# FACTORS AFFECTING THE GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN KENYA

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**A PROJECT SUBMITTED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILLMENT FOR THE REQUIREMENT OF THE AWARD OF A DEGREE OF BACHEOR OF MANAGEMENT AND LEADERSHIP OF MANAGEMENT UNIVERSITY OF AFRICA**

**AUGUST, 2021**

## DECLARATION

**Declaration by the Student**

This project is my original work and has not been presented to any other University without my knowledge of that of The Management of Africa

**Signature ……………………………… Date………………………**

**Kibicho Christopher**

**ODL-BML/8/00328/1/2016**

**Approval by the Supervisor**

This project has been submitted for examination with my approval as University Supervisor

**Signature ……………………………… Date………………………**

**Samuel Thiongo**

**The Management University of Africa**

# DEDICATION

A special thanks goes to Almighty God, my creator, my strong pillar, my source of inspiration, wisdom, knowledge, and understanding. I also dedicate this work to my wife Grace, children Athiany, Brian, Ruth, and Margret, as well as my mother Mary, all of whom have encouraged me along the road and whose support has ensured that I give it my best to complete my degree.

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## ABSTRACT

The importance and role of small and medium-sized enterprises (SMEs) to realizing macroeconomic objectives of societies, especially in developing nations, has attracted the attention of researchers in the entrepreneurship discipline for decades. SMEs face a number of growth and performance restraints especially in accessing: finance, markets, training and technology. Research carried earlier on SMEs reveal that the growth and performance in most of them are less than satisfactory. The study aimed to establish the factors affecting the growth of small and medium size enterprises in Kenya. Specifically, the study focused on the effect of finance, innovation, technology, and government policy on the growth of small and medium size enterprises in Kenya.

The study used a descriptive research design. The target population comprised owners of SMEs dealing in vending of foods, clothing, beverages, electronics, auto parts, construction materials and general retailers and wholesale merchandisers in Nairobi County. A sample size of 317 respondents was selected by use stratified random sampling technique. Primary data was collected using self-administered questionnaires. Data analysis was done by use of Statistical Package for Social Sciences (SPSS Version 25.0). Filled questionnaires were referenced and items in the questionnaire were coded to enable data entry. Frequencies, percentages, mean score and standard deviation were estimated for all the quantitative variables and information was presented in form of tables and graphs. Inferential data analysis was done using multiple regression analysis.

The research found that lack of awareness of funding opportunities for long term credit by financial institutions has influenced the growth of asset value in business. The research revealed that knowledge in business planning will enable business to improve in performance. The research established that even with the existing immense amount of trade-related information and the possibility of accessing national and international databases, many small enterprises still continue to rely heavily on private or even physical contacts for market related information. Moreover, the research found that incubation policy, and MSE business registration regime affects the growth of small and medium size enterprises in Kenya to a moderate extent. Also, the study found that the number of successful entrepreneurs had been constant for the last 5 years while the number of employees had decreased for the last 5 years.

The study concluded that the role of Governments and its relevant institutions should be to facilitate the dialogue, and to create instruments and formulate policies in partnership with the banks to promote the financial aspects of successful SME development. The study recommends that owner managers of SMEs should be sensitized on how to access credit information through funding programs provided by financial institutions. It also recommends the need for government to develop policies which will be able to enhance credit guarantee services for SMEs to access financing in Kenya. The government should offer some supporting services to enhance management skills and knowledge so as to enable the entrepreneur to manage their business and exploit the available business opportunities as well as being creative and innovative.

# CHAPTER ONE

# INTRODUCTION

## 1.0 Introduction

This chapter delves into the study's background, problem statement, general study objectives, specific study objectives, research questions, study importance, and study scope. Most notably, it investigates the factors that influence the growth of Kenya's small and medium enterprises.

## 1.1 Background

The practice of SMEs devising strategies to identify and start new initiatives is known as business growth. It represents a frame of mind and an entrepreneurial mindset, according to Kimathi (2021), which is mirrored in an organization's ongoing operational procedures and a strong corporate culture. The goal of this study was to figure out what factors influence the growth of small businesses in Kenya. The study looked at the impact of financing, innovation, technology, and government policy on the growth of Kenya's small businesses. The research is divided into five chapters. The background of the study, statement of the problem, general study objectives, specific study objectives, research questions, significance of the investigation, and scope of the study are all included in chapter one. The second chapter contains theoretical and empirical literature, an overview of the literature and research gaps, a conceptual framework, and variable operationalization. The research design, target population, sample and sampling strategy, instruments, pilot study, data collection techniques, data analysis and presentation, and ultimately ethical considerations are all covered in chapter three. Data analysis, presentation, and interpretation of study outcomes are presented in Chapter 4, which includes data analysis based on themes created from study objectives and hypotheses. The overview of the findings, discussions of the findings, conclusions, recommendations, and proposals for further research based on the study's findings are presented in Chapter 5.

In recent years, experts in the entrepreneurship field have focused on the importance and contribution of small and medium-sized firms (SMEs) to accomplishing macroeconomic goals of governments, particularly in developing countries (AlBar & Hoque, 2019). As a result, policymakers in both established and emerging countries throughout the world are working to create a complicated global environment in which SMEs may survive, expand, and prosper. SMEs are recognized for their labor-intensive operations as well as their reliance on local resources. These elements, however, are equally to blame for a lack of competitiveness in the face of globalization (Ming, On, Rayner, Guan & Patricia, 2018). Support for SMEs is a hot topic since they contribute to national and global economic growth. SMEs have been stressed as a way of promoting private sector participation by a number of governments and development agencies. SMEs make over 99 percent of all businesses in the expanded European Union of 25 countries, employing roughly 75 million people. SME's, for example, are the economic backbone of the United Kingdom. SMEs are also the backbone of Singapore's economy, accounting for about half of the country's GDP and 62% of all available jobs (Lekhanya & Visser, 2016).

Bangladesh's government has established a nationwide, low-cost financial institution to address the issues encountered by small and medium-sized businesses. A large number of small businesses operate unofficially, not recognized as part of the economy. These SMEs are all deficient in basic forms and information, marketing opportunities, regulatory and social support. Small and medium-sized businesses in Nepal and Sri Lanka face a variety of challenges, including limited access to financing and marketing networks, limited access to land and property, low risk capabilities, lack of access to current technology, a lack of personal safety and the risk of sexual harassment, fierce competition on both local and international markets, and a lack of leadership (Bird, 2018).

Small and medium-sized businesses (SMEs) are the economic backbone of most emerging countries. SME economic growth is boosted, and gradual but more efficient development integration is enabled, particularly in Africa (Ndiaye, Razak, Nagayev & Ng, 2018). Small and medium-sized businesses have been identified as a significant strategy in reaching the Millennium Development Goals (MDGs) (SMEs). Infrastructure constraints, social and cultural barriers, educational and employment barriers, and role and behavior limitations all have an impact on Ghana's small and medium-sized businesses. There is insufficient access to market knowledge, technology and finance, as well as inadequate connections with the provision of services and an adverse legal and regulatory environment. The reduction of these difficulties has been shown to improve the viability of SMEs in the long run (Pauluzzo, Guarda De Pretto & Fang, 2018). Small and medium-sized businesses are hampered by difficult local conditions, with some unable to raise the collateral required by banks in order to secure loans.

Tanzania's small and medium-sized business sector is beset by a slew of major issues. Gender-blind and insensitive macroeconomic policies, complicated tax regulations and compliance procedures, gender disparities in employment policy, complex business registration and licensing procedures for small businesses, limited access to suitable business premises, limited technological access, and a lack of collateral due to property ownership are all realities (Rakic, 2020).

In all parts of Kenya small and micro enterprises (SMEs) are one of the leading jobs and economic benefits sources in the world (GoK, 2014). Small companies in Kenya employ 11 to 50 workers, according to Ogeta (2016). They contribute significantly to Kenya's economy, including the manufacture, agriculture, banking, transport, construction, wholesale and retail industries. In order to sustain the sustainability of female SMEs, financial availability is crucial. Small and medium enterprises (SMEs) get access to financing as a result of increased employment and revenue. As a result, SMEs may grow their stock as well as improve sales on a regular basis. Because of the financial assistance provided by micro finance organizations, they are able to take more risks. They can reduce their short-term obligations, which boost their growth rate (Muturi& Njeru, 2019).

The Kenyan government, through Kenya Vision 2030, aims to improve SMEs' long-term viability and creativity. However, these businesses confront a number of problems, including restricted access to capital, poor technology, a lack of innovation, and unfriendly laws (Kiende, Mukulu & Odhiambo, 2019). As a result, the goal of this research was to figure out what factors influence small and medium-sized business growth in Kenya. SMEs will be chosen since they account for a large component of the country's economy and have enormous growth and employment potential. There is a popular belief that SMEs control Africa's industrial landscape, and that a thorough understanding of this sector will jump start the continent's industrialization.

