

**FACTORS INFLUENCING SPATIAL DISTRIBUTION OF SMALL AND
MEDIUM SIZE ENTERPRISES WITHIN NAIROBI COUNTY, KENYA**

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DECLARATION

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

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DEDICATION

I dedicate this study to my beloved family for their positive contribution; constant encouragement and unwavering support which helped me achieve this goal.

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ABSTRACT

Enhancing spatial distribution of SMEs ensures equal distribution of job opportunities which can be used as a strategy to reduce influx of people in major towns seeking for employment. This study intended to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya. The target population of the study include 30252 SMEs in all the 9 sub counties in Nairobi County. The unit of analysis was the SME owners, one from each SME in cases where there are more than one owner. The sample size for the study was 385 SMEs arrived at using the Fisher's 1998 formula. Primary data was obtained using a semi-structured questionnaire and captured through both dichotomous scale and a 5-point type Likert scale. Factors mentioned by the respondents that influenced spatial distribution of SMEs include, inspiration from friends and relatives, availability of markets, distribution channels and skilled labour, profits potential, availability of investment opportunities. The correlation and descriptive results showed that infrastructure, government policies, business environment, human capital, access to information, and raw materials had a positive influence on the spatial distribution of SMEs in Nairobi County. The findings of factor analysis further showed that government policies, raw material and business environment explained more variance in that order in spatial distribution of SMEs. The study concludes that the population density of SMEs in urban centers in Kenya is very high. Therefore the study concludes that all the six components (infrastructure, government policies, business environment, human capital, access to information, and raw materials) accounts for spatial distribution of SMEs in Nairobi County. The study recommends that counties in Kenya that are less developed should invest in providing efficient and cheap transportation system, which is essential for the movement of raw materials as well as the finished products to the markets. The study further recommends that national and county governments in Kenya should formulate policies that ensure simple and quick business registration, friendly taxation policies for startups to encourage entrepreneurs from anywhere in the country to start small businesses which should be easily accessible to everyone regardless of their location.

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ABBREVIATIONS AND ACRONYMS

BERR	Business, Enterprise & Regulatory Reform
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organization report
SMEs	Small and Medium Enterprises
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Spatial distribution of enterprises is one of the key areas attracting research in the field of entrepreneurship. Spatial distribution of enterprises is an essential factor in equitable growth and development (Aloysius, 2007). There are several methods of describing the spatial distribution, but the simplest way is percentage distribution of enterprises over the geographical areas (Campos and Prothero, 2012).

Classical Location Theory addresses the critical questions of the type of goods and services to be produced and where the production process is situated. Many factors are brought into considerations when siting a location to center the business activities and this is the focus of the theory of classical location. Cluster theory was proposed to aid in explaining the reasons behind firms occurring in clusters. A cluster can be defined as geographical concentration of firms with identity characteristics either in term of the products or services they produce, the type of labour they require among other factors (Delgado, Porter and Stern, 2010).

Behavioral Location Theory also emphasizes on the motives behind the location of enterprises. The theory is founded on three broad concepts, spatial cognition concept, mental maps concept and regional images concept (Shearmur, 2010). Small Enterprises are well-known to outline significant nodes in rural-urban linkages (Kihonge, 2014).

Spatial concentration of SMEs matters since the spatial pattern across industries influences the availability of economic opportunities in the region they operate. Enhancing spatial distribution of SMEs ensures equal distribution of job opportunities which can be used as a strategy to reduce influx of people in major towns seeking for employment. In Kenya, urban centers and specifically Nairobi County has seen an ever increasing population of youths seeking to secure employment in firms concentrated in the county (Koech, 2011).

1.1.1 Spatial Distribution of Enterprises

Markets' spatial theories signify that connections to place have significant implications for organizations that are new. Demand is deep-rooted in place because customers over and over again economize on search costs by condescending nearby organizations (Haveman and Rider, 2014). Personnel's flow and tacit knowledge of industry-specific, sustained attention from customers and strength in numbers for political mobilization all become concentrated around regions where organizations are many. Additionally, organizational authenticity depends on the existence of other related, geographically neighboring organizations.

The more organizations in an area that are similar to a central organization, the more resource providers, local customers and regulatory authorities will view the central organization as a reasonable way to attain valued goals (Haveman and Rider, 2014). Entrepreneurs have a tendency to establish organizations where they already dwell for both pragmatic and personal reasons (Marquis, Davis and Glynn, 2013). They prefer not to relocate their families and leave their friends (Dahl and Sorenson, 2010).

Existing organizations play a significant role in the start of new ones as entrepreneurs time and again start new ventures after working in local organizations in the related or same industries. Tacit knowledge acquired in local organizations is applied in their new ventures and tap resource networks and local information (Appold, 2005). Even when entrepreneurs relocate to new locations to found organizations, spatial distribution matters. The presence of many other related organizations signals resource availability and informs prospects of new venture success (Suire and Vincente, 2009).

1.1.2 Global Perspective of Small and Medium Size Enterprises

Small enterprises are a significant sector of the economy and make up more than 90% of businesses in some countries and employment opportunities (Bharati, 2010). The issues of management, problems and opportunities faced by small enterprises are very dissimilar from those experienced by large corporations; thus the need to focus particularly on this segment (Bharati, 2010).

Owners of small business globally face similar obstacle, have similar characteristics, but hold opposing views in their understanding of how economic growth is supported by small businesses. According to EU, Micro and Small enterprises are economically and socially significant; because of all enterprises in the EU they represent 99%. In the Netherlands, of all private sector companies small enterprises account for 98.8%, employ 55% of total workforce and contribute 31.6% to Gross Domestic Product (GDP) (Tarek, 2011). In Australia, roughly 97% of all private sector businesses are accounted by small businesses, and 51% employment in private sector (Australian Bureau of Statistics, 2009) whereas in Italy, small enterprises absorb 2.2 million of national labors and contribute to USD 35 million in exports (Coppa and Sriramesh, 2013).

In China, approximately 75% of total Urban and Township employment is provided by SMEs and as such they play a significant role in maintaining social steadiness and releasing the employment pressure (Zhu, Wittmann and Peng, 2012). In Nigeria, small business sector contribute on average, 50 per cent of employment in Nigeria, and approximately 50 per cent of its industrial output (Eniola and Ektebang, 2014). In Kenya, SMEs are approximately 90% and provides employment to over 60 per cent of the total employed population (Wanjohi, 2009).

1.1.3 Small and Medium Size Enterprises in Kenya

Small enterprises play an important part in many developing countries. Mutua (2015) observed that in the developing countries the state of the economy has a strong association with the health and nature of Small and Medium Enterprises sector. Given all conditions for growth, SMEs can bring about industrial uprising in Kenya. In the economy of Kenya, these small enterprises cut across all sectors and provide one of the most productive employment creation sources, poverty reduction and income generation. These industries are commonly found along roads in urban and outskirts of major towns in Kenya. Income from the SME sector is ranked lowest among other sectors of the Kenyan economy, but they are vital to the livelihoods of many urban and rural poor.

According to Sachs (2005) the size of poor people dwelling in rural communities are calling for greater attention in those regions in order to attain its poverty mitigation and development goals. Refreshing economies of rural has benefits far greater than just improving people's lives in rural communities; it can also ease rural-urban relocation and contribute to food security, therefore reducing poverty of urban and related issues.

1.2 Research Problem

Enterprises contribute a significant part in the economy growth. Consequently enterprises have the potential to bring about equitable growth and development which can lead to equal distribution of job opportunities and wealth across the country (Kihonge, 2014). In many developing countries, the interdependence and the linkage between rural and urban development is hardly ever appreciated by policy makers and development practitioners. One of the main reasons that hamper the sustainable development achievement in the country is the lack of a well-functioning system in small intermediate towns that would otherwise contribute to rural transformation (Werner, 2013). There are also wide variation in terms of the urbanization level and the urban centers size-class distribution across regions and even within a given region (Wang and Lin, 2008).

Wang and Lin (2008) conducted a study on the spatial distribution and growth of China's ICT industry. The study used secondary data collected from Ministry of Information Industry and those supplied by the National Bureau of Statistics. The study focused on firms within ICT industry. This study collected primary data from SMEs across many industries hence the finding were more comprehensive and can be applied to SMEs in various line of business.

Werner (2013) on the other hand, conducted a study on the spatial distribution of economic activity. The author focused on the financial industry. Werner (2013) argued that economic models have not been primarily concerned with the question of spatial distribution of economic activity, since they often implicitly assume that markets ensure a geographically well-distributed economy.

