

## FACTORS DETERMINING PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KENYA: A CASE OF GIKOMBA MARKET IN NAIROBI CITY COUNTY

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### ABSTRACT

*In Kenya Micro, Small and Medium Enterprises (MSMEs) are generally important and are making significant contribution to the Kenyan economy. Despite the significant contribution to the economy (Micro, Small and Medium Enterprises) MSMEs encounter many problems and their performance is substandard and they normally fail to grow or expand. In addition, it is generally known and accepted that the lifespan of MSMEs within the first two years is very short. Given this high failure rate, it becomes vital determining performance of Micro, Small and Medium Enterprises (MSMEs) business situated in Gikomba market in Nairobi County. The study was guided by the following specific objectives; to determine how access to infrastructure determine performances of MSMEs in Gikomba market in Nairobi county; to determine how availability of finances determine performances of MSMEs in Gikomba market in Nairobi county, to examine how managerial experience determine performances of MSMEs in Gikomba market in Nairobi county and to assess how the level of education determine performance of MSMEs in Gikomba market in Nairobi county. Stratified random sampling was employed to select 125 business traders who took part in the research and research questionnaires were distributed. The research study used questionnaire to collect and gather information from the respondents and ensured that data was collected in line with the objectives of the study. The study mainly depended on the data that was provided by respondents. The researcher used descriptive research design targeting different business traders in Gikomba market. Data analysis employed was both quantitative and qualitative procedures. The results were presented in tables and graphs and it's from these presentations that conclusions were drawn. On access to infrastructure and performances of MSMEs the study concluded that majority of respondents 74% concluded that infrastructure affect performance of the business. Findings also showed that if Nairobi County government improves on infrastructure MSMEs in Gikomba market can gain new clients, repeat clients can be retained, access of business could be easier and increase in volume of stocks. The study further established that respondents strongly agree that in Gikomba market managerial experience is paramount for one to manage business. The study further established that education determine performance of MSMEs in Gikomba market. Finally the study concluded access to infrastructure, availability of finances, managerial experiences and level of education determine performances of MSMEs in Gikomba market in Nairobi County. The study recommended that the government, financial institution, Ministry of education and non-governmental organization should continue offering basic business entrepreneurial and financial management skills as this will aid MSMEs to exploit available business opportunities.*

**Keywords:** Micro, Small and Medium Enterprises (MSMEs), performance.

## Introduction

MSMEs business operations are important and contribute to a higher percentage towards economic growth of the country by offering employment opportunities among the citizens Onyango *et al*, (2008). MSMEs businesses are personal institutions individually managed and others run by partners at smaller percentage. According to Bwisa, (2011) MSMEs are believed to be important both to the individual and to the nation at large they hold economy of the country. MSMEs provide employment to individual and normally raise the economy and community development for employees and employers.

In the world MSMEs have been identified as the stepping stones for industrialization. United States of America and the United Kingdom which have strong and healthy economies regard their development and growth due to the MSMEs that have been established. In European economy Micro, Small and Medium-sized enterprises (MSMEs) play a major act in the European economy development. MSMEs are the major source of entrepreneurial new products development ideas, new skills and employments opportunities. Around 0.2 % of enterprises which operated in the European Union-28 non-financial business sector in 2016 were MSMEs. These MSMEs employed 93 million people, accounting for 67 % of total employment in the European Union-28 non-financial business sector and generating 57 % of value added in the European Union -28 non-financial business sectors.

MSMEs in Britain support the economy to great extent. According to Department for Business, Enterprise & Regulatory Reform (BERR)'s Enterprise Directorate of Analytical Unit in the United Kingdom (UK) 99% of the United Kingdom economy MSMEs is employing 14 million people. United Kingdom turnover and Gross Domestic Product (GDP), MSMEs report about 1.48 trillion sterling (British Pounds). MSMEs with one employee perform better than the large United Kingdom organisations in terms of productivity despite having meagre resources, little support and are being largely left out. 52% of employment in UK is by large UK Corporations which has over 250 employees thus the UK economy is largely supported by MSMEs. Micro Small and Medium Enterprises is the cornerstone of Singapore's economy which normally contributes 47% of the country's GDP and generate 62% of available jobs in Singapore's Rowe, (2008). According to Ihua, (2009) MSMEs are the main source of employment in developed and developing countries. In Sub Saharan Africa MSMEs cover 95% of all business and their great significance cannot be underestimated.

