IJSDC

International Journal of Social and Development Concerns

Vol. 1, Article 4/12 | October 2017 e-ISSN

Chief Editor
Web: www.ijsdc.org
Email: info@ijsdc.org

Editing Oversight
Empiris Creative Communication Ltd.
Web: http://www.empiriscreative.com



Vol. 1 | Implications of Social Service Delivery on Development in Africa

# Socio-Economic Factors Affecting Small and Medium Enterprises in Kariokor Market, Kamukunji Constituency, Nairobi County, Kenya

[1]Peter MabiorRiiny, [2]Dr. Simon Njuguna, [3]Daniel Ogachi

[1,2,3]The Catholic University of Eastern Africa. P.O BOX 62157 – 00100 Nairobi Kenya

**Corresponding Author:** Email:pmabior@gmail.com

## *Abstract*

*In sub-Saharan Africa, small and medium-sized enterprises, or SMEs have become the most important pillar of a growing economy. In fact, they produce 80 percent of all jobs and represent nearly 90 percent of all businesses. This sector in Kenya contributes significantly to its economy by way of taxes, utilization and conservation of local resources, foreign exchange, and provision of goods and services. However, the sector is characterized by challenges of which access to financial resources is most significant. The overall objective of this study is to understand how social economic factors such as the access to finance by SMEs, alternative sources of funding to SMEs and accessibility to microfinance services affects small and medium enterprises in Kariokor Market which is the representative case study. Research design is in form of a descriptive study where data was collected using questionnaires that were administered to the target population. The research used contingency theory and resource based theory. Simple random sampling methods were used to draw sample cases used for this study. The research used a conceptual framework in conceptualizing the factors affecting small and medium enterprises. The data was analyzed by generating descriptive statistics such as percentages, and measures of central tendency. The data was presented by using tables and figures. SPSS (statistical software package) was used to generate the descriptive statistics and to establish the relation between the dependent and the independent variables of the study. The study findings will act as a reference point to other researchers in the same field thus facilitating their studies, and will provide relevant information that will help the government in planning and formulating and implementing policies. The data was coded and analyzed qualitatively and quantitatively using SPSS. The study found that access to finance, laws and regulation and availability of management experience are the key socio-economic factors affecting the performance of businesses in Kariokor Market. The study recommends that banks and other financial institutions should come up with creative policies that make it easy for SMEs to access financing, and both the National and County Governments of Kenya should lessen the time taken to obtain licenses by reducing bureaucracy and they should support training entrepreneurs to better manage their businesses.*

**Key terms:** *Socio-Economic Factors, Small and Medium, Market*

# Introduction

### *1.1. Background of the Study*

Small and medium enterprises are acknowledged by the European Union (EU) as an important ingredient in shaping European economy. The EU considers small and medium enterprises as key drivers of economic growth, innovation, job creation, and social integration in the EU. However, in official statistics SMEs can currently only be identified by employment size as enterprises with fewer than 250 persons employed. This is a huge category and encompasses enterprises with different ownership structures and varying numbers of employees and levels of economic activity. To facilitate better analysis and understanding of the heterogeneity of SMEs, the 2014 micro-data linked data from structural business statistics and business registers (Airaksinen, 2015).

In Canada small enterprise is defined as a business employing fewer than 100 paid employees while a medium enterprise business is defined as one with at least 100 and fewer than 500 employees. Starting from December 2013, there were about 1,107,540 employer businesses in Canada, of which 1,087,803 were small. Small businesses make up 98.2 percent of employer businesses, medium-sized businesses make up 1.6 percent of employer businesses and large businesses make up 0.1 percent of employer businesses. In sum SMEs employed about 10 million individuals, or 89.9 percent of employees. Canadian high-growth firms are present in every economic sector and are not just concentrated in knowledge-based industries (Allen, 2013)

In terms of employment, the highest concentrations of high-growth firms in Canada between 2006 and 2009 period were in construction (4.9 percent of all firms) and other support businesses. In sub-Saharan Africa, small and medium-sized enterprises, or SMEs, have become the most important pillars of a growing economy. In fact, they produce 80 percent of all jobs and represent nearly 90 percent of all businesses in sub-Saharan Africa. In Africa, there are plans to provide assistance to African financial institutions that support SME growth over the coming years. These plans have received an impressive $125 million in funding from the United States (Logan, 2015).

In East African Community (EAC), there are myriad conditions facing SMEs. These factors are related to the nature of SMEs, but also to regulatory factors and the legal and contractual environment. A study carried out by banks noted the reluctance of east African governments to support the SME sector. However, banks have adapted to their environments through innovation and differentiation. The African Development Bank concludes that 'this trend should be encouraged through reforms to soften the negative impact of those obstacles which are hindering the further involvement of banks with SMEs'. Encouraging SMEs in East Africa is important for employment. The study has noted that earlier research found that SMEs on average contribute to 60 percent of total formal employment in the manufacturing sector in various countries (Pietro, 2012).

The informal sector in Kenya is viewed as an important ingredient for employment creation, poverty alleviation, and economic growth. This is based on increasing awareness within the government that large projects in the industrial sector are less likely to generate the requisite employment opportunities, given the high capital intensity of output in the sector (Kinyua, 2014).

The number of small businesses is growing rapidly in Kenya (Namusonge 2004; Sessional paper, 2005). Every sector of operations has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors as well as internal business factors, management expertise, resources and individual characteristics (Okibo & Makanga, 2014).

In dynamism and turbulence, small businesses are affected more than the large organizations because the response to environmental changes is different in small businesses than in large companies, which may exit from one business area and have resources and strategic choices not available to small business enterprises. It is necessary to study the management factors that are in place in the informal sector to investigate individual business adjustment policies in relation to the State policies, the current business performance factors. The role of MSMEs in the promotion of national development in Kenya has been well-documented (Sessional Paper No. 2, 2005). According to Kenya Economic Survey, 2006, employment within SMEs accounted for 74.2 per cent of the total persons in employment. The SME sector contributes up to 18.4 percent of the country's Gross Domestic Product (GDP). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture, which is necessary for private sector development and industrialization (Berge, 2013).

## Theoretical and Literature Review

### *2.1. Theoretical Review*

According to Scott (1981) the best way to organize depends on the nature of the environment to which the organization must relate. The work of other researchers including Paul Lawrence, Jay Lorsch, and James D. Thompson complements this statement. They are more interested in the impact of contingency factors on organizational structure. Their structural contingency theory was the dominant paradigm of organizational structural theories for most of the 1970s. A major empirical test was furnished by Pennings who examined the interaction between environmental uncertainty, organization structure, and various aspects of performance. 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 organizational structure of the company (Battilana, 2012).

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, or environment. 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 cultures and different perspective towards risk (Danese, 2013).

It can be concluded that there is no 'best way' or approach in management. Different situation calls for different approach to handle, manage, and solve the arising issues. Management and organization are an 'Open system', which embrace anomalies or challenges and which require 'adaptable' and 'situational' solutions to overcome or solve the problems concerned (Scot, 1981). The Contingency theory did not go without criticism. For example, critiques believe that this model has little or no flexibility as a model. Fiedler has an assumption that a natural style of leadership is fixed and is related to his personality characteristics. He thought a natural leadership style would be the most effective style of leadership. But, he did not consider the fact that a leader cannot always apply a natural leadership style in every situation (Mikes, 2013).

### *2.2. Empirical Review*

In more advanced developing countries, where there is reasonable progress in fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital and leasing. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be limited (Allen, 2007).

Access to finance is essential for improving SME competitiveness, as traders have to invest in new technologies, skills and innovation. Access to finance issues cannot be resolved by implementing financing schemes or programmes in a vacuum. There are institutional issues covering a spectrum from the macro level to the micro level, which are accompanied by capacity deficiencies (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance is not solely the responsibility of governments. SMEs also need to take initiative rather than view credit access as their number one obstacle. They need to mobilize joint advocacy and recommendations, based on sound analyses, through their membership organizations. Most significantly, SMEs must implement sound business practices and continuously invest in good internal management systems; in accounting, planning, financial, operations and human resource management (Abuzayed, 2012).

In South Africa, Eeden (2004) found finance as one of the most prominent business constraint. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of the sound business track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structures for dealing with SMEs. Insufficient financing is as much a problem as lack of finance and as a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit margins are usually little to support growth. Harper (2004) notes that businesses like grain millers and tailors are unable to compete with large manufactures of readymade goods because they have to wait until a customer provides them with the raw material or money to buy it. Others may be unable to get started until a customer pays the deposit, which will be used to buy the required raw material (Smallbone D, 2012).