The study adopted a theoretical analysis methodology. This study employed empirical analysis where data were collected from SMEs on factors that influence their choice of location. SMEs in Nairobi County continue to encounter a series of challenges and constraints that inhibit growth. The density of the SMEs per population in Nairobi County is very high which leads to various challenges that reduces SMEs survival rate. Gerber (2001) noted that the survival rate of most of these institutions is five years on average and approximately 80% of SMEs will be non-existent within this period.

There is lack of focus on the developing countries like Kenya; this study focused on Kenya with the aim of filling this gap. Kenya lacks sufficient number of urban centers that can produce significant development impulses to their hinterlands. Many rural regions, mainly the arid and semi-arid regions that are largely occupied by pastoral communities, are out of the urban influence purview owing to the near lack of urban centers. Conversely, many regions resource potential could not be exploited because of the lack of the requisite urban-based socioeconomic services and infrastructure (G.O.K, Urban Development Policies, 2008). The few urban regions draw the rural migration as they are seen to present jobs. Nevertheless, there is a sluggish growth of high-wage employment while the job-seekers migration continues to rise, leading to a low income periphery emergence (Nabuteya, 2007). This study sought to respond the research question; what factors influence the spatial distribution of SMEs in Nairobi County in Kenya?

1.3 Research Objective

The objective of this study was to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya.

1.4 Value of the Study

The findings of this study may be significance to policy makers both at the national and county levels. They may adopt the findings of this study in order to formulate and amend existing policies that hinder development of SMEs in counties especially in small intermediate urban centers.

The findings of this study may also be used as the basis of the budgeting process where county governments may be informed on areas that need more focus to encourage young people to start SMEs and desist from moving to cities to seek employment. In practice, the study may help the national and county governments decongest major cities and towns in Kenya. The stakeholders of vision 2030 may adopt the study findings in their quest to spur economic development specifically in the regions such as northern Kenya that have been left behind in development.

The study may also contribute to theory building. The study has adopted the use of three theories, the Classical Location Theory, Cluster Theory and Behavioral Location Theory. By adopting these theories the study has expounded the use of the theories in explaining why firms choose to set up their enterprises in certain regions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section provided the review of existing literature related to the study topic. The chapter provided the theoretical foundation that informed the study. This section further contained review of previous empirical studies conducted in this area and research gaps identified.

2.2 Theoretical Foundation

Theoretical approach of spatial concentration of enterprises could be explained in regard to the reasons why firms get attracted to certain locations compared to others. This study was anchored on three theories, the Classical Location Theory, Cluster Theory and Behavioral Location Theory. The relevance of these theories to this study was explained in the following subsections.

2.2.1 Classical Location Theory

This theory addresses the critical questions of the type of goods and services to be produced and where the production process is situated. Many factors are brought into considerations when siting a location to center the business activities and this is the focus of the theory of classical location. Entrepreneurs critically assess the incentive available for setting up their enterprises in certain regions against the alternative locations (Parsons, 2007).

This theory has wide application in various fields. The theory has been of great importance in economical geography, regional science and spatial distribution of entrepreneurship. The theory helps in understanding the distribution of economic activities and the reasons behind such distributions. The theory base on the assumption that firms choose locations that will enable them to maximize on the profits and individuals prefer regions that maximizes their utility (Parsons, 2007).

This theory first came to existence through the early contribution of Johann Heinrich through his first volume of *Der Isolierte* in 1826 which lay the foundation of location theory (Bach, 2013). Since then this theory has been adopted by researchers seeking to find out the economics behind firms choice of locations. According to Johann Heinrich model, he argued that every city has concentric rings where dealers in perishable goods and services are situated close to the market and other agricultural activities such as ranching are found on the outer rings. This model set precedence in the adoption of the location theory (Henrickson, 2012).

2.2.2 Cluster Theory

Cluster theory was proposed to aid in explaining the reasons behind firms occurring in clusters. A cluster can be defined as geographical concentration of firms with identical characteristics either in terms of the products or services they produce, the type of labour they require among other factors (Delgado, Porter and Stern, 2010). Sonobe and Otsuka (2006) further supported this definition by stating that a cluster is a concentration of similar firms or firms producing similar products in the same location. However, according to Motoyama (2008) the above definitions of cluster fail in recognizing the role played by very member of the cluster community.

The author argues that clusters form in order to increase accumulation and transfer of knowledge among the cluster members but the same information spread outside the cluster is limited (Stam, 2009). Boja (2011) on the other hand argued that the formation of clusters can be attributed to the need to benefit from cost reductions and other related benefits as a result of firms being located close to each other. Clusters reduce searching costs of potential clients and also enable easy comparison of prices by their customers. The reputation of the clusters further assists in attracting more and more clients. Occasionally firms will move to locations known to have high concentration of customers which is sometimes imposed by customer themselves (Wennberg, and Lindqvist, 2010).

2.2.3 Behavioral Location Theory

The famous contribution of this theory is by Pred's (Picchizzolu, 2010). The author argued that it was not possible for a business person to gather all the knowledge and information he needed in one place. He also added that it was often difficult to interpret and process the information available correctly. This theory also emphasizes on the motives behind the location of enterprises. The theory is founded on three broad concepts; spatial cognition concept, mental maps concept and regional images concept (Shearmur, 2010).

The concept of spatial cognition is viewed as the base on which entrepreneurs make judgements regarding potential location for their businesses. It is also concerned with the values that are attached to the places where business activities are to be located (Kang and Jiang, 2012). On the other hand, a mental map can be seen as a subjective picture that forms in the mind about the ideal location of the business.

This description further encompasses the concept of regional images. Analysis of this theory point to the extent to which location meet the necessary requirement of the entrepreneur. The entrepreneur pictures the present location and other locations in seeking for a place to locate his operations.

2.3 Role of SMEs in Equitable Growth and Development

The role of small and medium enterprises in providing the connection between rural and urban centres is significant. Small enterprises are known to transform rural areas into large economic hubs with industries and job opportunities. To realize the above objective the government must play its role through the local administrative towns in providing the necessary conditions required for SMEs to grow to their full potential (Kihonge, 2014). The small enterprises also form nodes of linkage between rural areas and local, regional and national markets. Through providing the necessary conditions and environment for growth to these SMEs a continuous linkage of rural-urban are created. This would go a long way in providing job opportunities to rural population, income and alleviation of poverty in rural areas. However lack of proper systems to encourage rural transformation through SMEs has been the major undoing.

The literature available on the role of SMEs has pointed to its positive contribution to the economy. Ramawickrama (2011) used qualitative and quantitative methods to study the role of small and medium size enterprises in contributing to sustainable development. The study found out that SMEs that live longer and have many employees also contribute to sustainable development.

In Malaysia, Melo carried out a study to investigate the role of SMEs in growth and development. The author found that SMEs played a significant role in creating new jobs, using locally available raw materials, satisfying local demands, increasing the distribution of incomes and in increasing social and economic mobility. This study focused on the SMEs in manufacturing sector and used primary data collected from SMEs owners in Kuala Lumpur.

2.4 Characteristics of SMEs that Influence Location

Small and Medium size Enterprises have some distinctive characteristics that often influence their choice of location, unlike large enterprises. SME's choice of location is a matter of short term planning compared to large enterprises that need a lot of careful and long term planning. Gušavac, et al. (2014) suggested that poor prospects of the future have been the main reasons why enterprises have changed location within a few years of operations. They further argued that having a clear policy about the business could reduce the movement dynamics of the SMEs.

In US, Bennett and Smith (2009) conducted a study to assess the effect of competition pressures on the choice of location of small and medium sized enterprises. The study found that the determinants the SMEs use to choose a location could be the same reason behind why the businesses may need to move or be attracted to a new location. Heebels (2012) also argued that enterprises in their initial stages are always on the move. Silvente and Giménez (2007) further pointed out that the uniqueness of the small and medium size enterprises that distinguish them from large firms is their concentration in the urban centres.

They posited that most of the SMEs are found in the inner cities and in residence places compared to large enterprises that are located in the outskirts of cities and residential areas. The reasons behind SMEs preferring inner cities is because they can utilize small spaces and also the need to be closer to their customers unlike large enterprise that need large premises that cannot be found in inner cities.

2.5 Factors Influencing Spatial Distribution of SMEs

This section sought to review literature on some of the factors that influence the spatial distribution of SMEs. The factors investigated in this study include infrastructure, role of government policies, role of business environment, role of human capital, role of access to information and role of raw materials.