## 1.2 Statement of the Problem

Small businesses are important not only for economic progress, but also for eliminating poverty and providing jobs in developing countries. The industry has hurdles, especially in terms of financing, markets, training and technology. However, previous study on small-scale businesses has revealed that the performance of a lot of them is less than ideal (Chege, Wang & Suntu, 2020).

In terms of employment and GDP, the contribution of Kenya's SME sector is enormous. It represents almost a quarter of all enterprises, employs over 80% of the workforce, and contributes 25% of GDP (KEPSA, 2016). Kenya's government, in its Kenya Sessional Paper No.2 of 2005, acknowledges that SMEs affect all aspects of the country's economic growth. SMEs, on the other hand, face several difficulties in their quest for long-term growth. Kimathi (2021) discovered that government laws, financial resources, competitiveness, and entrepreneurial skills all have an impact on SMEs' long-term viability. Entrepreneurs need strong entrepreneurial skills to run and sustain their firms, according to the results. The lack of easily available funding for small businesses, restricted access to competitive markets, and the lack of value in their products and an absence of entrepreneurial abilities to expand their business successfully are continuously hindering small businesses. As a result, Kenya's small businesses have been driven into the informal sector. According to the Kenya National Bureau of Statistics, three out of every five small and medium-sized businesses in Kenya failed in their first two years of existence (2013). As a result, a study of the factors impacting the growth of Kenyan small and medium-sized businesses was conducted.

## 1.3 Objectives

The purpose of this study was to establish the factors affecting the growth of small and medium size enterprises in Kenya.

### 1.3.1 Specific Objectives

The specific objectives of the study were:

i. To examine the effect of finance on the growth of SMEs in Kenya.
ii. To assess the effect of innovation on the growth of SMEs in Kenya.
iii. To examine the effect of technology on the growth of SMEs in Kenya.
iv. To establish the effect of government policy on the growth of SMEs in Kenya.

## 1.4 Research Questions

The study sought to answer the following research questions:

i. To what extent does finance affect the growth of SMEs in Kenya?
ii. How does innovation affect the growth of SMEs in Kenya?
iii. What is the effect of technology on the growth of SMEs in Kenya?
iv. To what extent does government policy affect the growth of SMEs in Kenya?

## 1.5 Significance of the Study

This study might help SMEs in Kenya gain a better grasp of the elements that impact their operations and how they can utilize that knowledge to boost their growth chances. It was believed that the findings of this study would provide them with insight into how to strategically position their firms in order to stimulate growth. The research would help to identify the key roadblocks to SMEs' growth, as well as potential solutions.

The findings of this study would be used by government and policymakers to gain a better knowledge of the underlying causes of SMEs' management issues in comparison to their peers, and to adjust their lending policies as a result. The findings would also provide credible information to Vision 2030 stakeholders, allowing them to decide which parts of SMEs' management need to be addressed in order to boost productivity and, as a result, positively impact economic growth by avoiding no-value-added informal sector activities.

Academics and researchers may find the findings of this study useful. Academics would be able to understand the factors that drive small company growth in Kenya. Future research could build on the findings of this study to look into the factors that influence small business growth in Kenya.

### 1.6 Scope of the Study

The purpose of the study was to determine what factors influence small company growth in Kenya. The impact of financing, innovation, technology, and government policy on the growth of Kenya's small enterprises was investigated in this study. The study focused on the owners and managers of SMEs that are registered with the Nairobi County Government and operate in Nairobi County's Central Business District. According to statistics acquired from the Nairobi County Council, there are 1,539 SMEs operating in Nairobi's central business district. Only SMEs operating inside Nairobi County for the last five years were included in this analysis. The research was conducted in June to August of 2021.

### 1.7 Chapter Summary

This chapter reviewed the research findings on factors influencing the growth of small and medium-sized businesses around the world, in Africa, and in Kenya, as well as the progress gained over time. It has highlighted why small business efforts are important in both developed and developing countries. It has also gone over the study's issue statement, goal, research questions, importance, and scope. The literature review is covered in the following chapter.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

The available literature on the factors affecting the growth of small businesses in Kenya is examined in this chapter. The theoretical literature, with a focus on theories that support the variables under research, is covered in this chapter, as well as the empirical literature, a summary of the literature, the conceptual framework, and ultimately the operationalization of variables.

## 2.1 Theoretical Literature Review

This discussion anchors on pecking order theory, credit rationing theory, system theory and diffusion theory.

### 2.1.1 Pecking Order Theory

The Pecking Order Theory, commonly referred to as the Pecking Order Model, is a capital structure theory. Stewart Myers and Nicolas Majluf popularized it in 1984, and it states that managers assess financial sources in a hierarchy. These information asymmetries result in varying costs of additional external finance since potential investors consider stock to be riskier than debt. They propose that corporations seek to tackle underestimation difficulties arising from knowledge asymmetries, through initial support of domestic money investment efforts. Before recourse to external capital if internal capital is gone, companies utilize debt finance. According to the authors, POT is far more prominent for SMEs due to increased asymmetries of knowledge and higher external equity costs for SMEs.

In addition, the desire for firm owners to preserve control and independence of management is prevalent in the sector (Jordan, Lowe & Taylor, 1998). These elements reveal that the owners of SMEs create capital in the following order: first, their own money (corporate personal savings and earned income); second, short-term borrowings; third, long-term debt; and, finally, the introduction of substantial new equity investors.

An empirical investigation confirmed the POT's efficacy in assessing the finances of SMEs (Ou & Haynes, 2006). According to their research, small businesses rely on internal fundraising and external borrowing for funding and growth, with just a small percentage having access to outside capital. According to various studies, businesses operate in a constricted environment and do not consider seeking outside capital (Howorth, 2001). The impact of finance on the growth of small enterprises in Kenya was investigated in this study.

### 2.1.2 Credit Rationing Theory

The credit rationing theory was pioneered by Stiglitz and Weiss (1981). The main causes of small and medium-sized firms' limited access to capital, according to Stiglitz and Weiss (1981), are agency issues (conflicts of interest between management (agencies) and shareholders (owners) of the organization) and information asymmetries. Small and medium firms, they claimed, had greater asymmetric knowledge since they knew the true financial structure, the true strength of an investment project, and the true drive to repay loans. As a result, bank management makes decisions based on skewed facts, putting them at danger of moral hazard and adverse selection. Stiglitz and Weiss (1981) used asymmetric knowledge and credit rationing to explain how people select between alternative funding sources. Asymmetric knowledge can lead to credit rationing by changing the risk-return distribution; this fact leads banks to reject financing for investments, resulting in a capital demand-supply divergence.

Since managers deal with asymmetric data, restricted access to financing from credit rationing behavior by financial firms may not be efficient. This can support less profitable efforts while ignoring more profitable companies, which pose the risk of negative selection and moral harm. This would lead to less profitable activities. This might explain unfair lenders in companies with the same characteristics since lenders are unaware of the exact risk of bankruptcy in the companies, which is positive and thus decide to boost lending prices. The results of this knowledge are asymmetric. Information asymmetry issues are more likely to influence start-up small businesses. Innovative, technological proposals, according to Deakins, North, Baldock and Whittam (2008), show particularly substantial asymmetries of information. They claim that early and not always well-understood information is limited, and that the assets are often knowledge-based and proprietary to an original owner. Entrepreneurs may be hesitant to share complete information about an opportunity, particularly in industrial and technology-based businesses, since they are concerned that doing so may make it simpler for others to exploit it. Some SMEs, such as young entrepreneurs or those from low-income regions, would experience extra challenges as a result of the lack of protection. Furthermore, there may be asymmetries resulting from both geography and sector. The idea is important to this study since MSEs' access to financing is mostly influenced by credit rationing by major institutions, owing to a lack of collateral as security, accurate financial records, entrepreneurial capabilities, and credit information. The impact of financing and innovation on the success of small businesses in Kenya was investigated in this study.

### 2.1.3 Systems Theory

A scientist named Ludwig von Bertalanffy proposed the systems theory in the 1940s, and Ross Ashby expanded it in his 1956 work "Introduction to Cybernetics." In response to reductionism, Von Bertalanffy tried to restore science's unity. He highlighted that the actual systems are exposed to their surroundings and interact with them, which may lead to ongoing growth and fundamentally new features. He claimed system theory focuses on the structure and connectivity of components or components, rather than diminishing the quality of an entity or organisation. An organization like this has developed a system independent of the particular components. As a result, the many disciplines are based on the same organizational concepts and principles, giving a foundation for their integration.

The system theory provides a tool to analyze organization dynamics according to Keraro (2014), without a detailed explanation of how an organization may be governed. It also stated that, as a result of acceptance of the idea of systems, all companies today have inputs and outputs with internal and external subsystems which help provide every firm a functional image. A system is a collection of elements, which, according to Smit, Cronje, Brevis, and Vrba (2011), work together for a common objective. If a system component is eliminated, the nature of the system is changed.

In management, the systems theory has the effect of forcing managers to take a larger view of the company. Managers may use systems theory to analyze patterns and occurrences in the workplace in a new way. They describe the numerous aspects and linkages of the organization, including coordination between central government and its programs, supervisors and workers. Managers utilized traditional management approaches to focus on one element of the company. They moved their emphasis to another region later. The problem was that a firm could have large central administration and an excellent teaching staff, but the departments were totally unrelated.

Using a systems theory approach, the researchers discovered that there are several governance responsibilities that may be played in the strategic management of organizations. Organizations, according to Von Bertalanffy, are made up of their constituent parts that come together to form a "whole." The systems theory views all of them as components that, when effectively integrated, would result in a successful organization. The systems theory asserts that the various components of an organization should not be controlled separately.

The SMEs in Kenya may be examined through the lens of systems theory. An implementation of this notion is the identification of how the various subsystems work together to achieve business objectives. With regard to research, system theory will help to visualize the reality that what seems to be an isolated problem is nevertheless part of government policy (Keraro, 2014). The government policy variable was backed by this theory, which aided in determining the impact of government policy on the growth of small and medium-sized enterprises in Kenya.

### 2.1.4 Diffusion Theory

This research was based on Rogers' (1962) diffusion of innovation theory. The diffusion theory, often known as the diffusion of innovations theory, is a hypothesis on how ideas, technology, and innovation move across cultures. According to diffusion theory, various people have distinct traits that drive them to embrace or reject an invention. There are several characteristics of inventions that might drive people to embrace or reject them.

The process of adopting an invention, according to diffusion theory, has five stages. The first step is awareness, in which a person becomes aware of an invention but does not have any information about it. Persuasion is the next step, in which the person gets actively interested in learning more about the invention. The individual considers the benefits and drawbacks of the invention in the third stage, decision, and decides whether or not to embrace it. Following the choice, follows the process of implementation, in which the individual adopts and uses the invention. The final stage is confirmation. After the invention is adopted, a person determines whether to continue to use the invention based on his own personal experience with the invention. To varying degrees, individuals and groups of people go through the same stages (Rogers, 1962). This study was crucial since it illustrated how technology affects small business growth in Kenya.

## 2.2 Empirical Literature Review

### 2.2.1 Finance

Wanjau (2017) set out to investigate the elements that influence SME growth in Thika Town, Kiambu County, Kenya. The study's goals were to evaluate how entrepreneurial skills, access to funding, competition, and marketing tactics impact the long-term success of SME ventures in Thika Town. This study utilized a descriptive research approach. A sample size of 151 SME owners/managers was obtained using the stratified random sampling approach. A questionnaire was employed to gather information. The study discovered that SMEs projects' access to funding has an impact on their long-term viability. The survey also found that SMEs' capacity to survive has been hampered by a lack of access to capital. This study finds and agrees with the common concept that firms that have access to inexpensive financing achieve sustainable growth more quickly than those that do not.

Kariuki (2018) investigated the elements that impact MSEs traders' performance in Kiambu County. A descriptive research technique was employed in this study. According to the Business Register 2018, the study's target population was 4897 licensed MSEs in Kiambu County. The sample size of 385 MSEs was calculated using stratified random sampling and the Krejcie and Morgan (1997) approach. The research relied on primary data collected through self-administered questionnaires. To confirm data validity and reliability, a pilot test using forty questionnaires was done. The SPSS version 20 program was used to analyze the data. To rule out any outliers, a normality test was performed. The researchers also used a Multicollinearity test to see whether there was any connection between the variables. To examine the association between variables, the regression coefficient was utilized. Factor analysis was used to estimate the number of dimensions necessary to represent a collection of variables. The study's findings were given as percentages and frequencies. MSEs' performance was shown to be influenced by access to capital in a favorable and substantial way.

Mong'are (2017) looked at the elements that influence the growth of small businesses in Nairobi County. A descriptive correlational research technique was used in this study. At the time of the research, the population consisted of 1,539 owner managers of SMEs in various trade categories that had been functioning in Nairobi County over the previous five years. Three hundred and eighteen (318) SMEs were identified from the entire population using a stratified random selection approach. The findings of the statistical analysis were displayed in figures and tables using the SPSS. In response to the third study question, which concerned access to financing and its impact on SMEs' growth, 14 percent of female respondents said that access to finance had a minor impact on SMEs' growth, compared to 13 percent of male respondents. The availability to financing was statistically substantially associated with the development of SMEs, according to the Pearson Correlation Test; r (264) =.80, p.05. Access to financing, according to the linear regression analysis, explained 62.6 percent of the variability in SMEs' development, R2= 0.626, and statistically substantially predicted SMEs' growth, F (1, 262) = 3.41, p.05. The study showed that SMEs' access to financing played a vital role and had a substantial impact on their growth, particularly the flexibility with which they could get loans from financial institutions.

### 2.2.2 Innovation

Kedogo (2013) used the Huruma division of Nairobi County as a case study to explore the factors that impact the growth and development of small and medium businesses in Kenya. Education and training, peer pressure, entrepreneur ingenuity, registration and licensing processes, and physical infrastructure all have an impact on SMEs' growth and development in Kenya. To achieve this goal, the researchers performed a descriptive study involving questionnaires and interviews with a sample of 120 Huruma entrepreneurs who were recruited via stratified random sampling. According to the findings, there is a link between SMEs' growth and development and their innovativeness. The positive association suggests that there is a link between Huruma's innovativeness and its SMEs' growth and development.

Ogega and Muturi investigated the factors influencing SME growth in Bobasi Sub County (2017). As a consequence, the study team set out to find out how technological innovation affects SME development, as well as the impact of product and service quality on SME growth and the impact of entrepreneurial training on SME growth. It was founded on the ideas of planned behavior and spread of innovation. Technical innovation has a major impact on the growth of small and medium companies in Bobasi Sub County, Kisii County, according to the findings.

Ndalira, Ngugi, and Chepkulei (2013) studied the various sorts of innovations used by Nairobi garment SMEs. The study also looked at if there is a link between the innovations used and the company's development. The research goals were investigated using a descriptive design. A population census was performed. Thirty-one entrepreneurs/managers of clothing firms in the research region were given questionnaires. According to the study, marketing innovation had the greatest impact on the growth of garment SMEs in Nairobi's Jericho market, out of all the forms of innovation assessed. However, it was discovered that the sector employs a variety of different forms of innovation, and that innovation is essential for SMEs to succeed and remain competitive in the global market.

### 2.2.3 Technology

Mugodo (2014) investigated the variables that influence the growth of small-scale real estate firms by focusing on Setmark Properties Limited in Kenya's Trans-Nzoia County. The study's target demographic was the company's employees, and it took a descriptive research technique. The study's target population was 51 company workers. A census survey was utilized to choose 51 people. To make the data easier to interpret and analyze, tables and other graphical displays were employed. According to the research, technology has a beneficial impact on the growth of small-scale real estate businesses in Kenya.

Bunyasi, Bwisa, and Namusonge (2014) looked at the effect of business information access on the growth of Kenyan SMEs. The survey had a 92.96 percent response rate. Interview guides, structured and semi-structured questionnaires, and interview guidelines were used to gather primary data from SMEs' owners and managers. SPSS version 20 was used to examine the quantitative data from the surveys. Graphs, percentages, and tables were used to show the study's findings. The study revealed that SMEs' growth is hampered by a lack of access to business information.

Durowoju (2017) looked into how technology advancements affect the functioning of small and medium enterprises in Lagos. This study employed descriptive survey research with a sample of 153 small and medium-sized business owners and managers in the Lagos metropolitan region. A linear regression method was employed as the main statistical tool. The hypothesis was proven correct, and technology improvements had an impact on the organizational performance of small and medium-sized businesses in Lagos. According to the coefficient of determination, technical change accounted for 56.6 percent of the success recorded in SMEs performance (R2 = 0.566). The finding's p-value (0.000) is below than the 0.05 significance level employed in the study, making it statistically significant. This suggests that technological progress in Lagos State has a favorable and considerable influence on SMEs' performance.

### 2.2.4 Government Policy

Mugodo (2014) examined the factors that influence the growth of small-scale real estate firms by focusing on Setmark Properties Limited in Kenya's Trans-Nzoia County. The study's target demographic was the company's employees, and it took a descriptive research technique. 51 persons were chosen via a census survey. The researcher's primary data collection technique was a questionnaire. To make the data easier to interpret and analyze, tables and other graphical displays were employed. Poor government policies and regulations, according to the study, have a detrimental impact on the growth of small-scale real estate enterprises in Kenya.

