Mundial, Washington, DC.
Baldwin, J.R: (1995). "The Dynamics of Industrial Competition". Cambridge University Press, Cambridge.
Bani, R. J. (2003). Micro enterprise development in Ghana. Accra.
Basu, A., Blavy, R., & Yulek, M. (2004). Microfinance in Africa: Experience and lessons from selected African countries. IMF Working Paper WP/04/174. International Monetary Fund.
Beck, Thorsten & Asli Demirguc-Kunt, 2006. Small and medium –size enterprises: Access to finance as a growth constraint . Journal of Banking & finance. 30: 2931-2943.
Brierley, N. (20010. The financing of technology-based small firms: A review of the literature Bank England Quarterly Bull., London, Spring, 41(1): 64-78.
Buatsi, S. N. (2002). Financing non-traditional exporters in Ghana. The Journal of Business and Industrial Marketing, 17(6), 501-522.
Cassar, G. (2004). The financing of business start-ups". Journal of Business Venturing. 19: 261-283.
Caves, R.E. (1998). "Industrial Organization and New Findings on the Turnover and Mobility of Firms". Journal of Economic Literature 36(4), 1947-1982.
Central Bureau of Statistics [CBS] African Centre for Economic Growth [ACEG] and KREP
Central Institute of Economic Management (2004). Vietnam's Economy in 2003. CIEM, Hanoi, Vietnam.
Coleman, S. (2000). Small firms' use of financial leverage: evidence from the 1993 national survey of small business finances. Journal Business Entrepreneurship. 3: 81-98.
Cook, P., & Nixson, F. (2000). Finance and small and medium-sized enterprise development. Finance and Development Research Programme Working Paper Series, (14). Institute for Development Policy and Management, University of Manchester.
Cziraky, D., Tisma, S. and Pasoravoc, D. (2005). Determinants of Low SME Loan Approval rate in Croatia. Small Bus. Econ., 25: 347-372.
Deakins, D., North, D., Baldock, R., & Whittam, G. (2008). SMEs' Access to finance: Is there still a debt finance gap? Institute for Small Business & Entrepreneurship. 5-7 November 2008 - Belfast, N. Ireland, 1-19
Doms, M., Dunne, D. and Roberts, M.J. (1995). "The Role of Technology Use in the Survival and Growth of Manufacturing Plants", International Journal of Industrial Organization, 13, 523-545.
Dunne, D., Roberts, M.J. and Samuelson, L. (1988). "Patterns of Firm Entry and Exit in U.S. Manufacturing Industries, RAND Journal of Economics, 19, 495-515.
Dunne, D., Roberts, M.J. and Samuelson, L. (1989). "The Growth and Failure of U.S. Manufacturing Plants", Quarterly Journal of Economics, 104, 671-698.

