

**CHALLENGES FACING SMALL SCALE BUSINESS GROWTH
AND SURVIVAL: THE CASE OF CHLORIDE EXIDE
BATTERY/SOLAR DEALERS AROUND
MT. KENYA EAST REGION**

By

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A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN
PROJECT PLANNING AND MANAGEMENT,
UNIVERSITY OF NAIROBI

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Declaration

This research project report is my original work and has not been presented for a degree in any other University.

Signed  Date: 28/08/09

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L50/70211/2008

This research project report has been submitted for examination with my approval as University supervisor.

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Dedication

This work is dedicated to my beloved family; Margaret my dear wife, our children Eric Mwenda, William Gitonga and Martin Mutethia. Thank you and May God bless you abundantly.

Acknowledgement

I wish to appreciate the contribution of many people who contributed to the completion of this research project. I am sincerely grateful to my supervisor; Dr. Harriet Kidombo, for her dedicated effort, support and advice in the design of this research project and close supervision up to the completion of the work. I also wish to thank my workmates at Chloride Exide (K) Ltd Meru Depot, Messer's Peter Gachagua, Joseph Munene, Charles Mwangi and Joseph Kimathi. I gratefully feel indebted for their understanding, encouragement and sacrifice to do my bit of work so that I could continue with my studies uninterrupted. I also acknowledge my classmates Wakiria, G.K Karani F, Kahura J. and Rosemary and Macharia J.M for their support, contribution, encouragement and positive thinking. Special appreciation goes to my dear wife, Margaret Karoki, our sons Eric Mwenda, William Gitonga and Martin Mutethia, my mother - Rudia Ciobaimpui, my brother- Benjamin Mitheu and my mentor Nancy Gacheri, for their encouragement, prayers, love, understanding and support. I sincerely appreciate my late Dad- Daniel Kimunga for his wisdom and contribution towards my education.

Lastly, I acknowledge with gratitude all those others who in one way or the other contributed to the success of this research project report. God bless you abundantly.

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LIST OF ABBREVIATIONS AND ACRONYMS

DDC	-	District Focus for Rural Development Strategy
GDP	-	Gross Domestic Product
GK	-	Government of Kenya
HIV	-	Human Immunodeficiency virus
ICDC	-	Industrial & Commercial Development Co-operation
ILO	-	International Labour Organization
KIE	-	Kenya Industrial Estates Ltd.
MSEs	-	Micro and small Enterprises
NGO	-	Non Governments Organization
SPSS	-	Statistical Package for Social Science
SSE	-	Small Scale Enterprise
SWOT	-	Strengths, Weakness, Opportunities and Threats
UNDP	-	United Nations Development Project

ABSTRACT

This research is to a large extent concerned with the challenges facing small scale business growth and survival. The author briefly outlines the challenges that small scale enterprises face throughout the developing world, and further narrows down in the case of Kenya and eventually closing with a field research on Chloride Exide battery/ solar dealers around Mt. Kenya East region.

Issues that the research considered include among others, challenges the small scale enterprises encounter in the market place, key business growth and survival factors (technology, marketing, accounting, and management skills) and suggestions (innovation, training, networking and credit expansion) to facilitate small scale business growth and survival. These issues resonate with global interests and are of great importance to the small scale enterprise sector. This is particularly so in the area of poverty reduction, job creation and economic development of the country.

The research began by focusing on the broad challenges facing small scale enterprises and later examined a case of Chloride Exide battery / solar dealers around Mt. Kenya East area. In order to realize this purpose, this study used both qualitative and quantitative approaches. Questionnaires and interviews were used and data collected from the target population. The population comprised of one hundred and twelve battery / solar dealers in all the twelve towns around Mt. Kenya East region namely; Embu, Runyenjes, Chuka, Chogoria, Nkubu, Meru, Laare, Mutuati, Isiolo, Timau and Nanyuki. The researcher collected data from fifty six dealers. Using statistical package for social sciences (SPSS) version 11.5 for windows, data was analyzed based on descriptive statistics. Study findings were then presented in frequency tables.

Small scale businesses have the potentiality of transforming the economy of a crippling nation. Study findings revealed that small scale businesses face unique challenges; - lack of management skills, inadequate education, technical skills, access to financial services and legal and regulatory issues, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. As such, every effort should be made to boost their growth.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There is no clear and universally acceptable definition of micro and small enterprises (MSEs). However, the number of employees engaged by the enterprises is the more commonly used than the turnover or formality or legitimacy of the enterprise, capital investment, and degree of skills per worker. According to the 1999 National micro and small Enterprise baseline survey, MSEs were defined as enterprises in both formal and informal sectors employing 1-50 workers. Keen interest in the development of small business enterprises and entrepreneurship gained momentum as a possible remedy to the stagnation of economic development and the escalating unemployment problem since the late 1960s and early 1970s.

Even though there were early attempts by the Kenya government to develop entrepreneurship soon after independence, (The first National Development plan), the main stimulus came from the International Labour Organization (ILO) mission to Kenya in the early 970s (Report on employment mission to Kenya 1972). From the recommendations of the 1972 team which assessed the status of employment in Kenya on the development of the small scale industrial sector as a mechanism to mobilize small individual savings and to create employment through new firm formation, interest in small business followed. The report of the team, which centered on the potential of the informal sector, thus proposed that, the development of the sector could promote employment, development and equity. Based on the team's report, the Kenya Government took action through a sessional paper in 1973 (sessional paper on employment), which recognized the role of small business and entrepreneurship in employment creation, not only in the informal sector but also in the formal sector. Since then, subsequent development plans have devoted time to the development of strategies and plans to promote small – scale enterprises of industrial estates set up in 1967, establishment of development agents such as Industrial and Commercial Development Co-operation (ICDC), Kenya Industrial Estate (KIE), and more recently, policy and

institutional frameworks to promote small enterprises and entrepreneurship. All these measures were aimed at promoting the indigenous Kenya enterprises.

The 1974 – 1979 Development plans put across proposals for the implementation of small scale industries policy, mainly to review Central and Local Government Regulations that were unfriendly to the small scale enterprises, provision of direct assistance to small business all over Kenya, and to establish an organization that would give extension services to the small enterprises.

The 1979 – 83 Development plan built on this plan by creating and strengthening institutions and schemes for the assistance of the small enterprise sector. This led to the establishment of credit Guarantee schemes for loans given by commercial banks to small scale enterprises: procedures to improve small – scale training (the establishment of the ministry of Technical Training and Applied Technology); and the overhaul of the education system based on the report of the presidential working party in the second University in 1981, which culminated in the 8-4-4 system of education.

The 1984 – 88 development plans envisaged a full-pledged small industry in the ministry of commerce and industry. This plan saw the rural focus as most important for development (District focus for Rural Development Strategy – DDC). This strategy had the effect of transferring a lot of activity into the rural areas as the DDC gave priority to small scale industries in district development plans.

In addition, the 1988 Report of the presidential working party on Education and man power Training for the next decade and beyond (sessional paper No. 1 of 1988), recommended the introduction of entrepreneurship education in all levels of training programmes to promote self-employment in the small scale enterprise and Jua kali sectors.

To add value to the 1984 – 1988 plans, the sessional paper No.1 of 1986 on economic management for renewed growth was developed as a blueprint for the renewal of

economic growth. A wide range of policy statements were made, with the aim of revitalizing the economy and creating employment by strengthening the small – scale enterprise sector. To facilitate the formulation of strategies to achieve these aims, a task force was set up under the auspices of the Government of Kenya (GK), ILO, and United Nations Development Project (UNDP) (Center Project) to assess the situation of the small scale enterprises (SSE) sector and to develop a policy strategy.

The task force documented various findings and made proposals in their report – A strategy for small enterprise development in Kenya up to the year 2000. Among the most prominent findings of this mission was that, the growth of the SSE sector was hampered by lack of Credit facilities and an inhibiting environment, and thus needed a more enabling environment to make enterprises economically viable.

To date, there are many types and forms of assistance programmes offering services to the SSE sector ranging from managerial, technical, and entrepreneurial training, to policy intervention.

International non-Governmental organizations and local non-Governmental Organizations (NGOs), Government agencies, financial Institutions, business associations, Multi-lateral and bilateral organizations, are some of the government and non-governmental organizations, which provide assistance to the small scale enterprise sector (SSE).

The combined interventions by the institutions named above have resulted in efforts to develop a more conducive policy framework for the SSE sector, a blue print of which is contained in the sessional paper NO.2 of 1992 on small scale Enterprises and jua kali Development in Kenya.

With the findings of the report on the sessional paper No. 1 of 1992 on employment in Kenya, together with the report on session paper No.2 of 1992 on small scale enterprises and jua kali development in Kenya, it is hoped that the findings of the study would enable

the government realize the full potential of the SSE sector with regard to employment creation.

Despite the efforts made by the government of Kenya and the NGOs to support the small business enterprises, there are many challenges that face the sector i.e. finances, competition, entrepreneurial skills, business location, customer service, Strengths, Weaknesses, Opportunities and Threats (SWOT), analyses and demographic factors to name but a few.

Many researchers and the government have attempted to throw light to the challenges facing the small scale enterprises. To add to the existing body of knowledge on this area, the battery/solar dealers in Mt. Kenya East area was selected for the study. In the mountain region, many entrepreneurs venture into businesses due to availability of customers. The region is an economic hub in the country due to coffee and tea production.

Despite there being many customers, many businesses do not survive for more than three years. It is also noted that employee turnover is very high. Thus, the challenges hindering business growth and survival need to be identified in order to sustain this very important sector of our economy.

Mt. Kenya East region is situated partly in Eastern and Rift-valley provinces. Many towns are mushrooming in the region due to the many economic activities. Currently, the region has twelve major towns namely, Embu, Runyenjes, Chuka, Chogoria, Nkubu, Meru, Maua, Laare, Mutuati, Isiolo, Timau and Nanyuki. The region is an economic hub in the country mainly due to the earnings from coffee, tea, miraa (Khat) and livestock production.

The region has one hundred and twelve battery / solar dealers. Meru, Embu and Nanyuki towns have many dealers compared to the other towns. The table below (table 1) shows the towns and their respective dealers.

1.2 Statement of the problem

The government of Kenya has pledged to create Kshs.500, 000 jobs annually. It is evident that the bulk of the jobs would come from the small scale enterprises sector. According to the 1999 MSE baseline survey, the sector employed 2.4 million persons. This has increased to 5.1 million persons in 2002 as per the 2003 economic survey and hence translates to 675, 000/- jobs per year. The level of employment within MSEs in 2002 accounted for over 74.2% of the total number of persons engaged in the country. Therefore, it is evident that, with proper development strategies, the sector is capable of providing and surpassing the government's target of creating Kshs.500, 000 jobs annually.

The average Kenyan MSE employs 1-2 workers while over 70% employ only one person. The lower end of these MSEs is often confined to subsistence and low value activities. Only a few MSEs grow to employ 6 or more workers. According to research findings, MSEs have high mortality rates with most MSEs not surviving beyond three years. This phenomenon has made it very difficult if not impossible for MSEs to grow into medium and large – scale enterprises. Consequently, a gap is left resulting in a weak base for industrial base take – off and sustainable development. This study therefore sought to assess the challenges facing small scale enterprises growth and survival

1.3 The purpose of the study

The purpose of the study was to assess the challenges facing the growth and survival of battery / solar dealers around Mt. Kenya East region.

1.4 Objectives of the study

- (i) To establish the influence of demographic factors on business growth and survival.
- (ii) To determine how management skills affect business growth and survival.
- (iii) To establish the influence of access to financial resources on business growth and survival.
- (iv) To determine how legal and regulatory environment affects business growth and survival.

1.5 Research questions

- (i) To what extent do demographic factors influence business growth and survival of battery / solar dealers in Mt. Kenya East area?
- (ii) To what extent do management skills affect business growth and survival of battery / solar dealers and Mt. Kenya East Area?
- (iii) To what extent does the influence of access to financial resources have on business growth and survival of battery / solar dealers in Mt. Kenya East region?
- (iv) To what extent do legal and regulatory issues affect business growth and survival?

1.6 Significance of the study

The direct beneficiaries of this study would be Chloride Exide (K) Ltd Company. The organization would be able to know how battery / solar dealers in Mt. Kenya East Region would grow their business. From the recommendation of the study, Chloride Exide would also know which areas to improve on so that the company could offer better services to its customers. Thus the knowledge gained would greatly empower the organization in decision making.

