INFLUENCE OF BUSINESS DEVELOPMENT SERVICES AND POLICY FACTORS ON SMALL AND MICRO ENTERPRISE GROWTH: A CASE OF NYAKACH CONSTITUENCY

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ABSTRACT

Small and Micro Enterprises in Kenya grow rather slowly and perform poorly hence affecting their ability to contribute effectively to sustainable development. This study examines the influence of Business Development Services (BDS) and Policy Factors on the growth of SMEs. The impact of each independent (BDS/policy) variable on the firm's growth was examined and documented. The BDS variables tested included;-credit access, training, market linkages and policy factors (standardization, taxation).A total of 50 SMEs in Manufacturing, Fishing and Agriculture sectors in Nyakach Constituency were identified by simple random sampling technique for the study. The target population was SME owners and/or managers. The growth indicator for this study was number of employees. Data analysis using SPSS version 20.0 was carried out to show the impact of each BDS variable on the growth of SMEs. The analysis was centred on the premise that business development services are vital in enhancing firm growth and performance. Training, credit access and market linkage had a positive influence on SME growth while taxation and certification had a negative influence on SME growth.
BDS service providers and policy makers should therefore consider developing and tailoring more products/services and advocate for policies that favour this target group (SMEowner-managers) if a positive impact on the economy is to be realized.

Key Words: *Small and Micro Enterprises, Sustainable Development, Policy, Growth*

Introduction

Business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output. Firms grow to obtain accruing advantages such as: economies of scale, securing subsidies, tax concessions and other incentives offered by the government. An SME as defined in EU law (EU recommendation 2003/361) stands for small and medium-sized enterprises. The main factors determining whether a company is an SME are number of employees, turn-over or balance sheet total. These ceilings apply to the figures of individual firms only. A firm which is part of a larger grouping may need to include employee/turnover/balance sheet data from that grouping too.

The broad Kenyan definition of SMEs includes micro enterprises. Therefore, Micro Small and Medium Enterprises (MSME) in Kenya, is any business in the private sector, which employs up to 50 employees, according to the National MSE Baseline Survey, 1999. Sessional Paper No 2 of 2005: Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction defines an SME as an enterprise with between 1 to 50 employees. The World Bank defines an SME as one that fits to either of the following criteria; a formally registered business with an annual turnover of between Kenya Shillings 8 to 100 million, an asset base of at least Kenya Shillings 4 million and employing between 5 to 150 employees.

The MSME Bill 2011 has used two criteria to define SMEs; number of employees and annual turnover. For enterprises in the manufacturing sector, the definition takes into account the investment in plant and machinery as well as the registered capital. Growth has been used as a simple measure of success in business .The research community largely shares the view that growth of SMEs has a special importance in the economy.

Table 1: EU Law Definition of SMEs

Company Category	Employees	Turnover	Balance Sheet Total
Medium–sized	< 250	≤ € 50m	≤ € 43m
Small	< 50	≤ € 10m	≤ € 10m
Micro	< 10	≤ € 2m	≤ € 2m

Much research effort has been targeted particularly at investigating the factors affecting firm growth, but to date, there is no comprehensive theory to explain which firms will grow or how they will grow. Moreover, although several determinants of firm growth have been suggested, there is no consensus regarding factors leading to firm growth, (Weinzimmer, 2000).

Table 2: Factors Affecting SME growth

External/Exogenous factors	Endogenous/Internal factors
Macro-economic factors ❖ Geographic area and region ❖ Density/Inflation ❖ Interest rates/exchange rates ❖ Unemployment	Company demographics factors ❖ Size/age of firm ❖ Organizational structure ❖ Community networks ❖ Product/service differentiation
Political-institutional factors ❖ Macro-economic policies ❖ The business environment ❖ The judiciary ❖ Bureaucracy /Public support	Human demographic factors ❖ Age /Gender ❖ Family background ❖ Exposure to role models
Socio-cultural factors ❖ Access to public infrastructure/role models ❖ Crime/health/culture ❖ Labour/technology ❖ Access to money/capital	Previous experience factors ❖ **Education /training** ❖ Work experience ❖ Business ownership ❖ Industry specific
Market opportunity factors ❖ Demand for supply ❖ Competition/location ❖ **Access to markets** ❖ Market uncertainty	Human capital factors ❖ Personal characteristics ❖ Capabilities, abilities and skills

According to the Kenya National Bureau of Statistics, the SME sector employs close to 80 percent of Kenya's total workforce and contributes about 20 per cent to the Gross

Domestic Product. SMEs produce affordable goods and services, create jobs, initiate minor technological innovations and thus play an indispensable developmental role, reported the ILO/UNDP (2000) Despite their role, SMEs are concentrated in activities which are described as disorganized, unregistered, non-institutional/bazaar economy, black market (Shuaib, 2004).

Financial constraint remains the major challenge for SME growth in Kenya. Lack of market information is also attributed to inadequacy of SME support institutions while the current policies also frustrate every effort of the junior entrepreneur.

Statement of the problem

Poor performance and slow pace of SME growth in rural Kenya is a major factor affecting the country's development process. It is generally recognized that SMEs face unique challenges which affect their growth and hence, diminish their ability to contribute effectively to sustainable development. Official statistics indicate that a high proportion of new firms fail within three years of start-up, (Mwangi and Nganga, 2011).Notable SME constraints in Kenya include lack of financial support, inadequate training/skills, lack of market linkages, inadequacy of SME support institutions and the current policies which frustrate every effort of the junior entrepreneur. Despite their role, SMES are concentrated in activities which are described as disorganized, unregistered, non-institutional/bazaar economy, black market (Shuaib, 2004).

SMEs in Kenya contribute 85% to employment and 20% to GDP .They are important because they initiate minor technological innovations to suit their circumstances, produce affordable goods and services, create a large proportion of jobs and thus contribute significantly to development and economic growth. The ILO/UNDP (2000) reported the SMEs as players of almost indispensable developmental role through income and employment generation and the contribution to general society and local economies.

This research attempted to identify the most suitable factors for achieving SME growth in Nyakach by addressing the following gaps;- identify and rank in order of important factors affecting SME growth since currently there is no consensus on this, measure their impact on growth, as well as suggest policy options for SME growth to the relevant stakeholders.

Objectives of the study

The purpose of this research was to investigate the influence of BDS and policy factors on SME growth in Nyakach Constituency. Assess the effects of industry specific trainings on SME growth. To determine how credit accessibility affects SME growth. Investigate the role of market linkage in SME growth. Identify the relationship between taxes and SME growth.
Investigate how the constraints in obtaining certification affect SME growth.

Research questions

i. Which are the various industry specific trainings affecting SME growth?
ii. How is credit accessibility affecting SME growth?
iii. What is the role played market linkages in SME growth?
iv. What is the relationship between taxes and SME growth?
v. How are the constraints in obtaining certification affecting SME growth?

Scope of the study

The study investigated the influence of training, credit access, market linkage ,taxation and certification on SME growth in Nyakach constituency.Nyakach**,** one of three constituencies of Nyando District is an electoral constituency in Kenya and lies between Nyando to the North, Karachuonyo on the West, Kasipul Kabondo on the larger south and Belgut on the greater East.
Economic Endowment: the area is endowed with numerous micro and small scale industries, excellent geographic position, fertile agriculture soils, quarries, (building bricks, stones) fishing opportunities, irrigation opportunities, weaving (baskets and mats),

very highly developed manpower and great level of education. The prospect of oil in Nyalunga and Bolo villages could open up the area to further development (SME growth) in the oil industry thus raise the living standards for locals.

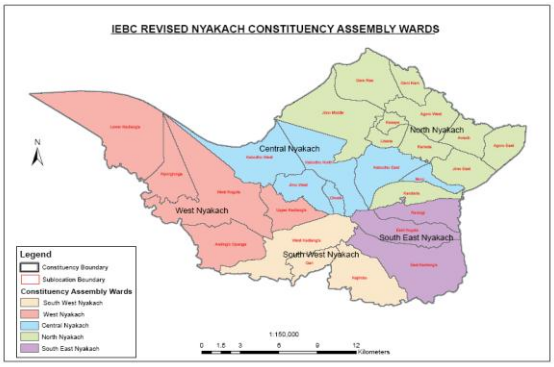


Fig. 1: Map of Nyakach Constituency (Source: IEBC, 2012)

Nyakach County was selected for logistical reasons and the abundant number of existing micro and small industries in agriculture, fishing and manufacturing sectors as well as ease of access to study information /data. These SMEs typically have modest revenues, employ an average of 1–50 employees and lack the long track records and collateral required to obtain traditional financing. Hence, they are often overlooked and underserved by formal financial institutions and BDS providers, particularly due to the challenges to address their needs in ways that are scalable and sustainable. This leaves many of them struggling to access capital to sustain and expand their business operations.

In spite of their incredible potential to contribute economically and create jobs, less attention has been paid to them. In addition, the global economic recession has heightened the risk aversion of potential investors, contributing to the need to make capital assistance available to this segment even more pronounced. This study hence investigated the credit worthiness of SME owners in the region by looking at the credit limits and challenges in obtaining credit by the SME owners.

SME owners were chosen as the target population because they make decisions affecting their enterprise growth. They decide when and how much credit they will borrow for their firms, they decide the type and number of training opportunities they provide for their staff, they choose their markets whether to export or sell their produce locally. They also control the number of staff they employ. The owners were also deemed as the best persons to provide accurate information for this study.

LITERATURE REVIEW

Numerous theories have been advanced to explain the growth of SMEs examples include stochastic, deterministic, life stages and strategic models.

a) Stochastic (Random) Models

These were the first attempts to explain SME growth developed from the law of proportionate effect (Gibrat's law) that attribute change in size to chance.(A. Ahiawodzi &T. Adade, 2012). Growth is assumed perfectly random with too many factors affecting it thus no specific variable be it credit access, market linkage, training, taxation or standardization has a dominant effect to explain growth. The bottom line here is that growth is independent and cannot be predicted using any group of variables.

b) Deterministic Approach

These theories assume a relationship between growth and a set of observable industry and firm specific characteristics according to Ahiawodzi & Adade, (2012).The deterministic approach focuses on identifying a set of internal and external variables that can explain the growth of SMEs like credit access, market linkages as well as human resource, and production indicators such as the level of employment, sales and order levels. These indicators better reflect the holistic method in which owner-managers run their firms. (Ahiawodzi , Adade, 2012).

c) Stage / life-cycle Theories.

These have been the most prevalent form of growth models used by researchers, educators, policymakers and professionals. In general the concept of a company life cycle and various stages is postulated. A firm's characteristics, challenges, practices and attributes are mapped into separate successive stages. The stages usually follow a biological analogy with conception/start up being among the initial stages and cessation or altered state being towards the end. Churchill and Lewis, (1983) provide one of the better-known stage models consisting of the five stages: existence, survival, success, take-off, and resource maturity.The range of stage models available is great, and the nature and number of growth phases also vary. Several notable attempts have been made over the past decade to consolidate and synthesise the array of stage models and their presumptive bases, in order to provide more robust research which has both sound empirical and experimental grounding.

d) Passive Learning Model:

In the Passive Learning Model (PLM) a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates. (Ahiawodzi and T. Adade, 2012).

Conceptual framework

According to Adade (2012), the conceptual framework makes logical sense of the relationship among the several variables that have been identified as important to the problem. Fig 2 below shows the relationship between the BDS/ policy variables and growth. The impact of each variable on growth was deduced in this study using the constructs listed in the table.

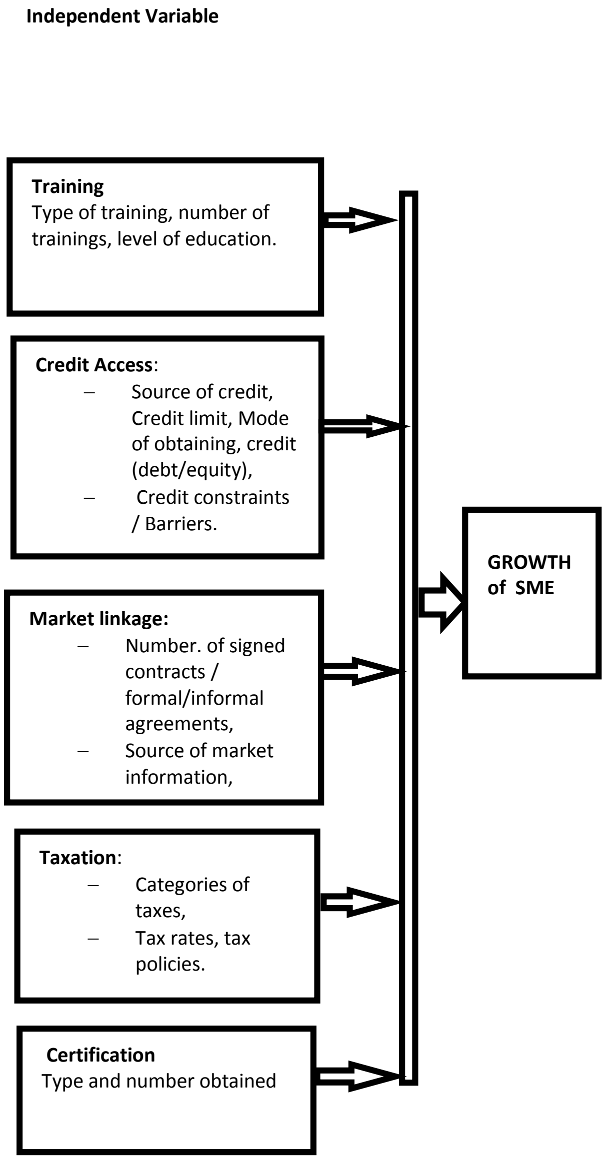


Fig. 2: Conceptual Framework

Empirical Review

Training

Importance of training as one tool for MSEs' growth has been recognized worldwide. Many studies have revealed that training contributes significantly in the growth of enterprises. Edgcomb (2002) established that training has significant impact on participant characteristics and final participant outcomes.

Many SMEs owners or managers in Kenya lack managerial training and experience.
They are ill- equipped to face changes in the business environment and plan for appropriate changes in technology. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept, (Hill, 1987).

Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. Studies suggest that those with education and training are more likely to succeed in the SME sector King and McGrath (2002). SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Furthermore, studies show that most of those running SMEs in this sector have at least attained a college level education (Wanjohi and Mugure, 2008). Training adds to the skills of MSE owners, change their behaviour on how they perceive and conduct business activities and in turn enhance their ability to perform better.

With the right skills; the MSEs owners can gain important edges even under stiff competitive environment. Through training, the enterprise owners/managers can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques. This is because business training is mainly geared towards building entrepreneurial skills and traits of the recipients in order to better their businesses practices (Roomi M.A., P. Harrison and J. Beaumont-Kerridge , 2009; CIDA, 1999).

Limited access to soft productive resources (particularly basic management and financial literacy) can restrict the capacity of business owners to participate effectively in business activities Heino and Pagan, 2001; Panjaitan-Drioadisuryo and Cloud, (1999). Moreover, different others advocate that the most impending and strategic factor inputs for MSEs are capital and business skills (Gebru, 2009; Kuzilwa, 2005; Kessy and Urio, 2006).

Microfinance programmes provide credit which is an important source of the needed capital. However, provision of credit alone without business skills will not make enterprises perform at an optimum level. Lack of credit could be reduced through acquisition of financial resource management skills. An empirical study/test on the impact of training on performance of MSES served by MFIS in Tanzania by S. Kessy and S. S. Temu showed that out of 225 respondents, 97 respondents received training while 128 had never received training.

The assets, average revenue and number of employees were higher for the MSEs owned by clients with business training compared to the assets, average revenue and number of employees of those enterprises owned by clients without business training. The results of the t-test for equality of means showed no significant influence on the growth in terms of number of employees of the SMEs surveyed. This was expected because the number of employees normally grows slowly and therefore can be observed after a sizeable increase in sales revenues.

Credit Access

Access to finance: All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2004). Whether business owners can access adequate and appropriate finance to grow is a particular concern for policymakers. New SMEs can be financed from founders' own wealth and/or by accessing external sources of finance, whether from 'informal' sources such as family and friends, or from 'formal', market-based sources such as banks, venture capitalists and private equity firms. Once businesses are trading, further development can be financed using retained profits.

According to Herrington (2009) access to finance is a major problem for the African entrepreneur. Credit constraints force entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance and pyramid schemes promising hope among the 'little investors,' through soft borrowing with low interest rates, (Wanjohi and Mugure, 2008). Loan applications that are assessed on the basis of the potential of the businesses and credibility of the entrepreneurs, not solely on the basis of collateral, guarantors or length of operations. Specialized SME loan funds or loan guarantee schemes have been established but are inadequate to satisfy the numerous enterprises around.

In their paper, Thornsten Beck and Asli Demirguc-Kunt, 2006 summarize recent empirical research which shows that access to finance is an important growth constraint for SMEs, financial and legal institutions play an important role in relaxing this constraint, and that innovative financing instruments can help facilitate SMEs' access to finance even in the absence of well developed institutions.
Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach (Fatoki Olawale and David, 2010), the paper investigated the obstacles to the growth of new SMEs in South Africa using the principal component approach. The objective of the study was to investigate the internal and external environmental obstacles to the growth of new SMEs. Thirty variables were identified as obstacles. The principal component analysis with varimax rotation was used to reduce the variables to five clusters. The most important obstacle was termed Financial which is largely an internal factor. The other obstacles respectively as determined by the PCA were Economic (external), Markets (external) Management (internal) and Infrastructure (external).

Policy Factors (Taxation and Certification)

The national policy and regulatory environment have an important impact on SME growth. A favourable regulatory environment is crucial to SME success. The structural adjustment programs (SAPs) implemented in many African countries are aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector.
The findings in a study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of MSEs.

Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of SMEs but also to the Kenyan economy. Government inefficiencies and burdensome regulatory obligations can severely hamper SMEs' ability to survive. Many SMEs choose to remain informal because the costs of regulatory process of registering businesses and joining the formal economy sometimes outweigh the economic benefits.

Tax is a compulsory contribution imposed by a public authority irrespective of the amount of service rendered to the tax payer in return; it is compulsory contributions from a person to the government to defining the expenses incurred in the common interest of all without reference to special benefits compared. Mwangi and Nganga (2011) .There are various types of taxes i.e. income tax, cooperation tax, sales tax, excise tax, custom duty, fees, prices, fines, special assessments, VAT along others. The government levies taxes to accomplish the following purpose; raise revenue, maintain economic stability, solve unemployment problem, offer protection policy, social welfare and help achieve fair distribution of resources by optimally allocating resources and increase the rate of economic formula.
Nevertheless, when imposing any tax, the following conditions and challenges must be fulfilled; equality, certainty, convenience, economical productivity, elasticity, flexibility, simplicity and durability. Another challenge of taxation is those who try not to pay tax through evading or avoidance. Lack of tax

exemption for SMEs is a major hurdle to their growth and thus discriminates against them.

In order for SME's to grow, the level of tax should not stifle business operations but should be low enough to encourage entrepreneurship and job creation. Holtz-Eakin (1995) argues as to whether there is an economic case for the preferential tax treatment of SME's. Some of the factors that could be advanced in favour of tax concessions for SME's include: presence of externalities provided by small firms that benefit the economy like minor innovations and employment. There is also the need to provide tax breaks for SMEs on the basis of equity and finally the current tax system has a negative effect on firm growth.

Marginal tax rates exert a statistically and quantitatively significant influence on the growth of firms. This leads to the conclusion that raising income tax inhibits the growth of small firms. Policy should be explored with a view to addressing this problem. Kenya is seeking more revenues from oil and gas explorers with proposed regulations that could see firms pay higher taxes and change the formula for calculating proceeds to be earned by government. Draft regulations prepared by two consultants hired by the government and the World Bank propose a change in the profit-sharing formula and introduce capital gains tax as part of the conditions explorers will commit to before they are licensed to operate in the country. This will see companies pay taxes if involved in share transactions between non-Kenyan entities.

Critique of the existing literature

The central question the literature review is trying to address is, what are the most important factors influencing SME growth and their order of importance. Numerous growth studies have been conducted and several determinants of firm growth, both internal and external have been suggested. These include macro-economic factors, socio-cultural factors, market opportunity factors, company and human demographics as well as political-institutional factors.

Arguments put forward in favour of deterministic approaches to predict growth using financial, training, markets and policy variables show that they better reflect the holistic method in which SME owners/managers run their businesses. Unfortunately, what we observe are only partial explanations of SME growth leaving considerable unexplained variation. How do you explain the growth pattern of two firms subjected to the same conditions and all else kept constant, one grows while the other fails to grow? How do you explain the contradictory results obtained when the model is applied in different industries or countries?

The order of importance for the factors influencing growth is also a very hot debate topic.

Different methodologies have yielded contradictory results. The order predicted by Principal Component Analysis (PCA) using varimax rotation is financial, markets, management and finally infrastructure. Others have argued in favour of training suggesting financial management skills can eradicate all credit problems. Studies on policy factors have identified taxation as a major hindrance to SME growth. Results have shown marginal tax rates exert a significant negative influence on growth. Stringent standardization procedures have also been identified as possible factors affecting SME growth in Kenya.

Number of employees, asset value and turn-over (balance sheet totals) have been used as the indicators of firm growth in this section but which of these gives the most reliable results? In conclusion, there is currently no theory that will pin point which firm will grow and which will not and therefore, much effort has to be applied in unravelling the growth mystery which is a very complex phenomenon coupled with the heterogeneity of SMEs.

Summary

Most researchers still believe that training is important for SME growth. Recent empirical research shows that financial and legal institutions play an important role in relaxing financial constraint, Creating new market opportunities and establishing market linkages is critical to the survival of many SMEs. This is a key area where SME support programs can provide much-needed assistance, by providing access to new markets and customers, including export markets and multinational firms. A favourable regulatory environment is also crucial to SME growth.

Research gaps

Much research has been extensively conducted on firm growth but to date there is no comprehensive theory to explain which firms will grow or how they will grow.

There is no consensus regarding factors leading to firm growth. This research tried to address this issue by finding and documenting the most relevant factors (BDS and policy) for SME growth and their order of importance in rural Nyakach hence hopefully tackled this problem once and for all.

Most growth studies have also put too much focus on internal factors at the expense of external factors affecting SMEs. This study sought to develop a winning set with a perfect mix of both internal and external growth factors. Focus of growth studies has also been on large companies or new ventures at the expense of SMEs. This research was conducted exclusively on micro and small enterprises in rural Nyakach, Kenya. Firm growth has been operationalized in many ways and different measures have been used leading to the contradictory results reported by previous studies. This can be attributed to the methodologies used by some scholars.

Descriptive studies alone have yielded contradictory results. This research paired descriptive studies with quantitative to obtain more representative results.

Much more analysis, particularly using time-series variation, microeconomic data, and country case studies, is needed to explore in more detail the policies and financing tools that can help SMEs overcome financing constraints and expand their access to external finance.

METHODOLOGY

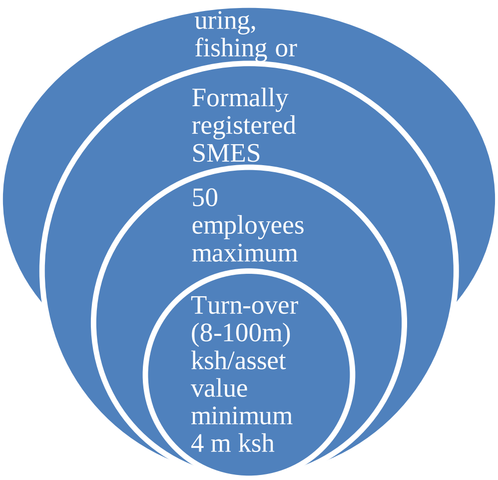
Research Design

This is the blueprint for the study that maximises control over factors that could interfere with the validity of the findings. According to Burns and Grove (2001), designing a study helps the researcher plan and implement the study in a way that will increase the chances of getting the intended results. Quantitative and Descriptive studies were employed to assess the impact of BDS and policy factors on SME growth. Descriptives were used to describe employee characteristics. Quantitative studies were undertaken to measure growth and impact of BDS services.

Study area/population

The study population is the totality or aggregate of all objects, subjects or members that conform to a specific set of specifications, Polit & Hungler (1999).The study population of this research were owners and managers of SMEs in rural Nyakach as well as relevant officials from standardization because of their actions immensely inluence SME growth.

Fig. 3: Criteria for Eligibility



The business should be formally registered in Kenya in the manufacturing, fishing or agriculture sector and should also have been in operation for at least three years. It should also have a maximum of 50 employees, an annual turnover of between Kenya Shillings 8 to 100 million and an asset base of at least Kenya Shillings 4 million and or its equivalent in USD.

Sampling frame

Sampling frames were designed and determined by finding out the total number of SMEs in the relevant sectors in the study area from government registers.50 SMEs were identified through simple random sampling technique.

A representative subset of the population is called a sample. In this study the subset is 50 SMEs which is 30% of the total SME population in rural Nyakach constituency, an adequate figure in descriptive studies. According to Lo-Biondo Wood and Harber, (1998) the general rule of thumb is to always pick a largest sample possible. Sampling is the process of selecting a representative sample from the total population, Lo-Biondo Wood and Harber, (1998). These were done due to time and financial constraints experienced in trying to study the whole population. About 50 SMEs were sampled from the sampling frames. Simple random sampling technique was employed due to its accuracy and its ability to give a more representative sample.

The data collection instrument for this study was Questionnaires. These were administered to capture SME information because they are quick, cheap and could be self-administered.

Data collection procedure

Polit and Hungler, (1999) define data as information collected in the course of a study. For this study the following methods were employed; Secondary data collection which mainly involved literature reviews on BDS and policy issues affecting SMEs. Primary data collection-questionnaires which were filled in by-SME owner/managers covering BDS and policy issues affecting their growth.

This was done to assess the reliability and validity as well as the efficiency and effectiveness of the data collection instruments. Validity as defined by Burns and Grove, 2001 is the measure of truth or falsity of the data obtained using the data collection instrument and can be either internal or external. In this study validity was observed by pragmatic;-practical value of the tool through concurrent and predictive validity, Brink and Wood (1998), and self evident measures; content validity-instrument comprehensively examines the scope it is intended to measure-, face validity-presentation and relevance of questions.

Reliability is the degree of consistency with which the instrument measures an attribute, Polit & Hungler,(1999). It is the extent to which the measuring instrument yields the same results when independently administered to comparable situations, (De Vos, 1998). The pilot test was done on a random sample of 10 SMEs in the study area to measure reliability while validity was established by receiving comments on relevance of questions in the instruments from expert critics.

Data processing and analysis

SPSS Version 20.0 was used to analyse collected data**.-**Descriptive statistics, calculation of means and frequencies for data collected by questionnaires. This provided a summary of representative factors influencing SME growth that were deduced. Regression assessed the strength of the relationship between the variables and growth. The regression equation took the form;

$y = a + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + ẹ$

where;

a = Constant Term, β = Beta coefficients, X1 = training, X2 = credit access, X3 = taxation, X4 = certification, X_5= market linkage, e = error term

FINDINGS AND DISCUSSION

Response rate

A total of 50 questionnaires were issued and 50 returned.11 respondents did not complete the final subsection requesting turnover and asset value. The study therefore had a 100% response rate. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very well. Therefore, the study response rate was very good for the study to proceed.

Reliability and Validity

Table 3: Testing for Reliability and Validity

Study Variables	Mean	Standard Deviation	Coefficient (Cronbach Alpha)
Training	0.734	1.132	0.8
Credit Access	2.1	0.735	0.7
Market Linkage	2.959	1.657	0.8
Taxation	5.702	2.611	0.7
Certification	2.714	1.755	0.7

Table 3 above shows results for the reliability test which indicate that all the study variables had coefficient values above 0.7. According to Mugenda and Mugenda (2003), a value greater than 0.7 shows that the scale was reliable and that the questionnaire had internal consistency. Thus, the reliability cannot be improved by deleting an item.

DATA COLLECTION METHODS

The researcher used primary and secondary data collection methods by using questionnaires, observations, and focus group discussions.

Questionnaire

A questionnaire instrument was developed with closed ended questions. After the four items for Demographic Information, it had five Independent Variable dimensions (certification, credit access, market linkage, taxation, trainings); and finally the Dependent Variable (influence of business development services and policy factors on small and micro enterprise growth). It was a self-administered questionnaire used to collect data in Nyakach County. The questionnaires were distributed with the help of the hand delivery and by post.

In order to capture the general information of the respondents, issues such as, age number of branches of the respondents were addressed in the first section of the questionnaire. This was to get a better understanding of respondents who took part of the study.

Demographics

Fig 4 below shows the types of ownership of the corresponding enterprises in this study.

Type of Ownership of Enterprise

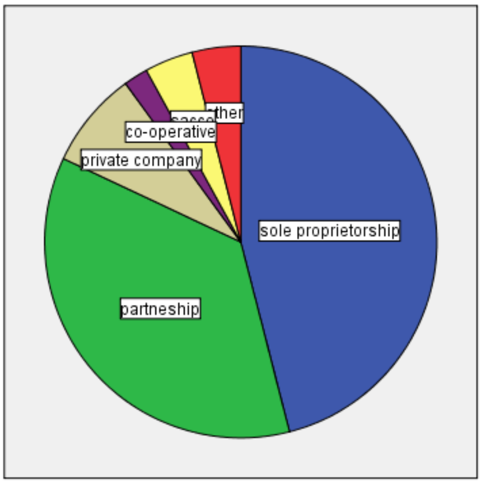


Fig 4 Type of Ownership of Enterprise

The results indicate that the majority (44%) of the SMEs were sole proprietorships, followed by partnerships (34%), private companies (22%), in that order.

Ages of the SMEs

This study focused on SMEs that were older than three years in operation. From the study, most (88%) of the SMEs were aged between 3 and 20 years.

Number of Branches

Majority (85%) of the SMEs operated only one branch, while 10% had two and the rest (5%) had three branches. These results could be due to the fact that the majority (50%) of the corresponding SMEs had been in business for between 3 years and 10 years which can be considered as post-survival stage. The few (15%) that had established more than one branch were the mature SMEs.Table 4 below shows the results of what the respondents considered as the most important factors for the growth of their businesses.

Table 4 Most important factor for SME growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	risk analysis	17	34.0	34.7	34.7
	credit/grants	8	16.0	16.3	51.0
	business training	6	12.0	12.2	63.3
	market linkage	16	32.0	32.7	95.9
	tax management	1	2.0	2.0	98.0

	strategic positioning	1	2.0	2.0	100.0
	Total	49	98.0	100.0	
Missing	System	1	2.0		
Total		50	100.0		

The results show that most of the SME owners in the study considered risk analysis (34%) and market linkage (32%) as the most important factors for their business growth, followed by credit access (16%), training (12%) and lastly taxation (2%) and strategic positioning (2%), in that order. This could be due to the fact that risk analysis determines market and strategic positioning and the types of training required for their business growth.

Training

The objective was to assess the effect of industry specific trainings on SME growth. Table 5 below shows the results of the SME Owners offering training opportunities to their employees.

Table 5 SME Owners offering training opportunities to their staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	17	34.0	34.0	34.0
	no	33	66.0	66.0	100.0
	Total	50	100.0	100.0	

Table 5 above shows that out of the 50 SMEs, 34% admitted to providing training opportunities to their staff while 66% did not. The number of trainings ranged from 0-4 annually. 69% of the SMEs provided less than 2 trainings per year while 30% provided 2-4 trainings annually to its staff.

Most SME staff had reached secondary level of education, followed by primary education then post-secondary education and finally University level of education registered the lowest number of employees in the study area. This could be attributed to low wages offered by SME owners hence the well-educated people would opt for white collar jobs or prefer to work in larger enterprises. The level of education has a bearing on what type of training that an employee is likely to take. Figure 5 below shows the types of training received by SME staff in the study area.

Type of Training Received by SME Staff

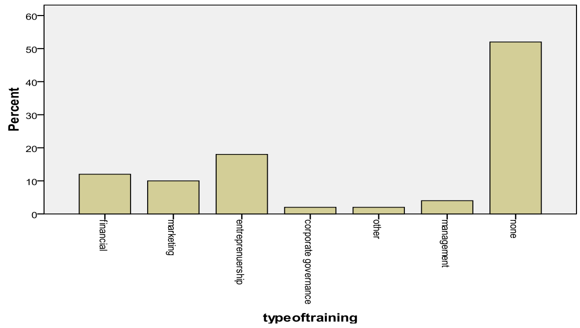


Fig 5 Type of Training received by the SME Staff.

Marketing and entrepreneurship training at 30% each were the favourite skills needed by SMEs to attain growth while those requiring financial training were 18% followed by management at 14%. The study also revealed that more than 50% of the SMEs had not received any training during the reporting period (3 years) while 40% had received training in financial, entrepreneurship and marketing.

These low figures can be attributed to the levels of basic education of the employees and concerns by owner-managers that once trained; the employees leave for greener pastures or establish competing enterprises within the vicinity. This forces the owners to lose experienced staff and incur additional recruitment and training costs for new staff ultimately disrupting business growth momentum. This is one of the major risks why the owners prefer not to send their employees for training notwithstanding the perceived long-term benefits. The owners need to be aware that limited access to productive human resources (in this case business literacy) can restrict the capacity of effective participation in business activities hence affecting the SME growth.

Moreover, other scholars have advocated that the most impending and strategic factor inputs for SMEs are capital and business skills (Gebru, 2009; Kuzilwa, 2005; Kessy and Urio, 2006). A Strategy in overcoming this type of risk is to integrate the employees into the business growth strategy by offering shares to the well-trained and experienced employees.

Taxation

The objective was to identify the relationship between taxes and SME growth.
Table 6 below shows the responses given for the relationship between taxes and business growth.

Nature of relationship between taxes and business growth

Table 6. Nature of relationship between taxes and business growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	1	2.0	2.0	2.0
	positive	16	32.0	32.7	34.7
	negative	17	34.0	34.7	69.4
	neutral	15	30.0	30.6	100.0
	Total	49	98.0	100.0	
Missing	System	1	2.0		
Total		50	100.0		

The results of the study show that 54% of the responding SME owner-managers did not see the necessity in paying business related taxes. The types of taxes ranged from sales tax, VAT to county council fees and fines with very few actually paying any of these taxes. This could be attributed to the perceived lack of benefits derived from paying the taxes and high tax rates that only contributed to stifling of their business growth. Paying of taxes is a statutory compliance, good governance and business practice issue; however, when the rates too are high and the SMEs do not derive any benefits, they see paying of taxes more of a burden to be avoided hence their sentiments. Holtz-Eakin (1995) is of the opinion that in order for a business to grow, the level of tax should be low enough to encourage entrepreneurship and job creation. Table 4.5 below shows the perceived relationship between taxation and employment

Table 7. Perceived relationship between taxation and employment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	1	2.0	2.0	2.0
	yes	46	92.0	93.9	95.9
	no	2	4.0	4.1	100.0
	Total	49	98.0	100.0	
Missing	System	1	2.0		
Total		50	100.0		

The results of the study show that 92% of the owner-managers believe there is a relationship between taxes and employment. 34% of the respondents were of the opinion that taxation has a negative impact on growth while 32% had a converse opinion. The study also revealed that 54% of the SME owner-managers preferred tax reduction to simplification of the tax reporting system (44%) as important policies for SME growth.Table 4.6 below shows the perceived relationship between taxation and sales

Table 8 Perceived relationship between taxation and sales

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	47	94.0	95.9	95.9
	no	2	4.0	4.1	100.0
	Total	49	98.0	100.0	
Missing	System	1	2.0		
Total		50	100.0		

The results of the study show that 94% of the owner-managers believe there is a relationship between taxes and sales. Taxation tends to increase the cost of goods and services hence affecting sales that ultimately affect business growth. In light of the above findings, the relationship between taxes and SME growth can therefore be said to be negative.

Regression

In this model, all the coefficient estimates and the F-stat p-value are significant at 5% level therefore we can be at least 95% sure that all our regressors have an effect on SME growth. The model summary table 9 below reports the strength of the relationship between the dependent and independent variables.

Table 9. Model summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948[a]	.899	.853	6.77114E5

a. Predictors: (Constant), certification, credit access, market linkage, taxation, trainings
b. Dependent Variable: growth

Form table 10 above, the coefficient of determination, R^2, which is the ratio of the explained variation to the total variation is 0.899 which means the model describes approximately 89.9% of the variation in SME growth while the remaining 10.1% variation in growth could be due to other factors. The adjusted R-squared is also 0.853.

Table 10 ANOVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.500E13	5	9.000E12	19.630	.000[a]
	Residual	5.043E12	11	4.585E11		
	Total	5.004E13	16			

a. Predictors: (Constant), certification, credit access, market linkage, taxation , trainings
b. Dependent Variable: growth

The ANOVA table above shows the acceptability of the model from a statistical perspective. It tested the models ability to explain any variation in the dependent variable - growth. The Sig was 0.00 which was less than alpha 0.05 thus showed that the variation explained by the model was not due to chance and that the model was acceptable for prediction.

The coefficients table reported both standardized and unstandardized coefficients. The β unstandardized showed the difference in growth per unit change in the independent variables, while the Standardized β Coefficients showed the difference in growth in standard deviations per standard deviation difference in the independent variables. The study shows there is both positive and negative relationship between growth and the predictor factors. Taxation and certification had a negative influence to SME growth while training; credit access and market linkage had a positive influence to SME growth.

The established regression equation was:-

$Y = 0.319 + 0.352\mathbf{X_1} + 1.018\mathbf{X_2} - 0.603\mathbf{X_3} - 0.499\mathbf{X_4} + 0.010\mathbf{X_5}$

From the above regression model, holding all the independent variables constant, SME growth would be at 0.319. A unit increase in training would cause an increase in growth by a factor of 0.352, a unit increase in credit access, taxation, certification and market linkage would cause an increase in SME growth by a factor of 1.018, -0.603, -0.499 and 0.010 respectively

SUMMARY OF FINDINGS

The results from this study were found to be consistent with the findings of several related studies on SME growth. The Regression model was also found to be acceptable as it predicted that approximately 89.9% of the changes in the SME growth for the study area were due to the independent variables in this study.