Dyar, Harduar, Koenig, and Reyes (2006)
Ed Vos, Andy Jia- Yuh Yeh, Sara Carter & Stephen Tagg, 2007. The happy story of small business financing . Journal of Banking & finance. 31: 2648-2672.
Equinox Management Consultants Ltd. (2002). Gaps in SME Financing: An Analytical Frame Work: Public Works and Government Services Canada, Ottawa.
Ericson, R. and Pakes, A. (1995). "Markov-Perfect Industry Dynamics: A Framework for Empirical Work". Review of Economic Studies 62(1), 53-82.
Evans, D.S. (1987a). "The Relationship between Firm Growth, Size, and Age: Estimates for Manufacturing Industries", Journal of Industrial Economics, 35, 567-581.
Evans, D.S. (1987b). "Tests of Alternative Theories of Firm Growth", Journal of Political Economy, 95, 657-674.
Geroski, P.A. (1995). "What Do We Know About Entry". International Journal of Industrial Organization 13(4), 421-440.
Gort, M. and Klepper, S. (1982). "Time Paths in the Diffusion of Product Innovations", Economic Journal, 92, 630-653.
Green, A. (2003). Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth? SME Technical Working Paper No. 10. Vienna: UNIDO.
Green, C., Kimunyu, P.; Manos, R and Murinde, V. (2002). How Do Small Firms in Developing. Countries raise capital? Evidence from a large-scale survey of Kenyan Micro and small scale Enterprises (MSEs). IDPM, Manchester
Gupta, M. C. (1969), «The effects of size, growth and industry on the financial structure of manufacturing companies», Journal of Finance, 24, 517-529.
Hall, B.H. (1987). "The Relationship between Firm Size and Firm Growth in the US Manufacturing Sector", Journal of Industrial Economics, 35, 583-600.
Herrington, M., Kew, J. and Kew, P. (20080. South Africa 2008 Report-Tracking Entrepreneurship in South Africa.
HFC Bank. (2004). World investment news - pre-report Ghana. World Investment News. International Journal of Arts and Commerce Vol. 1 No. 5 October 2012
Holtmann, M., I. Rühle, I. and Winkler, A. (2000). SME Financing: Lessons from Microfinance. SME Issues, 1(1): 8-25.
Irwin, D. & M. Scott, M. (20100. Barriers to rising bank finance faced by SMEs. International Journal of Entrepreneurial Behaviour & Research, 16: 245-259.
Jovanovic, B. (1982). "Selection and the Evolution of Industry". Econometrica 50(3), 649-670.
Jovanovic, B. (1993). "The Diversification of Production", Brookings Papers on Economic Activity, Microeconomics, 1, 197-247.
Jovanovic, B. and MacDonald, G.W. (1994). "The Life Cycle of a Competitive Industry", Journal of Political Economy, 102, 322-347.
Kayanula, D., & Quartey, P. (2000). The policy environment for promoting small and medium-sized enterprises in Ghana.
King, K. & McGrath S. (2002) Globalisation, Enterprise and Knowledge: Educational Training and Development, International Review of Education, Vol. 50(1), 74-76(3)
Klepper, S. (1996). "Entry, Exit, Growth, and Innovation over the Product Life Cycle", American Economic Review, 86, 562-583.
Liedholm C and Mead D (1987), `Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications', International Development Paper No.9, Dept of Agricultural Economics, Michigan State University, East Lansing, MI, USA.
Liedholm, C. (2002). "Small Firm Dynamics: Evidence from Africa and Latin America", Small Business Economics, 18: 227-242.
Liedholm, C. and Mead, D.C. (1999). "Small Enterprise and Economic Development. The Role of Micro and Small Enterprises" Routledge Studies in Development Economics.
Liedholm, C., MacPherson, M., & Chuta, E. (1994). Small enterprise employment growth in rural Africa. American Journal of Agricultural Economics, 76, 1177-1182.
Malhotra, M., Y. Chen, A. Criscuolo, Q., Hamel, F.I. and Savchenko, Y. (20070. Expanding Access to Finance: Good Practices and Policies for Micro, Small and Medium Enterprises. Washington DC, World Bank.
Mata, J. and Portugal, P. (1994). "Life Duration of New Firms", Journal of Industrial Economics, 42, 227-245.
McPherson, M.A. (1995). "The Hazards of Small Firms in Southern Africa", Journal of Development Studies, 32, 31-54.
McPherson, M.A. (1996). "Growth of Micro and Small Enterprises in Southern Africa", Journal of Development Economics, 48, 253-277
Mead, D. C. (1998). Micro and Small Businesses tackle poverty and growth (but in different proportions). Paper

presented at the conference on Enterprises in Africa: between poverty and growth. Centre for African Studies, University of Edinburgh, 26-27 May

Mead, D.C. and Liedholm, C. (1998). "The Dynamics of Micro and Small Enterprises in Developing Countries", World Development, 26, 61-74.

Mensah, S. (2004, March). A review of SME financing schemes in Ghana. UNIDO Regional Workshop of Financing SMEs, Accra.

Miller, K. (2009). Communication theories. New York: McGraw Hill.

National Baseline Survey. (1993, 1995). National Micro and Small Enterprise Baseline Survey. Nairobi: GEMINI Studies.

National Baseline Survey. (1999). National Micro and Small Enterprise Baseline Survey. Nairobi: ICEG and K-REP.