The other beneficiaries would be the battery / solar entrepreneurs, who would use the information gained to make better decisions concerning their businesses.

The battery / solar entrepreneur would also know the influence of financial services, management skills, infrastructure, demographic factors, market information, business skills, technological advancement, accounting and linkages with large firms on the growth and survival of their businesses. This implies that the findings would facilitate social – economic development of an industrial base and employment creation. The university would also gain since a copy of the research would be displayed in the library for any one willing student to study it. This means that the research findings would add on to the existing body of knowledge in the MSE sector.

1.7 Delimitation of the study

The researcher was a well known friend of all the dealers. This is because he had helped in the recruitment of the battery and solar dealers in Mt. Kenya region. Thus most of the information given was correct.

The researcher knew the region well, having had the privilege of being the area manager for the last fifteen years. This meant that the researcher was in a position to tell whether a particular dealer was telling the truth or not.

1.8 Limitations of the study

Most of the respondents were business people. This means that most of the time they were busy serving customers. The researcher agreed with the respondent on the right time to meet for the interview to avoid collision with customers. Due to time factor, some respondents would procrastinate filling of the questionnaires. The researcher being a friend of the respondents was there in person to ask for the filled questionnaires.

Language is a great barrier to good communication. Some dealers would not be conversant with English language. To address this challenge, the researcher helped in translation of English into Kiswahili.

1.9 Assumptions of the study

The respondents answered questions correctly and truthfully and that the data collection instrument had validity and that it measured the desired constructs.

1.10 Definition of significant terms

Micro and small enterprises: according to the 1999 National micro and small enterprise baseline survey, MSEs are defined as enterprises in both formal and informal sectors employing 1 – 50 workers.

Entrepreneurship: According to the study, an entrepreneur is defined as a person who recognizes a commercial opportunity in relation to the surroundings acquires and organizes the necessary resources and coordinates the activities required for exploiting the opportunity commercially. Entrepreneurs may be perceived as the person or persons who initiate and implement the managerial process behind the entrepreneurial event. In the context of this study, entrepreneurship entails the characteristics of the entrepreneur.

Escalating unemployment problem: according to the study, this is a situation where jobs are increasingly getting scarce.

Informal sector: Martha Nussbaun and Amartyasen's concept of informal sector is used to describe a range of economic units in urban areas which are largely owned and operated by single individuals with little capital and labour, and which produce and distribute goods and services with a view to generating income employment.

Jua kali: The term Jua kali literally means "hot sun" in Kiswahili referring to enterprises under the hot sun without adequate shelter or workshop space. In fact, even fully formalized small – scale firms, with substantial employment, refer to themselves as Jua Kali.

Indigenous Kenyan enterprises: These refer to enterprises owned by Kenyans themselves and not foreigners.

Credit Guarantee schemes: This refers to a financial facility for commercial banks to give loans to small scale entrepreneurs.

8 – 4 – 4 system of education: This refers to eight years of primary education, four years of secondary education and four years of university education in Kenya

Rural focus: this refers to the District focus for Rural Development strategy targeting SMEs.

Entrepreneurship education: this refers to the art of developing programmes to promote self – employment for SMEs.

Inhibiting environment: this refers to the unfriendly environment for the growth of small scale enterprises.

The mountain region: The mountain region literally means the area around the mountain. In this study, the mountain region refers to the Mt. Kenya East Region covering Embu, Runyenyes, Chuka, Chogoria, Nkubu, Meru, Maua, Laare, Mutuati, Isiolo, Timau and Nanyuki towns.

High mortality rate: This refers to the death rate of the small scale enterprises within a period of three years.

1.11 Summary

This chapter has given an introduction of the micro and small enterprise sector. The statement of the problem, purpose of the study, objectives, research questions, significant of the study, delimitation of the stuffy, limitations of the study, assumptions of the study and definition of key terms have been clearly spelt out. All these helped and guided the researcher as he progressed with the study so that the research did not deviate from its objectives. The chapter therefore was a reference and check point for every stage of this research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the process through which literature relevance to the study was reviewed. It reviews the possible challenges facing small scale enterprises' growth and survival, possible suggestions to address the challenges and also reviews key growth and survival factors for small scale enterprises. The review then stipulates the conceptual frame work of the study.

2.2 Limited access to financial services

In Kenya, lack of access to credit is a major challenge inhibiting the growth of micro and small enterprise sector (MSE) (GOK – sessional paper No. 2 of 2005). This is particularly so for women entrepreneurs. Acquisition of financial services for MSEs is limited due to one, lack of tangible security, appropriate legal and regulatory framework that does not recognize innovative strategies for lending to MSEs and secondly, the limited access to formal finances due to poor and insufficient capacity to deliver financial services to MSEs.

Operations in financial institutions are tailored to offer credit services to formally registered businesses, which meet criteria such as proper maintenance of book of accounts and verifiable asset base (GOK. Sessional paper No. 2 of 2005). Most MSEs cannot meet their criteria. Further, availability of collateral is limited by the difficulty of obtaining legal title to land. In this case, commercial banks do not have confidence with the legal system to allow the banks access the collateral in case of default.

Formal financial institutions perceive MSEs as high risk and commercially unviable (GOK. Sessional paper No. 2 of 2005). Consequently, only a few MSEs access credit from the formal financial institutions. This problem is particularly wide spread in the rural areas where bank branches are few and far a part. The legal and policy framework for financial services is less supportive of smaller borrowers. This is a gap that needs to be addressed.

The banking act prohibits Micro financial Institutions from mobilizing savings and taking deposits for re-investment. Due to this limitation, MFIs face problems in building a suitable funding base for MSEs for instance, the post office Act prohibits the post bank from lending and the co-operative Act does not provide for effective supervision of the savings and credit co-operative societies (SACCOs).

Despite the increasing number of MFIs, their out reach has remained severely constrained, especially in the rural areas because of their resource base and lack of institutional capacity to provide a wide range of financial services. As a result, MFIs out reach is basically through group lending schemes, which have limited absorptive capacity for financial resources. Commercial banks however, have a strong resource base and wider out reach but lack the expertise and “best practice” for MFI, lending to the MSE sector.

According to Kenya vision 2030, the financial services vision is to create a vibrant and globally competitive financial sector promoting high levels of savings and financing for Kenya’s investment needs. The vision stresses the need for Kenya to become a regional financial services centre. This will be realized through one, undertaking legal and institutional reforms to make Kenya more competitive as a financial centre, two reforms in the banking sector that will be undertaken to facilitate the consolidation of small banks in Kenya to larger and stronger ones, three, introduction of credit referencing in the country, four, streamlining micro-finance institutional capital through pension funds, expanding bond and equity markets, as well as tapping international sources of capital.

Lack of capital undoubtedly is an important challenge to the development of small enterprises (Pederson Paul Ove. 1996).

Non accessibility to credit facilities’ due to lack of tangible security required by credit institutions is a major constraint for MSEs (Aleke – Donde).

2.3 Limited access to information

According to GOK sessional paper No 2 of 2005, the key factors facing MSEs in relation to information are its acquisition capacity to interpret and effectively utilize the acquired information and dissemination of the same. In this context, dissemination of information on legal and regulatory issues to the public and MSEs is poor, while no major efforts have been made to sensitize key players on their roles in the formulation and implementation of policies.

The MSEs have also been inadequately sensitized on their obligations and rights. This makes it difficult for them to factor in guidelines on policy and legal issues into their decision – making processes. As a result of these short comings is the continued harassment of the MSEs by the law-enforcement agencies without access to timely, simplified, reliable and relevant information on market opportunities, production technology and government regulations, MSEs are unable to survive and grow in the fast – changing, increasingly global and highly competitive market environment.

Past efforts to acquire information have focused on research geared towards increasing the development of technology, products and markets in the MSE sector. The efforts have contributed to increased knowledge and information on new products and production processes for MSEs but institutions involved in the acquisition of information are not only few and inadequately funded, but also have limited capacity to address the enormous problems facing the sector. In this regard, Very little is known about the SME sector with regard to products, prices, needs, constraints, opportunities and ways of dealing with the myriad issues affecting the sector.

Strengthening Kenya's economy through small enterprise development requires growth not only on numbers but also in size of firms. Research elsewhere suggests that larger firms – those with 11 to 50 workers, use both labour and capital more efficiently than do the tiny units prevalent in Kenya (Little, Mazumdar, and Page, 1987). To increase output and create jobs for the ever increasing supply of young, unskilled school leavers Kenya needs to encourage firms to grow into this small – to- medium range.

Small local firms in traditional industries coalesce into solidarity networks, sharing information about members' conduct and intentions, the primary function of which is to reduce risk and uncertainty (Woolcock and Narayan, 1999). Therefore, it is reasonable to conclude that entrepreneurs with small, closed and knowledge – poor social networks will suffer isolation from informal information (Barton, cited in Duncombe and Heeks, 1999).

According to Pedersen (1999), market clusters facilitate larger market information since prices and qualities of goods are freely available. This implies that traders involved in simple exchange have limited access to market information relative to those operating in clusters. Simple exchange refers to buyer – seller transactions while clusters are concentrations of traders in the market place, often selling the same or similar things.

2.4 Limited linkages with large enterprises

Linkages between MSEs and large enterprises in Kenya are weak or non-existent (sessional paper No.2 of 2005). This leads to inadequate technological transfer and development, poor information flow, weak subcontracting arrangements and inadequate marketing opportunities to promote expansion and especially vertical growth of MSEs. This state of affairs is a hindrance to the goal of developing and maintaining MSE sector into the national economic framework.

The importance of the informal sector and later, the small enterprise sector has dominated the debate on employment generation in Kenya and much of the developing world (Schmitz, 1990)

The 1972 ILO mission to Kenya highlighted the potential informal sector as a source of new jobs and revenue for technological innovation and rapid acquisition of business management skills. Yet, even while advocating the development of small scale enterprises as a strategy for the indigenization and revitalization of the economy, Kenya planners are aware of the inadequate knowledge and skills of those who are to take on his task and the prevailing dominance of large enterprises (GOK, 1986, 1989).

The sessional paper NO 2 of 1992 on the Jua kali sector (the catch – all phrase used to describe the informal, micro and small enterprises sectors in Kenya) reiterates the need for the local indigenous business to interact with the larger businesses. However, this may be hindered by the dominance of the large firms in Kenya's economy, and the weakness of the small forms themselves.

It is suggested that big businesses depend on small business as a cheaper or more effective medium to access resources and to reach customers for example, use of subcontracting and channel members.

Small businesses, because of the volume at which they operate and will tend to have lower overheads and labour costs and will therefore have a lower cost per unit produced. Small businesses also allow the big businesses to get closer to the customer as they are widely scattered and the owners tend to offer personal attention to the clients. Small firms therefore provide the contract between the firms and the small ones through various linkages. These linkages describe the complementarities of large and small businesses in the emerging economic environment where large firms can no longer afford to enter some fragmented market small firms continue to offer large firms an alternative form of capacity increase without a commensurate increase in investment, through capacity subcontracting. When faced with fluctuating demand patterns, large firms turn to smaller firms to increase supply in order to smoothen over the supply discrepancy.

During recessionary periods, the small firms also have been found to absorb the redundant labour from large firms as laid off workers seek self – employment or employment in smaller firms which tend to survive in these hard times. In terms of the whole economy, small firms act – as scavengers to “clean” off the inefficiencies of the large firms.

2.5 Inadequate business skills

Lack of basic skills in business management and entrepreneurship is a major draw back in the growth and development of the MSE sector (sessional paper No. 2 of 2005). The integration of entrepreneurial training into the country's education system, exposure of potential MSE entrepreneurs to modern business management skills and the creation of an environment that permits MSE business to emerge and flourish, has been a major challenge. The traditional approach to vocational and technical training has not addressed this need either, because there exists no provision in their curricula for appraising the programmes at business start – up, survival and growth stages to establish the extent to which their programmes are demand – driven, value – adding and address the specific needs of the operators and beneficiaries. In addition, most of the institutions providing entrepreneurship and business development training suffer from inadequate capacity. They are therefore unable to offer training in a wide range of trades.

Consequently, potential entrepreneurs enter the sector ill-prepared to effectively contribute to its success, while the existing ones remain latent in their operations.

Faced with the realities of poor economic performance and spurred on by the success of the newly industrialized countries, many third world countries have focused on developing an entrepreneurial capacity, using both interventionist and non-interventionist strategies, they seek to transcend the historical, economic, social and political factors which have prevented entrepreneurs from exploiting opportunities in their environment (De Soto 1989).

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Expanding a business requires alertness to opportunities, practical creativeness and willingness to take some skills. Most business owners either back these qualities or they do not really want to expand because they are satisfied with a steady income (McCormick, Dorothy 1996).

Many SMEs owners or managers lack management training and experience. The typical owner or manager of small business develops their own approach to management,

through a process of trial and error. As a result, their management styles is likely to be more intuitive than analytical, more concerned with day- to- day operations than long – term issues, and more opportunistic than strategic in its concept (Hill 1987)

Majority of those who run MSEs are ordinary lot whose educational background is lacking. Hence they may not – be well equipped to carry out managerial routines for their enterprises (king and McGrath, 2002).

Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Stuffy suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002).

2.6 Inadequate access to skills and technology

Kenya's MSEs are characterized by restricted levels of technology, in appropriate technology and inadequate institutional capacity to support adaptation and absorption of modern technological skills (GOK, sessional paper no. 2 of 2005). In addition, they also suffer lack of information on existing technologies and their potential for increased trade. Specifically, MSEs suffer a weak environment that hampers co-ordination and transfer of appropriate technology. Consequently, the sector continues to experience low productivity, poor quality and limited range of products, resulting in low competitiveness of the MSE sector.

Inter firm linkages have the potential to encourage faster technology diffusion and a more complex array of products (Roth Well, 1986). Kenya's weak indigenous technological base has forced her to rely on external sources for technology and foreign owned organizations. This is currently reflected in the economic structure.

In the early stages of Kenya's industrialization, the import substitution strategies meant that technological inputs tended to concentrate on imported capital goods, knocked down

components for domestic assembly, intermediate goods for domestic processing plants, and packaging of finished goods (leys, 1975). As a result, the indigenous technological base has not grown.

According to GOK sessional paper of 1992, emphasis is put on technological development as the challenge and impetus for economic development, and suggests that the logical first route for Kenya is the transfer of technology from foreign to local investors and from large to small enterprises. This could be done through subcontracting relationships, partnerships and joint ventures.

In most of the African nations, Kenya inclusive, the challenges of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (Muteti, 2005). There is digital divide between the rural and urban Kenya. With no power supply in most of the rural areas, it is next to impossible to have internet connectivity and access to information and networks that are core in any enterprise. Thus technological change, though meant to bring about economic change even among rural lot, does not appear to answer to the plight of the rural entrepreneurs.

The last decade has witnessed a rapid expansion in the power and importance of communication technology. Advances in computing and communications are shaping global information networking in ways that minimize cost, reduce the time and distance involved. Along with this, the ability to collect, analyze and transmit data has increased massively. Local knowledge can be captured, disseminated among economic agents and blended with global knowledge (Hanna and Boyson, 1993). By so doing, communications technology has reduced transaction costs, facilitated the achievement of economies of scale and introduced rapid customization. Such transactions undermine authoritative controls since the hoarding of information by government authorities is no longer possible. Similarly, the costs of writing and enforcing better contracts are minimized.

The benefits of the information revolution are not limited to large business but can also be exploited by small enterprises to make contacts, check prices, display goods and enter

into contracts. Evidence from Ghana indicated that small scale enterprises without telecommunications can waste up to half their work time traveling from place to place (UNDP, 1999). Resource constraints preclude small enterprises from seizing these opportunities on their own; implying that supportive mechanisms are likely to have higher pay off. Information technology has the potential of linking even poor buyers and sellers to daily market prices for commodities in cities, thus changing their negotiating power in fundamental ways (Narayan, 1999). In virtual markets, products are recorded by digital camera and then displayed on the internet. For instance, poor Tuareg crafts people of Niger have been able to display their wares in a cyber mall hosted by a Canadian Charity (Jensen, 1998).

2.7 Limited access to markets

Access to markets and marketing information is a severe constraint to MSE development in Kenya. Overall, aggregate demand is low, markets are saturated due to dumping and overproduction, and in many cases, markets do not function well due to lack of information and high transaction costs (GOK sessional paper No. 2 of 2005).

It is generally recognized that SMEs face unique challenges which in effect affect the growth and profitability of SMEs and hence diminish their ability to contribute effectively to sustained development (Wanjohi 2009).

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in the rural areas (Muteti, 2005).

Since there is vast amount of information and only lack of statistical knowledge to interpret, and lack of internet connectivity, small enterprises entrepreneurs need to be supported. Fortunately, with connectivity being enhanced (by connecting Kenya globally through fiber optic cable project), there is renewed ray of hope for the SMEs.

2.8 Inhibitive legal and regulatory environment

An enabling legal and regulatory environment is imperative for the MSE sector to play an effective role as an engine for economic growth, poverty eradication and employment creation (sessional paper No 2 of 2005). Despite significant achievement in reforming the legal and regulatory framework, a number of existing laws and regulations still remain cumbersome, out of step with current realities and hostile to the growth of MSE sector.

The by – laws applied by many local authorities are not standardized and thus appear punitive instead of facilitative.

The bureaucratic and lengthy process of transacting business with government agencies adversely impacts negatively on the operations of the MSEs by diverting the scarce resources from production to housekeeping.

The requirement for details of business physical and postal address poses a major problem to business operators who may not have permanent physical locations.

Majority of MSEs have no legal title deeds for the sites on which they operate and they can not therefore invest in the work sites.

The absence of security of tenure denies MSEs, access to credit. Policies regulating the provision of power, roads, and water, coupled with stringent building standards compound their insecurity.

The challenges mentioned translate to high implicit costs forcing many entrepreneurs to stay informal.

Excessive regulatory constraints inhibit business competitiveness worldwide. They impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation (Gichira, 1991). Large businesses may have the capacity and resources to get around the regulations when

necessary, but the operations of micro and small enterprises, which have fewer financial resources and less management depth, can be seriously hampered.

In Kenya, MSEs are particularly inhibited by cumbersome laws and regulations, most of which are out of tune with current development realities (Kagira, 1995). Some laws have provisions that are either outright hostile to the activities of the MSEs, or not sensitive to the needs and situations of these enterprises. An enabling environment for small business must be provided if Kenya's need for growth and employment opportunities is to be met effectively and sustainably. An important part of creating such an environment is the removal of legal and regulatory obstacles.

In the United States of America (U.S.A.), a policy was declared by Congress that the government should aid, counsel, assist and protect as far as possible the interests of small business concerns in order to preserve free and competitive enterprise (Rothwell, 1986).

During the 1950s, and 1960s most European countries' policies favoured large firms. They were preoccupied with the "big is beautiful" rather than "small is beautiful" concept that stressed the economies of scale available to large firms in industrial sectors where mass productions were prevalent.

From the early to mid – 1970s, to the present times, European governments' attitudes shifted sharply in favour of small firms and many public policy measures were introduced in the support of small firms. This led to 1983 being designated as the year of the small firm, by the European Commission.

The policy shift towards small firms is also noticeable in Japan where small firms were traditionally considered as being economically inefficient. Large firms were seen as the driving force in the economic development. However, since the Second World War, small firms in Japan have also been seen to have played an important role in the development process (Rothwell, 1986). Small firms in Japan have basically been sub-

contractors providing the large co-operations with an effective source of cheap labour and the ability to specialize in the capital intensive final phases of production.

Kenya's 'Blue print to the year 2000' recognized the importance of such firms by simply declaring that 'indeed, a large measure of Kenya's industrialization will be carried by small industries' (Republic of Kenya, 1986).

The major short comings in the MSE sector development have been in appropriate policy design, weak implementation, framework and failure to institute and effectively monitor policy implementation (sessional paper No.2 of 2005).

2.9 Demographic factors affecting business growth and survival

According to Kotler (2006), Demographic trends are highly reliable for the short and intermediate run. There is little excuse for a company's being suddenly surprised by demographic developments. For instance, the singer company should have known for years that its sewing machine business would be hurt by smaller families and more working wives, yet it was slow in responding.

The main demographic force that marketers monitor is population, because people make up markets. Marketers are keenly interested in the size and growth rate of population in cities, regions, and nations. They are also interested in age distribution, and ethnic mix, education levels, house hold patterns, regional characteristics and movements. The knowledge of the above information would, to a large extent help marketers to know which products and services are required to satisfy the needs of specific class of customers.

Promotion of equality of opportunity and elimination of all forms of discrimination based on sex is a fundamental step towards effective development (sessional paper No. 2 of 2005).

Empirical studies show that women are more vulnerable to chronic poverty because of gender inequalities in the distribution of income, access to productive inputs such as

credit, access to and control of property and earned income, multiple roles of women, inadequate access to education and training, as well as gender biases in labour markets.

According to the MSE Baseline survey of 1999, 13.7% of women have no formal education, as compared to 6.8% of men. It is therefore clear that the most critical factor in gender inequality is limited access to formal education and training and high dropout rates for girls. Consequently, more women are concentrated in the unskilled and semiskilled categories in the labour market and also in trade and service sub sector of the MSE. This perpetuates poverty levels amongst women as they are mainly concentrated in the low paying jobs and operate enterprises with low value addition.

Evident in connection to the gender imbalance is the pattern of land ownership. In most cases, family land and property are registered in the names of husbands, who also may be registered members of the co-operative societies, yet women are the ones who till the land. Consequently, women have little claim to family property. Such gender imbalances in ownership and control of productive resources are a key factor that has contributed to the prevalence of incidences of poverty in the country.

In sub – sahara Africa, a very large share of Market trading, selling and buying is left entirely to women. (McCormic, 1996).

Esther Boserup (1970) points out that women account for a half or more of the labour force in trade in many African countries, but less than 1% in most Arab countries.

In Kenya for instance, the Luo women of Kowe are famous for their trade in Western Kenya. It is reported that the women of Kowe began to trade in increasing numbers after 1933 as they explored the market potential of mines in Siaya (Hafkin and Bay, 1976).

Across Africa, thousands of women invest money, employ workers, operate machinery and assume the risks of the production of processed foods and are entrepreneurs in the strictest sense of the definition. However, women's contribution in small and

intermediate enterprises goes unrecognized and under valued in official statistics just like there work in the domestic and agricultural sectors (McCormic 1996).

Official statistics in many countries categorize women as “homemakers” (Monson and Kalb 1985). As homemakers, women are not credited with earning money. Similarly; women’s own incomes through manufacturing and sale of goods are not considered part of the monetary economy. Furthermore, research on women as entrepreneurs is compounded by lack of disaggregated data on women’s real participation and contribution to the economy.

Because women’s work is not officially accounted for, their contribution consequently gets under valued and the data from such accounts for development planning constitute a bias against women’s participation in the activities they engage in. Women are small community at policy and planning level. Hafkin and Bay (1976) have therefore called for much more detailed research to identify and to qualify the results of women’s economic activities and entrepreneurship.

While African women’s entrepreneurship flourished and was recognized in pre-colonial era, there appears to have been a systematic marginalization of their role beginning with the colonial period and continuing to the present post colonial era. As concerns the pre-colonial period, historians and anthropologists have documented extensively the central economic roles of African women and the complex interlocking rights and responsibilities regarding their use of resources and their political power (Gray and Birmingham, 1970; Robertson and Berger 1986; Stamp, 1992). In contrast, women’s active agency in post – colonial Africa is only beginning to appear in development studies, the dominant paradigm for understanding ‘Third world women’ (Stamp, 1992); Rathberger, 1990). In this paradigm, African women have long been viewed as passive, problematic targets of benevolent interventions. They are also depicted as uneducated and non-dynamic.

In Kenya, women’s productive activities are concentrated in micro enterprises, in such ventures as hawking, retail trade, and manufacturing and periodic market trade. Despite the numerical dominance of women in micro-enterprises, there are marked gender

disparities and in equalities between men and women entrepreneurs participating in similar activities. The disparities are found in business size, product mix, profitability, business age, technological development, markets, finance, and business location. In addition, women and men entrepreneurs exhibit different characteristics in terms of age, level of education, motivation and time spent in running the business

2.10 Limited access to infrastructure

The inadequacy of physical infrastructure is a principal cause of low levels of investment and unsatisfactory performance of micro and small enterprises (sessional paper No. 2 2005)

Poor infrastructure has been identified as a critical factor that constrains profitable business in Kenya (The economic Recovery strategy paper, 2003).

The poor state of the country's road network for example, adds to the cost of producing and marketing of goods and services, thus rendering them less competitive than important substitutes. Other infrastructural problems include inaccessibility to land, workspace, feeder roads, electricity and other utilities.

Most of the land related problems faced by MSEs revolve around ownership, title deeds and encroachment onto their workspaces by private developers.

Lack of land allocation of suitable land to MSEs in most urban and rural areas is a major impediment to their growth development.

Access to water and electricity is a problem in rural areas where most MSEs are located. Specifically, limited access to electricity by MSEs is compounded by the fact that, the MSEs are expected to obtain an approval from local authorities before connection can be made. Due to the fact that most MSEs do not own land, it is difficult for the MSEs to get such approvals.

Energy costs are extremely high and have negative impact on all businesses, large and small alike. This constraint limits MSEs technological capacity thereby adversely affecting the competitiveness of their products and services.

The Kenya vision 2030 aspires for a country firmly interconnected through a network of roads, railways, ports, air ports, water ways, and telecommunications. The country should provide water and modern sanitation facilities to her people.

The poor condition of Kenyan roads, and the resulting high transport costs, has the effect of dampening MSE growth in a number of ways (Bokea, C and Aleke D., (1997).

It increases the cost of goods produced by MSEs, making it difficult to attract customers locally. It increased the cost of repair and maintenance especially for those MSEs goods in the transport business, and it adds to the cost of goods produced locally for sale elsewhere. Consumers are also discouraged from purchasing MSE goods due to the difficulties of reaching sites without access roads or footpaths.

2.11. Innovation in bank credit system to facilitate business growth and survival

For commercial banks in Kenya to enter successfully into the micro finance market, they will have to make innovations that will allow a cost – effective analysis of creditworthiness, the monitoring of a large number of relatively poor clients and the adoption of effective collateral substitutes. Moreover, given that micro finance differs so radically from traditional banking, banks must recruit and retain specialized staff to manage there programmes and finally, banks must set up appropriate organizational structures in their current systems in such a way that the micro finance function is independent, but is at the same time ready to respond to demands imposed by hundreds and thousands of very tiny transactions.

Kenya can borrow ideas and experience from Ethiopia by creating regional, legally recognized micro finance institutions targeting the MSE sector and the rural poor and invite the public and multilateral and bilateral development agencies to buy shares or

contribute equity capital to establish there regional micro finance institutions. Ethiopia has successfully established there such institutions since 1993.

Micro leasing is a good and successful idea, which had been applied in Ghana to finance the purchase of fixed assets for the MSE sector in that country. Leasing is a rapidly growing firmly, established in the industrialized country, which is potentially able to expand access of MSEs to credit in ways that overcome traditional collateral requirements and contribute to capital formation. The experience of countries such as Pakistan demonstrates that it provides a good alternative to non-traditional collateral based lending, which the equipment leased providing the collateral. For this idea to succeed, it will be necessary to change laws and regulations in force and integrate special features of micro leasing into the new law.

2.12 Formulate a long term training strategy to enhance business growth

In order to address specific training needs of MSEs, the ministry of planning and national Development in collaboration with the ministry of Research, technical Training and Technology should co-ordinate development of a long term training strategy that promotes cost-efficient, market driven programmes.

In view of the success achieved by K-map, other business development services providers should be encouraged to replicate voluntary counseling models in order to put extension, consultancy and counseling services within reach of the majority of MSE. The relevance of the content and effectiveness of business development services programmes should be vetted to ensure that MSE training is more sector – specific and takes into account the particular needs and practical problems faced by different categories of MSEs.

2.13 Fostering networking is crucial for business growth and survival

Networking process can begin by classifying MSEs on the basis of levels of investment in technology. The present classification according to number of employees is not suitable for monitoring technological growth and hence vertical growth of the MSEs.

Further, sectoral based MSE associations should be formed to facilitate technological information flow through the associations, and regular technological markets. This is a cheaper alternative for technology information exchanges.

2.14 Expand credit opportunities to facilitate business growth and survival

Both women and men should be equally empowered to take advantage of technological developments, market opportunities and credit facilities. Financial institutions and co-operative societies should be encouraged to initiate special credit procedures that circumvent the current inaccessibility of credit and finance to women, youth and other disadvantaged groups.

Furthermore, access to credit should be enhanced through the creation of stable micro finance programmes. Improved credit facilities for MSEs would enlarge the investment capital base and diversify sources of start – up capital for both women and men entrepreneurs. By enhancing sources of credit, MSE growth and expansion would be realized, along with their potential for improving the national economy.

To accomplish this, it is proposed that the Government provide subsidies or insurance to banks financing business start – ups in order to reduce financial risk.

It is also recommended that NGOs and other MSE promoters hold seminars and workshops for financial managers in banks and other lending institutions to sensitize them to the need to finance MSEs, especially those owned by women.

It is also proposed that local authorities provide space for MSEs that have acquired credit. This will give the MSEs security of tenure, which in turn will raise the confidence of banks, financial institutions and NGOs in the MSEs as better credit risks.

2.15 Technology enhances business growth and survival

Kenya like any other developing country continues to rely on the industrialized countries as sources of new technology. We have limited capacities to manage technical change, and more relevant technologies. Furthermore, our capacity to assimilate new foreign technologies is limited (Mulei, A., and Bokea, C 1999). Policies designed to promote

technological development at various levels are either non-existent in Kenya or not well defined. In addition, the pursuit of such policies, where they have been established, is constrained by the lack of appropriate institutional arrangements, lack of financial resources, weakness in the scientific and industrial systems and absence of links between research and productive activities.

Technologies are identified by their character. We thus have; mechanical technology, biotechnology and information technology. Most of the new technologies are science – intensive and complex. Therefore, technology cannot be reduced to hardware or machines only. It involves certain kinds of tacit knowledge embodied not only in hardware, but also in persons, organizations and cultural practices. Generally, technology is a body of knowledge of techniques, methods, processes and designs. The knowledge is generated and applied within specific socio-cultural and economic contexts. In this sense, technology can be defined as a social value.

Technological change is the generation, development and diffusion of new technology.

It is widely recognized that societies change and develop through the generation and application of technological innovations. Since the late eighteenth century when the first industrial revolution began, growth in industry has always been led by breakthrough in technology. The level of industrialization in a country is a good indicator of the technological development of that country. An industrial development is at its infancy in Kenya. Except for the few multinational companies in the medium and large enterprise category, most other enterprises, particularly MSEs, use third to fourth generation technologies.

It is important to harness and disseminate software on special talents and skills in arts, music, film, sports and other entertainment/recreation areas.

It is also good to develop capacity to generate knowledge through research and development for application in MSEs.

2.16 Marketing is crucial for the growth and survival of businesses

Webster (1992) classified marketing into three distinct elements, namely, organizational philosophy or culture, strategic process and tactical methods.

Marketing as an organizational culture relates to a set of values and beliefs concerning the central importance of the customers to the success of the organization. This has been refined as the concept of market or customer orientation, which requires that an understanding of customer needs should precede and inform development and marketing of products and services (Kotler, 1997).

According to United Kingdom Institute of marketing, marketing is defined as “The management process responsible for identifying, anticipating and satisfying customer requirements profitably”.

The element of strategic process defines marketing has how an organization is to compete and survive in the market place. Most marketing textbooks (e.g. Kotler 1997) review marketing strategy through the stages of market segmentation, targeting and positioning. This involves, first, research and analysis of the market – place in order to divide it into meaningful groups or segments of buyer – types, second, one or more segments are chosen as the most appropriate targets for marketing activities. Thirdly, an appeal is made of this target group through an appropriately positioned product or service.

The element of tactical marketing uses specific activities and techniques, such as market research, product development and advertising to implement the strategy. These are referred to as elements of in the “marketing mix” commonly summarized as the four ‘Ps’ of product, price, promotion and place.

According to Smallbone et al. (1993), marketing is certainly important in the early, vulnerable years, because it provides a vital interface between the organization and its external environment. Research involving case studies of surviving and non-surviving small manufacturing firms by Smallbone et al (1993) indicated that innovation is the key.

The most important innovation both for survival and growth was active market development i.e. a continuous search for new market opportunities and a broadening of the customer base of the businesses. Those firms that are most active in marketing adjustments in what they do, and how they do it, particularly in relation to the market place, seem to have a greater chance of survival than those who carry on as before.

Marketing management is a key internal function that influences survival (Berryman, (1993)

According to Cronie (1990), small, young organizations experience problems particularly in the areas of accounting and finance, marketing and the management of people.

Owner managers of small firms seem to give marketing a low priority compared with other functions of their business, often regarding marketing as something that larger firms do (Stokes et al; 1997). Yet there is considerable evidence that marketing is crucial to the survival and development of small firms.

Marketing is particularly important to smaller organizations because it represents a vital interface between small firms and uncertain, fast changing external environment and it presents a key internal management skill that differentiates between surviving and failing.

2.17 Accounting is important for business growth and survival

Accounting is the backbone of business. Ethical and professional accounting forms a clear financial image of a business, and allows managers to make informed decisions, keeps investors abreast of developments in the business, and keeps the business profitable (Salemi (1990)).

A number of disciplines are involved in accounting. At the root of all accounting is book keeping. A book keeper keeps track of all the funds that a business holds. The book keeper's goal is to keep the ledgers of the company balanced so that anyone can assess, at a glance, the financial state of the company. Records handled by a book keeper include

payroll, company ledgers, bank statements, and paperwork, pertaining to real estate and investments (Saleemi, 1990).

Auditing is also included in accounting. Auditing protects employees, investors, and owners of a company from accounting fraud, and it is usually performed by an outside agency. During an audit, an accountant will examine the ledgers of a company along with numerous other records to see if the ledgers provide an accurate picture of the financial business state the presented by the ledgers. Part of accounting is establishing internal controls to keep a company's business clean, so that a company can fearlessly face an audit (Saleemi, 1990)

According to Saleemi (1990), the financial records of a company are used to make important decisions, such as whether or not to make a major investment. Proper accounting supports company officials while they make these decisions, showing them whether or not an investment will be practical, and if the company can afford it. Accountants prepare regular statements which are distributed to company officials so that they can follow the health of the business, and also handle tax rolls and reports to government agencies.

2.18 Management Skills facilitates business growth and survival

All managers perform five basic functions: These are planning, organizing, staffing, leading and controlling. The functions represent the management process (Dessler, G. (2003).

Planning entails establishing goals and standards, developing rules and procedures, developing plans and forecasting.

Organizing involves giving each sub-ordinate a specific task, establishing departments, delegating authority to sub-ordinates, establishing channels of authority and communicating and coordinating the work of subordinates.

Staffing means determining what type of people should be hired, recruiting prospective employees, selecting employees, setting performance standards, compensating employees, evaluating performance, counseling employees, training and developing employees.

Leading involves getting others to get the job done, maintaining morale and motivating subordinates.

Controlling entails setting standards such as sales quotas, quality standards, or production levels, checking to see how actual performance compares with these standards and taking corrective action as needed (Dessler, G., (2003).

2.19 Conceptualization

The policy framework in sessional paper No. 2 of 1992 identified a number of factors constraining access to credit by small – scale enterprise clients. Leading among them were lack of experience of borrowers with credit institutions, reluctance by formal financial institutions to lend to small enterprises and regulations that limited the funds available for loaning. Other obstacles included stringent collateral requirements, which make access to credit and finance by small – scale and Jua – kali customers' difficult, low volume of loanable funds, high interest rates, and high administrative overheads relative to the size of loans.

Excessive regulatory constraints inhibit business competitiveness world wide. They improve costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation. Large businesses may have the capacity and resources to get around the regulations when necessary, but the operations of micro and small enterprises, which have fewer financial resources and less management depth, can be seriously hampered.

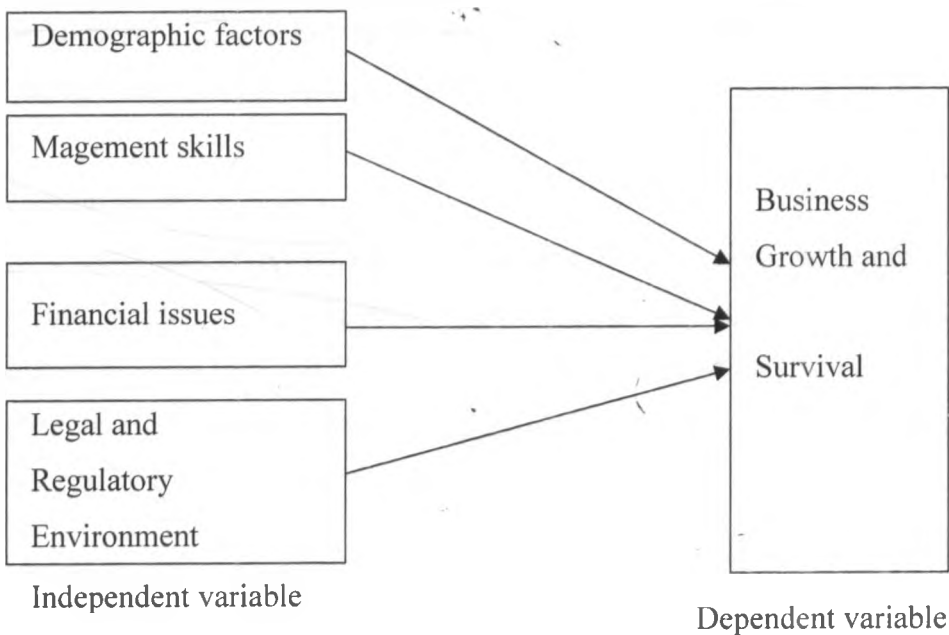
Sessional paper No.2 of 1992 proposed improvement in the delivery of business development service to remove limitations faced by MSEs, from the lack of an enterprise culture and low levels of business skills, to inadequate programmes for guidance,

counseling, marketing and product design. These limitations have been caused by factors such as shortage of trained personnel, lack of needs assessment and in general, an ad hoc approach to programme development.

In Kenya, women's productive activities are concentrated in micro enterprises, in such ventures as hawking, retail trade, and manufacturing and periodic market trade. Despite the numerical dominance of women in micro enterprises, there are market gender disparities and inequalities between man and woman entrepreneurs participating in similar activities. The disparities are found in business size, product mix, profitability, business age, technological development, markets, and finance and business location. In addition, women and men entrepreneurs exhibit different characteristics in terms of age, level of education, motivation and time spent in mining the business.

From the available literature, there are clear indications that there are a lot of areas which can be researched on. It is evident that a great deal of research needs to be done with respect to small scale enterprises in Kenya and in Africa at large. There exist gaps in research, which includes assessment of challenges facing small scale enterprises in Kenya.

Figure 2.1 Conceptual framework



The demographic factors to a large extent affect Business growth and survival. People make up markets. Thus population monitoring comes in handy. The higher the population, the more the population will buy goods and services offered by the businesses. This guarantees business survival and growth.

Management is crucial to business growth and survival. Entrepreneurs need to plan, organize, control, coordinate and direct the activities of the enterprises. Equipped with business skills entrepreneurs are assured of their businesses' survival and also growing significantly.

Financial requirements are ineliminable in business transactions. Money is required to pay salaries, overhead expenses, stock procurement and licenses. Without adequate funds, the business cannot survive nor grow.

Excessive legal and regulatory requirements inhibit business growth and survival. Legal and regulatory challenges impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation.

Employment of qualified employees, high profitability expansion of businesses, provision of quality goods and services, good inventory management, carrying out – marketing activities, technological advancement and adaptation of E- business, are some of the key indicators of business growth and survival.

2.20 Summary

This chapter has reviewed relevant literature in relation to the study. It reviewed the possible challenges facing small scale enterprises' growth and survival, possible suggestions to address the challenges and also key growth and survival factors for small scale enterprises. The review also stipulated the conceptual framework of the study and explained briefly this conceptual framework.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Leedy (1993) describes research as the systematic process of collecting and analyzing information in order to increase our understanding of the phenomenon with which we are concerned or interested. He further suggests that it involves the interpretation of data to draw conclusions.

The aim of research methodology is to produce reliable and valid data that is free from personal biases and other errors. This involves measurement that must be both reliable and valid. (cooper and Schindler, 2003). Leedy (1993) defines research methodology as the approach by which the meaning of data is extracted and is a continuous process. The research methodology gives the direction to follow to get answers to issues that are of concern in research.

This chapter introduces and describes the research design and methodology, which was used to carry out the study. It outlines the sampling design technique that was used to select the sample of the study. It also outlines the method, technique and tools, which were used to collect the data and how the data collected, were analyzed. The chapter further describes the population of the study from which the sample was selected and the types of data and how it was collected. The study relied on the data obtained from the battery / solar dealers in Mt. Kenya East region.

3.2 Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy to procedure (Kathori, 1985). The research design according to cooper and schindler (2003) provides answers to issues such as, techniques to be used to gather data, the kind of sampling strategies and tools to be used and how time and cost constraints would be dealt

with. Wiersman (1986) adds that, another purpose of research design, is to help control and give meaning to the study variables. According to Kathori (2003) and white (2002) a good research report is characterized by flexibility, appropriateness, efficiency and economy. The research design of this study was descriptive, designed to gather data from battery / solar dealers in Mt. Kenya East region in order to establish the challenges facing small scale enterprise growth and survival.

3.3 Target population

The target population for this study consisted of all battery and solar entrepreneurs in the twelve towns around mt. Kenya East Region namely; Embu, Runyenyes, Chuka, Chogoria, Nkubu, Meru, Maua, Laare, Mutuati, Isiolo, Timau and Nanyuki. Mt. Kenya East region is an economic hub of the country (Kenya) due to earnings from coffee, tea and livestock production. Many people employ entrepreneurial skills due to the various business opportunities available. The researcher picked on the area for study purposely because he had known the area for the last fifteen years working with chloride Exide Company. He therefore had immense knowledge about the region and the targeted respondents.

The Mt. Kenya east area had one hundred and twelve battery / solar dealers in the entire towns mentioned. The researcher targeted to study fifty six dealers.

Table 3.1: Target population.

Town	No. of dealers
Embu,	18
Runyenjes,	4
Chuka,	12
Chogoria,	4
Nkubu,	7
Meru,	24
Maua,	12
Laare,	4
Mutuati,	2
Isiolo	5
Timau	4
Nanyuki	16
Total	112

3.4 Sampling design

Sampling is an important aspect of research. A sample is defined by somer (2003) as a subject of a population while sampling refers to the selection of a subject of cases from some population of interest. Thus, sampling is a systematic process of selecting a number of individuals for a study to represent the larger group from which they were selected. Demcing, (1975) defines sampling as the selection of a subset of the population. Chandran (2003) pursues this further by saying that, a sample method is a way of selecting a portion of population such that the selected portion represents the population adequately.

There are two main methods of sampling; probability and non – probability sampling (Kathori, 1998) – in probability sampling, each member of the population has an equal and known probability, of being selected.

In non-probability sampling, members are selected from the population in some non-random manner. Non –probability technique includes convenience sampling, judgement sampling, quota sampling, and snowball sampling.

In this study, the researcher used non-probability sampling method. The non – probability sampling technique used was purposive and convenience – sampling technique. Convenience sampling is the selection of the study units from the population based on easy accessibility or specialized knowledge of the researcher. It involves choosing the nearest and most convenient dealers as respondents. The process was continued until the required sample size was realized (Robinson, 2002).

Table 3.2: Sample size- Mt. Kenya East Battery / Solar Dealers

Towns	No of dealers	Sample size
Embu	18	9
Runyenjes	4	2
Chuka	12	6
Chogoria	4	2
Nkubu	7	3
Meru	24	12
Maua	12	6
Laare	4	2
Mutuati	2	1
Isiolo	5	3
Timau	4	2
Nanyuki	16	8
Total	112	56

3.5 Methods of data collection

Data collection involves consulting primary and secondary data source in order to elicit information, facts, evidence, proofs or truths regarding the research problems. The study

used both primary and secondary sources of data. According to Kathori (2003), primary data is data collected from the immediate source for the purposes of research. On the other hand, secondary data refers to any data already collected by a person or organization other than the researcher. It is often regarded as historical because it was collected prior to the study. The data collection also involved gathering both numeric information as well as text information so that the final database represented both quantitative and qualitative information. In this study the questionnaires and interviews were used as the primary data collection tools.

3.6 Questionnaires

In order to collect data on the challenges facing small scale enterprises, business growth and survival, the questionnaires were administered to the battery / solar dealers. Babbie (1989) observes that questionnaires are more appropriate when addressing sensitive issues, especially when the survey offers anonymity to avoid reluctance or deviation from respondents like in small scale enterprises sector study. The researcher chose to use questionnaires because they were regarded as the most appropriate. Questionnaires can be administered to a large number of battery / solar dealers at the same time and ensure uniformity from one measurement to another due to the impersonal nature.

The researcher distributed fifty six questionnaires. The questionnaires were administered during working days. This ensured a high and fast return rate. The study used both open – ended and close – ended questions. The close – ended questions were designed to provide greater uniformity of responses. Close – ended question were suitable for this study because of their efficiency and specialty. Since the study measured the battery dealers opinions in relation to the challenges facing business growth and survival, the open – ended questions came in handy. Open – ended questions were also used to gather in-depth information from the respondents.

3.7 Interviews

Interviews provide in-depth information about a particular research issue or question. Because the information is not quantifiable, the interview often is described as a quantitative research method.

Interviews are particularly useful for getting the story behind respondent's experiences. The interviews can pursue in-depth information around the topic and are useful as follow – up to respondents to questionnaires or further investigate their respondents to questionnaires or further investigate their responses (McNamara, 1999).

In this study, the researcher used in-depth interviews. The advantages of in-depth interviews are ideal for investigating personal, sensitive, or confidential information, which is unsuitable to cover in a group format. Interviews are also the best method when seeking individual interpretations and responses. The disadvantages of in-depth interviews are that the respondent may be unwilling to open up. In this study, the researcher used semi – structured interview because it enabled the researcher to have control over the questions asked.

3.8 Secondary data

There are many sources of secondary data, but the selection of the sources is crucial in ensuring data validity. Secondary data provides validation for primary data because it allows the researcher to assess the quality and consistency of the primary data. According to Yin (1994), six sources of evidence for data collection in the case of study protocol are listed, namely, documentation, archival records, interviews, direct observation, participant observation, and physical artifacts. In this study, interviews were relevant, since they were directly related to the investigation. The sources of secondary data included previous baseline surveys by the Government of Kenya through sessional papers.

3.9 Validity and reliability

Patton (2001), states that validity and reliability are two factors, which any qualitative researcher should be concerned about while designing a study, analyzing results and judging the quality of the study. Validity is concerned with the idea that the research design fully addresses the research questions and objectives the researcher is trying to answer and achieve. Reliability is about consistency and research, and whether another researcher could use the same design and obtain similar findings.

3.9.1 Validity

Cresweel and Milley (2000) suggest that validity is affected by the researcher's perception of validity in then study and the person's choice of paradigm assumption. As in all research, consideration must be given to construct validity, internal validity external validity and reliability (yin, 1989). Levy (1988) established construct validity using the single – case exploratory design, and internal validity using the single – case explanatory design.

Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. In this study therefore, multiple sources of evidence were used as a way to ensure construct validity. The other two possible test methods were content and criterion.

3.9.2 Reliability

Joppe (2000) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of the study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same conditions with the same subjects.

3.10 Pre-testing of research instrument

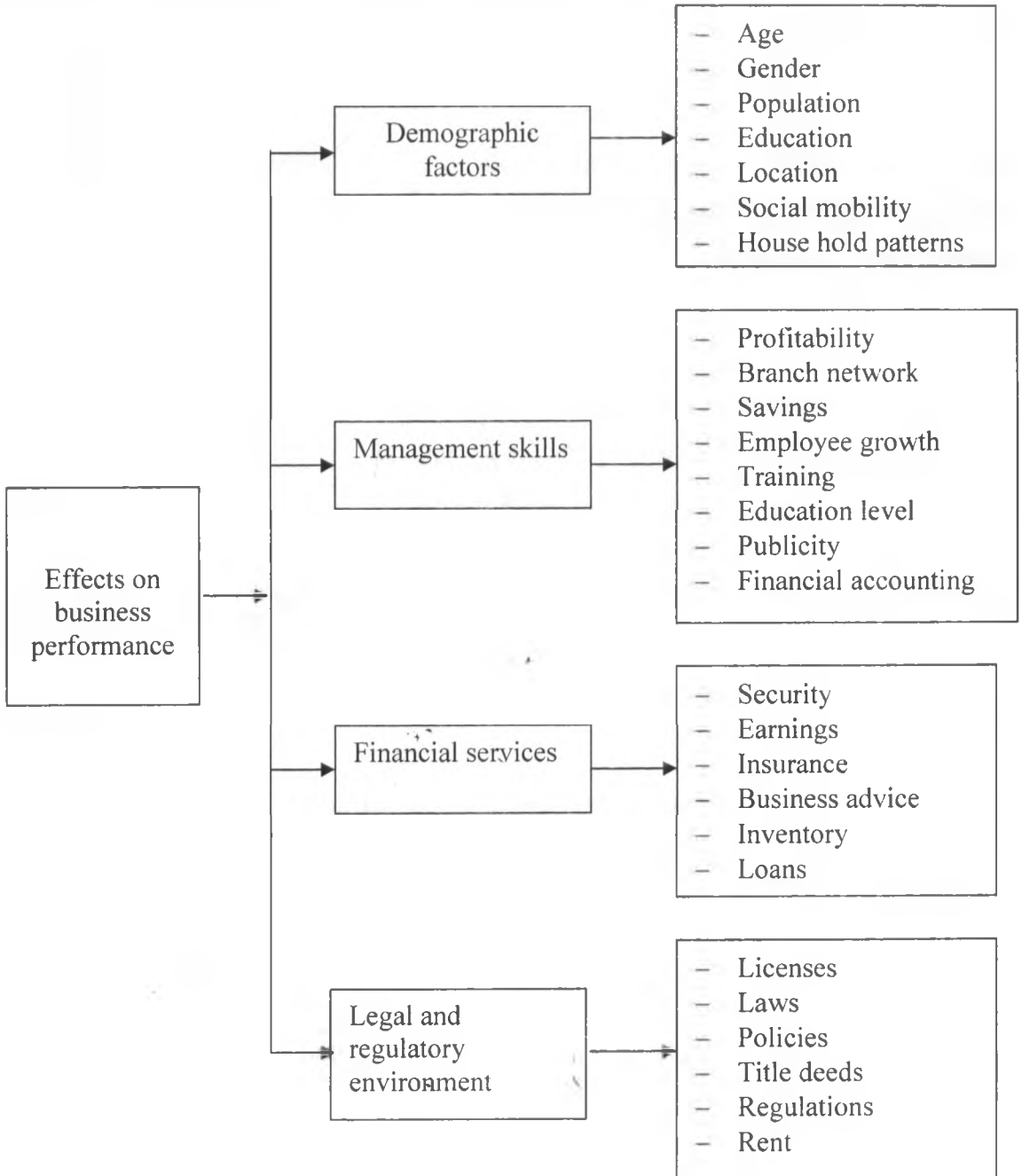
A pre-test according to Robinson (2002) is the testing of one's instruments with participants who match the participants to be involved in the actual study. This is important in ensuring that the respondents understand the questions and making sure that the tools are measuring what they ought to measure.

The questionnaires were pre-tested on battery and solar dealers who were similar to those who were actually questioned in the final study. Pre-testing of the data collection tools was conducted on twelve battery and solar dealers who did not participate in the major study. Of the twelve, two in-depth interviews were conducted with the battery and solar dealers. The researcher never changed any questions in both the questionnaires and the interview guide. This is because there were no difficulties in getting the intended answers by the researcher.

3.11 Operational definition of key variables

This section gives the clear definitions of the variables as used in the study. Both dependent and independent variables are defined.

Figure 3.1: Operational definition of independent variables



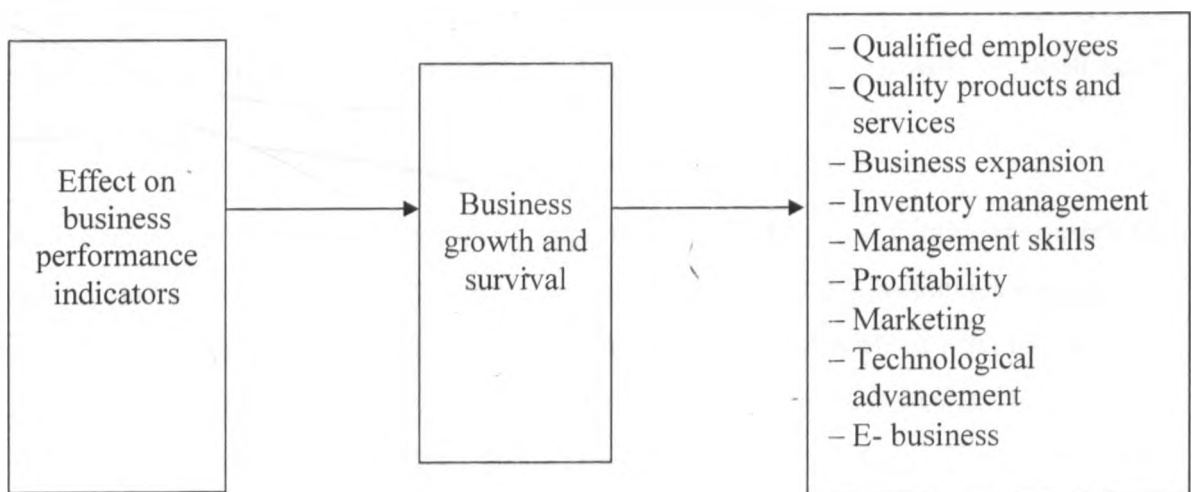
The demographic factors include age, gender (sex), population, education level, location, social mobility and house hold patterns. If the population is high, customers will be many; hence they will support the business through utilization of the goods and services. The movement of social classes from low income to high income classes implies that quality and quantity of goods and services will be realized. The proper location of business and educated entrepreneurs will mean proper business management; hence the business will be profitable.

Business management entails opening of more branches, maximization of profits, high savings, and high caliber of employees training of employees, proper accounting practices and business publicity. The foregoing will facilitate the growth of the business in terms of the performance of the business.

Financial services include loans borrowed, collateral (security), insurance, earnings, Business advice, inventory issues and profitability. Addressing the financial issues adequately will lead to good performance of the business.

Legal and regulatory environment involves licensing, laws, policies, title deeds and rental issues. Unrealistic rental charges, municipal council fees and excessive regulatory challenges impact negatively on the performance of the business.

Figure 3.2: Operational definition of the dependent variable



Employment of qualified personnel is an indication of business growth. Trained employees will provide quality services. Furthermore, the entrepreneurs will be able to provide quality products when the business is profitable. Quality products will in turn help in customer retention.

Expansion of the business is an indication of business growth and survival. The entrepreneurs are able to open up more outlets and also grow the business vertically. For instance, an entrepreneur could move from being a retailer to a wholesaler.

Good inventory control is another indicator of business growth and survival. Stock management helps to reduce overstocking and stock-outs. This way, continued revenue collection is kept and also minimizes obsolete stocks.

Management skills are crucial in the growth and survival of businesses. Training in various business areas is particularly crucial. Also, planning, organizing, staffing, leading and controlling are important functions of business entrepreneurs. This means that entrepreneurs who are well equipped with contemporary management skills have a hedge over the competition.

Profitability is the bottom line of any business endeavor. Profitability facilitates the realization of all the business activities such as training, research and development.

Marketing is a vital activity to facilitate business growth and survival. Marketing is particularly important because it provides a vital interface between the business and its external environment. Innovation is crucial to the survival and growth of small scale businesses.

Active marketing is therefore extremely important. This means that continuous search for new market opportunities and broadening of customer base of the business is crucial. The small scale businesses that are most active in marketing adjustments in what they do, and how they do it, particularly in the market place, have a greater chance of survival than who maintain the status quo in their businesses.

It is important for small scale business entrepreneurs to keep abreast of the contemporary technological advancement in the production of products and services. This will ensure that the products and services are competitive both locally and globally. Information communication technology is another area that is important for business growth and survival. It is therefore imperative that small scale business people strive to be up-to-date with ICT advancements.

E- Business is extremely important for business growth and survival. E-Business is the electronic business. It is the use of internet and digital technologies to execute all the activities in the business. It includes activities for the internet management of the business and for co-ordination with suppliers and other business partners. E- Business also includes electronic commences. E-commerce is that part of E-business that deals with buying and selling goods and services electronically using computerized business transactions over the internet networks, and other digital technologies.

3.12 Method of data analysis

Data in their raw form do not speak for themselves and thus the need for data processing and analysis (Robson, 2002). Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence to address the initial propositions of a study (yin, 1994). The researcher needed to rely on experience and the literature to present the evidence in various ways, using various interpretations. This becomes necessary because statistical analysis is not necessarily used in all case studies.

This case study employed a series of statistical tests to help in the presentation of the data to the reader. However, not all case studies are subject to statistical analysis, and in fact the attempt to make the study conducive to such analysis would inhibit the development of either aspects of the study. Miles and Huberman (1984) have suggested alternative analytical techniques of analysis in such situations, such as using arrays to display the data, creating displays, tabulating the frequency of events, ordering the information, and other methods. This must be done in away that will not bias the results.

In qualitative data analysis, content analysis was used which involved looking at emerging patterns. According to Creswell (1994) the disadvantages of interviewing is time consuming, the researcher's presence and participation may bias the responses but these can be compensated with questionnaires and content analysis.

3.13 Summary

This chapter has given an introduction of research design, target population, sampling procedure, methods of data collection, validity and reliability. The latter have clearly been explained. Operational definition of variables and methods of data analysis have also been clearly spelt out. All these helped to guide the researcher as he progressed with the research so that the researcher did not deviate from the objectives of the study. The chapter was therefore a reference and checkpoint for every stage, especially chapter four of the research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter details the analysis, presentation and interpretation of findings. The main aim of this study was to assess the challenges facing the small scale business growth and survival around Mt. Kenya east region. The data is analyzed regarding demographic factors (including gender, age, and education level), management skills, accessibility to financial resources and legal and regulatory environment in relation to small scale business growth and survival. Out of 56 questionnaires distributed for the study, 56 were returned and accepted for analysis, representing a response rate of 100% of the target population. Findings are presented in frequency tables. The data presentation is organized according to the research questions.

4.2 Demographic factors

This section describes the gender distribution, age of the respondents and education level of the respondents

4.2.1. Gender distribution

Of the respondents, 76.8% were males and 23.2% were females as shown in table 4.1 below. This indicates that females were not actively involved in this kind of business.

Table 4.1: Gender distribution

Gender	Frequency	Percentage
Male	43	76.8
Female	13	23.2
Total	56	100.0

4.2.2: Age of respondents

Majority (82.1%) of the small scale business people were aged between 31 and 50 years. Those aged between 21-30 years were 3.6%. This data is presented in Table 4.2. Younger

people have not settled in life and may not be committed to business. There were also some business people (14.3%) who were above 50 years of age as shown in the table 4.2 below. This could be attributed to the fact that those above 50 are old and may not have the energy and strength to actively run businesses.

Table 4.2: Age of respondents

Age	Frequency	Percentage
21 - 30 Years	2	3.6
31 - 40 Years	20	35.7
41 - 50 Years	26	46.4
Above 50 Years	8	14.3
Total	56	100

4.2.3. Level of education

Table 4.3 below shows that majority (75.0%) of the respondents had gone up to secondary level of education with only 21.4% and 3.6% having gone up to college and university education levels respectively. This is an indication that education was limited among the traders and this might affect the success of such small scale business.

Table 4.3: Level of education

Level	Frequency	Percentage
Secondary	42	75.0
College	12	21.4
University	2	3.6
Total	56	100.0

4.3 Battery type sold

Table 4.4 below shows that the most commonly sold battery was Chloride Exide (73.21%), followed by AP (12.50%). The main reason attributed to such high sales turnover was the good quality of the Chloride batteries as indicated by 71.43% of the respondents and best price 14.29%. Respondents also felt that the guarantee (10.71%) that comes with Chloride Exide batteries make them preferable by customers. Further

evidence shows that the batteries were of good quality. Vigorous marketing (3.57%) of the Chloride Exide batteries by the company was also another factor that could be attributed to the high sales of this battery.

Table 4.4: Most sold battery

Battery type	Frequency	Percentage
Chloride Exide	41	73.21
AP	7	12.50
KX	3	5.36
IR	3	5.36
KV	2	3.57
Total	56	100

4.4 Solar panels sold

The dealers traded with various solar panels. Table 4.5 below shows that the most sold solar panels were Chloride Exide (87.5%), followed by Kyocera (8.9%). Again this was attributed to the good quality of Chloride Exide solar panels.

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Table 4.5: Most sold solar panels

Solar panel	Frequency	Percentage
Chloride Exide	49	87.5
Kyocera	5	8.9
Shurjo (USA)	2	3.6
Total	56	100.0

4.5 Ways of retaining customers

The respondents used different ways of retaining their customers. Mostly, they capitalized on offering quality services (92.86%) coupled with selling quality products (91.07%). With quality products and quality service, small scale businesses are able to keep their customers satisfied and consequently they are able to retain such customers. Another method used to retain customers was selling their products at competitive prices (73.21%) as indicated in table 4.6 below.

Table 4.6: Ways of retaining customers

Retaining	Frequency	Frequency
Quality services	52	92.86
Competitive price	41	73.21
Quality products	51	91.07

N=56

4.6 Management skills

This section highlights the management skills of the dealers in relation to business growth and survival. Areas covered are seminar attendance and areas trained in.

4.6.1 Business seminars attendance

Majority (85.7%) of the respondents had attended business seminars though there was still another group that had not attended business seminars (14.3%). Such seminars are vital in sharpening the business skills of small scale business owners.

4.6.2 Frequency of seminar attendance

In terms of frequency of attendance, majority (54.2%) of the respondents had attended business seminars several times. Others had attended twice (25.0%) and 20.8% had attended once.

4.6.3 Business areas trained in during the seminar

Despite the fact that the respondents had attended business seminars, there were no management skills gained. Table 4.7 below shows that mostly the respondents were trained in customer service (100%) which was an initiative of the company to boost its sales. Areas such as book keeping (41.1%) and human resource management (10.8%) which are vital in management of small scale businesses were not adequately addressed. Such inadequate management skills might affect the growth and survival of small scale businesses

Table 4.7: Business areas in which training was done

Business area	Frequency	Percentage
Book keeping and accounts	23	41.1
Human resource management	6	10.8
Customer service	56	100
Spare parts	2	3.6

N = 56

Seminars are very important for the growth and survival of small scale businesses. The findings of the study revealed that all the seminars attended were sponsored by the company. Small scale entrepreneurs should also pay for seminars so that they could be trained in areas of their interest other than those of the company.

4.7 Internal audits

Internal audits are an important management skill. It checks stocks, banking and payments, procurement procedures which aim at revealing frauds and theft. Study findings reveal that respondents did not carry out internal audits. Out of those questioned, only 30.4% did internal audits while majority (69.9%) did not perform internal audits. This was an indication that stock management among the respondents was poor. Poor stock management might affect the growth and survival of the small scale businesses.

In addition, even those few who carried out internal audits, the audits were done on a yearly basis (75%) and only a small portion (25%) doing them monthly as shown in table 4.8. When one takes a longer period of time to do the audits, then the accuracy of the whole auditing exercise might be compromised.

Table 4.8: Frequency of internal audits.

How often	Frequency	Percentage
Monthly	39	75.0
Yearly	13	25.0
Total	52	100.0

4.8 Accounting records

Ability to maintain accurate accounting records is also another vital management skill. Findings from the study revealed that the respondents did not maintain accurate accounting records (60.7%) and only a few (39.3%) claimed that they maintained accounting records. This was further evident that management skills of the respondents were daunting and this might pose to be a challenge to the growth and survival of small scale businesses.

In addition, even those who kept these records, it was not done frequently. Majority (54.5%) only did it after a year with only a small percentage doing it on a daily basis (9.1%) as shown in table 4.9 below. Again this was further evident that record keeping was a challenge to many, calling for the need of enhanced training in the area of management skills.

Table 4.9: Period at which accounting records are maintained

How often	Frequency	Percentage
Yearly	12	54.5
Weekly	3	13.6
Monthly	5	22.7
Daily	2	9.1
Total	22	100.0

4.9 Financial Resources

This section highlights on the business insurance, sources of capital, challenges experienced by the business men and women in sourcing for capital and direct costs or expenditure incurred when doing business.

4.9.1 Business insurance

Findings from the study reveal that most of the businesses (55.4%) were not insured as compared to a few (44.6%) which were insured. A business insured against some risks, the owner does not lose in case of damage to the property ensured and this ensures

survival of the business. Without the business being insured, then this might pose a challenge to the survival and growth of the business

For those who had not insured their businesses, there were two main reasons given for not insuring businesses: They included lack of adequate funding (56%) and lack of perceived direct benefit of insuring the business (44%).

4.9.2 Sources of capital

Table 4.10 below shows some of the sources of capital to either start businesses and/or expand businesses and how frequent they were being used. Majority of the respondents obtained capital from commercial banks (91.1%) then followed by personal savings/profits (53.6%). This means financial resources were readily accessible and might not have been a big challenge in the growth and survival of small scale businesses. Microfinance (55.4%) and shylocks (96.4%) were less frequently used sources of capital. This could be attributed to the fact that shylocks and micro-finance institutions had very high interest rates and the duration within which the amount of money borrowed was to be repaid, was short.

Table 4.10: Sources of capital

Source	Most frequent	Frequent	Less frequent
Microfinance institutions	16.1	28.6	55.4
Commercial banks	91.1	3.6	5.4
Personal savings/profits	53.6	19.6	26.8
Shylocks	0.0	3.6	96.4

N=56

4.9.3 Challenges encountered in sourcing for capital

Despite the fact that commercial banks were the most frequently used sources of capital; the high interest rates (91.1%), procedures involved in disbursement of the loan (71.4%) and repayment modes (69.6%), were cited as the major challenges associated with these sources of capital as illustrated in table 4.11 below.

Table 4.11: Challenges encountered in sourcing for capital

Challenge	Very challenging	Challenging	Not challenging
Interest rates	91.1	8.9	0
Procedures involved in loan disbursement	71.4	23.2	5.4
Repayment mode	69.6	23.2	7.1

N=56

4.9.4 Ways of overcoming the challenges encountered in sourcing for capital

The respondents suggested some ways of overcoming the challenges encountered in sourcing for capital. Among the suggested ways are sourcing capital from institutions charging low interest rates (98.2%), simplification of loan procedures (83.9%) and negotiating flexible repayment modes (98.2%), as illustrated in table 4.12 below.

Table 4.12 Ways of overcoming the challenges encountered in sourcing for capital

Way of overcoming	Frequency	Percentage
Sourcing from institutions charging low interest rates	55	98.2
Simplifying loan procedures	47	83.9
Negotiating for flexible payment modes	55	98.2

N=56

4.9.5 Direct costs/expenditure incurred when doing business

Table 4.13 shows some of the direct costs/expenditure incurred in the event of running the businesses. Electricity bills (76.8%) and rent (67.9%) were regarded by the respondents as the most challenging direct costs incurred. Stationery (87.5%) and transport (48.2%) were rated to be the least challenging. This could be due to little paper done and that suppliers deliver goods to their customers.

Table 4.13: Direct costs/expenditure incurred when doing business

Challenge	Very challenging	Challenging	Not challenging
Electricity	76.8	14.3	8.9
Rent	67.9	28.6	3.6
Stationery	1.8	10.7	87.5
Transport	35.7	16.1	48.2

N=56

4.10 Legal and Regulatory Issues

This section highlights on the various legal and regulatory issues and some of the regulatory challenges in running the businesses.

Majority (89.3%) of the respondents acknowledged that the business laws were not favouring the growth and survival of the business with only a small percentage (10.7%) saying that the laws were favorable. With such kind of business environment, then growth and survival of business could be hampered.

4.10.1 Regulatory challenges experienced in running of businesses

Table 4.14 below shows that majority (98.2%) regarded high taxation as the most challenging regulatory challenge. Also procedures involved in business registration (48.2%) and business licensing (44.6%) were regarded by the respondents as challenging.

Table 4.14: Regulatory challenges experienced in running of businesses

Challenge	Very challenging	Challenging	Not challenging
Taxation	98.2	1	0
Procedures involved in business registration	21.4	48.2	30.4
Licensing	39.3	44.6	16.1

N=56

4.11. Analysis of qualitative data

In total, there were six interviews which were conducted. The respondents were chosen purposively from key battery and solar dealers in the major towns around Mt. Kenya East region. Before the interviews, appointments were fixed for the interview.

Interviews were conducted at a convenient time of the respondent because it was found necessary not to interfere with the business transactions of the respondent. In this case, interviews were conducted in the afternoon when most respondents were relatively free. On average, each interview took approximately thirty minutes. The researcher interviewed six key battery and solar dealers, each one from Embu, Chuka, Meru, Maua, Isiolo, and Nanyuki towns. The key dealers were chosen purposively by the researcher

from the above mentioned towns. The criterion used was key battery and solar dealers who were at least three years in business.

The key specific information sought during the interviews was: When business was started, the target population, Training needs of both the employer and employees, motivation of employees, sources of capital to run or expand business, challenges experienced when sourcing for the capital, suggestions on ways to solve the identified challenges, credit facilities, Government policies on businesses, comments on Taxation, business registration, and business licensing. The issue of how grand corruption had affected their businesses was also examined.

Qualitative data was analyzed through the use of content analysis methods, namely grouping the verbal and recorded responses into related themes. The battery and solar dealers were each one from Embu, Chuka, Meru, Maua, Isiolo and Nanyuki towns.

The following is a summary of the responses of the respondents:

4.11.1 Demographic factors that affect business growth and survival

Four of the respondents said that they started their businesses more than three years ago. They also said that they basically sold both batteries and solar panels. They further said that they have been forced by the competitiveness of the business to sell a variety of batteries and solar panels as opposed to being loyal to a particular brand. They said that customers are hard hit by the deteriorating economy and hence the trend is to buy products that are cheap. This poses a great challenge to the provision of quality products. Five of the respondents said that their target customers were male and female adults. Battery and solar products are relatively expensive. Thus children cannot readily afford to buy them. Batteries are generally used in vehicles and solar panels, for solar home systems. Both batteries and solar systems are investment ventures which adult persons value.

4.11.2 Management skills are crucial for business growth and survival.

Four of the respondents said they had one employee. The challenge of employee wages was noted to be a great hindering factor to employee employment. This is due to the low profit margins realized in the businesses. The respondents also said getting honest employees is a challenge. Dishonest employees steal from the businesses.

On training, all the respondents said that they had only trained their employees on customer service. However it was established that customer service training was facilitated by the company supplying goods. The business owners did not pay for the training of their employees. This means that there is a great challenge in the knowledge of the value of training.

Five of the respondents said that they motivated their employees through lunch allowances. But other areas such as a day off work, school fees payment, and praise for work well done to name but a few, were left out. This means that motivation is a challenge to small scale entrepreneurs.

On the other hand, all the small scale entrepreneurs said they had only attended customer care training. The other training areas such as book keeping, human resources, marketing and accounting were not valued. Thus knowledge of management skills was also a big challenge.

4.11.3 Financial issues

On financial issues, four of the respondents, said that they sourced their capital to run or expand businesses from the commercial banks. However they said that high interest rates charged on the loans were a great challenge. The need to start loan repayment a month later was also challenging. The requirements to provide collateral was also said to be very challenging. The above mentioned challenges pose a great threat to the growth and survival of small scale businesses.

All the respondents felt that the government should put in place policies to regulate interest rates charged by commercial banks. The need to simplify the loan application

procedures was greatly recommended. Respondents argued that the practice of waiting for approval from Head Offices was time wasting.

All the respondents also suggested that conditions set by suppliers on credit limits and facilities were challenging to small scale businesses. Thus the suppliers should formulate policies in credit limits and credit facilities which take into account the interests of both the suppliers and the small scale businesses.

4.11.4 Legal and Regulatory Issues that affect business growth and survival

Five of the respondents said that the government's policies did not favour the running and expansion of their businesses. The issue of VAT was specifically said to be very challenging.

Taxation was also said to be very high. All the respondents argued that they were highly taxed given that every item they sold and bought VAT was charged. Except for solar panel and solar batteries, all the other goods attracted VAT. Due to steep competition in the market place, the small scale business is not able to realize maximum profits. The decimal performance in profitability, poses a great challenge to the growth and survival of small scale businesses.

Business licensing and registration was also a big challenge, according to most respondents. All the respondents said that they were forced to travel to Nairobi to get the services. This means time is wasted which could have been used for economic gains. Therefore, the government should come up with policies to address the issue.

All the respondents said that the grand corruption had a negative impact on the growth and survival of the businesses. The respondents said that some corrupt individuals import goods duty free into the local market. The imported goods are sold cheaply. This means that there is no level playing ground between the locally made goods and corruptly imported goods. This poses great challenge on the growth and survival of small scale businesses.

4.12 Summary

Chapter four detailed the analysis, presentation and interpretation of findings. The data analysis and presentation was organized according to the research questions. This was done in regard to demographic factors (including gender, age, and education level), management skills, accessibility to financial resources and legal and regulatory environment in relation to small scale business growth and survival. Frequency tables were mainly used to present the findings.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the main findings, discussions of the main findings, study conclusions and gives recommendations and areas for further research and or actions. The main objective of this study was to assess the challenges facing the growth and survival of battery / solar dealers around Mt. Kenya East region.

The specific objectives were, to establish the influence of demographic factors on business growth and survival, to determine how management skills affect business growth and survival, to establish the influence of access to financial resources on business growth and survival and to determine how legal and regulatory environment affects business growth and survival.

5.2 Summary of findings.

Education was limited among the traders since a majority (75.0%) of the respondents had gone up to secondary level of education with only 21.4% and 3.6% having gone up to college and university education levels respectively.

Despite the fact that majority of the respondents had attended business seminars, there were no management skills gained. Results show that mostly the respondents were trained in customer service (100%) which was sponsored by the company to boost its sales. Areas such as book keeping and human resource management, which are vital in management of small scale businesses, were not adequately addressed.

Results from the study show that there were limited internal audits (30.4%), an indication that stock management was poor. In addition respondents did not maintain accurate accounting records (60.7%). This was evidence that management skills of the

respondents were daunting and could pose a great challenge to the growth and survival of small scale businesses.

Results from the study also indicate that majority of the respondents most frequently obtained capital from commercial banks (91.1%), and personal savings/profits (53.6%). Despite the fact that commercial banks were the most frequently used sources of capital, the high interest rates (91.1%), procedures involved in disbursement of the loans (71.4%), and repayment modes (69.6%) , were cited as the major challenges associated with access to these sources of capital.

Majority (89.3%) of the respondents acknowledged that the business laws were not favouring the growth and survival of the business, with only a small percentage (10.9%), saying that the laws were favorable. Majority (98.2%) regarded high taxation as the most challenging regulatory challenge. Also, procedures involved in business registration (48.2%) and business licensing (44.6%) were regarded by the respondents as challenging.

5.3 Discussion of findings as per research objectives / research questions

This section discusses the main findings of the study in relation to the relevant literature as per the objectives of the study.

5.3.1 Influence of demographic factors on business growth and survival.

Findings indicate that there were more male than female entrepreneurs. This is in line with findings of the Kenyan government in sessional paper No. 2 of 2005. This could be due the fact that women are more vulnerable to chronic poverty because of gender inequalities in the distribution of income, access to productive inputs such as credit, access to and control of property and earned income, multiple roles of women, inadequate access to education and training, as well as gender biases in labour markets.

Majority of the dealers had gone up to secondary level of education with only a small fraction with college and university education levels. This indicates that education was limited among the traders. This finding is in line with results from (King and McGrath

2002) who also observed that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Education and skills are needed to run micro and small enterprises. Those with more education and training are more likely to be successful in their small scale businesses.

5.3.2 How management skills affect business growth and survival

Areas such as book keeping and human resource management which are vital in management of small scale businesses were not adequately addressed. Results from the study show that there were limited internal audits (30.4%), an indication that stock management was poor. In addition respondents did not maintain accurate accounting records (60.7%). This was evident that management skills of the respondents were daunting. Proper stock management is an essential prerequisite for optimum industrial production. A large number of small-scale business owners are not aware of this requirement and as a result, they remain contented with a sub-optimal level of production affecting their profitability adversely.

With lack of managerial skills and experience, the typical owners or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. Hence they may not be well equipped to carry out managerial routines for their enterprises. A consequence of poor managerial ability is that, small scale business owners are ill prepared to face challenges in the business environment and to plan appropriate changes in technology.

5.3.3 Influence of access to financial resources on business growth and survival

Results show that commercial banks and personal savings/profits were the most frequent source of capital. Despite this fact that commercial banks were the most frequently used sources of capital, high interest rates, and procedures involved in disbursement of the

loan, and repayment modes were cited as the major challenges associated with access to these sources of capital. High interest rates and monthly repayments without grace period, reduces profits from business ventures and might affect growth and survival of small scale businesses. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' and that they could make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates, while making profits. Financial constraint remains a major challenge facing small scale business in Kenya (Wanjohi and Mugure, 2008). Again (Pederson Paul Ove. 1996) affirms that lack of capital undoubtedly is an important constraint to the development of small enterprises.

5.3.4 How legal and regulatory environment affects business growth and survival

Majority of the respondents acknowledged that the business laws were not favouring the growth and survival of the business. High taxation, procedures involved in business registration and business licensing, are some of the most challenging regulatory issues that experienced traders face. These findings are in line with Wanjohi and Mugure (2008) findings that indicate that business environment is among the key factors that affect the growth of small scale business. Unpredictable government policies, coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of such businesses, but also to the Kenyan economy that was gaining momentum after decades of wastage during KANU era.

Excessive regulatory constraints inhibit business competitiveness. They impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation (Gichira, 1991).

5.4 Conclusions

From the study, education and technical training was limited among the traders leading to inadequate management skills

There were also limited internal audits coupled with inability to maintain accurate accounting records an indication that management skills were poor. This could pose a great challenge to the growth and survival of small scale businesses.

High interest rates, procedures involved in disbursement of the loans, and repayment modes were major challenges associated with access to capital from banks despite the fact that commercial banks were the most frequently used sources of capital. High taxation was the most challenging regulatory challenge.

In conclusion, it is generally recognized that small scale businesses face unique challenges which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. From the study, the following challenges were identified;-lack of management skills, inadequate education, technical skills, access to financial services and legal and regulatory issues.

One major question we should pose is: What solution should be offered to the plight of small enterprises in Kenya? Policies should aim at encouraging and promoting the development of small scale local businesses, through promotion of conducive business environment.

5.5 Recommendations

Global trends and national developments have accentuated the small-scale sector's role as a catalyst of growth in the country. Consequent to the increased globalization of the world economy, small scale businesses are required to face new challenges. In light of this, the government and private companies should recognize the changed environment and focus more on providing support in the fields of credit, marketing, technology and infrastructure to the small scale businesses to enhance their growth and survival.

Consequently, the researcher makes the following recommendations to boost growth and survival of small scale businesses.

- i. The policies of the government and private companies should be directed towards the growth of small scale businesses. This would encourage modernization of existing small scale businesses with adoption of appropriate new technologies and stimulate the growth of new enterprises.
- ii. Moreover, the government and private companies have to come up with plans to educate small scale entrepreneurs about economies of scale and arrange to upgrade management skills for promotion of small scale businesses. This way, they would be poised for growth and development provided they adopt strategies as mentioned above to overcome competition from big businesses. Thus, the prospects of small businesses in a free economy are quite encouraging provided the government and private companies play a supportive role and adequate measures are taken to meet the challenges of the large-scale sector.
- iii. Since majority of small enterprises lack finance, government should establish friendly small loaning system. This should attract low interests rates to ensure the continuity of these businesses. Small scale businesses have the potentiality of transforming the economy of a crippling nation. As such, every effort should be made to boost their growth.
- iv. Private companies like Chloride Exide should formulate polices that embrace flexible and friendly credit facilities which support the growth and survival of small scale businesses.

5.6 Suggestions for further research.

Change and advancement in technology especially in the area of ICT has been on the rise over the last few years. Even with this change in technology, many small scale business entrepreneurs appear to be unfamiliar with these new technologies. Therefore, further research is required to assess the impact of technological advancement on growth and survival of small scale businesses

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APPENDICES

Appendix 1: Introduction letter

Dear Participant,

Thank you for your willingness to respond to this questionnaire. I am a final year master of Arts in project planning and management student at the University of Nairobi. This questionnaire is aimed at finding the challenges facing the business growth and survival of battery / solar dealers around Mt. Kenya East region.

In this regard, please take some time to complete this questionnaire. Your accurate and frank response will be highly appreciated. You do not need to write your name or the name of your business on this questionnaire. All information received will be treated with confidentiality. The findings of this study will be used only for research purposes.

Thank you for your cooperation.

Yours truly,

Julius K. Kimunga

Appendix 2: Questionnaire

Instructions

- (i) Please tick the correct answer and
(ii) Also write down your answer or opinion/suggestion where requested to do so.

Part A: Demographic factors

1. (i) Gender male female
- Age (yrs) Below 20 21-30
 31-40 41-50
 Above 50
2. Location (town).....
3. Which type of battery do you sell most?
 (a) Chloride Exide AP IR
 Others, Specify.....
- b) Which type of Solar Panel do you sell most?
 (a) Chloride Exide AP Kyocera
 Others, Specify
4. Give the reason for selling the brand you have chosen above.
 (b) Battery
 (c) Solar panel
5. What was the value/quantity of your stocks when you started your business?
.....
6. Competition is very high. The following are ways of retaining customers. Please tick those applicable to you.
- a) Competitive price
 b) Quality service
 c) Quality product

7. What is the present approximate value /quantity of your stock?
.....

Part B: Management skills

8. Education Level

None Primary Secondary
College University other

9. When did you start your business?

10. Have you attended any business seminar?

Yes No.

b) If Yes, how many times? Once Twice Several times

c) Who was the sponsor of the seminar? Self Company

11. Below are some of the areas that business people are trained in. Tick appropriately the ones you have been trained in.

a) Book keeping and accounts

b) Human resource management

c) Customer service

d) Others. Specify

12. Do you do internal auditing of your business?

Yes No

b) If yes, how often

Monthly Yearly

Other Specify

13. How would you like your supplier (company) to help you improve your sales?
.....

14. Do you keep accounting records?

Yes No.

b) If yes, how often?

Yearly Monthly Weekly Daily

Part C. Financial services

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15. Have you insured your business?

Yes No

b) If no, give reasons.....

16. What were the sources of capital to either start or expand your business?

	Most Frequent	Frequent	Not frequent
a. Micro financial institution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Commercial Banks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Personal savings/profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Shylocks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

17. The following are challenges faced by business people as they source for capital.

Please rank them appropriately.

	Very Challenging	Challenging	Not Challenging
a. Interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. procedures involved in loan disbursement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Repayment mode	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Below are some ways of overcoming the challenges mentioned above. Which ones do you think would help?

- a. Sourcing from institutions charging low interest rates
- b. Simplifying of loan application procedures
- c. Negotiating flexible repayment modes

19. Below are some of the direct costs/expenditures that you would incur as you run your business. Please tick them appropriately.

	Very challenging	challenging	Not challenging
a. Electricity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Stationery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Transport	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

20. Do you advertise your business?

Yes No

b) If yes, through which means?

Radio TV. Newspaper

Others. Specify

Part D: Legal and Regulatory Issues

21. Are the laws of the county on business favourable to you?

Yes No.

b) If no, give your suggestions

22. Below are some of the regulatory challenges experienced in running business. Please tick them appropriately.

	Very Challenging	Challenging	Not challenging
a) Taxation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Procedures involved in Business registration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Licensing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Others. Specify			

Appendix 3: Interview Guide for Battery / Solar Dealers

These are questions to guide our discussions

Part A. Demographic factors

1. When did you start your business?
2. What is the nature of your business?
3. Who is your target population?
 - (a) Adult males
 - (b) Adult females
 - (c) Children
4. How many customers do you serve per day?

Part B. Management Skills

5. How many employees do you have?
6. What business areas are your employees trained in?
7. How do you motivate your employees?
8. Which business areas have you attended training in?

Part C: Financial Services

9. What are the main sources of capital to run or expand your business?
10. What are some of the challenges you experience when sourcing for the capital?
11. What are your suggestions on ways to solve the challenges that you face when sourcing for the capital?
12. Credit facilities and limits are in most cases determined by the company offering goods and services. This poses great challenge in the growth and survival of small scale businesses. What are your suggestions on these issues?

Part D: Legal and Regulatory Issues

13. What are some of the government policies that favour or not favour the running of your business?
14. What would you comment on;
 - (a) Taxation issues?
 - (b) Business registration?
 - (c) Business licensing?
15. How has the grand corruption affected your business