

## **CHALLENGES FACING GROWTH OF MICROENTERPRISES IN KENYA: A CASE OF TIGANIA WEST DIVISION**

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### **Abstract**

*This study was conceived to explore the problems facing actors in the microenterprises sector. Microenterprises play a significant role in the country's economy. Many countries in the world have realized the importance of SMEs and therefore are working to increase performance and competitiveness. In Kenya, this sector cut across all sectors of the country's economy and provide one of the most prolific sources of employment not to mention the breeding ground for medium and larger industries, which are critical for industrialization today, these enterprises are found in every corner of Kenya and they have great potential for creating a variety of jobs, while generating widespread economic benefits. It is in the light of the above that the study was designed to establish the challenges facing growth of microenterprise. The study was a descriptive study and was limited to Tigania west division, Kenya. Questionnaires were used for data collection and descriptive statistics were used to analyze the data obtained. Study findings demonstrate the numerous problems that micro-enterprises experience in day to day running of businesses. Majority of the microenterprise owners 82.1% were not trained in any business skills which are needed to run micro and small enterprises. Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees evidence of lack of management skills. The study also demonstrated that there was inadequate business support services and recommends that there is a need for a supportive policy to encourage the establishment of documentation centers and information networks to provide information to microenterprises at an affordable price. This study also recommends that business policies should aim to encourage and promote the development of microenterprises.*

*Keywords: Business, Business growth, Microenterprises, Business entrepreneur*

## INTRODUCTION

The microenterprise sector has the potential to generate enormous economic gains and increased employment for national economies and for the micro and women entrepreneurs and their families. Currently, in most economies, small and microenterprises generate a significant number of jobs – in Canada, for example, a full 49% of the population work for small or micro-enterprises. These figures tend to be even higher in developing economies where microenterprises are generally more important in terms of employment.

In Kenya, micro-enterprises are those with 10 or fewer workers, small enterprises have from 11 to 50 workers, and medium enterprises have from 51 to 100 workers. Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya, while there are a few medium enterprises (Parker and Torres 2004). Small enterprises are almost non-existent. However, despite government efforts in Kenya to promote informal sector activity, not much progress seems to have been achieved, judging by the performance of the informal sector.

In Tigania West division, in terms of sector (trade, tourism and industry sector) contribution to household income, waged employment and self-employment contributes around 5% which is attributed to trade and industry subsectors. Trade is predominantly small scale retail in nature which is distributed across the division (GoK, 2009). In this area several microenterprises have come up and 50% of them fail thrive during the first year after starting.

In the prevailing climate of globalization, developing countries urgently need to ensure that they have a critical mass of domestic enterprises, which are internationally competitive and capable of penetrating global chains of production. Increased access to information and knowledge of proven practices that enhance micro and small enterprises' production capabilities are crucial to creating business expansion opportunities. There is a need for a better understanding of microenterprise growth in general, as well as women's current participation as small scale producers and suppliers in both the formal and informal economies. All these strategies can be examined from the perspective of both growths at the domestic level as well as growth of microenterprises through increased linkages with international trade

### Problem Statement

The microenterprises cut across all the sectors of the Kenya economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction. Self-employment in micro-enterprises provides a living to hundreds of millions of people, and considerable resources have been put towards helping these businesses to grow beyond a subsistence level.

The sector contributes up to 18.4% (Government of Kenya, 2005) of the country's gross domestic product. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. This sector is therefore not only producer of goods and services but also important in promoting competition and innovation; and enhancing the enterpriser culture which is necessary for private sector development and industrialization. The sector plays a significant role. However, it has continued to experience many binding constraints that have inhibited the realization of its full potential. Past statistics indicate that three out of five micro-enterprises fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to statistics obtained from the District statistics office, Maua, 2009, most of the enterprises in Tigania west division are characterized by lack of growth.

