An Evaluation of Socio-Economic Factors Influencing the Growth of Small and Medium Enterprises in Kenya: A Case Study of Nairobi County

BY

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UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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AN EVALUATION OF SOCIO-ECONOMIC FACTORS INFLUENCING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE STUDY OF NAIROBI COUNTY

BY

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirements for the Degree of Executive Master of Science in Organizational Development (EMOD)
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University Africa for academic credit.

Signed_____________________________                   Date___________________________ Samuel Muturi Gachuhi (ID 611931)

This project has been presented for examination with my approval as the appointed supervisor.

Signed_____________________________                   Date___________________________

Mr. Kepha Oyaro

Signed_____________________________                   Date___________________________

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ABSTRACT

The purpose of this study was to investigate the socio-economic factors affecting performance of SMEs in Nairobi. The research questions were: What are the social factors affecting growth in Kenyan SME’s? What are the economic factors affecting growth in Kenyan SME’s? What are the factors that improve growth in SMEs in Kenya?

This study utilized the descriptive research design. The population was 30,252 consisting of all registered SME’s in Nairobi. Simple random sampling was used to determine the sample size of 100. For this study, data was collected using structured questionnaires. Descriptive statistics was used to analyze data for frequencies and percentages distribution tables, mean, and inferential statistics for correlation, linear regression and multiple regression.

The findings on the extent to which social factors affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between social factors and SME’s growth. The findings on the extent to which economic factors affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between economic factors and SME’s growth.

The findings on the extent to which factors of growth affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between factors of growth and SME’s growth. This factors include reduction in tax, improved security, improving roads, stopping corruption, introducing new and trending products, and establishing mechanisms that will enable SME owners in Nairobi ease of access to low cost loans.

A multiple regression analysis indicated a strong significant relationship exists only with economic factors and SME growth. The other variables had insignificant relationship. For instance, social factors equally factors of growth, therefore insignificant. For the study multiple regression also revealed variation in SME growth were attributable to variations in social factors, economic factors, and factors of growth.

In conclusion, social factors are at the very heart of SME growth in Kenya. The findings of the study indicate a strong positive relationship between social factors which includes family size, family type, business networks, language, business relationship and levels of
education and SME growth. The positive relationship have been established with social factors and SME growth. On economic factors, taxation, interest rates, access to credit and business financing, and inflation all influenced and enhanced SME growth. The study established that a positive relationship exists between economic factors and SME’s growth. On factors of growth, training, better business environment, access to credit and business financing, infrastructure, markets and business premises all influenced and enhanced SME growth. The study established that a positive relationship exists between factors of growth and SME’s growth.

Recommendation for improvement by SME business owners includes enhancing interpersonal and intrapersonal skills by ME business owners. Secondly, SME business owners should enhance their business education so as to understand the intricate operations of business, not only in value addition, but also how to develop and maintain social networks with clients. On economic factors, SME owners should lobby the government through county legislation to have business incentives in terms of tax breaks to a certain level of profitability. They should equally lobby for minimal licensing such that operations of SME business should require only one license at minimal cost. On factors of growth, SME owners should therefore lobby to have integrated county budgets to allocate resources that will improve road systems, market centres, and extension and support services in terms of business training from the county governments. This will ensure that factors that enhance business growth are sustainable and contributing positively to their SME’s.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to my supervisor for giving me the required guidance. My deep gratitude also goes to the respondents who patiently completed my questionnaires within
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period of study. I salute you all.

DEDICATION

This research project is dedicated to my family and friends for their encouragement and continuous
support throughout my studies.
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LIST OF ABBREVIATIONS

AICD  Africa Infrastructure Country Diagnostic

GDP  Gross Domestic Product
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>SME</td>
<td>Small and Medium Entrepreneurs</td>
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<td>SMIDEC</td>
<td>Small and Medium Industries Development Corporation</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Small and Medium Enterprises (SMEs) are increasingly recognized as important drivers of economic growth, productivity, innovation and employment, and are widely accepted as key aspect of economic dynamism. Transforming ideas into economic opportunities is the decisive issue of entrepreneurship in the small and medium enterprise. History shows that economic progress has been significantly advanced by pragmatic people who are entrepreneurial and innovative, able to exploit opportunities and willing to take risks (Hisrich, 2005). Visser (2006), argued that Small and Medium Enterprises (SMEs) form the backbone of emerging economies and are a key source of income for most people in urban and rural communities.

According to Wolfenson (2001), SME’s are integral part of economic development. SME’s mostly consolidate the businesses from the informal sector into the formalized economy, hence a driving force not only for economic growth, but also poverty reduction through job creation. In most parts of the world, industrialization and economic growth started as SME’s that eventually grew to become big industries (Harris et al, 2006; Sauser, 2005). Europe and America has been recognized over the years as incubators of SME’s to large-scale industries (Fabayo, 2009).

Over the years, social and economic planners have realized the importance of the small and medium enterprises in achieving economic development. Governments and development organizations have focused on the promotion of these enterprises as a way of encouraging broader participation in the private sector. They are a major source of entrepreneurial skills, innovation and employment. In most European countries, 23 million Small and medium enterprises have provided more than 75 million jobs to the public either directly or indirectly (European Commission, 2011).

According to Reinecke (2002), many African countries depend on SME’s which account for more than 90 percent of all businesses and more than 80 percent of new jobs. This is because it is easier to start and grow SME’s. In most cases, the startup capital is minimal,
since the owner can easily depend on family savings to start. However, due to the volatile nature of SME’s, and competition they face from big established organizations offering same products and services do make the running of SME’s a challenge. (Shiu & Walker 2007). Therefore, owners and new ventures of SME’s have to be able to withstand the dynamic nature of the sector (Kantor 2007).

Lin and Chen (2007) argues that innovation in the SME sector drives growth, scalability and competitive advantage. Firms that are able to create sustainable technology, or depends of emerging sustainable technologies do have a better chance of surviving the rough terrain of SME’s since most SME’s do fold within two years of start-up. Technology therefore helps SME owners to enhance competitive advantage over other players in the same market (Sheu, 2007). According to Wynarczyk (2007), technological innovations in SME’s can be done through product differentiation, automation systems, and payment systems, so as to enhance quality and customer experience with the products.

According to Rose, Kumar, and Yen (2006) a small business is a business which is privately owned and operated, with a small number of employees and low volume of sales. Small businesses are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, bakery shops, hairdressers, tradesmen, lawyers, accountants, restaurants, photographers, etc. A common definition provided by the Small and Medium Industries Development Corporation (SMIDEC) which defines Small and Medium Enterprises according to two main factors, annual sales turnover and number of full time workers.

According to SMIDEC, small business is one which has between 5 and 19 employees and annual sales turnover between RM200, 000 & less than RM 10million. Small business can provide the economy with efficiency, innovation, competition and job growth. Entrepreneurs are responsible for the promotion of enterprises and businesses and cause economic development as they infuse dynamism in economic activity within their territory; manage organizational and technical change; and also promote the innovation and learning culture on such environment.
Entrepreneurship is accepted as a driving force behind the economic and social development of countries. But this depend upon the formal and informal attributes associated with the entrepreneurs.

In Kenya, the SMEs have thrived over decades but still do face challenges of financing, markets, access to loans among others. Vision 2030 incorporates SME’s at the heart of Kenya’s economic growth projections. It envisages that if SME financing mechanisms are enhanced and sustainable, SME’s in Kenya do have potential of growing into viable and vibrant businesses that can compete with multinational firms in products and services (Ministry of Planning, National Development & Vision 2030, 2007).

In Africa, and more so in Kenya, though SME’s contribution to the economy, and to poverty reduction, owners and businessmen in the field of SME’s have continually faced many obstacles either financial credit, viable market or support from government.

According to ILO (2005), most financial institutions don’t consider SME’s as stable venture or credit work. It is for this reasons that SME’s suffer for lack of capital and credit to grow their business. Most SME’s close shop within the first five years of start-up (Marlow, 2009).

Some of the contrasting challenges of SME’s growth are presented by the research done by Aremu and Adeyemi (2011) in Nigeria, where despite government support through incentive programmes, most SME’s in Nigeria still struggle to access credit or even growth. He argued that in Nigeria the socio-economic obstacles within the business regulation systems do affect SME’s growth performance. In as much as systems were put in place to fast track access to financial resources, lack of business experience, management, poor SME location, and incoherent laws and regulations hinder the growth and assimilation of SME’s.

Kenya has not been unique to SME challenges faced by business owner in Nigeria and other parts of Africa. The challenge of accessing credit facilities, poor working conditions, high taxation, and lack of business training continue to hinder the growth of SME’s in Kenya (Marlow, 2009). As a result business owners within Kenya find it difficult to grow their businesses. Government interventions through tax incentives, market creation for SME’s have gone a long way in establishing a thriving business condition, SME’s still experience problems in establishing foothold for sustainable growth (Kimuyu, 2008).
1.2 Statement of the Problem
Problems associated with the growth of Small and medium businesses as stated above are diverse. As a result, business owners are increasingly venturing into SME’s as sole proprietors or as partners to diversify risk, consolidate business synergies, and form associations that can champion and lobby government for better business environment.

(ILO, 2005). However, in Kenya, SME’s are continually encumbered lack of easily accessible credit, limited access competitive markets, lack of value addition to their products, and lack of skills to grow their businesses. As a result, SME’s in Kenya have been condemned to the informal sector. According to Ramsden (2010) SMEs thrive in an environment that supports business growth, where the regulatory regime is transparent and decisions are made in a consistently and where physical infrastructure such as road and rail networks, power and telecommunications is adequate to facilitate trade.

According to Kenya National Bureau of Statistics, (2007), three out of every five SME businesses in Kenya fail within the first two years. Many of the problems cited have implications for technology choice. Many studies done have given general reasons for failure or success of small and medium businesses (ILO, 2011; Rwigema & Venter, 2009). Such studies have failed to look at the socio-economic factors, as one entity; and how they influence success or failure of Small and Medium Enterprises. This study provides findings that on the socio-economic factors influencing the growth of SME’s in Kenya.

1.3 Purpose of the Study
The purpose of this study was to investigate the socio-economic factors affecting growth of SMEs in Nairobi.

1.4 Research Questions

1.4.1 What are the social factors affecting growth in Kenyan SME’s?
1.4.2 What are the economic factors affecting growth in Kenyan SME’s?
1.4.3 What are the factors that improve growth in SMEs in Kenya?
1.5 Significance of the Study

1.5.1 SMEs in Nairobi
SME’s in Nairobi will benefit from this study by getting an understanding of the factors that affect their operations and how they can use this understanding to improve their growth prospects.

