

**SOCIO-ECONOMIC FACTORS AFFECTING GROWTH OF MICRO AND
SMALL SCALE MANUFACTURING ENTERPRISES: A SURVEY OF
SELECT FIRMS IN THE FOOD AND BEVERAGE INDUSTRY IN KENYA**

FLOICE OKENZO MUKABANA



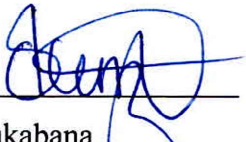
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DECLARATION

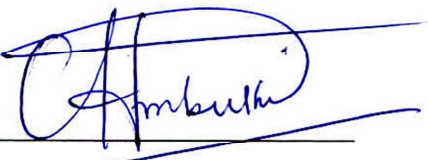
This project is my original work and has not been presented for a degree in any other university.



Floice Mukabana
Reg. No. **HD. 334-0330224/2010**

8/12/11
DATE

This project has been submitted for presentation with our approval as University Supervisors



Dr. Charles Ombuki

10/12/11
DATE



Mr. Willy Muturi

8/12/2011
DATE

DEDICATION

True success comes only when every generation continues to develop the next generation.”

— John C. Maxwell

I would like to dedicate this project first and foremost to my parents Apollo and Alice Mukabana who work tirelessly to ensure that my siblings and I obtained the best Education possible.

I would also like to dedicate this project to the next generation of Mukabana's; my nieces and nephews in Kenya and the Diaspora; namely Nicole Achieng, Keegan Jnr, Daniella Umutesi, Christian Mukabana, Theo and Amani Tshipamba and finally little Kenna. I challenge you with the very words of Nelson Mandela.

“Sometimes it falls upon a generation to be great, you can be that generation”

— Nelson Mandela

In your endeavour for greatness always remember that “the people who know their God shall be great and do mighty exploits”. (Daniel 11:32)

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ABBREVIATIONS AND ACRONYMS

BDS	Business Development Systems
ERS	Economic Recovery Strategy for Wealth and Employment Creation
FSD	Financial Sector Deepening
GDP	Gross Domestic Product
ILO	International Labour Organization
KIRDI	Kenya Industrial Research Development Institute
MSMEs	Micro and Small Medium Enterprises
NBS	National Bureau of Statistics
OECD	Organization for Economic Co-operation and Development
PSDS	Private Sector Development Strategy
ROSCAs	Rotating Savings and Credit Associations
SACCOS	Savings and Credit Co-operative Societies
SME	Small and Medium Size Enterprise
SPSS	Statistical Package for Social Sciences

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABBREVIATIONS AND ACRONYMS	v
LIST OF TABLES.....	viii
LIST OF FIGURES.....	ix
DEFINITION OF TERMS	x
ABSTRACT	xii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 SMEs in Kenya	2
1.3 Importance of SMEs	4
1.4 Challenges Faced by SMEs	5
1.5 Statement of the Problem..... ✓	6
1.6 Objectives of the Study	7
1.7 Research Questions.....	7
1.8 Justification of the Study	7
1.9 Scope of the Study	8
CHAPTER TWO.....	9
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Evolution of the Informal ‘Jua Kali’ Sector in Kenya.....	12
2.3 Level of Owner/Manager Involvement in the Growth of SMEs	13
2.3.1 The Entrepreneur Component.....	16
2.3.2 The firm	17
2.3.3 The strategy.....	17
✓ 2.4 Effects of Accessing New Markets.....	17
✓ 2.5 Effect of Legal and Regulatory Structures on the Growth of Enterprises.....	20
✓ 2.6 Accessibility of Credit among Micro and Small Food and Beverage Manufacturing Enterprises.....	21
✓ 2.6.1 Accessing of Credit by MSMEs: A Kenyan Perspective	24
2.7 Theoretical Framework: Institutional Theory	27
CHAPTER THREE	31
RESEARCH METHODOLOGY.....	31
3.1 Introduction.....	31
3.2 Research Design	31
3.2.1 Descriptive Research Design	31

3.3 Target Population.....	32
3.4 Sampling Design.....	33
3.5 Sample Size.....	33
3.6 Types of Data.....	34
3.7 Data Instruments	35
3.8 Data Collection Procedures	35
3.9 Pilot-testing	35
3.10 Data Processing and Analysis.....	36
CHAPTER FOUR	37
DATA ANALYSIS AND INTERPRETATION OF FINDINGS	37
4.0 Introduction.....	37
4.1 Demographic Characteristics	37
4.2 Gender.....	38
4.3 Level of Education.....	39
4.4 Professional Background	40
4.5 Position held in the SME	40
4.6.0 Empirical Findings Objective Wise	41
4.6 Level of Owner Involvement and Growth and Transition of SMEs.....	41
4.6.1 Comparison of Number of Employees Between 2006 and 2011.....	42
4.6.2 Entrepreneurial Approach towards Growth of SMEs.....	43
4.6.3 SMEs have Dynamic Leadership.....	43
4.6.4 The Owner/Founder is very Strategic and Entrepreneurial in Approach	44
4.7 Access to New Markets, Growth and Transition of SMEs.....	45
4.7.1 SMEs Lack Strategic Focus Thus Poor Strategy Formulation and Implementation	46
4.7.2 SMEs are able to Assess and Respond to Environmental Challenges.....	46
4.7.3 SMEs have an Idea what is a Strategy or the Different Types of Strategy.....	47
4.7.4 Level of Agreement on Whether SMEs should worry about Strategies.....	48
4.8 Firms Regulatory Structures and Growth and Transition of SMEs in the Food Processing Sector	51
4.8.1 SME had a Formal or Written Business Plan Prior to Starting the Business	52
4.8.2 Opinion on the Usefulness of a Business Plan	52
4.9 Access to Credit and Growth and Transition of SMEs.....	53
4.9.1 Modern Tools/Technology Applied by SMEs in Accessing Credit in regard to Growth and Transition	55
4.10 Challenges of SMEs in the Food Processing Sector.....	56
CHAPTER FIVE.....	59
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	59
5.0 Introduction.....	59
5.1 Summary of Findings.....	59
5.2 Recommendations.....	62
5.4 Areas for Further Research	65
REFERENCES	66
APPENDIX 1	74
QUESTIONNAIRE	74

LIST OF TABLES

Table 1.1: Distribution of MSE by employment by size, 1999	4
Table 2.1 Factors influencing growth in small firms	16
Table 3.1 Target Population.....	32
Table 3.2 Sample size	34
Table 4.1 Age of the respondents	37
Table 4.2 Professional background.....	40
Table 4.3 Position held in the organization	40
Table 4.4 Comparison of the average monthly turnover in 2006 and 2011	41
Table 4.6 SMEs have a very dynamic leadership	43
Table 4.7 SMEs are able to assess and respond to environmental challenges.....	47
Table 4.8 SMEs have an idea what is a strategy or the different types of strategy	48
Table 4.9 Summary of responses access to new markets, growth and transition of SMEs	50
Table 4.10 Firms regulatory structures growth and transition of SMEs in the food processing sector	51
Table 4.11 SME had a formal or written business plan prior to starting the business.....	52
Table 4.12 Opinion on the usefulness of a business plan	53
Table 4.13 difficulties in accessing finances either for start-up or expansion.....	53
Table 4.14 Difficulties in accessing finances either for start-up or expansion.....	54
Table 4.15 Difficulties in trying to access new markets	54
Table 4.16 If yes please state the difficulties	55
Table 4.17 Modern tools/technology applied in regard to growth and transition.....	55
Table 4.18 Challenges within your line of business	56
Table 4.19 Ranking of entrepreneurial approach towards growth of SMEs.....	57

LIST OF FIGURES

Figure 2.2 Growth in small firms.....	15
Figure 2.3 Conceptual framework	30
Figure 4.1 Gender of the respondents	38
Figure 4.2 Level of education	39
Figure 4.3 Owner/Founder entrepreneurial approach.....	44
Figure 4.4 Level of agreement as to whether SMEs have no Entrepreneurial approach..	45
Figure 4.5 SMEs lack strategic focus thus poor strategy formulation and implementation	46
Figure 4.6 Level of agreement on whether SMEs should worry about strategies	49

DEFINITION OF TERMS

- Small and medium enterprises:** McMahon et al (1993) referred to defining a small business as a 'vexing and enduring difficult' and went on to indicate that small enterprises are easier to describe than to define in precise terms. What small enterprises in fact have in common and what sets them apart from large enterprises, are other less tangible attributes that are more difficult or even impossible to measure. (p.9). Thus, definitions which are objective in nature (considers size such as number of employees, sales, profitability , net worth etc) at a sectoral level, mean that in some sectors all firms may be regarded as small while in other sectors there are no possibly firms which are small (D.J. Storey 1994).
- Entrepreneurship:** This is the process of bringing together creative and innovative ideas and actions with the management and organizational skills necessary to mobilize the appropriate people, money, and operating resources to meet an identifiable need and create wealth in the process.
- Enterprise:** Small Medium Enterprises (SMEs) are defined as non –subsidiary, independent firms which employ less than a given number of employees (OECD, 2009). This number varies across national statistical systems. The most frequent people limit is 250 employees, as in the European Union. SMEs can also be defined by the financial assets, in most European countries SMEs must have approximately an annual turnover of Euro 40 million or less and/ or a balance sheet valuation not exceeding EUR 27 million (OECD, 2009). Therefore business activity

can be defined in its form as an “**enterprise**” (From here on this paper refers to all business entities as an enterprise) and refers to the whole range of private commercially profit oriented organizations ranging in size from a one-person proprietorship to corporate conglomerates.

Stakeholders:

This is defined as a group of people prone to feel significant social, environmental or financial impact positive or negative from a corporation’s actions and therefore have stakes in the firm.

ABSTRACT

Small and medium enterprises (SMEs) are playing an increasingly important role in the process of economic growth in the developing world. They are the largest group in terms of the number of industrial units in most developing countries and make a significant contribution to manufacturing output and employment. A review of the nature of entrepreneurship indicates that growth and transition into larger enterprises is essentially an entrepreneurial process. Education and training is expected to equip the owners/managers to better manage and exploit opportunities for the growth of the enterprise while accessing new markets as well as credit influences profitability and business sustainability. Firm age determines its learning curve and intra firm linkages both vertical and horizontal. Underlying these developmental achievements are SME's widely held advantages in income growth, entrepreneurial training, creation of technological capabilities, greater flexibility to changing market circumstances, job creation and lower wage inequality and dispersion of industry away from urban areas and regional development. Building on national markets and advantages, SMEs have the potential to become a powerful engine of manufactured export growth and upgrading in the developing world. The research design adopted in this study was descriptive and qualitative in nature. The sampling design was stratified sampling method. Quantitative data that was used was numerical while qualitative data was non-numerical where as information in the annual reports given was in numerical form. The data obtained was analyzed and the findings presented in the form of frequencies, percentages and pie charts. Key findings of this study established that enterprises do increase their social networks as they age, legal structures of the business on the growth of the enterprises indicated that policy making institutions ignore SMEs. Another key finding in regard to the objectives of this study was that the respondents affirmed they had formal or written business plans prior to starting the business within the SMEs segment. More than half indicated they had difficulties in accessing finances/credit either for expansion or start-up both corruption and dysfunctional markets was also highlighted as a hindrance and poor financial management respectively, lack of collateral and poor accounting policies formed a barrier in funds acquisitions. However there was growth among the number of employees in 2011 as compared to 2006. This study concluded that in financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable. Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates. This study confirms that SMEs have adopted a myriad of strategic responses in dealing with changes in the business environment in regard to growth and expansion. Several factors were identified as hindering the practice of strategic marketing. These include; lack of market information on new products, prices, competitors, demand for products and quality, lack of enough capital, lack of product assortment, failure to enter new markets, lack of enough stock, poor bargaining power on prices, high costs of operations among others.. Marketing education should be emphasized among the SMEs through effective market research and appropriate strategic choices.

CHAPTER ONE

INTRODUCTION

This chapter highlights the background of the study in regard to socio-economic factors affecting growth of micro and small scale manufacturing enterprises: a survey of selected firms in the food and beverage industry, the problem statement, objectives of the study, the research questions, the scope and the significance of the study

1.1 Background of the Study

Micro, small and medium enterprises are widely acknowledged as an important sector to the national and international economic development. Growth oriented small businesses make a major contribution to economic development and employment generation within the local communities and national economies (Smallbone and Wyer, 2000). According to the 1999 National Micro and Small Enterprise Baseline Survey, there were approximately 1.3 million SMEs, creating employment for 2.3 million people. An estimated 26 per cent of households were involved in some kind of non-primary business activity. Approximately two-thirds of Kenyan MSEs are located in the rural areas (which has over 80 per cent of the population). Only 11.7 per cent of SMEs indicated they were registered and 39.4 per cent operated with licences. Close to two-thirds of all enterprises were in the trade sector, meaning that a large proportion of SMEs were involved in the buying and selling of commodities; 13 and 15 per cent respectively were involved in manufacturing and services.

The term SME covers a heterogeneous group of businesses in a developing economy, ranging from a single artisan working in a small shop making handicrafts for a village market to sophisticated engineering firms selling in overseas markets (Reuber and Fischer, 2003). Several different criteria can be used to distinguish between an SME and a large firm in a developing economy. Three possible criteria are: the number of employees, the value of sales and the value of production equipment. Each of these can be useful depending on the purpose at hand. Although the definition varies between developing countries, SMEs are commonly defined by employment because it is readily available. Setting a cut-off point between an SME and a large firm is difficult and can vary depending on the level of development, the structure of an economy, sectoral characteristics and the nature of given

production technologies. Ultimately, it becomes a matter of judgement as to what is appropriate to the specific context.

This paper takes an SME in a developing country as an industrial (or service sector) unit with between 10 to 50 workers. It largely excludes consideration of micro enterprises (i.e. firms with less than 10 employees) that concentrate on domestic markets and rarely venture into exports. Micro-enterprises face all the problems of SMEs in their growth as well as special problems of their own. The most notable among these are: Lack of economies of scale, outdated technologies, very poor access to export finance and a high degree of dependence on the entrepreneur's often limited talents and skills.

1.2 SMEs in Kenya

According to the Department of MSE Development, the SME sector experienced substantial growth from 2000-2002, increasing to 2.8 million enterprises and SME employment of 5.1 million persons, accounting for 74.2 per cent of total employment in 2002. This is in contrast to the formal employment sector which increased from 1.74 to 1.76 during the same period. This dramatic increase was due largely to retrenchment in both the public and private sectors (Republic of Kenya, 2003). In 1999, the average size of an SME was 1.8 persons. The owners themselves accounted for almost 75 per cent of total SME employment. In fact, 80 per cent of total SME employment involved only owners and their family members. The group of employees, referred to as "regular hired workers" accounted for only 11.6 per cent of total SME employment. Ninety-six point seven (96.7) per cent of MSEs employ no more than five employees, with another 2.6 per cent employing 6-10 persons, meaning that 99.3 per cent of SMEs have no more than 10 employees. There were no SMEs in the rural towns and areas with more than 15 employees and none in the major towns with more than 25 employees (Republic of Kenya, 2003).

Long-term national development policy is to be envisioned by the "Kenya Vision 2030" which envisages "a globally competitive and prosperous nation with a high quality of life by 2030. It comprises three pillars, namely, Economic, Social and Political. The Economic pillar targets sustainable economic growth of 10% per annum over the next 25 years, The social pillar envisages a just and cohesive society enjoying equitable social development in a clean and secure environment while the political pillar advocates for issue-based, people-

centered, result-oriented, accountable democratic political system. Other medium term policies that have been promulgated by the Government of Kenya the Economic Recovery Strategy for Wealth and Employment Creation (ERS) was the basic policy document that provided for medium-term policy direction of national development from 2003 to 2007 and the priority actions.

ERS forecasted an average GDP growth rate at 3.3% per annum. ERS recognized that development of an industrial master plan as one of the major outputs of the industrial development efforts, which will operationalise the Sessional Paper No.2 of 1996 for industrial transformation (Republic of Kenya, 2004). The Private Sector Development Strategy (PSDS) provides the mechanism for the Government to lay out its activities, targeting at growth and competitiveness of the private sector from 2006 to 2010. PSDS is expected to contribute towards achieving the medium-term objectives set by the ERS. One of the objectives of PSDS is to enhance the growth and competitiveness of the Private Sector, especially, the Micro, Small and Medium Enterprises (MSMEs). However, the strengthening of Kenya's economy through micro and small enterprise development requires growth, not in number but also in size of firms since larger firms with up to 100 workers use both labour and capital more efficiently (Ongile and McComick,1996).

However one of the greatest constraints to private sector development in Africa is the "missing middle" coupled with acute shortage of fast growing firms (Manu, 1999). He further reports that it is this category that contributes most to job creation and by implication incomes. Mead and Liedholm (1998) reports that after start up, over three quarters of the small enterprises in Africa remain the same in size or even contract in terms of employment. McComick and Pederson (1999) identified financial institutions, social structures, infrastructure, provision of enforcement mechanisms of innovation and technological capabilities as key influences on development and performance of business and shaping the various component of a business system. Namusonge (1998) reported that apart from money, business success depends on the personal attributes of the entrepreneur.

1.3 Importance of SMEs

SMEs play a major role in economic growth in Organization for Economic Cooperation and Development (OECD) countries. SMEs are the main source of most new jobs; they offer a high amount of employment in casual, part time, and low skilled jobs. Over 95% of OECD enterprises are SMEs which account for 60-70% of employment in most countries (OECD, 2009). Environmental turbulence makes the task of strategic planning in SMEs more complex and should be dealt with in a creative manner. SMEs have a competitive spur to large firms and they create new ventures which are critical for getting new ideas into the economy (OECD, 2009). The widespread adoption by developing countries of export-led growth strategies has drawn attention to the economic potential of their food processing sectors, particularly in the light of the crisis facing many traditional primary commodity export markets. Food processing can be understood as postharvest activities that add value to the agricultural product prior to marketing. In addition to the primary processing of food ingredients, it includes, therefore, final food production on the one hand and the preparation and packaging of fresh products, especially horticulture and fish. The genesis of studies of existence and growth of small scale industry in Africa was highlighted by the International Labour Office (ILO) who discovered informal activities in the early 1970 (Ongile and McComick, 1996).

Mead (1999) noted that micro and small enterprises (MSEs) are receiving a lot of attention among policy and scholars due to fiscal pressures constraining growth of the public sector employment and the turmoil in large enterprises as a result of market liberalization. MSEs are therefore regarded as a source of economic liberalisation because they serve as a source of off farm employment of the poor. Only 9,041 MSEs fell into the category of “small” (with 11-50 employees); these small firms accounted for an estimated 154,267 workers, or 5 per cent of total MSE employment. This lack of enterprises in the 11-50 employment size category comprises the “missing middle” of the MSE sector, both in terms of numbers of enterprises and their contribution to employment (see Table 1.1). The challenge for the Kenyan government is to increase the proportion (in terms of percentage points) of MSEs that grow to the next employment size.

Table 1.1: Distribution of MSE by employment by size, 1999

Enterprise size (No. of Employees)	No. of Enterprises	Share of enterprise by employment percent
1	899,787	70.1
2	229,759	17.9
3-5	111,671	8.7
6-10	33,374	2.6
Sub Total	1,274,591	99.3
11-15	6,418	0.5
16-25	1,283	0.1
26-50	1,283	0.1
Total	1,283,575	100.0

Source: (National Baseline MSE Survey, 1999).

The missing middle also applies to labour force distribution. MSEs with 11 – 50 employees account for a miniscule share of total employment. It is interesting to note that 1.9 million people work in the informal economy, a group of people who are not represented in the MSE sector statistics. Among these “invisible workers” are a number of women who operate micro-enterprises from their home base. In fact, the 1999 Baseline Survey estimated that as many as 75 per cent of these invisible workers are women in services.

1.4 Challenges Faced by SMEs

SMEs face myriad of challenges, which affect their growth and profitability, hence these companies may not be able to contribute to the development of the economy hence leading to these enterprises not being able to achieve a competitive advantage (Wanjohi, 2009). Some of these challenges are: lack of managerial training and experience, inadequate education and skills, lack of credit, national policy and regulatory environment, technological change, poor infrastructure and scanty markets information (Wanjohi, 2009).

This research is interested in this area of SMEs due to the current challenges facing most countries in the world as they are undergoing reforms that are opening their economies to greater international competition. However, domestic factor markets are not adequately developed to ensure the successful adaptation of SMEs to the competitive environment. Unlike the larger firms, they can pursue different options in the competitive environment, hence the focus by the researcher on SMEs in Nairobi, Kenya

1.5 Statement of the Problem

The manufacturing sector in Kenya contributes about 11% of the GDP. The formal manufacturing sector however employs only 3% while the informal manufacturing sector consisting of Micro and Small Enterprises (MSEs) employs 13% (Republic of Kenya cited in JICA, 2007). The food and beverage industry comprises of over 1,232 businesses representing 13 percent of total manufacturing, (Economic survey, 2003), most of them being MSEs. However despite these important contributions, it has been observed that in Africa and Latin America, less than three percent of the MSEs expand by more than 4 employees after start up (Liedholm, 2002). The expansion of the MSEs is therefore crucial since the unemployed population in the country is estimated at about 23 percent (Central Bureau of Statistic, 2006).

Kenya envisages becoming a globally competitive and prosperous nation with a high quality of life for its citizens by 2030. The food and beverage industry has been identified as requiring support through the National Export Strategy 2003-2007. The liberalization and globalization of the economy has resulted in intense competition from imported substitutes both in quality and price. In order to counter this state of affairs, MSEs in Kenya must grow vertically in order to address the phenomena of the “missing middle”. SMEs make a large contribution to the economics of the country. Research reveals that small companies are responsible for a large proportion of innovations in products and services, job creation and employment (Wheelen & Hunger, 1998). Despite the overall success of small businesses, every year a lot of small companies fail (Storey, 1994). Some of these businesses fail due to the lack of strategies and proper strategy implementation. The environment from which these businesses operate also has a big influence on the successes of the SMEs. It is estimated that at a given point in time approximately 40 per cent of businesses are experiencing neither growth nor decline. This lack of growth could be associated with the fact that for most business owners’ growth is not an objective and the main aim is to make profits for the company. There are various factors that affect the growth and transition of SMEs. Some of these factors are economic, technological, social cultural and legal and political factors. However most of the literature reviewed reveals that there is lack of empirical studies to exhaust reasons for lack of vertical growth of SMEs. The purpose of

this study will be to determine the socio-economic factors that affect the growth of Micro and Small manufacturing enterprises in the food and beverage sector.

1.6 Objectives of the Study

The general objective of this study is to determine the socio-economic factors that affect the growth of Micro and Small Enterprises in the food and beverage industry.

The specific objectives are:

1. To determine how involvement by the owner/managers of SMEs in the food processing sector affects growth.
2. To find out the effects of accessing new markets on enterprise growth.
3. To assess the effect of regulatory structures of the business on the growth of the enterprises.
4. To establish the accessibility of credit among SMEs in the food processing sector.

1.7 Research Questions

1. To what extent does involvement by the owner/managers of SMEs in the food processing sector in affect growth?
2. What are the effects of accessing new markets on enterprise growth?
3. What are the effects of regulatory structures of the business on the growth of the enterprises?
4. How is accessibility of credit among SMEs in the food processing sector?

1.8 Justification of the Study

The study investigated the factors that affect growth of MSEs involved in food and beverage manufacture in Nairobi. The findings of the study will help policy makers and other stakeholders interested in supporting the growth of MSEs Food and beverage sector to understand the contributory factors to their growth for economic and employment creation. The findings will also enable the Kenya Industrial Research and Development Institute's (KIRDI) technology transfer to develop Business Development Services (BDS) to promote the growth of food beverage manufacturing SMEs. Scholars interested in conducting

research on food and beverage manufacturing SMEs will have empirical literature as a result of this study.

1.9 Scope of the Study

The scope of the study was micro and small food and beverage manufacturing enterprises operating situated within Nairobi and have received technical assistance from the Kenya Industrial Research and Development Institute. This is due to the fact that the food and beverage industry comprises of over 1,232 businesses representing 13 percent of total manufacturing, (Economic survey, 2003), and most of them being SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the socio-economic factors affecting growth of micro and small scale manufacturing enterprises. It will then point out the key strengths and limitations of earlier researchers and at the same time linking between this study and earlier studies and then seek to fill in the gaps that have been left by previous studies.

Small and medium enterprises (SMEs) are playing an increasingly important role in the process of economic growth in the developing world. They are the largest group in terms of the number of industrial units in most developing countries and make a significant contribution to manufacturing output and employment. Underlying these developmental achievements are SME's widely held advantages in income growth, entrepreneurial training, creation of technological capabilities, greater flexibility to changing market circumstances, job creation and lower wage inequality and dispersion of industry away from urban areas and regional development (Little *et al*, 1987; Berry, 1992; Humphrey, J. and Schmitz, 1996; Liedholm and Mead, 1999; Katrak and Strange, 2002; Weeks, 2002).

Building on national markets and advantages, SMEs have the potential to become a powerful engine of manufactured export growth and upgrading in the developing world. Evidence suggests that SMEs are actively participating in the export efforts of developing countries but their contribution to exports varies across countries (Bardinath and Others, 1997; Levy, Berry and Nugent, 1999; Wignaraja and O'Neil, 1999; Nadvi, 1999).

Arising from differing views on the gains from globalization for developing countries, there is limited consensus about its effects on SME growth, transition and the future direction of SME policies. The speed and comprehensive nature of globalization indicates that adjustment periods and policy space in developing countries may be reduced in the future. Hence, there is an imperative to assimilate current economic realities and develop appropriate policies to facilitate sustained growth of SMEs.

Since first recognized in the early 1970s, the informal sector of Sub-Saharan Africa has become a growing source of employment for large numbers of youth, but also for older

workers pursuing entrepreneurial goals and others adjusting to structural changes in the region's employment (Bangasser, 2000; Liimatainen, 2002; International Labour Organization (ILO), 2002a; Johanson & Adams, 2004; Becker, 2004; Haan, 2006; Fox and Gaal, 2008). Rising levels of education are producing higher earnings in the informal sector. For example in Ghana, using household data from the 2005 Ghana Living Standards Survey, the comparison of earning gains estimated with multiple regression analysis showed returns by level of schooling for self-employed workers in the urban non-agriculture sector that approach or match those of wage workers in the urban non-agriculture sector (World Bank, 2008).

A cursory look at countries in Sub-Saharan Africa shows that informal sector activities maintain a significant and, in some cases, dominant share of their respective markets covering mining, manufacturing, commerce, finance and other sectors. Examples of this employment are seen on the streets and in home-based activities in countries like Nigeria, Kenya and Senegal in the vending of food and small merchandise, in health care by traditional healers, the tailoring of garments, and the manufacturing of furniture and repair of automobiles. The size of the sector, estimated to account on average for 42% of gross domestic product (GDP) in twenty-three African countries in 2000, is forcing governments to acknowledge its existence and importance to the national economy and the welfare of those employed therein (Schneider, 2002). In South Africa, with a larger formal sector, the informal economy still contributes between 7 and 12% of GDP (Devey, Skinner and Valodia, 2006).

SMEs are known to play a major role in social economic development which is the case also to Kenya. In Kenya SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas, In-turn contributing to the development of the country as a whole economically, socially and even politically. In Kenya it is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1999, micro enterprises operating in the informal sector engaging 1.7 million small businesses consisted of about 20% of the labor force (3 million people then). Though data in Kenya especially in the SME sector are somewhat unreliable and sketchy, the above data serves to show how crucial the SME sector is to the

Kenyan economy. Since SMEs tend to be labour intensive, they create employment at relatively low level of investment per job created. With the current unemployment rate standing at a record high of 12.7 (NBS 2009 est.), most of these unemployed people opt for entrepreneurship which falls in the SME sector. Given the situation and the fact that Kenya is characterized by low capital formation, SMEs are the best option to address to this problem. Moreover, SMEs tend to be more effective in the utilization of local resources and affordable technology. To a large extent they add value to the resources.

Another importance is that SMEs facilitates distribution of economic activities within the economy thus promoting equitable distribution of resources. The technology applied by SMEs is easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about by localized and small markets due to their low fixed and overhead costs. In addition SMEs owners tend to show more resilience in face of hardships holding on to their businesses since they are prepared to be compensated lower temporarily. Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. This is in terms of supplements of raw materials and other factors of production like labour and entrepreneurial skills. Since the linkages of large enterprises and SMEs in Kenya are relatively weak, this advantage has not been realized per se. It is important to note at the onset that the debates and issues that surround small business do not converge and this is an area where no one 'common' explanation is to be found. Rather, there are a number of competing, and sometimes conflicting, perspectives and outlooks. These perspectives make different assumption about the nature of small business. Penrose (1959) firstly identified the growth of a firm as motivated by external opportunities and internal process. On the other hand, the external and internal factors may function as barriers to growth. Storey (1994) tried to establish a theoretical framework for the growth of small business: characteristics of the entrepreneur, characteristics of the firm, management strategy. The empirical works have mainly concentrated on the investigation of the effects on small business growth of external and internal factors (Sutton, 1997). They often focus upon multivariate analysis, in the sense of incorporating more than a single factor in examining its relationship to small business growth (Storey, 1994; Smallbone, 2001a). These studies are primarily taken from the survey in UK and the United States.

To some extent ‘management strategy’ can be considered as another important element. Peng (2000) summarized fourteen elements which have been considered by researches as dimensions of strategy which could influence small firm growth, including innovation, marketing planning, marketing adjustment, decision making, financial management, workforce training. Recently, researchers pay more attention to the new strategies, which characterize information and communication technology, e-commerce, and internationalization. In transition country, the development of small business displays obviously different trends in different countries where market reforms have been in varied schedule. The external environment especially the policy support has more effects on small firms. At the first stage, more researches depend on the policy intervention because the policy support is desperately needed.

Bateman (2000) looks at some of the experiences of SME projects carried out in the east European countries. Four themes considered being of central importance to SME development – financial support, technical and management services, favorable policies conducive to SME development, and the involvement of international donor agencies – are examined. A similar research show that the environment for new businesses is characterized by a multitude of adverse factors including onerous and complicated tax systems, the absence of a body of commercial law, administrative burdens, corruption, dysfunctional financial markets(OECD, 1998). From the findings it is noted that the policies to foster entrepreneurship are important to enable countries in transition to develop into market economies. But despite the above, the empirical results demonstrate that some SME have developed in some transition country despite the actions of government, as a result, their contribution to economic and social change is less than it would be, mainly due to the unstable environment and institutional context (Smallbone, 2001b). Roman Frydman, et al., (1997) also identified characteristics of the entrepreneur, firm and the firm’s environment are important but varying determinants of which constraints are identified as the most important ones.

2.2 Evolution of the Informal ‘Jua Kali’ Sector in Kenya.

It has been noted by a number of scholars and researchers like Obudho (1981), Mochache (1990) and Atieno (1986) that the evolution of the informal sector in Kenya can be traced

back to the early 1960's, when the newly independent state introduced trade licenses, works permits and state-owned monopolies, as part of the broader strategies for economic indigenization. Since then, this sector has witnessed bustling activity and renewed interest, both by external agencies and the government, with desire to intervene directly, which contrasts with neglect which characterized the early years (Oyugi, 2001). Since then, the continued use of the term 'informal', development and growth of the sector has remained on the upward trajectory. Other notable landmark periods of the evolution of the sector in Kenya have been identified as the visiting of the Kamukunji informal industrial estate by the then president Daniel Moi in 1986. This visit revolutionized the view of the sector when the Moi Government restructured the policy environment to accomodate the sector through construction of the 'Nyayo sheds' where the industrialists were to operate, as well as possibility of security of tenure among other policy decisions. The hallmark of the recognition of the sector came at the publishing of the Sessional Paper No 1 of 1986 on *"Economic Management for Renewed Growth"*. By the time it was released, the casual term "Informal "sector was given a new positive dimension by being substituted with the term *Jua-Kali*. The Sessional Paper highlighted the potentials technological innovation and aggressive entrepreneurship.

2.3 Level of Owner/Manager Involvement in the Growth of SMEs

The behavior of entrepreneurs is strongly affected by their intentions (Krueger & Carsrud, 1993, p.315; Bird, 1988, p.442). The firm's strategic behavior and subsequent growth is understandable in the light of its growth intention. Therefore, firm growth is based not merely on chance, but on the management's conscious decision making and choice. Naturally, the firm can grow even though it is not the management's aim, but in such a case the growth is not planned and so may include more risks. Planning helps in managing growth. In general, goals and objectives can be divided into two categories. On the one hand, there are final goals which are valuable as such. On the other hand, there are goals which have instrumental value for achieving some other goals. Growth can be regarded as the second most important goal of a firm, the most important one being firm survival, i.e. the continuity of the business. Moreover, growth is an important precondition for a firm's longevity. Negative growth of an SME is often a sign of problems, while stagnation, i.e. a

situation where growth has stopped, is usually indicative of problems that a firm will face in the future.

As a matter of fact, growth often has instrumental value. For new ventures, firm growth is needed to ensure an adequate production volume for profitable business. Growth can serve as an instrument for increasing profitability by enlarging the firm's market-share. Other similar goals include securing the continuity of business in the conditions of growing demand or achieving economies of scale. Moreover, growth may bring the firm new business opportunities (Timmons 1999), and a larger size enhances its credibility in the market. Also, achieving a higher net value of the firm can be regarded as a motive for firm growth. In SMEs, growth objectives are often bound up with the owner-manager's personal goals (Jennings & Beaver, 1997), and so it is important that they support each other. Much has been written about the importance of the entrepreneur's growth motivation (Perren, 2000; Davidsson, 1991; Miner, 1990).

The close connection between an owner-manager and the firm is the dominant characteristic of small firms (Vesalainen, 1999, p.18). Instead of profit maximization or growth, a firm's primary goal may be the entrepreneur's independence or self-realization (Foley & Green, 1989). Moreover, there may not be adequate resources for growth, or the expected increase in business risks may limit a firm's growth willingness. However, aversion to growth has been said to be the principal reason why most SMEs stagnate and decline (Clark et al., 2001). In several typologies, entrepreneurs and firms are categorized by their business goals, so growth has been a widely used dimension in many typologies. There are two broad approaches in the studies of small firm success: (1) The business professionals' model, and (2) The small business proprietors' model (Bridge et al., 1998, p. 140-142). These two approaches can be identified in several typologies of entrepreneurs (Smith, 1967; Stanworth & Curran, 1976). According to the business professionals' model, a successful firm is one that achieves its highest potential in terms of growth, market share, productivity, profitability, return on capital invested or other measures of the performance of the firm itself. In the small business proprietors' model, the owner-managers' main concern is whether the firm is providing them with the benefits they want from it. These benefits are often associated with a lifestyle and an income level to maintain it. In the latter model, firm

success therefore means being able to reach a level of comfort rather than achieving the business's maximum potential. The owner or manager cannot enhance the growth of SMEs without integrating other factors. According to Storey (1994) he considers the growing small firm by is a combination of three components namely; the owner/entrepreneur(s); the firm; and the strategy.

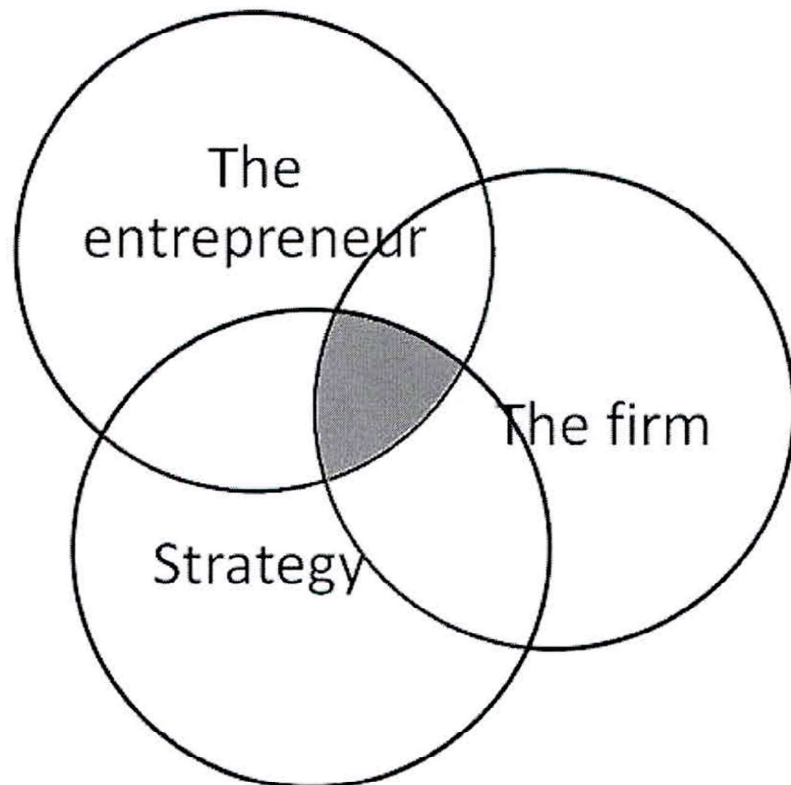


Figure 2.2 Growth in small firms

(Source: Storey, 1994)

The purpose of Figure 2.2 above is to demonstrate that the three components – the entrepreneur, the firm and the strategy – all need to combine appropriately in order that the firm achieves rapid growth. The figure above shows that it is only in the shaded area, where all three circles intersect, that the combination is appropriate. It is also clear that the shaded area constitutes only a small proportion of each of the individual circles or components. Less rapidly growing, no-growth or failing firms may have some appropriate characteristics in the entrepreneur, firm or

strategy areas, but it is only where all three combine that the fast- growth firm is found. Each component provides a distinctive contribution to our understanding of the growth of small firms, but it is possible to consider the components as comprising a set of separate elements. Table number 2.1 shows that each component can be considered as a variety of different elements.

Table 2.1 Factors influencing growth in small firms

The entrepreneur/manager	The firm	Strategy
1. Motivation	1. Age	1. Workforce training
2. Unemployment	2. Sector	2. Management training
3. Education	3. Legal form	3. External equity
4. Management experience	4. Location	4. Technological sophistication
5. Number of founders	5. Size	5. Market positioning
6. Prior self employment	6. Ownership	6. Market adjustments
7. Family history	7. Planning	
8. Social marginality	8. New products	
9. Functional skills	9. Management recruitment	
10. Training	10. State support	
11. Age	11. Customer concentration	
12. Prior business failure	12. Competition	
13. Prior sector experience	13. Information and advice	
14. Prior firm size experience	14. Exporting	
15. Gender		

(Source: Storey, 1994)

The table above identifies fifteen elements within the entrepreneur/ resources component, fourteen within the firm component and six within the strategy component.

2.3.1 The Entrepreneur Component

These refer to the characteristics of the individual or individuals who provide the prime managerial resources of the small business. The entrepreneur(s) and their access to resources can be identified prior to the business being established. In principle each element could be measured or assessed prior to starting the business, although some elements are more difficult to measure than others. An example is measuring motivation or social marginality might pose more problems than specifying gender, number of founders or their ages. Nevertheless, the integrating, or common characteristic of the entrepreneur/ resources component is that all elements can be identified prior to business start-up and they relate exclusively to the entrepreneur and his/her access to resources, not to the business which is established.

2.3.2 The firm

The characteristics in this component reflect decisions made by the entrepreneur upon starting the business such as choice of legal form, location, or the sector in which the business should operate. They are not; however, operational decisions which are made once the business starts, since these are what are included in the strategy component, although clearly it is possible to change location or legal form once the business has begun to trade. The second common characteristic of firm elements is that they are factors which are generally held constant in examining the growth performance implications of entrepreneurial characteristics.

2.3.3 The strategy

It is perhaps the elements in this third factor that are of prime interest. To some extent strategy in this context can be considered as asking the question – given the characteristics of the entrepreneur(s) and the firm – what managerial actions, once the firm has started, are likely to be associated with more rapid rates of growth. The fourteen elements listed in this component have been considered by researchers as dimensions of strategy which could influence small firm growth.

2.4 Effects of Accessing New Markets

It is universally accepted that there can be no business where there is no market for the product. It has been established that African business are unable to compete with more established firms (Marris and Somerset, 1971). Namusonge, 1998 notes that successful self-employment requires access to well functioning product and supply market. He further observes that markets themselves may present obstacles to business or certain entrepreneurs may find that they lack access or entry into the market. Therefore product quality, exposure of the entrepreneur to existing or potential markets is crucial for firm growth. Other studies have investigated the issue of access to new markets by SMEs. Include; Omiti, Omolo and Manyengo (2004) who investigated factors that influence households to engage in commercial vegetable production in Kakamega district in Kenya. The study concluded that the size of land under vegetable, keeping of farm records, participation of the farmer in membership associations, farmer training, adoption of irrigation techniques and access to

credit are significant in the commercial production of vegetables for the market. The study therefore recommended that investments in simple irrigation technologies, formation of farmer association, improvement of transport and storage facilities, enhancing credit access to small holders and the development of appropriate market infrastructure such as sheds and stalls are important policy options that can enhance production of vegetable for the market.

Most empirical literature highlights three sets of variables as having the potential to influence access to new markets. These include environmental factors, firm factors and individual factors. Omiti *et al.*, (2004) describe access to new markets as an interaction between the person and the environment. In addressing the question of growth of small firms, an alternative way is to look at the so called 'barriers to growth' literature. This literature assumes that a number of small firms wish to grow and access new markets, but they are prevented from doing so by 'barriers'. In this perspective, a study by Barber, Metcalfe and Porteous named Barriers to Growth in Small Firms (1989) can be consulted. The study summarized the literature on the topic under three headings: Management and Motivation, The sources, and Market Opportunities and Structure. The idea is the same as presented above by Storey's factors influencing small business firm growth, only that barrier to growth looks at the question of small business growth in a negative way.

It can also be argued at this point that, even though these studies were done in the U.K. and Europe mostly, they provide a general base on how small firms are constrained from accessing new markets. Also considering the fact that small business growth studies in Kenya and in developing countries in general are few and those few have not been done to the extent of providing concrete insight to be used as frameworks for further studies such as this. Not all elements in this literature would fit (as effects of accessing new markets) into the developing world context of small firms, but the most important thing is that the degree of relevance and usefulness is checked. In the study carried out by the Cambridge Small Business Research Centre (1992), the most common growth barriers in relation to accessing new markets were related to factors on the macro level. The most important growth barriers were related to difficulties in obtaining finance and the price of money, the level of and decrease in demand (Perren, 2000), and tightening competition (Hay & Kamshad, 1994). Other effects of accessing new markets were caused by restrictions determined by

authorities, problems in obtaining a skilled workforce, and the small number or lack of potential cooperation partners in the area. The firm-internal factors affecting unwillingness to grow include the entrepreneur's fear of losing her or his autonomy, difficulties in fitting together personal and the firm's goals, and weak managerial or marketing skills (MacNabb, 1995; Perren, 2000). These issues are particularly typical when an entrepreneur "transfers" from the role of entrepreneur to that of manager, or when the firm hires a new manager.

World Bank applies four dimensions to measure starting a business (IBRD 2005). These dimensions are: number of procedures, time, cost, and the minimum capital that the entrepreneur must deposit in a bank before registration starts. In each case, a higher number indicates that opening a business becomes more difficult and that fewer entrepreneurs will do so. The employment regulations are designed to protect workers from arbitrary, unfair, and discriminatory actions by their employers. These regulations are: minimum wage, overtime work, grounds for dismissal, and severance pay. The dimensions of this indicator are: difficulty of hiring, rigid work hours, difficulty of firing, and cost of firing (IBRD 2005).

"The report of the World Bank on regulations of doing business in 2005 reported that: Businesses in poor countries, for example, face much larger regulatory burdens than those in rich countries; they face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them and they have fewer than half the protections of property rights of rich countries. Heavy regulations and weak property rights exclude the poor from doing business. In poor countries a high percentage of the economy is random; women, young and low-skilled workers are hurt the most" (World Bank, 2005).

For many SMEs, the unpredictability of doing business and the complexity of procedures and regulations in many developing countries are perceived as major barriers. Furthermore, access to finance, new technology and good reliable infrastructure, especially for communications and logistics, are all special problems for growth-oriented SMEs (OECD 2000e). De Soto (2000) answers the question why are the poor in third world countries rich in assets but they remain poor in capital? He claims that the poor do not really own the property they work, because they are not registered as owning it, and because of this, they

cannot turn it to capital. De Soto (2000) shows that it is legal title to property that transforms labor into capital and without title there can be no contracts with strangers.

Thus, the market is restricted and the growth of wealth retarded. Furthermore, De Soto (2000) explains that it is not culture or religion that holds back enterprise in the third world, but law. Also, he shows that capital is a potential to realize “surplus value” rather than a stock of stored up labor or money. Different factors can measure the appropriateness of the business environment such as the starting and closing of a business, enforcing contracts, protecting investors, getting credit, registering property, and hiring and firing workers (Doing Business 2005).

2.5 Effect of Legal and Regulatory Structures on the Growth of Enterprises

According to various writers, the age of the firm is an important factor influencing the growth of the firm (Storey, 1994; Barkham et al., 1996). There is strong evidence to suggest that younger firms grow faster than older ones (Stoke, 1995; Brock and Evans, 1986). Storey (1994) stated that in the United Kingdom and United States of America younger SMEs grew more rapidly than older enterprises. Studies in Africa and Latin America have showed that most young SMEs experience higher growth than their older counterparts (Mead & Liedholm, 1998). The expansion of dynamic enterprises occurs during the third year of operation (Kantis *et al.*, 2004). Other studies have revealed a decline in average growth rates of firms with increasing age (Burki & Terrell, 1998). Burki and Terrell, also found out in studies done in developing countries that firms suffer losses in productivity as they age. They attributed this to lack of sufficient investment in existing or emerging technology, leaving the firms with relatively outmoded equipment thus hindering their productivity levels relative to younger firms. However, Birch (1987) argues that, among small firms, older firms grow faster than younger ones, while among larger firms there is a tendency for growth to decline with age.

Enterprises also increase their social networks as they age. This is because having an extensive social network is a valuable asset, which can help an entrepreneur obtain access to information (e.g., leads about profitable business opportunities) as well as resources (e.g., credit). While social networks can enhance SME growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, (Nitcher and

Goldmark, 2008). Most literature points to the role social networks can play in helping entrepreneurs overcome obstacles related to transaction costs, contract enforcement, and regulation. Theoretically, a firm constituted such that the owner/managers enjoy limited liability has been said to have a greater incentive to pursue risky projects and therefore expects higher profits and growth rates than other firms (Stiglitz and Weiss, 1981). Harhoff et al. (1998) in their study of German firms found that firms with limited liability have above average growth rates. Freedman and Godwin (1994) in their study of small businesses in the United Kingdom found that the prime benefit of corporate status is the limited liability. Also studies carried out by Kalleberg and Leicht (1991) on small firms in the United States came to the same conclusions. An isolated study carried out by Curran and Stanworth (1973) found that growth can be found among sole proprietorship firms.

All organizations, large and small, are today struggling to grow in an external operating environment which is epitomized by turbulence and uncertainty. In order to make a living for themselves and for their employees and to maintain competitive advantage in such an uncertain environment, owner-managers in SMEs have to focus on the need for effective utilization of their limited resources (Wyer & Mason, 1999). The external environment consists of variables (economic, political, technological, socio-cultural, legal, physic environment, etc) that are outside the organization and not typically within the short-run control of top management. These variables form the context within which the organization exists. The external environment has two parts: Task Environment and Macro Environment. The Task Environment includes those environments of groups that directly affect and affected by an organization's major operations. Some of these elements are shareholders, governments, suppliers, local communities, competitors, customers, creditors, labour unions, special interest groups, and trade associations. The Macro Environmental includes more general forces-those that do not directly touch the short-run decisions or short-run activities of organization but those can, and often do, influence its long-run decisions (Hunger & Wheelen, 1996).

2.6 Accessibility of Credit among Micro and Small Food and Beverage Manufacturing Enterprises

For both developing and developed countries, small and medium scale firms play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional

economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth. However, the seminal role played by SMEs notwithstanding its development is everywhere constrained by inadequate funding and poor management. The unfavorable macro-economic environment has also been identified as one of the major constraints which most times encourage financial institutions to be risk-averse in funding small and medium scale businesses. The reluctance on the part of financial institution to fund SMEs can be explained by the insufficient capital base of banks and information asymmetry that often exists between SMEs and lending institutions.

Financial systems, the world over, play fundamental roles in development and growth of the economy. The effectiveness and efficiency in performing these roles, particularly the intermediation between the surplus and deficit unit of the economy, depends largely on the level of development of the financial system. It is to ensure its soundness that the financial sector appears to be the most regulated and controlled by the government and its agencies. Generally, the stage of development and, thus, the efficiency of the system varies among countries and changes over time in the same country. The more developed and sophisticated financial systems tend to be associated with the mature economies, while under-developed financial systems feature in developing economies. As a process, the financial system adjusts to changes in the real economy just as the economy responds to developments in the financial sector. All over the world, size had become an important ingredient for success, the banking sector included (Berger; Frame and Miller, 2003).

Stiglitz and Weis (1981) observe that small and medium scale firms with opportunities to invest in positive net present value projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Nonetheless, the liquidity ratio of the financiers plays a major role. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risks due to some pervasive incentive structure in the system. On the other hand, because SMEs do not have access to public capital markets they naturally depend on banks for funding.

Dependence on banks makes them even more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in equilibrium and these problems are exacerbated during periods of financial instability.

Berger and Udell (2001) further note that shocks to the economic environment in which both banks and SMEs exist can significantly affect the willingness and capability of banks to lend to small and medium scale firms. These shocks come in a variety of forms such as technological innovation, regulatory regime shifts, and shifts in competitive conditions and changes in the macroeconomic environment. Financial institutions respond to these shocks in a number of ways, one of which is to develop stringent lending rules that not only avail them of full information about the firm and the owner, but also ensure that their investment in such firms are guaranteed in both the short and the long-run. In less developed countries where there is a dearth of information on the operations of SMEs, the situation degenerates into total risk-aversion by financial institutions in funding SMEs.

SMEs have their own strengths, weaknesses and needs that are directly related to their size and role in the economy. One of the pertinent issues faced by SMEs is lack of accessibility to capital and credit facilities for the purpose of start-up and expansion. SMEs typically face problems in getting the finance they need from commercial banks and government support agencies. They fail to obtain finance mostly due to their failure in providing sufficient business information; financial guarantees as well as they are insufficiently informed or poorly advised about the appropriate sources of finance. In order to fulfill their financing needs, governments have launched several entrepreneurial programs and funding schemes with support of large corporations and financial institutions especially in the developing nations (Hughes, 1997).

The discussion of capital structure is still growing in finance literatures. According to Myers (1984), there are two alternatives of capital structure in business. The first one is the pecking order theory, which describes the hierarchical preference over sources of financing and the latter is an optimal capital structure with targeted leverage ratio. However, the literature on this issue for SMEs is weak compared to those of the large firms. According to Hutchinson

(1995), the existing nature and mechanism of supply and demand for financing in small business are not fully clarified. The fact that small business operates differently than large companies is often stressed in SME literature (Julien and Marchesnay, 1988). Understanding the financing preference as perceived by entrepreneurs is very important and need to be comprehended in-depth.

This study intends to look at the supply of funds during the life cycle of the business and utilization of funds in the business operation as practiced by SMEs. This is because previous studies have tended to view supply and demand factors separately but, in practice; supply and demand are often interdependent as conditions of supply may affect demand for a type of finance. Most researchers (Berger and Udell, 1998; Binks *et al.*, 1991 and Hughes, 1997) observed that, a larger number of small firms are averse to use external equity. They prefer to use internal funds in order to avoid intrusion to their business. This objective attempts to look at the SMEs perceptions in regard to their financing preferences.

Working capital is important to support the day-to-day financial operations of an organization. This includes the purchase of stock, the payment of salaries, wages and other business expenses. Although working capital problems can be experienced by organizations of any size, it is usually small businesses that experience most problems, especially during periods of start-up and expansion (McCosker, 2000). SMEs must ensure that they have sufficient working capital. Too little of working capital will result in cash flow problems, failing to pay suppliers on time and being unable to claim discounts for prompt payment. On the other hand, too much resource tied-up in working capital will earn a lower-than-expected rate of return on capital employed. Again this is not a desirable situation.

2.6.1 Accessing of Credit by MSMEs: A Kenyan Perspective

Africa's SMEs (including Kenya) have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial

institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand.

Reasons why SMEs find it hard to access finance are: High interest rates – disparities between savings account returns and borrowing rates, Collateral requirement-Land ownership etc, Multiple transaction costs; Delays in processing; Inflexible conditions; Government requiring unmovable collateral; SME's to have good track records; SACCO's demanding group borrowing rather than individual companies; High interest rates for commercial banks 18 – 25%, SACCO'S 50%; Lack of transparency-conditions and requirements are not shown in advance; Slow in processing loans, (corruption); Lack of skills to present bankable projects; People borrow and do not pay back; Ministry of youth, National youth committee developing professional activities for the youth (Budget allocations) etc. (Kauffmann, 2005-2006).

Throughout the 1990s the growth rate of the informal economy considerably outpaced that of the formal sector. From 1999-2002, the MSE sector was responsible for generating 675,000 jobs annually. Struggling to thrust the country into a state of economic recovery, the new government has stated its commitment to “integrating the MSE sector into the national economic grid”, causing the government to take a serious look at the potential of the informal and micro MSE sectors for driving employment and economic growth (Sessional Paper on Development of Micro and Small Enterprises for Wealth and Employment Creation, 2004).

The 1999 Baseline Survey on MSEs showed that only about 10% of the MSEs accessed formal sources of credit. There was also use of informal moneylenders (whose interest rates can be almost double that of the MFIs) and of loans from friends and family especially for starting up businesses (National Micro and Small Enterprise Baseline Survey, 1999). MFIs

tend to work with groups which show market potential or individual businesses or clients who have a track record of successful repayment. This means that getting start up loans is a problem for business aspirants. Over the last decade, MFIs have continued to expand all over the country. A survey conducted by Financial Sector Deepening Trust supported by DfID and the World Bank and reported at the end of November 2006 calculated precisely what the outreach of the various financial institutions to SMEs was. Present estimates suggest that the three “small loans” banks (this does not mean that there is a ceiling on the size of their loans but that they offer much smaller loans than any other banks would consider giving). Equity Bank, K-Rep Bank and the Cooperative Bank -together reach about 1,300,000 clients (Central Bank of Kenya, 2006).

A major factor inhibiting both banks and MFIs from increasing their lending to small business is the absence of credit referencing systems in the country. A common register to provide financiers with the credit history of any enterprise big or small would be an important contribution to the opening up of financial services to MSEs. Most banks deal with businesses which can show a track record of success and ability to service loans. At least three of the formal banks, Standard Chartered, Stanbic, and the Commercial Bank of Africa have started lending for small business or offering wholesale credit to the MFIs. The larger formal banks tend to have 700,000 to 1 million shillings as a minimum loan. The loan is only negotiated after client assessment through review of financial statements of at least three years and the bank’s own evaluation and company registry search of the applicant. Traceability is important so fixed premises and an address is expected. This kind of pre-loan scrutiny is obviously better suited to the small to medium sized firms rather than those at the base of the MSEs (CBK, 2009). The loan conditions are attractive. In early October 2006, Stanbic Bank for example offered a repayment period on Small Business loans of up to 15 years at an interest rate of 15.5% which is lower than the rate being charged on other kinds of bank loans. Another bank has lent several million shillings to an MFI against a guarantee from donors.

For MSEs there are several sources of credit: Banks, MFIs, SACCOs, Rotating and Savings Credit Associations (ROSCAs) Accumulated Saving and Credit Associations (ASCAs) Village Banks and friends and family or informal lenders. There are three banks which cater

specifically to small loans including those to MSEs: the K-Rep Bank, the Equity Bank and the Cooperative Bank. Of these the Cooperative Bank is the oldest as it began in the era of cooperatives as the main producer groups in Kenya (1960s and 1970s) and its clientele ranges from SACCO (Savings and Credit Cooperatives) members to large cooperatives.

The financial sector in Kenya still meets only a fraction of the growing demand from the poorer households and MSEs (Financial Services Deepening Kenya, 2006). For the expansion and strengthening of financial markets, interventions are necessary at a number of levels. The first is obviously at the policy level and the requirement of a regulatory framework within which markets can operate. Meanwhile, financial institutions continue to play the most critical role in the development of Kenya's MSME sector and increasing its reach. Financial institutions are constrained in their structure to only lending and unable to offer the range of financial services such as leasing or insurance which enterprises could use. They also fall short sometimes on the managerial and administration standards required to process a large number of short-term loans. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole given the importance of small businesses to the Kenyan economy.

2.7 Theoretical Framework: Institutional Theory

There is a rich body of literature dealing with the role of institutions in shaping human activity in general, and economic activities in particular. The concept of embeddedness is the underlying assumption in all these institutional analyses (Baum and Oliver 1992; Hollingsworth 2002). This concept suggests that entrepreneurship, as manifested by the presence and activities of micro, small and medium enterprises (MSMEs), is embedded in an external environment. This environment is the source of legitimization, rewards or incentives and constraints on the activities of MSMEs (Clingermayer and Feiock 2001). The main paradigm of institutionalism suggests that entrepreneurship as an economic activity is by itself, an institution that emerged from a wider set of institutions (Hodgson 1998; Parto 2005). Hence, institutions are both the "explanantia" (i.e. that which does the explaining)

and “explanandum” (i.e. that which to be explained) of social phenomena (Groenewegen, Kerstholt et al. 1995; Grief 1998).

More particularly, the work of Douglas North in the field of new institutional economics significantly influences the framework of this research. North’s main argument suggests that the presence of economic uncertainty makes it costly for MSMEs to transact. Institutions are formed to reduce this uncertainty by setting the “rules of the game” in the form of formal rules, informal norms, and their enforcement characteristics (North 1992; North 2005). Likewise, the same “rules of the game” provide the constraints and incentives that encourage entrepreneurs to switch from unproductive to productive activity, and ultimately improve the general economic well-being of a society (North 1990). North (2005) repeatedly refers to the non ergodic economic world and postulated that “the key to improved performance is some combination of formal rules and informal constraints and the task at hand is to achieve an understanding of exactly what combination will produce the desired results both at a moment of time and over time”. Equally relevant is the political science view of institutions in which debates revolve around issues on the role of law in governance, as well as importance of structures, such as political systems (Peters 1999). The sociological view of support. In short, success of an organization depends on whether it has the necessary support from the wider system. Furthermore, scholars in the field of organizational theory like Meyer, Rowan, Powell, DiMaggio, Berger and Luckman shed more light on the role of institutional rules that define the normative structures of organizations and their extra-organizational relations (Meyer and Rowan 1977; McKinley and Mone 2003). Conformity to these rules is rewarded with legitimacy, which opens up access to needed societal resources and ultimately leads to what DiMaggio and Powell called “institutional isomorphism”. This view on institutionalism denotes that MSMEs go through the process of institutionalization by constantly seeking legitimacy from their external environment as a prerequisite of organizational survival and longevity. Institutionalism could well be represented by Selznick’s “natural systems model” (Scott 2001).

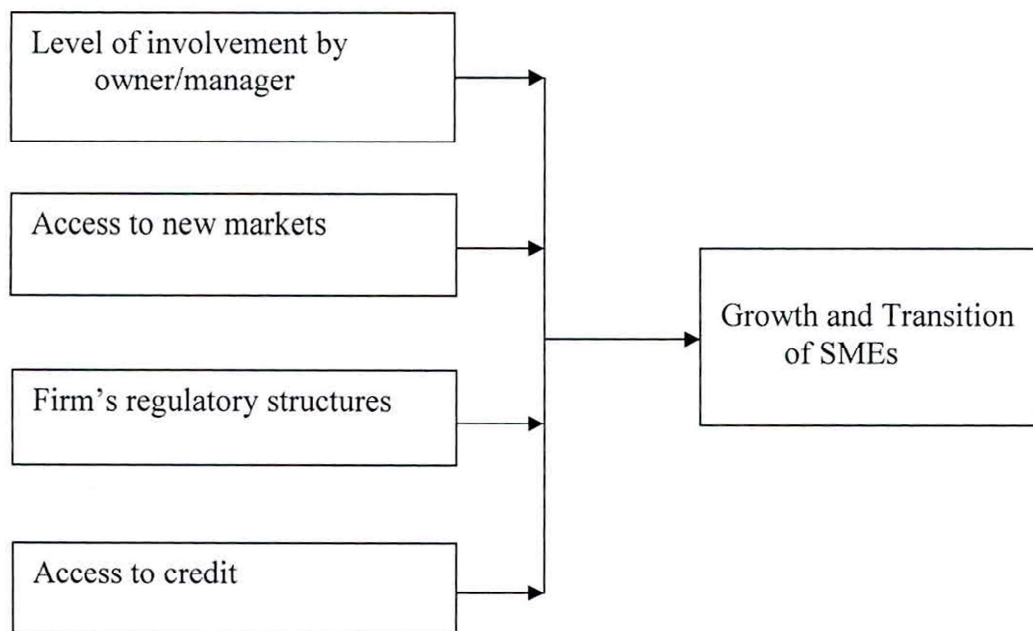
Selznick’s theory situates MSMEs in a complex social system implying that the latter’s organizational structure could only be understood by examining the social structures in

tandem with its non-rational dimensions such as the complex informal systems linking social participants (e.g. MSMEs) with one another and with others beyond their boundaries. This view is consistent with the Parsonian cultural-institutional theory (Parsons and Shils 1951; Scott 2001). Parson's theory explains that the value system of an organization is constantly legitimated by its connections to the "main institutional patterns" of its outside environment. This implies that an MSME as an organization acts as a subsystem of a wider social system, which is a source of meaning, legitimation, or higher level.

Against this backdrop of rich theoretical foundation of institutionalism, this paper proposes a conceptual framework of institutional thickness that supports the growth, success and sustainability of SMEs, much akin to the concept of "environmental munificence" (Anderson, Drakopoulou-Dodd et al. 2000; Anderson and Tushman 2001; Goll and Rasheed 2005). This conceptual framework allows "for propositions as well as hypotheses to summarize explanations and predictions regarding the relationships or interactions of variables" (Parsons and Shils 1951). The use of frameworks in research allows the identification of the elements and the specification of the relationships amongst these elements that the researcher needs to consider for diagnostic and prescriptive analyses (Ostrom 2005). It allows the researcher to identify, as well as compare, the relevant theories shaping the framework.