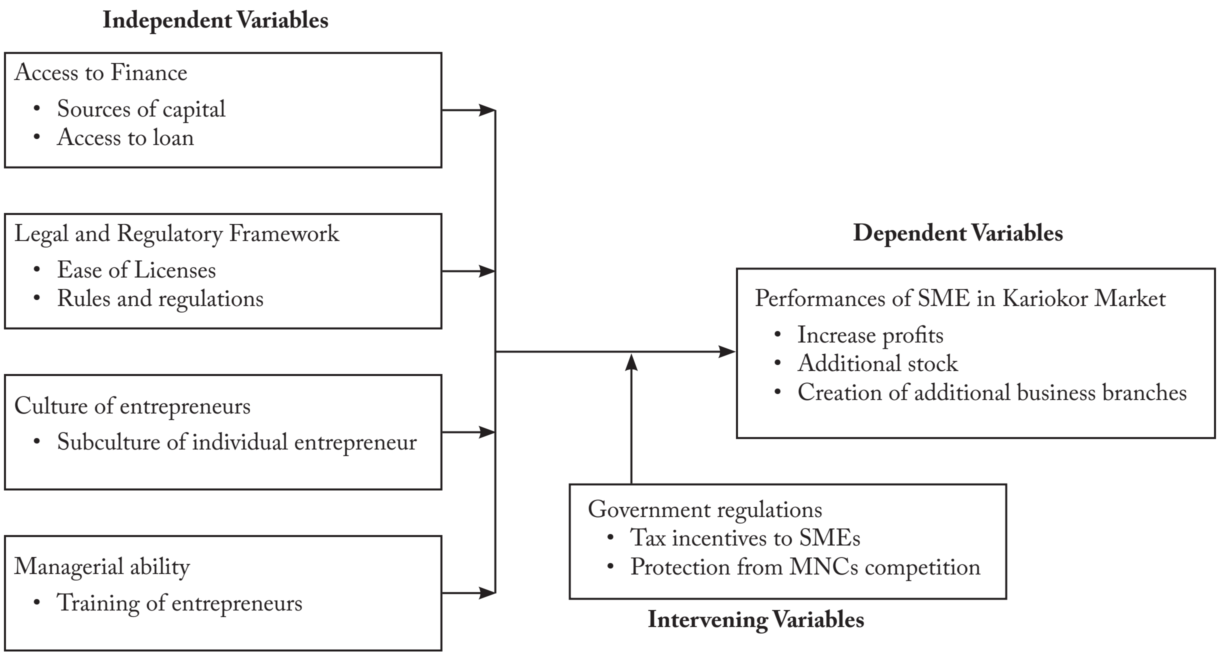
Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by Daniels (2003) show how SMEs are constrained by finance. Studies undertaken by Kiiru, Mirero, and Masaviro (1988) for Kenya Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (1992) established that finance is rated among the biggest problem.

Lack of access to credit/finance is almost universally indicated as a key problem for SMEs. Credit constraints manifest in a variety of ways in Kenya where an undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and/or relatives, that is not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short-term finance. There are various financial challenges that small enterprises face. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors,' which allow them the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates, while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi & Mugure, 2008).

### *2.3. Conceptual Framework*

The independent variables are access to finance, legal and regulatory framework, culture of entrepreneurs, and managerial ability; intervening variables are government regulations comprisingtax incentives and protection from Multinational Companies (MNC), and the dependent variables are the performances of SMEs in Kariokor Market including: increased profits, additional stock, and creation of additional business branches.

*Figure 1*



## Materials and methods

According to Grill and Johnson (2006), a descriptive design is concerned primarily with addressing the particular characteristics of a specific population of subjects. A cross-sectional descriptive study design will be adopted for this study and information will be collected using structured interviews and questionnaires. Both qualitative and quantitative data will be collected.

According to Sekeran (2008), descriptive research design is a type of design used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. Orodho (2012) states that a descriptive research design is suitable where the study seeks to describe and portray characteristics of an event, a situation, a group of people, a community or a population. The study hence considered this design appropriate since it facilitated gathering of reliable data describing the social economic factors that affect small and medium enterprises in Kariokor Market.

