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# FACTORS AFFECTING GROWTH OF SMEs:
# A CASE OF JUA KALI MOTOR GARAGES IN SHAURI MOYO, NAIROBI, CITY COUNTY

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## ABSTRACT

*The role played by small and medium size enterprises has been recognized the world over due to their ability to create employment at low cost, contribute to Gross Domestic Product, alleviation of poverty, equitable distribution of income, utilization and conservation of local resources, earning and conserving foreign exchange, provision of goods and services at reasonable cost . However, despite their immense contribution to the economies they are faced with a myriad of challenges including; unfavourable Legal and Regulatory Framework and lack of finances. The specific objectives of the study were to find out how those challenges affect growth and performance of the SMEs with particular reference to the Jua Kali Motor Garages in Shauri Moyo, Nairobi, City County. The review of firm growth theories by various proponents revealed that initially the entrepreneur requires some form of education to run an enterprise. They also require financial resources or capital and as the enterprise evolves to the next stage of growth the entrepreneur requires managerial skills and human as well as other resources. The research design was a case study of Jua Kali motor garages in Shauri Moyo, Nairobi, City County. The target population was 78 garages under three associations and a sample of 34 garages was selected from different categories of garages according to service rendered using stratified random sampling. Data was collected using questionnaires and interviews. It was analyzed using descriptive statistics by use of SPSS Computer software. From the correlation analysis it was clear that all the tested variables were significant as all of them had a p value of less than 0.05. It can be noted that lack of finance was the highest factor affecting business growth as it had a correlation values of 0.757 and a significant value of 0.0003 < 0.05, followed by Legal and regulatory framework which had a significant correlation of 0.59. The study established that business registration in Kenya was not a major impediment to business growth due to the digitization of the systems. The study also concluded that the stringent requirements to access finances are the main reason why most SMEs cannot access finances. The study also concluded that lack of technology did not affect the service quality of the garages though it had an effect on customer focus. The study recommends that for the expected return from investing in the Jua Kali sector to increase, there should be an improved outlook which is associated with a swing in government policy to encourage business formation and development through; the flexibility of tax regime to make it more user friendly. The study also recommends that all financial organizations/schemes should be adequately published to enable networking among agencies and institutions. As a result, clients approaching one institution will be made aware of the best option for their requirements. Since most of the respondents have a bad loan repayment history which is the major impediment of loan accessibility hence lack of finance. Further study can be conducted on the effects of Loan loss also in the determination of the interest rates level. The Jua kali artisans in Nairobi City County will benefit from the study as it will contribute to the knowledge of the small business sector and assist in streamlining their operations.*

***Key Words:*** *SMEs, Growth*

## INTRODUCTION

The role played by micro, small enterprises (MSE) in the global economy cannot be overemphasized. The enterprises form the backbone of global economy as they constitute 99% of all the enterprises in the world (Capital Markets Authority, 2010). In Kenya, MSEs contribute over 80% of the country's employment and over 40% of the country's Gross Domestic Product (KNBS, 2012). The sector further contributes to the Kenyan economy by way taxes, utilization and conservation of local resources, earning and conserving foreign exchange, provision of goods and services among others.

However, the sector is characterized by a number of challenges related to access to financial resources which translate to impediments in enterprise growth. Despite the role played by the sector, it has been characterized by a number of challenges. The Capital Markets Authority (2010) found out in their study that SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. Challenges associated with access to financial resources are constrained by both internal and external factors. Internally, most SMEs lack creditworthiness and management capacity, so they have difficulties securing finances from finance institutions because such institutions or banks are reluctant to lend to small business due to the perceived high credit risk (Kariuki, 1995). This leads them to be shunned by commercial banks and other finance institutions for advancement of loans due to lack of proper financial records, collateral requirement and weak management structure. Externally they are constrained by high transaction costs for loans, stringent loan conditions and lengthy application process. The term SMEs is an acronym for "Small and Medium scale Enterprises". In this case these are firms or businesses which are small and medium in sizes. They are firms or businesses arising as a result of entrepreneurial activities of individuals. Several definitions and meanings of SMEs exist. This is due to their global diversity and characteristics Darren et al (2009). While Arowomole (2000) affirmed that a single universally accepted definition of SMEs has not been easy as different countries have different criteria for defining SMEs. Adding that many countries have defined it in terms of man power, management structure and capital investment limit. He further noted that experts in this field have also contributed to the diversity in SME definitions. One crucial thing to note as SMEs definitions is that certain criteria have been used to define the SME sector stands for most especially according to countries, size and sectors. Conrand & Darren (2009) explains that the main reason why SME definition varies particularly from industry to industry; country to country; size to size and number of employees to number of employees is to reflect industry, country, size and employment differences accurately.

### Motor Vehicle Industry in Kenya

According to KRA, there was an increase on new registration of road motor vehicles from 85,324 vehicles in 2007 to 205,841 vehicles in 2011 most of which were saloon cars and station wagons. However, from 2008 the biggest number of the road motor vehicles registered was motor and auto cycles which were mostly due to their increased use as an alternative means of transport especially in the rural areas (KNBS 2012). In addition to the existing motor vehicles, all these newly registered motor vehicles require regular service, repairs and maintenance. Apart from a few mostly those who own new vehicles who take their vehicles for service and repairs to various car dealers like DT Dobie Ltd, Toyota Kenya, Cooper Motor Corporation and Simba Colt Motors. Most vehicle owners rely on either the more developed garages in Industrial area, Nairobi or the numerous Jua Kali garages like those in Shauri Moyo and other parts of the city. Moreover most of the imported vehicles are second-hand and the owners mostly prefer Jua Kali garages which are flexible and offer personalized service.

**Statement of the Problem**

The Kenya National Bureau of Statistics (KNBS, 2007) found out that three out of five businesses in Kenya failed within the first few months of operation and even those that continued 80% failed before the fifth year. SMEs have unique issues, which affect their growth and profitability and hence limit their ability to contribute effectively to sustainable development of the economy. The issues that inhibit the growth of SMEs include; legal and Regulatory and lack of finances. The study therefore sought to establish the effect of these issues on the growth of the Juakali garages in Shauri Moyo, Nairobi City County.

The garages continue applying inadequate and inappropriate technology which according to ( Wanjohi & Mugure ,2008) pose a great challenge to small business by slowing their work and offering poor quality service which leads to them loosing and not attracting more clients. They continue struggling to acquire and retain new clients due to the slow and low quality service that they offer to their clients. The garage owners lack finance resources to finance their operations which according to (Shepherd et al., 2007) is one of the most difficult problems in the small business sector. The garage owners demand payment for parts upfront rather than offering the service and asking for payment later. This discourages some clients to seek their services hence affecting their growth.

The study was important because if the problem was addressed the garages would start using better technology, offer better service to customers, attract and retain more customers which would lead to better performance in terms of increased revenue and profitability. This would improve the standard of living of the artisans and earn more revenue to both the County and National government in form of licenses and taxes. On the other hand if the problem was not addressed the performance of the garages would continue deteriorating leading to their eventual closure rendering the artisans unemployed. This can be a big blow to the artisans because that is the only way they earn their livelihood. The County and National governments would also loose even the little revenue that they generate from the garages at their current level or state of growth and performance.

**Objectives of the Study**

The study was guided by the following objectives; to establish the factors that affect growth of the Jua Kali motor garages in Shauri Moyo, Nairobi, City County. The specific objectives were: To establish whether Legal and regulatory framework and finances affects growth of the Jua Kali garages

**Research Questions**

1. What is the relationship between legal and regulatory framework and growth of Jua Kali garages?

2. What is the relationship between finances and growth of the Jua Kali garages?

**Scope of the Study**

The study sought to find out factors that affect growth of SMEs in particular the Jua kali Motor Garages in Shauri Moyo, Nairobi City County including; Legal and Regulatory Framework lack of finances, lack of appropriate technology, lack of management skills and low levels of education. The study covered the garages located in, Shauri Moyo, Area of Nairobi City County which are registered under three garage associations. The study looked into the factors that affect growth of the Jua Kali garages and the reasons that have been contributing to it. It covered a sample of 34 garages out of the 78 garages operating within the study area and are members of three Juakali Garages Associations. The study used a questionnaire.

## LITERATURE REVIEW

### Theoretical Review

This was a review of the theories by various researchers that explains the growth of SMEs and the factors which affect their growth as follows:

### Contingency Theory

This theory has been used widely in researches on measuring performance and effectiveness of an organization and it claims that there is no optimum method to systematize a firm and the organization structure of the company (Fielder, 1964). In other words, contingency theory argues that the most appropriate structure for an organization is the one that best fits a given operating contingency, such as technology (Woodward, 1965, Perrow, 1970), or environment (Burns& Stalker, 1961), (Lawrence& Lorsch, 1967). As every company faces its own set of internal and external constraints as well as special environmental incidents that affect in distinctive levels of environmental uncertainties, there is no one optimal organization design for every company because every company has different organizational culture and different perspective towards risk.

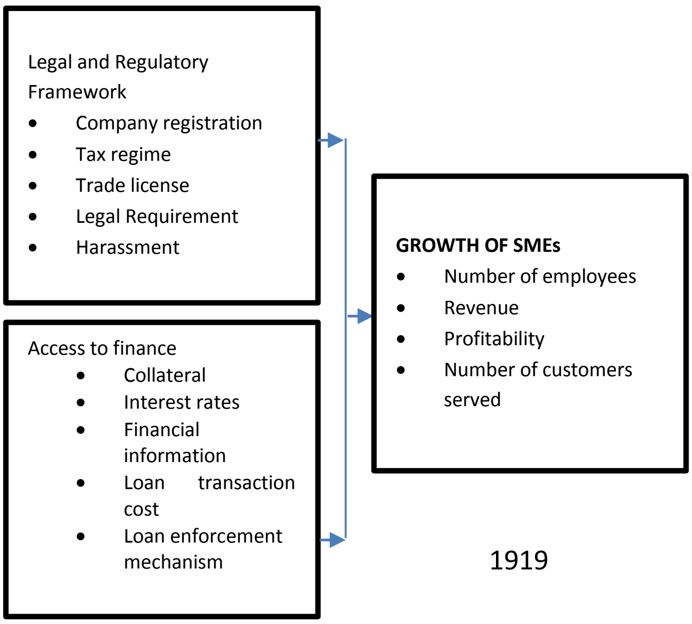
### The Resource Based Theory

The resource based view has been a common interest for management researchers and numerous writings can be found of the same. A resource based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney& Pandian 1992). Resource based view explains that a firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, and non - tradable ,non- substitutable, as well as firm specific( Barney, 1999). This was also cited by Finney et al. (2004) & Makadok (2001). The two wrote about the fact that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred or copied and simultaneously, add value to the firm while being rare. It also highlights the fact that not all resources of a firm may contribute to its sustainable competitive advantage. Varying performance between firms is a result of heterogeneity of assets( Lopez ,2005), ( Helfat& Peteraf,2003), and resource based view is focused on the factors that cause these differences to prevail( Grant, 1991) ,( Mahoney & Pandian, 1992).

This theory can apply in the Jua kali industry through specialization for instance, a garage can decide to specialize on the gear box and perfect on it this will give them a competitive advantage over the rivals and competitors in the market. This can be achieved through recruiting the best in the area or training mechanics to specialize in an area.

### Conceptual Framework

**Figure 1: Conceptual Frame work**



**Independent variables Dependent variable**

**a) Legal and Regulatory Framework**

The regulatory or legal requirements was summarized to include registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number (PIN) and Value Added Tax (VAT) with the Kenya Revenue Authority (KRA), Trade License with the ministry of Trade, and finally the Local authority (County Government) licenses.

To start a business in Kenya is not easy although the government has tried to hasten the process. There is no one-stop in doing business and various institutions are involved including; Registrar of Companies, Ministry of Trade, Kenya Revenue Authority, National Social Security and, National Hospital Insurance Fund (NHIF),Local Authorities/County Governments like Nairobi ,City County and National Environment Management Authority (NEMA) and most recently the National and Construction Authority. All these government bodies issue regulatory documents and the garage owners may not have the resources to acquire the documents or may even not be aware of the need to acquire some of them which leave them with constant battles with the authorities thus affecting the operations of the business.