Little is known about the challenges that face the growth of these microenterprises. The understanding of the dynamics of SMEs is therefore necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. To address the need for more specific information about microenterprises in Kenya, this study explored characteristics of microenterprises that make it more difficult for them to grow and assessed the particular challenges that these microenterprises face which may have contributed to their poor performance. This study therefore sought to establish the challenges facing the growth of micro enterprises in Kenya taking a case of Tigania West division.

### **Purpose of the study**

The main purpose of this study was to investigate challenges facing growth of microenterprises in Kenya taking a case of Tigania West district.

### **Specific objectives of the study**

1. To examine how business finance influences the growth of microenterprises.
2. To explore the extent to which entrepreneurs' management skills influence the growth of microenterprises.
3. To establish the extent to which government regulations and policies have influenced the growth of microenterprises
4. To establish how availability of business support services influences growth of microenterprises
5. To find out the extent to which training in business influence the growth of microenterprises

## LITERATURE SURVEY

This study reviewed relevant literature as regards to the challenges facing the growth of microenterprises generally and those specific to the Kenyan context. Literature acknowledges the great role played by microenterprise sector in the growth of the Kenyan economy. Despite this, various problems have been cited that hamper the growth and success of this sector. For instance lack of adequate capital, inadequate business skills and competition.

With this knowledge, there has been no research carried out in Tigania West Division to assess the challenges that the sector face. It is this gap that the research aims at filling. The researcher also seeks to generate information and recommendations that can contribute to solving the identified challenges facing this vital sector of our economy.

## RESEARCH METHODOLOGY

This study was a descriptive survey where both qualitative and quantitative data was collected in order to investigate the challenges facing microenterprises in Tigania west division. A survey was selected because it was found to be suitable for gathering data and information on large samples and that it is cost effective. The major purpose of descriptive survey is description of the state of affairs as it exists at present. Kerlinger, (1969) points out that descriptive studies are not only restricted to fact finding but may often result in formulation of important principles of knowledge and solution to significant problems.

### Target population

The study was carried out in Tigania West division. According to Mugenda and Mugenda (1999), where time and resources allow a researcher should take as big sample as possible. However, generally, the sample size depends on factors such as the number of variables in the study, type of design, method of data analysis and the size of the accessible population. Gay (1992) suggests that for descriptive studies, 10% of the target population is enough. It is on the basis of the above discussion that the researcher chose 50% of the target population. The study population was 279 microenterprises within the Tigania West division. A sample of 141 microenterprises (50% of the target population) was selected.

### Sampling

The sampling method used here was stratified random sampling technique where each micro enterprise from every stratum was given an equal chance to be selected using random numbers, until the number making up the sample was reached. According to Mugenda & Mugenda, (1999), the goal of stratified random sampling is to achieve desired representation

from various subgroups in the population. This method of sampling increases statistical efficiency and provides data to represent and analyze the subgroups.

Table 1. Sample size

<b>Stratum</b>	<b>Target Population</b>	<b>Sample Size</b>
Shops	100	50
Kiosk	35	18
Butchery	14	7
Salon/Kinyozi	35	18
M-Pesa	20	10
Chemist	16	8
Hotels	26	13
Bars	16	8
Cereals stores	17	9
<b>Total</b>	<b>279</b>	<b>141</b>

Source: District statistics office, Maua, 2009

The primary data was collected using structured and unstructured questionnaire. Most of the questions were closed ended. Secondary data was obtained from Tigania West Municipal council records, showing all registered and unregistered businesses within the Municipality by category.

### **Validity and reliability**

Patton (2001) argues that reliability and validity are two factors, which any qualitative researcher should be concerned about while designing a study, analyzing results and judging the quality of the study. White (2002) emphasizes the need to build into the research design the concept of validity and reliability.