The target groups for this study were SMEs in various categories from clothes shops, pharmacies, restaurants, butcheries, retail shops (kiosks) that were given the questionnaires. Since about 20 percent of the merchants of Kariokor Market were represented, it was a reasonable size. The study used employed a simple random method, in particular maximum variation sampling (heterogeneous sampling), which has exhibited a wide range of attributes, behaviours, experiences, incidents, qualities, situations, among others. The basic principle behind maximum variation sampling is to gain greater insights into a phenomenon by looking at it from all angles (Mugenda, 2003).

The quantitative questionnaire data was analyzed using inferential statistics with the aid of (statistical packages for social sciences) SPSS version 20.1. Based on the findings of the descriptive analysis further analysis was used to give the outcome and the findings and conclusion drawn. The data was analyzed using simple inferential statistics such as percentages, means, modes, standard deviation, and frequencies. The study used multivariate regression analysis to establish a relationship between the independent variables and the dependent variables by the use of the following regression model.

$Y= ß_0 +ß_1 \; X_1 + ß_2 X_2 + ß_3 X_3 +ß_4 X_4 + €$

Y= Business performances (Dependent Variables)

$X_1$ to $X_4$ = Independent variables

$X_1$ Access to finance

$X_2$ = Legal and Regulatory framework

$X_3$ = Cultural determinants

$X_4$ = Managerial ability

$ß_0$ = Coefficient of model

$ß^1$ to $ß_4$ = Beta Coefficient of determination

€ = Stochastic error term

The questionnaires were used in soliciting answers from the respondents through interviews as well as sending questionnaires to the participants to fill them at their own time and send them back to the researcher. There were lists of standard questions prepared to fit a certain inquiry. The questionnaires contained both close-ended and open-ended questions so as to facilitate structured responses for the rating of various attributes and also provide additional respondents' information. According to Arodho (2015) questionnaires measure the likelihood of straight, even, and blunt answers. This can be superior to an interview because social communion operates strongly in face-to-face situation that may prevent the person from expressing what he feels and lead to socially or professionally unacceptable views.

Secondary data was collected from documented sources such as books, journals, published and unpublished research works and Internet literature. For the main purpose of this research, the study collected primary data but relied on the secondary data for the literature review. The study used both face and content validity to ascertain the validity of the questionnaires. Content validity draws an inference from test scores to a large domain of items similar to those on the test. Content validity is concerned with sample-population representativeness. Gillham (2008) stated that the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

In order to address the factors that affect reliability of the data, the researcher reduced random error by accurate coding, unambiguity of instructions to the interviewees, as well as reduction of interviewee's bias. To test the reliability of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A reliability co-efficient of $\alpha \geq 0.7$ was considered adequate. In this case, a reliability co-efficient of 0.805 was registered indicating a high level of internal consistency for the Likert scale.

The researcher first of all ensured there was a letter of authorization from the Catholic University of Eastern Africa authorizing the researcher to go ahead and collect research data, and then the researcher procured an additional authorization letter from Kenya Government. The researcher was guided by the following ethics during the period of the study; Honesty - the research strived for honesty in all communication to honestly report data, results, methods, procedures, and publication status. Objectivity - the researcher strived to avoid bias in experimental design, data analysis, data interpretation, peer review, personnel decisions, grant writing, expert testimony, and other aspects of research where objectivity is expected or required. Integrity - the researcher kept promises and agreements; acted with sincerity; and strived for consistency of thought and action.

## Results and Discussions

The researcher distributed questionnaires to 200 respondents and a response rate of 73% was achieved which was favorable for the study. According to Mugenda and Mugenda (2003) for generalization purposes a response rate of 50% is adequate, while that of 60% is good but a response rate of 70% is excellent. The response rate of over 73% for this study was therefore excellent. As shown in table 4.1 below. The results are based on a response rate of 73% (n=200).

***4.1.1 Response Rate***

***Table 1*** | *Response Rate*

| Category | Frequency | Percentage |
|---|---|---|
| Responded | 200 | 73 |
| Did not respond/ Incomplete questionnaires | 74 | 27 |
| **TOTAL** | **274** | **100** |