The MSME sector in Kenya has over the years been recognized for its role in provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, alleviation of poverty. The crucial role of MSMEs is underscored in Kenya's Vision 2030 the development blueprint which seeks to transform Kenya into an industrialized middle-income country, providing a high-quality life to all its citizens by the year 2030. The MSMEs sector has been identified and prioritized as a key growth driver for achievement of the development blue print Kenya National Bureau of Statistics, (2016).

Capital invested in MSMEs normally differ as little as one thousand Kenyan shillings to over 5 million Kenyan shillings based on the nature of the business. In Kenya, micro-enterprises have 10 or fewer workers, small enterprise is composed of 11 to 50 workers, while medium enterprises have from 51 to 100 workers. According to Colombo & Cassar, (2014) business enterprises owners can improve their ability by assessing opportunities obtaining knowledge about their business environment and from experience. Micro Small and Medium enterprises constitute a variety of enterprises, village handicraft makers, small machine shops, restaurants and computer software shops firms that dominate a wide range of sophistication and skills and operate in very difficult markets and social environments. MSMEs provide employment in rural areas and poor regions in Kenya Bowen, Morara & Mureithi, (2009).

Study done by Federation of Kenya Employees, (2003) for various studies carried out shows that most Micro, Small, Medium Enterprise sector die between 1 and 5 years as opposed to Western Countries where the death gap is between 5 and 10 years or more. According to Kenya Session Paper No.2 of 2005, three out of five SMEs fail within first 3 years of operations. The high rate of MSMEs failure in the country shows poor performance and lack of ability to remain competitive. Micro, small and medium Enterprises are affected by a host of factors like limited capital, poor managerial skills, lack of proper physical infrastructure and low education level among other variables as key factors affecting performances of MSMEs which limit their longterm survival and development. According to Equity Bank, (2012)

MSMEs face competition not only from their peers but also from large corporations participating in niche markets which are normally regarded as a preserve for small business. According to past statistics of Kenya National Bureau of Statistics, 2007 the statistics showed that three out of five businesses fail within the first few months of operations. This prompted the researchers to study the factors that determine performances of MSMES and whether it has direct or indirect influences on MSMEs performance with focus on MSMEs in Gikomba Market Nairobi County.

## **Statement of the problem**

In Kenya Micro, Small, Medium Enterprise sector (MSMEs) has been recognized throughout developing countries as an engine to development. Study done by Federation of Kenya Employees, (2003) for various studies carried out shows that most Micro, Small, Medium Enterprise sector die between 1 and 5 years as opposed to Western Countries where the death gap is between 5 and 10 years or more. According to Kenya Session Paper No.2 of 2005, three out of five SMEs fail within first 3 years of operations. The high rate of SMEs failure in the country shows poor performance and lack of ability to remain competitive. Micro, small and medium Enterprises are affected by a host of factors like limited capital, poor managerial skills, lack of proper physical infrastructure and low education level among other variables as key factors affecting performances of MSMEs. According to Equity Bank, (2012) MSMEs face competition not only from their peers but also from large corporations participating in niche markets which are normally regarded as a preserve for small business. This prompted the researchers to study the factors that determine performances of MSMES and whether it has direct or indirect influences on MSMEs performance with focus on MSMEs in Gikomba Market Nairobi County.

Studies have been conducted on Micro, Small and Medium Enterprises focusing on factors determining performance of MSMEs in Kenya. Research conducted by Nyang'ori, (2010) on factors determining performance of Micro and Small Enterprises in City Bus Park in Kisumu town. Kyenze, (2016) conducted a research on factors influencing performance of smallscale business of Tawa Sub County in Makueni County. Study conducted by Muthini, (2015) on factors influencing performance of Micro, Small and Medium Enterprises (MSMEs) owned by women in Muthurwa market, Nairobi county. Though the said studies dwelt on performance, they were done in their specific areas and covered specific objectives. Research conducted by Nyang'ori (2010) on MSMES in Kisumu town specific to that area and Kyenze, (2016) study covered on the informal sector in Tawa Sub County Makueni County. Study conducted by Muthini, (2015) only considered performance of women entrepreneurs and mainly left male entrepreneur. These studies have been done in urban centres of Nairobi, Kisumu and Makueni. Gikomba is Kenya's largest open-air market and receives tens of thousands of visitors trading, buying goods, hawking, meeting or just trying to survive. MSMEs in Gikomba market employ huge population of Kenyans. Their positive performance can bring hope to the problem of unemployment in Nairobi County. This study investigated the factors that determine performance of Micro, Small and Medium Enterprises (MSMEs) in Gikomba market in Nairobi County.

## **1.2 Objectives of the study**

The study focused on MSMEs in Gikomba market, Nairobi County. The study achieved below specific objectives.

- i. To determine how access to infrastructure determine performances of MSMEs in Gikomba market in Nairobi County
- ii. To determine how availability of finances determine performances of MSMEs in Gikomba market in Nairobi County.
- iii. To examine how managerial experience, determine performances of MSMEs in Gikomba market in Nairobi County
- iv. To assess how the level of education, determine performance of MSMEs in Gikomba market in Nairobi County.

## **1.3 Research Questions**

The study was guided by the following research questions.

- i. How does infrastructure determine performances of MSMEs in Gikomba market in Nairobi County?
- ii. To what extent does finance determine performances of MSMEs in Gikomba market in Nairobi County?

- iii. How does managerial experience determine performances of MSMEs in Gikomba market in Nairobi County?
- iv. To what extent does level education determine performance of MSMEs in Gikomba market in Nairobi County?

## 2.0 Literature Review

This chapter reviews the existing literature, information and publication related to entrepreneurship studies by accredited scholars and researchers. Entrepreneurship theories are important to the development of entrepreneurship field. The paper is guided by the following theories Resource based view theory and Schumpeter's Theory of Innovation.

### 2.1 Theoretical Framework

#### 2.1.1 Resource Based View Theory

The resource based theory is a managerial system which is used to decide the strategic resources with the capacity to provide comparative advantage of an organization. Organization resources can be put into use by the firm to gain sustainable competitive advantage. Grant, (1980) the proponent of the theory viewed the principal developments in master plan analysis which focused upon the link between strategy and external environment. Theory argues that enterprises possess resources, which act as subset of which enables organization to accomplish competitive advantage, and a subset of those that guide to superior long-term performance of the organization. The core idea behind the resource-based view is that competitive advantage comes from a firm's effective use of tangible and intangible resources or assets. Tangible assets include plant, equipment and even human resources, whereas intangible assets include things like trade secrets and corporate reputation.

According to resource-based theory firms can achieve sustainable competitive advantage from such resources as management skills, tacit knowledge, employment of skilled personnel among others. Resource based theory contend that the assets and resources owned by companies may explain the differences in performance. Resources may be tangible or intangible and are harnessed into strengths and weaknesses by companies and in so doing lead to competitive advantage. Theory suggests that education is a good and is beneficial to business and firms Killen *et al.*, (2012). According to the resource-based perspective, venture resources in the form of capabilities, assets, and skills provide competitive advantage and underpin the organization's performance. Prior entrepreneurial experience can lead to success and specific experience in similar businesses ensures survival and growth. Entrepreneur's management skills contribute to venture performance and growth. According to Kraaijenbrink *et al.*, (2010) the propensity of the entrepreneur to employ and apply a variety of skills has been recognized some of the important skills of successful entrepreneurs include accounting, marketing, sales and financial management.

#### 2.1.2 Schumpeter's Theory of Innovation

The innovative theory happens to be the most famous theories of entrepreneurship used all around the world Schumpeter's view that entrepreneurs are innovators, people who generate ideas and embody those ideas in high-growth companies. According to Schumpeter's, (1934) Theory of Innovation is in line with the other investment theories of the business cycle, which asserts that any change in investment accompanied by monetary expansion are the major factors behind the business fluctuations in organization, but however, Schumpeter's Theory posits that innovation in business is the major drive for increased investments growth and business fluctuations in any given organization.

According to Schumpeter, the cyclical step is almost exclusively the result of innovation of the enterprises, both in industrial and commercial. By innovation it means, the changes in the methods of the way the production is done like transportation methods, new product production, change of the industrial organization and setting up of a new market. The main purpose of the entrepreneurs is to improve or revolutionize the patterns of productions in the organization.