1.5.2 Policy Makers
The government through the Ministry of Devolution and Planning can use this study in developing and mainstreaming policies for gender, youth, and Special interest groups (marginalized; disabled) in an effort to reduce unemployment in Kenya. Through the study’s recommendations, the government will be able to find its way to achieving the Millennium goals.

1.5.3 Policy Makers
The County of Nairobi can use the results of this study to develop polices and strategies that will guide the planning for and location of SMES within Nairobi county. This is help reduce disputes between SMEs and the Municipal Council on Nairobi.

1.5.4 Financial Intermediaries
This study will help financial intermediaries tailor make financial instruments that will harness the true potential of SME’s for instance on loan issuing and repayment strategies.

1.5.5 Academicians
This study will help future research as a guide into the socio-economic factors affecting most SMEs in Kenya by researchers and academicians. It will act as a platform for more specific research into the topic of study.

1.6 Scope of the Study
Scope of study is a general outline of what the study will cover (Gygi and Williams, 2012). This study was limited to SMEs businesses operating within Nairobi County. The study was carried out in a period of six month; January 2015 to June 2015. The sample size
consisted of 100 SME owners Nairobi as it is more accessible and convenient for this study. This study was limited to only SMEs that had operated within Nairobi for 1 year and or more. This study couldn’t cover other counties that have SME’s due to time and financial resource constrains.

1.7 Definition of Terms

1.7.1 Small and Medium Enterprises (SMEs)

These are businesses whose personnel numbers fall below certain limits. In the European Commission, there are three broad parameters which define SMEs; Small enterprises have up to 50 employees, Medium-sized enterprises have up to 250 employees (European Commission, 2012)

1.7.2 Social Factors

According to Henry et al., (2009), defines social factors as factors that affect individuals, and business thought and behavior within social setups. They also include the interactions of people, systems, and cultures, to obtain a common desired objective.

1.7.3 Economic Factors

Nichter (2009), defines economic factors as those factors that influences changes in costs of products, prices of products, wage rates, interest rates, and inflation. This factors have the ability to influence how a business generates profits, or losses, or growth.

1.7.5 Factors of Growth

Nichter (2009), defines factors of growth as the mitigating factors that influence how business entities grow. This includes conducive business environment, infrastructure, and accessibility to clients and markets for business products and services
1.8 Chapter Summary
This chapter has presented the background information of the study. The background included the introduction of SME’s in Nairobi, and empirical literature on SME’s. This chapter has also outlined the statement of the problem, the purpose of the study, and the research questions. Equally, the study had outlined the scope of the study, the significance of the study and definitions of terms. The next chapter presents literature reviews based on research questions of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review on factors influencing growth in SMEs in Kenya. The chapter is divided into three section: section one presents literature review on social factors affecting growth of SMEs, section two presents literature of economic factors influencing growth of SME’s, and the third section presents literature on factors of growth affecting growth of SME’s in Kenya.

2.2 Social Factors affecting the growth of SMEs

According to OECD (2010), social factors are defined as the facts and experiences that influence individuals' personality, attitudes and lifestyle. Social factors affect the market strategies put in place by a business, whether big or small. The marketing department of a business needs to take into account the various social factors characteristic of the consumer groups it is targeting to help increase a product's appeal to those potential buyers. In this regard, social factors are critical components that must be considered in creating an SME operations, and growth strategy. The aspects of consumers, buyers, sellers must all be considered in determining how to hinge off a business owners SME competitive advantage. For most SME operations, business operation factors such as values, customs, and lifestyles that characterize a society. Social attitudes, family size and roles, and status in the society (Isobel & Lowe, 2009).

2.2.1 Social Attitude

According to Gemechis (2007), Hisrich (2005), ILO (2009) Social attitude towards youth entrepreneurship (who make up the highest population in SMEs); entrepreneurship education; administrative and regulatory framework; and business assistance and support; barriers to access technology are crucial factors that affect entrepreneurial success.

Attitude refers to how a person looks at or perceives certain situations. One’s attitude towards a business is largely dependent on culture. Attitude affects a person’s value system as well as shaping thoughts, actions and perceptions.
There are many social factors that do influence markets that retail in SME sectors. Economic and political changes do influence how social constructs are formulated and how they influence societies and their perception towards SME’s businesses. SME business owners can leverage their chances of having their businesses grow by closely monitoring social-political changes within their business operations.

2.2.2 Education and Language

According to King and McGrath (2010), there is a strong positive relationship between the level of education in a community and growth of SMEs. The more a community is educated, and sophisticated, the more SME skills are churned out, the higher the rates business assimilations. Wanjohi and Mugure (2008), argues that the more a society has post-secondary education, the more business owners ability to utilize advertising, promotion, and after sales services since they are aware of their importance in SME growth. The ability to communicate well, that is the spoken language within the community to which the SME operates enhances the advertising and promotion message transcription, compared to SME’s cumbered with language barriers. For instance, in Washington, D.C., different transportation sector most firms use both English and Spanish to advertise their products (King and McGrath, 2010).

2.2.3 Social Responsibility

According to Zimmerer and Scarborough, (2009), consumers of products in any given community delight increasingly in knowing that there is a positive social impact of the money they spend buying products or services. Their research indicates that customers are usually willing to pay more in support of SME owners who are contributing positively to the society. This are retailers who have developed sustainable practices, for example of buying recycled product material as part of their business operation model. Other SME may gain negative reputation for irresponsible and unethical practices, for instance, outsourcing services so as not to benefit community, exploitative sweatshops, unhealthy working environment etc. According to Kimuyu (2008), SME owners should consider the impact both positive and negative ethical and social ramifications could have on their business.
2.2.4 Consumer Preferences

Henry (2010) argues that consumer preferences do shift over time. He further argues that there is a positive relationship between customers taste and preferences and SME business growth. It is therefore incumbent upon business owners to ensure that they are aware of customer’s trends, and preferences over periods of time. SME’s that address issues, or provide services that cater to the younger generations should ensure that their messaging, branding, and advertisement is done in such a way that appeals to the young people.

Equally, SME’s that target farmers, or families, or women only should structure their products to address the preferences of the specified groups. (Zimmerer & Scarborough, 2009). Henry further argues that the ability for business entities to evolve with evolving preferences of clients do eventually guarantee sustainability and growth of SME’s.

2.2.5 Generational Differences

In SME business environment, social changes do impact the business operations (Kimuyu, 2008). Meng and Liang, (2009) argue that economic recession, can have devastating impact on operations, sustainability, and growth of SME’s. For instance, seasonal products can cripple an SME operations if the owners fail to adjust to products that thrive in diver’s environment. The demand for products like luxury products may go down, while at the same time discount SME retail stores are low and in demand.

Meng and Liang, (2009), further states that in European counties, summer, winter, autumn all bring with them significant adjustments in product demands. Business owners in the SME sector, who are able to read the differences in general environment faster and act swifter do have a higher change of enhancing their SME growth potential. The other issues on changing dynamics in SME industry is the target group for the goods and services. The ability to understand what to adjust, when to adjust, and for how long to adjust. As population changes have an overall impact on SME clientele, SME owners should understand such shifts, and how to leverage their growth with the changing times.
2.2.6 Social Organization
Wolf, (2001), contends that social organization is at the very heart of SME operations. There is a strong relationship between the culture and social organization of an SME and in terms of the nature of employees, directors, kinship, social institutions and other interest groups liked to the business and SME growth. For instance, the role of women in a communities and business, and whether participate in the decision-makers processes. If social groups influence the purchase power of given products, then the groups can have a direct impact on SME operations. The other notable reality in marketing as alluded to by Wolf (2001), advertising strategy on women, or a specific interest group do influence the performance of a business.

2.2.7 Reference Group and Family

According to CBS (2012), reference groups and families do influence who influence the operations of SME’s and growth of SME’s. Reference groups do consist of people who share same values and who compare to each other as a benchmark. Family members, friends, and co-workers are good example forms of reference groups. Reference groups shape lifestyle and values, and even the buying habits of a community. For SME’s, family is normally the reference group that plays and important role in influencing buying decisions. For this reason, SME owners should develop mechanisms that enhances their influence towards the reference groups, so as to enhance the performance of SME’s.

2.2.8 Role and Status in Society

Study done by Wolf (2001), indicates that a person's role in society particularly if there are owner of the SME has a significant role in the society. Social status that SME owners have affects buying decisions of the SME products and services within the society. Equally, the relationships and networks that SME owners do possess within the society do influence how they interact and how they form social capital that enables them to enhance positive perceptions of their SME products and services. Relationship with people in the middle class, and upper classes who possesses the purchasing power is critical in SME growth and performance.
2.2.9 Access to Public Infrastructure
According to Rogerson (2008), access to infrastructure and services such as electricity, water, serviceable roads, all critical for SME performance. He also argues that access to public infrastructure and services has a strong relationship with SME growth and performance. Public infrastructure should therefore be developed with focus on enhancing growth (Darroch & Clover, 2005) and survival.

According to Africa Infrastructure Country Diagnostic (AICD), a project designed to expand the world’s knowledge of physical infrastructure in Africa, infrastructure has contributed nearly half a percentage point to Kenya’s annual per capita GDP over the last 10 years. Kenya’s infrastructure indicators are relatively good in comparison to other low-income countries in Africa albeit they remain far below other middle-income countries in Africa.

From the AICD (2012) report, constraints in infrastructure are responsible for about 30 percent of the productivity handicap faced by Kenyan firms with the remainder being due to poor governance, red tape, and financing constraints. Power is the infrastructure constraint that weighs most heavily on Kenyan firms, with transport a close second.

2.3 Economic Factors Affecting Growth of SME’s
Economic factors are the factors that help to determine the competitiveness of the environment in which the firm operates Nieman (2006). According to Business Dictionary, Economic factors are a set of fundamental information that affects a business or an investment's value. Baron and Nieman (2006), argues that success of a new business venture depends on the status of the national economy and political stability during the times in which the SME is launched (Baron, 2004 & Nieman, 2006).

2.3.1 Access to Finance
Harvie (2005), also contends that access to financial services and credit is the foremost challenge that influences business operations in SME’s. Financial constraints on SME do place a choke hold on SME performance. For most businesses, lack of adequate capital and financial resources to enhance business growth do affect the survival of SME businesses. SMEs owners that do mobilize personal capital and resources to establish or enhance their businesses do have a greater chance than those who don’t have personal capital to rely upon.
during startups (Harvie, 2005). Equally, SMEs startups in developing countries experience challenges in accessing bank loans since they are usually considered as high risk for loans default, or low profitability. Lack of collateral also affects SME operations and access to financing as is required by most banks (Harvie, 2005).