***4.1.3 Access to Finance***

***Table 2*** | *Access to finance.*

| | **Strongly agree** | | **Agree** | | **Neutral** | | **Disagree** | | **Strongly disagree** | |
|---|---|---|---|---|---|---|---|---|---|---|
| Ease of access becomes considerably more important in the context of getting loans. | (106) | 53% | (46) | 23% | (10) | 5% | (26) | 13% | (18) | 9% |
| Restriction of finance regarding SMEs. | (46) | 23% | (114) | 57% | (12) | 6% | (26) | 13% | (16) | 9% |
| Provision of loans by relatives and friends incase business capital. | (26) | 13% | (46) | 23% | (24) | 12% | (76) | 38% | (32) | 16% |
| Provision of grants by government to SMEs. | (76) | 38% | (46) | 23% | (12) | 6% | (32) | 16% | (18) | 9% |

Respondents were asked several questions on access to finance as a factor affecting small and medium enterprises and the response were as follows: On ease of access being considerably more important in the context of getting loans 53% strongly agreed, 23% agreed, 5% were neutral and 13% disagreed while 9% strongly disagreed; On whether respondents get restrictions of finance regarding SMEs, 23% strongly agreed, 57 % agreed, 6% were neutral and 13% disagreed while 9% strongly disagreed; On the provision of loans by relatives and friends as business capital, 13% strongly agreed, 23 % agreed, 12% were neutral and 38% disagreed while 16% strongly disagreed; and On the provision of grants by government to SMEs, 13% strongly agreed, 23% agreed, 6% were neutral and 16% disagreed while 9% strongly disagreed. This is captured in in table 4.6 above. The study findings are in agreement with other studies done across Africa, Ngobo (1995), Kibera and Kiberam (1997) and Chijoriga and Cassiman, (1997) point to finance as one of the key constraints to small enterprise growth. SMEs owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies, and the unexplained bank charges.

Respondents were asked of the process of getting a loan from the bank. The study revealed that the SMEs were not comfortable with the interest rate and felt that this was the main financial impediment for business growth with 96% of the respondents indicating that financial information and time-consuming loan enforcement mechanisms affected business growth. Another parameter that affected operations of business was the lack of collateral for loans. Respondents also felt that the transaction costs of loans were very high. SMEs owners prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict loan requirements.

Respondents were asked if government provided sources of cheaper capital to start up business, and they all indicated no. 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, and where there is access, it at a very high cost. The study alludes that access to finance is being constrained by legal requirements by banks and other finance institutions, lack of a standardized and shared information registry, and expensive and time-consuming enforcement mechanisms.

#### *4.1.4 Legal and Regulatory Framework*

***Table 3**| Legal and regulatory framework as factors affecting small and medium enterprises*

| | Strongly agree | | Agree | | Neutral | | Disagree | | Strongly disagree | |
|---|---|---|---|---|---|---|---|---|---|---|
| Ability and ease of access to license to operate SMEs. | (76) | 38% | (46) | 23% | (12) | 6% | (32) | 16% | (18) | 9% |
| Provision of tax holidays or exemptions by the government. | (26) | 13% | (46) | 23% | (24) | 12% | (76) | 38% | (32) | 16% |
| Protection of SMEs from external competition and from multinational companies. | (106) | 53% | (46) | 23% | (10) | 5% | (26) | 13% | (18) | 9% |
| Affordability of license to operate SMEs in Nairobi. | (46) | 23% | (114) | 57% | (12) | 6% | (26) | 13% | (18) | 9% |

*Source: Author, 2017*

Respondents were asked several questions on legal and regulatory framework as factors affecting small and medium enterprises and the response were as follows: On the ability and ease of access to acquire a license to operate SMEs, 38% strongly agreed, 23% agreed, 6% were neutral, while 16% disagreed and 9% strongly disagreed; On the provision of tax holidays or exemptions by the government, 18% strongly agreed, 46 % agreed, 7% were neutral and 13% disagreed, while 9% strongly disagreed; On the protection of SMEs from external competition and from multinational companies 53% strongly agreed, 23 % agreed, 5% were neutral and 13% disagreed while 9% strongly disagreed; On affordability of licenses to operate SMEs in Nairobi, 23% strongly agreed, 57% agreed, 6% were neutral and 13% disagreed, while 9% strongly disagreed as shown in table 4.8 above. The findings are in agreement with a study conducted by Wanjohi (2009). An unfavorable regulatory environment scares potential investors and curbs revenues for those operating SMEs. These calls for County and National Governments to create legal and regulatory business environments that facilitate the growth and development of SMEs.