### **Reliability**

Reliability refers to the degree to which instruments yields consistent data or results after repeated trials (Mugenda and Mugenda 1991). The initial was a pilot test of the instruments to ensure that they obtain the desired data or results. This pilot was done in Tigania East division. To test the reliability of the instrument the researcher used split-half technique. By using this method the researcher aimed at determining the coefficient of internal consistency or reliability co-efficient whose value vary between 0.00 (indicating no reliability) and +1.00 (indicating

perfect reliability). The research instrument was split into two (2) subtests one consisting of odd numbered items/questions and the other made of all even numbered items. The score of all the odd-numbered and even numbered items of the responses in the pilot study was computed separately. The odd numbered scores for all items were then correlated with the even numbered scores using the Pearson product correlation coefficient of the entire test as 0.73 thus the instrument was concluded as satisfactory.

### **Validity**

Validity refers to degree of accuracy and meaningfulness of inference based on research results. This measures the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept (Mugenda and Mugenda, 1991). The indicators of variables were clearly defined and scrutinized and instruments developed to match the study objectives. It was therefore necessary to locate a sample of subjects with characteristics similar to those that were used in the study. For the purpose of this study, piloting was carried out in Tigania East Division. After the analysis of the pilot study, items which needed amendments were accordingly effected. Also irrelevant and baseless items were discarded and replaced with more useful and logical ones which needed to elicit the required responses. Instrument validity was also ensured through the expert advice of supervisors and other members of the department versed in research.

### **Data analysis and presentation**

Descriptive statistics was used to analyze data owing to the nature of the methodology used in the research. After collection, the completed questionnaires were edited and coded to facilitate statistical analysis. The aim here was to eliminate unusable data, interpret ambiguous answers and contradictory data from related questions. A coding scheme was developed for the responses to each question. The coding scheme facilitated the development of an appropriate data structure to enable its entry into the computer. Data entry and analysis was done using Statistical Package for Social Sciences (SPSS) version 11.5 for Windows. This was useful in arranging, summarizing and presenting the major characteristics of key variables as well as relationships among the said variables.

### **ANALYSIS**

The data is analyzed around key variables such as sources of income, sources of finance, availability of finances, expenditure/costs of running the business, entrepreneurs' management skills, government regulations and policies, business support services and training in business.

In addition, the data also highlights on ways to mitigate the challenges faced by entrepreneurs running micro-enterprises. Presented below are key findings of the study. Out of 141 questionnaires responded to, 140 were accepted for analysis representing a response rate of 99.29% which is statistically acceptable.

### - Influence of business finance on business growth

#### Types of business operated

Respondents were asked to indicate the type of the business they operated. The Table below summarizes the types of business operated in the study area.

Table 2. Type of Business

<b>Business</b>	<b>Frequency</b>	<b>Percentage</b>
Saloon	6	4.29
Kinyozi	12	8.57
Hotels	13	9.29
Chemist	12	8.57
Butchery	6	4.29
Shop	49	35.00
Kiosk	18	12.86
Grain Stores	9	6.43
M-pesa	15	10.71
<b>Total</b>	<b>140</b>	<b>100.00</b>

According to the above table majority of the business in Tigania West Division are shops 35%, kiosks form 12.86% of the businesses, while kinyozi and chemists each forms 8.57% of the businesses. Butcheries and salons were the least type of businesses operated in Tigania West Division at 4.29% each. Other types of business operated in the division include: grain store 6.43%, hotels 9.29%. This finding illustrates the diversity of businesses in the division which is necessary for healthy competition that can spur economic growth and development in the region.

#### Challenges facing micro-enterprises

The Table below summarizes some of the challenges facing microenterprises as suggested by the respondents

Table 3. Challenges faced by microenterprises

<b>Challenge</b>	<b>Most challenging (%)</b>	<b>Challenging (%)</b>	<b>Least challenging (%)</b>
Financial constraints	65.0	27.1	7.9
Price fluctuations	53.6	30.7	15.7
Poor environmental hygiene	31.4	30.0	38.6
Lack of business skills	32.9	59.3	7.9
Unfavorable government policies	46.4	42.1	11.4
Dynamic consumer behavior	83.6	6.4	10.0

The most challenging aspect faced by microenterprises included financial constraints, price fluctuations, unfavorable government business policies and dynamic consumer behavior as indicated in the above table. Lack of business skills was rated as challenging. Majority (38.6%) of the businesses considered poor environmental hygiene as the least challenging challenge.