2.5.1 Role of Infrastructure on Spatial Distribution of SMEs

Infrastructure has been argued to have economic benefits to a country. Proper infrastructure enable cheap transportation of both finished products and raw materials and plays a unique role in establishment of enterprises. Adegbite (2011) argued that having improved transportation networks increase goods transportation and movement and these transportation networks have a significant role in enterprises setting up their location.

The argument of Adegbite (2011) was supported by Ojajide (2012), who posited that railway junctions provide ideal places for enterprises since they enjoy the benefits of efficient and reliable mode of transportation. The author also pointed out that sea ports are also ideal for industrial centres because of cheap and reliable mode of transport. Apart from transportation, power sources also play a significant role in location of enterprises.

Manufacturing enterprises mostly choose to locate their business close to a reliable source of power (Stanley and Morse, 2005). Charles (2011) also supported this point by suggesting that heavy industries mainly chose locations that they could access coal since it's their main source of power. Similarly, Clement (2007) affirmed that most steel and iron industries in India were located close to the coal fields such as Damodar valley of Chattisgarh.

2.5.2 Role of Government Policies on Spatial Distribution of SMEs

Government policies cannot be ignored when siting a location to establish a business. In China, Li and Hu (2012) conducted a study on government regulations and location choice of small and medium-sized enterprises. The study collected primary data from SMEs owners. The study found that government policies influenced the choice of location by enterprises in China. The study found that strict environmental policies limited industrial firms in China.

In Malaysia, Boja (2011) intended to find out how cluster models works. The study conducted a review of cluster literature. The study reviewed factors and determinants of cluster and their typologies. The study concluded that government is responsible in starting initiative that will attract enterprises and provide incentives that will help to attract enterprises in certain locations. The government should also form agencies to manage initiative and regional development.

Keter (2012) carried out a study in Kenya and suggested that government policies continued to pose challenges to growth of SMEs. He argued that potential SMEs owners have to incur high costs when setting up their enterprises. The cost caused by government policies affect the growth and the nature of competition among the SMEs, most affected SMEs are those that operate in rural Kenya.

Additional costs as a result of government regulation inflate the cost of setting up a business since the business must comply. Rural SMEs are affected the most since they have little capital compared to those in big towns and cities. As a result most entrepreneurs shy away from setting up their businesses in the rural areas and prefer to move to urban centers where it's easier to comply with government regulations.

2.5.3 Role of Business Environment on Spatial Distribution of SMEs

Campos and Prothero (2012) established in their study that utility industries in UK created the most jobs and dispersed across the country. The author also showed that there are specific enterprises which tend to serve specific population hence they are concentrated in certain regions. Reijmer and van Noort (2009) also conducted a study on the location of small and medium size enterprises in Netherlands. The study assumed that entrepreneurial activities, market system and customer relationship tend to be comparable which influence the choice of location by enterprises.

The study focused more on four sectors which include transport, wholesalers, commercial services and industry and assessed the push and pull factors that influence the choice of location by these enterprises. It showed that factors that influence startups' choice of locations are different from those of existing businesses. It also revealed that SMEs choice of location was influenced more by hard factors compared to large enterprises.

Chacuamba (2012) on his part revealed that SMEs located in rural areas face more challenges compared to those in urban regions. These challenges include small market size, lack of enough business premises, poor transport and communication systems, lack of information about the market dynamics and access to financial support among others. The study recommended that local government and national government must ensure that barriers to rural entrepreneurship are lifted to promote rural development.

In Pakistan, Mawardi, Choi and Perera (2011) also assessed the determinants of cluster formation among small and medium size enterprise. The study established that SMEs have poor business structure, lack of managerial capabilities and lack of resources. Locating in dense geographical areas, SMEs can benefit from the knowledge spill over which is found in clusters. The study also found that SMEs are likely to benefit from the resources and concentrated labour force found in the clusters.

2.5.4 Role of Human Capital on Spatial Distribution of SMEs

Human capital is essential for the growth and development of small and medium size enterprises. These organisations require creative and innovative minds in their early stages in order to take off. A study by Mazzarol and Choo (2010) conducted in Italy on why SMEs prefer certain locations suggested that human capital was a major factor and had a primary role in the decision of locating enterprises.

Most studies have neglected the impacts of human capital. According to Ciaramella & Dettwiler (2010) environment and the space of living have become significant in choosing work place and business environment. The author argued that when locating a business it has become absolutely necessary to consider accommodation of employees more so those that are highly qualified.

2.5.5 Role of Access to Information on Spatial Distribution of SMEs

Information plays a significant role in the whole entrepreneurship process therefore enterprises and owners of business would select regions where they can access information regarding markets dynamics and competition. Kihonge (2014) sought to establish the role of SMEs in connecting rural and urban centres. The study focused on the case of Sagana town in central Kenya. The study findings revealed that having information on legislation and other business related information plays a significant role in setting up small and medium size enterprises.

Kihonge (2014) further argued that entrepreneurs in rural areas may lack access to information that their counterparts in urban centers have easy access to. Small scale entrepreneurs in rural areas who have limited information on legal and regulations that they must adhere to, feel harassed by local authorities mandated to enforce such laws. Many rural entrepreneurs prefer to operate their business in informal ways hence limiting their potential to grow into sustainable enterprises since they cannot benefit from the incentives provided by the government.

2.5.5 Role of Raw Materials on Spatial Distribution of SMEs

Raw material availability is of utmost significance when setting up enterprises especially bulky raw materials. Shumpeter, (1987) in a study on the locational analyses of small scale industries in some parts of India revealed that industries are set up in areas where they can easily access the raw materials. This explains the localization of jute industry in West Bengal, Sugar industry in Jabalpur and concentration of heavy industries in the states of Chattisgarh and West Bengal.

According to Clement (2007), if the raw material is heavy and of small value, the industries are set up in the regions where the raw materials are found. Ibrahim, El-Ladan and Saifullahi, (2016) conducted a study on spatial patterns of small scale industries in Dutsin-ma Town, Northern Nigeria. They argued that proximity to source of raw material is a major factor influencing industrial location: Iron and Steel Plants at Ajaokuta, Brick Making Factory in Funtua, and Cement Manufacturing in Obajana and Ashaka respectively are some examples.

2.6 Critique of Existing Literature

Ramawickrama (2011) focused on the role of SMEs in sustainable development in the southern province of Sri Lanka. On the other hand, Melo (2011) examined the role of SMEs in growth and development in Malaysia, Similarly, Motilewa, Ogbari and Aka (2015) reviewed the impacts of SMEs on social and economic growth in Nigeria. Jeppesen, Kothuis and Tran (2012) also focused on corporate social responsibility and competitiveness for SMEs in developing countries: South Africa and Vietnam. Their study revealed that there is a positive relationship between SMEs and economic growth. It however did not show the relationship between spatial distribution of SMEs and equitable growth and development.

Many developing countries lack adequate number of urban centers that can generate meaningful development impulses to their hinterlands. Rural areas, particularly the arid and semi-arid areas in countries like Kenya, predominantly inhabited by pastoral communities, are out of the purview of urban influence due to the near absence of urban centers. The existing literature has failed to focus on the role spatial distribution of SMEs plays in providing equitable growth and development across the country.

2.7 Summary of knowledge and Research Gaps

The review of literature revealed the existence of contextual, conceptual and geographical gaps that the current study intended to fill. Campos and Prothero (2012) focused on the patterns of SMEs concentration and it was conducted in the UK. The study used secondary data obtained from Business Register in the UK. The current study will use primary data collected from SMEs owners within Nairobi County, Kenya.

A study by Mazzarol and Choo (2010) conducted in Italy on why SMEs prefer certain locations suggested that human capital was a major factor and had a primary role in decision of locating enterprises. The current study will focus on Kenya, specifically Nairobi County. Reijmer and van Noort (2009) also conducted a study on the location of small and medium size enterprises in Netherlands. The study assumed that entrepreneurial activities, market system and customer relationship tend to be comparable which influence the choice of location by enterprises. The study focused more on four sectors which include transport, wholesalers, commercial services and industry and assessed the push and pull factors that influence the choice of location by these enterprises. The current study will also focus on factors affecting the choice of location by SMEs but in Nairobi County in Kenya which is a developing country.

In China, Li and Hu (2012) conducted a study on government regulations and location choice of small and medium-sized enterprises. The study collected primary data from SMEs owners. This study focused on government regulations and location choice of small and medium-sized enterprises in China while the current study will focus on determinants of spatial distribution of SMEs in Kenya, specifically Nairobi County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section of the study was mainly the methodology that was adopted to achieve the research objective. Here the study highlighted the design of the study, the population and target population of the study, the sample size and the sampling techniques. The methods the study adopted in data collection, procedures of data collection and finally the method used to analyse the data collected in the study.