Respondents were asked to indicate how long it takes to get a license for operation. A majority indicated 1 to 3 months before obtaining the original permit. Other than getting licenses respondents were ask if there were any other requirements needed to start a business. They outlined the following: a trading license, a fire clearance certificate, an advertising signage license, health certificate, and a food hygiene license.

#### *4.1.5 Cultural Factors*

***Table 4*** | *Cultural factors*

| | **Strongly agree** | | **Agree** | | **Neutral** | | **Disagree** | | **Strongly disagree** | |
|---|---|---|---|---|---|---|---|---|---|---|
| Learning business skills from parents and family members which contributed to your business success. | (130) | 65% | (62) | 31% | (8) | 4% | (0) | 0% | (0) | 0% |
| Punishment by parents during childhood for failing to be successful in some activities | (18) | 9% | (30) | 15% | (6) | 3% | (26) | 13% | (100) | 50% |
| Personal desire to be independent since childhood and its influence on your business success. | (142) | 71% | (46) | 23% | (12) | 6% | (0) | 0% | (0) | 0% |
| Hard work and internal focus of control and its contribution to the success of your business | (130) | 65% | (62) | 31% | (8) | 4% | (0) | 0% | (0) | 0% |
| Peer group generates very strong influences on young people's behaviour in relation to success in business | (26) | 13% | (46) | 23% | (24) | 12% | (76) | 38% | (32) | 16% |

*Source: Author, 2017*

Respondents were asked several questions on cultural factors as factors affecting small and medium enterprises and the response were as follows: On learning business skills from parents and family members which contributed to business success, 65% strongly agreed, 31% agreed, 4% were neutral and none disagreed or strongly disagreed; On punishment by parents during childhood for failing to be successful in some activity, 9% strongly agreed, 15 % agreed, 3% were neutral and none disagreed or strongly disagreed; On personal desire to be independent since childhood and its influence on business success, 71% strongly agreed, 23% agreed, 6% were neutral and none disagreed or strongly disagreed; On hard work and internal focus of control and its contribution to the success of business, 65% strongly agreed, 31% agreed, 4% were neutral and none disagreed or strongly disagreed; and on if peer group generates very strong influences on young people's behaviour in relation to success in business, 13% strongly agreed, 23% agreed, 12% were neutral and 38% disagreed, while 16% strongly disagreed as shown in table 4.9 above.

Respondents were asked if family upbringing played any role in their business acumen, 42 % indicated they acquired business training through seminars and workshops organized by microfinance institutions and commercial banks, 58% indicated through formal training in collages and university, and 32% indicated that their parents operate similar business. The findings concur with Nasser (2003) and Rwigema and Venter (2004) that cultures that emphasize achievement and social recognition for all forms of entrepreneurial success are more conducive to entrepreneurship. Communities with low entrepreneurial culture may discourage entrepreneurs, who fear social pressure and being ostracized.

### *4.1.6 Managerial Skills*

***Table 5** | Managerial skills*

| | Strongly agree | | Agree | | Neutral | | Disagree | | Strongly disagree | |
|---|---|---|---|---|---|---|---|---|---|---|
| Having studied entrepreneurship in high school, college and university and its contribution to business startup. | (106) | 53% | (46) | 23% | (10) | 5% | (26) | 13% | (18) | 9% |
| Ease of access to managerial skills from government institutions | (26) | 13% | (46) | 23% | (24) | 12% | (76) | 38% | (32) | 16% |
| Use of the skills learnt during training in running your business and contributes to its success. | (130) | 65% | (62) | 31% | (8) | 4% | (0) | 0% | (0) | 0% |

Respondents were asked several questions on managerial skills as factors affecting small and medium enterprises and the responses were as follows: On having studied entrepreneurship in high school, college and university and its contribution to business startup, 53% strongly agreed, 23% agreed, 5% were neutral and 13% disagreed, while 9% strongly disagreed; On the ease of access to managerial skills from government institutions, 13% strongly agreed, 23 % agreed, 12% were neutral and 38% disagreed while 16% strongly disagreed; On the use of the skills learnt during training in running their business and how this contributed to its success, 65% strongly agreed, 31 % agreed, 4% were neutral and none disagreed or strongly disagreed, as shown in table 4.10 above. The findings are in line with findings by Thapa (2007) who indicates that there is a positive association between education and small business success. The likelihood of failure was also found to be associated with the owner/manager's work experience prior to business launch and education. Human capital is the most critical agent of SME performance. Research by King and McGrath (2002) indicates that education and skills are needed to run micro and small enterprises. They further suggest that those with education and training are more likely to be successful in the SME sector.