Nyangala (2017) looked at the elements that influence the growth of young people-owned SMEs in Nairobi's Central Business District. The research was conducted using a descriptive survey approach. A self-structured questionnaire was used to collect the information. To target 67 youth-owned businesses in Nairobi's central business area, purposive sampling was used. The poll received 60 responses, accounting for roughly 89.6% of the total. The data was examined with the help of the program SPSS. Descriptive statistics were used to examine the information gathered. Factor analysis was used to discover the elements that influence microenterprise growth. Tables were used to show the data that had been analyzed. The study showed that access to funding, innovation, government policies, and non-financial variables all impact microenterprise growth, with correlation values of 0.913, 0.847, and 0.756.

At Limuru town market in Kiambu County, Kenya, Gitari and Kabare (2014) investigated the factors influencing the performance of SMEs merchants. To attain its goals, the study used a descriptive research method. The 965 Limuru sub-county licensed SMEs operating in Limuru Market in 2014 were the study's target audience. A questionnaire was used to collect data from a sample of 274 SMEs for the study. The data was coded, quantified, and subjectively and quantitatively analyzed. SPSS was used to analyze quantitative data. According to the findings, government policies and regulations have a beneficial impact on the performance of companies in Limuru Town Market.

## 2.3 Summary and Research Gaps

Small and medium-sized companies (SMEs) play a crucial role in economic vibrancy, according to this literature study, but they nevertheless face a variety of problems, such as a lack of adequate information and bad infrastructure, to name a few. The analysis also revealed that these issues have a direct impact on their ability to expand and flourish economically. Finance, innovation, technology, and government policy are all factors that impact the success of SMEs, according to the report. As a result, all entrepreneurs must have complete knowledge of these aspects. However, the researcher points out that there is very little literature on Kenyan SMEs that can be used to analyze and review their impact on economic vitality. It was for this reason that the study set out to close the knowledge gap on the subject.

Various studies on the development of Small and Medium Enterprises have been conducted. They are as follows: Wanjau (2017) wanted to know what variables affect SME growth in Thika Town, Kiambu County, Kenya, and Kariuki (2018) wanted to know what factors influence MSE merchants' performance in Kiambu County, Mong'are (2017) looked into the variables that influence the growth of SME's in Nairobi County, whereas Kedogo (2013) looked into the factors that influence the growth and development of SME's in Kenya, with a focus on the Huruma division in Nairobi County. However, none of the previous research, like the current one, focused on comparable variables impacting the growth of small businesses in Kenya. As a result, the goal of this research was to see if the independent factors (money, innovation, technology, and government policy) have an impact on the dependent variable, the growth of small businesses in Kenya.

## 2.4 Conceptual Framework

The extent to which a research conceptualizes and displays the link between contextual factors in the study visually or diagrammatically is referred to as the conceptual framework (Mugenda & Mugenda, 2003). The connection is a description of the relationship between the independent and dependent variables. This relationship is illustrated in Figure 1.

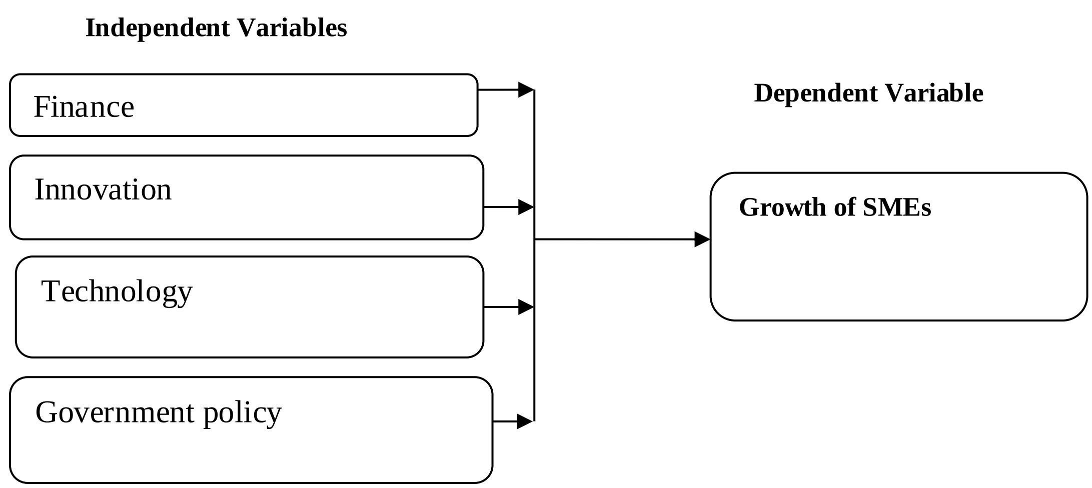


**Figure 2. 1: Diagram showing the Conceptual Framework**

## 2.5 Operationalization of Variables

**Table 2. 1: Operationalization of Variables**

| Objectives | Variables | Indicators | Data analysis Techniques | Tool of Data Analysis |
|---|---|---|---|---|
| To investigate the effect of finance on the growth of small and medium size enterprises in Kenya | Finance | • Access to Credit Facilities<br>• Collateral Requirement<br>• Sources of capital<br>• Credit History<br>• Cost of credit | ➢ Descriptive statistics<br>➢ Inferential statistics | ➢ Descriptive statistics<br>➢ Regression analysis |
| To assess the effect of innovation on the growth of small and medium size | Innovation | • Communal benefits<br>• Creativity<br>• Customer satisfaction | ➢ Descriptive statistics<br>➢ Inferential statistics | ➢ Descriptive statistics<br>➢ Regression analysis |

| | | | | |
|---|---|---|---|---|
| enterprises in Kenya | | | | |
| To examine the effect of technology on the growth of small and medium size enterprises in Kenya | Technology | • Availability of technology tools<br>• Level of usage<br>• Market identification and access<br>• Promotion of Goods & Services<br>• Decision making & data retrieval & sharing | ➢ Descriptive statistics<br>➢ Inferential statistics | ➢ Descriptive statistics<br>➢ Regression analysis |
| To establish the effect of government policy on the growth of small and medium size enterprises in Kenya | Government policy | • Incubation policy<br>• Social security and risk mitigation regime<br>• MSE business registration regime<br>• Technology upgrading<br>• Tax and license regimes | ➢ Descriptive statistics<br>➢ Inferential statistics | ➢ Descriptive statistics<br>➢ Regression analysis |
| | Growth of SMEs | • Number of customers<br>• Number of employees<br>• New businesses<br>• Number of successful entrepreneurs | ➢ Descriptive statistics<br>➢ Inferential statistics | ➢ Descriptive statistics<br>➢ Inferential statistics |

## 2.6 Chapter Summary

The literature on factors influencing the growth of small businesses has been highlighted in this chapter. It has looked at the theoretical literature, empirical literature, literature summary, research gaps, conceptual framework and variable operationalization. The research approach is discussed in the following chapter.

## CHAPTER THREE

## RESEARCH DESIGN AND METHODOLOGY

### 3.0 Introduction

The processes and techniques utilized in the data gathering, processing, and analysis are described in this chapter. Research design, target population, sample and sampling strategy, instruments, pilot study, data collecting processes, data analysis and presentation, and ultimately ethical issues are all covered in detail.

### 3.1 Research Design

Research design is the ultimate plan for data collection, measurement, and analysis. In this study, a descriptive research design was employed. The goal of a descriptive design is to figure out how often something happens or what the relationship between variables is (Best & Kahn, 2016). This approach is therefore suitable for this study since it attempts to gather thorough data through descriptions that are helpful in identifying variables. The objective of a descriptive design, Bryman (2016) states, is to collect data that define present occurrences through questions about human ideas and attitudes. In order to establish a relationship between variables, descriptive design involves monitoring and describing a subject's behavior without altering it in any way.

### 3.2 Target Population

A whole collection of persons, events, or things with a common observable feature is referred to as a population. A population, according to Neuendorf (2016), is the entire collection of components from which we seek to draw conclusions. The accessible population refers to those members of the target population who are within the study's reach, whereas the target population refers to the entire group with whom the inquiry is associated. Owners of SMEs in Nairobi County, such as food vendors, apparel vendors, beverage vendors, services vendors, and curio dealers, were the study's target population. Table 3.1 shows the target population.

**Table 3. 1: Table Showing the Research Target Population**

| Categories | Population | Percentage |
|---|---|---|
| Food vendors | 366 | 23.8 |
| Clothing Vendors | 252 | 16.4 |
| Beverages Vendors | 436 | 28.3 |
| Services Vendors | 302 | 19.6 |
| Curio Vendors | 183 | 11.9 |
| **Total** | **1539** | **100.0** |

**Source: Nairobi County Business Registers 2020**

### 3.3 Sample and Sampling Technique

In a research study, a sample is a group of people chosen from the target population to represent the entire population (Kpolovie, 2016). According to Kratochwill (2015), sampling is the process of selecting a subset of a population to represent the entire population. In this study, a stratified random sample approach was utilized. The target population was divided into groups or strata using stratified sampling. Simple random approaches were used to choose representative samples from each group. This method ensured that all members of the target population had an equal probability of being chosen for the sample. This helps to eliminate bias. The Cochran formula was used to calculate the sample (Cochran, 1940).

$$n = \frac{Z^2 pqN}{d^2(N-1) + Z^2 pq}$$

N = Statistical population size

Z = Confidence Level= 95%

p = Ratio of a trait in the population = 50%

q = Percentage of those without that trait in the population (q = 1-p)

d = Acceptable margin of error = 4%

n = Sample size

**Table 3. 2: Table Showing the Research Study Sample**

| Categories | Population | Ratio | Sample |
|---|---|---|---|
| Food vendors | 366 | 0.206 | 75 |
| Clothing Vendors | 252 | 0.206 | 52 |
| Beverages Vendors | 436 | 0.206 | 90 |
| Services Vendors | 302 | 0.206 | 62 |
| Curio Vendors | 183 | 0.206 | 38 |
| **Total** | **1539** | | **317** |

**Source: Author (2019)**

### 3.4 Instruments

Self-administered questionnaires were used for primary data collection. Closed-ended questions made up the majority of the questionnaire. The closed ended questions allow the respondent to choose from a restricted set of alternatives. Closed or organized questions, according to Stewart and Shamdasani (2014), are typically simpler to assess. Because the questionnaires were ready to use almost immediately, they were used to save time and money as well as making analysis easier.

### 3.5 Pilot Study

The respondents in the pilot survey were chosen at random and received 31 questionnaires, accounting for 10% of the overall sample size. This contributed to the instrument's efficiency being improved. This procedure was repeated until the researcher was satisfied that there were no contradictions or ambiguities in the instrument.

#### 3.5.1 Validity Test

According to Gorard (2013), validity refers to the accuracy and importance of conclusions made from research findings. The content validity of the questionnaire was evaluated by polling the supervisor, lecturers, and other experts on its appropriateness.

### 3.5.2 Reliability Test

Reliability refers to the degree to which results are consistent across time and properly represent the whole population under examination (Wang, 2015). The reliability coefficient of the study instrument was determined using Cronbach's alpha (α). A construct composite reliability co-efficient (Cronbach alpha) of 0.7 or higher for all constructs is considered sufficient for this study (Song, Coit, Feng & Peng, 2014).

## 3.6 Data Collection Procedure

The researcher was given an introduction letter by the institution, which he gave to each responder in order to gather the information needed. The drop-and-choose technique of questionnaire distribution is intended to give respondents ample time to reply thoughtfully. Using a drop-and-pick approach, the researcher personally administered the study equipment to the respondents. This allowed the researcher to build rapport with the participants and explain the study's purpose as well as any elements that were unclear (Yin, 2017).

## 3.7 Data Analysis and Presentation

The Statistical Package for Social Sciences was used to examine the data (SPSS Version 25.0). To make data entry easier, all of the surveys received were referenced, and the items in the questionnaire were coded. After cleaning the data, which included looking for entry mistakes, descriptive statistics such as frequencies, percentages, mean score, and standard deviation were created and shown in tables and graphs for all quantitative variables.

## 3.8 Ethical Considerations

The researcher took great care to ensure that participants took part willingly, he sought to collect data within the least amount of time and resources possible. Second, quantitative research methodologies were used to ensure the researcher's objectivity, dependability, and independence. The researcher made sure that research ethics were followed throughout the investigation. Participation in the study was entirely voluntary. Confidentiality and privacy were also maintained. The study's goals were explained to the participants, and they were promised that the information they supplied would only be used for academic purposes.

### 3.9 Chapter Summary

The research methodology was explained in this chapter. The researcher specified research design as well as the sort of design employed in the study, which was discussed initially. The study's target demographic was then described in the next chapter. The sampling design, sampling frame, sampling procedure, and sample size were all discussed in detail by the researcher. The instrument used to gather data, as well as data collecting procedures, were discussed. It was also decided on a research technique. Finally, the chapter examined the study's data analysis methodologies. The study's outcomes and findings are discussed in the fourth chapter.

# CHAPTER FOUR

# RESEARCH FINDINGS AND DISCUSSION

## 4.0 Introduction

The findings are presented in this chapter by first looking at the response rate, then presenting the research findings, which includes background information and descriptive statistics, limits of the study, and lastly the chapter summary. To make the talks easier to follow, the researcher produced tables and graphs that summarized the respondents' collective reactions. It goes through the respondents' characteristics as well as their perspectives on the variables impacting the growth of small businesses in Kenya.

Only 233 of the 317 questionnaires sent by the researcher were returned. This led in a response rate of 73.6 percent, higher than 50 percent, which Kumar (2019) regarded significant.

**Table 4. 1 : Response Rate**

| | Number of informants | Percent |
|---|---|---|
| Response | 233 | 73.6 |
| Non- Response | 84 | 26.4 |
| **Total** | **317** | **100.0** |

## 4.1 Presentation of Research Findings

This section includes a description of the respondents' background information as well as descriptive statistics. The results are provided in the following parts.

### 4.1.1 Background Information

The study's goal was to discover more about the respondents' backgrounds, such as their work experience with SMEs, highest level of education, and age group. The results are listed in the following sections.

#### 4.1.1.1 Respondents' Experience with SMEs

The study's goal was to find out how long the participants had worked in micro and small enterprises. Figure 4.1 depicts the results.

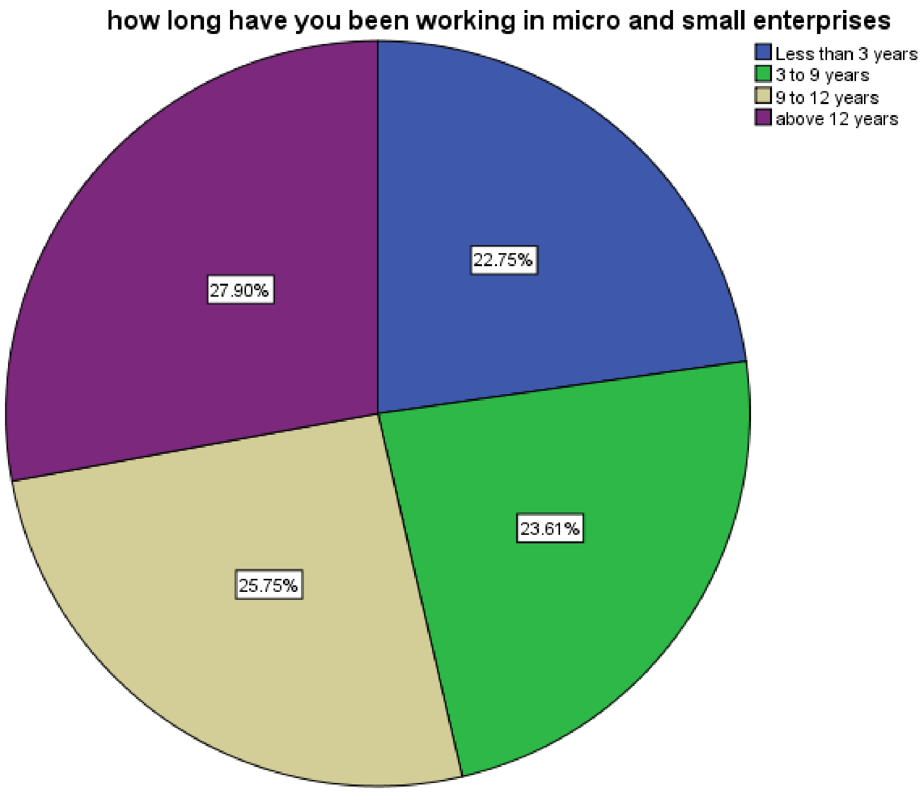


**Figure 4. 1: Respondents' Working Experience in SMEs**

According to the findings, 27.9% of respondents had worked in micro and small businesses for more than 12 years, 25.8% for 9 to 12 years, 23.6 percent for 3 to 9 years, and 22.7 percent for less than 3 years. This demonstrates that the majority of respondents worked in micro and small businesses for long enough to be able to provide reliable information on the study's subject matter. As a result of their extensive expertise in micro and small businesses, they would all be able to offer high-quality responses to the questionnaire.

#### 4.1.1.2 Respondents' Highest Level of Education

By asking respondents to answer questions based on their highest academic qualification, the respondent's highest degree of education was obtained. An overview of their responses is shown in Figure 4.2.