3.2 Research Design

Descriptive research design was adopted in this study. The choice of this research design was informed by the fact that a descriptive research design aids in identification of the type of association, defining complex associations of multiple factors that account for the outcome and forecasting an outcome from different predictable variables (Creswell, 2003).

3.3 Population of the Study

The population of the study comprised of all SMEs located in Nairobi County Kenya. The target population of the study included 30252 SMEs in all the 9 sub counties in Nairobi County (Kenya National Bureau of Statistics, 2015). The unit of analysis was the SME owners, one from each SME in cases where there were more than one owner.

Table 3.1 Population of the Study

Sub County	Target Population
Starehe	3138
Kamukunji	3642
Kasarani	3361
Makadara	3214
Embakasi	3694
Njiru	3057
Dagoretti	3552
Langata	3165
Westlands	3429
Total	30252

Source: Kenya National Bureau of Statistics (2015)

3.4 Sample and Sampling Technique

According to Mugenda & Mugenda (2003) the sample size used in a study is dependent on the research design, the size of the population that is accessible, number of variables and the method of data analysis. For descriptive surveys that yield quantitative data the fisher's formula is used to calculate the most appropriate sample size. Fisher's formula was suitable for this study since the target population is more than 10,000. The most essential indicators when using this formula are confidence or risk level, precision level or the sampling error.

This study considered the level of significance to be $\pm 5\%$. The confidence level showed the extent to which the value of an attribute is equal to the value in the true population when the population is repeatedly sampled. In this case the confidence level used is 95%. Degree of variability showed the level of distribution of different attributes in the study population (Kasiulevicius, Sapoka & Filipaviciue, 2006).

A more heterogeneous population requires a large sample size to obtain the most desired precision level whereas a homogeneous population requires a small sample size. This study used the maximum variability which is 0.5.

The formula used is:

$$n = Z^2 pq / e^2$$

Where:

n represents the expected sample size

Z represents the abscissa of a curve that is normal and cuts the area α at the tails that is $1 - \alpha$ which is equal to the desired level of confidence level which is 95% in this case

P represents an estimated proportion of a population attribute

q is obtained by calculating $1 - p$

e represents the desired precision level

Therefore a sample size of 385 was obtained as follows:

$$\begin{aligned} n &= \frac{(1.96)^2 (0.5) (0.5)}{(0.05)^2} \\ &= 385 \text{ SMEs} \end{aligned}$$

Hence, the sample size for this study was 385 SMEs. The study used proportionate sampling to make sure that all the SMEs from different locations have fair representation. Random sampling was used to select the SMEs where the questionnaires were administered. The owners of the SMEs were the respondents in this survey.

Table 3.2 Sample Size of the Study

Sub County	Target Population	sample size
Starehe	3138	40
Kamukunji	3642	46
Kasarani	3361	43
Makadara	3214	41
Embakasi	3694	47
Njiru	3057	39
Dagoretti	3552	45
Langata	3165	40
Westlands	3429	44
Total	30252	385

Source: Kenya National Bureau of Statistics (2015)

3.5 Data Collection Procedure

Primary data was collected or obtained from the original sources. It is first-hand information collected by an individual group or organization. The resulting data is usually referred to as raw data meaning it has not been re-organized and cleaned. Primary data was obtained using a semi-structured questionnaire and captured through both dichotomous scale and a 5-point type Likert scale. The researcher furnished the respondents with an introductory letter issued by the university to instill confidence into the respondents. The questionnaire consisted of various sections. Section one contained demographic characteristics of the respondents while subsequent sections were based on various factors that influence spatial distribution of SMEs.

3.6 Data Analysis

After the data was collected it was sorted and entered into SPSS version 20 which was then used to analyse. Descriptive and inferential analysis was conducted. Descriptive analysis was used in transforming the raw data into a form that can be easily understood and interpreted such as mean, frequencies and percentages.

The findings from the analysis were organized, summarized and presented using tables and pie charts. The study used a regression analysis as well as factor analysis to ascertain the factors that accounted for most variance among those that influence spatial distributions of SMEs in Nairobi County, Kenya.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

The study used descriptive analysis which include; frequencies and percentages. Inferential statistics such as correlation and regression statistics were also used to test for the relationship of the variables. The analysed data was presented in frequency and percentage tables. The data for our study was collected via questionnaires that were administered in person by the researcher.

4.2 Response Rate

A total number of 385 questionnaires were administered to the owners of the sampled SMEs in Nairobi. According to the results a response rate of 272 was recorded. This constituted 70.6% response rate. The achieved response rate was very good. The high response rate of 70.6% could be attributed to the personal efforts of the researcher in administering the questionnaires and a close follow up with the respondents.

Table 4.1: Response Rate

Category	Frequency	Percentage
Returned questionnaires	272	70.6%
Unreturned questionnaires	113	29.4%
Total	385	100%

4.3 Demographics characteristics

This section contains results on socio-demographic characteristics of the respondents. These characteristics include; gender, age bracket, level of education and business experience of the respondents. The following is a discussion of the results;-

4.3.1 Gender of the Respondents

The findings revealed that 65% of the total respondents were female while 35% were male. These findings implied that majority of the SMEs owners that were sampled in this study were female. According to Ahmad and Muhammad (2015) women led enterprises are largely skewed towards smaller firms.

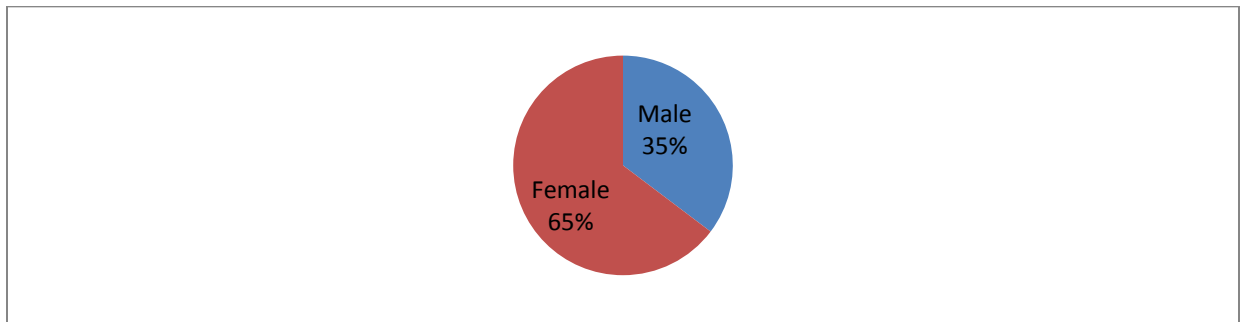


Figure 4.1 Gender of the Respondents

4.3.2 Age Bracket of the Respondents

The findings indicate that 119 of the respondents were between 31 and 40 years. Those between 19 and 30 years were 112 while 31 were over 41 years old. Only 10 indicated to be below 18 years. The findings implied that most SMEs owners in Nairobi County were between 19 and 40 years. According to the 2009 census results, the national population stands at 38.8 million. The Youth, defined as young people of ages between 18-35 years are about 15 million which is 40 percent of the population (KNBS, 2010).

Kenya's economic growth provides for only 25 percent of employment leaving the majority, 75 percent unemployed. This could be one of the reasons why majority of people who own SMEs are less than 40 years.

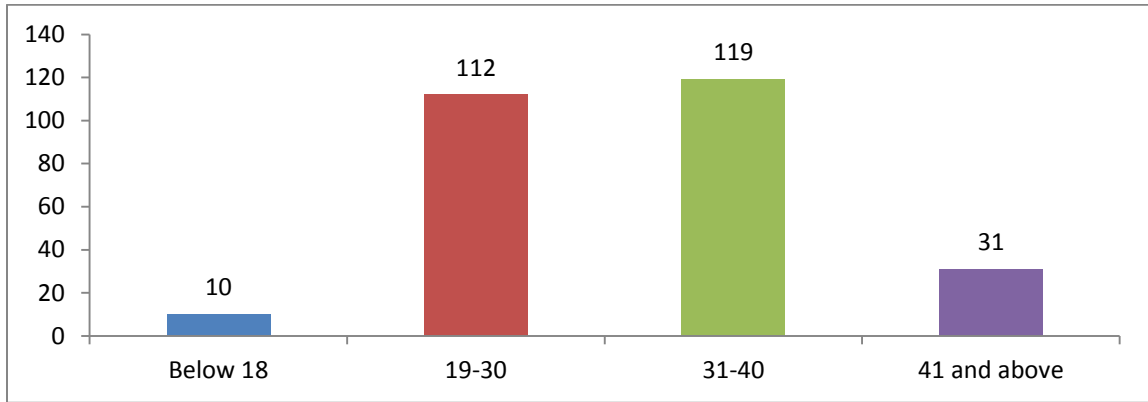


Figure 4.2 Age Bracket of the Respondents

4.3.3 Academic Qualifications of the Respondents

The results of the study further indicated that 119 of the respondents in this study had diploma/certificate level of education. Those who had bachelor's degree were 107 while 28 indicated to have secondary level of education. These findings implied that the respondents were well educated to understand what the study was all about and had no challenges in completing the questionnaires.