The result indicated that the majority of the respondents had secondary level education (33%); respondents who had college education were 40 % while 28% had graduate degree. 42 % indicated they acquired business training through seminars and workshops organized by microfinance institutions and commercial banks while 58% indicated through formal training in collages and university. Finally, respondents agreed that education plays an important role in managing business. Education and skills are needed to run micro and small enterprises. Research shows that majority of those carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Studies suggest that those with education and training are more likely to be successful in the SME sector.

### *4.1.7 Regression Analysis*

The researcher conducted a moderated regression analysis to explain the age of despondence conducting business at Kariokor Market. The scores to be regressed were computed through factor analysis (data reduction) and then saved as variables. Regression analysis was conducted using Statistical Package for Social Sciences (SPSS).

*Table | Model Summary*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .589a | .338 | .323 | 3.05918E5 |

a. Predictors: (Constant), duration in business, educational level, Gender, Age of respondents, types of business.

In a model summary above, the "R" value is used to indicate the strength and direction of the relationship between the variables. When the value of the test gets closer to 1, the stronger the relationship is, as shown in Table 12, R= 0.589. This shows there was an overall strong and positive relationship between the variables. The R-Square in the study was found to be 0.323. This value indicates that the independent variables (Access to legal and regulatory framework, access to finance, availability of management experience and cultural aspects) explain the 32.3% of the variance in the performance of businesses at Kariokor Market.

***Table 7** | ANOVA*[b]

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.695E11 | 4 | 1.174E11 | 1.449 | .222[a] |
| | Residual | 1.013E13 | 125 | 8.101E10 | | |
| | Total | 1.060E13 | 129 | | | |

a. Predictors: (Constant), managerial skills, legal and regulatory framework, cultural aspect, financial aspect

b. Dependent Variable: Business performance

The ANOVA in table 13 above describes the variance accounting for the model. The statistical F tests whether the expected values of the regression coefficients are equal to each other and whether they equal zero. A large value of F of 1.449 and a small significance level (P<.000) two tailed, posits that the four predictor variables are not equal to each other and can be used to predict the dependent variable performance of businesses.

### *Analysis of Coefficients of Determinants*

The unstandardized coefficients of determination under the B column in Table 15 (model 2) were used to substitute the unknown beta values of the regression model. The beta values indicated the direction of the relationship. A positive or negative sign indicates the nature of the relationship. The significant values (p-value) under sig. column indicate the statistical significance of the relationship or the probability of the model giving a wrong prediction. A p-value of less than 0.05 is recommended as it signifies a high degree of confidence.

***Table 8** | Coefficients*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95% Confidence Interval for B | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Lower Bound | Upper Bound |
| 1 | (Constant) | 0.500 | 0.782 | | 2.155 | .033 | 4.881 | 24.120 |
| | Financial aspect | 0.579 | 0.412 | .110 | 1.213 | .227 | -3.581 | 62.738 |
| | Legal and regulatory framework | 0.797 | 0.023 | -.189 | -2.124 | .036 | -14.435 | -75.160 |
| | Cultural aspect | 0.188 | 0.603 | .029 | .326 | .745 | 8.293 | 78.669 |
| | Managerial skills | 0.248 | 0.524 | -.044 | -.499 | .619 | -3.819 | 91.324 |

a. Dependent Variable: Business performance

At 95% confidence interval, a significant value (p-value) of 0.001 and F-value of 1.499 was registered as shown in Table 14. This shows that the regression model has a probability of less than 0.001 of giving the wrong prediction. Hence, the regression model used above is a suitable prediction model for explaining the factors influencing the performance of businesses in Kariokor Market.