World Bank (2011) reports highlights that many SMEs from countries need to enhance mechanisms of developing sufficient levels of savings upon which they can use as collateral for financial credit access. Banking institutions should also be encouraged by governments who should train and offer collateral capital guarantees to banks for SME holders in certain sectors. Lack of strong banking institutions, and capital market are most of the time challenges that face SME growth. Financing of SMEs is essential for the overall growth of SME’s (WB, 2011).

According to AICD (2012), SMEs in Africa have numerous challenges in accessing finance which in turn hampers their growth. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Kenya has in the recent past posted tremendous growth and deepened its financial sector. Kenya has 43 licensed commercial banks and 1 mortgage finance company out of which 31 are locally owned and 13 are foreign owned. The Central Bank of Kenya has also licenced ten microfinance institutions. SMEs in Kenya have various sources of finance which include Banks, Micro-finance institution, Cooperatives, Savings and Credit Cooperative Organization (Sacco’s). Government instruments like Youth and Women fund, international institutions and donors as well as personal finances (Ligthelm & Cant, 2008).

2.3.2 Inflation

According to Polleit (2011), inflation causes a rise in general price making goods and services expensive to the common market targeted by SME businesses. When the countries inflation levels rises, this possess a great challenge to SME owners since they are the ones who have to increase the prices to match up the high cost of production, or acquisition of raw materials. Therefore, for viable economic growth, economists and governments must always seek mechanisms to keep inflation rates lower (Polleit, 2011).

Inflation's effects on an economy are various and can be simultaneously positive and negative. Inflation has an effect on entrepreneurship (Viviers et al, 2012; Ligthelm & Cant,
South Africa’s inflation figure of 11% in mid 2008 means that value of wealth decreases, consumers tighten their belts and thus there are fewer opportunities for entrepreneurs. Other negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation were rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future. Positive effects include ensuring that central banks can adjust real interest rates (to mitigate recessions), and encouraging investment in non-monetary capital projects (Ligthelm & Cant, 2008).

Inflation has a negative influence on most cases to SMEs and that means that most of them have to leave the market after short time of operation.

According to Kenya National Bureau of Statistics the Consumer Price Indices (CPI) and Inflation Rates for April, 2015 the overall inflation rate stood at 7.08 per cent. The Inflation Rate in Kenya averaged 10.91 percent from 2005 until 2015, reaching a high of 31.5 percent in May of 2008 which was the period just after the post-election violence and a record low of 3.18 percent in October of 2010.

2.3.3 Unemployment

According to Viviers, unemployment impacts on the entrepreneurship process especially on SMEs (Viviers et al., 2012). Where there is high unemployment a lot of people are pushed into entrepreneurship for survival (Wickham, 2009); at the same time because of this high unemployment and limited earnings, markets are naturally limited (Ligthelm & Cant, 2008). For instance, South Africa’s high unemployment rates mean that there is more people opting for self-employment yet spending power is limited.

According to a report by the Association for the Development of Education in Africa (ADEA, 2014) youth whose age ranges between 15 – 34 years form 35% of the Kenyan population and also have the highest unemployment rate at 67%. The same report shows that over a million young people entered the labour market annually lacking skills with some having either dropped out of school or completed school and not enrolled in any college.

The labour market in Kenya is characterized by a large and unemployed people especially the youth. It is consist of a small formal sector alongside a large informal sector. According to the ADEA Kenya Report, over the 30% of those employed are casuals. Youth with
primary education are in formal employment (4%), informal employment (54%), students (14%) and unemployed (14%). Those with secondary education are in: formal employment (12%), informal employment (40%), students (26%), and unemployed (15%). While those with tertiary education are in: formal employment (31%), informal employment (9%), and unemployed (8%).

2.3.4 Competition

SMEs are usually not very competitive in terms of market knowledge, innovation, prudent investment, business operations and good management, which are important factors in improving the quality (OSMEP, 2007). By entering the competition, it means that the SME will work hard to find competitive advantages that greatly affect its success (Simpson et al, 2010).

African countries and other developing countries compete with developed countries as a result of globalization and increased trade. However barriers and other restrictions generally favor the developed countries (Lind, 2009).

Competition has been on the rise as a result of the Free Trade Agreements (OSMEP, 2007). This is according to a survey of SMEs in developing countries that was carried out by the World Bank.

According to the findings of research competition represents a risk for survival for individual enterprises. Although competition represents high risk, it is the one who pushes companies towards higher productivity which actually results in their growth and development. According to research, the main barriers are associated to "Unfair competition" that includes tax system, the informal economy and public services, barriers which continued with the same intensity throughout the postwar period (WB, 2010).

2.3.5 Taxation

Taxation is a key factor inhibiting SME development (Robertson et al, 2003). High tax rates reduce the profit incentive (Belliveau & Sandberg, 2009). The complexity of the tax system further raises the cost of doing business, as many SME do not have the capacity to
administer tax returns and thus need to consult experts (for those who can afford) for a fee in order to meet these legal requirements (Luiz, 2011). This has in the past discouraged many people from doing business since they cannot not afford to pay the high taxes and still keep the businesses afloat.

Economists argue that the resources of small companies directed towards taxes are the same resources that could be used for investment and future growth. Thus there is a belief that taxes put pressure on smaller businesses. According to Tomlin (2008), Small taxpayers within the taxation system usually suffer discrimination since compliance on tax issues are the same for both small and large companies. Reducing the tax compliance costs for SMEs would increase the number of SMES paying taxes and also have a positive outlook in their profit margins. An example on how tax compliance costs has been lowered for business in Kenya is the rolling out of I-Tax, a fully-integrated, web enabled and automated solution for administration of domestic taxes

Tax policy is one of the instruments used by the Kenyan government to finance public goods and services needed to support growth in the economy. Tax Revenue is a major source of revenue to Kenya Government which is in turn used for development.

2.3.6 Change Dynamics

Change management is a familiar to most businesses today. However managing change varies depending on the nature of the business, the change needed and the people involved. Being able to deal with change is a key factor in the success of any business (Viviers et al, 2012). Change, though related to uncertainty harbors many market opportunities (GEM, 2012). Change includes rapidly changing technology (Ligthelm & Cant, 2009) and changing market forces (Shane & Venkataraman, 2012).

A study into the South Africa economy showed that re-entry into the global economy after decades of international trade sanctions opened the floodgates of change (Morris & Zahra, 2000). Sadly most SMEs lack the capacity to deal with a changing business environment (Strydom & Tustin, 2003) and are thus doomed to eventual extinction after short time of operation.
2.3.7 Economic Environment

The business environment of a country provide SMEs with opportunities, threats, information and access to role models (Henning, 2003), which are factors determining SMEs success or failure (Pretorius et al, 2005). Themba notes that too many shocks in the business environment, however, push risks to unacceptable levels (Themba et al, 2009). For most governments, the challenge is to provide a business environment that supports and promotes a vibrant entrepreneurial culture (OECD, 2012).

The economic environment consists of external factors in a business and the broader economy that can influence a business. SMEs need to be aware of economic environment so that they can make business decisions. It is crucial that the owners of SMEs understand these external variables in the economic environment so as to minimise any negative effects and to swiftly adapt to these changes in order to take advantage of possible opportunities as well as to ward off any threats (Sha, 2006).

According to the 11th edition of the Kenya Economic Update by the World Bank, the country will in 2015 have a sound economic position. It is experiencing solid growth, driven by sustained infrastructure investments, strong growth in other industry sector, and strong agricultural production. This Economic Update has Kenya poised to be among the fastest-growing economies in the region in the next three years, with growth projections of 6.0 percent in 2015, 6.6 percent in 2016, and 7.0 percent in 2017.

2.3.8 Technology

Technological changes have an enormous impact on how SMEs operate, in good ways and in bad. Take the advent of smart-phones, for example (Isobel & Lowe, 2009). Retail stores use location-based advertising to reach nearby consumers with targeted sales messages, but they also must deal with shoppers comparing prices across the world to find the best deal.

The effect technology has on a society can boost a retail store’s performance while also undermining traditional ways of doing business, forcing retailers to adapt or give way to more progressive competitors (Nasser et al, 2011).

Research by Boston Consulting Group (BCG) shows that technology leaders far outperform their peers in the marketplace. They surveyed 4,000 SMEs in five countries— the U.S.,
Germany, China, India, and Brazil and found technology adoption from 2010 through 2012, across all industry sectors, created jobs almost twice as fast as other small businesses. SMEs that adopted technology also increased their annual revenues 15 percentage points faster than companies with lower levels of technology adoption.

The Kenyan Government has identified ICT as a key enabler in the attainment of Vision 2030. There has been unprecedented uptake of mobile devices, wireless networks and mobile communication services has allowed SMEs in Kenya to enjoy efficient communication, mobile payments like M-Pesa, Airtel money.

According to the Safaricom full year 2014-2015 report, Smartphone users grew by 98% to 3.4m through provision of low cost smartphones. Furthermore SMEs active customers by 106% to 64,000 customers. The total M-Pesa transactional value was Kshs 4.18trillion in the year ending 2015 which was a 26% growth.

2.3.9 Corruption

Corruption is the abuse or misuse of public resources to enrich or give unfair advantage to individuals, their family or their friends. Corruption takes many forms and these include graft, bribery, embezzlement and extortion. Corruption reduces business credibility and profits when professionals misuse their positions for personal gain.

According to Transparency International Corruption Perception Index (CPI) 2014, Kenya scored 25 on a scale of zero to 100 (with zero perceived to be highly corrupt, and 100 very clean), down two points from last year’s score of 27. Kenya also sat at position 145 out of 174 countries and territories ranked in the 20th edition of the CPI.

According to Transparency International's Global Corruption Barometer 2013, the judicial system is perceived by households to be one of the most corrupt institutions in Kenya, ranked joint third behind the police and the legislature in the survey.

2.4 Improving SME’s Performance

2.4.1 Government Interventions
Small and Medium Enterprises (SMEs) have been known to contribute greatly in economic growth of both developed and developing countries. According to a report published in the
In Kenya for instance, according to Kimuyu (2008), SME operation cut across almost all sectors of the economy and sustain majority of households. This was also well recognized by the 2003, National Budget. David Mwiriraria, the then Minister for Finance noted that “SME activities form a breeding ground for businesses and Employees, and provide one of the most prolific sources of employment. Their operations are more labor intensive than the larger manufacturers.” As such, policy provisions would mean boosting not only the operations of these enterprises but the country’s economy as well.