### Sources of capital to start a business

Different sources of capital to start businesses exist. Table below summarizes some of the sources of capital to start a business.

Table 4. Sources of capital for starting a business

<b>Source</b>	<b>Very often (%)</b>	<b>Often (%)</b>	<b>Not at all (%)</b>
Micro-finance institutions	28.6	32.9	38.6
Commercial banks	8.6	7.9	83.6
Personal savings	92.9	4.3	2.9
Shylocks	6.4	10.0	83.6
Profits	88.6	9.3	2.1

According to table above, the most popular sources of capital to start a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (88.6%) as shown in table 4:31 above. Other sources of capital that were used very often as source of capital include microfinance institutions (28.6%). The two least popular sources of capital were commercial banks and shylocks. High interest rates on loans charged by banks and shylocks together with the need of collateral as a requirement for loan qualification in banks make these sources unpopular.



### Sources of capital to expand a business

Moreover, different sources of capital to expand businesses exist. Table below summarizes some of the sources of capital to expand a business.

Table 5. Sources of capital for business expansion

Source	Very often (%)	Often (%)	Not at all (%)
Micro-finance institutions	20.1	43.2	36.7
Commercial banks	8.6	5.7	85.7
Personal savings	92.9	3.6	3.6
Shylocks	10.7	7.9	81.4
Profits	96.4	2.1	1.4

The most popular sources of capital to expand a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (96.4%) as shown in the table above. Other sources of capital that were used very often as source of capital for business expansion include microfinance institutions (20.1%). The two least popular sources of capital were commercial banks and shylocks. These observations are similar to those made when sourcing for capital to start a business

### Challenges faced by micro entrepreneurs as they source for capital

Several challenges exist in raising business capita. Table below summarizes the various challenges encountered by micro entrepreneurs as they source for business capital.

Table 6. Challenges faced by micro-entrepreneurs as they source for capital

Challenge	Very challenging (%)	Challenging (%)	Not challenging (%)
Interest rates	60.7	9.3	30.0
Bureaucracies involved in loan disbursement	25.7	40.7	33.6
Payment schedules	57.1	36.6	9.3
Collateral	59.2	25.8	15.0

According to the table above, majority of the micro-entrepreneurs (60.7%) considered interest rates, collateral (59.2%) and payment schedules (57.1%) as the very challenging obstacles as they source for their capital either to start or expand their businesses. Bureaucracy involved in loan disbursement was considered as not very challenging when it comes to sourcing capital.

## Overcoming financial challenges

Micro entrepreneurs suggested several ways of overcoming financial challenges as shown in Table below.

Table 7. Overcome financial challenges

Ways to overcome	Frequency	Percentage
Sourcing from institutions with low interest rates	122	87.1
Simplifying loan procedures	8	5.7
Negotiating flexible payment schedules	7	5.0
Loan repayment history of an individual to be used in replacement of collateral	3	2.1
<b>Total</b>	<b>140</b>	<b>100.0</b>

The most of the popular ways of overcoming financial challenges include sourcing capital from institutions with low interest rates, simplifications of loans procedures and negotiating, flexible payment schedules as illustrated in Table 4.6. It was also noted that a client history in loan repayment could be used by financial institutions to gauge the ability of a client to repay their loans. This can be used in replacement of the need for collateral

## Direct cost incurred when running business

Micro entrepreneurs highlighted on some of the direct and indirect costs incurred when running their businesses as shown in Table below.