The equation for the regression model is expressed as:

$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$

$Y= 0.5+0.782X_1+2.15X_2+0.33X_3+4.881X_4+24.12X_5$

Where; Y = SMEs performance (Dependent Variable)

$X_1 – X_4$ – Independent Variables $X_5$ – Moderating Variable

$X_1$ = Business Information Services

$X_2$ = Access to Finance

$X_3$ = Availability of Management Experience

$X_4$ = Access to Infrastructure

$X_5$ = Government Policy and Regulations $\beta_0$ = Co-efficient of the model β1 – β5 = Beta Co-efficient of Determination

$\epsilon$ = Stochastic Error Term

## Conclusion

The objective of the study was to establish the socioeconomic factors affecting the performance of micro and small enterprises in Kariokor Market in Nairobi County. The study found that access to finance affects the success of enterprises at Kariokor Market, with most of the entrepreneurs saying their businesses are dependent on capital which they get from their savings, with some respondents saying their relatives help them in raising capital. Legal regulation and framework are other factors that affect business given that there are a lot of regulations along the way before business are started. Cultural factors play a role in one success in the enterprises with respondents saying their upbringing play important role in their success in business. The study concludes that access to finance, laws, regulations, and availability of management experience are the key socio-economic factors affecting the performance of businesses in Kariokor Market. These have the potential of leading to improved business performance. The other key factor that affects performance of micro and small enterprises in Kariokor Market positively is cultural factors that favor business acumen.

## Recommendation

The study found that most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. The study therefore recommends that banks and other credit-giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing. The study recommends that both National and County Governments of Kenya should lessen the time taken to obtain license by reducing bureaucracy and illuminating possible business hurdles.

## References

Ali, A., & Ali, S. A. (2012). Working Capital Management: Is It Really Affects the Profitability? Evidence from Pakistan. *Global Journal of Management and Business Research,* 12(17), 1-5.

Allen, F. C. (2013). Resolving the African Development Financial Gap: A Cross Country Study of Kenya. Nairobi: World Bank Press.

Allen, H. (2007). Village Savings and Loan Associations. London: Intermediate Technology Publications Ltd.

Armendiaz, B. M. (2005). The Economics of Micro Finance. Cambridge: Massachussets Intitue of Technology Press.

Bakhtiari, S. (2006). Micro-finance and Poverty Reduction (Some International Evidence). *International Business & Economics Research Journal, 1-7,* 54-65.

Barney, J. B. (2002). Gaining and Sustaining Competitive Advantage. New Jersey: Kogan Page.

Barney, J. B. (2010). Firm resources and Sustained competitive advantage. Journal of Management, 17: 1, 99-120.

Battilana, J. (2012). Change Agents, Networks, and Institutions: A Contingency Theory of Organizational Change. Academy of Managment, 60.

Beck, T., & Maksimovic, V. (2008). Financing patterns around the world: Are small firms different? *Journal of Banking and Finance, Vol. 30,* 467-487.

Berge, G. (2013). Bank Financing of SMEs in Five Sub Saharan African Countries: World Bank.

Best, J., & Kahn, J. (2008). Research in Education 10th Ed. New Delhi: Prentice Hall of India.

Borg, R., & Gall, W. (2009). Educational Research- An Introduction. New York: Flipkart Books.

Boris, B. (2008). Business Research Methods, 2nd European Edition. Berkshire: MCGraw-Hill Education.

Bruckman, J. C., & Iman, S. (2008). Consulting with small business: A process model. *Journal of Small Business Management,* 41.

Bryman, A. (2007). Business Research Methods, 2nd edition. New York: Oxford University Press.

Chang, E., & Wildt, A. (2014). Price, Product Information, and Purchase Intention: An Empirical Study. *Journal of the Academy of Marketing Science, Vol. 22,* 13- 26.

Choochote, K. (2012). An Analysis of Knowledge Management Process or SMEs in Developing Countries: A Case Study of SMEs in India and Thailand. *Department of Management Sciences, University of Pund.*

Cooper, D., & Schindler, P. S. (2008). Business Research Methods (8th ed.). New Delhi: Tata McGraw-Hill Publishing Company.

Dahir, A. M. (2015). The challenges facing microfinance institutions in poverty eradication: A Case study in Mogadishu. *International Journal of Humanities, Social sciences and Education, Vol. 2, Issue 2,* 56-62.

Danese, P. (2013). Towards a Contingency Theory of Collaborative Planning and Initiative of Supply Network. HAL, 50.

David Smallbone, D. D. (2012). Small business responses to a major economic downturn: Empirical perspectives from New Zealand and the United Kingdom. *International Small Business Journal.*

Gikonyo, W. (2010). Towards a New Integrity Culture in Local Governance in Kenya: Nairobi.

Githongo, J. (2007). Kenya's Fight against Corruption: An Uneven Path to Political Accountability. Nairobi: Development Policy Briefing Paper 2.