ILO (2012) recognizes the important role played by SMEs’ informal Sector in employment creation. This has led to various policies that promote establishment and growth of the sector. In Kenya, for instance this realization led to the establishment of the Small Enterprise Development (SED) which is mandated with the role of creating an enabling environment for small enterprise growth including analysis and adjustments to the regulatory environment that has been a hindrance to prospective SME owners. The main agenda of SED revolves around entrepreneurship development programs under a heading 'Non-Financial Promotional Programs' (NFPP). SED is also mandated with the responsibility of providing responsive small enterprise credit facilities and an ensuring a gender balance.

Another strategy by the government, through the Ministry for Finance is the creation of Sessional Paper No. 2 Small Enterprises and Jua Kali Development in Kenya of 2005 on Development of Micro and Small enterprise for Wealth and Employment Creation for Poverty Reduction. This was created with theme of, “SMEs have great potential for creating a variety of jobs, while generating widespread economic benefits. This policy provides a more balanced policy for attaining national goals in an effort to foster economic growth, employment creation, income generation, poverty reduction and industrialization as stipulated Poverty Reduction Strategy Paper and the Economic Recovery Strategy for
Wealth and Employment Creation, 2003-2007.” The “policy focus during the recovery period will increasingly be on small business enterprises” (RK, 2003).

In an effort to revive the SME sector, the Kenya Local Government Reform Programme (KLGRP) has been particularly relevant. This was spurred in 1999 with a deliberate policy priority focusing on reducing poverty and unemployment going hand in hand with accelerating economic growth. The KLGRP reforms had three components: improving local service delivery; enhancing economic governance; and alleviating poverty. These objectives were to be achieved through increasing efficiency, accountability, transparency and citizen ownership and on the practical side, removal of unnecessary regulatory barriers and the reduction in costs of doing business. In particular, the government initiated two nation-wide reform efforts, namely: the Single Business Permit (SBP) and The Local Authority Transfer Fund (LATF). The SBP was a response to business licensing problems faced by SMEs in the startup phase as they had to get multiple licenses before opening shop draining the initial business inertia

The proposal by the government to set up a revolving fund to provide low interest loans to Small and Medium enterprises is another red signal to commercial banks to lend on easier terms. Looking at the 2010/2011 budget that hit Ksh 1 trillion mark reveals some of the intended projects. Under the theme ‘‘towards inclusive and Sustainability Rapid Economic Development’’ the 2010 Budget set an ambitious target of spurring growth in every part of the country. The move by the government to support growth in SMEs sector is a new reawakening based on what can be viewed as a gradual realization of the inherent potentials in the sector in spurring economic growth. The budget incorporated SME factor as a move towards revitalizing the sector – having been allotted a Sh3.8 billion credit line. By all means, this amount is small to cater for the needs of all players in the massive SME subsector.

The government has also initiated other programmes to support the sub-sector. For instance, through Jitihada Business Plan Competition, the government undertook a training programme for entrepreneurs under the Micro, Small and Medium Enterprises competitive project in the Ministry of Industrialization. Implemented by the Kenya Institute of Management, Jomo Kenyatta University of Agriculture and Technology and TechnoServe, the plan seeks to identify growth oriented and innovative business ideas that can be nurtured into vibrant and sustainable business enterprises. It is also meant to provide participants
with innovative ideas, expert coaching and individual mentorship to help them develop and refine their business plans.

Markman and Baron (2011) noted that development of regulatory framework for supporting market economy can go a long way in promoting SMEs in developing countries. This according to the two involves the development and implementation of basic business rules, such as business-related legal systems, government regulations, and business practices that enable firms to conduct free and fair business activities to facilitate the entry or withdrawal from markets.

Inadequate development and operation of basic business rules is not an uncommon problem in least developed countries and transitional economies (Isobel & Lowe, 2009).

Volkman (2008) argued that trade and investment systems have an enormous influence on opening up economies to overseas markets and creating alliances with foreign companies. Volkman claimed that in developing countries various systems and regulations on trade and investment may burden enterprises trying to gain from international trade and investment.

According to WTO (2012), with the execution of WTO (World Trade Organization) agreement obligations, regional economic integration is currently progressing rapidly. WTO report suggests that these regional circumstances be taken into account as part of the business environment influencing the growth of SMEs.

2.4.2 Efforts by SME Owners and Stakeholders

Alongside Government led efforts of change, there has also been international support towards the SME sub-sector. For instance the International Finance Corporation (IFC) along with the Central Bank and the ministry of Finance has been working hand in hand to establish a credit reference bureau that should benefit SME entrepreneurs (mostly women). This reform could enable Non-land Assets to be acceptable as collateral.

According to a report by Kenya Women Finance Trust, KWFT (2007), one of the greatest challenges that developing enterprises face is obtaining long-term funds. According to the report, in many developing countries the acquisition of funds and capital is difficult because financial intermediary functions of private banks are insufficient and capital markets are
underdeveloped. Therefore, SMEs are greatly disadvantaged, as the risk of fund lending is difficult to evaluate and the amount available for borrowing is limited. Thus, it is necessary to develop and operate systems that remedy these deficiencies.

According to the report which was based on ‘Improving Access to Finance for SME: International Good Experiences,’ removing the obstacles to financial access for SMEs requires that commercial banks, micro-credit institutions, community groups and Business Development Service (BDS) institutions work closely together. Pushing for agreements between financial bodies and BDS suppliers can help make up for lack of capacity and reduce costs by more efficient division of labor. The BDS supplier makes the initial choice of projects on a purely technical basis and the credit institution looks at financial viability. Making loans to intermediaries (NGOs and federations of SMEs) with the job of allotting funds to members can also help cut administration costs.

Wolf (2010) stated that Solidarity between banks, especially setting up inter-bank financing to pool money to be invested in SMEs should also be considered as a viable option in reducing the extra risk of lending to SMEs. According to Wolf, this will address simultaneously the twin issues of accelerating access to finance and reaching the unbanked. According to a report by the Ministry of Trade (2011), an interesting case study in the banking sector has been Equity Bank. From the report, the bank is one that has stood the test of time in aiding the SME sub-sector. The recent announcement by the bank to support SMEs in the country following a shilling 4 billion loan from China serves to solidify its commitment revolutionizing the SME sector. This loan facility will be available to SME clients at interest rates of between 7 and 9 percent for periods of 3 to 7 years, making it the cheapest source of funding for the sector in the country. This is a door opening for SMEs in Kenya for improvement.

2.5 Chapter Summary

This chapter looked at the literature review of related work by other researchers. It contains subheading in which each research question has been reviewed based on earlier research. It gives in details the social and economic factors affecting SMEs in Kenya, it illustrates why having an understanding of socio-economic factors is important and the major strategies by the government and private stakeholders in an effort to promote SMEs in Kenya. The next chapter deals with research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the methodology that will be used in conducting the study. This includes: The research design; target population, sampling design and procedures; research
instruments for data collection; the research process; as well as data processing and analysis techniques.

3.2 Research Design

According to Nachmias and Nachmias (1999), research design refers to the master plan that will be used in the study in order to answer the research questions. For this study, case study will be used. Case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Yin, R. K. (2004) defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 2004). It also allows for questionnaires with standardized questions to be used and allows for data collection methods like questionnaires and interview schedules to be used jointly (Rajendar, 2012). The questionnaires will be distributed randomly to the selected target population to ensure correct and exact facts are collected. The independent variable of the study are; social factors, economic factors, and factors that improve growth, while dependent variable is the growth of SME’s in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Borg and Gall (2011) defines population as all members of a real or hypothetical set of people, events or objects to which an investigator wishes to generalize the results. The target population for this study will consist of SMEs in Nairobi CBD area.

According to data from the Registrar of Companies, Nairobi County has 30252 registered SMEs (Company Registrar, 2013). 11753 SMEs are found in Nairobi’s Central business District. The study will target those SMEs that have been in operation for more than one year since they have a better understanding of the socio-economic factors affecting them in the daily-running of the premises.
3.3.2. Sampling Design

The sampling design describes the sampling frame, sampling technique and the sample size adopted in the study.

3.3.2.1 Sampling Frame

A sample frame is the list of elements from which the sample is actually drawn and contains the complete and correct list of the population members only (Cooper & Schindler, 2014). The authors explain further that it comprises of the entire representative elements in the population selected for a given study. In this study, the sampling frame was obtained from registrar of companies in Nairobi.

3.3.2.2 Sampling Technique

Simple random sampling technique was used for duty stations where respondents were sampled. Denscombe (2007) defines sample as a sampling technique where every member of the population has a chance of being selected in relation to their proportion within the total population.

3.3.2.3 Sample Size

Sample size is simply the section of part which represents the whole population (Cooper & Shindler, 2014). This study had a sample size of 100 was utilized for this study.

The total sample size for all the duty station is shown in Table 3.1.

<table>
<thead>
<tr>
<th>Duty Station (Stratum)</th>
<th>Population</th>
<th>% Sample Size</th>
<th>Sample Size</th>
</tr>
</thead>
</table>

Table 3.1 Sample Size Distribution
Westlands  |  40  |  62%  |  25  
Eastlands  |  50  |  50%  |  25  
Central Business District  |  50  |  50%  |  25  
Nairobi South  |  50  |  50%  |  25  
Total  |  190  |  100  |

3.4 Data Collection Methods

According to Cooper (2014), data collection method is the gathering of data for purposes of analysing so as to make inferences form the data. Structured questionnaires were used to collect primary data. According to Saunders, Lewis and Thornhill (2009), a questionnaire is generally a good tool for collecting structured data or information. For this study, the questionnaire was divided into four sections. The first section was comprised of general questions seeking to establish respondents’ demographic data such as gender, age, and level of education. Second section dealt with first research question on social factors affecting growth of SME’s in Kenya. The third section dealt with second research question on economic factors affecting growth of SME’s in Kenya, while the fourth section dealt with the third research question on factors that improve growth of SME’s in Kenya.