Table 8. Direct cost incurred when doing business

Direct cost	Most expensive (%)	Expensive (%)	Least expensive (%)
Electricity	55.2	26.8	18.0
Rent	61.9	34.1	4.0
Stationary	10.8	29.7	59.5
Transport	44.3	30.2	25.5

Table above shows that most businesses have electricity cost, rental cost, stationary cost and transport cost as the direct cost they face. Out of these recurrent expenses, rent (61.9%) and electricity (55.2%) seem to be the most expensive, Influence of management skills on business growth direct costs incurred by microenterprises. When such costs are too high, they may eat into the business profitability and slow down business growth.

### Management skills of micro-entrepreneurs

Respondents were asked to respond to statements that best described the situation regarding their management skills. Table below shows the results.

Table 9. Management skills of micro-entrepreneurs

Management skills	Strongly agree	Agree	Disagree	Strongly disagree	Not sure
I always motivate my employees (team)	11.67	15.00	20.00	50.00	3.33
I always conduct regular visits to their working place to observe how they work	6.67	46.67	23.33	15.00	8.33
I always strive to promote performance at our working environment	13.33	20.00	25.00	36.67	5.00
I normally demonstrate good working knowledge and expertise	25.00	60.00	5.00	6.67	3.33

Table shows that even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees. Such management skills might affect the performance and business growth.

### Time in business

Experience is important in business operations. Respondents were requested to indicate the number of years they had conducted their businesses.

Table 10. Time in business

Time in business	Frequency	Percentage
1-2 years	57	40.71
3-4 years	43	30.71
5-6 years	23	16.43
Above 6 years	17	12.14
<b>Total</b>	<b>140</b>	<b>100.00</b>

Table above shows that majority (40.7%) of the respondents have been in business for between 1 and 2 years. Such a short period of time may have not allowed the entrepreneurs master the operations of their business and this could affect business growth. 30.71% of the respondents

indicated that they had been in business for between 3 and 4 years, 12.14% had been in business for between 5 and 6 years and the minority had been for at least above 6 years.

### - Influence of government regulations on business growth

#### Process of obtaining investment approvals

Respondents were requested to indicate the nature of the process of obtaining investment approvals.

Table 11. Process of obtaining investment approvals

<b>Process</b>	<b>Frequency</b>	<b>Percentage</b>
Very challenging	119	85.00
Challenging	19	13.57
Not challenging	2	1.43
<b>Total</b>	<b>140</b>	<b>100.00</b>

Table above illustrates that majority (85%) regarded this process as very challenging though few respondents regarded it as challenging (13.75%) and even a smaller percentage further regarded it as not challenging. This becomes notoriously burdensome to the micro-entrepreneurs and frequently hampers small enterprise growth.

#### Cost of obtaining operating licenses from the county council

Unpredictable government policies coupled with corruption, high taxation rates; all continue to pose great threat not only to the sustainability of micro-enterprises but also to the Kenyan economy.

Table 12. Cost of obtaining operating licenses from the county council

<b>Cost</b>	<b>Frequency</b>	<b>Percentage</b>
Very expensive	110	78.57
Expensive	23	16.43
Not Expensive	7	5.00
<b>Total</b>	<b>140</b>	<b>100.00</b>

Table above demonstrates that majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive yet another 16.43%

regarded the process as expensive. There was only a small percentage that regarded these costs not to be expensive. Such high taxes may keep firms small and informal thereby contributing to increased transaction costs. Generally regulatory and institutional challenges may also deter microenterprise owners from making growth-enabling investments.

### - Influence of business training on business growth

#### Training

Education and skills are needed to run micro and small enterprises. Education may provide micro-entrepreneurs with a greater capacity to learn about new production processes and product designs and offer specific technical knowledge conducive to business expansion.

Table 13. Business seminar/training attendance

<b>Trained</b>	<b>Frequency</b>	<b>Percent</b>
Yes	25	17.9
No	115	82.1
<b>Total</b>	<b>140</b>	<b>100.0</b>

Majority of the microenterprise owners 82.1% were not trained in any business skill, though 17.9% claimed to have been trained.. Those with more education and training are more likely to be successful in the SME sector than those who do not have any training. As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management.