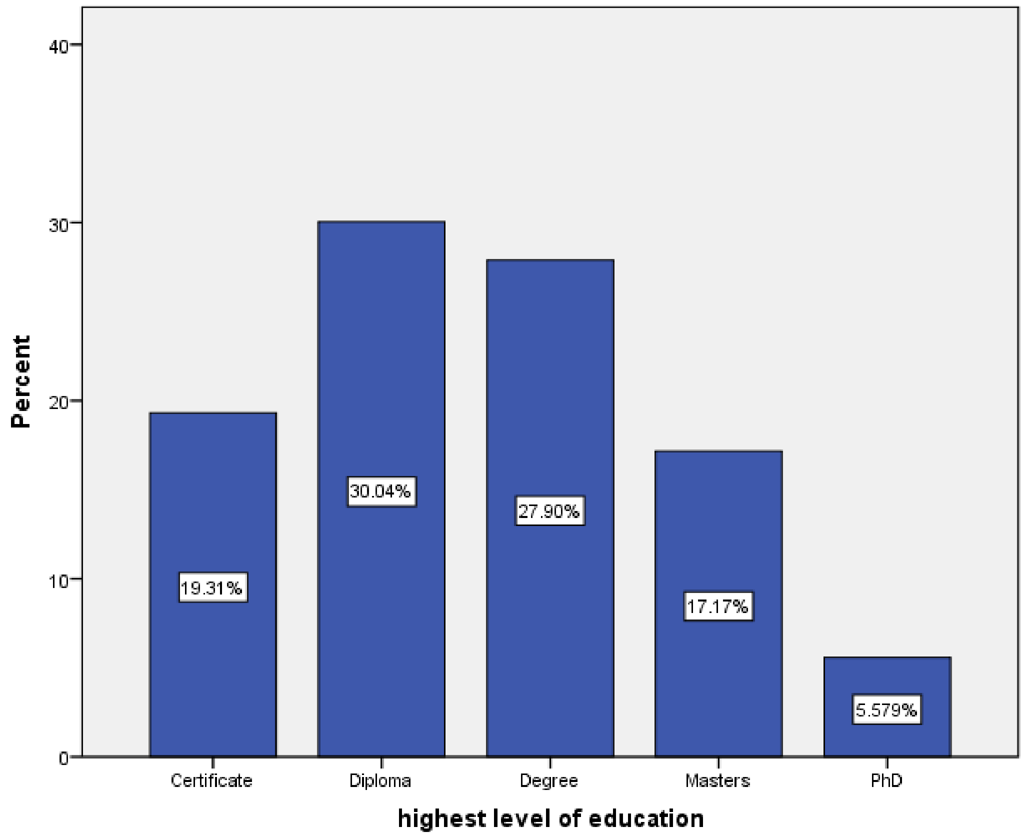


**Figure 4. 2: Respondents' Highest Level of Education**

Figure 4.2 depicts the completion of a diploma program by 30.0 percent of respondents, 27.9% had completed a degree program, 19.3 percent had completed a certificate program, 17.2 percent had completed a Master's program, and 5.6 percent had completed a PhD program. This indicates that all of the respondents possessed the necessary academic credentials to participate in the data collection for the project. The respondents were also able to provide reliable information on micro and small businesses due to their appropriate and high academic credentials.

#### 4.1.1.3 Respondents' Age Bracket

The survey also attempted to determine the respondents' age group. As a consequence, respondents were asked to indicate which age categories they belonged to. The findings of their study are depicted in Figure 4.3.

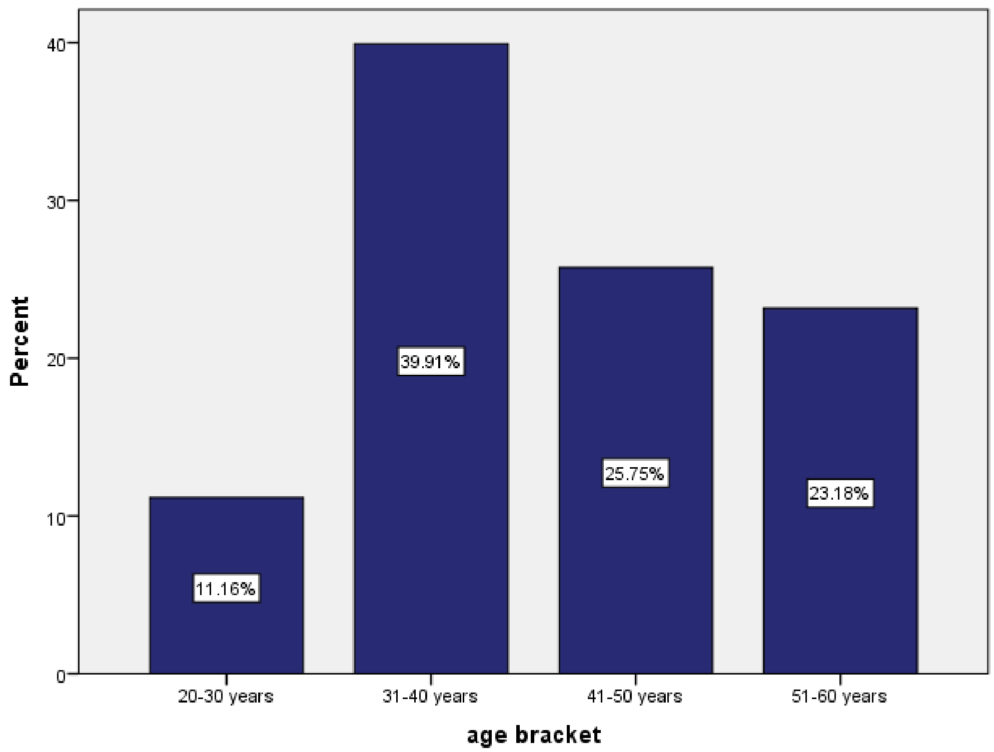


**Figure 4. 3: Respondents' Age Bracket**

The data indicated that 39.9% of the respondents were between the ages of 31 and 40, 25.8% were between the ages of 41 and 50, 23.2 percent were between the ages of 51 and 60, and 11.2 percent were between the ages of 20 and 30. The findings show that the majority of micro and small businesses are operated by adults. It also suggests that the respondents were mature and capable of responding appropriately to the study problem's inquiries.

### 4.1.2 Descriptive Statistics

The findings on the study's goals are presented in the subsections that follow. Tables are used to present the findings.

#### 4.1.2.1 Finance

The goal of the study was to look at how finance affects the growth of Kenya's small and medium-sized enterprises. Respondents were asked to rate how much they agreed with statements on the impact of financing on the growth of Kenya's small and midsize enterprises. The findings are summarized in Table 4.2.

**Table 4. 2: Level of Agreement with Statements on the Effect of Finance on the Growth of Small and Medium Size Enterprises in Kenya**

| | Mean | Std. Deviation |
|---|---|---|
| Flexible terms of credit from financial institutions has influenced the growth of sales turnover in my business | 4.369 | 1.197 |
| High cost of credit from financial institutions has influenced the growth of profit margin in my business | 4.056 | 1.445 |
| Lack of credit history for long term credit from financial institutions has influenced the growth of asset value in my business | 3.125 | 1.419 |
| Lack or inadequate collateral for long term credit from financial institutions has influenced the growth of asset value in my business | 3.412 | 1.551 |
| Lack of audited financial statements for long term credit from financial institutions has influenced the growth of profit margin in my business | 2.777 | 1.486 |
| Access to long term credit with affordable interest rates from financial institutions has influenced the growth of sales turnover in my business | 4.382 | 1.205 |
| Lack of awareness of funding opportunities for long term credit by financial institutions has influenced the growth of asset value in my business | 3.704 | 1.436 |

Respondents agreed that having access to long-term credit from financial institutions at reasonable interest rates has influenced the growth of sales turnover in my business, as evidenced by a mean of 4.382, and having flexible terms of credit from financial institutions has influenced the growth of sales turnover in my business, as evidenced by a mean of 4.369, and high cost influenced the growth of sales turnover in my business, as evidenced by a mean of 4.369, and high cost influenced the growth of sales turnover, as demonstrated by a mean of 4.056.

Furthermore, the respondents agreed that financial institutions' lack of understanding of funding possibilities for long-term loans has affected the increase of asset value in my firm, as evidenced by a mean of 3.704. Respondents agreed that having access to long-term credit from financial institutions at reasonable interest rates, as evidenced by a mean of 4.382, and having flexible terms of credit from financial institutions, as evidenced by a mean of 4.369, has influenced the growth of sales turnover in my business.

#### 4.1.2.2 Innovation

The objective of the study was to determine the impact of innovation on the growth of small businesses in Kenya. The respondents were requested to indicate their degree of agreement with the statements about the influence of innovation on the growth of small and medium business firms in Kenya. Table 4.3 summarizes the findings.