3.5 Research Procedures

A pilot test of the instrument was conducted using 15 respondents drawn from the business people within Nairobi central business district. This was used to assess the reliability and validity of the questionnaire. During the pilot, it was established that some of the questions were not clear, while others appeared the same to pilot respondents. These questions were refined, while the others were deleted. Equally, to enhance validity, results from pilot necessitated the refinement of the study instrument. After the refinement, the questionnaires were personally administered to the respective respondents with the help of research assistants. The assistants had been trained to explain or clarify any queries respondents had while answering the questionnaire. Once the questionnaire was completely filled, the research assistants collected it. Data collection process took three week to complete
3.6 Data Analysis Methods
Before analysis, data collected from questionnaires obtained from respondents was reviewed carefully and checked for completeness and consistencies. Data was analyzed using frequency tables, correlations, and multiple regression. Descriptive statistics was presented using tables and figures. Pearson Correlation was also used to establish the existence, nature and strength of the relationships between social factors, economic factors, factors that improve growth, and growth in SME’s in Kenya. ANOVA was used to determine whether significant differences existed between all the variables and SME’s growth.

The data analysis was done using the SPSS tool. Doing statistics with SPSS is ideal for those who need to interpret and analyze quantitative data in their research. Miller (2002) noted SPSS is by far the most popular statistical package used by social scientists.

3.7 Chapter Summary
The chapter has described the methodology that was used during the research study. It has described research design and justified the choice of the methods. The chapter also discussed population and sampling design which includes the sampling frame, sampling technique and sample size along with how the sample is calculated. The chapter defined and specified the data collection instrument, the research procedures to be followed as well as the analytical techniques and tools to be used. The next chapter presents the analysis of findings of the study.
CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction
In this chapter, the results of the research are presented, analyzed and discussed. The objective of the study was to establish the Economic and Social factors affecting growth in Kenyan SME’s. Data collected in the study was analyzed using descriptive statistics.

4.1.1 Response Rate
Out of the 100 questionnaires which had been presented for administration to the respondents, 98 out of the 100 were filled and returned for data analysis. Therefore the study achieved a high questionnaire return of 98 per cent. According to Linder and Wingerbach (2002), questionnaire return of above 50 per cent is considered for a study. The authors further state that surveys that have a high response rate provide a measure of assurance that the findings can be projected to a population from which the sample is drawn. The research of this high response can be attributed to the fact that the questionnaires were hand delivered to the respondents by the Researcher and one Research Assistant.

4.2 Gender Respondents Distribution
In order to assess the composition of the SMEs, respondents were asked to indicate their gender. Table 4.1 presents gender composition of the respondents.

Table 4.1: Gender Respondents Distribution

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>59</td>
<td>60.2%</td>
</tr>
<tr>
<td>Female</td>
<td>38</td>
<td>38.8%</td>
</tr>
</tbody>
</table>
Missing | 1 | 1% |
---|---|---|
**Total** | **98** | **100** |

Table 4.1 shows that majority of the respondents were men with 60.2%. The female respondents were 38.2%.

### 4.2.1 Distribution of Respondents by Age

The study sought to establish the age of the respondents as shown in Table 4.2

#### Table 4.2 Distribution of Respondents by Age

<table>
<thead>
<tr>
<th>Age Groups</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20 years</td>
<td>4</td>
<td>4.1%</td>
</tr>
<tr>
<td>21-25 years</td>
<td>35</td>
<td>35.7%</td>
</tr>
<tr>
<td>26-30 years</td>
<td>26</td>
<td>26.5%</td>
</tr>
<tr>
<td>31-35 years</td>
<td>8</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

According to the Table 4.3, 35.7% of the study participants were aged between 21 and 25 years followed by those aged between 26 and 30 years who accounted for 26.5%. Respondents aged 31-35 years constituted 8.2%. The lowest number captured was on the age bracket of below 20 years at 4.1%.

### 4.2.2 Distribution of respondents by their Marital Status

The marital status of the respondents in the study was another aspect of the demographic information sought by the study.
Table 4.3 Distribution of Respondents by their Marital Status

<table>
<thead>
<tr>
<th>Marital status</th>
<th>Frequency</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>35</td>
<td>35.7%</td>
</tr>
<tr>
<td>Married</td>
<td>46</td>
<td>46.9%</td>
</tr>
<tr>
<td>Window</td>
<td>7</td>
<td>7.1%</td>
</tr>
<tr>
<td>Separated</td>
<td>7</td>
<td>7.1%</td>
</tr>
<tr>
<td>Divorced</td>
<td>3</td>
<td>3.1%</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100%</td>
</tr>
</tbody>
</table>

According to the study, majority of the respondents at 46.9% were married while 35.7% were single. 7.1% of the respondents were windows, similar to 7.1% who were separated. Only 3.1% of respondents were divorced.

4.2.3 Distribution of respondents by Education Level

The study sought to establish the respondent’s education level. Findings are shown in Figure 4.1.
Figure 4.1: Distribution of respondents by Education Level

All the respondents in the study had received a formal education with the majority of them being up to College level 40.8%, University level at 29.6%, and secondary level at 21.4% while 7.1% had primary level education.

4.2.4 Distribution by the Number of Years in SME’s

The respondents were requested to quote the number of years they had been running the enterprise. Findings are shown in figure 4.2 below.
Figure 4.2: Distribution by the number of years in SME’s

Majority of the entrepreneurs had worked in the enterprises for a period of below 1 year with 25.5%. This was followed by 21.4% or respondents with 1 to 2 years, 15.3% with 2 to 4 years, with another 15.3% between 4-6 years. Respondents with 6 to 10 years, were similar with respondents above 15 years at 8.2% only 5.1% or respondents 5.1 % had run their enterprises for a time period of 10-15 years and 8.2 % for a period above 15 years. A relatively high number of 15.3% of the entrepreneurs had worked for between 2-4 years and 4-6 years respectively.

4.2.5 Business Registration

The entrepreneurs were further requested to indicate if they operated in registered businesses. The findings are shown in Figure 4.3.

Figure 4.3: Registered Business.

According to Figure 4.3, majority of the entrepreneurs at 72% operate in registered businesses while 28% operate in non-registered ventures.

4.3 Social Factors affecting Growth of SME’s

The study sort to find out the social factors affecting the growth of SME. The areas considered are family type, size, values, products, education among others. The following sections presents the findings.
4.3.1 Respondents Religion

The study findings on respondent’s religion are indicated in Figure 4.4.

![Figure 4.4: Respondents Religion](image)

**Figure 4.4: Respondents Religion**
The study findings on respondents religion indicates that 42.9% were Protestants, 40.8% were Catholics, 10.2% were Muslims, 4.1% traditionalist, while the remaining 2% indicated other.

4.3.2 Respondents Family Type

The study findings on respondent’s family type are indicated in Figure 4.4.

![Figure 4.5: Respondents Family Type](image)
The family types represented in the study according to figure 4.4 were 76% nuclear families, 17% single parent, and 7% polygamous.

4.3.3 Respondents Family Size

The study findings on respondent’s family size are indicated in Figure 4.6

![Figure 4.6: Respondents Family Size](image)

The study findings indicates that 48% of SME respondents had a family size of 4-7 members followed by 32% who had less than 3 family members then 20% who had above 7 members in their family.

4.3.3 Value addition, Interaction, and Introduction of New Products

Respondents were asked whether they normally have interactions with customers, whether they introduce new products to customers, and whether they add value to products. The findings are shown in table

The study findings on respondent’s family size are indicated in Figure 4.5

<table>
<thead>
<tr>
<th>Table 4.4: Value Addition, Interaction, and New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Table 4.4 study findings shows that majority of SME owners at 40.8% do interact with their customers always; 37.8% do introduce new products to customers very often, while 35.7% of SME owners do sometimes add value to the products they sell to customers.

Table 4.5: Respondents Level of Education

<table>
<thead>
<tr>
<th>Employees Level of Education</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>no response</td>
<td>4</td>
</tr>
<tr>
<td>Primary</td>
<td>2</td>
</tr>
<tr>
<td>secondary</td>
<td>47</td>
</tr>
<tr>
<td>college</td>
<td>41</td>
</tr>
<tr>
<td>university</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
</tr>
</tbody>
</table>

The study shows that employees’ working within SME’s with secondary education were the majority at 48%, followed by those with college diploma, at 41.8%, while those with university education were 4.1%, and finally the least represented were those with primary education with 2.0%.

4.3.4 Correlations between Social Factors and SME Growth

Correlation analysis was conducted to determine whether there exists a significant relationship between social factors and SME growth. Findings are highlighted in Table 4.6.

Table 4.6: Correlation between Social Factors and SME Growth

<table>
<thead>
<tr>
<th>Variables</th>
<th>SME Growth</th>
<th>Social Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The correlation analysis between social factors and SME growth indicates the existence of a strong positive relationship, $r (0.520); P \leq 0.050$. Therefore the relationship is statistically significant.

### 4.3.5: Linear Regression between Social Factors and SME Growth

Correlation analysis between social factors and SME growth had a significant relationship. For this study a linear regression was done between social factors and SME growth to determine the level of significance for the relationship. The findings are shown in table 4.7 and 4.8. The regression model used was: $Y = \beta_0 + \beta_1 X_1 + e$.

#### Table 4.7: Linear Regression Summary between Social Factors and SME Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.520a</td>
<td>.352</td>
<td>.304</td>
<td>.617</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Predictors: (Constant), Social Factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Table 4.8: Linear Regression Coefficients between Social Factors and SME Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.319</td>
<td>.334</td>
<td>.623</td>
</tr>
<tr>
<td></td>
<td>Competency Performance</td>
<td>.920</td>
<td>.100</td>
<td>.520</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Dependent Variable: Employee Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
According to the findings in table 4.8 a strong positive relationship between social factors and SME growth, R (0.592); P ≤ 0.05. The adjusted R square in Table 4.7 of 0.304, indicating that 30.4% of variation in SME growth is attributable to variations in social factors.

The linear relationship formula was;

\[ \text{SME Growth} = 0.319 + 0.920X_1 \]

### 4.4 Economic Factors Affecting Growth of SME’s

The study sort to find out economic factors that affect the growth of SME’s. Some of the areas looked at in the study include nature of SME business, growth strategy, research and development opportunities, access to credit, interest rates, exchange rates among others. The flowing sections indicates the study findings

#### 4.4.1 Nature of SME businesses

To establish the nature of businesses SME under the study, respondents were asked to indicate the business they operate. The findings are shown in figure 4.6.
Figure 4.7: Nature of Your Business

The findings of the study indicates that the nature of business had wholesalers/retailers as the majority at 59.2%, followed by 14.3% who were in service business. The least represented group was business in education sector as it had only 2% representation.

4.4.2 Company’s Growth Strategy

The study respondents were asked on the questionnaire to indicate the growth strategy they intend to use for their SME’s. The findings are highlighted in table 4.9.

Table 4.9: Company’s Growth Strategy.