**b) Access to Finance**

Access to finance has been identified as a dominant constraint facing SMEs (Lader 1996). A World Bank study found out that about 90% of small enterprises surveyed stated that credit was major constraint to new investments (Parker et al. 1995). Levy (1993) also found out that, there is limited access to financial resources available to small enterprises compared to big enterprises which leads to their low growth and development. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of higher risk, informal barriers and the high cost of intermediation for small firms (Boeke 2004).

A study carried out by the Financial Sector Deepening Kenya (FSD, 2008) , showed that SMEs face numerous hurdles in accessing finance, denying them an important growth line at best or accessing it at a very high cost. The Small and Micro Enterprises' (SMEs) access to finance is being constrained by exacting legal requirements by banks and other finance institutions, lack of a standardized and shared information registry and expensive and time consuming enforcement mechanisms.

In Kenya as well as in other East African countries banks regard business regulation as an important impediment to SME lending. The most common complaint has been cited as the Know Your Customer (KYC) aspect process imposed by most central banks is seen as too stringent for SMEs. The documentation required in most instances is to a large extent akin to that required for large organizations and therefore considered excessive for SMEs. Most of the countries in the region do not have a simplified business company registration process for SMEs, which is any different from the process for larger corporations, which result into the documentation required prove to be excessively burdensome for SMEs (ADBG 2012). This acts as barrier for SMEs to access finance.

**Empirical Review**

Growth of small organizations is influenced by three major factors – the background/resource of the entrepreneur, the nature of the firm, and the strategic decisions taken by the owner/manager Storey (1994). The entrepreneur needs to develop both strategic and tactical skills and abilities (Kuratko et al., (2003). On strategic model of growth (O'Farrell & Hitchens 2002) analyzed the strategic management perspective and referring to research articles they explained that there are two environments in which an organization carries out business. External environment deals with suppliers, customers, and competition, taxation, market and government policies. The internal environment consists of the personal and leadership factors of the entrepreneur and resources.

High growth firms make use of external relations (Lechner & Dowling, 2003) and growth is a combination of environmental and leadership processes Eisenhardt & Schoonhoven (2002). Similar conclusions were drawn by Chan & Foster (2001) after a study of small businesses in Hong Kong and by Kelmar & Wingham (1995). The latter listed 47 growth strategies reported in various research works and classified them into 12 categories. They reported that 55.5% were related to external variables of growth (market penetration, pricing, product mix, product demand, promotion, market creation, market stability and intermediary use as the greatest contributors) and the rest were the internal variables (corporate strategy and staffing are the greatest contributors). They concluded that a combination of external and internal variables supports growth of small organizations. The organizations establish relationship with the external environment to progress.

**Critique of Literature**

According to (O'Farrell & Hitchens2002) the major problems in evaluation of growth of small organizations is that there is major inconsistency in defining the small firms. Second, there are also inconsistencies in the dimensions of growth; employment, profit, value added, turnover, total asset and market share are the parameters suggested by theorists. High performing small manufacturing firms emphasize on new product development, product improvement, product quality, and customer service and the related performance indicators are adoption of new performance methods, employee productivity and efficiency, and employee welfare (Kotey & Meredith, 1997).

Growth also depends on the changing industry patterns and management; it is also about sociological evolution of the business (Boswell, 1973). In an empirical study on United States based small and medium sized enterprises operating in Europe (Prater & Ghosh 2005) reported new product development, expansion into new international markets and expansion into new European markets as the major growth strategies adopted by them. Contrary to common belief upgrading operation strategy was not reported to be a major strategy. The study also concluded that the enterprises did not take advantage of outsourcing of operation functions such as logistics. However growth carries different meanings by the different entrepreneurs. There is a strong impact of entrepreneur's attitude and the decision on growth and there may not be uniformity in growth agenda among the entrepreneurs even if they operate in the same market (Matthews & Scot, 1995).

**Research Gaps**

The literature review indicated that most researchers have mostly concentrated on factors that affect growth of big organisations leaving out the factors that influence the growth of small businesses(O' Farrell & Hitchens 2002). They have also emphasized the behaviour of the entrepreneur which influences his management style and decision making process (Storey, 1994). However, it is not the behaviour of the entrepreneur alone that influences growth of an enterprise but there are other factors both internal and external that determines the growth of an enterprise. It is for that reason that I found a gap in that although a few studies have been done locally on small enterprise in other fields like tailoring & dress making , dairy farming (Kamau & Ngugi 2014), Jua kali sector in Nakuru(Kinyua, 2014) and factors affecting accessibility of credit among SMEs in Meru (Thuranira 2009). It evident that most previous studies have concentrated on big enterprises leaving out small enterprises It is not the behaviour of the entrepreneur alone that influences growth of enterprises but there are other underlying factors both internal and external such as, unfavourable legal and regulatory framework, lack of management skills, lack of access to finance, lack of access to technology by the entrepreneurs that affect the growth and performance of small enterprises.