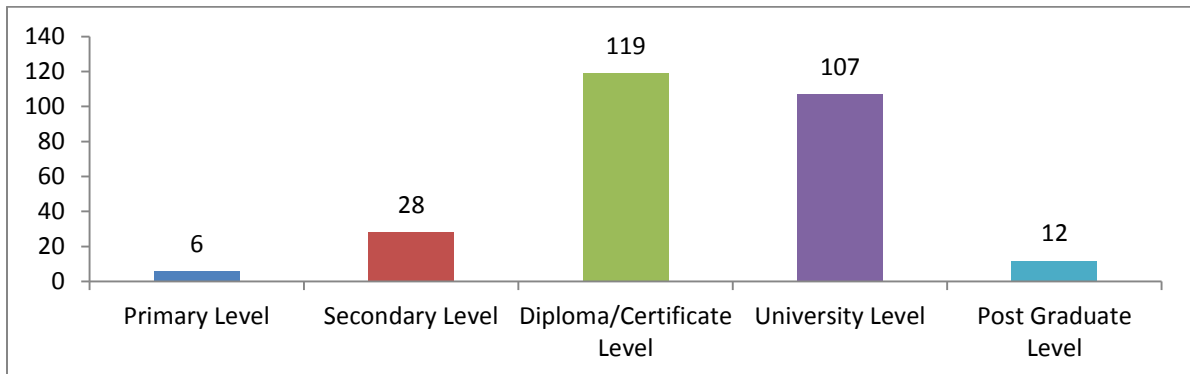


Figure 4.3 Highest Level of Education of the Respondents

4.3.4 Business Experience of the Respondents

This study was also interested in how long the respondents had operated their businesses. The findings revealed that 102 of the respondents had operated their business for less than 1 year while respondents who had operated for between 1 and 2 years were 101. Respondents who had operated their business for 3-4 years were 46 and finally 23 respondents had operated their business for over 5 years. These findings implied that most SMEs in Nairobi County were young. This findings concur with those of Bowen, Morara & Mureithi, (2009) and RoK, (2013) who found high mortality rate among SMEs where out of every five, three collapse within the first five years and over 60% fail each year and most do not survive to their third anniversary (Ngugi, 2013).

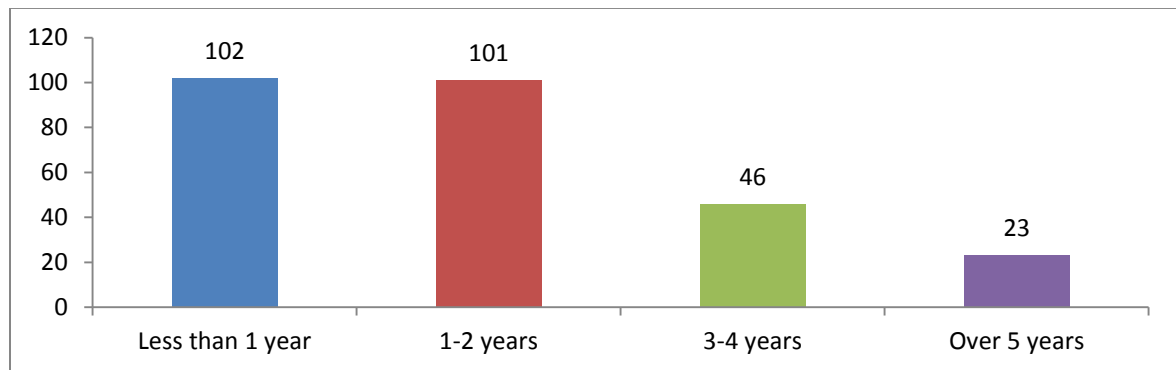


Figure 4.4 Employment Status of the Respondents

4.4 Descriptive Results

This section presents the results from the descriptive analysis. The study employed frequencies, percentages, mean and standard deviation. The study's independent variables included infrastructure, government policies, business environment, human capital, access to information, and raw materials. The influence of each variable on the spatial distribution of SMEs was examined.

4.4.1 Spatial Distribution of SMEs in Nairobi

In order to measure the spatial distribution of SMEs in Nairobi County, the study sought to find the number of small and medium size enterprises within the proximity of the respondents. The study further sought the respondents' opinion of the population density of SMEs in Nairobi County. The following is a discussion on the findings;-

4.4.1.1 Number of SMEs within the Respondents Proximity

The study sought to establish the number of small and medium size enterprises within the proximity of the respondents. The findings of this study showed that 79 which was equivalent to 29% of the respondents indicated that there were between 100 and 200 small business within their proximity. The respondents who indicated that there were 50 to 100 SMEs within their proximity were 64 while 61 indicated there were less than 50 SMEs within their proximity. The implication of these findings was that SMEs in Nairobi County are located very close to each other.

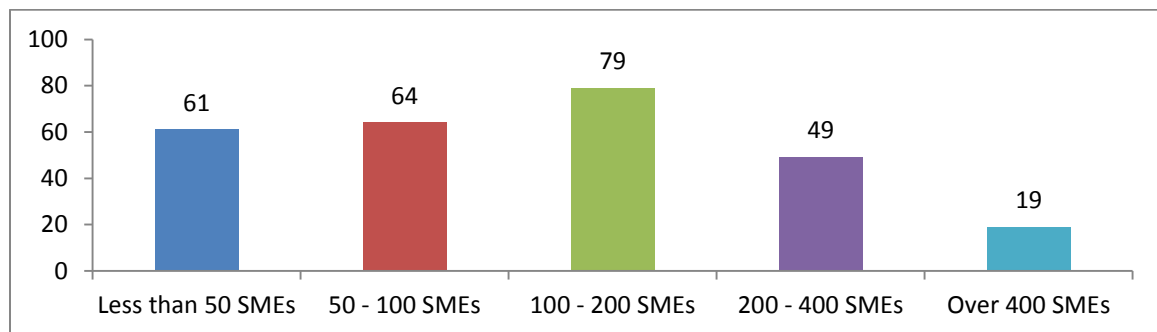


Figure 4.5 Number of SMEs within the Respondents Proximity

4.4.1.2 Population Density of SMEs in Nairobi County

This study further asked the respondents to indicate their opinion on the population density of SMEs in Nairobi County.

The finding revealed that 44% of the respondents indicated that the SMEs were densely populated while 40% indicated that they were moderately populated. Those who indicated that they were sparsely populated were only 16% of the respondents. The findings in this section further implied that the respondents felt Nairobi County has a high population density of SMEs. The findings agreed with Silvente and Giménez (2007) who suggested that majority of small enterprises are found in urban areas.

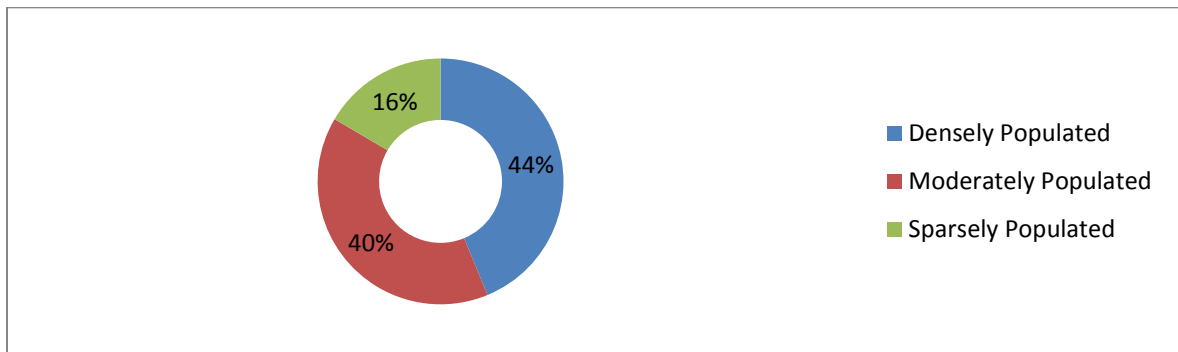


Figure 4.6 Population Density of SMEs in Nairobi County

To further establish the spatial distribution of SMEs in Nairobi County, the study sought to establish whether the respondents felt that urban areas were ideal for SMEs growth. The findings showed that 41.5% of the respondents strongly agreed while 36.8% agreed. The statement also had a mean of 3.99 meaning that majority of the respondents agreed with the statement. These finding implied that most SMEs owners who participated in the study preferred urban areas. The study further sought respondents' opinion on whether Nairobi County had a high geographical concentration of SMEs.