<table>
<thead>
<tr>
<th>Growth Strategy</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>no response</td>
<td>1</td>
<td>1.0 %</td>
</tr>
<tr>
<td>Increase the revenue of the company</td>
<td>21</td>
<td>21.4%</td>
</tr>
<tr>
<td>Expand the business</td>
<td>70</td>
<td>71.4%</td>
</tr>
<tr>
<td>Hire more employees</td>
<td>6</td>
<td>6.1 %</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Majority of entrepreneurs at 71.4% indicated that their company growth strategy was business expansion. This was followed by 21.4% who want to increase revenue channels in their business. Only 6.1% wanted to hire more employees as a growth strategy.

4.4.3 Research and Development on improving goods and services

The entrepreneurs were further requested to state if they invested in research and development to improve on the goods and services that they provided.

Table 4.10: Research and Development on Improving Goods and Services

<table>
<thead>
<tr>
<th>Research and Development</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>2</td>
<td>2.0%</td>
</tr>
<tr>
<td>Never</td>
<td>3</td>
<td>3.1%</td>
</tr>
</tbody>
</table>
According to the study findings, 42.9% of respondents indicated that they utilize research and development very often within their businesses. This was followed by 23.5% who only utilize research and development sometimes. About fifteen (15.3%) of respondents indicated that research and development always improves goods and services, while 13.3% indicated that research and development rarely do. Respondents who never utilize research and development to improve their businesses stood at 3.1%, while 2% of respondents had no opinion on whether research and development improves goods and services.

### 4.4.4 Access to Credits in the Last One Year

The study findings on access to credit by the SME business holders is shown in figure 4.8.

![Figure 4.8: Access to Credit in the last One Year.](image)

24.5% of respondents, who were the majority indicated that their source of credit for the last one year was the government. About sixteen (16.3%) percent of respondents indicated that their source of credit came from co-operative societies. while 15.3% indicated Sacco’s.
The respondents’ who indicated they got their credit from commercial banks, and from relatives were 9.2% respectively. Only 5.1% of respondents indicated that they received credit form micro lenders.

4.4.5 Access to Skilled Employees

The study findings on SME’s access to skilled employees is provided in Figure 4.9 below.

![Figure 4.9: Access to Skilled Employees](image)

60% of respondents of the study felt that it is difficult to access skilled employees for their business, while 40% felt that they can easily access skilled employees.

4.4.6 Economic Effects on Business

Economic factors that affect SME businesses are shown in table 4.11.

Table 4.11: Economic Effects on Business

<table>
<thead>
<tr>
<th>Statement</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 Never</td>
</tr>
<tr>
<td></td>
<td>F</td>
</tr>
<tr>
<td>Tax effect on Business</td>
<td>11</td>
</tr>
<tr>
<td>Competition</td>
<td>22</td>
</tr>
<tr>
<td>Loan Collateral</td>
<td>7</td>
</tr>
<tr>
<td>Corruption</td>
<td>17</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>15</td>
</tr>
</tbody>
</table>
According to the study findings 33.7% of respondents indicated that tax moderately effects business; 29.6% indicated almost always, 15.3% almost never, 11% indicated never while 7.1% indicated always. On the issue of competition, 3.7% of respondents indicated that competition moderately effects business; 24.5% indicated almost always, 9.2% almost never; 22.4% indicated never while 10.2% indicated always. On the issue of local collateral, 35.7% of respondents indicated that local collateral moderately effects business; 21.4% indicated almost always, 15.3% almost never, 7.1% indicated never while 15.38% indicated always. On the issue of corruption, 20.4% of respondents indicated that corruption moderately effects business; 20.4% indicated almost always, 15.3% almost never, 17.3% indicated never while 26.5% indicated always. On the issue of bureaucracy, 29.6% of respondents indicated that bureaucracy moderately effects business; 13.3% indicated almost always, 17.3% almost never, 15.3% indicated never while 23.5% indicated always. On the issue of crime, 25.5% of respondents indicated that crime moderately effects business; 24.5% indicated almost always, 11.2% almost never, 8.2% indicated never while 30.6% indicated always.

### 4.4.7 Economic Challenges Facing Businesses

The study sorts to determine challenges that SME business owners go through in trying to grow there are represented on table 4.12.

**Table 4.12: Economic Challenges Facing Businesses**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Inflation</td>
<td>31</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>48</td>
</tr>
<tr>
<td>Exchange Rates</td>
<td>21</td>
</tr>
<tr>
<td>Tax Compliance</td>
<td>82</td>
</tr>
</tbody>
</table>

The study indicates that 31.6% of respondents believed that inflation affects business, while 62.2% didn’t. 49% of respondents felt that interest rates affects business, while 48% didn’t think so. The majority of respondents at 83.7% felt that taxes affects their businesses more than other factors, and finally, 21.4% of respondents believed exchange rates are some of the challenges facing business while 68.4% didn’t think so.
4.4.8 Correlations between Economic Factors and SME Growth

Correlation analysis was conducted to determine whether there exists a significant relationship between economic factors and SME growth. Findings are highlighted in Table 4.13.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Pearson Correlation</th>
<th>SME Growth</th>
<th>Economic Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Growth</td>
<td>Sig. (2-tailed)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Social Factors</td>
<td>N</td>
<td>98</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Pearson Correlation</td>
<td>.348**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>98</td>
<td>98</td>
</tr>
</tbody>
</table>

The correlation analysis between economic factors and SME growth indicates the existence of a strong positive relationship where $r$ (0.348); $P \leq 0.05$. Therefore the relationship is statistically significant.

4.4.9: Linear Regression between Economic Factors and SME Growth

Correlation analysis between economic factors and SME growth had a significant relationship. For this study a linear regression was done between economic factors and SME growth to determine the level of significance for the relationship. The findings are shown in table 4.14 and 4.15. The regression model used was: $Y = \beta_0 + \beta_2 X_2 + e$.

Table 4.14: Linear Regression Summary between Economic Factors and SME Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.348$^a$</td>
<td>.121</td>
<td>.112</td>
<td>.97923</td>
</tr>
</tbody>
</table>
According to the findings in Table 4.15, a strong positive relationship between economic factors and SME growth, $R (0.348); P \leq 0.05$. The adjusted $R$ square in Table 4.15 is 0.112, indicating that 11.2% of the variation in SME growth is attributable to variations in economic factors.

The linear relationship formula was:

$$\text{SME Growth} = -0.012 + 1.052X_2$$

### 4.5 Factors That Improve Growth of SME’s

The study sought to find out the factors that improve growth of SME. The areas considered are SME trainings, government SME programmes, market analysis, and devolved government environment among others. The following sections present the findings.
4.5.1 Respondents Access to External Advice to Improve Business

The study findings on respondent’s views on access to external business advice is indicated in Figure 4.10.

According to the study findings in Figure 4.9, majority of respondents at 36.7% felt that they very often have access to external business advice. This was followed by 29.6% of respondents indicated that they sometimes do have access to external business advice. About seventeen (17.3%) percent indicated that they always have access to external advice while 9.2% indicated that they never have access external advice. Only 7.1% of respondents indicated that they rarely access external advice on how to improve their business.

4.5.2 Training to Improve Business Understanding

Respondent’s views on training to improve business understanding are presented in Figure 4.11.
The study provides findings that indicates 29.6% of respondents believe that sometimes, business training improves business understanding, followed by 28.6% who felt that business training very often improves business understanding. About twenty four (23.5) percent indicated that training always improves business understanding, while 10.2% of respondents indicated that training never improves understanding of business. Only 8.2% of respondents felt that rarely does business training improve business understanding.

4.5.3 Respondents Awareness of Government SME Programs

Respondent's views on training to improve business understanding are presented in Figure 4.12.
The findings of the study indicates that 46.9% of respondents were never aware of government SME programs, while 18.4% indicated that they sometimes are aware. About eighteen (18.4%) percent of respondents indicated that they are sometimes aware of government SME programs, while 13.3% of respondents indicated that they are rarely aware of government SME programs. On the other hand, 10.2% indicated that they are always aware of government SME programs, while 7.1% indicated are very often aware of government SME programs. Only 4.1% or respondents had no opinion on the same.

4.5.4 Respondents View on How to Improve SME Growth

Respondent’s views on training to improve business understanding are presented in Table 4.16.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>reduction of Tax</td>
<td>13</td>
<td>13.3%</td>
</tr>
<tr>
<td>improved security</td>
<td>18</td>
<td>18.4%</td>
</tr>
<tr>
<td>improving roads</td>
<td>13</td>
<td>13.3%</td>
</tr>
<tr>
<td>stop corruption</td>
<td>19</td>
<td>19.4%</td>
</tr>
<tr>
<td>introducing new and trending products</td>
<td>13</td>
<td>13.3%</td>
</tr>
<tr>
<td>ease of getting loans</td>
<td>15</td>
<td>15.3%</td>
</tr>
<tr>
<td>others</td>
<td>7</td>
<td>7.1%</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The study findings in table 4.18 highlights that 19.4% of respondents believe that stopping corruption would increase SME growth prospects, 18.4% felt that improved security would increase business; 15.3% indicated the ease of getting loans will improve SME growth prospects; 13.3% indicated reduction in tax and introduction of new products and improving roads respectively; while 7.1% had no opinion on the same.
4.5.4 Correlations between Factors of Growth and SME Growth

Correlation analysis was conducted to determine whether there exists a significant relationship between growth factors and SME growth. Findings are highlighted in Table 4.17.

Table 4.17: Correlation between Factors of Growth and SME Growth

<table>
<thead>
<tr>
<th>Variables</th>
<th>SME Growth</th>
<th>Economic Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Growth</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Factors of Growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.304**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>98</td>
<td></td>
</tr>
</tbody>
</table>

The correlation analysis between factors of growth and SME growth indicates the existence of a strong positive relationship, \( r (0.304); P \leq 0.05 \). Therefore the relationship is statistically significant.

4.4.9: Linear Regression between Factors of Growth and SME Growth

Correlation analysis factors of growth and SME growth had a significant relationship. For this study a linear regression was done between factors of growth and SME growth to determine the level of significance for the relationship. The findings are shown in Table 4.18 and 4.19. The regression model used was: \( Y = \beta_0 + \beta_3X_3 + e \).