#### Number of times of seminar attendance

Training and skills acquisition is an on-going process. Table below show the number of times respondents attended seminars

Table 14. Number of times one has ever attended business seminar/training (N=25)

<b>Number of times attended seminars</b>	<b>Frequency</b>	<b>Percentage</b>
Once	6	24
Twice	11	44
More than twice	8	32
<b>Total</b>	<b>25</b>	<b>100</b>

Out of those that had attended any kind of business seminar or training, majority (44%) had attended training session twice, 32% had attended trainings more than two times and the minority (24%) had attended only once as illustrated in Table 4.13.

### Areas trained in during business seminar attendance

Table above summarizes the areas of training that respondents were exposed to. According to the table, respondents had covered very few areas which necessitates the need for further training Respondents claimed to have had training in market research (20%), customer relation (88%) and bookkeeping (40%).

Table 15. Areas of training

Areas trained in	Frequency	Percentage
Market Research	5	20
Customer Relations	22	88
Book keeping	10	40
<b>N=25</b>		

Respondents felt that they required further training in accounting, entrepreneurship, managerial skills, marketing skill, business economics, business management, customer relations and business administration.

### - Influence of business support services on business growth

#### Business support

Respondents were requested to indicate whether they normally receive any kind of business support. Table below shows the results.

Table 16. Business support

Support	Frequency	Percent
Yes	15	10.7
No	125	89.3
<b>Total</b>	<b>140</b>	<b>100.0</b>

The table above reveals that majority (89.3%) of the respondents do not receive any business support from anywhere. This indicates that there is no business support program (for example

to offer market information) in place to offer business extension services to the entrepreneurs. Lack of sufficient market information poses a great challenge to small enterprises. The minority (10.7%) indicated that they received some kind of support. For the few who indicated that they received support, they got such support from parents, friends and guardians who were not well equipped with relevant knowledge to offer business support services to the micro-entrepreneurs.

### **Business working in consultation with other organization**

It was necessary to establish whether the entrepreneurs worked in consultation with other organizations.

Table 17. Business work in consultation with any other organization

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	42	30.2
No	98	69.8
<b>Total</b>	<b>140</b>	<b>100.0</b>

Table above demonstrates that majority (69.8%) of the respondents indicated that they did not work in consultation with other organizations while the minority (30.2%) indicated that they worked with other organizations. This is further evidence that business support programs did not exist in the area and this might affect the growth of microenterprises.

### **- Business growth**

#### **Business success**

The study sought to investigate the challenges facing the growth of microenterprises.

The Table below illustrates the success of businesses in the study area.

Table 18. Business success

<b>Success</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	18	12.9
No	122	87.1
<b>Total</b>	<b>140</b>	<b>100.0</b>

According to Table above, 87.1% of microenterprise owners considered their business unsuccessful. Some of the factors considered as indicators of success include: annual sales, annual profits, and the number of employees. Few (12.9%) of the micro enterprise owners considered their enterprises successful. This a good gesture to all stakeholders in the MSE sector that the sector has potential to transform Kenyan lives and spur economic development

### Annual sales

Table below summarizes the annual sales of businesses from the microenterprises.

Table 19. Annual sales

Annual sales ('000)	Frequency	Percentage
Below 100	27	19.29
100 – 300	50	35.71
300 – 500	26	18.57
500 - 1M	23	16.43
Above 1M	14	10
<b>Total</b>	<b>140</b>	<b>100</b>

According to the above table, majority (35.71%) had annual sales of between 100,000 and 300,000. It was also observed that some traders had sales as little as below 100,000 annually which made it difficult for such traders to make reasonable profits. Other traders had annual sales between 300,000 and 500,000 (18.57%), others had annual sales between 500,000 and 1,000,000 (16.43%) and the minority had annual sales above 1,000,000 (10%).