The results showed that 41.2% and 37.1% of the respondents strongly agreed and agreed with the statement. The mean of 3.99 further supported these findings. The findings implied that the respondents felt that the number of SMEs per unit area was high. The study was also interested in whether density of the SMEs per population in Nairobi County was very high.

The results showed that 43.0% of the respondent agreed with the statement while 35.3% strongly agreed. Similarly, these findings implied that the respondents were of the opinion that the density of the SMEs per population in Nairobi County was very high.

Table 4.2: Descriptive Results for Spatial Distribution of SMEs

	Strongly disagree	Disagree	Neutral	Agreed	Strongly agree	Mean	Std Dev
Urban areas are ideal for SMEs	7.7%	5.5%	8.5%	36.8%	41.5%	3.99	1.19
Nairobi county has a high geographical concentration of SMEs	6.2%	7.7%	7.7%	37.1%	41.2%	3.99	1.17
Density of the SMEs per population in Nairobi County is very high	7.0%	8.1%	6.6%	43.0%	35.3%	3.92	1.17

4.4.2 Factors that Influence Spatial Distribution of SMEs in Nairobi County

Some of the factors that influence spatial distribution of SMEs that the study examined include infrastructure, government policies, business environment, human capital, access to information and raw materials.

The findings showed that slightly more than half of the respondents agreed that infrastructure influenced spatial distribution of SMEs in Nairobi County. Government policies were indicated by 73.7%, business environment 65.5%, human capital 51.8%, access to information 89.6% and finally raw materials was indicated by 78.5%. From these finding the study concluded that the respondents ranked access to information, raw materials and government policies as the main factors that influenced spatial distribution of SMEs in Nairobi County.

Table 4.3: Results for Factors that Influence Spatial Distribution of SMEs

	No	Yes	Total
Infrastructure	47.4%	52.6%	100.0%
Government Policies	26.3%	73.7%	100.0%
Business Environment	34.5%	65.5%	100.0%
Human capital	48.2%	51.8%	100.0%
Access to Information	10.4%	89.6%	100.0%
Raw Materials	21.5%	78.5%	100.0%

The study further sought to establish to what extent infrastructure, government policies, business environment, human capital, access to information and raw materials influenced spatial distribution of SMEs in Nairobi County. The respondents were expected to indicate their opinion on the likert scale ranging from very low extent on factors with low influence to very high extent on factors with high influence. Analysis of the mean showed that all the factors were found to influence the spatial distribution of SMEs however raw material, access to information, business environment and human capital were found to have more significant influence in that order compared to other factors.

Table 4.4: Significance of Factors that Influence Spatial Distribution of SMEs

	Very low extent	Low extent	Moderate extent	Great extent	Very great extent	Mean	Std Dev
Infrastructure	9.2%	5.1%	30.5%	27.9%	27.2%	3.59	1.20
Government Policies	8.8%	8.8%	27.6%	25.7%	29.0%	3.57	1.24
Business Environment	6.2%	6.6%	27.6%	32.0%	27.6%	3.68	1.13
Human capital	6.6%	6.6%	27.2%	32.0%	27.6%	3.67	1.14
Access to Information	5.1%	6.6%	29.8%	31.2%	27.2%	3.69	1.10
Raw Materials	6.2%	5.9%	27.9%	30.1%	29.8%	3.71	1.14

4.5 Correlation Tests Results

The study employed correlation tests to ascertain the relationship between the identified factors and spatial distribution of SMEs.

4.5.1 Infrastructure and Spatial Distribution of SMEs

The results revealed that infrastructure had positive and significant association ($r=0.351$, $p=0.000$) with SMEs spatial distribution. These findings were in agreement with Ojajide (2012), who posited that railways junction provide ideal places for enterprise since the enterprises enjoy the benefits of efficient and reliable mode of transportation. The author also pointed out that sea ports also are ideal for industrial centres because of cheap and reliable mode of transport.

Table 4.5: Infrastructure and Spatial Distribution of SMEs

		Infrastructure	SMES Spatial Distribution
Infrastructure	Pearson Correlation	1	.351**
	Sig. (2-tailed)		.000
	N	272	272
SMES Spatial Distribution	Pearson Correlation	.351**	1
	Sig. (2-tailed)	.000	
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

4.5.2 Government Policies and Spatial Distribution of SMEs

The study further sought to establish the association between government policies and Spatial Distribution of SMEs. The results showed that government policies had a strong, positive and significant association with the location choices for SMEs.

The findings concurred with Boja (2011) whose study concluded that government is responsible for starting initiative and provide incentives that will help to attract enterprises in certain locations.

Table 4.6: Government Policies and Spatial Distribution of SMEs

		SMES Spatial Distribution	Government Policies
SMES Spatial Distribution	Pearson Correlation	1	.460**
	Sig. (2-tailed)		.000
	N	272	272
Government Policies	Pearson Correlation	.460**	1
	Sig. (2-tailed)	.000	
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

4.5.3 Business Environment and Spatial Distribution of SMEs

The results of correlation further revealed that there exist a positive and significant relationship ($r=0.281$, $p=0.000$) between Business Environment and Spatial Distribution of SMEs in Nairobi County. Campos and Prothero (2012) established in their study that utility industries in UK created the most jobs and dispersed across the country. The author also showed that there are specific enterprises which tend to serve specific population hence they are concentrated in certain regions. Reijmer and van Noort (2009) also conducted a study on the location of small and medium size enterprises in Netherlands. The study assumed that entrepreneurial activities, market system and customer relationship tend to be comparable which influence the choice of location by enterprises.

Table 4.7: Business Environment and Spatial Distribution of SMEs

		SMES Spatial Distribution	Business Environment
SMES Spatial Distribution	Pearson Correlation	1	.281**
	Sig. (2-tailed)		.000
	N	272	272
Business Environment	Pearson Correlation	.281**	1
	Sig. (2-tailed)	.000	
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

4.5.4 Human capital and Spatial Distribution of SMEs

The study employed correlation tests to ascertain the relationship between Human capital and spatial distribution of SMEs. The results revealed that Human capital had positive and significant association ($r=0.391$, $p=0.000$) with SMEs spatial distribution.

A study by Mazzarol and Choo (2010) conducted in Italy on why SMEs prefer certain locations suggested that human capital was a major factor and had a primary role in decisions of locating enterprises.

Table 4.8: Human capital and Spatial Distribution of SMEs

		SMES Spatial Distribution	Human capital
SMES Spatial Distribution	Pearson Correlation	1	.397**
	Sig. (2-tailed)		.000
	N	272	272
Human capital	Pearson Correlation	.397**	1
	Sig. (2-tailed)	.000	
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

4.5.5 Access to Information and Spatial Distribution of SMEs

The study employed correlation tests to ascertain the relationship between access to information and spatial distribution of SMEs. The results revealed that access to information had positive and significant association ($r=0.145$, $p=0.019$) with SMEs spatial distribution.

Table 4.9: Access to Information and Spatial Distribution of SMEs

		SMES Spatial Distribution	Access to Information
SMES Spatial Distribution	Pearson Correlation	1	.145*
	Sig. (2-tailed)		.017
	N	272	272
Access to Information	Pearson Correlation	.145*	1
	Sig. (2-tailed)	.017	
	N	272	272

*. Correlation is significant at the 0.05 level (2-tailed).

4.5.6 Raw Materials and Spatial Distribution of SMEs

The study employed correlation tests to ascertain the relationship between Raw Materials and spatial distribution of SMEs. The results revealed that Raw Materials had positive and significant association ($r=0.321$, $p=0.000$) with SMEs spatial distribution. According to Clement (2007), if the raw material is heavy and of small value, the industries are set up in the regions where the raw materials are found.