Table 4.18: Linear Regression Summary between Factors of Growth and SME Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.304a</td>
<td>.092</td>
<td>.083</td>
<td>.99523</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Factors of Growth
Table 4.19: Linear Regression Coefficients between Factors of Growth and SME Growth

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>Constant</td>
<td>.883</td>
</tr>
<tr>
<td></td>
<td>Factors of Growth</td>
<td>.475</td>
</tr>
<tr>
<td></td>
<td>a. Dependent Variable: SME Growth</td>
<td></td>
</tr>
</tbody>
</table>

According to the findings in table 4.19 a strong positive relationship between economic factors and SME growth, $R^2 (0.304); P \leq <0.05$. The adjusted $R$ square in Table 4.18 of 0.083, indicating that 8.3% of variation in SME growth is attributable to variations in factors growth. The linear relationship formula was;

$$SME\, Growth = 0.883 + 0.475X_3$$

4.6 Multiple Regression between Social, Economic, Factors of Growth, and SME Growth.

Since individual variables had a significant relationship, they were subjected to multiple regression to determine whether the combined variables will still have a significant relationship with SME growth. The findings are shown in Table 4.20 and 4.21. The regression model used was $Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$.

Table 4.20: Multiple Regression Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
</table>
Table 4.21: Multiple Regression Coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.880</td>
<td>.887</td>
</tr>
<tr>
<td>Social factors</td>
<td>.247</td>
<td>.302</td>
</tr>
<tr>
<td>Economic Factor</td>
<td>.761</td>
<td>.319</td>
</tr>
<tr>
<td>Factors of Growth</td>
<td>.271</td>
<td>.167</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME Growth

According to the findings in Table 4.21, when a multiple regression was conducted, a strong significant relationship was found to exists only with economic factors and SME growth, R (0.252); P≤ 0.50. The other variables had insignificant relationship. For instance, social factors, R (0.084); P ≥ 0.05; equally factors of growth R (0.174); P ≥ 0.05, therefore insignificant. Table 4.20 shows an adjusted R square of 0.132, which indicates that 13.2% of variation in SME growth is attributable to variations in social factors, economic factors, and factors of growth.

The formula used to compute the relationship was:

**Employee Turnover = -0.880 + 0.247 X₁ + 0.761X₂ + 0.271 X₃**

Where X₁ = Social Factors
X₂ = Economic Factors
X₃ = Factors of Growth
4.7 Chapter Summary

The study findings for this study has indicated that all the research question variables were individually statistically significant. The correlation analysis between social factors and SME growth indicates the existence of a strong positive relationship where $r = 0.520; P \leq 0.030<0.050$. The correlation analysis between economic factors and SME growth indicates the existence of a strong positive relationship, $r (0.348); P \leq <0.05$. The correlation analysis between factors of growth and SME growth indicates the existence of a strong positive relationship, $r (0.304); P \leq 0.05$. Chapter five presents study discussion, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents discussions, conclusions, and recommendations on the study findings. The chapter outlines the suggested recommendations for each research question. In addition, the chapter presents areas of further study and research. The study discussion were compared to the literature review as discussed earlier in chapter two.

5.2 Summary

The purpose of this study was to investigate the socio-economic factors affecting performance of SMEs in Nairobi. The research questions were: What are the social factors affecting growth in Kenyan SME’s? What are the economic factors affecting growth in Kenyan SME’s? What are the factors that improve growth in SMEs in Kenya?

This study utilized the descriptive research design. The population was 30, 252 consisting of all registered SME’s in Nairobi. Simple random sampling was used to determine the sample size of 100. For this study, data was collected using structured questionnaires. Descriptive statistics was used to analyze data for frequencies and percentages distribution tables, mean, and inferential statistics for correlation, linear regression and multiple regression.

The findings on the extent to which social factors affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between social factors and SME’s growth. The findings on the extent to which economic factors affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between economic factors and SME’s growth.
The findings on the extent to which factors of growth affects growth of SME’s in Kenya revealed the existence of a significant positive relationship between factors of growth and SME’s growth. This factors include reduction in tax, improved security, improving roads, stopping corruption, introducing new and trending products, and establishing mechanisms that will enable SME owners in Nairobi ease of access to low cost loans.

A multiple regression analysis indicated a strong significant relationship exists only with economic factors and SME growth. The other variables had insignificant relationship. For instance, social factors equally factors of growth, therefore insignificant. For the study multiple regression also revealed variation in SME growth were attributable to variations in social factors, economic factors, and factors of growth.

5.3 Discussion
5.3.1 Social Factors and Selection and SME’s Growth

According to the study findings, there exists a strong positive relationship between social factors and SME’s growth, r (0.520); P ≤ 0.050. The relationship is significant since the P value for social factors was less than 0.05 recommended threshold for determining significance. The study findings are in agreement with Gemechis (2007), Hisrich (2005), and ILO (2009) who argued that social factors in the development, running and sustainability have a strong positive relationship. They further argued that in SME’s and entrepreneurship, the level of education has significant relationship with SME growth. Having the ability to understand business operations, administrative and regulatory framework enables the SME owners to structure their businesses for growth.

According to ILO (2009), there is a significant relationship between family size and the success of SME’s in Nairobi. Individuals with higher family members have a higher success rate since most of the family members can contribute to the running of the business. They provide the human resources needed, and the skills needed to operate the business. This is in agreement with the study findings for this study which shows that majority of SME holders in Nairobi had 7 of more members of the family. Attitude refers to how a person looks at or perceives certain situations. One’s attitude towards a business is largely dependent on culture. Attitude affects a person’s value system as well as shaping thoughts, actions and perceptions.
Wanjohi and Mugure (2008), further argued that family type and social networks equally influence markets that retail businesses for SME holders. This is in the fact that family networks help galvanize required awareness for the SME’s hence drawing better business performance, they further argue that social constructs within SMEs are tied to economic and political constructs which help in influencing not only policy legislation, but also better business operational environment.

King and McGrath (2010), similarly contended that the spoken language of the community is a decisive factor in labeling and the advertisement of SME products. As a social construct, language plays a major role in establishing and forging relationships. The study findings indicate that there is a strong positive relationship SME operator’s ability to forge and sustain relationships with clients, and the growth of their businesses. People skills, language, communication both play a greater role in ensuring that business owner understands the needs of clients and can adjust adequately to meet the needs.

According to Zimmerer and Scarborough (2009), asserted that the relationship between social factors and SME growth such as clients perception of value addition to products and services they are buying increases trust, honesty, and commitment to the SME’s products compared to business owners who don’t add value, or have low trust levels from their clients. More than ever, retail store owners must consider the ethical and social ramifications of their actions, as well as the actions of their suppliers.

King and McGrath (2010), argued that as part of the culture, social organization detects the way a society organizes itself, how it considers kinship, status system, social institutions and interest groups. For example, the role of women in a society, whether they are the decision-makers in shopping, for example, is a decisive factor in marketing. A major interest group in the area -- such as oil companies in Texas -- can also influence society. The marketing of a small business can be successful by building its advertising strategy on women or moms, a specific interest group or a leader that has the biggest influence in the community (Wolf, 2010).

5.3.2 Economic Factors and Selection and SME’s Growth

According to the study findings, there exists a strong positive relationship between economic factors and SME’s growth, \( r (0.348); P \leq 0.05 \). The relationship is significant.
since the P value for economic factors was less than 0.05 recommended threshold for determining significance. The study findings are in agreement with Rogerson (2011), argued that the single most important factor affecting SME growth is economic factors. In his research he argued that there is a significant relationship between economic factors and SME growth, this is in line with the study findings. The ability for an SME to access public amenities like electricity, serviceable roads, and telephone communication are all crucial economic components that sustain SME’s. Limited access to public infrastructure services is a major constraint to SME survival and growth, as it limits operations and restricts access to markets and raw materials (Darroch & Clover, 2005).

Harvie (2005), highlighted lack of capital or financial resources as one of the major barrier for SMEs and entrepreneurs to grow their business. He argued that there is a strong relationship between access to affordable financing for SME’s and the growth of SME’s. He had further argued SME’s in developing countries have difficulties in accessing bank loans due to perception that SME’s are high risk ventures. The study findings agrees with Harvie findings in that most respondents for this study indicated that access to loans of financing is a major challenge for growing their businesses.

World Bank (2011), report on SMEs growth in Kenya collaborates the study findings that access to finance for SME’s from Kenyan financial institutions is difficult as most SME owners do not have sufficient collateral required by financing institutions. This comes as a consequence of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of SMEs and access to finance plays a crucial role in the growth process and development of the enterprises.

According to Polleit (2011), there is a significant relationship between levels of prices on SME products and SMS growth. He argues that prices do determine levels of profitability, and profitability do determine levels of growth. When the general price level of SME products rises compared to the prices of competitors or substitute products, SME businesses suffer, unless if they are offering rare products. The challenge for most SME owners is therefore to balance the price for their products and services at a critical threshold that guarantees competitive advantage while at the same time profitability.

According to Belliveau and Sandberg (2009), inflation's effects on the economy and growth of SME’s can affect business either positively or negative. Inflation has an effect on
entrepreneurship. The findings of this study indicates a strong positive relationship between economic factors and SME growth. Economic factors are influenced by inflation. For instance, as argued by Luiz (2011), an increase in the opportunity cost for holding money, and uncertainty over future inflation which discourages SME investment and savings, as a result minimal growth.

On the other hand, Interest rates and exchange rates also to affect economic viability of SME growth depending on whether volatility in the economic markets is positive or negatively skewed. If interest rates are lower, SME’s do get enough credit for financing business since they can afford, however, when interest rates and exchange rates are higher, SME’s experience stunted growth as they can’t access credit to spur growth (Luiz, 2011). Taxation also was noted by the study findings as one the major factors influencing economic viability of SME’s. According to Robertson et al., (2003), higher taxation rates on licenses for operating SME’s inhibits SME development. High tax rates reduce the profit incentive. Equally, as argued Belliveau and Sandberg, (2009), higher taxes do raise the cost of doing business, making SME sustainability a volatile venture.

### 5.3.3 Factors of Growth and Selection and SME’s Growth

According to the study findings, there exists a strong positive relationship between factors of growth and SME’s growth, r (0.304); P ≤ 0.05. The relationship is significant since the P value for factors of growth was less than 0.05 recommended threshold for determining significance. The study findings are in agreement with Wolf (2010), who argued that there is a significant relationship between government intervention in SME’s and SME’s growth. Since the government provide policy frameworks for taxation, business registration among others. Government action can either influence SME operations and growth positively or negatively.