OECD, (2001). The Role of Human and Social Capital Education, and Skills. Centre for Educational Research and Innovation

OECD, (2006). Organization for economic co- operation and development. Financing SMEs and Entrepreneurs.

OECD, (1995), Technology and Economy. The Key Relationships, Paris, pp. 107 ft.

OECD, (2006). The SMEs Financing Gap Volume 1: Theory and Evidence.

Organization for Economic Co-operation and Development (OECD, 2006) a

Osei, B., Baah-Nuakoh, A., Tutu, K., & Sowa, N. (1993). Impact of structural adjustment on small-scale enterprises in Ghana. In A. Helmsing & T. Kolstee (eds), Small enterprise and changing policies: Structural adjustment, financial policy and assistance programmes in Africa. (pp. 53-70). London: IT Publications.

Pakes, A. and Ericson, R. (1998). "Empirical Implications of Alternative Models of Firm Dynamics". Journal of Economic Theory 79, 1-45.

Park, J., Lim, B. and Koo, J. (2008). Developing the Capital Market to iden and Diversify SME Financing: The Korean Experience. Korea Institute of Finance, Korea.

Park, Ren, and Wang, (2004)

Parker R.L, Riopelle R, Steel W.F (1995), `Small Enterprises Adjusting to Liberalisation in Five African Countries', World Bank Discussion Paper No. 271, African Technical Department Series.

Republic of Kenya. (1986). Sessional Paper No. 1 of 1986 on economic management for renewed growth. Nairobi: Government Printer.

Republic of Kenya. (1992). Sessional Paper No. 2 of 1992 on small enterprises and Jua Kali Development. Nairobi: Ministry of Planning and National Development.

Republic of Kenya. (1994). Development Plan (1994–1996). Nairobi: Kenya Government Printer.

Republic of Kenya. (1997). Development Plan (1997 to 2001). Nairobi: Kenya: Government Printer.

Schmitz, H. (1995), `Collective Efficiency: Growth Path for Small Scale Industry', The Journal of Development Studies, Vol. 31 No. 4 PP 529-566.

Soderbom, M. (2001). Constraints and opportunities in Kenyan manufacturing: report on the Kenyan manufacturing enterprise survey 2000. Oxford: University of Oxford, Centre for the Study of African Economies.

Stiglitz, J. E. and Weiss, A (1981), "Credit Rationing in Markets with Imperfect Information", American Economic Review, 71, pp 393-410.

Storey, D. (1994). Understanding the small business sector. London: Rutledge.

Storey, D.J., (1994). Understanding the small business sector . London, USA and Canada: Routledge Wurfali, A.L., A.H. Toria, 2006. Small and medium enterprises in Libya: Present and hoping . Working paper 17, 18 April 2006.

Sutton, J. (1997). "Gibrat's Legacy". Journal of Economic Literature, 35(1), 40-59.

Tybout, J.R. (2000). "Manufacturing Firms in Developing Countries: How Well Do They Do, and Why?", Journal of Economic Literature, 38(1), 11-44.

United Nations Conference on Trade and Development. (2001). World Investment Report: Promoting Linkages. New York and Geneva.

United Nations Industrial Development Organization (UNIDO) (2002). Rural Enterprise Development Support Project .Entrepreneurial Skills for group based SMEs . Trainers Manual. Accra

World Bank, (2008), `Malawi: Financial Sector Study', Washington D.C.

## DEFINITION OF TERMS

**Access to credit:** Availability of credit from formal sector like financial institutions and banks and also availability of credit from the informal sector like personal savings and family assistance for the last two years.

**Age of the firm:** Firm age is defined as the absolute number of years of existence since the start up.
**Annual Turnover:** It is the total sales value at the time of the study. It is expected to have a positive relation with growth of the SMEs.

**Small and Micro Enterprises:** In the European Union, a standard definition has been adopted as this category is made up of enterprises which employ fewer than 250 persons, which have a turnover not exceeding 250 million euro and a balance sheet total below 43 million euro. A micro and a small enterprise employ respectively fewer than 10 and 50 persons.