Table 4.10: Raw Materials and Spatial Distribution of SMEs

		SMES Spatial Distribution	Raw Materials
SMES Spatial Distribution	Pearson Correlation	1	.321**
	Sig. (2-tailed)		.000
	N	272	272
Raw Materials	Pearson Correlation	.321**	1
	Sig. (2-tailed)	.000	
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

4.6 Factor Analysis

Kaiser-Meyer-Olkin Measure (KMO) of sampling adequacy and Bartlett's Test of Sphericity tests were conducted to establish the data's sampling adequacy. KMO measure varies between 0 and 1, and values closer to 1 are better with a threshold of 0.5. Bartlett's test significance of 0.05 or less further indicates an acceptable degree of sampling adequacy; sample is adequate, factorable and additional analysis beyond descriptive can be done. The KMO measures of sampling adequacy produced a value of 0.689 while Bartlett's test of sphericity had a consistent significance of $p < .001$ which depicted and confirmed sampling adequacy. Hence the data was adequate to use factor analysis.

Table 4.11: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.689
	Approx. Chi-Square	94.521
Bartlett's Test of Sphericity	df	15
	Sig.	.000

4.6.1 Principal Component Analysis

There are two basic approaches to factor analysis principal component analysis (PCA) and common factor analysis. Estimated communalities are estimates of that part of the variability in each variable that is shared with others, and which is not due to measurement error or latent variable influence on the observed variable. They are equivalent of R^2 is the regression analysis. The results indicated that government policies, raw material and business environment explained more variance in that order in spatial distribution of SMEs. This further supported the finding of descriptive analysis and correlation tests.

Table 4.12: Communalities Results

	Initial	Extraction
Infrastructure	1.000	.287
Government Policies	1.000	.460
Business Environment	1.000	.316
Human capital	1.000	.258
Access to Information	1.000	.140
Raw Materials	1.000	.373

Extraction Method: Principal Component Analysis.

Total variance results showed the importance of each of the six principal components. Only the first component had values over 1.00, and this explained over 30% of the total variability in the data.

These findings led to the conclusion that a one factor solution was adequate. The findings implied that all the components were highly correlated. Therefore the study concluded that all the six components accounted for spatial distribution of SMEs in Nairobi County.

Table 4.13: Total Variance Explained Results

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.834	30.560	30.560	1.834	30.560	30.560
2	.990	16.504	47.064			
3	.926	15.427	62.491			
4	.809	13.488	75.979			
5	.770	12.840	88.819			
6	.671	11.181	100.000			

Extraction Method: Principal Component Analysis.

Table 4.14 contains component loadings results, which are the correlations between the variable and the component. The results showed that government policies followed by raw materials, then business environment had the strongest correlations which imply that they accounted for larger variance compared to the other variables. Therefore the influence of these variables on spatial distribution of SMEs was high. Infrastructure had a score of 0.53 while human capital had a score of 0.508 and finally access to information had a score of 0.37.

Table 4.14: Component Matrix

	Component
	1
Infrastructure	.536
Government Policies	.678
Business Environment	.562
Human capital	.508
Access to Information	.374
Raw Materials	.611

Extraction Method: Principal Component Analysis.

4.7 Qualitative Analysis

This section contains the qualitative analysis for open ended questions. The study employed direct quotation and thematic analysis to analyse the qualitative data collected from open ended questions.

4.7.1 Factors that influenced Respondents to start their business in Nairobi County

The study sought to establish what factors motivated the respondents to start their business in Nairobi County. Majority of the respondents mentioned that the entrepreneurial inputs, such as capital, experience and skills, technology, buildings, communications and transportation infrastructure, distribution channels and skilled labour, tend to be easier to find in urban areas. Other factors mentioned by respondents as to why they chose to start their business in Nairobi County were; socio-demographic, motivation from other entrepreneurs, access to financial assistance, regulatory and business environmental dimensions in Nairobi County which favor growth of enterprises.

4.7.2 Other factors that influence SMEs choice of location/spatial distribution in Nairobi County, Kenya

The study sought to find out from the respondents on other factors apart from the ones examined in this study that influence the choice of location or spatial distribution of SMEs in Nairobi County, Kenya. Others factors mentioned by the respondents include, inspiration from friends and relatives, availability of markets, distribution channels, availability of skilled labor, profits potential, and availability of investment opportunities.

4.7.3 How the Factors Mentioned Influence the Spatial Distribution of SMEs in Nairobi County, Kenya

The study sought to establish how the factors mentioned influenced the spatial distribution of SMEs in Nairobi County, Kenya. Majority of the respondents indicated that the factors mentioned such as availability of markets, profits potential, and availability of investment opportunities can provide incentives to attract new investors or can define structures or agencies to manage cluster initiatives or regional development.

4.7.4 Strategies to enhance Equal Distribution of SMEs

The study sought to find out from the respondents the strategies that can be adopted to encourage entrepreneurs to establish their enterprises in regions with less concentration of SMEs in Kenya. The respondents mentioned that there was an urgent need to promote rural enterprises in Kenya. One of the respondents indicated that “*development agencies should see rural entrepreneurship as an enormous employment potential worth investing in*”.

Another way to promote equal SMEs distribution mentioned by the respondents was to formulate policies and programs designed specifically for rural entrepreneurship promotion. The respondents suggested that rural entrepreneurs must engage in non-agricultural investment. They mentioned carpentry and tourism as examples of non-agricultural investments that rural entrepreneurs should focus in. The respondents further mentioned the need to expand rural markets and even look for ways to exploit market outside their regions. Rural SMEs should come together and put their resources together to achieve bigger markets for their products.

4.8 Discussions of the Results

This study intended to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya. The correlation and descriptive results showed that infrastructure, government policies, business environment, human capital, access to information, and raw materials had a positive influence on the spatial distribution of SMEs in Nairobi County. The findings of factor analysis further showed that government policies, raw material and business environment explained more variance in that order in spatial distribution of SMEs. The factor analysis findings further implied that all the components were highly correlated.

The study concluded that all the six components (infrastructure, government policies, business environment, human capital, access to information, and raw materials) accounted for spatial distribution of SMEs in Nairobi County. The analysis of qualitative data further revealed that the entrepreneurial inputs, such as capital, experience and skills, technology, buildings, communications and transportation infrastructure, distribution channels and skilled labor, are easier to find in urban areas.

Others factors mentioned by the respondents that influenced spatial distribution of SMEs include; inspiration from friends and relatives, availability of markets, distribution channels, skilled labor, profits potential, and availability of investment opportunities. Majority of the respondents indicated that these factors can provide incentives to attract new investors or can define structures or agencies to manage cluster initiatives or regional development.

The findings of this study concur with the theories adopted. Classical Location Theory addresses the critical questions of the type of goods and services to be produced and where the production process is situated. Many factors are brought into considerations when siting a location to center the business activities and this is the focus of the theory of classical location. Entrepreneurs critically assess the incentives available for setting up their enterprises in certain regions against the alternative locations (Parsons, 2007).

According to the cluster theory, clusters form in order to increase accumulation and transfers of knowledge among the cluster members but the same information spread outside the cluster is limited. The theory posits that human capital and access to information lead to formation of SMEs clusters. Behavioral Location theory emphasizes on the motives behind the location of enterprises. According to the theory the need to minimize transaction costs motivates entrepreneurs to locate their business in certain areas. The results revealed that infrastructure had positive and significant association ($r=0.351$, $p=0.000$) with SMEs spatial distribution. These findings were in agreement with Ojajide (2012), who stated that Railway junctions are considered to be the most suitable sites for the location of industries. These industries enjoy benefits of efficient transportation from different directions.

The results showed that government policies had a strong, positive and significant association with the location choices for SMEs. The findings concurred with Boja (2011) who intended to find out how cluster models works. The study conducted a review of cluster literature. The study reviewed factors and determinants of cluster and their typologies.

The study concluded that governments are responsible for starting initiatives and providing incentives that help to attract enterprises in certain locations. They should also start agencies to manage such initiatives and coordinate regional development.

The results of correlation further revealed that there exists a positive and significant relationship ($r=0.281$, $p=0.000$) between Business Environment and Spatial Distribution of SMEs in Nairobi County. Campos and Prothero (2012) and Reijmer and van Noort (2009) also showed that there are specific enterprises which tend to serve specific population hence they are concentrated in certain regions. The studies assumed that entrepreneurial activities, market system and customer relationship tend to be comparable which influence the choice of location by enterprises.

The results revealed that Human capital had positive and significant association ($r=0.391$, $p=0.000$) with SMEs spatial distribution. A study by Mazzarol and Choo (2010) conducted in Italy on why SMEs prefer certain locations suggested that human capital was a major factor and had a primary role in decisions of locating enterprises. According to Ciaramella & Dettwiler (2010) environment and the space of living are significant in choosing work place and business environment. The author argued that when locating a business it is absolutely necessary to consider accommodation of employees more so those that are highly qualified.