Entrepreneurs normally utilize an invention or, more generally, an inexperienced technological with possibility of producing a new commodity or producing the old one in a new way or coming up with a new source of supply of materials or creating a new outlet for products, by restructuring an industry. Schumpeterian entrepreneurship is all about innovation and ambition to turn small businesses into big ones that can benefit a big group. Schumpeter had much confidence that creativity or innovation is a major factor in any entrepreneur's field they specialize. Schumpeter argued that knowledge normally help an entrepreneur to become successful. He believed that development is composed of processes which normally consist of reformation of various equipment's of productions outputs, marketing and industrial organizations.

## **2.2 Empirical Review**

Studies have been conducted on Micro Small Medium Enterprises focusing on performance of MSMEs. Study conducted by Nyang'ori, (2010) on factors influencing performance of Micro and Small Enterprises in City Bus Park, Kisumu town. A research conducted by Kyenze, (2016) in Tawa Sub County, in Makueni on factors influencing performance of smallscale business. Muthini, (2015) conducted a research in Muthurwa market, Nairobi county on factors influencing performance of Micro, Small and Medium Enterprises (MSMEs) owned by women.

Research conducted by Kyenze, (2016) on factors influencing performance of small scale business of Tawa Sub County Makueni county and the main objectives was established how entrepreneurial skills influence performance of small scale business, how competition influence performance of small scale business, how financial resources influence performance and to establish whether business laws influence performance of small scale business in Tawa Sub County in Makueni county. The study found that existing business and new entrants normally influence small scale business in Makueni County. According to Kyenze, (2016) study concluded that entrepreneurial skills, competition, financial resources and county business laws are major factors that influence growth of small scale business. The study revealed that financial resources influence performance of small scale business. The findings reveal that cost of financing and source of financing have great influence on small scale business.

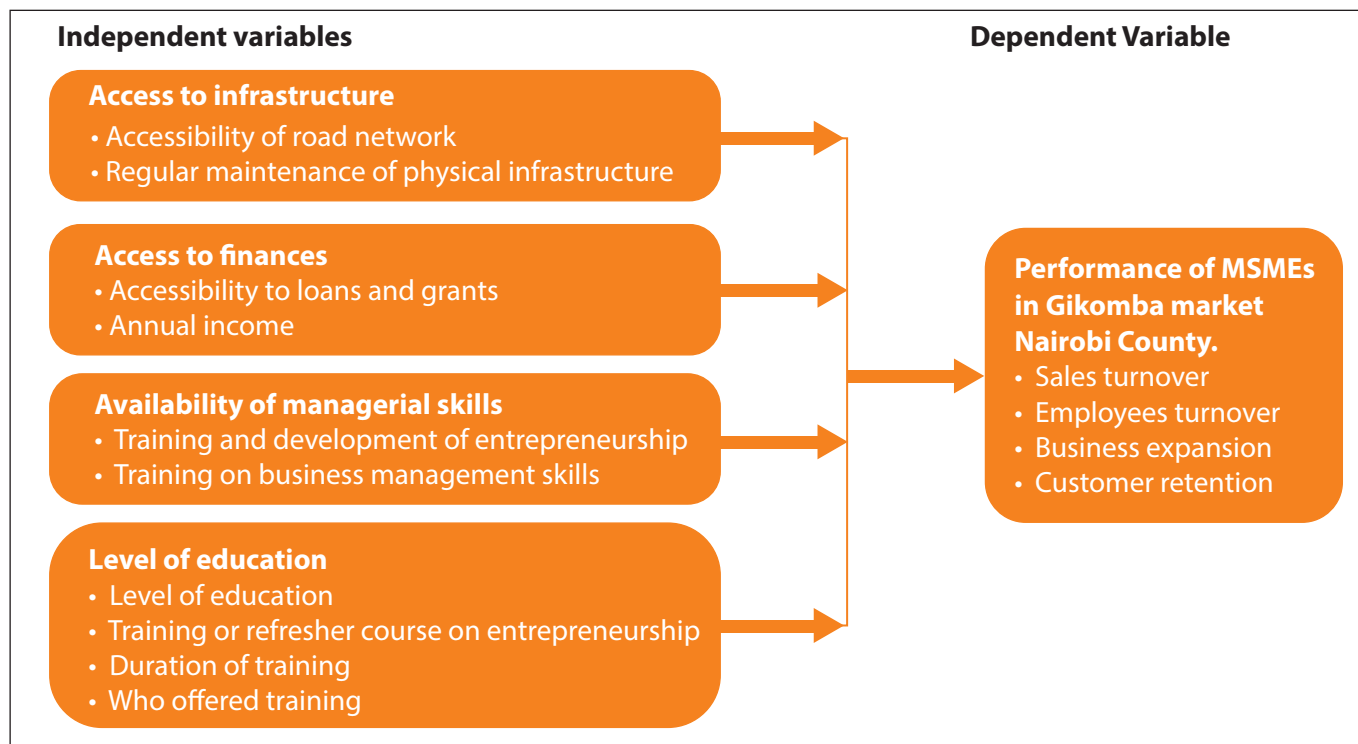
Research conducted by Muthini, (2015) on factors influencing performance of Micro, Small and Medium Enterprises (MSMEs) owned by women in Muthurwa market, Nairobi county had objectives, to establish how capital, level of education, domestic commitment and competition influenced the performance of MSME owned by women in Muthurwa market, Nairobi county Kenya. Muthini, (2015) in her study found out that majority of the women 29(58%) had access to capital from their friends, 8(16%) from family savings, 7(14%) from bank loans and lastly 6(12%) from personal savings. It concluded that majority of entrepreneurs borrow amongst themselves and a few 14% borrow from the banks meaning that collateral and other documentation required from these institutions is a challenge to access credit facilities. The study found that because of lack of education or low levels of education acquired among entrepreneurs brings about the lack of entrepreneurial skills and poor managerial on MSMEs.

Study conducted by Nyang'ori, (2010) on factors influencing performance of Micro Small Medium Enterprises in City Bus Park in Kisumu town had objectives to identify the extent to which the socio-cultural background of the entrepreneur influences the performance of MSMEs and how performance of MSMEs is associated with the characteristics of the business. The study also examined the Government Policy and Legislative processes that normally influence the performance of the MSMEs sector. According to Nyang'ori, (2010) study found sole proprietorships to be performing better than partnerships.

## **2.3 Conceptual Framework**

An independent variable is one that is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent a problem requiring explanation in an analysis, but are taken simply as given. The independent variable in this study are access to infrastructure, access to finances, and availability of managerial experience and level of education. Dependent variable is what is measured in the experiment and what is affected during the experiment, it responds to the independent variable. The dependent variable in this study is performance of MSMEs in Gikomba market in Nairobi County.

The relationship of the variables is displayed in the figure 1.0 below.



### 3.0 Methodology

The study applied descriptive research design to factors determining performance of Micro, Small and Medium Enterprises (MSMEs) business traders in Gikomba Market in Nairobi County. The researcher asked population of interests about certain issues under the problem of study. The method was used so that the researcher can gather data from a wide range of respondents, covering all MSMEs located in Gikomba market, Nairobi County. The approach provided way of discerning, examining, contrasting and interpreting meaningful data.

Population under study consisted of all Micro Small and Medium Enterprises operating within Gikomba market County of Nairobi. According to records of Nairobi City Council, 2017 it shows that 1251 registered Micro Small and Medium Enterprises are registered and within Gikomba in Nairobi county. The main business of operations in Gikomba market are second hand clothes (Mitumba), hardware's, furniture's, fruits, beverages, cereals, vegetables and poultry.

Sampling method used was stratified random sampling because the target population was grouped into strata's herein referred to as MSMEs categories? A total of 125 business traders took part in the research. The method was preferred because the population being studied was heterogeneous. The technique offered all members under the population an equal chance of being included in the sample. A well selected sample of between 10-30% of the population was adequate for generalization of findings to the whole population Mugenda & Mugenda, (2003).

The data collected was primary data which was collected using questionnaires that were developed by the researcher. Questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from respondents questionnaires included both closed and open ended for easier quantification of data. Questionnaire technique was preferred because it covered a wide range of area, easy to administer and it reaches many respondents at a cheaper cost.

After receiving all the questionnaires data cleaning was conducted to determine inaccurate, incomplete, unreasonable data to refine the quality through rectifying of identified errors and omissions. Data analysis employed was both quantitative and qualitative procedures. Quantitative data was analysed using inferential and descriptive statistics. Qualitative data was grouped into meaningful patterns and themes that were observed to help in the summarizing and

organization of data. Qualitative data was analyzed descriptively. Descriptive statistics employed included frequency counts and percentages. Computer package Microsoft Excel was used in order to help in coding, entry and analysis of data which was obtained through questionnaires. Graphical presentations like Tables were used to present the collected data for ease of understanding and analysis.

## 4.0 Findings

Research findings and discussions were done in line with the study's research objectives. It was followed by conclusions and recommendations. The researcher distributed one hundred and twenty-five (125) questionnaires to respondents to fill and return for analysis. Out of 125 questionnaires issued 91(73%) of them were filled and returned and 34(27%) did not respond. This therefore means that the analysis done in this research is based on the 91 questionnaires that were filled and returned. The response rate of this research was 73%. The 34 questionnaires not returned were from respondents who opted not to participate in the study. Respondents were asked to indicate their age and 20% of the respondents were aged 21-30 years, 34% were aged 31-40 years, 25% were aged 41-50 years, (14%) were aged 51-60 years and 7% respondents were aged 61-70 years. The data indicates that majority of the business owners in Gikomba market were middle aged and few are elderly.

### Availability of managerial experience and performance of MSMEs

#### For one to start MSMEs one must have knowledge on how to manage business

Respondents were further requested to indicate whether when starting MSMEs one must have knowledge on how to manage business. The study findings are shown in table 1.

**Table 1:** Knowledge when starting MSMEs

Knowledge managing business	Frequency	Percentage
Strongly Agree	29	32
Agree	24	26
Disagree	21	23
Strongly disagree	17	19
<b>Total</b>	<b>91</b>	<b>100</b>

Table 1 shows that majority of respondents 29(32%) strongly agree that knowledge is important for one to manage MSMEs, 24(26%) respondents agree, 21(23%) disagree and 17(19%) strongly disagree that knowledge is paramount for one to manage business.

### Does availability of managerial skills and experience determine performance of your MSMEs

Researcher establish further whether availability of managerial skills and experience determine performance of MSMEs. The findings are shown in table 2.

**Table 2:** How managerial skills and experience determine performance of MSMEs

Managerial skills and experience	Frequency	Percentage
Very great extent	30	33
Great extent	22	24
Moderate extent	26	29
Little extent	9	10
No extent	4	4
<b>Total</b>	<b>91</b>	<b>100</b>

Table 2 shows that majority of respondents 30 (33%) agree that to a very great extent availability of managerial skills and experience determine performance of MSMEs. 22(24%) at great extent, 26 (29%) at moderate extent, 9 (10%) at little extent and 4 (4%) at no extent.

### Level of education and performance of MSMEs

#### Does your level of education determine performance of your business?

The findings are shown in table 3.

**Table 3 : Effect on education**

Effect on education	Frequency	Percentage
Yes	49	54
No	42	46
<b>Total</b>	<b>91</b>	<b>100</b>

Majority of respondents 54% agree that level of education affect their business performances while 46% responded by saying no.

### 5.0 Conclusion

The conclusions have been made on the basis of the research findings and conclusions. The objective of the study was to establish factors determining performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya.

On availability of managerial experience and performances of MSMEs the study concluded that most respondents strongly agree that knowledge on how to manage business determine MSMEs performances in Gikomba market. Majority of respondents agree to a very great extent availability of managerial skills and experience determines performance of MSMEs.

On level of education the study concluded that majority of respondents agree that level of education determine performance of MSMEs in Gikomba market. The study further concluded that majority of respondents have never attended any training or refresher course on entrepreneurship because some fee payments were needed for one to be trained, timing was bad because of MSMEs workload, some MSMEs did not see the need of training and training venue was far. Overall level of education determines performance of MSMEs in Gikomba market, Nairobi County.

### 6.0 Recommendations

The study established respondents strongly agree that knowledge on how to manage business determine MSMEs performances in Gikomba market knowledge are paramount for one to manage business. The study found that majority of respondents agree to a very great extent that training on managerial skills is required by MSMEs but the main challenge respondents face is that they do not get business management training frequently. Majority of respondents agree to a very great extent availability of managerial skills and experience determines performance of MSMEs.

On level of education the study established that majority of respondents agree that level of education determine performance of MSMEs in Gikomba market. The study further established that majority of respondents have never attended any training or refresher course on entrepreneurship. The county government of Nairobi, financial institutions and Non-governmental organization should organize basic on entrepreneurship for MSMEs in Gikomba market for free. Purpose of the study was to establish factors determining performance of Micro, Small and Medium Enterprises in Gikomba market in Nairobi County. To facilitate generalization of findings, this study recommends another study be carried to determine factors influencing MSMEs in rural settings in Kenya.

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