ILO (2012), argued that Kenyan government has established an environment that enables SME’s to thrive. For instance, the establishment of the Small Enterprise Development (SED) which was mandated with the role of creating an enabling environment for small enterprise growth including analysis and adjustments to the regulatory environment that has been a hindrance to prospective SME owners. The main agenda of SED was to ensure entrepreneurship development programs do succeed, by providing responsive small enterprise credit facilities to SME owners.
Wolf (2010), equally argued that access to training by SME holders has positive relationship with the growth of SME’s. SME owners who are adequately trained do have an easier time in navigating business volatility compared to SME owners who don’t have business training. Similarly, Wolf argued that corruption has a negative relationship with business operations and growth. The study findings has indicated that corruption within SMEs either in licensing, taxation, operations and acquisition of products and services were among the key factors of growth that negatively affected SME’s growth. Other factors that had significant levels of relationship relevance were political environment as it creates or hinders SME businesses. When the political environment is stable, inflation rates are lower, investments are higher, and SME’s benefit from direct or indirect funding form government or private investors. However, when the political environment is turmoil, most private investors shun investing in the country due to high risk of associated with politics, inflation, and business growth hereby hindering the growth of SME’s (Wolf, 2010)

Another factor as highlighted by Robertson et al., (2003), is the access to markets. SME’s need better markets for their products for them to remain viable and to grow. Due to the high competition in the SME products markets, a structured approach in segmenting individual SME markets goes a long way in ensuring the SME holders are guaranteed continuous cash flows that makes their businesses afloat.

Robertson et al., (2003), further argued that there was a significant relationship between SME growth and access to better infrastructure as roads, telephone communications, and business facilities. The more SME’s have access to better roads so they can place their products and services, turn a profit, and have a chance grow their businesses; this is in agreement with the findings of this study that has indicated a positive relationship between factors of growth and SME’s growth.

5.4 Conclusions

5.4.1 Social Factors and SME Growth

Social factors are at the very heart of SME growth in Kenya. The findings of the study indicate a strong positive relationship between social factors which includes family size, family type, business networks, language, business relationship and levels of education and SME growth. Increasing family size, or business networks, or level of education for
employees, and SME owners, all have a positive influence of SME growth. The positive relationship have been established with social factors and SME growth. Equally, a linear regression indicated that 30.4% of variation in SME growth is attributable to variations in social factors. Therefore, the relationship social factors and SME growth was statistically significant.

**5.4.2 Economic Factors and SME Growth**

The study findings indicates that taxation, interest rates, access to credit and business financing, and inflation all influenced and enhanced SME growth. The study established that a positive relationship exists between economic factors and SME’s growth. Equally, a linear regression indicated that 30.4% of variation in SME growth is attributable to variations in economic factors. Therefore, the relationship economic factors and SME growth was statistically significant. Inflation, access to affordable financing options, healthy competition among others are substantial factors that SME owners should leverage to enhance growth.

**5.4.3 Factors of Growth and SME Growth**

The study findings indicates that factors of growth included training, better business environment, access to credit and business financing, infrastructure, markets and business premises all influenced and enhanced SME growth. The study established that a positive relationship exists between factors of growth and SME’s growth. Corruption was mention to be a key contributor to stifling growth of SMEs. Infrastructure is equally important in ensuring that SME products can reach the target market within the required time, and communications are adequate for business profitability. Equally, a linear regression indicated that 8.3% of variation in SME growth is attributable to variations in factors of growth. Therefore, the relationship factors of growth and SME growth was statistically significant.
5.5 Recommendations

The following are recommendations for the study.

5.5.1 Recommendations for Improvement

5.5.1.1 Social Factors and SME Growth

In order for SME businesses in Kenya to grow and become sustainable, concerted effort should be made by SME business owners in building social networks that guarantee success. Networking brings in new clients, and creates loyalty for existing clients hence the ability of SME’s to grow. SME owners should equally invest in their own business education, the education of their employees and family members regarding business operations. Awareness about taxation, investments, and business markets among others will enhance SME growth. Some of this areas include enhancing interpersonal and intrapersonal skills by ME business owners. Secondly, SME business owners should enhance their business education so as to understand the intricate operations of business, not only in value addition, but also how to develop and maintain social networks with clients.

5.5.1.2 Economic Factors and SME Growth

Based on the findings of the study, respondents for this study who were SME owners indicated that access to credit, high taxes, inflation, and lack of collateral for financing were the major impediment in their business growth. SME owners should lobby the government through county legislation to have business incentives in terms of tax breaks to a certain level of profitability. They should equally lobby for minimal licensing such that operations of SME business should require only one license at minimal cost. Lastly SME owners should form an association to form stronger saving structures that will be used as basis of collateral by members who need to access credit and financing facilities.

5.5.1.3 Factors of Growth and SME Growth

Based on the findings of the study, SME business owners had indicated that infrastructure, better markets, better business working environment, and business training all enhances and influences SME growth in Kenya. SME owners should therefore lobby the county government, the ward councils, and representatives to have integrated county budgets to
allocate resources that will improve road systems, market centres, and extension and support services in terms of business training from the county governments. This will ensure that factors that enhance business growth are sustainable and contributing positively to their SME’s.

5.5.2 Recommendations for Future Research

This study findings should be adopted by researchers and academicians who would wish to advance, test or confirm hypothesis regarding factors affecting SME growth in Kenya. This should be done not only for generating more knowledge but also for comparative analysis.
REFERENCES


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APPENDICES

APPENDIX I: COVER LETTER

Muturi Gachuhi
P.O Box 9753-00100
Nairobi

Dear Respondent,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH PROPOSAL

My name is Muturi Gachuhi, currently pursuing a course towards completion of Executive Master of Science in Organization Development (EMOD) from United States International University – Africa.

In partial fulfilment of the requirements of the award of the degree, I am conducting a study on socio-economic factors affecting the growth of SME’s in Kenya: A case study of Nairobi County. You have been selected to participate in this study. Participation is voluntary. Kindly spare a few minutes of your time to fill in the blanks of the attached list of questions to the best of your knowledge. Kindly complete all sections of the questionnaire to enable me complete the study. Please note that the information you provide will be treated as confidential, and will only be used for purpose of this research.

Your participation in this study will be highly appreciated.

Yours Sincerely,
Muturi Gachuhi
## APPENDIX II: QUESTIONNAIRE

Kindly answer the following questions by writing a brief answer in spaces provided or ticking in the boxes provided.

### Section A: General Information

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Responses</th>
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<tbody>
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<td>01</td>
<td>Indicate your gender</td>
<td>Gender</td>
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<td>Male</td>
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<td></td>
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<td>Female</td>
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<td>02</td>
<td>What age bracket do you belong to?</td>
<td>Age</td>
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<tr>
<td></td>
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<td>Below 20 Years</td>
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<td>21–25 Years</td>
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<td>40–50 Years</td>
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<td>Above 50 Years</td>
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<td>03</td>
<td>What is your marital status?</td>
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<td>Separated</td>
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<td>Divorced</td>
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<td>04</td>
<td>What is your level of education?</td>
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<td>Primary</td>
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<td>Secondary</td>
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<td></td>
<td></td>
<td>College</td>
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<td>05</td>
<td>No of years worked in the enterprise</td>
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<td>4–6 Years</td>
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<td>6–10 Years</td>
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<td>10–15 Years</td>
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<th>06</th>
<th>Is your business registered?</th>
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<td></td>
<td>Yes</td>
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**SECTION B : Social Factors affecting Growth of SME’s**

1. **What is your religion?**
   - **Religion**
     - Catholic
     - Muslim
     - Protestant
     - Traditionalist
     - Others (Specify):

2. **Family Type**
   - **Response**
     - Single Parent
     - Nuclear
     - Polygamous

3. **Family Size**
   - **Response**
     - Less than 3
     - 4–7 Members
     - Above 7 Members
4. Do you regularly interact with (meet, talk to or help) your customers?

(1 being never and 5 being always)

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<td>Never</td>
<td>Rarely</td>
<td>Sometimes</td>
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5. Do you often introduce new products and/or services to your customers?

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6. Do you add any kind of value to the products you buy to make them different from either your competitors or suppliers?

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<td>Sometimes</td>
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7. What is the level of education of most of your employees?

Primary □ Secondary □ College □ University □

Section C: Economic Factors Affecting Growth of SME’s

1. What is the nature of your business?

- □ Wholesaler/retailer
- □ Manufacturing
- □ Hospitality
- □ Education
- □ Construction
- □ Service
2. What is your company’s growth strategy?

- Increasing the revenue of the company [ ]
- To expand the business [ ]
- To hire more employees [ ]

3. Do you invest in research and development to improve on the goods and service you sell?

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</table>

4. During the Past One Year, Have You Accessed Credit from;  (Tick where applicable)

- Friends And Relatives
- Micro Lenders
- Commercial Banks
- Government Through Various Funds e.g Youth Fund, Uwezo fund, Women’s fund etc.
- SACCOs
- Cooperatives

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

- Easy [ ]  
- Difficult [ ]

6. Do you pay your employees competitive salaries?

- Yes [ ]  
- No [ ]

If No, why don’t you pay them competitive salaries?

………………………………………………………………………………………..

7. Do you find it difficult to get a loan for your business?
8. Does the change in interest rates directly affect your business?

Yes ☐  No ☐

If yes briefly explain how it affects your business

9. Does the change in inflation levels affect your business?

Yes ☐  No ☐

If yes briefly explain how it affects your business

10. Does the fluctuation in exchange rates affect your business?

Yes ☐  No ☐

If yes briefly explain how it affects your business

11. Is your business tax compliant?

Yes ☐  No ☐

If No, briefly explain why.

12. Have the changes in tax legislation affected your organization

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<td>Rarely</td>
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13. Do you find it difficult to provide the collateral required by most financial institutions?

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14. Is the competition your business faces beyond your control?

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15. Does corruption affect your business?

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<td>Rarely</td>
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16. Has your business been affected by delays due to bureaucracy e.g. licences, P.I.N, tax compliance etc.

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<td>Rarely</td>
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17. Does crime pose a major challenge in your day to day business?

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<td>Rarely</td>
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18. Do you have access to the following services at your business location

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<tr>
<th>Service</th>
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<td>Electricity</td>
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<td>Clean Water</td>
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<tr>
<td>Internet</td>
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<td>Accessible roads</td>
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<td>Land</td>
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Section D: Factors That Improve Growth of SME’s

1. Have you ever sought any external advice in regard information that would help improve your understanding on how to do business?

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2. Do you regularly undergo trainings or go for seminars to improve you understanding of business?

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3. Are you aware of any government programmes for SME’s?

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4. Do you constantly analyse the market

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5. Does the Devolved government (County Government) facilitate or promote better working environment for your business?

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6. What more can be done to improve the growth prospects of your business?

……………………………………………………………………………………………

……………………………………………………………………………………………

Thank you for participating in filling this questionnaire. END