**Table 4. 3: Level of Agreement with Statements on the Effect of Innovation on the Growth of Small and Medium Size Enterprises in Kenya**

| | Mean | Std. Deviation |
|---|---|---|
| Training on trend analysis will help my business to perform better | 4.339 | 1.239 |
| Knowledge in customer and employee consultation will help improve in operating my business | 4.163 | 1.336 |
| Knowledge in business planning will enable my business to improve in performance | 4.695 | 0.834 |

| | | |
|---|---|---|
| Access to information that can help me exploit business opportunities will improve expanding my business | 4.056 | 1.409 |
| Low-level management skills have negatively affected my ability to undertake many business activities | 2.223 | 1.466 |
| Access to different business trainings has enabled me to improve my success in business | 3.206 | 1.362 |
| Lack of information on how to go about securing a loan has affected my business growth | 3.000 | 1.471 |
| Business diversification is a major challenge that affects my business growth. | 3.107 | 1.406 |
| My business performance is affected by lack of experience and exposure. | 2.695 | 1.479 |
| Hiring external services for support services affects my income and business growth. | 3.871 | 1.468 |

As evidenced by an average of 4.695, the respondents strongly agreed that knowledge of business planning will allow the firm to improve its performance. The respondents agreed that trend analysis training will help the business perform better, as demonstrated by an average of 4.339, knowledge of customer and employee consultation will aid in operating the business, as illustrated by an average of 4.163, and access to information that can aid in exploitation of business opportunities will aid in expanding the business, as evidenced by an average of 4.056, and The average of 3.871 indicates that employing external assistance services has an impact on income and business growth.

The respondents were neutral on whether access to various business trainings has allowed me to enhance my success, as indicated by an average of 3.206; business diversification is a big issue that impacts my business development, as illustrated by an average of 3.107; and a lack of knowledge on how to go about getting a loan has harmed my business growth, as illustrated by an average of 3.000, and lack of expertise and exposure has a negative impact on business success, as evidenced by a score of 2.695. As revealed by an average of 2.223, the respondents disagreed that poor management abilities had harmed their capacity to do a variety of company tasks.

#### 4.1.2.3 Technology

The study's objective was to investigate the influence of technology on small company growth in Kenya. The respondents were asked to assess how much they agreed with statements on the role of innovation in small business growth in Kenya. The outcomes are presented in Table 4.4.

**Table 4. 4: Level of Agreement with Statements on the Effect of Technology on the Growth of Small and Medium Size Enterprises in Kenya**

| | Mean | Std. Deviation |
|---|---|---|
| Present use of ICTs in accessing business information services should be identified in order to provide more development support for the growth of SMES | 3.609 | 1.485 |
| Lack of sufficient market information poses a great challenge to small enterprises and hence affecting the growth of businesses | 4.352 | 1.282 |
| Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information | 2.940 | 1.376 |
| Due to the inability to interpret statistical data and poor connectivity, many entrepreneurs cannot lead their business growth | 3.807 | 1.418 |

The findings suggest that, as demonstrated by an average score of 4.452, a lack of appropriate knowledge about the market provides a major barrier to small enterprises. Many entrepreneurs cannot lead to growth, as demonstrated by their average score of 3.807, owing to their inability to understand statistics and poor connection, and as indicated by a mean score of 3.609, the present use of ICTs in accessing business information services should be acknowledged in order to provide more development aid for SMEs' growth.

Despite the huge amount of trade-related information accessible and the ability to access national and international databases, the respondents were split on whether many small businesses still rely significantly on private or even physical connections for market knowledge, with a mean score of 2.940.

#### 4.1.2.4 Government Policy

The goal of the study was to determine the impact of government policy on the growth of small businesses in Kenya. Respondents were asked to assess the impact of various government policies on the growth of small and medium-sized enterprises in Kenya. Table 4.5 displays the results.

**Table 4. 5: Extent of Effect of Aspects of Government Policy on the Growth of Small and Medium Size Enterprises in Kenya**

| | Mean | Std. Deviation |
|---|---|---|
| Incubation policy | 3.137 | 1.447 |
| Social security and risk mitigation regime | 4.073 | 1.371 |
| MSE business registration regime | 2.837 | 1.358 |
| Technology upgrading | 4.185 | 1.344 |
| Tax and license regimes | 4.777 | 0.816 |

According to the findings, tax and license regimes have a significant impact on the growth of small and medium-sized businesses in Kenya (a mean score of 4.777). Both technology upgrading (a mean score of 4.185) and social security and risk mitigation (a mean score of 4.073) have a significant impact on the growth of Kenya's small and medium-sized businesses.

In addition, respondents said that incubation policy (with a mean score of 3.137) and the MSE business registration system (with a mean score of 2.837) had a moderate influence on the growth of small and medium-sized enterprises in Kenya.

#### 4.1.2.5 Growth of Small and Medium Size Enterprises in Kenya

The participants were asked to indicate the trend in their companies in different growth categories throughout the last five years. Table 4.6 summarizes the results.

**Table 4. 6: Trend of the Aspects of Growth of Small and Medium Size Enterprises in Kenya**

| | Mean | Std. Deviation |
|---|---|---|
| Number of customers | 4.189 | 1.326 |
| Number of employees | 2.481 | 1.500 |
| New businesses | 4.506 | 1.083 |
| Number of successful entrepreneurs | 3.125 | 1.455 |

According to the data, new firms have considerably improved over the previous 5 years, as seen by an average score of 4.506. Furthermore, respondents stated that the number of consumers has increased over the previous 5 years, as evidenced by an average of 4.189.

In addition, respondents reported that the number of successful entrepreneurs, as measured by an average score of 3.125, has remained constant over the previous 5 years, but the number of workers, as measured by an average score of 2.481, has decreased.

## 4.2 Limitations of the Study

This study had a variety of issues, such as resistance from small and medium-sized business owners, who were skeptical of the study's goals. The researcher guaranteed them that their identities would be kept private and that the findings would only be utilized for academic purposes. This was also handled by giving an introduction from the institution as well as an authorization letter.

The study was limited in its data collection due of COVID-19 pandemic guidelines, which are now affecting the world. To overcome this issue, the researcher used study assistants to give surveys physically while adhering to Ministry of Health rules and regulations.

## 4.3 Chapter Summary

In this chapter, participants evaluated the response rates, background information and descriptive statistics about finance, innovation, technology, and government policies as well as the 5-year trend in Kenya's SME growth. The next chapter summarizes the findings, draws conclusions, and makes suggestions.

# CHAPTER FIVE

# SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

## 5.0 Introduction

This chapter summarizes the data from Chapter 4, as well as the study's conclusions and suggestions, which are based on the study's objectives. The goal of this research was to figure out what variables influence the growth of small businesses in Kenya.

## 5.1 Summary of Findings

The purpose of this study was to determine what factors impact the growth of small and medium-sized enterprises in Kenya. The research looked at how financing, innovation, technology, and government policy affect the growth of Kenya's SMEs. In this study, a descriptive research design was employed. The study focused on the owners and managers of SMEs registered with the Nairobi County Government and operating in Nairobi County's Central Business District. According to statistics acquired from the Nairobi County Council, there are 1,539 SMEs operating in Nairobi's central business district. Only SMEs that have been operating in Nairobi County for the past five years were included in this study. The research was conducted in June to August of 2021.

The majority of respondents (27.9%) have worked for more than 12 years, according to the research. In addition, the majority of responders had completed a diploma program (30.0 percent). Furthermore, the majority of the responders were between the ages of 31 and 40 (39.9 percent).

The aim of the study was to examine how financing affects the growth of SMEs in Kenya. The study revealed that availability by financial institutions to long-term loans at acceptable rate affected the sales growth of the company, that the flexible terms of credit of financial institutions have had a bearing on the development of the sales turnover of my business, and that the high credit cost of financial institutions has affected the increase in profit margins for the business. Furthermore, the research discovered that financial institutions' lack of understanding of funding options for long-term loans has affected the rise of asset value in my company. The research found it unclear if absence of or inadequate guarantees for long-term financial institutions credit, absence of long-term credit history for financial institutions or lack of audit financial accounts for long-term financial institutions has affected the rise of the company's asset worth.

The goal of the study was to determine the impact of innovation on the growth of small businesses in Kenya. According to my study, knowing how to develop a business can help my company operate better. According to the findings, trend analysis training will help the business perform better, knowledge of customer and employee consultation will aid in the operation of my business, access to information that can help exploit business opportunities will aid in expanding the business, and hiring external support services will affect my income and business growth. The survey also discovered that it was unclear if access to various business trainings helped entrepreneurs enhance their business success, Lack of knowledge about how to secure a loan has hampered business growth, and lack of expertise and exposure has hampered business performance. Low-level management abilities were found to have an impact on the capacity to do a variety of business tasks, according to the study.

The study aimed to examine the influence that technology has on the growth of SMEs in Kenya. The study found that small companies have a major difficulty with acquiring adequate market information which is negatively affecting their growth as a result of the inability to understand statistical data and insufficient connectivity. Many entrepreneurs cannot manage their companies' expansion in order to give further development help to SMEs, and the current usage of ICT in business information services should be recognized. The research has revealed that many small companies rely on private or even physical links to market information in spite of the enormous amount of trade-related information available and the capacity to access national and international databases.

The goal of the study was to determine the impact of government policy on the growth of small businesses in Kenya. The study revealed that tax and licensing procedures had a substantial impact on small and medium-sized enterprise growth in Kenya. This study indicated furthermore that Kenya has an important impact on technological advancements and social security and risk mitigation measures as well as on small and medium sized companies. Moreover, the study found a somewhat reduced influence on the growth of small and medium-sized enterprises in Kenya on incubation policies and the MSE business registration system.