## RESEARCH METHODOLOGY

### Research Design

The study adopted survey research design to achieve its objective. It employed stratified random sampling. The population was segregated into several mutually exclusive sub-populations or strata in form of garage categories according to the service they offer.

### Target Population

The target population in this study was the 78 garages who are registered members of three Garage Associations in Shauri Moyo Nairobi, City County as shown below:

### Sample size and Sampling Technique

The study used a sample drawn from the 78 motor garages which are members of Shauri Moyo garage associations. The sampling frame was divided into strata because not all the 78 registered garages can be listed here as the sampling frame. A stratified Radom sampling technique was used to select the sample. This method involved dividing the population into a number strata based on the kind of service offered by each garage. The strata that come up included; those that offer Mechanical repair, Electrical repair, Welding, Panel Beating and Spray Painting, Upholstery repair and others. A simple random sampling technique was used to pick respondents from each stratum.

According to Cooper & Schidler (2003) a sample size of more than 30% or at least 10 % is normally recommended for social science studies. The study in that respect took 43% of the population, a sample size which is considered appropriate according to Magenta & Mugenda (2003). The study covered a sample of 34 garages which was considered to be a representative of the total population:

### Data Collection Instruments and Procedures

The study used primary data. A formal list of questionnaire on factors that affect growth of Jua kali motor garages was prepared. There were both structured (close- ended) and unstructured (open- ended) questionnaire. Interviews were used to obtain data from the respondents as required by the questionnaire. This method was preferred because the face to face encounter with the respondents encouraged them to cooperate in providing the information because we were able to clarify and explain in detail the purpose of the research and addressed any other concern by the respondents.

### Data Analysis and Presentation

Through the study adequate data was collected and organized in such a way that further analysis and interpretation was made easy. The data was edited, coded and classified in order to present the results of the analysis in a clear and systematic way. The primary data collected through the questionnaire was analyzed using descriptive statistics such as measures of central tendency. Data analysis was done using Statistical Package for Social Scientists (SPSS**)** and Microsoft excel.

The analysis generated quantitative reports through tabulations, percentages and measures of central tendency. Tables were used to present the results for ease of reference and understanding. Correlation analysis was carried out to determine the degree of relationship between the dependent and independent variables.

**RESEARCH FINDINGS AND DISCUSSION**

**Pilot Study Results**

From the validity test conducted it was evident that all the responses were valid, this is proved by the Cronbach alpha results where all the variables recorded very high alpha results.

**Table 1: Pilot test results**

| Variable | Mean Score | Cronbach (α) |
|---|---|---|
| Legal and regulatory requirements | 3.785 | 0.865 |
| Access to finance | 3.544 | 0.921 |

**Response Rate**

The study targeted 34 respondents in the data collection however, 31 of the 34 questionnaires sent out were answered and returned making a response rate of 89.7%.

**Demographic and Firm Characteristics**

In order to obtain the demographic characteristics of the respondents, information as regards to the business ownership, the age of the business owner and the years in operation were sought. The study revealed that 57% of the businesses were sole proprietorships whereas 43% were partnerships. The study also revealed that 16% of the businesses were owned by entrepreneurs who were 21-30 years of age, 20% were owned by people who were 31-40 years whereas 33% of the businesses were owned by garage owners between the ages of 41-49 and 31% were owned by those above 50 years. As far as the years of operation are concern, the study revealed that most of the businesses were more than 5 years in operation whereas only 30% had been in operation for less than 5 years.

In an effort to establish business growth, several parameters were measured. The study established that most of the respondents had experienced growth as far as customers are concerned this was evident from the high mean score of 4.0 that the parameter scored. The study also revealed that the number of most of businesses labour force had grown as the parameter scored a mean score of 3.8966. The other parameter that witnessed growth was the purchase of tools and equipment in the business as it scored a mean score of 3.7931 in a five point Likert Scale.