A review of the nature of entrepreneurship indicated that growth and transition into larger enterprises is essentially an entrepreneurial process (Ibeh, 2004). Despite these theoretical insights, existing empirical studies are not conclusive as to why certain enterprises grow while others do not. Consequently, the processes involved in growth into bigger enterprises are yet to be clearly documented and understood. This study will attempt to address this gap in knowledge by examining the processes and variables involved in the growth and transition of micro and small enterprises into medium and large enterprises. The independent variables to be studied include: associated factors affecting growth, level of involvement by the owner, access to new markets and firm age as postulated to have an effect on the growth and transition of micro and small scale enterprises into medium and large enterprises.

Education and training is expected to equip the owner/manager of to better manage and exploit opportunities for the growth of the enterprise. Access to new markets influence profitability and business sustainability, Firm age determines its learning curve, intra firm linkages both vertical and horizontal. The firm age determines its access to finance and the extent of its social networks. The older the firm, the more it is expected to have developed a learning curve or experiential curve with which it can be able to confront challenges that it meets in its business operations. This is particularly important when seeking financial support as historical data are generally used to determine creditworthy and business risk levels by financiers.



Independent variables

Dependent variable

Figure 2.3 Conceptual Framework

Source: (Researcher, 2010)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research refers to systematic planning, inquiring, acquiring, analyzing and disseminating data, information and insights to guide decision making (Cooper & Schindler, 2003). Research methodology describes the procedure that has been followed in conducting a study (Mugenda & Mugenda, 2003). This chapter discusses the following: research design, population, sampling design, types of data, data collection methods, and data analysis.

3.2 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research (Robson, 2002). According to Cooper and Schindler (2003), there are many definitions of research design but no one definition impacts the full range of important aspects. However, all definitions provide answers for questions such as; what techniques will be used to gather data? What kind of sampling will be used? How time and cost constraints will be dealt with? The study design therefore includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of data.

3.2.1 Descriptive Research Design

Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Furthermore, Chandran (2004) states that descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Descriptive research design is one of the best methods for conducting research in human contexts because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study (Robinson, 2002; Chandran, 2004). Chandran (2004, p.121) states that, “descriptive studies describe the existing conditions and attitudes through observation and interpretation techniques”. Chandran (2004) claims that the descriptive research design is one of the best methods for conducting research in human contexts because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study (Robinson, 2002; Chandran, 2004).

The research design adopted in this study was descriptive and qualitative in nature, According to Zikmund (2007) good researchers thrive for descriptive precision. Descriptive research assists the researcher to find out the answer of who, what, when, where and how. It also helps to determine the difference in need, features of a subgroup and their characteristics. Descriptive research also enables the researcher to have a clear picture of the situation to be investigated before actual data collection. On the other hand, qualitative research enables the researcher to examine, understand and consider a phenomena from an inside perspective (Mugenda and Mugenda, 2003). Qualitative research is a preferred method for conducting case studies and is appropriate for conducting research in management and business administration (Gummesson, 2000).

3.3 Target Population

A population is an entire group of individuals, events or objects having common characteristics that conform to a given specification (Mugenda & Mugenda, 2003). According to Saunders (2003), the population is the full set of cases from which a sample is taken. The target population of the food processing industry in Kenya comprises of over 1,232 businesses (Economic survey, 2009). This comprised of the following, meat and meat products 133, canned vegetables, fish, oils and fats 30, grain mill products 281, bakery products 178, sugar and confectionary 12, miscellaneous foods 521, and beverage and tobacco 77.

Table 3.1 Target Population

Respondents	Frequency	Percentage to be sampled
Meat and meat products	133	10%
Canned vegetables, fish, oils and fats	30	10%
Grain mill products	281	10%
Bakery products	178	10%
Sugar and confectionary	12	10%
Miscellaneous food	521	10%
Beverage and tobacco	77	10%
Total	1,232	10%

(Source Economic Survey, 2009)

3.4 Sampling Design

Sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they are selected from (Mugenda & Mugenda, 2003). Robson (2002) defines a sample as a method of selecting a portion of the population for conducting a study in order to represent the population adequately since it is impossible to take the entire population because of time, financial factors and errors which will discourage the researcher and lead him to surrender the study. Jain (1998) elucidates some of the benefits that the researcher hopes to derive from using a sample is the reduction of cost, greater speed, scope and accuracy. Likewise, Zikmund (2003) argues that sampling is useful for cutting down cost, labor intensity and time constraints. Probability and non-probability are the two types of sampling procedures. Probability sampling occurs when the population has an equal chance of being selected. This research adopted probability sampling method through stratified sampling method.

3.5 Sample Size

The sample size is the part of the target population that will be selected by the researcher for the purpose of data collection (Robson, 2002). Cooper and Schindler (2003) states that the basic idea of sampling is that by selecting some of the elements in a population one is able to make conclusions about the entire population. Sekaran (2000) agrees with this view, stating that by studying the sample, and understanding the characteristics of the sample, it would be possible to generalize the properties or characteristics of the population elements. The sample is preferred to the entire population because of cost, time constraints, greater accuracy of results and faster speed of data collection (Cooper & Schindler, 2003).

According to Mugenda and Mugenda (2003) a sample should be at least 10% or more of its population, if it is to be credible. The respondents were expected to be knowledgeable on how organizations in the food processing sector are run. The researcher drew a sample of the study (10%) from the 1232 food processing companies in Kenya. A total sample size of 123 respondents, was identified from each category within the food processing sector



Table 3.2 Sample size

Industry type	Total population	Percent	(Sample size)
Meat and dairy products	133	10%	13
Canned vegetable , fish, oils and fats	30	10%	3
Grain mill products	281	10%	28
Bakery products	178	10%	18
Sugar and confectionary	12	10%	1
Miscellaneous foods	521	10%	52
Beverage and tobacco	77	10%	8
Totals	1232	10%	123

3.6 Types of Data

Data are the facts presented to the study (Cooper and Schindler, 2003). Data can be classified as primary data and secondary data or quantitative and qualitative (Babbie, 2004). Primary data is obtained from the field while secondary data is recorded information and it results from studies done by others and for a diverse reason than the one, which the data is being evaluated (Cooper & Schindler, 2006). Primary data will be used due to its accuracy and control over error while secondary data allows some level of interpretation of events (Babbie, 2004). Primary data is most solid because the information is not sorted or interpreted by a third party (Cooper & Schindler, 2006). It was obtained through interviews while secondary data was obtained from questionnaires.

Quantitative data is numerical while qualitative data is non-numerical and was used where information in the annual reports is given in numerical form. Its disadvantage is that there is likely loss of meaning when data is quantitative. Qualitative data can be converted to numerical data to make it more precise, easier to add up, be statistically analyzed, compared and summarized (Babbie, 2004). Qualitative data was used to give descriptions of events and also to give good understanding of the food processing industry. This data is richer in meaning compared to quantitative data (Babbie, 2004). Its disadvantage is its pure descriptions. The study will utilize all the four types of data.

3.7 Data Instruments

Data collection methods include focus, questionnaires, observation, interviews, mail and telephone surveys (Cooper & Schindler, 2003). The data collection tools that was used was a questionnaire. Robson (2002) says that questionnaires are a form of survey that gives a scientific reassurance ring of confidence. The questionnaire method of data collection is the most widely used (Leedy, 2002). It is appropriate when addressing sensitive issues and also in this study due to the geographical span of this companies that formed the target of this study.

3.8 Data Collection Procedures

This study adopted questionnaires as the principal instrument for data collection. The questionnaire had two parts: the first had close-ended questions, which sought to gather demographic information and other statistical data while the second part, had both closed and open-ended questions that sought to establish opinion from the respondents and gather more of the qualitative data. The questionnaire was administered by the researcher and through direct interaction with the respondents to explain the motive of the study and for purposes of creating rapport.

3.9 Pilot-testing

Pre-testing is the administration of the data collection instrument with a small set of respondents from the population for the full scale survey (Mugenda & Mugenda 2003). If problems occur in the pre-test, it is likely that similar problems will arise in full-scale administration. The purpose of pre-testing is to identify problems with the data collection instrument and find possible solutions (Kerlinger, 1993). Terminologies used in questionnaires or interviews may not be understood by respondents and information to be retrieved from documents may not be readily available. Reducing error to acceptable levels requires the pre-testing of data collection instruments (Baxter, 2001). The instruments for this study therefore will be used to sample five (5) respondents from other companies that will not be part of the sample and adjusted accordingly.

3.10 Data Processing and Analysis

Data has to be analyzed in order to provide answers to the research questions. It involves interpretation and processing of data collection Mugenda and Mugenda (2003 p. 203) state that “Data analysis is the process of bringing order, structure and meaning to the mass of information collected.” Data analysis of qualitative data involves data sorting, data editing, and identification of categories, themes and patterns, analyzing and interpreting of the results. The data obtained was analyzed using Statistical Package for Social Sciences (SPSS) and the findings presented in the form of frequencies, percentages and pie charts.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter analyzed, presented and interpreted the findings of the study carried out to determine the socio-economic factors that affect the growth of Micro and Small manufacturing enterprises in the food and beverage sector in Nairobi Kenya. The findings have been presented using frequency tables, charts, and percentages. The accessible population was one hundred and twenty three (123) SMEs in Nairobi. The target was a single respondent from each firm represented by the owner/Manager. In some SMEs, both the senior and middle level managers filled the questionnaires. Sixty eight (68) fully completed questionnaires were returned giving a response rate of 55.0%. Twenty eight (28) questionnaires were returned blank and twenty seven (27) questionnaires were not returned. According to Mugenda and Mugenda (2003) a response rate of 50% or more is sufficient for research analysis purposes and is recommended for descriptive studies. Therefore, the response received in this study was considered to be good and sufficient for analysis and reporting as well as to draw conclusions. Overall responses were then analyzed using descriptive statistics and correlations using the Statistical Package for Social Science (SPSS).

4.1 Demographic Characteristics

Table 4.1 Age of the respondents

Age	Frequency	Percent
20-29	8	12.0
30-39	35	52.0
40-49	19	28.0
50 years and Above	6	8.0
Total	68	100.0

From the findings presented in Table 4.1 above, more than fifty percent (52%) of the respondents were aged between 30-39 years, 28% were aged between 40-49 years and 8%

were aged 50 years and above. This study established that the age group between 30-39 years of age was a reflection of youthful people with a great potential to engage in diversified SMEs as a source of income. Considering the most productive years of an adult are between the ages of 20-50 years (CBS, 2006), this study showed that majority of the respondents were relatively young and therefore one may deduce that SMEs are an appealing and practical business venture to the youth.

4.2 Gender

This study sought to find out the gender of the respondents the study found out that, 59%, of the respondents were females while 41% were males as shown in figure 4.1 below.

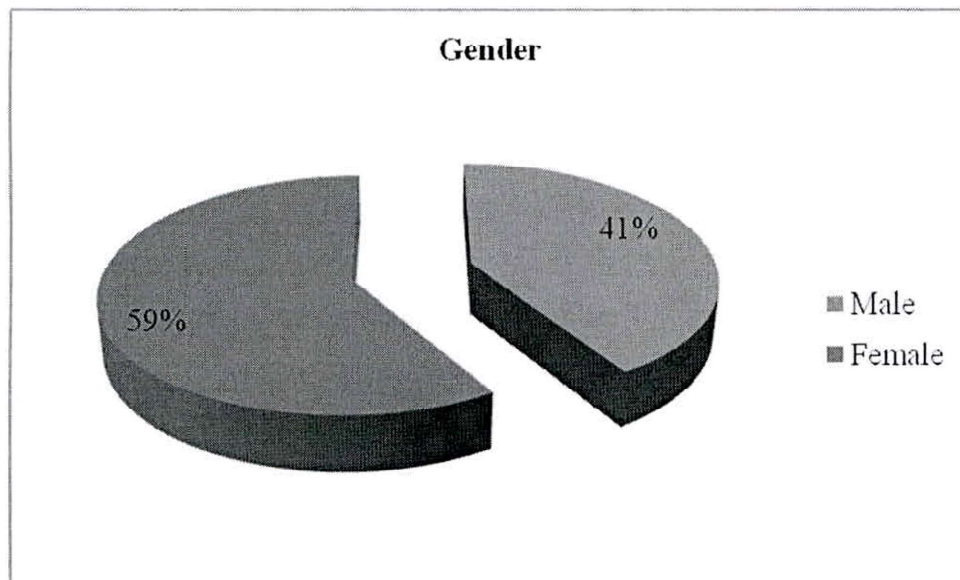


Figure 4.1 Gender of the respondents

The study targeted respondents of both genders which was essential for variations. Though there was no discrimination in issuing out the questionnaire, and whereas every person had equal chance of being selected as a respondent, majority of the respondents were females. This could imply that there were more females within food and beverage sector of the SMEs than there were males.

4.3 Level of Education

This study sought to find out the level of education of the respondents.

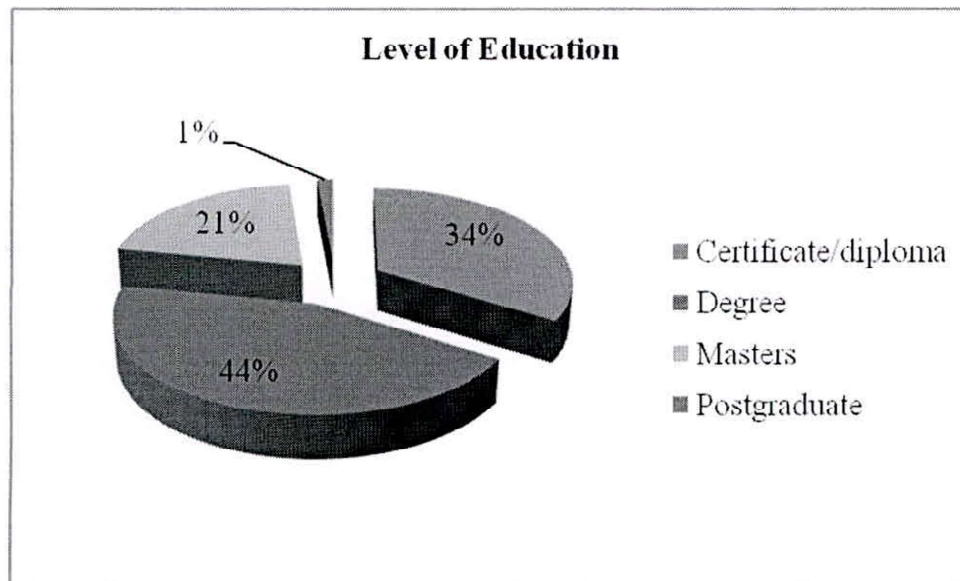


Figure 4.2 Level of education

The study established that all the respondents had a tertiary education with 44% having attained university education, 34% having attained a college education and 21% having attained a masters degree as illustrated in Figure 4.2 above. This shows that a majority of the respondents within the SME sector are qualified professionals in their careers. Professionalism is seen as a basic factor in organizational management as well as entrepreneurship.

4.4 Professional Background

This study sought to find out the professional background of the respondents.

Table 4.2 Professional background

Profession	Frequency	Percent
Finance/Business	26	38.0
Home Economics	10	15.0
Engineering	4	6.0
Food Science	12	18.0
I.T	9	13.0
Veterinary	1	1.0
HR	4	6.0
Economics	2	2.0
Total	68	100.0

The study wanted to find out the professional background of the respondents. From the findings, 38% (26) studied finance/business, 18% (12) food science, 15% (10) studied home economics while 13% (9) had I.T background. This is an indication that people working within the SMEs, have a diverse background in relation to their profession.

4.5 Position held in the SME

In regard to the position held by the respondents within their organization, the findings have been tabulated in Table 4.3 below.