Table below summarizes the annual profits of businesses from the microenterprises.

Table 20. Annual profit in '000s

Profits	Frequency	Percentage
Below 50	33	23.57
50 – 100	32	22.86
100 – 200	43	30.71
200 – 300	32	22.86
<b>Total</b>	<b>140</b>	<b>100</b>



In terms of profits, 46% of the business recorded below Kshs. 100,000 as the annual profit, 30.71% range between 100,000 to 200,000 and 22.86% recorded profits ranging from 200,000 to 300,000 annually as shown in Table 19. Calculated on a monthly basis, the profits also seem little depicting the sizes of the enterprises and low profitability of the businesses.

### Improving microenterprises in Kenya

Several suggestions were put across to improve micro-enterprises in Kenya as illustrated in table.

Table 21. Improving microenterprises in Kenya

Suggestion	Frequency	Percentage
Enhance Trainings in business	78	55.71
Conducting market research	33	23.57
Government to give subsidized loans	87	62.14
Markets expansion	60	42.86
Put in place favorable business policies	72	51.43
Improve infrastructure	76	54.29
<b>N=140</b>		

They include training in business (55.71%), improving infrastructure (54.29%), giving subsidized loans by the government (62.14%), conducting market research (23.57%) and the government to put in place favorable business policies (51.43%).

## SUMMARY OF FINDINGS

### Influence of business finance on business growth

Study findings revealed the existence of all types of business illustrating the diversity of businesses in the division which is necessary for healthy competition that can spur economic growth and development in the region. The most challenging aspect faced by microenterprises included financial constraints, price fluctuations, unfavorable government business policies and dynamic consumer behavior.

The most popular sources of capital to start and expand a business that were used very often by business people were personal savings (92.9%) and profits ploughed back into the business (88.6%). Majority of the micro-entrepreneurs (60.7%) considered interest rates, collateral (59.2%) and payment schedules (57.1%) as the very challenging obstacles as they source their capital either to start or expand their businesses. The study established that rent

(61.9%) and electricity (55.2%) were the most expensive direct costs incurred by microenterprises. When such costs are too high, they may eat into the business profitability and slow down business growth.

### **Influence of management skills on business growth**

Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees.

### **Influence of government regulations on business growth**

Majority (85%) regarded the process of approving investments as very challenging making it onerous to the micro-entrepreneurs which could hamper small enterprise growth. In addition, majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive. This coupled with 'grand corruption,' continue to pose great threat, not only to the sustainability of micro-enterprises but also to the Kenyan economy.

### **Influence of business training on business growth**

Majority of the microenterprise owners 82.1% were not trained in any business skill which are needed to run micro and small enterprises. For those that had attended any kind of business seminar or training, respondents had covered very few areas which necessities the need for further training

### **Influence of business support services on business growth**

Majority (89.3%) of the respondents do not receive any business support from anywhere. For the few who indicated that they received support, they got such support from parents, friends and guardians who were not well equipped with relevant knowledge to offer business support services to the micro-entrepreneurs. In addition, respondents did not work in consultation with any other organization further evidence that business support programs did not exist in the area which could affect the growth of microenterprises.

### **Business growth**

Study findings show that 87.1% of microenterprise owners consider their business unsuccessful while 22.9 considered their businesses successful. This demonstrates the potential the sector has to transform Kenyan lives and spur economic development. Majority (35.71%) of the micro-

enterprises had annual sales of between 100,000 and 300,000 and some traders had sales as little as below 100,000 annually which made it difficult for such traders to make reasonable profits.

## DISCUSSIONS

Capital is vital in starting and making a business grow. Study findings indicate that inadequate capital or financial constraint was cited as one of the major challenge that microenterprises were facing. Many microenterprise owners were are unable to raise adequate capital to make their businesses grow and this might result in their businesses to either fail or retard. This finding is in agreement with Nieman et al (2004:159) who asserts that raising finance for a new and growing business venture is a timely and costly process.