The study however established that despite growth being witnessed in non-financial factors, financial measures did not have the same impact. This was evident as most respondents indicated that the revenue earned and the profitability did not experience significant growth a clear indication that there was a miss somewhere. Both parameters that were used to measure the growth had low mean scores of less than 2.5.

**Study Variables**

**a) Legal and Regulatory Requirements**

The study revealed that the main regulatory impediment that affected business growth was the tax regime and harassment by national/

County Government officials when checking on documents as this parameter had the highest mean scores of 4.9 and 4.1 in a five point Likert Scale. The respondents also pointed out that the fact they had limited information on the legal requirement forced them on the wrong side of the law as this parameter had a high mean score of 4.0. The respondents indicated that digitization of the government platforms has done a big deal in obtaining of licenses and business registration formalities as these parameters had the lowest mean scores of 3.2 and 3.0 in a five point Likert Scale.

**Table 2: Mean and standard deviations of Legal and Regulatory Requirements**

| Parameter | Mean* | S.d |
|---|---|---|
| Company/ name registration formalities | 2.0000 | .91499 |
| Tax regime | 4.9655 | .85519 |
| Getting a trade license and City County Government permit | 3.2414 | .93964 |
| Limited information on legal requirements | 4.0345 | .81338 |
| Harassment by national/ County Government officials when checking on documents | 4.1379 | .82367 |

**b) Access to Finance**

The study revealed that the entrepreneurs were not comfortable with the interest rate and felt that this was the main financial impediment for business growth with the highest mean score of 4.9310 in a five point Likert Scale. The respondents also felt that financial information and time consuming loan enforcement mechanism affected business growth as this parameters had high mean scores of 4.7 in each case. Another parameter that affected business growth was the lack of collateral for loans as this parameter had a high mean score of 4.6321. Most respondents also felt that the transaction costs for loans was very high as this parameter had a high mean score of 4.1 in a five point Likert Scale.

**Table 3: Mean and standard deviations of Access to Finance**

| Parameter | Mean* | S.d |
|---|---|---|
| Collateral for loans | 4.6321 | 1.0473 |
| High Interest Rates | 4.9310 | .87329 |
| Lack of financial information | 4.7241 | .83094 |
| Transaction costs for loans | 4.1379 | .94219 |
| Time consuming loan enforcement mechanism | 4.7241 | .74224 |

**Summary of Descriptive Statistics of the Constructs**

Since a single construct in the questionnaire was measured by multiple items, the average score of the multi-items for a construct was computed and used in further analysis in this linear Regression analysis. To construct the final data set, the researcher merged the aggregated survey data set based on the means of responses. In general, the mean score for the items in the constructs were average ranging from 3.1 to 4.6 on a five point Likert scale. To check the validity of the instruments a Cronbach alpha test was conducted. The test revealed that all the variables had (α) value of greater than the recommended 0.700 this shows that all the variables were valid.

**Table 4: Descriptive Statistics for the constructs**

| Construct | Cronbach (α) | N | Mean | Std. Deviation |
|---|---|---|---|---|
| Legal and regulatory framework | 0.899 | 30 | 3.6758 | 0.782485 |
| Lack of access to finance | 0.761 | 30 | 4.6298 | 0.916821 |
| Lack of access to technology | 0.849 | 30 | 3.1224 | 0.852072 |
| Lack of management skills | 0.792 | 30 | 3.5286 | 0.753534 |
| Lack of education | 0.864 | 30 | 4.0866 | 0.750272 |

**Bivariate correlation**

Correlation is used to determine the strength of relationship between dependent and independent variables. Correlation value of 0 shows no relationship between the independent and dependent variable whereas when the value is not or equal to 1.0, there is a perfect negative or positive relationship respectively. Values should be interpreted between 0 (no-relationship) and 1.0 (perfect relationship) (Levin & Rubin, 2008)

From the correlation analysis it was clear that all the tested variables were significant as all of them had a p value of less than 0.05. It can be noted that lack of finance was the highest factor affecting business growth as it had a correlation values of 0.757 and a significant value of 0.0003 < 0.05, followed by Legal and regulatory framework which had a significant correlation of 0.59.