Table 4.3 Position held in the organization

Position held in the organization	Frequency	Percent
Owner/Founder	19	28.0
CEO	1	1.0
Senior manager	22	32.0
Middle management	16	24.0
Junior manager	10	15.0
Total	68	100.0

This study also sought to find out the position of the respondents in their SMEs. From the findings, 28% of the respondents were owner/founders of the business, 32% were the senior managers, 24% were in middle management and 15% were junior managers. The conclusion on the position held in the SMEs is that most of the SMEs are managed by the senior managers. Also these findings correspond with the objective of the study whereby apart from the owner/founder of the company, the CEO the senior managers would also be targeted.

4.6.0 Empirical Findings Objective Wise

This study analyzed the findings of this study based on the objectives of this study which were: to determine the extent of involvement by the owner/managers of SMEs in the food processing sector in regard to growth. Finding out the effects of accessing new markets on enterprise growth. To assess the effect of age, regulatory and legal structures of the business on the growth of the enterprises and to establish the accessibility of credit among SMEs in the food processing sector. The findings have been tabulated in this chapter.

4.6 Level of Owner Involvement and Growth and Transition of SMEs

The first objective of this study was to determine the extent of involvement by the owner/managers of SMEs in the food processing sector in regard to growth. This was based on a comparison on the average monthly turnover and number of employees in the year 2006 and 2011, the entrepreneurial approach of the owners and leadership dynamism. The findings are presented in Tables 4.4, 4.5, 4.6 and Figure 4.3 respectively.

Table 4.4 Comparison of the average monthly turnover in 2006 and 2011

Average monthly turnover in 2006			Average monthly turnover in 2011	
Range in Kshs	Frequency	Percent	Frequency	Percent
100,000-200,000	44	65.0	36	53.0
200,000-300,000	11	16.0	14	22.0
300,000-400,000	6	9.0	10	15.0
400,000-500,000	5	7.0	4	6.0
500,000-600,000	2	3.0	2	2.0
700,000-800,000	0	0	2	2.0

Average monthly turnover in 2006			Average monthly turnover in 2011	
Range in Kshs	Frequency	Percent	Frequency	Percent
100,000-200,000	44	65.0	36	53.0
200,000-300,000	11	16.0	14	22.0
300,000-400,000	6	9.0	10	15.0
400,000-500,000	5	7.0	4	6.0
500,000-600,000	2	3.0	2	2.0
700,000-800,000	0	0	2	2.0
Total	68	100.0	68	100.0

From the findings in Table 4.4 above, this study sought to establish the difference of the average monthly income of the SMEs within the food processing in 2006 and 2011. The study wanted to establish the level of owner involvement and growth and transition of the SMEs in the sector. The findings show that 65% had an income of Kshs. 100,000-200,000 as compared to 2011 where the percentage was 53% showing a decline of about 12%. Those that had an average income of between Kshs. 200,000-300,000 and 300,000-400,000 had increased from 16% in 2006 to 22% in 2011 and from 9% in 2006 to 15% respectively. This is a good indication on the performance of these businesses considering the fact that SMEs are faced with a myriad of challenges that include; lack of managerial training and experience, inadequate education and skills, lack of credit, national policy and regulatory environment, technological change, poor infrastructure and scanty markets information (Wanjohi, 2009). Though in 2011 the percentage dropped for SMEs with a turnover of between Kshs. 100,000-200,000 by 12% it can be assumed that this percentage had joined the other turnover levels. These findings therefore conclude that growth has taken place among SMEs on a gradual scale especially in regard to the monthly average turnover between the years.

4.6.1 Comparison of Number of Employees Between 2006 and 2011

Based on the first objective, this study sought to find out the difference in number of employees in the year 2006 and in the year 2011.

Table 4.5 Comparison of number of employees between 2006 and 2011

No. of employees in 2006			No. of employees in 2011	
Number	Frequency	Percent	Frequency	Percent
50 and Below	43	63.0	45	66.0
51-100	14	21.0	17	25.0
101-150	8	12.0	3	4.0
151-200	3	4.0	2	3.0
201-250	0	0	1	2.0
Total	68	100.0	68	100.0

The study further sought to establish the comparison between the number of employees in 2006 and 2011 in order to find out whether there as growth and transition.. The SMEs that had 50 employees and below were 63% in 2006 and 66% in 2011 an increase of 3%, those with 51-100 employees were 21% in 2006 and 25% in 2011 an increase of 4%. This is supported by Berry (2003, p. 9), who states that “the SME sector is made up of different types of firms from established traditional family businesses employing over a hundred people to “survivalist” self employed people working in informal small medium enterprises.” These findings conclude that the number of employees vary according to the nature of the SME However those that had 101-150 employees in 2006 were 12% and in 2011 were 4% indicating a decline of 7.4%.

4.6.2 Entrepreneurial Approach towards Growth of SMEs

This study also sought to know the level of agreement with the respondents’ on various statements in regard to the level of involvement by the owner/managers of the SMEs.

4.6.3 SMEs have Dynamic Leadership

Table 4.6 SMEs have a very dynamic leadership

SMEs have a very dynamic leadership	Frequency	Percent
Strongly agree	18	27.0
Agree	46	68.0
Neutral	1	1.0
Disagree	3	4.0
Total	68	100.0

In regard to whether SMEs have a dynamic leadership; an overwhelming majority (95%) either strongly agreed or agreed with the statement as shown in Table 4.6 above. These findings are supported by literature stating that the close connection between an owner-manager and the firm is the dominant characteristic of small firms (Vesalainen, 1999, p.18). Instead of profit maximization or growth, a firm's primary goal may be the entrepreneur's independence or self-realization (Foley & Green, 1989). Moreover, there may not be adequate resources for growth, or the expected increase in business risks may limit a firm's growth willingness but the owner or manager leadership qualities enhances the growth of SMEs

4.6.4 The Owner/Founder is very Strategic and Entrepreneurial in Approach

Based on the first objective of this study sought to find out the level of agreement in regard to whether the owner/founder is strategic and entrepreneurial in approach towards their SMEs.

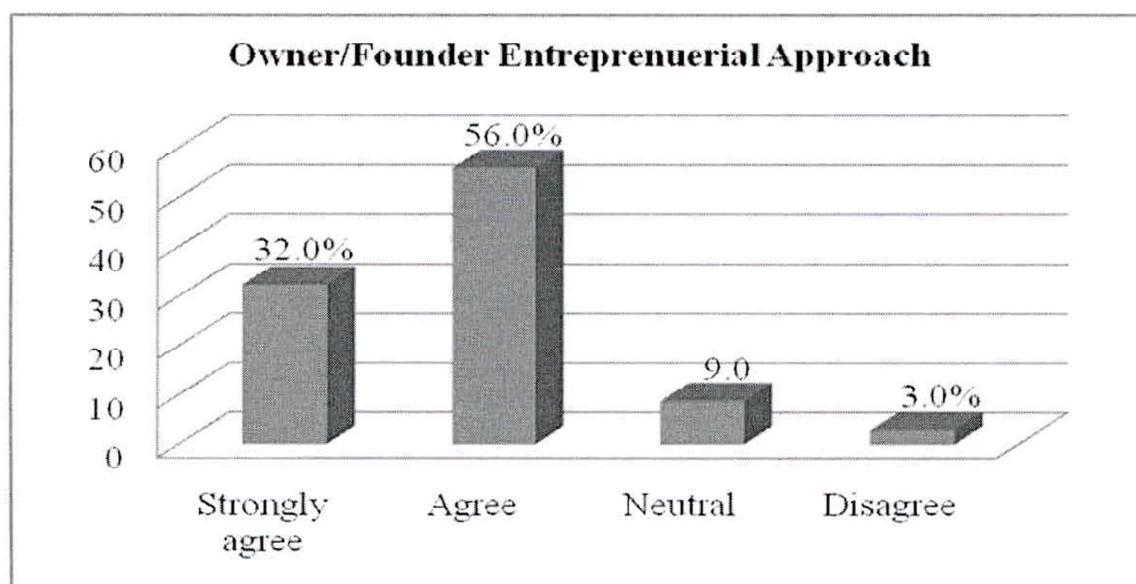


Figure 4.3 Owner/Founder entrepreneurial approach

From the findings in Figure 4.3 this study sought to find out the level of agreement on whether the owner/founder is strategic and entrepreneurial in approach. 32% strongly agreed, 56% agreed, 9% were neutral on the statement and 3% disagreed. From the literature review effective strategy development process is implemented if the firm owners have the ability to comprehend and make appropriate use of sophisticated strategic management practice. Out of these results it is worthwhile to note that strategies in SMEs are formulated

by the executive team. This conclusion is further supported by Karami (2007) who states that, SMEs reveal that their performance is wholly dependent on quite a number of factors among them the decision makers. The knowledge of the environment that a company is operating in is crucial, and this is obtained by entrepreneurs being involved in the formulation of strategies in order to maintain a competitive advantage in the market.

4.7 Access to New Markets, Growth and Transition of SMEs

The second objective of this study was to find out the effects of accessing new markets on enterprise growth. The findings are shown in Figure 4.4, 4.5 and in Table 4.7 respectively.

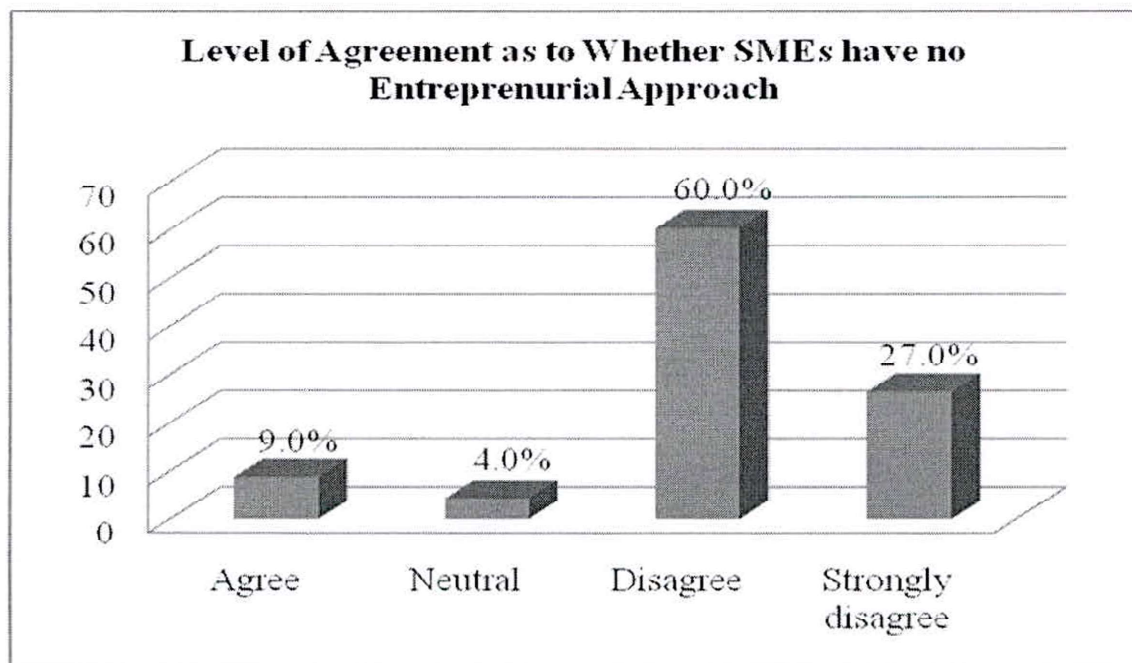


Figure 4.4 Level of agreement as to whether SMEs have no Entrepreneurial approach

The study sought to find out the response in regard to access to new markets, its growth and transition of SMEs. From the findings, a big majority (87%) of the respondents disagreed with the statement while a partly 9% agreed and 4% were neutral. This implies that SMEs do adopt entrepreneurialism in their operations.

4.7.1 SMEs Lack Strategic Focus Thus Poor Strategy Formulation and Implementation

This study sought to find out whether SMEs lack strategic focus thus poor strategy formulation and implementation

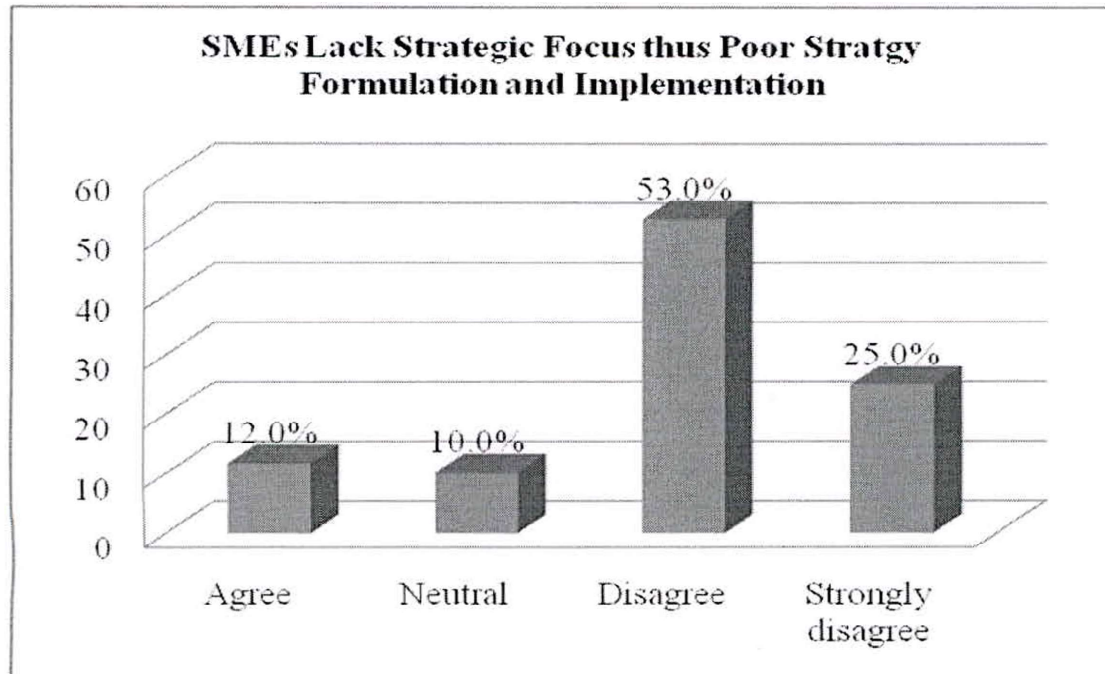


Figure 4.5 SMEs lack strategic focus thus poor strategy formulation and implementation

This study sought to find out the level of agreement on whether on the statement that SMEs lack focus and hence poor strategy formulation and implementation. From the findings in Figure 4.5, 53% disagreed, 25% strongly disagreed, while 10% and 12% either agreed or were neutral respectively. These findings have been supported by Foster (1993) states that, strategy formulation and its implementation is often referred to as strategic or long range planning and is said to be concerned with the development of a SME's mission, objectives and strategies. It has been contended that the first step in the process of strategy formulation is defining the corporate mission and vision.

4.7.2 SMEs are able to Assess and Respond to Environmental Challenges

Based on the second objective in regard to finding out the effects of accessing new markets on enterprise growth, this study sought to know whether SMEs are able to asses and respond to environmental challenges. The findings are shown in Table 4.7.