For training, the results indicated that financial, entrepreneurship, marketing and management training opportunities were available in the area but uptake was very low evidenced by the low percentages of staff having received these trainings. These low figures could be attributed to fears by owner-managers of losing trained and experienced employees or building immediate competitors. Owner-managers ought to be aware that limiting access to productive resources (in this case business literacy) can restrict the capacity of effective participation in more complex business activities hence constraining the SME growth. Moreover, other scholars have advocated that the most impeding and strategic factor inputs for SMEs are capital and business skills (Gebru, 2009; Kuzilwa, 2005;

Kessy and Urio, 2006). Regression results for this study also confirmed that an increase in training increased SME growth.

For credit access, the findings show clearly that access to credit is largely difficult for SME owners in the study area hence the tendency to borrow from sources other than the formal financial institutions such as banks/MFIs by 70% of the respondents. These observations are supported by Herrington (2009) who also identified access to finance as a major problem for the African entrepreneur. Poor access to finance is also identified as an important growth constraint for SMEs by T.Beck and Asli D-K (2006). This could be attributed to difficulties in obtaining credit from the formal financial institutions (MFI / banks) as clearly proved by the credit barrier question with 52% quoting business performance criteria, high interest rates and short payback period as the major barriers to accessing credit from banks and micro finance institutions. With the numerous reasons listed as barriers to obtaining credit, low credit limits (KShs 50,000 and KShs 100,000 at 20% and 18% respectively) and the borrowing experience largely termed as difficult (52%) and very difficult (26%). This also confirms the fact that most of the SMEs opt for equity financing (64%) over debt financing (36%) as a mode of obtaining credit. Regression results also showed that an increase in credit access increased SME growth.

For market linkage, the findings in chapter four show that most SME owner-managers identified their markets through friends, phones, internet, partners, suppliers, and media. This could be attributed to the inadequate information obtained from government information centres which ultimately affected strategic decision making. The owner managers also lack information based on adequate market research either for inability to afford or not knowing where to get it. Regression results showed an increase in market linkage increased SME growth.

For taxation, the relationship between taxes and SME growth can be said to be negative as majority of the respondents did not believe in the need of paying taxes and complained of high tax rates hence the desire for tax reductions by 54% of the total sample population. This could be attributed to the perceived lack of benefits derived from paying the taxes and high tax rates that only contributed to stifling of their business growth. Paying of taxes is a statutory compliance, good governance and business practice issue, however, when the rates too are high and the SMEs do not derive any benefits, they see paying of taxes more of a burden to be avoided hence their sentiments. Holtz-Eakin (1995) is of the opinion that in order for a business to grow, the level of tax should be low enough to encourage entrepreneurship and job creation. Regression results showed that an increase in taxes led to a decrease in SME growth.

For certification, 30% of the respondents cited fair trade as the standards requirements for their businesses while 22% and 26% listed GAP and ISO standards as requirements. The lack of obtaining these requirements was attributed to cost 44% and short expiry period 40%. Other factors included long distance from certification authorities and cumbersome/tedious and time consuming certification processes (6%). Only 2% of the respondents indicated no barriers. While certification has the effect of increasing market access, the high cost of obtaining and short duration of validity of the certificates presented barriers to using certification as a strategy for market expansion ultimately affecting growth. Regression results showed that an increase in certification caused a decrease in SME growth.

Conclusions

From the results of this study, the following conclusions were arrived at for each of the research objectives:-

Training has positive influence on SME growth. While opportunities for training are available for SME employees, majority of owner-managers shy away from sending their employees for training due to numerous reasons such as cost of training, fear of losing

trained and experienced employees or building immediate competitors.
Adequate access to credit has a positive influence on SME growth. Results of the study indicate difficulty in obtaining credit and low credit limits to majority of owners making them avoid formal financial institutions as source of credit. For this reason most of the SMEs remain small only very few SMEs can access growth oriented credit levels of above KShs One million.
Market linkage has a positive influence to SME growth. Most owners do not have access to strategic market information obtained through research; hence focus more on traditional markets using traditional market linkages like mobile phones, friends and government information centres.
Taxation had a negative influence on SME growth. Currently the owners find the tax rates too high and do not see any benefits accruing to their businesses as a result of paying taxes. Majority prefer tax reduction and simplification of the tax reporting system as appropriate policies to ensure SME growth. In addition, the tax reporting system is complex for majority of the owner-managers.
Certification had a negative influence on SME growth. Most certifications were costly and had short validity periods. The owner-managers therefore consider this to be an additional cost to doing business which they cannot recover within the validity period based on the scale of their operations.

Recommendations

In light of the above findings and conclusions, the following recommendations are made; Business training providers should create awareness amongst owner-managers on the long term benefits of training their employees. Owners should also consider employee retention strategies like offering shares to well trained and experienced employees.

Financial institutions should develop appropriate financial products/services accompanied conducive lending policies that will make credit accessible to even more SME owners in the study area.

Since market linkage has been established as important for SME growth, Owner –managers should invest in obtaining researched market information in addition to the current channels for market linkage like phones, friends, and internet. They should also be encouraged to get into more formal agreements/contracts as a way of doing business.

Taxation affects SME growth negatively hence the suggestion that Tax policies should be reviewed to offer tax reduction since majority of the owners believe it negatively affects their business. Simplification of the tax reporting system Policy makers and implementers should prudently manage proceeds from tax collection to deliver services that benefit the SMEs and their customers.

Certification affects SME growth in a negative manner hence the need for certification policies that are sensitive to the small entrepreneur. The responsible authorities should ensure the services are accessible to SME owners as well as affordable. They should also extend the validity period for the required certificates.

Recommendations for further studies
The study focused on influence of business development services and policy factors on small and micro enterprise growth where the variables are), certification, credit access, market linkage, taxation. Future studies need to include other variables to expand on these findings. Also future studies could focus on other large business in Kenya.

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