According to the survey, the number of new enterprises has increased dramatically in the last five years. Furthermore, the study found that the number of clients has increased during the previous five years. In addition, the survey discovered that the number of successful entrepreneurs has remained steady over the previous five years, but the number of workers has decreased.

## 5.2 Recommendations

According to the report, SMEs' owner managers should be educated on how to get credit information through financial institution-provided funding programs. It also suggests that the government establish regulations that would improve credit guarantee services for SMEs seeking funding in Kenya.

The report also shows that banks and other credit institutions are laying forth policies that make borrowing simpler for MSEs. The Government of the County should also develop creative means of helping entrepreneurs to acquire finance, including a fair distribution of the Youth Fund and Uwezo fund to allow businesses to take use of the money.

The government should provide certain support services to help entrepreneurs improve their management skills and knowledge so that they can manage their businesses and take advantage of existing business possibilities while also being creative and inventive. This will also help with new investment decisions, appropriate record keeping, and company tracking.

It is also proposed that computer expertise might help to alleviate the perceived problem of lack of access to financial resources and/or bank products. This may be accomplished through electronic commerce, company record-keeping, and research into alternate financing options. Training and awareness programs can help to offset a lack of technical skills and knowledge of the benefits of e-commerce.

SME owners should also be taught alternative financing alternatives, such as non-bank loans, advances to customers, lease, hire purchases, risk capital, factoring, and venture investing, by means of awareness programs.

The study also discovered that an individual's innovativeness has an impact on the growth and development of a small firm; as a result, stakeholders should contribute funding to promote innovation.

The study also discovered that the registration process and regulations had an impact on SME growth, and that licensing was extremely difficult. As a result, the government should devise simple processes for the registration and licensing of SMEs.

The research suggests that the government should review regulations controlling the small and medium-sized enterprises sector. In order to ease the huge burden imposed by adverse governmental laws on the SME sector it should seek to establish new policies favoring the start-up and general operations of SMEs.

### 5.3 Conclusion

In the light of the findings, the government can develop and apply policies and strategies for financing small- and medium-sized enterprises as well as for developing and improving financial institutions and financial instruments; these policies and strategies must be harmonized, along with the instruments used for their implementation. In the establishment and effective operation of SMEs, the legal framework should play a crucial role, supporting simplified SME-related procedures, financing and training and other components. Governments' responsibility should be to open the discussion and, in collaboration with banks, build mechanisms to encourage the financial elements of successful SME development.

Financial institutions demand small and medium-sized enterprises to offer collateral to avoid moral hazard; yet, collateral disincentives bank financing for small and medium sized businesses, and banks discriminate against them because of the high risk of lending to these SMEs. The study therefore shows that access to money is essential in the success of SMEs, particularly credit flexibility for financial institutions.

The study also found that an individual's innovativeness has an impact on SME growth and development. SMEs can supply their consumers with outstanding services which, because of innovation, exceed their rivals. This gives small and medium-sized companies a competitive edge. Finally, the study found that the procedure and the requirements for the registration had an impact on SME growth. Small companies can benefit from registration by gaining access to loans from financial institutions since their enterprises can function as collateral.

The study concluded that past and subsequent government policies were not very beneficial to small companies and that the business climate was one of the primary elements affecting the growth of small and medium-size enterprises since getting permits consumes time, is difficult and costly. According to the findings, government policies and regulations in Kenya have a negative impact on the growth of small businesses.

## 5.4 Recommendations for Further Studies

Further research is necessary in accordance with the findings to determine how the government's facilitation of financial market operations influences Kenya's SME growth.

The paper also suggests greater research on how access to credit information influences growth of small and medium-sized enterprises in other Kenyan counties besides Nairobi. Finally, the report suggests that more research into the impact of devolved government funds on small business growth be conducted.

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# APPENDICES

## Appendix I: LETTER OF INTRODUCTION

Dear Sir/ Madam,

**RE: ACADEMIC RESEARCH PROJECT**

I am a Management student at Management University of Africa. I wish to conduct a research entitled ***FACTORS AFFECTING THE GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN KENYA***. A questionnaire has been designed and will be used to gather relevant information to address the research objective of the study. The purpose of writing to you is to kindly request you to grant me permission to collect information on this important subject from your organization.

Please note that the study will be conducted as an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your acceptance will be highly appreciated.

Yours faithfully,

Christopher Kibicho

**Appendix II: RESEARCH STUDY QUESTIONNAIRE**

This questionnaire is to collect data for purely academic purposes. The study sought to investigate *factors affecting growth of micro and small enterprises in Kenya.* All information will be treated with strict confidence. Do not put any name or identification on this questionnaire.

*Answer all questions as indicated by either filling in the blank or ticking the option that applies*.

**SECTION A: DEMOGRAPHIC INFORMATION**

**SECTION A: Background Information (Please tick (√) appropriate answer)**

1) For how long have you been working in micro and small enterprises?

   Less than 3 years [ ]    3 to 9 years [ ]

   9 to 12 years [ ]    above 12 years [ ]

2) State your highest level of education

   Certificate [ ]    Diploma [ ]    Degree [ ]    Masters [ ]    PhD [ ]

Others (Specify) ------------------------------------------------------------------------------------

3) Please indicate your age bracket    20-30 years [ ]    31-40 years [ ]

   41-50 years [ ]    51-60 years [ ]

**PART B: FACTORS AFFECTING THE GROWTH OF SMALL AND MEDIUM SIZE ENTERPRISES IN KENYA**

**Finance**

4) Please indicate your answer to the statements on the effect of finance on the growth of small and medium size enterprises in Kenya by ticking the appropriate scale 1-5 among the following: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), and Strongly Agree (5).

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Flexible terms of credit from financial institutions has influenced the growth of sales turnover in my business | | | | | |
| High cost of credit from financial institutions has influenced the growth of profit margin in my business | | | | | |
| Lack of credit history for long term credit from financial institutions has influenced the growth of asset value in my business | | | | | |
| Lack or inadequate collateral for long term credit from financial institutions has influenced the growth of asset value in my business | | | | | |
| Lack of audited financial statements for long term credit from financial institutions has influenced the growth of profit margin in my business | | | | | |
| Access to long term credit with affordable interest rates from financial institutions has influenced the growth of sales turnover in my business | | | | | |
| Lack of awareness of funding opportunities for long term credit by financial institutions has influenced the growth of asset value in my business | | | | | |

**Innovation**

5) Please indicate your answer to the statements on the effect of innovation on the growth of small and medium size enterprises in Kenya by ticking the appropriate scale 1-5 among the following: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), and Strongly Agree (5).

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Training on trend analysis will help my business to perform better | | | | | |
| Knowledge in customer and employee consultation will help improve in | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| operating my business | | | | | |
| Knowledge in business planning will enable my business to improve in performance | | | | | |
| Access to information that can help me exploit business opportunities will improve expanding my business | | | | | |
| Low-level management skills have negatively affected my ability to undertake many business activities | | | | | |
| Access to different business trainings has enabled me to improve my success in business | | | | | |
| Lack of information on how to go about securing a loan has affected my business growth | | | | | |
| Business diversification is a major challenge that affects my business growth. | | | | | |
| My business performance is affected by lack of experience and exposure. | | | | | |
| Hiring external services for support services affects my income and business growth. | | | | | |

**Technology**

6) Please indicate your answer to the statements on the effect of innovation on the growth of small and medium size enterprises in Kenya by ticking the appropriate scale 1-5 among the following: Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), and Strongly Agree (5).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Present use of ICTs in accessing business information services should be identified in order to provide more development support for the | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| growth of SMES | | | | | |
| Lack of sufficient market information poses a great challenge to small enterprises and hence affecting the growth of businesses | | | | | |
| Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information | | | | | |
| Due to the inability to interpret statistical data and poor connectivity, many entrepreneurs cannot lead their business growth | | | | | |

**Government Policy**

7) Please indicate extent to which the following aspects of government policy affect the growth of small and medium size enterprises in Kenya by ticking the appropriate scale 1-5 among the following: No Extent (1), Little Extent (2), Moderate Extent (3), Great Extent (4), and Very great extent (5).

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Incubation policy | | | | | |
| Social security and risk mitigation regime | | | | | |
| MSE business registration regime | | | | | |
| Technology upgrading | | | | | |
| Tax and license regimes | | | | | |

**Growth of Small and Medium Size Enterprises in Kenya**

8) What is the trend of the following aspects of growth in your business for the last 5 years? Where 5 = greatly improved, 4= improved, 3= constant, 2= decreased, 1 = greatly decreased

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Number of customers | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Number of employees | | | | | |
| New businesses | | | | | |
| Number of successful entrepreneurs | | | | | |

**Thank you for participating**