Table 4.7 SMEs are able to assess and respond to environmental challenges

SMEs are able to assess and respond to environmental challenges	Frequency	Percent
Strongly agree	2	3.0
Agree	33	49.0
Neutral	5	7.0
Disagree	26	38.0
Strongly disagree	2	3.0
Total	68	100.0

On the statement of whether SMEs are able to respond to environmental challenges; 3% strongly agreed, 49% agreed, 38% disagreed and another 3% strongly disagreed. Liberalization creates a situation where large-scale changes in organizational level strategies are expected. It gives easier and more economical access to foreign technology, raw materials, plant and machinery etc, to domestic firms. Lukas et al; (2001), adds, the provision of better supply side environment to firms through deregulation, privatization and globalization measures have also led to highly strategic responses to the competitive market. In the area of public sector in exchange of more autonomy, governments have been reducing budgetary support, divesting equity to private investors to bring in more accountability within the SME sector and also forcing them to augment their own financial resources

4.7.3 SMEs have an Idea what is a Strategy or the Different Types of Strategy

Based on the second objective in regard to finding out the effects of accessing new markets on enterprise growth, this study sought to find out whether SMEs have an idea on what is strategy or the different types of strategies.

Table 4.8 SMEs have an idea what is a strategy or the different types of strategy

SMEs have an idea what is a strategy or the different types of strategy	Frequency	Percent
Strongly agree	6	9.0
Agree	38	56.0
Neutral	7	10.0
Disagree	16	24.0
Strongly disagree	1	1.0
Total	68	100.0

On whether SMEs have an idea what is a strategy or the different types of strategies 56.0% of the respondents agreed, 24.0% disagreed, 10.0% were neutral while 9.0% strongly agreed. From the above findings, this research finds out that firms can choose to craft different strategies that lead to success in order to have an edge in the market or to create competitive advantage in the area of operation. Based on knowledge of the market conditions, different SMEs can adopt different strategies and a unique market for instance, one by stressing the functional features of the product and the other its active and decorative adaptation based on what its objectives are (Longenecker, Moore and Petty, 2002).

4.7.4 Level of Agreement on Whether SMEs should worry about Strategies

In regard to strategies, this study sought to find out whether SMEs should worry about strategies.

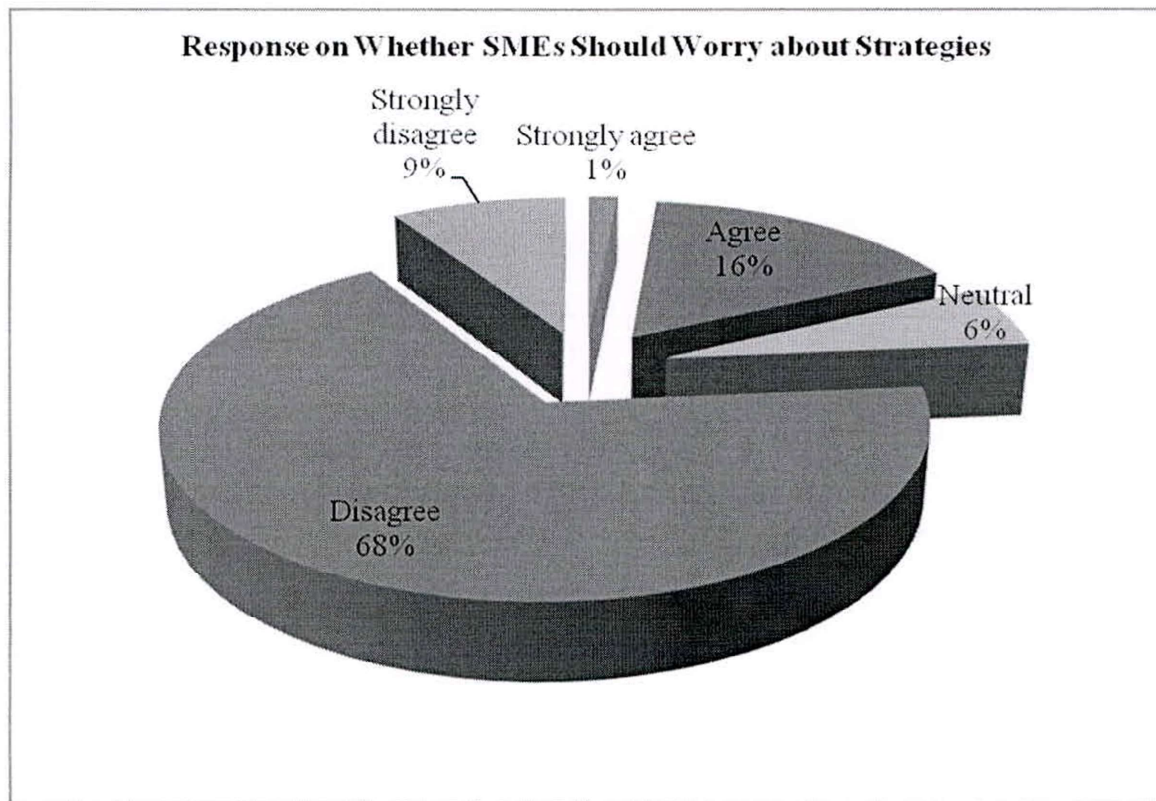


Figure 4.6 Level of agreement on whether SMEs should worry about strategies

From the findings in Figure 4.6, this study had sought to find the level of agreement on whether SMEs should worry about strategies. 68% disagreed, 9% strongly disagreed while 16% agreed and 6% were neutral. Managing activities internal to the firm is only part of the executives' responsibility. Dealing effectively with all that affects growth and profitability of a firm remains an organization's priority. Executives employ management processes that they feel will position a firm optimally in its competitive environment. Therefore methods of evaluating strategic success also are linked to formality. Some firms' especially smaller ones follow an entrepreneurial mode. Considering SMES are basically under the control of a single individual, and they produce a limited number of products and services this entrepreneurial mode is found in most SMEs as a strategy as it is a critical element for the management of these firms today because it explains success and survival to large extent especially in a highly competitive market.

Table 4.9 Summary of responses access to new markets, growth and transition of SMEs

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
SMEs have a very dynamic leadership	27.0%	68.0%	2.0%	4.0%	-
Owner/founder is very Strategic and entrepreneurial in approach	32.0%	56.0%	9.0%	3.0%	-
SMEs have no entrepreneurial approach to business	-	9.0%	4.0%	60.0%	27.0%
SMEs lack strategic focus thus poor strategy formulation and implementation	-	12.0%	10.0%	53.0%	25.0%
SMEs are able to assess and respond to environmental challenges	3.0%	49.0%	7.0%	38.0%	3.0%
SMEs understand what is a strategy and different types of strategies	9.0%	56.0%	10.0%	24.0%	1.0%
Small and medium companies should not worry about strategies	1.0%	16.0%	6.0%	68.0%	9.0%
SMEs approach to strategic issues can be rated the best in the market or specific industry	-	23.0%	10.0%	60.0%	7.0%

In summary, this research sought to establish the level of agreement in regard to the respondents' level of involvement and understanding of SMEs. From the findings in Table 4.8, 95% of the respondents either strongly agreed or agreed that SMEs have a very dynamic leadership, 88% of the respondents also either agreed or strongly agreed that the owner or founder is very strategic and entrepreneurial, 60% disagreed that SMEs have no entrepreneurial approach. More than 50% disagreed that SMEs lack strategic focus thus poor strategy formulation and implementation, while 56% agreed that SMEs understand what is strategy and the different types of strategies and another 68% stated that they disagreed on the statement that SMES should not worry about strategies. Finally 68% either

disagreed or strongly disagreed that SMEs approach to strategic issues can be rated the best in the market.

4.8 Firms Regulatory Structures and Growth and Transition of SMEs in the Food Processing Sector

Objective three of this study was to assess the effect of age, regulatory and legal structures of the business on the growth of the enterprises. This was based on; the factors affecting growth and transition of SMEs, whether SMEs have business plans and the difficulties in accessing finances in the food processing sector These findings are presented in Table 4.10, 4.11 and 4.12 respectively.

Table 4.10 Firms regulatory structures growth and transition of SMEs in the food processing sector

What are the factors affecting growth and transition of SMEs especially in the food processing sector	Frequency	Percent
Unfavourable prices	4	6.0
Policy making institutions ignore SMEs	24	35.0
Lack of entrepreneurial approach	8	12.0
Limited market on the industry	11	16.0
High cost of food prices	9	13.0
Economic conditions	9	13.0
No response	3	5.0
Total	68	100.0

This study sought to find out the firms regulatory structures growth and transition of SMEs in the food processing sector and 35% indicated that policy making institutions ignore SMEs, 16% indicated a limited market on the industry, 13% stated either high cost of food prices or the prevailing economic conditions and 12% stated the lack of an entrepreneurial approach. These findings correspond with the literature review that states SMEs face myriad of challenges, which affect their growth, transition and profitability, hence these enterprises may not be able to contribute to the development of the economy hence leading to these enterprises not being able to achieve a competitive advantage (Wanjohi, 2009). Some of these challenges are: lack of managerial training and experience, inadequate

education and skills, lack of credit, national policy and regulatory environment, technological change, poor infrastructure and scanty markets information (Wanjohi, 2009).

4.8.1 SME had a Formal or Written Business Plan Prior to Starting the Business

This study sought to know whether SMEs have a formal or written business plan prior to starting the business.

Table 4.11 SME had a formal or written business plan prior to starting the business

SME had a formal or written business plan prior to starting the business	Frequency	Percent
Yes	51	75.0
No	11	16.0
Do not know	4	6.0
No response	2	3.0
Total	68	100.0

On whether the respondents knew what a business plan is the response was 100% indicating that they understood. The study further probed whether the SMEs had a formal or written business plan prior to starting the business, 75% of the respondents affirmed they had, 16% indicated that they did not have, 6% did not know and 3% did not respond.

4.8.2 Opinion on the Usefulness of a Business Plan

This study sought to find out whether a business plan is useful or not based on the objective on assessing the effect of age, regulatory and legal structures of the business on the growth of the enterprises.

Table 4.12 Opinion on the usefulness of a business plan

Opinion on the usefulness of a business plan or have you ever needed one	Frequency	Percent
They are bureaucratic measures imposed by financial experts (bottlenecks)	1	1.0
Not necessary from an entrepreneurial point of view	2	3.0
They do help enterprises especially in seeking external funding	8	12.0
No response	57	84.0
Total	68	100.0

From the findings in Table 4.11 above, the study revealed that respondents did not answer to the question and only 11 (16% cumulatively) responded to the statement. 12% stated that business plans do help enterprises in seeking external funding.

4.9 Access to Credit and Growth and Transition of SMEs

The fourth objective of this study was to establish the accessibility of credit among SMEs in the food processing sector. This objective was based on better understanding of the various difficulties in accessing finances either for start-up or expansion. The findings are shown in Tables 4.13, 4.14, 4.15, 4.16 4.17 and 4.18 respectively.

Table 4.13 difficulties in accessing finances either for start-up or expansion

Do you have difficulties in accessing finances either for start-up or expansion	Frequency	Percent
Yes	36	53.0
No	27	40.0
No response	5	7.0
Total	68	100.0

On the question on whether SMEs in the food processing sector face difficulties in accessing finances/credit as well as growth and transition of SMEs more than half (53%) indicated they had difficulties 40.0% stated that they did not have difficulties and 7% did not respond to the question. A major factor inhibiting both banks and MFIs from increasing their lending to small business is the absence of credit referencing systems in the country. A common

register to provide financiers with the credit history of any enterprise big or small would be an important contribution to the opening up of financial services to MSMEs.

Table 4.14 Difficulties in accessing finances either for start-up or expansion

What are the difficulties in accessing finances either for start-up or expansion	Frequency	Percent
Corruption and dysfunctional markets	9	13.0
Poor financial management	9	13.0
Lack of collateral	11	16.0
Poor accounting policies that form a barrier in funds acquisition	6	9.0
No response	33	49.0
Total	68	100.0

On the difficulties in accessing finances for start-up or expansion 13% indicated both corruption and dysfunctional markets as a hindrance, or poor financial management respectively; 16% stated lack of collateral, 9% indicated poor accounting policies that formed a barrier in funds acquisition while 40% did not respond to the statement. Financial institutions are constrained in their structure to only lending and unable to offer the range of financial services such as leasing or insurance which enterprises could use. They also fall short sometimes on the managerial and administration standards required to process a large number of short-term loans. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole.

Table 4.15 Difficulties in trying to access new markets

Do you have difficulties in trying to access new markets	Frequency	Percent
Yes	32	47.0
No	31	46.0
No response	5	7.0
Total	68	100.0

On whether SMEs in the food processing sector experienced any difficulties in accessing new markets, 47% indicated yes and 46% indicated no and 7% did not respond.

Table 4.16 If yes please state the difficulties

If yes please state the difficulties	Frequency	Percent
Administrative burden among local authorities (bureaucracy)	13	18.0
Unfriendly market characteristics (poor infrastructure)	8	12.0
Marketing planning	5	7.0
Lack of managerial skills especially in expansion policies	3	4.0
Competition and lack of goodwill from the government	4	6.0
Total	32	47.0

From the (32) respondents who had answered in the affirmative; 18% indicated that administrative burden among local authorities, 12% stated unfriendly market characteristics 7% stated marketing planning, 4% said lack of managerial skills and 6% stated competition and lack of good will from the government,

4.9.1 Modern Tools/Technology Applied by SMEs in Accessing Credit in regard to Growth and Transition

This study sought to find out the various tools/ technology that are applied by SMES in accessing credit in regard to growth and transition. The findings are shown in Table 4.17 below.

Table 4.17 Modern tools/technology applied in regard to growth and transition

What type of modern tools/technology do you apply in your business to keep it up to date and competitive	Frequency	Percent
ICT	33	49.0
Adoption of energy saving equipment	18	27.0
Adoption of solar energy due to high electricity costs	5	6.0
No response	12	18.0
Total	68	100.0

This study also sought to find out the types of modern tools or technologies that were applied by SMEs in the food processing sector to keep them competitive. 49% indicated that they had adopted the use of ICT, 27% stated they had adopted energy saving equipment and 6% stated the adoption of solar energy due to high electricity costs.

4.10 Challenges of SMEs in the Food Processing Sector

Based on the fourth objective in regard to establishing the accessibility of credit among SMEs in the food processing sector, this study sought to find out what challenges the Enterprises encounter within their line of business. The findings are tabulated in Table 4.18 below.

Table 4.18 Challenges within your line of business

What are the challenges you come across within your line of business	Frequency	Percent
Complicated tax regimes	4	6.0
Training and development among labour force	16	24.0
Lack of management (entrepreneurial) strategy	10	15.0
Scanty market information	7	10.0
Stiff competition and business malpractices	18	27.0
Limited working capital	6	9.0
Poor record keeping	2	2.0
No response	5	7.0
Total	68	100.0

From the findings in Table 4.18, various challenges were given by the respondents. 6% indicated complicated tax regimes, 24% stated training and development among the labour force, 15% said lack of management (entrepreneurial strategy. 10% said scanty market information and 26% stated that stiff competition and business malpractices was their main challenge. This findings support what Vos (2005) observes that managers of SMEs have poor skills in reflecting upon their companies strategically. SMEs often are oriented towards serving local niches or developing relatively narrow specializations (Urbonavicius, 2005). They may have constraints due to the scarcity of resources, flat organizational structure, lack of technical expertise, paucity of innovation, occurrence of knowledge loss, etc. Hence

SMEs, which link operations to their business strategies, outperform the competition as well as other challenges. The findings and related literature establish that high-growth firms place a greater emphasis on external drivers such as strategic orientation, their operating environment and the use of e-commerce compared with firms having static or declining sales.

Table 4.19 Ranking of entrepreneurial approach towards growth of SMEs

Descriptive Statistics			
Statements	Mean	Std. Deviation	N
SMEs have a very dynamic leadership	1.8382	.66040	68
Owner/founder is very strategic and entrepreneurial in approach	1.8235	.71113	68
SMEs have no entrepreneurial approach to business	4.0441	.81833	68
SMEs lack strategic focus thus poor strategy formulation and implementation	3.9118	.90990	68
SMEs are able to assess and respond to environmental challenges	2.8971	1.05292	68
SMEs have an idea what is a strategy or the different types of strategy	2.5294	.99956	68
I do not believe small and medium companies should worry about strategies	3.6618	.90785	68
SMEs approach to strategic issues can be rated the best in the market or specific industry	3.5373	.92652	67

The results in Table 4.18 indicate that, the best ranked statement in regard to SMEs having an entrepreneurial approach was that SMEs do not have an entrepreneurial approach with a mean of 4.0441 which implies that the respondents felt that their SMEs do apply entrepreneurialism within their businesses, Another ranking that was high in terms of mean was that SMEs lack strategic focus thus poor strategy formulation and implementation (mean=3.9118) and that SMEs should not worry about strategies (mean=3.6618). These findings concur with what the researcher sought to establish in regard to the fact that SMEs do apply entrepreneurialism within their daily functions in order to keep up with competition while venturing into new markets

The findings on correlation between entrepreneurial approach towards growth and transition of SMEs indicated there was a strong correlation between the owner/founder of the SME and SMEs having a dynamic leadership ($r=.510$, $p<0.01$) at the significant level of 0.01, there was a moderate positiveness on correlation on SMEs have a very dynamic leadership and SMEs have an idea what strategy is ($r=.3.13$, $p<0.01$) at the significant level 0.01. Another finding was that there was a positive correlation between SMEs lacking strategic focus thus poor strategy formulation and implementation with SMEs have no entrepreneurial approach ($r=.426$, $p<0.01$) at a significant level of 0.01. This study also established that there was a moderate positiveness correlation between SMEs should not worry about strategies because the owner is very strategic and adopts an entrepreneurial approach ($r=.302$, $p<0.01$) at a significant level of 0.01.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This study sought to determine the socio-economic factors that affect the growth of Micro and Small manufacturing enterprises in the food and beverage sector in Nairobi Kenya. The purpose of this chapter is to discuss the key findings of the study, arrive at conclusions and give recommendations. This chapter contains a summary of key findings and implications of the findings to SMEs operating in Nairobi. The chapter gives recommendations on how to overcome various challenges identified in the study. The recommendations relate to what SMEs can do as well as on what can be done to improve the performance of the SMEs in order to enhance competitive advantage and growth in these SMEs. The chapter concludes with recommendations for possible areas of further research.

5.1 Summary of Findings

From the findings, 41.2% were males while females were 58.8%. The age bracket was composed of different ages but most of the respondents were between 30-49 years making a percentage of 79.4% of all the total respondents. This was an indication that the respondents were in their productive stage of their careers. From the findings the average monthly turnover between 2006 and 2011 had increased on a gradual scale. On the number of employees between 2006 and 2011 there was an increase. The SMEs that had 50 employees and below were 63.2% in 2006 and 66.2% in 2011 representing an increase of 3%, those with 51-100 employees were 20.6% in 2006 and 25% in 2011 indicating an increase of 5%.

On the objective of how to determine the effect of involvement by the owner/managers of the SMEs on the growth of micro and small enterprises in the food processing sector, 32.4% strongly agreed, 55.9% agreed, 8.8% were neutral on the statement and 2.9% disagreed. From the SMEs' point of view, firms like to possess a set of distinctive competencies that are competitively superior and can contribute to the benefit of multiple businesses. This is further supported by Mandeville (2005) who suggests that strategic management processes and their approach should be process-oriented, focusing on system design. This includes recognizing that self-organization is a vital process in complex systems. Thus the

appropriate role for owner/founder and managers is to help shape and create contexts in which appropriate forms of self-organization can occur so that desirable patterns can emerge. These contexts can be both within the SMEs and/or include other SMEs “managers help shape the parameters that define the appropriate context while allowing the details to unfold” (Mandeville, 2005, p. 123). These findings agree with the literature in chapter two that in the current environment it is known that business owners are involved in strategy formulation and implementation (Karami, 2007).

The other key objective was to find out the effects of accessing new markets on enterprise growth. 47.1% indicated that they had difficulties. Namusonge, (1998) notes that successful self-employment requires access to well functioning product and supply market. He further observes that markets themselves may present obstacles to business or certain entrepreneurs may find that they lack access or entry into the market. Therefore product quality, exposure of the entrepreneur to existing or potential markets is crucial for firm growth. Most empirical literature highlights three sets of variables as having the potential to influence access to new markets. These include environmental factors, firm factors and individual factors. This study observes that in addressing the question of growth of small firms, an alternative way is to look at the so called ‘barriers to growth’ literature. According to Omiti et al., (2004) this literature assumes that a number of small firms wish to grow and access new markets, but they are prevented from doing so by ‘barriers’.

The other key objective was to assess the effect of age of the business on the growth of the enterprises. With an increase in the number of employees between 2006 -2011 averagely at 8% Burki and Terrell (1998) found out in studies done in developing countries that firms suffer losses in productivity as they age. They attributed this to lack of sufficient investment in existing or emerging technology, leaving the firms with relatively outmoded equipment thus hindering their productivity levels relative to younger firms. However, Birch (1987) argues that, among small firms, older firms grow faster than younger ones, while among larger firms there is a tendency for growth to decline with age.

Enterprises also increase their social networks as they age. This is because having an extensive social network is a valuable asset, which can help an entrepreneur obtain access to information (e.g., leads about profitable business opportunities) as well as resources (e.g.,

credit). While social networks can enhance SME growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, (Nitcher and Goldmark, 2008). Most literature points to the role social networks can play in helping entrepreneurs overcome obstacles related to transaction costs, contract enforcement, and regulation.

Another objective of this study was to assess the effect of age and regulatory policies of the business on the growth of the enterprises. From the findings, 35.3% indicated that policy making institutions ignore SMEs, 16.2% indicated a limited market on the industry, 13.2% stated either high cost of food prices or the prevailing economic conditions and 11.8% stated the lack of an entrepreneurial approach. Another key finding in regard to this objective was 75% of the respondents affirmed they had formal or written business plans prior to starting the business within the SMEs segment. All organizations, large and small, are today struggling to grow in an external operating environment which is epitomized by turbulence and uncertainty. In order to make a living for themselves and for their employees and to maintain competitive advantage in such an uncertain environment, owner-managers in SMEs have to focus on the need for effective utilization of their limited resources (Wyer & Mason, 1999).

The final objective of this study was to establish the role of credit accessibility on the growth of the enterprise. More than half (52.9%) indicated they had difficulties in accessing finances/credit either for expansion or start-up. 13.2% indicated both corruption and dysfunctional markets as a hindrance, or poor financial management respectively; 16.2% stated lack of collateral and 8.8% indicated poor accounting policies formed a barrier in funds acquisitions. Literature supports this finding and according to Stiglitz and Weis (1981) observe that small and medium scale firms with opportunities to invest in positive net present value projects may be blocked from doing so because of adverse selection and moral hazard problems. Adverse selection problems arise when potential providers of external finance cannot readily verify whether the firms have access to quality projects. Nonetheless, the liquidity ratio of the financiers plays a major role. Moral hazard problems are associated with the possibility of SMEs diverting funds made available to them to fund alternative projects or develop the propensity to take excessive risks due to some pervasive incentive structure in the system. On the other hand, because SMEs do not have access to

public capital markets they naturally depend on banks for funding. Dependence on banks makes them even more vulnerable for the simple reason that shocks in the banking system can have significant impact on the supply of credit to SMEs. Thus, SMEs are subject to funding problems in equilibrium and these problems are exacerbated during periods of financial instability (Berger & Udell, 2001).

5.2 Recommendations

Based on the analysis made on the views of the participants of this study, the following recommendations have been made. It is hoped that these recommendations can serve as guiding principles which SMEs can use to boost their performance and lead to their growth while achieving competitive advantage leading to high profits.

Active participation by management at all levels should be sought in the formulation of related policies within their firms. It is prudent that their perceptions and views, no matter how subjective are taken into consideration. Only the senior managers involved can best explain their own thoughts, interests and rationale for adopting a particular stand in relation to mission, content and adopted strategies for firms.

SMEs should adopt more strategies to enable the firm gain competitive advantage hence leading to higher profits in the SMEs. SMEs are considered as major source for economic growth. SMEs have not given due attention for developing their effective strategies in the past. The reviewed literature reveals that most of the strategies have been formulated for short-term goals as most of them are localized in their functioning. On growth front, they are facing many constraints due to their limited resources, lack of innovation in capability development and lack of access to credit facilities. Major problems are related with knowledge loss, product design and development capability, training infrastructure and networking.

Involving everyone in the organization in enhancing strategy formulation and implementation process of SMEs is important. Seeking everyone's opinion in the business process gives a more competitive advantage and the business will be able to get more varying ideas on what strategies to adopt in future.

Training and development facilities should be adopted for the owner/founders on strategy formulation and implementation as well as the other staff members within these SMEs, enabling them to learn and manage SMEs more competently.

The owner managers/founders should be able to match the strategies adopted with other aspects of the firm such as size of the SMEs, stage and growth rate of industry, industry characteristics such as fragmentation, importance of technology, commodity product orientation, international features and SMEs position in the market (dominant leader, leader or follower).

Government can accelerate the development of markets for financial services suited to the special characteristics of SMEs by promoting product innovation and building institutional capacity. In financial markets, improving SMEs access to credits requires an increase in the number of financial institutions that find lending to SMEs to be profitable and therefore sustainable. Easy accessibility to credit through specialized or development oriented banking or financing institutions. Funds being made available through these sources should be given at preferential interest rates. There is the dire need for the provision of good infrastructural facilities such as roads, electricity, water supply and telephone facilities. It is necessary for the three tiers of government to provide improved infrastructural support services with a view to stimulating investors' interest facilitate the food processing sector activities as well as the development industries within the SME sector.

It is the researcher's belief that this study and the recommendations stated are not absolute solutions but I believe that they can be adopted. Knowledge being a critical factor especially in the organization's ability to remain competitive, SMEs need to understand the importance of strategy and entrepreneurialism and the importance of employee involvement in achieving organizational goals.

5.3 Conclusion

This study clearly indicates that changes have occurred in the SME industry. The noted changes have exhibited themselves in terms of shift in product demand necessitating change in product portfolio of microfinance institutions, decline in donor funding to SMEs, technological changes in delivery channels and more government involvement has been realized. The changes in the

business environment have had considerable impact on the operations of MSMEs. MSMEs have changed their product portfolio to match market expectation, the declining donor funds have resulted to focus on sustainability and new regulations requiring compliance to operational guidelines.

This study confirms that SMEs have adopted a myriad of strategic responses in dealing with changes in the business environment in regard to growth and expansion. New product development based on research aimed at diversifying the product portfolio, sustainability measures, diversified funding sources and partnership with government are the key strategic responses identified by this study. Several factors were identified as hindering the practice of strategic marketing. These include; lack of market information on new products, prices, competitors, demand for products and quality, lack of enough capital, lack of product assortment, failure to enter new markets, lack of enough stock, poor bargaining power on prices, high costs of operations among others. These barriers are market oriented and needs to be addressed by providing adequate marketing knowledge through marketing experts. Marketing education should be emphasized among the MSEs, effective market research and appropriate strategic choices.

There are different sources of funds available to the SMEs which include among others financial institutions, government agencies, non-governmental organizations, personal savings, friends and family, international donor agencies, cooperatives. Most of the SMEs operate under an unfavorable environment bedevil by a number of constraints emanating from lack of access to credit, poor infrastructures, lack of raw materials. The granting of loans or credit to SMEs is still a major problem as many of the SMEs are unable to access such funds. Also there is the problem of information between the loan provider and the loan receiver as to the availability, cost and mode of assessing such fund. Since the introduction of economic reforms, more SMEs have been forced to the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the SMEs.

5.4 Areas for Further Research

From the findings of this study, there is need to explore further the shifting orientation of SMEs to profitability and sustainability at the expense of the social objectives of growth and sustainability. The findings of such a study would form a foundation of understanding the strategic behaviour of SMEs in their respective environments. There is need to integrate MSMEs as an integral to country's economic development. SMEs are considered as engine for economic growth all over the world. After the globalization of markets, SMEs have got many opportunities to work in integration with large-scale organizations. They cannot exploit these opportunities and sustain their competitiveness if they focus only on certain aspects of their functioning and work in isolation. The government as it is plays a major role in promoting growth of small firms. In order to obtain good results in doing this the government should; make major reforms on SME policies which will harness the breeding environment for small firms to grow. This can be by reducing corporate taxes charged to small firms, reducing fees for registering small firms etc. Finally, other stakeholders here it is meant the organizations or individuals which in one way or another can affect the growth of small firms in either a positive or a negative way. Examples of these could be financial institutions, educational institutions, business guru's etc. These stakeholders should; develop training programmes and courses aimed at small business owners and their respective staffs. This will ensure that the small business owners are equipped with adequate business knowledge and experience for them to run successful small businesses.

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APPENDIX 1

QUESTIONNAIRE

PART A: BACKGROUND INFORMATION

- 1). Please state your age group (tick (✓) the appropriate response)

(1) 20 – 29	(2) 30 – 39
(3) 40 – 49	(4) 50 years and above

- 2). Please state your gender (tick (✓) the appropriate response)

(1) Male
(2) Female

- 3). Please state your level of education (tick (✓) the appropriate response)

(1) Certificate/Diploma	(2) Degree
(3) Masters	(4) Postgraduate

- 4). Please indicate your professional background (tick (✓) the appropriate response)

(1) Finance	(2) Law
(3) Engineering	(4) Banking
(5) Others specify	

- 5). What position do you hold in your organization? (tick (✓) the appropriate response)

(1) Owner/Founder	(2) CEO
(3) Senior Manager	(4) Middle management
(5) Junior Manager	(6) Others specify

6. What is the average monthly turnover of the company? (tick the most appropriate)

Average turnover of the company Ksh.	2006	2011
100,000 – 200,000		
200,000 – 300,000		
300,000 – 400,000		
400,000 – 500,000		
500,000 – 600,000		
600,000 – 700,000		
700,000 – 800,000		
800,000 – 900,000		
900,000 – 1000,000		
Over 1,000,000		

7. How many employees are in the company? (tick the most appropriate)

Employees	2006	2011
50 and below		
51-100		
101-150		
151-200		
201-250		
251 and above		

PART B: INFORMATION ABOUT YOUR ENTERPRISE

Entrepreneurial approach towards growth of SMES:

Please tick most appropriate statement in regard to how you view your level of involvement with your enterprise

ements	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
The SMEs have a very dynamic leadership					
The owner/founder is very Strategic and entrepreneurial in approach					
The SMEs have no entrepreneurial approach to business					
The SMEs lack strategic focus thus poor strategy formulation and implementation					
The SMEs is able to assess and respond to environmental challenges					
SMEs has idea what a strategy is or different types of strategies					
I don't believe small and medium companies should worry about strategies					
The SMEs approach to strategic issues can be rated the best in the market or specific industry					

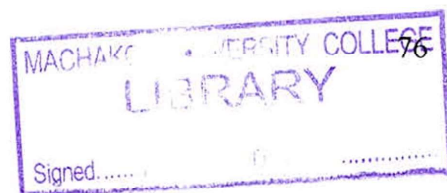
8. What are the factors affecting growth and transition of SMEs especially in the food processing industry? Please explain

9. Are you aware of what a business plan is? Yes _____ No _____

(Before starting your business, did you have a formal or written business plan?
Yes _____ No _____

10. Do you feel it would have been useful to have it or have you ever needed one?
Please explain

11. Do you have any difficulties in finding finances either for start up or expansion?
Yes _____ No _____
Please explain



12. Do you have difficulties in trying to access new markets?
Yes _____ No _____
If yes state the difficulties

13. What type of modern tools/technology do you apply in your business to keep it up to date and competitive in line with the existing technological era?

14. What are the challenges you come across within your line of business?

Thank you very Much