Even though the entrepreneurs demonstrated good working knowledge and expertise (85%) and conducted regular visits to working place to observe the employees as they work (53%), they did very little to motivate (70%) and to promote performance (52%) among their employees. This clearly indicates that microenterprise owners did not have adequate relevant management skills and this could undermine their business growth. Any development practitioner or businessperson can attest that MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSEs, as entrepreneurs with more years of work experience typically have faster-growing MSEs. One empirical study found that Kenyan entrepreneurs with at least seven years of work experience expanded their firms more rapidly than those without such experience (Mead and Liedholm, 1998; Parker, 1995). On the contrary, our study finding revealed that majority (40.7%) of the respondents has been in business for between 1 and 2 years. Such a short period of time may have not allowed the entrepreneurs master the operations of their business and this could affect business growth

A legal and regulatory system that calls for complex registration and licensing requirements and demands tedious and costly reporting practices imposes heavy costs on SMEs that could prove an impediment to the growth of the microenterprises. This study observed that majority (85%) of the respondents regarded the process of approving investments as very challenging making it onerous to the micro-entrepreneurs which could hamper small enterprise growth. In addition, majority (78.57%) of the respondents regarded the cost of obtaining operating licenses from the county council as very expensive.

Best practice points to the need to support linkages and networking as a key mechanism to facilitate the development of SMEs. The favored style of intervention is the provision of specialized support services through a multi-layered network of service providers, whereby the

Government supplements or supports private sector activities rather than duplicating them, and coordinates with specialized institutions in the provision of services to SMEs (Lorraine, 2003). In contrary this study, microenterprises (89.3%) do not receive any business support from anywhere and micro-entrepreneurs did not work in consultation with any other organization evidence that business support programs did not exist in the area which could affect the growth of microenterprises.

Entrepreneurs need entrepreneurial managerial and leadership training in addition to technical assistance. The entrepreneurs should be encouraged to attend business schools and entrepreneurial training which would help them to develop the necessary skills to run businesses which have potential for growth. Again this is in contrary to the study findings which observed that majority of the microenterprise owners 82.1% were not trained in any business skills that are needed to run micro and small enterprises.

## **CONCLUSION**

Most of the retail businesses in Tigania West division are retail shops. One of the major reasons for this could be that Meru is not an industrial town hence many people find it easy to begin and run a retail shop. Most business people in Tigania west never approach commercial banks for capital. This is due to the general perception that bank loans are expensive to pay and also the fear of the consequences in failure to pay.

Most the retail traders in Tigania west are not trained in any basic business management courses. This could be due to lack of knowledge of where such training is done, or the general perception that such training is not important.

## **RECOMMENDATIONS**

Study findings demonstrate the numerous problems that micro-enterprises experience in day to day running of businesses. This study therefore recommends that business policies should aim to encourage and promote the development of microenterprises. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. Microenterprises are said to face a "liability of smallness." Because of their size and resource limitations, they are unable to flourish.

The study demonstrated the inadequate business support services and recommends that there is a need for a supportive policy to encourage the establishment of documentation centers and information networks to provide information to microenterprises at an affordable price

Thirdly, the government should come up with training centers for training managerial and technical courses for the small enterprises entrepreneurs. Equally, there should be business information centers.

Fourthly, government should come up with proper regulatory policies that are small enterprises friendly since many of what we have in Kenya, frustrates every effort of a junior entrepreneur. The policies we have seem to care for the well-established businesses.

The government through the ministries of trade and commerce, industrialization, planning and vision 2030 and also the ministry of youth should encourage and facilitate the traders in Meru municipality to diversity their business apart from retail shops alone.

Since majority of small enterprises lack finance, government should establish friendly small loaning system. This would include low interests rates to ensure the continuity of these businesses. Microenterprises have the potentiality of transforming the economy of a crippling nation. As such, every effort should be made to boost their growth.

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