The results revealed that access to information and Raw Materials had positive and significant association with SMEs spatial distribution. According to Clement (2007), if the raw material is heavy and of small value, the industries are set up in the regions where the raw materials are found.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study intended to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya. This section contains the summary of the study findings, conclusion of the study and recommendations based on the study findings. The section also provides suggestions for future studies.

5.2 Summary

Spatial distribution of enterprises is an essential factor in equitable growth and development. Spatial concentration of SMEs matters because the spatial pattern of employment across industries influences the economic opportunities available in the area in which they operate. Enhancing spatial distribution of SMEs ensures equal distribution of job opportunities which can be used as a strategy to reduce influx of people in major towns seeking for employment. In Kenya, urban centers and specifically Nairobi County has seen an ever increasing population of youths seeking to secure employment in firms concentrated in the county. This study intended to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya. The study was anchored on three theories, the Classical Location Theory, Cluster Theory and Behavioral Location Theory. The study adopted a descriptive research design. The population of the study comprised of all SMEs located in Nairobi County Kenya. The target population of the study include 30252 SMEs in all the 9 sub counties in Nairobi County.

The unit of analysis was the SME owners, one from each SME in cases where there are more than one owner. The sample size for the study was 385 SMEs arrived at using the Fisher's 1998 formula. The study used proportionate sampling to make sure that all the SMEs from different locations had fair representation. Random sampling was used to select the SMEs where the questionnaires were administered. Primary data was obtained using a semi-structured questionnaire and captured through both dichotomous scale and a 5-point type Likert scale. Descriptive statistics such as, mean and frequencies were used to perform data analysis. SPSS was used to produce frequencies, descriptive and inferential statistics which were used to derive conclusions and generalizations regarding the population.

The correlation and descriptive results showed that infrastructure, government policies, business environment, human capital, access to information, and raw materials had a positive influence on the spatial distribution of SMEs in Nairobi County. The findings of factor analysis further showed that government policies, raw material and business environment explained more variance in that order in spatial distribution of SMEs. The factor analysis finding further implied that all the components were highly correlated. Therefore the study concluded that all the six components (infrastructure, government policies, business environment, human capital, access to information, and raw materials) accounted for spatial distribution of SMEs in Nairobi County.

5.3 Conclusion

The concept of spatial distribution of SMEs is very important because the spatial pattern of employment across industries influences the economic opportunities and growth. Enhancing spatial distribution of SMEs in a geographical area ensures equal distribution of economic growth in the area. This results in the creation of more job opportunities thus reducing the influx of people in major urban centers in search of employment. The factors examined indicated that entrepreneurs consider them in deciding the location of their enterprises.

The study concluded that the population density of SMEs in Nairobi County is very high. This is caused by the search for inputs into an entrepreneurial process, such as capital, management skills, technology, buildings, communications and transportation infrastructure, distribution channels, skilled labour and other pull factors discussed in this study which are perceived or tend to be easier to find in Nairobi. Therefore the stakeholders in economic development must focus on promoting equitable development cutting across all regions by working on providing the necessary pull factors that encourage potential entrepreneurs to start their businesses.

5.4 Recommendations

Based on the findings of this study, the following recommendations were made;

The study recommended that counties in Kenya that are less developed should invest in providing efficient and cheap transportation system, which is essential for the movement of raw materials as well as the finished products to the markets. Efficient and cheap transportation system will attract potential entrepreneurs.

The study further recommended that national and county governments in Kenya should formulate policies that ensure simple and quick business registration, friendly taxation policies for startups to encourage entrepreneurs from anywhere in the country to start small businesses. These services should also be easily accessible to everyone regardless of their location.

The researcher took cognizance of the fact that the National Government through the Huduma Centers initiative has taken the first step in taking government services to the people. The initiative should be expanded to reach more rural areas. The study also recommended that rural development agencies should partner with the County Governments to promote rural entrepreneurship by providing the necessary training, access to information about market opportunities, access to credit facilities among other entrepreneurial inputs.

5.5 Suggestions for Future Research

This study intended to examine the factors that influence the spatial distribution of SMEs in Nairobi County in Kenya. Factors that influenced SMEs owners to start their businesses in Nairobi County could be different from those in other counties. Future researchers should further do a comparative analysis to compare the sustainability of SMEs in rural areas vis a vis those in urban areas.

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APPENDICES

Appendix I: Data Collection Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MSC. ENTREPRENEURSHIP AND INNOVATION MANAGEMENT PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

Date..... 14-09-16

TO WHOM IT MAY CONCERN

The bearer of this letter..... MARY WAMBUI MURIGI
Registration No..... 866172840/2014
is a bona fide student in the Master of Science in Entrepreneurship and Innovations Management (MSc. EIM) degree program in this University.

He/She is required to submit as part of his/her coursework assessment a research project on Entrepreneurial problems. We would like the student to do their projects on real problems affecting firms in Kenya. Your organization has been identified for the study and we would, therefore appreciate your assistance to enable him/her collect data in your reputable organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.


JANE MUTURI
MSC. ENTREPRENEURSHIP AND INNOVATIONS MANAGEMENT ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Introduction Letter

Date.....

Dear Participant,

RE: VOLUNTARY PARTICIPATION IN DATA COLLECTION

My name is Mary Wambui Murigi, a student at University of Nairobi. As a partial fulfillment of my degree, I am carrying out a study on “*factors that influence the spatial distribution of SMEs in Nairobi County, Kenya*”. Attached herein is a copy of my questionnaire. All the information requested herein is for academic purposes only and will be treated in strict confidence.

I thank you most sincerely for taking time to complete this survey.

Yours faithfully,

Mary Wambui Murigi

Appendix III: Questionnaire

SECTION A: DEMOGRAPHICS

1. Kindly indicate your age group

Below 18

19-30

31-40

41 and above

2. Kindly indicate your gender

a) Male

b) Female

3. Indicate your academic qualifications

Primary Level

Secondary Level

Diploma/Certificate Level

University Level

Post Graduate Level

4. How many years has your business been in operation

a) Less than 1 year

b) 1-2 years

c) 3-4 years

d) Over 5 years

5. What factors influenced you to start your business in Nairobi County?

SECTION B: SPATIAL DISTRIBUTION OF SMEs

This section intends to assess the spatial distribution of SMEs in Nairobi County in Kenya. Kindly indicate the approximate number of other Small and Medium Enterprises within the location of your business

- a) Less than 50 SMEs ()
- b) 50 - 100 SMEs ()
- c) 100 - 200 SMEs ()
- d) 200 - 400 SMEs ()
- e) Over 400 SMEs ()

6. How do you rate the population density of SMEs within Nairobi County?

- a) Densely Populated ()
- b) Moderately Populated ()
- c) Sparsely Populated ()

No	Statement	Strongly disagree	Disagree	Neutral	Agreed	Strongly agree
		1	2	3	4	5
7	Urban areas are ideal for SMEs					
8	Nairobi county has a high geographical concentration of SMEs					
9	Density of the SMEs per population in Nairobi County is very high					

SECTION C: FACTORS THAT INFLUENCE SPATIAL DISTRIBUTION OF SMEs IN NAIROBI COUNTY IN KENYA

This section intends to assess factors that influence spatial distribution of SMEs in Nairobi County. Tick according to your opinion.

1. Do you think SMEs choice of location/spatial distribution depend on the

following:

i. Infrastructure

Yes ()

No ()

ii. Government Policies

Yes ()

No ()

iii. Business Environment

Yes ()

No ()

iv. Human Capital

Yes ()

No ()

v. Access to Information

Yes ()

No ()

vi. Raw Materials

Yes ()

No ()

2. To what extent do the following factors influence spatial distribution of SMEs in Nairobi County?

No	Factors	Very low extent	Low extent	Moderate extent	Great extent	Very great extent
		1	2	3	4	5
1	Infrastructure					
2	Government Policies					
3	Business Environment					
4	Human capital					
5	Access to Information					
6	Raw Materials					

3. What other factors influence SMEs choice of location/spatial distribution in Kenya

a. _____

b. _____

c. _____

d. _____

e. _____

f. _____

4. Explain how the factors listed in question 3 above influence the spatial distribution of SMEs in Kenya

5. What can be done to encourage entrepreneurs to establish their enterprises in regions with few concentration of SMEs in Kenya

a. _____

b. _____

c. _____

d. _____

THANK YOU FOR PARTICIPATING.