**Table 5: Correlation between the dependent variable and the independent variables**

| Variable | Correlation | Significance |
|---|---|---|
| Legal and regulatory framework | 0.590 | 0.001 |
| Access to finance | 0.757 | 0.003 |

**Summary of Major Findings**

**a) Legal and Regulatory Framework**

The study established that business registration in Kenya was not a major impediment to business growth due to the digitization of the systems. These findings are contrary to a study conducted by ADBG (2012) which indicates that most of the countries in the region do not have a simplified business company registration process for SMEs, which is any different from the process for larger corporations, which result into the documentation required prove to be excessively burdensome for SMEs.

### b) Access to Finance

The study concludes that the stringent requirements to access finances are the main reason why most SMEs cannot access finances. This is in line with a study conducted by the Financial Sector Deepening Kenya (FSD, 2008) , which showed that SMEs face numerous hurdles in accessing finance, denying them an important growth line at best or accessing it at a very high cost. The study alludes that access to finance is being constrained by exacting legal requirements by banks and other finance institutions, lack of a standardized and shared information registry and expensive and time consuming enforcement mechanisms.

## Conclusion

The study concludes that the legal and regulatory framework in Kenya is favourable and hence creates a good business environment for the growth of SMEs in the Juakali sector. Hurdles are however faced on the tax regime and business location as the Kenyan policy development has overlooked specific needs of the SME sector which has resulted in their work spaces being encroached by private developers.

Based on the findings of the study, the following conclusions were made: The challenges facing SMEs operating in Shauri Moyo are universal by extension. Lack of access to affordable credit and regulatory environment are SMEs perennial challenges that are almost synonymous with the operations of the very enterprises. The study also concludes that inadequate finances hindered growth of SMEs in motor vehicle garages, most SMEs requires managerial skills and expertise in financial management to facilitate growth and that government did not have large influence on availability of finances to SMEs in motor vehicle garages. This is in line with Enterprise Growth Stages Theory, Greiner (1974) defines 5 stages of enterprises growth, determining symptoms and reasons of crises which appear with twilight of each of them.  He argues that crises are inevitable, but the way to overcome them may be an evolutionary or revolutionary

## Recommendations

For the expected return from investments in the Jua Kali sector to increase, there should be an improved outlook by changing government policy to encourage business formation and development through; the flexibility of tax regime to make it more user friendly. The Jua Kali investors should be made aware of the government regulations and exceptions as being aware of current government incentives can help them determine changes in supply and demand and identify potentially false trends in the industry. In order to encourage more investors in the industry, institutional policies such as licensing, registration requirement, product standards and certification and infrastructure policies should be streamlined and centralized to encourage more investors.

All financial organizations/schemes should be adequately listed to enable networking among agencies and institutions. As a result, clients approaching one institution will be made aware of the best option for their requirements. In order to increase competitive advantage, there is need for Jua kali investors to adopt newer technologies for diagnosis and repair since the use of such technologies improves efficiency and reduces repair time.

Due to the lack of managerial skills, the study recommends basic management training on SMEs owners and employees so as to increase the growth capabilities among SMEs. The training to give keen consideration include; business management strategies which could be in form of expansion, products/market differentiation and formation of alliances or joint venture. The study recommends that entrepreneurs should boost their level of education giving keen consideration on communication skills as this will assist them in attracting more customers and improve on employee retention since the study revealed a high rate of turnover.

**Areas for Further Study**

Further study can be conducted on the effects of technical skills, Confidence, strong individual involvement and the willingness to take risks by Jua kali artisans on sustenance of successful businesses. Since most of the respondents have a bad loan repayment history which is the major impediment of loan accessibility hence lack of finance, further research can be conducted on the effects of Loan loss also in the determination of the interest rates level.

Due to the emergence of many microfinance institutions in Kenya, a study should be conducted to establish whether competition can lower interest rates on microcredit and how this will affect business growth for SMEs**.** A further study can be conducted to find out why lack of finance is major impediment to growth of SMEs despite there being government sponsored funds like the Uwezo Fund, Youth Enterprise Fund and numerous other funds targeted to SMEs by both the commercial banks and micro- finance institutions.

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