**Start – up capital:** The amount of paid up capital in Kenya Shillings during the start – up.

**The level of education of the entrepreneur:** It is expected that entrepreneurs with higher level of education would be more likely to grow than those with however level of educations.

**Total current investment:** for purposes of this study, total current investments include infrastructural development, human resources, and government bonds. This means that total current investment will have positive relationship with the growth of SMEs.

## LIST OF ABBREVIATIONS

| | |
|---|---|
| CBD | Central Business District |
| CBK | Central Bank of Kenya |
| CBS | Central Bureau of Statistics |
| GDP | Gross Domestic Product |
| HRM | Human Resource Management |
| ICTs | Information and communication technologies |
| IEA | Institute of economic affairs |
| IT | Information Technology |
| KDI | Korea Development Institute |
| MSMEs | Micro, small and medium enterprises |
| NBAN | National business angel network |
| NBSSI | National Board For Small scale Industries |
| OECD | Organization for Economic Co-operation and Development |
| OLS | Ordinary Least Squares |
| PLM | Passive Learning Model |
| SMEs | Small and Medium Scale Enterprises |
| SPSS | Statistical Package for Social Sciences |
| US | United States |
| WPSMEE | Working Party on SMEs and Entrepreneurship |

## APPENDIX I: QUESTIONNAIRE

This questionnaire has been designed to collect information from the Small and Medium Enterprises in the manufacturing sector in Nairobi CBD. The information is meant for academic purposes only. The questionnaire is divided into two sections. Section I seeks to capture the profile of respondents while section II will capture issues pertaining to the area of study. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

### SECTION I: BACKGROUND INFORMATION

**Information on the business**

1. Name of business (optional) _____
2. Is your business registered?
(a) Yes ☐
(b) No ☐
2. How long has your business been in existence?
(a) Less than 1 year ☐
(b) 1 – 5 years ☐
(c) 6 – 10 years ☐
(d) 11 – 15 years ☐
(e) 16 years and above ☐
3. How many full time employees does the SME have (Pleas tick as appropriate)?
(a) Less than 25 [ ]
(b) 26 to 50 [ ]
(c) 51 to 75 [ ]
d) 76 to 100 [ ]
(e) 101 years and above [ ]

**Information on the respondent**

4. Indicate your gender? (Please tick as appropriate)
(a) Male ☐
(b) Female ☐
5. Indicate your age group (Please tick as appropriate)
(a) 18 – 27 years ☐
(b) 28 - 37 years ☐
(c) 38 - 45 years ☐
(d.) 46 – 55 years ☐
(e). 56 years and above ☐

5. Indicate your highest academic qualification?
(a) Primary education ☐
(b) Secondary education ☐
(c) College education ☐
(d) University education ☐
(e). Any other please specify……

6. For how long have you worked in the organization? (Please tick as appropriate)
(a) Less than 2 years ☐
(b) 2 to 4 years ☐
(c) 4 to 6 years ☐
(d.) 6 years and above ☐

**SECTION II: FACTORS INFLUENCING GROWTH OF SMEs IN NAIROBI CBD**

9. Have you ever accessed credit?

(a) Yes ☐

(b) No ☐

10. If your response is NO. to question 9 above, please list and briefly explain the constraints your business faces in accessing credit.

11. Listed below are of the factors that influence the growth of SMEs. With respect to your enterprise, please indicate the extent to which each of the factors has influenced growth of your enterprise by ticking as appropriate against given alternatives.

Key:

5 = to a very great extent

4 = to a great extent

3 = to a moderate extent

2 = to a low extent

1 = to no extent at all

| **Factors influencing growth of SMEs** | **Extent of influence** | | | | |
|---|---|---|---|---|---|
| | to a very great extent | to a great extent | to a moderate extent | to a low extent | to no extent at all |
| Access to credit | | | | | |
| Total current investment | | | | | |
| Annual turnover | | | | | |
| **Total** | | | | | |

**THE END – THANK YOU**

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

## CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

**Prospective authors of journals can find the submission instruction on the following page:** http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

## MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Academic conference: http://www.iiste.org/conference/upcoming-conferences-call-for-paper/

## IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar