

**MICROFINANCE SERVICES AND GROWTH OF
MICRO AND SMALL ENTERPRISES IN KENYA**

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**Microfinance Services and Growth of Micro and Small Enterprises
in Kenya**

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the Degree of Doctor of Philosophy in Entrepreneurship of the Jomo
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DECLARATION

This research thesis is my original work and has not been presented for a degree in this or any other university.

Signature.....Date.....

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This thesis has been submitted for examination with our approval as the University Supervisors.

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DEDICATION

This thesis is dedicated to my loving family for their unrelenting and unlimited inspiration, encouragement, financial support and prayers which were very instrumental during my studies and completion of this degree. I give special thanks to God almighty my strong pillar, my source of wisdom, knowledge and my strength throughout this program and on His wings only have I soared.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
DTM	Deposit Taking Microfinance Institution
GDP	Gross Domestic Product
HKP	Hayekian Knowledge Problem
KBA	Kenya Bankers Association
KCB	Kenya Commercial Bank
LDCs	Less Developed Countries
MFB/I	Micro finance Bank / Institution
MSEA	Micro and Small Enterprises Authority
MSEs	Micro, Small and Enterprises
RoK	Republic of Kenya
UK	United Kingdoms
USA	United States of America
USAID	United States Agency for International Development
WB	World Bank

OPERATIONAL DEFINITION OF TERMS

Capacity Building	Human capital skills development with the sole purpose of enhancing optimal utilization of company resources for sustainable and dynamic response to changing business environment (Ferrell & Fraedrich, 2015).
Deposit Taking Microfinance Institution	Organization in which the business accepts deposits on a daily basis and also it provides credit amenities to small borrowers through adoption of heterogeneous collateral securities (Koech, 2011)
Entrepreneurs	An individual or a group which undertakes new business venture by undertaking risks courtesy of new technology and innovative process (Bawuah, 2014).
Entrepreneurship Training	Formal or informal programs geared towards imparting skills which will enable entrepreneurs thrive in dynamic business environment (Ping, 2013).
Entrepreneurship	These are individual attributes or characteristics which enables an individual to skillfully commence new or expand existing business operations (Agbim & Oriarerwo, 2012).
Micro and small enterprises	This is a business enterprise which has employment workforce of between 1to 20 employees and also its capital investment is capped at Kshs. 30 million. The organization structure and culture had only one individual who makes most of its decisions (Thrikawala, 2011).
Micro Enterprise	This is a business venture which has at most nine employees, annual turnover of Ksh. 500000 and capital invested is at most Kshs. 5 million (Adera, 2015).
Microfinance Bank / Institution	Financial institutions licensed to execute microfinance bank services. These services include and not limited to branchless and branching, sales centres and offices (Central Bank of Kenya, 2014).

MSEs Growth

Growth is positive changes in micro and small enterprises number of branches, number of employees, sales turnover and profitability. Growth can be measured using financial and non-financial measures (Calice, 2012).

Networking

This is the capacity of entrepreneurs to create interaction platforms which are geared towards enhancement of business performance (Chadamoyo & Dumbu, 2012).

ABSTRACT

When a Micro and Small Enterprise requires financial services from commercial banks, collateral hindrances limit the growth of MSEs. Though Micro and small Enterprises make a tremendous contribution to worldwide economies, lacking sufficient credit, entrepreneurs are seldom able to take advantage of discounts on new materials, and are unable to extend credit to their customers. SMEs are especially important for the Kenyan economy, as they are expected to address the high unemployment and poverty rate the country is experiencing. Micro and small enterprises have a high mortality rate. Many are started every year but very few see their third birthday. Micro and small enterprises do not grow at the expected rate to become medium enterprises hence the “missing middle” phenomena. In Kenya and elsewhere, micro finance institutions have been on the rise with MFIs having been portrayed as a way to reach poor people in the development process, meet the UN Millennium Development Goals, and as a new innovative strategy for alleviating poverty. Empirical indications are that the poor can benefit from micro finance from both an economic and social well-being point of-view. This study sought to establish how the MFIs entrepreneurial services have influenced the growth of the MSEs. The objectives of this study were to establish how entrepreneurial working capital service, entrepreneurial capital services, entrepreneurial capacity building and entrepreneurial networking and moderating role of external environment influences growth of Micro Enterprises in Kenya. This study was anchored on the epistemology philosophy and adopts a positivist approach. The study used a cross sectional survey research design where, a self-semi structured questionnaire was administered to collect the primary data from the target population who were the MFIs customers. The Study was being limited to five deposit taking MFIs, the key respondents of the study were limited to owner-managers of micro and small enterprises in Kenya accessing the entrepreneurial services from the selected five deposit taking and offering the targeted entrepreneurial services. The MSEs customers that were sampled using the multistage cluster sampling the questionnaire were tested for reliability and validity. Data was analyzed using the descriptive to analyze qualitative data and inferential statistics. The study found that there is positive relationship between Microfinance Entrepreneurial Services on Growth of Micro and Small Enterprises (MSEs) in Kenya. This means that the MSEs need access to working capital service; entrepreneurial savings services, capacity building service and entrepreneurial networking services from the MFIs. Study however recommends the following that MFIs need to ensure that while offering capital and saving services to MSEs they should also consider external environment while empowering them through capacity building and also entrepreneurial networking. They should also; improve capital access policies for the MSEs because they cannot afford the needed collateral and meet the costs of credit, stop putting emphasis only on savings by MSEs but also introduce other services that empower them to grow through maintaining their business books, consider job rotation as a way of training their employees and they need to introduce new services and products and finally network play a pivotal role and acts as pillar in any entrepreneurial venture in the current market and therefore there is need for the MSEs and MFIs to find ways to establish business network in the industry and outside. The findings inform the stakeholders on how to improve the MFIs entrepreneurial services access by the MSE for growth.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

This study investigated the effect of microfinance services and the growth of micro and small enterprises (MSEs) in Kenya. This chapter provides a brief background information on the MSEs. In addition, it carries statement of the problem, general and specific objectives of the study and statistical hypotheses tested in the research. The other information include justification and limitations of the study will be presented.

The shift from microcredit and microfinance to inclusive finance begins with the recognition that access to credit alone is insufficient for poverty eradication. A set of useful, flexible services and reliable delivery mechanisms are required to meet a range of changing economic and social needs. Inclusive finance envisions increased outreach to unserved and underserved households as well as to micro-, small and medium-sized enterprises through a continuum of financial institutions offering appropriate products and services to all segments of the population. It takes account of the numerous causes of financial exclusion, the diversity of demand for affordable financial services on the part of poor and low-income clients and the various types of financial service providers, as well as private, public and government sector considerations such as corporate governance and regulation. Inclusive finance is further characterized by sound institutions and financial and institutional sustainability (UN, August 2010).

1.1.1 Micro and Small Enterprises

There are more than 300 million micro and small enterprises (MSEs) in the developing world, which provide opportunities for inclusive development to their communities in many ways. They are the main providers of jobs, particularly for less advantaged people; usually the suppliers of basic goods and services in low income or isolated communities; and very often the best market alternative for farmers. This study looks at the place of Micro and Small Size Enterprises (MSEs) - often associated with but extending beyond the informal sector on economic development i.e. the *Jua Kali*

sector. This is witnessed in the various Sessional Papers through time e.g. Sessional Paper No.1 of 1986 on Economic Management for SME Growth, Sessional Paper Number 2 of 1992 on Small Enterprise and *Jua Kali* Development and the Sessional Paper No 2 of 2005 on the Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction.

Recent focus resulted in the Micro and Small Enterprise Act of 2012 and its operationalization through the setting up of relevant institutional mechanisms. A good example is the Micro and Small Enterprise Authority within the Ministry of Industrialization and Enterprise Development (MSEA, 2013). The MSE Act provides for new rules and institutions to support micro and small businesses in Kenya to enable them succeed. It provides legal and institutional frameworks for the promotion, development and regulation of MSEs. These include Office of the Registrar of MSE associations (to formalize and register MSEs), MSE tribunal (for conflict resolution) and the MSE fund (to address issues of financing). It also provides for the establishment of the MSE Authority to (GOK 2012b); provide an enabling environment, facilitate formalization and upgrading of informal MSEs, promote a culture of entrepreneurship and promote representative associations

The Micro and Small Enterprises (MSE) Bill 2012 defines: Micro enterprises as any firm, trade, service, industry or a business activity, formal or informal that has an annual turnover that does not exceed Kenya Shillings 500,000 and employing (or rather engaging) 1- 9 people. The total assets and financial investment or the registered capital of the enterprise does not exceed Ksh 10 million in the manufacturing sector and does not exceed Ksh 5 million the service and farming sector

Small enterprises are those firms, trade, service, industry or business activities that post an annual turnover of between Ksh500, 000 and Ksh5 million and have an employee list of 10 to 50. In the manufacturing sector, investment in plant and machinery should be between Ksh 10 million and Ksh 50 million and registered capital of the enterprise between Ksh 5 million and Ksh 25 million in the service and farming sector

Looking further is their potential for job creation that is important in the country. This is important because there has been stagnation of job creation in the public sector yet

the public wage bill has risen beyond sustainable levels. This means MSEs provide a sustainable opportunity to create numerous jobs and raise incomes for many households. In 1999, about 2.3 million people were employed by SMEs, in 2003, approximately 4.6 million and by 2013, 6.4 million persons, accounting for 84 percent of the total work force in the country will be employed by this sector.

1.1.2 History of Microfinance Institutions

Muhammed Yunus a Bangladesh is credited with being the pioneer of modern version of Microfinance. While working at Chittagong University in the 1970s, Yunus began offering small loans to destitute basket weavers. He would later form Grameen Bank in 1983 as a way to reach a much wider audience. According to (Guntz, 2011), In Europe, the Catholic Church founded pawn shops to protect people from money lenders who charged very high interest rates. This form of money lending spread to other continents. The history of MFIs in Africa dates back to the 16th Century where it was in the form of “esusu” or “susu”; a Rotating Savings and Credit Association (ROSCA) among the Yoruba. Its origin is found in the rotating work associations where labor as a scarce commodity was accumulated and allocated to one of the members at a time. With advent of money and commercialization, these transactions were replaced with money such as naira and pounds.

The Kenya Microfinance sector began in the late 1960s with NGOs setting up pilot programs providing donor funded credit services. Some of the organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 citizens (Njoroge, 2008). Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty.

A number of MFIs have also emerged in some African countries as non-bank financial institutions (NBFIs) and are mobilizing deposits and offering microcredit. They are, therefore, normally regulated, although they are not registered as commercial banks. Some of these MFIs such as the Faulu Kenya Deposit Taking Microfinance (DTM)

Ltd transformed from NGO MFIs, while others were set up from the start as NBFIs involved in MF activities. There are also some parastatals, consumer finance companies and building societies, which operate as NBFIs, mobilizing deposits and offering microcredit. These MFIs are regulated by the Central Bank of Kenya. There are twelve licensed MFIs in Kenya. These include Choice Microfinance Bank, Faulu, Kenya Women Microfinance bank limited, SMEP, REMU (currently rebranded as Key), Rafiki, Uwezo, Century, Sumac, U&I, Daraja and Caritas.

Global evidence on the role of micro and small enterprises on economic development has been documented. Statistically average growth rate of MSEs in Pakistan is less than 10% as compared to 43.72% in India (Ejaz & Ramazan, 2012; Kausar, 2013; Vasu & Jayachandra, 2014). Similarly, in USA financial institutions have persistently locked out SMEs financial access this is constrained by credit evaluation and lending conditions. Culturally formal and traditional financial institutions have continuously locked out MSEs due to lack of collateral security, poor financial records and failure of past credit scoring criterion (Adera, 2015).

Njuguna (2015), noted that MSEs represent about 78 percent of all the firms operating globally (USAID, 2010). In countries like Indonesia, Singapore, Thailand and India, MSEs contribute over 40 percent of the GDP (Fink, 2012). In 2012, the contribution of MSEs in the industrial sector to the national GDP was estimated at 40%, 52%, 55% and 47.5% for India, Japan, Sri Lanka, and Thailand respectively.

Similarly, micro and small-sized enterprises (MSEs) are the backbones of Singapore's economy, contributing about 47% of the country's GDP and generating 62% of available jobs (UNCTAD, 2013). In the European Union countries, some 21 million MSEs provide around 59 million jobs and represent 73 percent of all enterprises.

Regionally, the support of MSEs in the informal and formal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa (Njuguna *et al.*, 2015). They contribute to over 50% of African employment and GDP. In Nigeria, MSEs contributed an estimated 37 percent of the GDP (SMEDAN, 2011). African countries are enjoying positive economic trends since the mid-1990s, during which higher economic growth has become widespread and robust over time.

In Kenya, the MSE sector has both the potential and the historic task of bringing millions of people from the survival list level including the informal economy to the mainstream economy (Njuguna, 2015). MSEs are largely found in the informal sector, mostly employing 1-2 people, although, there are many others that operate in the formal sector. Most of the local investment businesses in Kenya fall under the MSE business sector (ACEPD, 2011). Job opportunities within the MSEs sector increased from 4.2 million persons in the year 2000 to slightly over 7 million persons in 2014. This accounts for 74.2% of the total persons engaged in employment.

Across developing countries, small enterprises are turning to Microfinance Institutions (MFIs) for an array of financial services (Ngugi & Kerongo, 2014). Small scale enterprises comprise 99% of enterprises in the OECD economies and create 50–75% of value added in these countries (OECD, 2010).

1.1.3 Growth of Enterprises

In his studies, Mao (2009) explained that growth is used to describe a development process of enterprise from small too big and from weak to strong. The meanings of development exceed the meanings of growth, and it includes not only the growth process of things, but the generation stage growing out of nothing before growth and the periodic process of the stage, i.e. the cycle process going round and round, (Mao, 2009). However, it is noted that the enterprise growth is a complex adjustment process which is different to the simple scale extension. It takes the balance adjustments of various relations in the interior and the exterior of the enterprise as the essential character, and it is the process of balanced development from unbalance to balance, and from lower balance to higher balance. Therefore, the meanings of enterprise growth are the development process that enterprise keeps the tendencies of balanced and stable growth of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level (Sun, 2004).

In understanding enterprise growth, the time property of enterprise growth the premise to analyze the growth of enterprise is long period in which the long-term development tendency and process of enterprise are observed, and it is not the status of enterprise

in certain time point (Mao, 2009). The growth of enterprise is not a stable process without troubles. In the growth process, MSEs always transits from balance to unbalance, and the result is to transit from unbalance to balance and from lower balance to higher balance through unbalance. MSEs growth is the unification of quantity and quality. The increase of quantity is embodied in the extension of MSEs scale such as the increases in sales volume, market share, production value, profit and employee. The growth of quality is embodied in the enhancement of MSEs quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, the organizational innovation and reform (Sun,2004).

1.1.4 Entrepreneurship and Entrepreneurial Services

Entrepreneurs enter into business with different motives. Some will enter because they have identified a market opportunity and there is need to utilize their skills, others to generate income, while others will enter into business because of the desire for independence to be one's own boss, (McCormick & Pedersen, 1996; Dutta, 2009). Other factors that may attract or pull an entrepreneur into business are financial incentives, a hobby, previous work experience and family culture acting as a role model, (DATI, 2000). On the other hand, factors such as lack of employment, retrenchment, retirement or death of a breadwinner are likely to push one into business. The characteristics of an entrepreneur are widely accepted as vital ingredients that influences business growth.

As Munene (2014) notes, the confidence of the people is boosted by the non-financial services that MFIs offer such as vocational skill training, consultancy, advisory services as well as social services. It is of importance because despite provision of financial services to Micro and Small enterprises, they are unlikely to grow significantly because of other constraints that could be addressed by the non-financial services (Munene, 2014). Roy and Wheeler (2006) conducted a survey of micro enterprise in Urban West Africa: drivers shaping the sector. The study noted that lack of market knowledge and training, limited access to capital, and lack of co-operation

among possible business partners are some of the factors inhibiting the growth and development of the MSE sector.

Other entrepreneurial services include matchmaking to help local businesses in linking up to particular buyers and suppliers on request in sharing information, establishing relationships and facilitating partnering between buyers and other actors (World Bank, 2012). The Overseas Development Institute (2005: 7) recommends what they call Matching, Mergers and Acquisitions i.e. local ‘meet the buyers’ expos and ‘matching pools’ that bring investors and local companies together to exchange knowledge and collaborate on approaches to supporting local procurement. This means an identification of the windows of opportunity, knowing what is needed when and linking up MSEs to provide the same. Entrepreneurial research and development e.g. market research and promotion of use of technologies promotes the growth of MSEs. ICT and related innovations ensure the MSE has a better grasp of their own company’s prospective demand and requirements to address the information gaps identified earlier (Esteves *et al.*, 2009).

1.2 Statement of the Problem

Micro and Small Enterprises (MSEs) play an important economic role in many countries the world over. Their contribution to economic development, income generation and poverty alleviation is widely recognized (ILO, 2007). According to RoK (2014) MSEs contributed over 70% of GDP in 2013, in Singapore 47% (SMU, 2008), in Tanzania 33% (Madata, 2011). The background information of the study indicates that MSEs are faced by constant threat of failure and most do not graduate into large enterprises (World Bank, 2014; RoK, 2005). Past studies indicate that the MSEs sector in Kenya is characterized by high mortality rate (RoK,2005); three out of five fail within the first few months of operation (Bowen, Morara & Mureithi, 2009; RoK, 2013); over 60% fail each year (KNBS, 2012); and most do not survive to their third anniversary (Ngugi, 2013). When a Micro and Small Enterprise (MSE) requires financial services from commercial banks, collateral hindrances limit the growth of MSEs.

Despite various MFIs introducing products that enhance lending to MSEs, the MSEs performance, growth and existence still remains unknown. However, the studies done on businesses on how Microfinance services influence on growth is still a grey area. There is yet to be a conclusive approach and definite indicators of business growth despite the fact that it is every entrepreneur's wish to have their businesses grow. Local empirical studies have been limited on challenges hindering access to finance, cost of finance, working capital management, collateral security required amongst MSEs (Kemei, 2011; Koech, 2011; Cooper, 2012). These studies have limited methodological challenges owing to use of regression analysis without carrying out diagnostic tests. Subjective selection of respondents instead of use of scientific formula to calculate sample sizes. There are conceptual challenges since past studies have only examined direct effect of Microfinance services on MSEs growth while the current study will as well test moderating effect of external environment.

SMEs have indeed continued to perform much better compared to MSEs. The current study examined the effect of entrepreneurial capital services, entrepreneurial business finance services, entrepreneurial capacity building services and entrepreneurial networking forums, these areas that have posed a challenge in MSEs quest for growth. Therefore, the study sought to fill the lacuna on the Microfinance services and the growth of Micro and Small enterprises (MSEs) in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To examine the effect of Microfinance Services on Growth of Micro and Small Enterprises in Kenya

1.3.2 Specific Objectives

The specific objectives of the study included:

- i. To assess the effect of capital services on growth of Micro and Small Enterprises in Kenya

- ii. To establish the effect business finance services on growth of Micro and Small Enterprises in Kenya
- iii. To find out the effect of capacity building services on growth of Micro and Small Enterprises in Kenya
- iv. To determine the effect of networking forums on growth of Micro and Small Enterprises in Kenya
- v. To assess the moderating influence of external environment on the effect of services on growth of micro and small enterprises in Kenya

1.4 Statistical Hypotheses

The study was guided by the following hypotheses:

- i. H_0 : Entrepreneurial capital services has no significant effect on growth of micro and small growth enterprises in Kenya.
- ii. H_0 : Entrepreneurial business finance has no significant effect on growth of micro and small enterprises in Kenya
- iii. H_0 : Entrepreneurial capacity building services has no significant effect on growth of micro and small enterprises in Kenya.
- iv. H_0 : Entrepreneurial networking forums has no significant effect on growth of micro and small enterprises in Kenya.
- v. H_0 : External environment has no significant moderating influence on the effect of entrepreneurial services on growth of micro and small enterprises in Kenya.

1.5 Significance of the Study

The outcome of this research will be significant in demonstrating the importance of MFIs in the development of SMEs. It is expected to assist policy makers in coming up with appropriate measures that will address the growth challenges faced by MSEs in the country. The results will therefore be useful to different stakeholders including scholars and academicians, MFI management, government agencies, and other policy makers.

Scholars will benefit through the addition in the existing knowledge database that concerns MFIs and SMEs. Precisely, there will be additional published literature on the subject and the findings will be utilized by researchers in the future.

The government can also use the findings of this study to assist in policy formulation and development for a framework for critical access to credit, legal and regulatory, access to market, and adoption of technology as the determinants that affect the growth of MSEs. It will contribute to the body of knowledge on the effect of microfinance services on the growth of micro and small enterprises taking into consideration the true cost incurred by MSEs apart from interest cost.

This study was intended to shed light on the relationship between microfinance services and growth of micro and small enterprise particularly with the focus on their livelihoods for both planners and policy makers in government, agencies and NGOs. Furthermore, study may help them to come out with substantive possible alternative policy interventions which might help to address problems and challenges which micro and small enterprises face. This study may offer empirical evidence on the impact of microfinance services on the growth of micro and small enterprises for use in short term and long-term interventions especially in the fight against poverty. A study of this nature is equally very important because it is going to enlighten the government and the public on the role of MFIs in the SMEs sector.

On policy implication, this study contributes to existing knowledge on microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. The research findings also provide information for suggesting improvement in service delivery of the respective sectors that facilitates growth of MSEs in Kenya. The private sector together with the Non-Governmental Organizational (NGOs) can also use the findings to develop various strategies and programs that aim to empower the entrepreneurs and address the challenges they face in the operations and management of their MSEs. They can advance their performance by following some of the suggestions such as MSEs utilization of MFIs services.

1.6 Scope of the Study

The Study was limited to five deposit taking MFIs which had endeavored to provide entrepreneurial services amongst MSEs in Kenya. The five MFIs have a wide geographical coverage in terms of branches and variety of services offered to the MSEs. These MFIs are Faulu Kenya, Kenya Women Finance Trust (KWFT), SMEP, REMU (currently rebranded as KEY MFB) and Rafiki MFB.

The number of licensed MFBs in Kenya has grown to 13 with a total of 114 branches as at December 2017. There are eleven (11) of this MFIs operating nationwide and two (2) being community-based MFBs. The number of marketing offices has grown to 106 as at December 2017.

Key respondents of the study were limited to owner-managers of micro and small enterprises in Kenya accessing the entrepreneurial services from the selected five deposit-taking and offering the targeted entrepreneurial services. The study focused on the determinants of capital services, business finance services, capacity building, networking forums and influence of external environment. The study concentrated on the MFIs entrepreneurial services to MSEs. The study was undertaken to research on activities within the scope of the issues addressed by the research objectives. The study reviewed the past activities and this will be explained by the literature review of the study.

1.7 Limitations of the Study

The researcher experienced a number of challenges during the period in which the study was undertaken. A number of MSEs in accessing the MFIs entrepreneurial services are not permanently located at a particular place where they can be found all the time. Many are also busy moving up-and-down hawking their wares and may not have ample time to respond to questionnaires or take part in physical interviews. However, the researcher administered questionnaires for those who are highly mobile at their own convenient time. The study cultivated positive study relationship with prospective respondents after past experiences showed that many respondents were willing to go the extra mile to be part of a study if they know it positively impacted on

their lives. Some respondents were also uncooperative and failed to fill up the entire questionnaire or failed to present it back completely. Travel and other logistics were also a big challenge due to limited financial capacity. The significance of the study was objectively articulated to the prospective respondents during the piloting face and the actual study.

In mitigation, a humble explanation to the respondents on the importance of the study was made. The explanation indicated to them that the recommendations of the study were geared towards improving the MSE sector in Kenya. It was further clarified that the study was solely for academic purposes. To increase the respondent's questionnaires response rate, venues where categorized entrepreneurs frequented for networking purposes were identified and used as appropriate places to give out the questionnaires. The respondents were allowed to fill the questionnaires at their own free time. The questionnaires then would be picked up later by the research assistant.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed scholarly literature and provided the conceptual and theoretical foundation of the determinants in the field of MFIs entrepreneurial services, capital services, business finance services, capacity building services, networking forums services and growth of MSEs. It also provides the theoretical orientation, empirical review, and conceptualization of the study. This chapter also provides an empirical review, an objective critique of various studies undertaken in the area of study and an outline of the research gaps to be filled by the present study.

2.2 Theoretical Review

Theoretical frameworks are explanations about the phenomenon. A theoretical framework provides the researcher the lens to view the world. A theoretical framework can also be thought of as a map or travel plan. Theories are meant to explain, predict and master a certain phenomenon e.g. relationships, events, or behavior. The chapter developed theoretical review, conceptual framework, empirical review that was used in the study in regard to each variable in the study. The current study was anchored on market power theory, need for achievement theory, human capital theory and knowledge management theory. In this section proponent, strengths and weakness of each theory was discussed. Moreover, the relevance of the theory for the specific objective in the study was discussed. Many theories have been established in an attempt to explain the growth of MSEs. These models are many and varied. However, not a single theory has adequately offered an explanation why some enterprises grow and others fail. This study sought to concentrate on four widely acclaimed theories that attempt to offer an explanation on the framework of enterprises growth.

2.2.1 Market Power Theory

This theory was propagated by Joskow and Tirole in (2000). Theoretical models of market power theory predict that a firm's access to credit depend critically on bank

market structure. The traditional market power was that concentrated banking markets are associated with less credit availability and a higher price of credit. However, empirical studies offered mixed results. Some studies established that higher concentration is associated with higher credit availability consistent with information hypothesis that less competitive banks had more incentives to invest in soft information. Other empirical studies, however, found support for the market power hypothesis that credit rationing was higher in less competitive bank markets (Cabro-Valverde *et al.*, 2005). However, an alternative view that emerged over the past decade argued that the impact of competition on credit may be related to the level of asymmetric information in the market (Dell’Ariccia & Garibaldi, 2005).

The weakness of market power theory is that it does not consider that transmission rights have a natural place in the competitive case but can have perverse effects in the presence of market power. The interactions with other market institutions depend on the microstructure of market design. The distinction between financial rights and physical rights may be less than meets the eye. Olomi (2001) revealed that growth was another factor that constrained access to finance based on capital rationing. There was a wide controversy about the growth of MSEs in Kenya; and the survival rate which was established to be significantly low. Therefore, due to doubts about the possibility of growth in MSEs, MFIs may be inclined to tightened requirements and information from MSEs to approve a loan to finance a viable investment. Such information may not be furnished adequately leading to potentially viable business ideas falling into the credit rationing trap. This theory is relevant to this study since it informs entrepreneurial capital accessibility variable.

2.2.2 Need for Achievement Theory

This is a psychological theory of which shows the functionality of a strongly relationship between need for achievement (n-Achievement), entrepreneurial activities and economic development (McClelland, 1965). The theory states that there is always a relatively greater amount of entrepreneurial activities in the society, where the average level of need achievement is relatively high. The individual may fail to achieve this goal, but the concern over competition with a standard of excellence still enables

one to identify the goal sought as an achievement goal. This, then, is the generic definition of n Achievement”.

McClelland, (1965) additionally described that competition with a standard of excellence was most notable when, ‘ an individual was in direct competition with someone else but that it can also be evident in the concern for how well one individual performs a task, regardless of how someone else is doing. In the words the need for achievement is the unconscious concern for excellence in accomplishments through individual efforts”. Similarly, the need for Achievement comprises four main areas namely; the desire to accomplish something difficult, attain a high standard of success, master complex tasks and surpass others. Characteristically, individuals who exhibit the need for achievement seek to accomplish realistic but challenging goals. Such people will act in ways that will help them to outperform others, meet or surpass some standard of excellence, or do something unique. This means that an individual’s need for achievement is driven by the challenge of success and the fear of failure.

Peoples need for achievement is moderate and they set for themselves moderately difficult tasks. They are analytical in nature and take calculated risks. Such people are motivated to perform when they see at least some chances of success. It can be deduced from the various definitions that employees with high achievement needs seek to excel in their work and appreciates recognition of their efforts. They tend to avoid situations where there is only a small gain while also avoiding high risk situations where failure is a possibility. This theory postulates that when Entrepreneurs are exposed to entrepreneurial services by MFIs, they become sufficiently motivated and have the ability to achieve the MSEs growth. This theory is relevant to the study since in the Entrepreneurs are exposed to entrepreneurial services which should motivate them to develop a need to achieve and hence be stimulated to foster sustainable growth in their MSEs.

2.2.3 Human Capital Theory

Human Capital Theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Schultz (1961) in an article entitled “Investment in Human Capital” introduces his theory of Human Capital. Schultz argues that both knowledge and skill

are a form of capital, and that this capital is a product of deliberate enterprise growth. The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence of growth of businesses. This theory emphasizes the value addition that people contribute to an organization. It regards people as assets and stresses that investments by organizations in people will generate worthwhile returns.

Human Capital Theory is associated with the resource-based view of strategy developed by Barney 1991. The theory proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rival. For the employer, investments in training and developing people are a means of attracting and retaining people. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should result from enlarging the skills base and increasing levels of knowledge and competence. Schuler (2000) suggests that the general message in persuasive skills, knowledge and competences are key factors in determining whether organizations and firms will prosper. According to Hessels and Terjesen (2010), entrepreneurial human capital refers to an individual's knowledge, skills and experiences related to entrepreneurial activity. Entrepreneurial human capital is important to entrepreneurial development.

Previous empirical research has emphasized that human capital is one of the key factors in explaining enterprise growth. Brüderl (1992) argues that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and therefore lower probability of early exit. Moreover, highly educated entrepreneurs may also leverage their knowledge and the social contacts generated through the education system to acquire resources required to create their venture (Shane, 2003). In addition to education, specific human capital attributes of entrepreneurs, such as capabilities that they can directly apply to the job in the firm,

may be of special relevance in explaining enterprise growth. The specific human capital can be attained through precise trainings and previous experience. More focused business training can provide entrepreneur with a specific knowledge, compared to a formal education. This kind of specific human capital also includes knowledge of how to manage a firm, that is, entrepreneur- specific human capital. In particular, entrepreneurs with great industry-specific and entrepreneur-specific human capital are in an ideal position to seize neglected business opportunities and to take effective strategic decisions that are crucial for the success of the new firm (Collombo & Grilli, 2005).

A limitation of Human Capital Theory is that it assumes education increases productivity in the workplace, resulting in higher individual wages, but it provides little insight into the processes through which education and training are translated into higher wages. In statistical models, education and training account for about 30 percent of the variance in individual wages, which suggests Human Capital Theory leaves a significant percentage of wage variability unexplained. A related limitation is that upper-level applications of Human Capital Theory (e.g., at the national or state levels) treat education as a relatively homogenous input. These applications assume that higher levels of educational attainment and quality will yield greater productivity and wages across the board. Such treatment of education is problematic because the process of human capital formation varies for individuals and groups. This theory is relevant to this study since it informs capacity building variable.

2.2.4 Knowledge Management Theory

The knowledge creation and conversion processes are modeled as Socialization, Externalization, Combination and Internalization (SECI) "knowledge is created and expanded through social interaction between tacit knowledge and explicit knowledge"(Nonaka, 1995). Socialization involves tacit to tacit interaction of knowledge consists of the shared formation and communication of knowledge between people with a common culture and can work together proficiently regularly without ever producing explicit knowledge Externalization is where tacit and explicit knowledge interact. Tacit knowledge is not easy to convert into explicit knowledge.

During conceptualization, elicitation, and finally articulation, usually in collaboration with others, some proportion of a person's tacit knowledge can be possibly captured in explicit form.

Combination is the interaction of explicit to explicit knowledge usually shared in meetings, through documents, e-mails, etc., or via education and training. The use of technology to manage and search collections of knowledge explicit is well recognized. Internalization is interaction of explicit to tacit knowledge. For action to information be possible; individuals have to understand and internalize it, which will lead to them creating their own tacit knowledge. On reading the documented knowledge, they to some extent re-experience what others had earlier learned hence creating new knowledge. In this study the theory is relevant because the networks forums and capacity building is a way of gaining better ways of undertaking business and foster growth in MSEs.

2.3 Conceptual Framework

A conceptual framework is a structure which the researcher believes can best explain the natural progression of the phenomenon to be studied (Sekaran & Bougie, 2013). It is linked with the concepts, empirical research and important theories used in promoting and systemizing the knowledge espoused by the researcher (Oso & Onen, 2009). It is the researcher's explanation of how the research problem would be explored. Mugenda & Mugenda (2008) defines conceptual framework as a concise description of the phenomenon under study.

According to Young (2009), conceptual framework is a diagrammatical representation that shows the relationship between dependent variable and independent variables. A conceptual frame work is made up of dependent, independent and intervening variables. According to Saunders (2003), a dependent variable is the variable that changes to other variables whereas the independent variable is the variable that causes change to the dependent variables. A moderator variable is one that has a strong contingent effect on the independent variable relationship such that its presence modifies the original relationship between the independent and the dependent variable, (Sekaran, 2010).

The conceptual framework presents an integrated way of looking at a problem under study (Kothari, 2011). In a statistical perspective, the conceptual framework describes the relationship between the main concepts of a study. It is arranged in a logical structure to aid provide a picture or visual display of how ideas in a study relate to one another (Saunders, Thornhill & Lewis, 2014). The researcher conceptualized in the study relationship between MFI services and growth of MSE. In the framework, the growth of MSE was the dependent variable and it was indicated by sale turn over, number of employees, capital investment and profitability while the independent variables were; entrepreneurial capital service, entrepreneurial savings services, capacity building service and networking forum as illustrated in Figure 2.1.

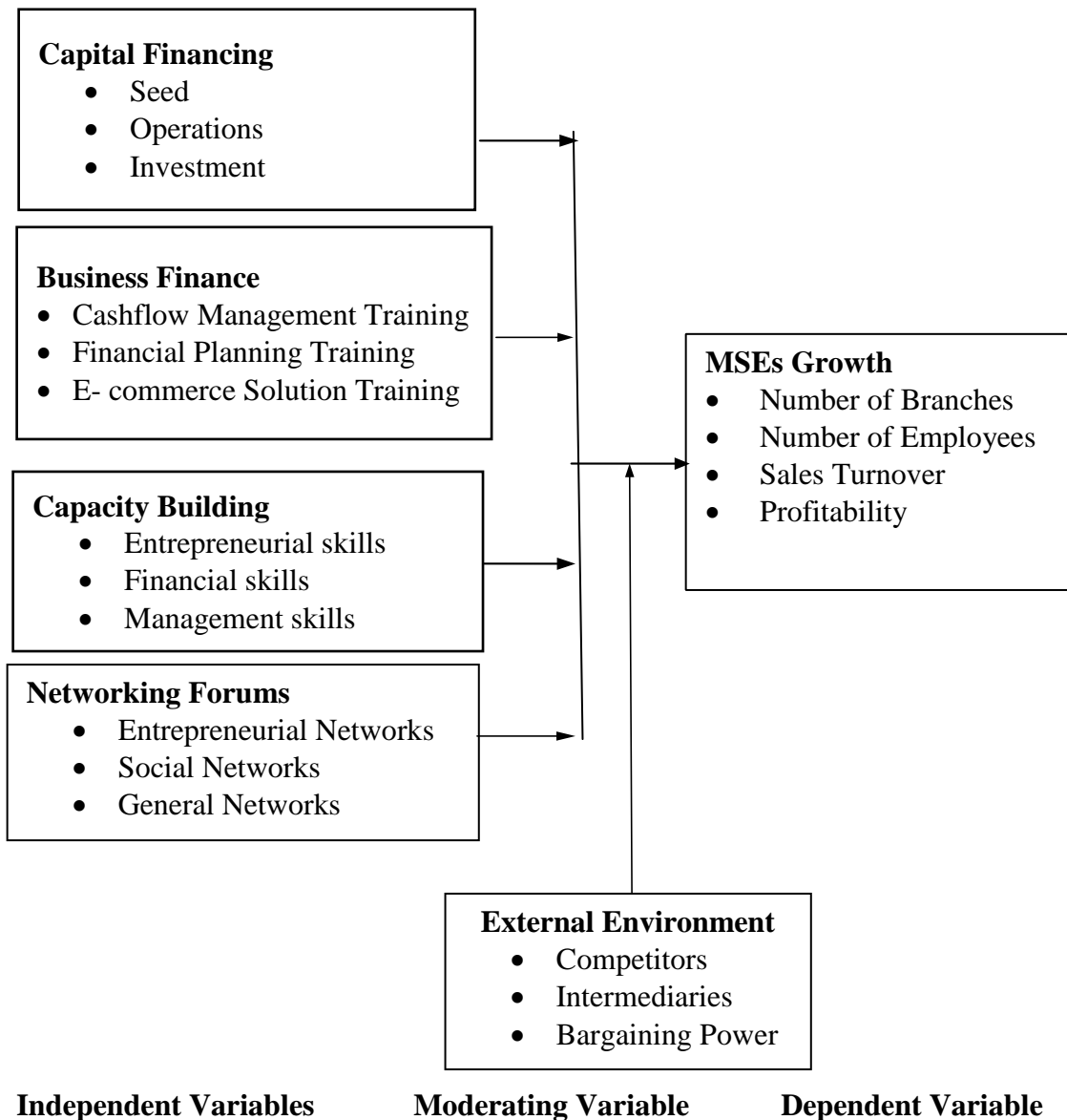


Figure 2.1: Conceptual Framework

2.3.1 Capital Financing

Koech (2011) conducted a study to find out the financial constraints that hinder growth of SMEs in Kenya. The researcher adapted the case study approach and targeted SMEs in Kamukunji District. The study used structured questionnaires as the main tool for data collection. Data was analyzed by exploratory factor analysis and descriptive analysis with the help of SPSS to obtain percentages and frequency distribution tables. The factors hindering growth of SMEs were identified as capital access, cost, capital market collateral requirements information access, capital management and cost of

registration. The study recommended that business financiers through loans consider reducing collateral requirements to facilitate SMEs easy access to loans.

Memba *et al.* (2012) conducted a study to establish the impact of venture capital on growth of SMEs in Kenya. The study used 200 SMEs that have been financed by Venture capital as the target population. The SMEs were drawn from various major urban centers in Kenya. The SMEs were stratified according to their locality and a random sampling was carried out by assigning numbers to each stratum. A sample of 100 firms was picked at random from which data was collected using a semi-structured questionnaire as the main tool for data collection. Data was analyzed using descriptive statistics with the help of SPSS computer software. The variables used to measure growth were sales per annum, net assets, profit per annum, and number of workers among others. They were analyzed before and after use of venture capital. The study established that SMEs made significant growth after accessing the financing and recommended that other SMEs should follow suit if the country has to achieve its vision 2030. It was argued that lack of finance has been stated as one of the main reasons for SMEs poor performance in most developing countries.

2.3.2 Business Finance

In supporting financially, *Jalila*, Yasir Hayat and Abu Hassan (2014) argued that; small-scale financial services primarily credit and savings are provided to people who operate small and micro enterprises where goods are produced, recycled, repaired, or sold and who provide services to other individuals and groups at the local levels both rural and urban. These financial services are charged interest; which is defined as a fee charged by a lender to a borrower for the use of borrowed money, usually expressed as an annual percentage of the principal; the rate is dependent upon the time value of money, the credit risk of the borrower, and the inflation rate

Majority of the financial framework of SMEs came from the Micro Financial Institutions (MFIs); the interest rate they set on the SMEs that are lower or higher than the prevailing market rates is an issue. What are the requirements do one need to have access to such facility? These are some of the few questions that come to mind when the issue of financial institutions and interest rates arise. This issue put SMEs in a

dilemma whether to depend on their own savings, family savings, friends' assistance, government and donor support or financial institutions to finance their operations (Bawuah, 2014).

Despite these observations on MSEs to ensure they increase their access to loan services, while considering the charged interest rates, as learnt by Harve (2010), Wang (2010), and Ping (2013) to mention but few, the link on loan interest rates to SMEs performance and growth is not described as the available literature did not support this reality.

2.3.3 Capacity Building

Kenya ranks lower than some of the countries with whom she competes for business (Ferrell & Fraedrich, 2015). In that case, Kenyan firms are not as competitive as some firms from comparable countries. In order to safeguard interest of Kenyan firms, these identified bottlenecks will need to be addressed. Employees are more willing to discuss ethics issues and to support the quality initiatives of their company if the organization communicates a commitment to ethical conduct. Indeed, those who work in an ethical organizational climate are likely to believe that they must treat all their business partners' respectfully, regardless of whether they operate inside or outside the organization. It becomes essential for them to provide the best possible value to all customers and stakeholders. A study by Rahman Mokhtar Yassin and Hamzah (2011) identified the development of generic skills in Malaysia. From the 145 pieces of data collected, the results showed that the respondents' generic skills are moderately high and the researchers suggested that the entrepreneurs should further acquire generic skills because these skills help individuals to perform effectively in their workplace and later contribute to the firm.

Capacity enhancement can be implemented by adopting a variety of strategies; including the provision of technical assistance and training, fostering of field-to-field support networks, enhancement of strategic partnerships, development of innovative programming approaches and methodologies, documentation and dissemination of best practices (Memba *et al.*, 2012). Areas of technical concentration will include best practices, maximizing the effectiveness of behavior change programming through the

development and dissemination of centered approach guidelines and tools; improving capacity to implement high impact programs like adoption of quality. Emphasizes McCarthy *et al.* (2011) that managerial ability is a main enabler of change, therefore the new human resource management needs to strengthen leadership and managerial abilities among managers to ensure delivery of better entrepreneurial management. This indicated that effective leadership is a key component of good public administration. It is an important variable that leads to improvement management capacity and performance in organizations. They argued that in age of globalization, decentralization, and knowledge-based economies, governments have to reshape public service leadership to face with challenges.

Agbim (2013) identified the planning and budgeting skills; detecting changes; maintaining good customer relations and ensuring correct financial records as the managerial skills related to SMEs. Seven specific managerial skills may be drawn from these four management functions; establishing goal, allocating resources, managing conflict, communication skill, measuring performance, acting and self-control. Shehu *et al.* (2013) examined the relationship of owner/manager knowledge, competitive intensity, complexity of marketing, technical competence, firm size with the mediation of advisory services on the performance, using structured questionnaire on 198 manufacturing SMEs operating in Kano State. The regression result indicated significant relationship between owner/manager knowledge and performance. This study established relationship between owner/manager knowledge and SMEs performance but did not pay attention to the skill or performance level. Agbim and Oriarewo, (2012) argue that proactive strategy promotes the adoption of a more advanced entrepreneurial stance. Knowledge, which can be considered the most important strategic resource, is among the resources generated by entrepreneurial learning capability. The ability (entrepreneurial learning) to share this knowledge is the most important factor in achieving and sustaining entrepreneurial success.

Entrepreneurial learning capability does not only lead to the development of management skills but also to entrepreneurial success in terms of improved efficiency, cost reductions, higher productivity and it also triggers personal entrepreneurial skills. Enterprises with higher learning capability are more sensitive to changes and

tendencies in the market. They are usually more flexible and answer more quickly than their competitors to such changes because entrepreneurial learning provides for the creation of new useful Knowledge for making decisions in the enterprise, allowing for more complete adaptation to the environment and increased efficiency capabilities growth of SMEs in Kenya (Wanjau, 2010) established that adoption of quality influences the growth of SMEs. In his study, (Mungah, 2010) Determinants of growth of manufacturing SMEs in Kenya established that interest rate, fuel cost, business skills and political instability were major factors found to influence SMEs growth into large business enterprises. Hence, this study aimed to focus on the specific conceptual skills of managers as a need to business growth.

2.3.4 Networking Forums

The social network is defined as the interrelationship between the entrepreneurs (ego) and their contacts (alter/s) for business purposes. The terms social network and informal network discussed in entrepreneurship researches are often used interchangeably. This concept of network and its focus lies on the person who has the relationship with ego and thus, social network research utilizes the relationship either directly or indirectly between the ego and their alter(s). Alters comprise family members, friends, relatives and business contacts. With the vulnerability of the business environment today, the social network is considered as a weapon to secure important resources for MSE firms (Confindustria, 2016).

Networks are strategic for development and expansion of new ideas and innovations. Innovations are the key for creation of competitive advantage. Networks provide access to resources, knowledge and skills required for the development and exploitation of new business opportunities. Business innovation and competitive advantages do not arise in isolation from other companies (Freytag & Young, 2014; LaPlaca, 2014), the success of the relationship, but also the result of a relationship fundamentally depend on how well the two parties exploit resources owned by other companies. The benefit of business network is that any positive effect (e.g. innovation and improvement) may be distributed among all participants, in direct and in indirect relationships. The truth is that strong players in the network are those who have made

investments in the past and have the ability to mobilize their own resources and the resources of others. Those players have the final word on the network. SMEs are an important group in the market. The business network approach allows to: (a) Exploit the potential of the network to solve problems of strategic customers, (b) establish long-term relationships with them, and (c) gain a competitive advantage. MSEs cannot use business network approach for all of their customers due to prohibitive coordination costs. Therefore, it is important to choose appropriate customers.

However, these studies are mostly focusing on clusters in developed countries, and studies on the impacts of networks on growth in clusters in rural areas of less developed countries, particularly those in Sub-Saharan Africa, are scarce. Industrial clusters in Sub-Saharan Africa are quite different from those in developed countries, as they are mostly stagnant (Mano *et al.*, 2012; Yoshino, 2011) and can be classified as static or survival clusters. Therefore, results from developed countries cannot be applied to the survival clusters in rural Africa. Although empirical studies have been done on business networking in developed countries (Thrikawala, 2011), little attention has been given to developing countries. Despite the academic interest in business networking and its impact on SMEs' competitiveness, inadequate theoretical and empirical studies exist in Africa; particularly in Kenya. SMEs rely on their networks to support and enhance their business efforts to be competitive (De Klerk & Saayman, 2012). A well networked business enjoys higher growth rates and competitiveness (Hakimpoor *et al.*, 2011). SMEs with more open networks and diverse connections have greater opportunities to develop successful businesses than an individual with many connections within a single or closed network (Harris *et al.*, 2012).

Since it is time consuming and difficult for MSES to develop all the resources necessary to successfully commercialize a business idea alone, they normally rely on external contacts for accessing scarce and specialized resources that the firm needs in order to become established and to grow (Gaidici, 2013). The effects of social networking are widely studied and understood to positively affect entrepreneurial opportunities (Stam, 2010; Gaidici, 2013). The importance of social networking in the survival and success of small and medium enterprises cannot be over emphasized and this has been an area that has received very little research attention. Social networking

enables entrepreneurs to assemble diverse resources and information. These social networking include the personal network which the entrepreneur has with certain individuals, and the cultural dimension with an overall inclusion of the family and community. Nevertheless, there is still rarity in studies at the present times dealing with the impacts of social networking usage in the success of a business in Kenyan context. Therefore, research concerning the benefits from social networking, as well as the employment of an entrepreneurial orientation, are widely studied, few studies have integrated these theoretical concepts is considered among the most important justifications of the current study and how they relate to growth.

2.3.5 External Environment

The World Bank researchers argued that constrains that are facing the growth of MSEs are complex tax systems (Ishengoma & Kappel, 2011). Also, another shortcoming in South Eastern Europe is low level of trust in the court system to enforce claims, and the need to pay significant bribes for access to basic public services. For MSEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Martins and Rialp (2013) suggested that external environment due to its acknowledged importance is a critical moderating variable in the EO-performance correlation. Additionally, within the premises of contingency theory external environment (EE) is considered as a key moderating variable for any successful strategy implementation. Based on this study, Rocha (2012) indicated that a simplified business environment, supported by fiscal and budgetary policies could support the development of MSEs. Ghani *et al.* (2010) studied the critical internal and external factors of business environment in Malaysia and found that external factors which become opportunities for companies are supported and encouraged by the government, and the threats are represented by bureaucratic procedures that companies must face to obtain various approvals and certifications.

Chadamoyo and Dumbu (2012) investigated the influence of business environment and competitive strategy on SMEs in Mucheke light industry. The research results revealed that the innovation strategy, cost and competitive advantage are the key competitive strategies of SMEs, business environment being a tough one in terms of

legal factors, social, political and economic. Another conclusion is that SMEs should seek strategic alliances to cover many markets, to properly manage Key Performance Indicators (KPI), and the government to relax regulations on SMEs sector. New governments usually formulate new policies that affect businesses including SMEs for example, the Jubilee government has come with new policies of lending women and youth SMEs money at Zero interest rates (Jubilee manifesto, 2012). This is yet to be implemented but at least the lending rates would be good and encouraging to the borrowers. These policies are likely to attract the formation of new SMEs which would increase competition in the sector. The competitive environment would make the SMEs to work harder in innovating new products to gain competitive advantage. The political stability is also important to SMEs because it ensures a good business environment. The political conflict of 2007/2008 will live as a testimony of the effects of political instability on businesses both large and small.

2.3.6 Growth of Micro and Small Enterprises

The enterprise growth is used to describe a development process of enterprise from small to big and from weak to strong (Calice, 2012). The meanings of development exceed the meanings of growth, and it includes not only the growth process of things, but the generation stage growing out of noting before growth and the periodic process of the stage. More so, Enterprise growth is concerned with how the enterprise plans are executing the fundamental changes whether the enterprises are small or large and private or public. These changes may involve new or changed relationships to markets/customers or constituencies or different/new product and service offerings, and competitive pressures to reduce prices, increase quality, and improve services (Stephanou & Rodriguez, 2010). In general, MSEs are an integral element of the informal sector in most developing countries. In the majority of cases, these enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies, (Cook & Nixon, 2011). Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by, (Liedholm & Mead, 1994; Prasad, 2005).

During the last 50 years, considerable insight into the characteristics of MSEs has been gained. Early literature, particularly Staley & Morse (1965), enhanced the conceptualization of the main characteristics of MSEs and the pattern of growth of these enterprises. However, Anderson (1982) notes that there was lack of basic data on the management and characteristics of MSEs. Industrial censuses tended to concentrate on large enterprises; censuses of MSEs were often nonexistent or quite infrequent and published after a long delay. The lack of data hampered any attempts to undertake serious empirical work on measuring the characteristics of MSEs and explaining the behavior of these enterprises, (Cook & Nixson, 2011). However, enterprises with growth plans, apply for loans from banks, for activities that will create and sustain new jobs. This financial assistance supports investment in capital equipment, site and building infrastructure; enterprises to become investment ready to successfully be able to access risk capital funding; workforce development; and working capital. The most common non-financial measures adopted by the SMEs are number of employees (Olson, 2012). There are two views that prevail growth in terms of number of employees. In one, employment often fluctuates from year to year owing. During the 1980s, some efforts were made to collect baseline data on MSEs by, among other tasks, identifying universes, constructing samples and devising methods to deal with incomplete entries. However, due to poor book keeping by MSEs, the data were often incomplete, unreliable and not repeated across samples. Hence, while the baseline data could be used for measuring the characteristics of MSEs, it was not adequate for testing theoretical propositions about the expected behavior of the MSEs. However gradual improvements have been achieved over the years. In the year 1990s, some basic databases were available for empirical studies aimed at identifying the constraints facing the growth and development of MSEs in developing countries, (Levy, 1993). One of the main findings from these studies was that the growth and development of MSEs in developing countries were mainly inhibited by access to finance, poor managerial skills, lack of training opportunities and high cost of inputs (Cook & Nixson, 2011). Importantly, further studies especially those conducted in the late 1990s and thereafter suggest that finance is the most important constraint for the MSE sector.

2.4 Empirical Review

2.4.1 Capital Services

In a study by Beckmann and Stix (2015) about banks and MSEs in emerging market, it was established that there is a lot of uncertainty about the risks involved in lending. The study used a unique unbalanced panel of 700 short-term loans made to MSEs in Slovakia between January 2005 and June 2010. It was found out that of the loans granted, on average 6.0 per cent of the firms defaulted. This affected the relationship between the banks and MSEs hence deflecting the possibilities of accessing finances in future because the terms would change and become more stringent against the borrowers for fear of more defaults.

Another study by Mahmood *et al.* (2010) on the challenges facing MSEs in South Africa found that MSEs in that country faces similar problems as in other African countries with respect to poor management practices, limited access to technology, and limited access to credit facilities education, unemployment, ICT infrastructure and role of the MSE sector leading to slow pace of internet services. According to this study, the main challenge facing MSEs is how to move them to go beyond these first few basic steps, and to eventually move towards integrating ICTs in more sophisticated business applications. This would be a major step for MSEs, especially in developing countries, because these would require management and technical skills and investments (as well as organizational changes) that they may not be able to afford or for which they may not have ready access to.

Fiberesima and Rani (2012) studied the impact of strategic management on business success in 40 SMEs of Port Harcourt, Rivers State. The study analyzed collected through questionnaire method with descriptive statistics and reported that majority of the SMEs were either disorganized in their practice of strategic management or made no attempt and that strategic management was found to be positively related SMEs performance. Kinyua (2014) agree with Beckmann and Stix (2015) that a good relationship between MSEs and MFIs helps them to easily access finances and information. They add on that capacity building of staff for preparedness is perhaps the most important task. MFIs are unique in their way of operation as the staff has

rapport with even the most remote clients. Their argument was that in the event of an emergency, MFI personals are often the first to reach affected communities.

2.4.2 Business Finance

A study by Mwanja, (2011) on the effect of *Biashara Boresha* Loan (BBL) on the performance of micro and small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch customers sought to review the lending procedures of biashara boresha loan, to assess the effect of BBL on MSEs performance and to find out the challenges faced in lending to SMEs. It found out that besides BBL, there are other factors believed to have an effect on business performance. 53% of BBL customers interviewed felt the process was cumbersome. Some felt that after availing all the required documentation, the turnaround time was not acceptable. 52% of the entrepreneurs utilized the loan advanced 100% for working capital and their revenue increased from previous thus boosting the business performance. 11.9% diverted the amounts advanced and they confessed as having difficulties in meeting their repayments on time. They also saw their sales turnover decrease from the previous due to the increase in operating costs brought about by the interest rates on the loans advanced. Mwanja concluded that infant businesses need support in their early years when their motivation is high and innovation is low and that collateral requirements at KCB Ruiru should be made a bit flexible and repayment period should be increased to at least a year because SMEs only manage to access a small amount of loan due to short repayment periods.

Eshetu and Zeleke (2012) conducted a longitudinal study to assess the impact of influential factors that affect the long-term survival and viability of small enterprises by using a random sample of 500 MMSEs from 5 major cities in Ethiopia. According to this research, that lasted from 2006-2011, the factors that affect the long-term survival of MMSEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, level of technical skills, and ability to convert part of their profit to investment. The findings of the study revealed that businesses that failed, during the study period were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and

inability to convert part of their profit to investment (46%). The study further indicated that participation in social capital and networking schemes such as *Iqub* was critically helpful for long-term survival of the enterprises. Businesses that did not participate in *Iqub* schemes regularly were found to be 3.25 times more likely to fail in comparison with businesses that did, according to the study.

Kuzilwa (2012) examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasiinformal financial institutions can continue to be easily accessed by micro and small businesses.

2.4.3 Capacity Building

A past review by Ogundele *et al.* (2012) revealed that, the skill required by an entrepreneur can be classified into three main areas namely, technical skills, business management and personal entrepreneurial skills. The authors went further to state that technical skills involve such things as writing, listening, oral presentation, organizing, coaching, being a team player and technical know-how. Business management skills include those areas involved in starting, developing and managing an enterprise. In addition, they asserted that personal entrepreneurial skills differentiate an entrepreneur from a manager. Skills included in this classification are inner control (discipline), risk-taking, being innovative, being change oriented, being persistent, and being a visionary leader among others

Another research by Rosnani *et al.* (2011) found that the level of entrepreneurial skills of the entrepreneurs in Malaysia is still moderate and needs more entrepreneurship development training programs in areas, such as creativity enhancement and innovation, the skill to make business accounts, creating promotions and advertising skills, skill to set the right price and selling skills. These researchers also agreed that training and entrepreneurial education contributes to increase of knowledge, skill and

experience required to make businesses more robust and competitive. The government and its agencies are responsible for providing appropriate entrepreneurial training to fulfill entrepreneurs' needs.

Bowen *et al.* (2009) in a study done in Nairobi, Kenya, found that 49.5% of those who had received training in the area of business reported that their businesses were doing well. The study results also showed that 60.8% of those not trained reported that their businesses were doing poorly as compared to 39.2% whose entities were doing well without training. This study was based on 198 respondents comprising of business owners and managers. Another study by Tubey (2012), that sought to establish the types of interventions offered by four agencies namely, the Catholic Church, ACK, K-Rep and World Vision in Eldoret municipality revealed that only 5% of the respondents who received training actually indicated that they had benefitted significantly with about 40% saying they needed training in bookkeeping. The above study was based on a sample of 195 entrepreneurs.

According to Oforegbunam *et al.* (2010) the performance level of most SMEs in Nigeria has been most unsatisfactory, as the problems of delay and high cost in service delivery have become a norm rather than exception. The possible reason for this may include, that majority of employees may not have received adequate training and exposure to perform the functions they are assigned to. However, in order to realize the objective of profit maximization by SMEs, the personnel involved in their operations must be adequately trained to enable them be alert in their responsibilities, more importantly given the over-bearing effects of competition from the very large firms and from SMEs operating in Asia, made possible by globalization.

2.4.4 Networking Forums

Confindustria (2016), by applying a propensity score matching to control for observable characteristics influencing networking decisions, argued that firms entering formal network agreements are more productive (in terms of Value added per worker) as well as more oriented to foreign markets. Notice, however, that these existing studies for Italy rely on cross-sectional data and have been unable to employ methods

(e.g., instrumental variable or fixed-effect estimation) to control for self-selection into networking due to unobservable characteristics.

Also, on network forums, organizations today are faced with massive globalization, demanding customers with rapidly changing desires, shrinking response time, shrinking product lifecycles and demanding employees. Lack of resources limits the possibilities for SMEs to invest in new equipment and, hence, they often depend on the different actors in the network which have the right resources (Kowalkowski *et al.*, 2013). The key to success is the ability to coordinate the work with limited resources (Kowalkowski *et al.*, 2013). From the environment outside the company, different resources can be obtained. Environment is constantly changing, and adapting the company to these changes is necessary. The limited resources of SMEs need to be complemented by external resources (Pressey *et al.*, 2009). Due to networking capabilities of suppliers, SMEs get access to valuable resources. The above past studies have shown that despite the large number of assistance programs from MFIs, the growth and development of SME has not been satisfactory. Ventures have collapsed as soon as assisting organizations pull out of the project and remaining ones have remained small, Memba *et al.* (2012). This this from reviewed studies has established that researcher felt that there need for a study on this area and thus this study intended to bridge this gap and focus on the effects of microfinance services on the growth of SMEs in Kenya.

2.4.5 Microfinance Entrepreneurial Services, External Environment and Micro and Small Enterprises Growth

Okwu *et al.* (2013) in their study (Business Environment, Job Creation and Employment Capacities of Small and Medium Enterprises in Lagos State, Nigeria: A Descriptive Analysis) emphasize that the business environment in which SMEs operate has a particular, special relevance for their abilities to create jobs and provide employment opportunities. This study used a descriptive approach to examine the ability to create jobs in the SMEs sector in the economy of Lagos, Nigeria. The analysis was based on ten elements characteristic of business environment and two indicators of SMEs relevance. The research showed that the small business sector is dominant.

Barth *et al.* (2013) in a cross-country survey examined the relationship between specific regulatory and supervisory practices with banking-sector's development, efficiency and fragility using a new data base regulations and supervision in 107 countries including Kenya. Their findings raised a cautionary flag regarding Basel II pillars 1 and 2, as they found no statistically significant relationship between capital stringency, official supervisory power and bank performance. They argued that countries reduced the likelihood of corruption in lending by adjusting bank regulation to facilitate private monitoring of banks.

2.4.6 Micro and Small Enterprises Growth

Business growth is typically defined and measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. Therefore, sales growth need not correspond to or underpin other dimensions of growth in which policy makers might also be interested; for instance, sales can increase while employment and/ or profits fall. This is partly related to contextual or structural issues such as sector or age of business but also to the strategic choices made by principal decision makers in the firm. In practice, sales growth is also easier compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and therefore growth. Sales may also be considered a precise indicator of how a firm is competing relative to that market. Business owners themselves often treat sales as key motivator and indicator of performance rather than, for example, job creation (Koech 2011).

A number of factors affect the growth of African MSEs, including the business environment and the quality of the labour force. However, a crucial element in the development of the MSE segment is access to finance, particularly to bank financing, given the relative importance of the banking sector across the continent. African MSEs are more financially constrained than in any other developing region (Stephanou & Rodriguez, 2010). Only 20 percent of MSEs in SubSaharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. The study found that the MSE is a strategic

priority for the banks in the region. MSEs are considered a profitable business prospect and provide an important opportunity for cross-selling (Calice, 2012).

A study conducted by Kinyua (2014) in Nakuru Town sought to investigate factors affecting the performance of small and medium enterprises in the *Jua Kali* Sector in Nakuru town. It sought to investigate the role of finance, management skills, macro-environment factors and infrastructure on performance of small and medium-sized enterprises in the *Jua Kali* sector in Nakuru town. The findings show that; that access to finance had the potential to positively affect performance of SMEs; management skills were found to positively and significantly affect performance of

SMEs; macro environment factors were found to significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. The study recommended that banks should improve access to finance through offering better lending terms and conditions and collateral requirements; focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills and effectively strengthen the macro environment in order to increase SMEs performance.

2.5 Critique of Literature Reviewed

A review of empirical studies conducted in the past on MFIs entrepreneurial services, Entrepreneurial Capital services, Entrepreneurial savings services, Capacity building services, Entrepreneurial Networking services and growth of MSEs has been conducted in the present study. Analysis of what other researchers have done in the area of MFIs entrepreneurial services and the MSEs' growth has revealed weaknesses and gaps in the existing literature which should be outlined to assist present and future research in the area of study.

Firstly, most of the literature reviewed herein are foreign and may not accurately depict the local context on b entrepreneurial services, Entrepreneurial Capital services, Entrepreneurial savings services, Capacity building services, Entrepreneurial Networking services and growth (La Torre *et al.*, 2010; Rocha *et al.*, 2011). For example, out of the over 70 sources of information which have been dully

acknowledged in this section, only about 10 are from studies conducted regionally or locally (Ndung'u, 2010; Mwanja, 2011; Kinyua, 2014).

Nilsson, (2010) concluded that microfinance is an important asset to developing countries since it is able to cater for the financial needs of the very poor. Memba *et al.* (2012) established that SMEs made significant growth after accessing financing from MFIs. According to Cooper (2012) Microfinance services have a strong positive impact on the growth of SMEs in Kenya. Koech (2011) identified the factors hindering growth of SMEs as capital access. This study intended to fill this gap and investigate on the effects of microfinance services on the growth of SMEs in Kenya. This informational asymmetry may result in the validation or otherwise of data that may be in variance with the actual situation in the less studied areas. Most of the literature reviewed herein arises from studies conducted in the USA and other western countries creating a gap that needs to be filled.

2.6 Research Gaps

From the previous researches, it is seen that most of the studies conducted in the MSE sector have focused more on factors influencing the growth and development of micro and small enterprises in Nairobi and other big towns. Also, researches have been conducted concerning the entrepreneur's characteristics and growth of MSEs. Whereas this is important, an understanding is required on the MFIs services that influence that growth of the MSEs. This is because the future sustainability of MSEs is largely the result of these entrepreneurial services.

First, this research provides empirical evidence for microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. To date, the literature lacks with regard to studies that investigate five dimensions simultaneously, (Mwanja, 2011; Kinyua 2014; Ndung'u, 2010). Moreover, Nilsson, (2010) concluded that microfinance is an important asset to developing countries since it is able to cater for the financial needs of the very poor. Memba *et al.* (2012) established that SMEs made significant growth after accessing financing from MFIs. According to Cooper (2012) Microfinance services have a strong positive impact on the growth of SMEs in Kenya.

Second, the studies presented offer empirical evidence for microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. A number of scholars have already shown that entrepreneurial capacity influence performance (Calice, 2012; Stephanou & Rodriguez, 2010; Olson 2012; Mahmood *et al.*, 2010; Mwania, 2011; Eshetu & Zeleke, 2012; Kuzilwa, 2012; Ogundele *et al.*, 2012; Rosnani *et al.*, 2011; Tubey 2012; Kinyua, 2014, Okwu *et al.*, 2013; Barth *et al.*, 2013, Kinyua, 2014). This study added to the arguments of these researchers as it considered the effect of microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. Moreover, the study examined moderating influence of external on the effect of entrepreneurial services on MSEs growth in Kenya.

Thirdly, the study results provided evidence that microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. The past research has failed to relate how MFIs services and growth for example (Ishengoma & Kappel, 2011; Martins & Rialp, 2013; Chadamoyo & Dumbu, 2012). This study adds to the arguments of these researchers as it considers microfinance entrepreneurial services and growth of micro and small enterprises in Kenya. Fourth, this study was unique in that researcher wanted to find out if the external environment moderates the growth of MSEs and there was positive significance influence. Past researchers have not shown this but they have looked at social media and performance alone (Ishengoma & Kappel, 2011; Martins & Rialp, 2013; Chadamoyo & Dumbu, 2012). This study has shown that this variable moderate's MFIS growth.

2.7 Summary of the Literature

In recognition of the critical role MSEs play in wealth and employment creation, innovation, social and political stability, and regional integration, the Government of Kenya through various legislations and policy statements has in the past highlighted a framework of action to support MSEs access to public procurement market in the country. The services provided by MFIs have been attributed to the improvements of SMEs in regards to profit margins, employment ability, sales revenue, expansion, capital and assets, and improvement on the life of the communities around them. Most Kenyan-based research reveal that similar challenges affect the local SMEs who are

laden with inadequate business management skills and funds, and therefore, the survival of their businesses are at risk.

This includes the enactment of Micro and Small Enterprises Act, 2012 and The Public Procurement and Disposal Act, 2005, and the development of Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. The government has also created the MSE Authority to advance the interest of MSE sector in the country. Despite all the initiatives the growth of the MSEs is still very low and sometimes most of them fail.

Jalilian and Kirkpatrick (2010), argues that there is substantial theoretical literature on financial sector depth which use measures of financial depth collected from financial institutions themselves, such as the total value of bank deposits, or private credit, but do not capture the distribution of these bank deposits or credit across the population. Also, reviewed were various theories that explain the independent and dependent variables. These theories have been used to lay the ground for better understanding of the problem under investigation and have been aligned to independent, dependent and intervening variables. Although factors that influence MSEs growth have called for the attention of some researchers both internationally little is still known about the determinants influencing growth of MSEs in Kenyan enterprises especially entrepreneurial services rendered by the MFIs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter addressed the methodology that was used in undertaking the study. This includes the research design that was adopted; according to Sekaran (2010), a central part of research is to develop an efficient research strategy. Based on the model and variables developed in chapter two, this chapter covers the research design and research methodology used to test the variables. In this section research methodology adapted in the study is discussed. The section has been broken down into research philosophy, design, study population, sampling technique and sample size, data collection instruments and techniques, piloting of research instrument and data processing and analysis. Alternative research philosophies, design and sampling techniques will be discussed and justification for choice from mutually exclusive one will be supported.

3.2 Research Design

Kothari (2008) defines research design as the arrangement of strategies for the collection and analysis of data according to defensible procedures. Research design represents the arrangement of conditions for collection and analysis of data with the aim of combining relevance to the research purpose with economy to the procedure so that the questions regarding decisions on what, where, when, how much and by what means concerning the research study constitute a research design (Orodho, 2008). This study used a cross-sectional survey design. Through cross sectional design relationship between study variables was formulated and tested. According to Kothari (2009) through research design all steps from conceptualization, data collection and analysis with the sole purpose of testing hypothesis can be clearly described. Furthermore, Cooper and Schindler (2011) argued that research design acts as yardstick for optimal allocation of research resources.

3.3 Research Philosophy

Kathuku (2017) argues that research methodology and philosophy must be stated in order to convince others of the credibility of the research. Based on the above concept and nature of different research philosophies, this study adopted the positivism approach which advocates for application of the methods of the natural sciences to the study on social reality and more. According to Bryman (2012) research philosophy is defined as belief on procedures to be adhered to during data collection. Further, Saunders, Lewis and Thornhill (2009) purported that research philosophy provides nature for knowledge synthesis and development.

There are different types of research philosophy which are mainly classified into ontology and epistemology: Ontology is based on the nature of reality. It is classified on the basis of objectivism and subjectivism. The first aspect of ontology, objectivism portrays the position that social objects persist in reality external to social actors. Secondly, subjectivism is concerned on the social phenomena which are emerged from the perceptions and consequences of those social actors concerned with their existence (Saunders *et al.*, 2014). Epistemology is understood about the acceptable knowledge of a particular area of study. It can be divided into two aspects; resources researcher and feeling researcher. The ‘resource researcher’ deals with the data from the perspective of natural scientist. On the other hand, the ‘feeling researcher’ is concerned about the feelings and attitudes of the workers towards their managers. So, the ‘resource researcher’ is involves developing positivist philosophy whereas the ‘feeling researcher’ is focus on interpretivist philosophy. Epistemology is therefore classified as Positivism, Realism and Interpretivism in the domain of research philosophy (Sekaran & Bougie, 2013).

The philosophical approach of natural scientist is observed in positivism as the work of natural scientist is based on observable social entity. Research strategy is approached on the basis of data collection and hypothesis development. These hypotheses will be tested and confirmed which can be used for further research. Another feature of this philosophy is that the positivist researcher follows highly structured methodology in order to facilitate the hypothesis. Furthermore, positivism

works on quantifiable observations and accordingly statistical analysis is obtained (Sekaran & Bougie, 2013).

Realism is another philosophical branch of epistemology which relates to scientific enquiry. The core feature of realism is pertained to disclose the truth of reality and the existence of the objects are prevalent independently in the human mind. Realism is classified as direct realism and critical realism. Direct realism explains what is experienced by our senses and that are attained by the researcher. On the other hand, the critical realism expresses that what is experienced by our sensations those are images of the real world, not the reality. The difference between the two is that the first is related to the capacity of research what is studied and the critical realist recognizes the importance of multi-level study in the context of the individual, the group and the organization (Saunders *et al.*, 2014).

Interpretivism is a branch epistemology which is focused to the assessment the differences between humans as social actors. The issue of difference is emphasized on the difference between conducting research among people rather than objects such as medicines and computer.

In this philosophy, interpretation of social roles has been presented with respect of own set of meaning. In addition, we interpret the social roles of others in accordance with our own set of meanings (Saunders *et al.*, 2014).

Axiology is a branch of philosophy which is concerned about judgments, aesthetics, and ethics. The process of social enquiry is involved in this approach. Researchers' axiological skill is executed in order to make judgments about the research content and its conduct. For example, Researchers' philosophical approach is reflected on his or her values as well as in their research work, especially in the area of data collection or data analysis procedures. However, this method creates impact in social sciences research (Sekaran & Bougie, 2013).

Positivism was adopted in the current study, the justification for its choice was its ability to test developed hypothesis through empirical and theoretical examination (Koul, 2008). Extant empirical studies such as Bran and Woller (2010), explain on

examination of the effects of microfinance on performance of SMEs in India. Raheman *et al.* (2010) investigated the effect of working capital management on profitability of manufacturing companies in Pakistan. Similarly, Stephen and Elvis (2010) examined the effect working capital management on profitability amongst SMEs from Kenya. In all these studies the dominance research philosophy was positivism.

3.4 Study Population

The Microfinance sector has witnessed significant growth since 2009 when the first MFB was licensed. The number of licensed MFBs has grown to 13 with a total of 114 branches as at December 2017. Eleven (11) of this MFIs being nationwide (Faulu Kenya MFB, Kenya Women MFB, SMEP MFB, REMU MFB, Rafiki MFB, Century MFB, SUMAC MFB, Caritas MFB, Maisha MFB, Uwezo MFB and U&I MFB) and two (2) being community-based MFBs (Daraja MFB and Choice MFB). The number of marketing offices has grown to 106 as at December 2017.

However, a considerable drop in performance was observed in the year 2017 with the total assets decreasing by 4.6 percent from KSh. 72 Billion in December 2016 to KSh. 69 Billion in December 2017. The level of profits has also declined in the last three years from KSh. 549 Million for the period ended December 2015 to a loss of KSh. 377 Million and KSh. 731 Million for the period ended December 2016 and 2017 respectively. The continued drop in profits is largely attributed to reduction of financial income.

3.5 Target Population

Population of the study constitutes of a total collection of individuals, elements from whom a sample can be drawn (Zikmund, Babin, Carr & Griffin, 2012). Further, Kombo and Trump (2009) argued that target population constitutes a pool of respondents from whom sample for examination can be drawn. In this study the target population constituted of 519385 entrepreneurs who have benefited from five microfinance entrepreneurial services as shown in Table 3.1. The selected five deposit taking micro finance institutions were: Faulu Kenya DTM limited, Kenya Women Finance Trust DTM limited, SMEP deposit taking microfinance limited, Remu DTM

limited and Rafiki deposit taking microfinance limited. These DTMs were selected since they have wide branch networks hence, they can be easily accessible by many entrepreneur's country wide.

Table 3.1: Target Population

Population Category	Target Population
Manufacturing	13232
Service	177421
Trade	194783
Others	133949
Total	519385

(Source: MSEA, 2018)

Key: Other services; chemists, jewellery shops, grocery stores

3.6 Sample Size and Sampling Technique

Sample size is a subset and representation of the population that is selected for research, and it consists of selected members from the population (Bryman, 2007). Sampling is described as the process by which a relatively small number of individuals or a measure of individuals, objects or events is chosen and analyzed with an aim of finding out something about the population from which it was chosen. Sampling procedures also provide generalizations on the basis of relatively small preparations of the population.

Cornell (1960) further argues that sampling is a technical and statistical problem of importance in questionnaire investigations and in many other descriptive survey studies. There are several challenges associated with empirical studies, key amongst budgetary allocation and time. To alleviate these challenges, it is always appropriate to select a subset of the study population to execute the study. Consequently, Cooper and Schindler (2011) supported use of sample which is a true representative of the target population. Thus, in this study sample size was estimated using (Yamane, 1967). This approach has been adopted by past studies such as (Mwania, 2011; Fiberesina & Rani, 2012; Rosnani *et al.*, 2011; Kuzilwa, 2012).

$$n = \frac{N}{1 + N(e^2)}$$

Where: n = required sample size

N = Target population

e = margin of error at 5% (standard value of 0.05)

Therefore, the sample size was,

$$n = \frac{519385}{1 + 519385 (0.05^2)} = 400$$

Sample size distribution is as shown in Table 3.2.

Table 3.2: Sample Size

Population Category	Percentage	Sample size
Manufacturing	3	10
Service	34	137
Trade	38	150
Others	26	103
Total	100	400

(Source: MSEA, 2018)

3.7 Data Collection and Instrument

Data refers to all the information the researcher gathers for his or her study (Mugenda & Mugenda 2013). The current study adopted primary, qualitative and quantitative data. In this study primary data was collected through use of structured questionnaires with open and closed ended questions. Kothari (2009) asserted that data collection is amplified through development of a research instrument. Moreover, Orodho (2008) purported that data collection method is dependent on time, budgetary allocation as well availability of other resources for executing the research. According to Copper and Schindler (2011) social science researches are mostly dominated by use of

questionnaires courtesy of short and precise questions. Semi structured questionnaires were the most dominant research tool used in the study. The tool adopted questions from past studies such as (Noordin, Othoman & Zakaria, 2013; Oforegbunam *et al.*, 2010; Koech, 2011, Memba *et al.*, 2012).

To ease data collection, the researcher sought introduction from school of post graduate studies of Jomo Kenyatta University of Agriculture and Technology. The letter was presented to human resources departments of microfinance departments which had been coordinating entrepreneurial training and through them entrepreneurs who were beneficiaries of the program were identified. Data collection commenced with collection of data during entrepreneurs training. In some instances, drop and pick method of data collection was adopted.

3.8 Pilot Study

Research instruments piloting is meant to authenticate quality of research instrument as per study research questions and objectives (Kothari, 2009). The main aim of pilot studies was to assess the feasibility so as to avoid potentially disastrous consequences of embarking on a large study which could potentially drown the whole research effort. In his studies Ngugi. (2013), points out at issues argued by Cooper and Schindler (2008) which explains that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. In fact, through piloting a study can examine respondents understanding of research instrument (Bryman, 2012). Piloting approach ought to mimic the actual approach to be adopted by the actual study. Bryman (2012) argued that piloting ought to be at least 10% of sample size, consequently 40 entrepreneurs were respondents during piloting. These respondents were excluded from the final study.

3.8.1 Reliability of Data Collection Instrument

Mugenda and Mugenda (2013), posit that reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials, (Orodho, 2008). A research instrument

is deemed reliable if it can consistently yield similar findings upon being administered to different groups (Abbot & McKinney, 2013). Reliability of research instrument can be evaluated through test retest, split half amongst others.

Research instrument internal consistency was tested using Cronbach Alpha. This coefficient ranges from 0 to 1, the higher the reliability coefficient the better the research instruments. According to Bryman (2012) reliability coefficient greater than 0.7 shows that research instruments have higher levels of internal consistency. Past studies had adopted a threshold of 0.7 (Nilsson, 2010; Memba *et al.*, 2012). This study adopted threshold of 0.7 Cronbach alpha coefficient while evaluating reliability of research instrument.

3.8.2 Validity of Data Collection Instrument

Mugenda & Mugenda (2003), define validity as the degree to which results obtained from analysis of the data actually represent the phenomenon under study. Orodho (2008) defines validity as the degree to which empirical measure or several measures of the concept, accurately measure the concept. Validity also refers to the degree to which an instrument measures what it purports to measure, (Mugenda, 2008; Bryman, 2012). Validity therefore, therefore is concerned with the meaningfulness of research components. Research instruments is deemed to be reliable whenever it measures it was intended to (Bryman, 2012).

On the other hand, Kothari (2011) asserted that the ability of observable differences in the said research instrument is true reflection of the actual variations. Validity of research instrument can be broadly classified into content, convergent, construct, predictive and concurrent (Drost, 2011). Construct validity of research instruments was achieved through segmentation of research instruments as per research objectives. Content validity was achieved through adoption of research instruments which had been applied by past empirical scholars (Bryman, 2012). Similar approach was deployed by (Mutuku, 2010; Mbugua, 2010) on their investigation on the effect of microfinance institutions on performance of SMEs in Kenya.

3.9 Data Analysis and Presentation

Data analysis is the process of editing and reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper, 2008). According to Mugenda (2008) data analysis is the process of cleaning and summarizing data so that it becomes information that can be easily interpreted and conclusions made to support decision making. Data analysis is the logical exploration of data with the sole purpose of understanding dominant patterns and summarizing as per study objectives and hypothesis (Zikmund *et al.*, 2012).

According to Kothari (2009) data processing is a hierarchical process commencing with collection, editing, classification and tabulation with the sole purpose of easing its analysis. The main data collected in this study was quantitative in nature and it was analyzed with assistance of Statistical Packages for Social Scientists (SPSS) version 23. Upon data collection, questionnaires were sorted out to check for completeness and accuracy on responses. Completed questionnaires were coded and information captured in SPSS version 23. According to Bryman (2012) through coding responses are assigned quantifiable numbers for ease of quantitative analysis. This was in tandem with Kothari (2009) who supported the need to classify voluminous data for ease of data analysis.

Data was analyzed using descriptive statistics such as frequency, percentage, mean and standard deviation and presented in graphs and tables. Moreover, inferential statistics which included correlation and regression analysis were adopted. Further, exploratory factor analysis was adopted to examine factor loadings amongst study variables. Exploratory factor analysis (EFA) was too used to consolidate several variables which were subjected to subsequent analysis. For the purpose of this study quantitative data was collected using questionnaires. The questionnaire collected data on the four independent variables, the moderating variable and the dependent variable, which were operationalized for the study. It was formulated into Likert response items that were evaluated on a five-point ordinal scale ranging from the lowest score “1” representing strongly disagree (SD) to the highest score “5” representing strongly agree (SA). For analysis of Likert responses, the study used a 5-point equidistance scale (Carifio &

Perla, 2007) that provided the ranges between the points as follows: Strongly disagree ($1 < SD < 1.8$); Disagree ($1.8 < D < 2.6$); Neutral ($2.6 < N < 3.4$); Agree ($3.4 < A < 4.2$) and Strongly Agree ($4.2 < SA < 5.0$).

On the premise on this calibration, this study judged an individual Likert item mean of above 3.2 to indicate that the respondents gave average (reported as neutral in the Likert option) as the level of the sought item. Every variable under investigation was investigated using Likert items that were aggregated into a composite Likert scale, which produced a quantitative measure of the variable in an interval scale. This procedure was developed by Likert (Allen & Seaman, 2007) who recommended the use such aggregated score for advanced data analysis procedures. In this study, the aggregated Likert items describing the variable contributed a maximum composite score and measured the level of the variable in interval scale.

To carry out data analysis, several steps were involved. In the first step, preliminary computations of the mean and standard deviation for all every questionnaire item, and the mean of means, mean standard deviation, for the aggregate scores for each study variable was carried out. This produced the preliminary image of the data. In the second step, the study investigated the relationship between each independent variable and dependent variable through cross tabulation. The study further converted the continuous data into categorical format. The format took the form of low, moderate, high for independent variable and good performance and poor performance for the dependent variable.

The study employed an inductive approach for the purposes of qualitative data analysis. This means that where the actual data collected was used to form the structure of analysis without following a pre-determined framework. Data was processed manually using a thematic content analysis method that followed a focus by question approach. The approach analyzed the SPMCs responses to individual items in the interview guide and identified themes, their consistencies and differences. The responses were then to be summarized and parallels drawn. The analysis allowed themes and categories to explicit themselves from the data, and was regularly adjusted as new categories evolved. The interviews were transcribed from tape to paper, the

written transcript was reviewed for completeness. As this was done, the study took care was taken to retain the verbatim responses so as to ensure that the translations to be as close and give the best reflection of the original discussions.

The study further made notes for each of the transcribed data in the script margins of words and short phrases that summed up what had been recorded in the text. This enabled the preparation of the preliminary open coding framework. In an effort to remove duplications and overlapping, the responses was put down into a new set of pages and subsequently summarized into categories. The categories were at this stage collapsed into several categories. These categories were used to divide all the discussions' responses. To sum up the qualitative data analysis, the responses were discussed with experts in the field for the purposes of verification, validation elimination of possible researcher biases. This enabled the interpretation of the verbatim responses under every theme corresponding to a specific objective. On this premise, all the qualitative study findings were interpreted for every study objective.

3.9.1 Measurement of Variables

Measurement is an assignment of weights to research items or objects to depict the extent of their possession in regard to item of interest (Panneerselvam, 2006). Scaling is an approach in which numbering is assigned to research concepts and attitudes (Kothari, 2011). Research questionnaires adopted nominal and ordinal scales. The formal was categorical or dichotomous and the later was limited to 5- point Likert scale. The strength of the Likert scale was based on its ability to give respondents a wide selection of options from which to draw options from (Sekaran & Bougie, 2010). The research questionnaire seven sections which included; respondents' bio data, entrepreneurial capital services, entrepreneurial business finance services, entrepreneurial capacity building services, entrepreneurial networking forums, external environment and MSEs growth. Respondents of bio data information was collected using nominal scale and all other sections had either nominal scale or Likert scale or both. Combination of these two scales had been adopted by past empirical studies such as (Koech, 2011).

3.9.2 Linear Regression Analysis

To achieve conceptualized effect of micro finance entrepreneurial services on MSEs growth in Kenya, multiple regression analysis was adopted; this was in concurrence with Kothari (2011) who argued that regression analysis can be adopted to show causal relationship between study variables. Stepwise multiple regression analysis was carried out to moderating effect of external environment on the effect of micro finance entrepreneurial services on MSEs growth in Kenya (Hair, Black, Babin & Anderson, 2010). The independent variable, whose F statistic is the largest or whose p-value is the smallest was taken first through the simple regression model as it contributes the most in explaining the dependent variable (Keller, 2009).

3.9.3 Hypothesis Testing

Hypotheses H₁, H₂, H₃ and H₄ were tested by employing the t-test under multiple linear regression set up. To assess the effect of entrepreneurial capital services on growth of Micro and Small Enterprises in Kenya

$$Y_1 = \alpha + \beta_1 X_1 + \square$$

Where Y₁ = MSEs Growth (dependent variable)

X₁ = the first independent variable (Entrepreneurial capital service)

β₁ = the coefficient of the first independent variable.

ε₁ = error term.

To examine the effect of entrepreneurial business finance services on growth of Micro and Small Enterprises in Kenya

$$Y_2 = \alpha + \beta_2 X_2 + \square$$

Where Y₁ = MSEs Growth (dependent variable)

X_2 = the second independent variable (Entrepreneurial savings services)

β_2 = the coefficient of the second independent variable.

ε_2 = error term

To establish whether entrepreneurial capacity building service influence growth of Micro and Small Enterprises in Kenya

$$Y_3 = \alpha + \beta_3 X_3 + \square$$

Where Y_1 = MSEs Growth (dependent variable)

X_3 = the third independent variable (Entrepreneurial capacity building service)

β_1 = the coefficient of the first independent variable. ε_3 = error term.

To determine the effect of entrepreneurial networking forum on growth of Micro and Small Enterprises in Kenya

$$Y_4 = \alpha + \beta_4 X_4 + \square$$

Where Y_1 = MSEs Growth (dependent variable)

X_2 = the fourth independent variable (Entrepreneurial networking forum)

β_2 = the coefficient of the second independent variable.

ε_2 = error term

To investigate the moderating effect of external environment on the growth of Micro and Small Enterprises in Kenya, a moderating model was used. A moderator denoted as Z , was meant to strengthen or weaken the effect of entrepreneurial orientation on MSEs growth in Kenya.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Z + \beta_6 X_1 * Z + \beta_7 X_2 * Z + \beta_8 X_3 * Z + \beta_9 X_4 * Z + \varepsilon$$

Where: -

Y = MSEs Growth

α = Constant

X₁ = Entrepreneurial Working capital service

X₂ = Entrepreneurial savings services

X₃ = Entrepreneurial capacity building service

X₄ = Entrepreneurial networking forum

X₅ = External Environment

ε = error

3.9.4 Diagnostic Tests

Normality which is important for determining the shape of the distribution and prediction of the dependent variable was tested using one sample Kolmogorov-Smirnov (K-S) test (Anderson, 2003) to show the nature of statistical population relative to the frequency distribution (Bryman, 2012). Multicollinearity which occurs when the independent variables are highly correlated was tested using Variance Inflation Factor (Anderson, 2003). Presence of Multicollinearity causes the estimated regression coefficient to fluctuate widely from sample to sample making it risky to interpret the coefficient as an indicator that is of relative importance to predictor variables (Cooper & Schindler, 2011). Multicollinearity results in the sample coefficient being far from the actual population parameter such that when the coefficients are tested, the t-statistics was small leading to a conclusion that there is no

relationship between the affected independent variables and the dependent variables. This can be mitigated through model respecification or dropping one of the highly correlated independent variables.

Heteroscedasticity which refers to a situation where the variance of the dependent variable varies across the data causing the previous error terms to influence other error terms which violates the statistical assumptions that the error terms had constant variance. Breusch Pagan test was adopted for heteroskedasticity test, its null hypothesis stated that there was uniform variance against non-uniform variance of error term. Presence of heteroskedasticity was to be corrected through use of robust standard errors or fitting generalized least squares model. Serial correlation is a situation in which error terms related with historical error terms. It was tested through use of Lagrangian multiplier (LM) test. Its null hypothesis was that there was no serial correlation against an alternative that there is presence of serial correlation. If p value exceeded 5 percent level of significance, then generalized least squares model ought to have been fitted.

3.10 Ethical Consideration

According to Chris (2010), ethics are the vital and controlled inspection of behaviour particularly in relation to the constraints present in the quest for self- interest and potential for adverse impact on other parties. Before administering of the questionnaire, the researcher obtained permission to conduct the study. Respondents' willingness to take part in the study was sought beforehand and that no photographs, audio or visual recordings was taken without permission of the respondents. The researcher upheld the respondents' confidentiality and privacy. Respondents were required to participate voluntarily by signing a consent note and the researcher ensured that respondents were not victimized or coerced in any way for refusal to participate.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The chapter presents the empirical findings and results of the application of the variables using the techniques mentioned in chapter three. The purpose of this study was to establish the influence of Microfinance Entrepreneurial Services and Growth of Micro and Small Enterprises in Kenya. The study was guided by; capital services, savings services, capacity building, networking and finally the moderating effect of external environment on the growth of Micro and Small Enterprises in Kenya. Data analysis was analyzed for each of the specific objective where cross-sectional survey research design was used. This chapter presents the research findings and results of the study. Data analysis was conducted for each of the specific objective where cross-sectional survey research design was used.

4.2 Response Rate

Out of 400 issued questionnaires, 322 were completely filled and returned and they constituted approximately 80%. This response rate was acceptable as asserted by (Sekaran & Bougie, 2013; Fosnact, 2013). It was incongruence with Jalila *et al.* (2014) who reported response rate greater than 80%. The response rate was in anchored on clarity and design of research questionnaire. There was adequate piloting which eroded shortcoming associated with questionnaires. All target respondents were previously notified which aided in proper planning and timing for filling of questionnaires. Participatory approach was adopted in all phases of questionnaire development and the study. Questionnaires were clear, concise and focused on research objectives as they were void of ambiguous questions and had appealing look and layout.

Table 4.1: Response Rate

Questionnaire	Frequency
Returned	322
Non-returned	78
Total	400

4.3 Pilot Test Results

Piloting of research instrument was executed with the sole purpose of examining the ability of the said tool to achieve study specific objectives with ease. According to Kothari (2011) piloting of research instruments enhances ability of auditing research to achieve specific study objectives. Piloting respondents comprised of a pool entrepreneurship expert, statisticians and entrepreneurs. Recommendations from the pool of they were incorporated in final research tool adopted for the study.

4.3.1 Reliability Analysis

Reliability of a measure indicates the extent to which it is without bias (error free) and hence ensures consistent measurement across time and across the various items in the instruments. It is therefore, an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure. Cronbach's alpha which is a reliability coefficient was used to indicate how well the items in the set are correlated to each other. Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is the Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. The Cronbach's alpha was computed in terms of the average inter-correlations among the items measuring the concepts. The rule of the thumb for Cronbach's alpha is that the closer the alpha is to 1 the higher the reliability, (Sekaran, 2008). A value of at least 0.7 is recommended.

In this study, Cronbach's alpha which is a reliability coefficient was used to indicate how well the items in the set are correlated to each other. Cronbach Alpha was used to test reliability of the research instrument, study findings shown in Table 4.2 revealed that the research instrument was reliable since all Cronbach Alpha coefficients exceeded 0.7 and ranged between 0.8 and 0.9. This was in congruence with Sekaran and Bougie (2013) who posited that a research instrument is reliable if its coefficients are greater than 0.7.

Table 4.2: Reliability Analysis

Variable	Number of items	Cronbach's Alpha	Comments
Capital Services	7	0.853	Accepted
Business Finance Services	8	0.774	Accepted
Capacity Building Services	17	0.890	Accepted
Networking Forums	15	0.819	Accepted
External Environment	7	0.836	Accepted

4.3.2 Validity Analysis

Validity of the research instrument was tested using KMO and Bartlett's test in addition to expatriate opinion. Bartlett's evaluates the strength of interrelationship between study attributes adopted in the questionnaire while KMO evaluates appropriateness of adopting factor analysis to analyse the data. Results shown in Table 4.3 revealed that KMO coefficient was 0.772, with p value <0.05. Since, the coefficient was greater than 0.5, then selected attributes jointly explained the study variable. This was corroborated by Bartlett's test of sphericity which had p value <0.05 and it showed some relationship existed amongst study variables. KMO coefficients for entrepreneurial capital services was 0.872, entrepreneurial business finance services were 0.702, entrepreneurial capacity building services was 0.793, entrepreneurial networking forums was 0.756, since all of them were greater than 0.5 it was concluded that selected attributes jointly explained entrepreneurial services provided to small and micro enterprises in Kenya.

Table 4.3: Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test of Sphericity Variables

Variables	Test	Statistics
Overall Sample	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.772
Sphericity	Bartlett's Test of Sphericity	Approx. ChiSquare df Sig.
		12854.93 1830 0.000
Entrepreneurial Capital Measure of	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.872
	Bartlett's Test of Sphericity	Approx. ChiSquare df Sig.
		2254.32 830 0.000
Entrepreneurial Capacity Building	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.702
	Bartlett's Test of Sphericity	Approx. ChiSquare df Sig.
		1146.25 730 0.000
Entrepreneurial Networking Forums	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.793
	Bartlett's Test of Sphericity	Approx. ChiSquare df Sig.
		1146.25 890 0.000
External Environment	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.756
	Bartlett's Test of Sphericity	Approx. ChiSquare df Sig.
		1046.55 690 0.000

4.4 Background Information

The survey sought to establish the respondent's background information the data was analyzed and results presented under this section of the study. Study findings were presented using figures and tables. This information was crucial since it may influence entrepreneurial aspects. Indeed, some attributes such as gender are crucial in credit evaluation and they ultimately determine ability to borrow. Highest level of education attained by respondents has influence on ability to conceptualize and implement entrepreneurial knowledge impacted on respondents by microfinance institutions.

4.4.1 Age of Respondents

Age of all respondents in the study was sought; it is an important evaluation technique on credit access. According to Rotich (2016) youths are more disadvantaged in credit access since they mostly lack enough collateral security. Pictorial presentation in Figure 4.1 revealed that 55.6% of micro and small enterprises owners were aged less than 35 years and 44.4% were aged above 35 years. This shows that most MSEs were owned by youths. These results contrasted Antony *et al.* (2013) who reported that most of MSEs who had access to credit capital aged between 35 to 50 years. In contrast, there was support by Sabopetji and Belete (2009) who reported that credit access had inverse relationship with age due to challenges associated with sustainability of small enterprises upon exit of founder members.

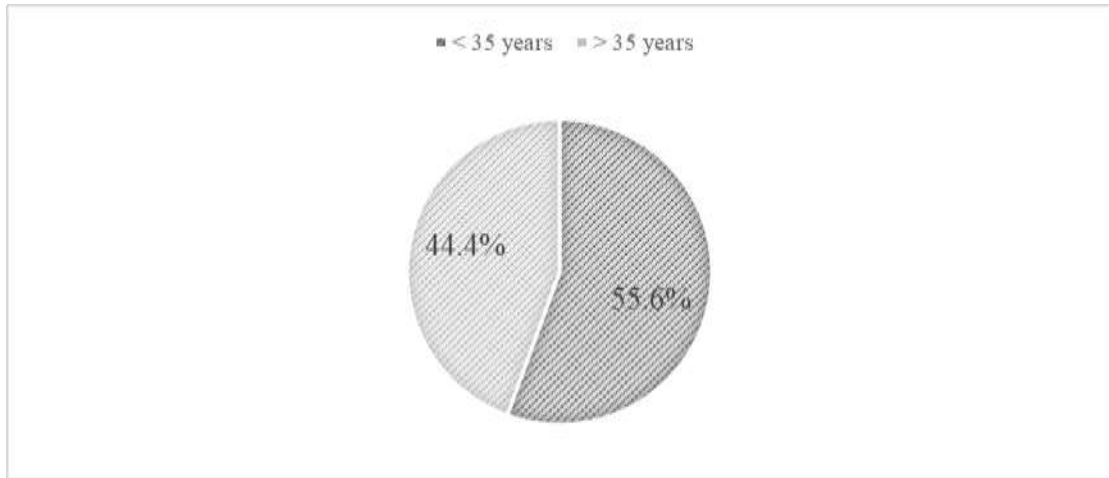


Figure 4.1: Age of Respondents

4.4.2 Gender of Respondents

Secondly, respondents' gender was sought. Gender classification is a paramount aspect in entrepreneurship studies since MSEs survival are pegged on gender with male dominated enterprises having high chances of survival. Results shown in Figure 4.2 revealed that 59.9% of the respondents were male and 40.1% were female. This shows dominance of male in establishments of MSEs in Kenya. Male dominance has been consistently reported by empirical scholars such as Rotich (2016) who found 58% of enterprises which had sought relationship banking services were male owned. This was attributed to entrepreneurial environment favouring male who have high chances of inheriting parent real and financial assets which can be used as collateral security for loan access. This has not only been an African trend but also global pattern as reported by Saporito *et al.* (2012) who found that 54% of male owned enterprises had sought relationship banking in the process of business execution.

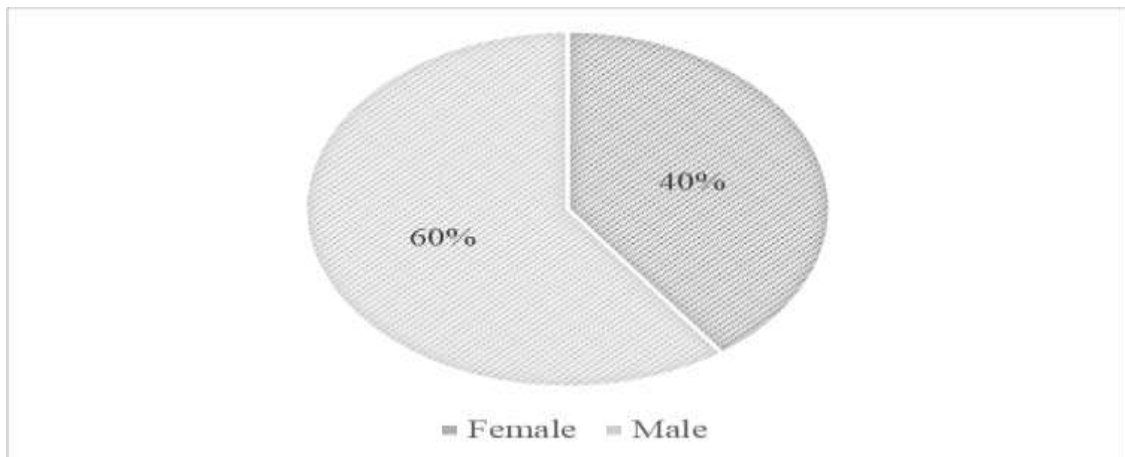


Figure 4.2: Gender of Respondents

4.4.3 Marital Status of Respondents

Thirdly, marital status was sought; this is a paramount entrepreneurial characteristic more so in Africa whereby married women were required to seek their husband's authorization prior to opening bank account. Results shown in Figure 4.3 revealed that majority 68.6% of respondents were single, followed by 27.6% who were married and 3.7% who were widowed. These findings are consistent with those of Koech (2011) and Memba *et al.* (2012) who reported that most MSEs were by single people. Single entrepreneurs have higher growth intentions than married or widowed entrepreneurs by Davis *et al.* (2012).

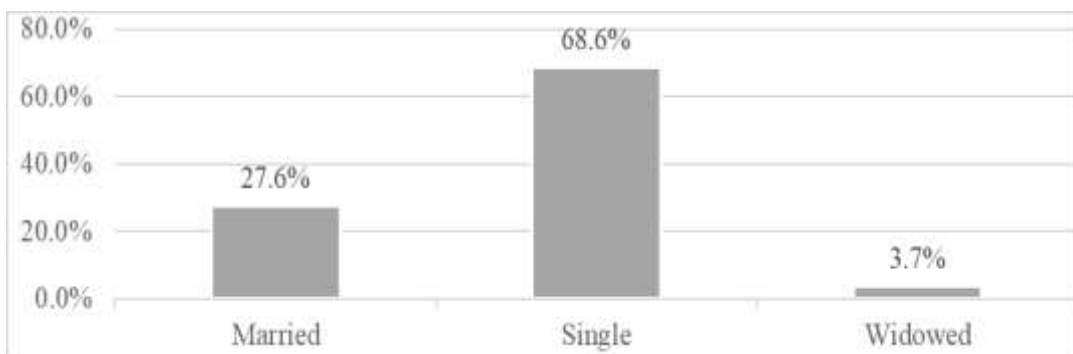


Figure 4.3: Marital Status of Respondents

4.4.4 Highest Education Level Achieved by Respondents

Highest level of education attained by the respondents was sought. Formal education training can equip entrepreneurs with requisite skills for managing their enterprises. Results shown in Figure 4.4 revealed that 37% had attained primary school qualification, followed by 24% with secondary qualification, 21% were university graduates and 14% were college graduates. These findings were in congruence with Bartosi, Rahman, Horak and Jacova (2015) who argued that there is need for SMEs to seek help from professional management with the sole purpose of evaluating their chances of success as well as market penetration strategies which will ultimately provide desired knowledge documentation. Formal education accumulation is anticipated to aid in record keeping which will ultimately improve knowledge management as well as aid in creditworthiness evaluation courtesy of improved book keeping. Further, education need amongst SMEs was supported by Kagahanga (2013) who argued that those entrepreneurs who had acquired formal education they had tendencies to growth their enterprises courtesy of formal managerial approach on their business operations. Locally, Kenya Institute of Management (2013) reported that young entrepreneurs with university qualifications had successful enterprises courtesy of ability to manage knowledge and incorporation of robust managerial skills which are robust to business needs. This is amplified by their learning capabilities. This was refuted by Wube (2010) who argued continued concentration on theoretical skills acquisition amongst SMEs hampers SMEs performance due to divided attention.

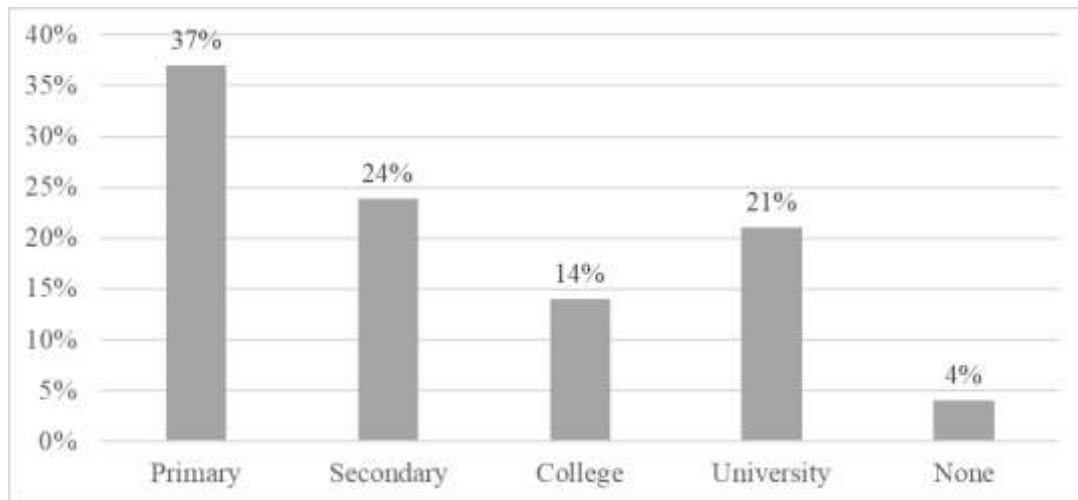


Figure 4.4: Highest Education Level Achieved by Respondents

4.5 Exploratory Factor Analysis

There are heterogeneous attributes which are used to operationalize a single variable. To evaluate individual attribute contribution exploratory factor analysis is carried out to show their corresponding factor loadings. Sriram (2012) assented that factors analysis is a statistical procedure for executing classification of variables through reduction from a large set to small number as per factor loading values. According to Sekaran and Bougie (2013) factor analysis have the capacity of consolidating related variables as per hypothesized concept. Moreover, EFA can be adopted as threshold for selecting variables for subsequent analysis. According to Kothari (2014) factor loadings are evaluated through the following scales with those scoring less than 0.32 being excluded from subsequent analysis, those ranging from 0.33 to 0.45 are fair, good variables have loading of 0.46 to 0.55, very good have loading of 0.56 to 0.63 and those above 0.7 have excellent loadings. In this study those variables whose factor loadings were less 0.7 were excluded from subsequent analysis.

4.5.1 Capital Services

As shown in Table 4.4 the highest factor loading was 0.8 for security requirement and unfriendly credit policy. This was followed by 0.7 for stringent loan conditions, corruption in credit evaluation procedure and high interest rate respectively. This shows all the attributes for reasons hindering capital access were excellent measures

of the variable under investigation. These findings are consistent with Koech (2011) and Memba et al., (2012) who reporting factor loadings with modal value of 0.7.

Table 4.4: Exploratory Factor Analysis for Reasons Hindering Access of Capital in Financial Institutions among Micro and Small Enterprises in Kenya

	Factor Loading
Conditions are too stringent	0.7
Require security	0.8
Corruption in giving out funds	0.7
Process too technical	0.7
Policies are too unfriendly	0.8
The interest is too high	0.7
The payment period is too short	0.8

4.5.2 Business Finance Services

As shown in Table 4.5 all attributes for entrepreneurial business finance services were retained since they were excellent measures mainly because their factor loadings were 0.7 and above. Attributes on how to save for growth, saving for expenses, ensuring that you always save and how to increase credit worthiness all had factor loading of 0.8 respectively. On the other hand, factor loading of 0.7 was reported on how to manage savings, how to keep business books, entrepreneur management skills and marketing strategies. These results mirrored Bawuah (2014) and Ping (2013) who reported factor loadings greater than 0.7 on attributes on entrepreneurial business finance services.

Table 4.5: Exploratory Factor Analysis on Entrepreneurial Business Finance Services among Micro and Small Enterprises in Kenya

	Factor Loadings
How to save for growth	0.8
How to save for expenses	0.8
How to manage savings	0.7
How to ensure that you save always	0.8
How to keep business books	0.7
Management skills	0.7
Marketing strategies	0.7
How to increase credit worthiness	0.8

4.5.3 Capacity Building Services

As shown in Table 4.6 all attributes for entrepreneurial capacity building services were retained for subsequent analysis since they had excellent factor loadings of 0.7 and above. The highest recorded factor loading was 0.9 for the argument that skills on financial records management had effect on growth of MSEs. This was followed by several attributes which had factor loadings of 0.8 for example planning and budgeting skills, ability to act quickly to respond to changes in business environment, skills for healthy customer relationship management and marketing strategy adopted by an institution. The least recorded factor loadings were 0.7 for attributes such as skills for sales assessment within MSEs, management expertise and skills for attracting and retaining customers within an entity amongst others. These findings are incongruence with Rahman et al., (2011) and Agbim (2013) who reported factor loadings which were greater than 0.7 hence they were retained for subsequent analysis.

Table 4.6: Exploratory Factor Analysis on Entrepreneurial Capacity Building Services among Micro and Small Enterprises in Kenya

	Factor loading
Planning and budgeting skills affects growth	0.8
Skills to act quickly on detecting changes in the environment	0.8
Skills to maintain good customer relations affects growth	0.8
Skills to detect changes in the environment affects my MSE growth	0.8
to ensure that financial records are maintained affects my MSE growth	0.9
Skills to assess sales problems affects my MSE growth	0.7
Skills to obtain market share that suits the size and capability of the business	0.7
Skills to secure capital.	0.8
Management expertise skills	0.7
Skills to attract and keep competent employees affects my MSE growth	0.7
Good cost control skills affect my MSE growth	0.7
Skills to arrange organizational structure with clear lines of authority affects my MSE growth	0.8
Skills to focus on quality and design of the products affects my MSE growth	0.7
Skills in working together with other businesses in the same industry affects my MSE growth	0.8
Skills to provide attractive range of products affects my MSE growth	0.8
Skills to delegate responsibility to employees when necessary affects my MSE growth	0.7
Marketing strategy skills affects my MSE growth	0.8

4.5.4 Networking Services

As shown in Table 4.7 all attributes of entrepreneurial networking services had factor loadings greater than or equal to 0.7, then they were excellent measures. Consequently, they were all retained for subsequent analysis. The highest factor loading was 0.8 for attributes such as inability to negotiate for contracts and having fewer contracts as well as lower bargaining power, social networks aided MSEs with start-up capital and networking increases marketing for MSEs. These findings are in consistent with recommendations by Sekaran and Bougie (2013) who advocated for retention of attributes with factor loadings greater than 0.7. Moreover, they concurred with LaPlaca (2014), Freytag and Young (2014) who reported factor loadings greater than 0.7.

Table 4.7: Exploratory Factor Analysis for Entrepreneurial Networking Influence on Performance amongst Micro and Small Enterprises in Kenya

	Loadings
SMEs have fewer business contacts, less knowledge of how to deal with the governmental bureaucracy and less bargaining power	0.8
Social networks help SMES to access more information on ways to enhance their business	0.7
The social networks assist SMES with startup capital	0.8
Lack of networks also deprives SMES of awareness and exposure to good role models	0.8
SMEs businesses are not well represented in industry, trade or business associations	0.7
Networks increase the marketing for SMEs	0.8
Network helps business utilize external markets and gain recognition from government	0.7

4.5.5 Networking Forums

Further, results in Table 4.8 revealed that entrepreneurial networking had influence on customers (0.7), competitors (0.7), distributors and retailers (0.7), business networks and clusters (0.7), public funders (0.7) and relative and friends (0.7). From the findings it can be inferred that all relationship created through networks were excellent measures. These findings were in tandem with Thrikawala (2011) and Harris *et al.* (2012) who found attributes with factor loadings greater than 0.7.

Table 4.8: Exploratory Factor Analysis for Entrepreneurial Networking Influence of Relationship amongst Micro and Small Enterprises in Kenya

	Factor Loadings
Customers	0.7
Competitor	0.7
Distributors and retailers	0.7
Suppliers	0.8
Business networks and clusters	0.7
Public research institutions	0.8
Public funders	0.7
Relatives and close friends	0.7

4.5.6 External Environmental Influence on Growth of Micro and Small Enterprises

Exploratory factor analyses on attributes of external environment that influence on growth of MSEs in Kenya are shown in Table 4.9. The study findings revealed that all attributes were excellent measures since they had coefficients greater than 0.7. The highest was 0.8 for decreased number of transactions and customers, reduction in prices of goods and services, increased quality of production cost and creation of market uncertainties. These findings concurred with Martins and Rialp (2011) and Rocha (2012) who found external environmental attributes to have factor loadings exceeding 0.7.

Table 4.9: Exploratory Factor Analysis on External Environmental Influence of Growth of Micro and Small Enterprises in Kenya

	Factor Loadings
Decreases the number of transactions	0.8
Decreases the number of customers won	0.8
Lead to failure to deliver of goods and services	0.7
Reduces the prices of goods and services	0.8
Increases the quality and cost of production	0.8
Creates uncertainties in the market	0.8
Increases taxes and tariffs	0.7

4.6 Descriptive Analysis of Study Variables

The overall objective of the study was to assess the effect of microfinance entrepreneurial services on the growth of micro and small enterprises in Kenya. The following section presents descriptive analysis which includes frequency, percentage, mean and standard deviation. Through descriptive analysis, it was easy to describe entrepreneurial services accorded to MSEs in Kenya and their respective effect on their growth and development. Results are presented as per study specific objectives.

4.6.1 Capital Services

The study commenced by establishing the effect of entrepreneurial capital services on growth of small and medium enterprises in Kenya. There is need for provision of requisite human capital skills which are geared towards optimization of corporate resources. Optimal allocation of resources would aid in business capacity development which would help in response to sporadic business environment and minimize market cannibalization and resources spillage. First the study examined the effect of cost of capital on growth of micro and small enterprises in Kenya.

4.6.2 Cost of Capital

Results shown in Table 4.10 revealed that 82% reported that costs of capital increased number of transactions applied, 69% reported an increase in number of customers won and 74% reported successful delivery of goods and services. From the findings it can be inferred that costs of capital amongst MSEs in Kenya is dependent on number of transactions, successful customers own and successful delivery of goods and services. These findings are consistent with Fatoki and Asah (2011) who found positive and significant relationship between commercial banks credit access and collateral security amongst SMEs. According to Calcagnini *et al.* (2009) availability of collateral securities amongst SMEs in countries dominated them have significant influence on their credit access.

Table 4.10: Effect of Cost of Capital on Micro and Small Enterprises Growth in Kenya

	Frequency	Percentage (n/322)
Increases number of transactions applied	265	0.82
Increases the number of customers won	222	0.69
Lead to successful delivery of goods and services	238	0.74

4.6.3 Collateral Availability

Further, collateral availability effect on micro and small enterprises growth in Kenya was examined. Results shown in Table 4.11 revealed that 78.2% of increased number of transactions applied, 77.3% of increased number of customers won and 75.1% reported an increased lead to successful delivery of goods and services. From the findings it can be inferred that availability of collateral is dependent on number of transactions, customers won and successful delivery of goods and services.

These results mirrored Antony et al., (2013) who reported positive influence of collateral security on loan access. Further, Odit and Gobardhun (2011) reported that access to debt financing was pegged on availability of collateral security amongst SMEs. Indeed, influenced debt restructuring. Asset tangibility too influenced credit access which was positive and significant and this too hindered access to new debt more so in situations where loan covenants barred borrowers from borrowing in situations where new debts would only be ranked lower.

Table 4.11: Effect of Collateral Availability on Micro and Small Enterprises Growth in Kenya

	Frequency	Percent (n/322)
Increases number of transactions applied	252	78.2%
Increases the number of customers won	249	77.3%
Lead to successful delivery of goods and services	242	75.1%

4.6.4 Access to Capital

Thirdly the study examined the effect of credit access on micro and small enterprises growth in Kenya. Study responses were sought on a five-point Likert Scale ranging from very low to very high. Results shown in Table 4.12 revealed that credit access was highly moderated by cost of accessing credit as accounted by 59% and mean of 3.6. These results mirrored Pandula (2015) who reported commercial banks' lending

to SMEs were constrained by lack of credit evaluation strategies owing to disaggregated credit history.

Secondly, 60.6% reported that amount of interest paid on loan had high effect on capital access. Congruent to above, Akande and Olusola (2012) on their study on the impact of Micro Credit on the performance of women owned micro enterprises in Oyo state. Although, most of the respondents were aware of microfinance banking's services seeking of services from them was hampered due to levels of information asymmetry. In fact, interest rate charged by them was perceived to be high and loan repayment periods were shorter. This ultimately discouraged borrowing amongst SMEs. This was in contrast to Zachary (2013) who reported significant positive influence of interest rate on credit access though it was concluded that economic liberalization was the greatest motivation amongst entrepreneurs.

Thirdly, 56.2% reported that access to capital was highly affected by fluctuating interest rates. These findings corroborated with Udin (2014) who reported that credit evaluating amongst SMEs in Bangladesh is associated with financing policies, credit information access and fees associated with credit access. This was in corroboration with Ayed and Zouari (2014) who argued that during credit evaluation process SMEs are mostly concerned about wealth maximization, loss of control and information costs access. Finally, 61.5% reported access of credit was highly influenced by amount of credit processing fee. On average access to credit amongst micro and small enterprises had high effect on their growth as accounted for by mean of 3.8 and standard deviation of 0.8.

Table 4.12: Effect of Access to Capital on Micro and Small Enterprises Growth in Kenya

	Percentage (n=322)					Mean	Std. Deviation
	VL	L	ML	H	VH		
Cost of accessing credit	2.8	6.2	25.5	59	6.5	3.6	0.8
Amount of interest rate paid on loan	1.6	6.8	18.6	60.6	12.4	3.8	0.8
Fluctuating interest rates	1.6	5	18.3	56.2	18.9	3.9	0.8
Amount of credit processing fee	2.2	8.1	14	61.5	14.3	3.8	0.9
Overall average						3.7	0.8

*VL- Very Low, L-Low, ML-Moderately Low, H-High, VH-Very High

4.6.5 Capital Services Access from Banks and Government

Results in Table 4.13 shows the effect of entrepreneurial capital services access from banks and government on micro and small enterprises growth in Kenya. Levels of agreement on a five point Likert scale ranging from strongly disagree to strongly agree. Frequency, percentage, mean and standard deviation were used to analyze the data. First, it most 71.7% agreed that conditions on credit access were too stringent. These findings were in tandem with Nikolaos *et al.* (2013) who argued that stringent loan conditions are the back bone to difficulty and limitations of access to long-term debt financing for SMEs. These revelations contrasted with the findings of Quaye and Sarbah (2014) who found that Non-Bank Financial Institutions in Ghana were becoming popular source of credit for MSEs due to lack of strict financial regulations.

Secondly, majority agreed mean = 4.2 that requirement of collateral security inhibits access to credit amongst micro and small enterprises in Kenya. These findings mirrored Koech (2011) who posited that access to credit amongst Kenyan SMEs is dependent on collateral security and level of information asymmetry between deficit savings units and surplus saving units. These was in conformity with Gebru (2009) who concluded that large institutions are more advantaged when seeking for credit from financial institutions since their credit risk are lower. This calls for adoption of alternative strategies for evaluation of credit worthiness amongst SMEs with the sole purpose of breaching information asymmetry gaps.

Thirdly, most 62.1% respondents agreed that capital access was influenced by corruption in giving out funds. Further, 68.6% agreed that credit access was hindered by technical evaluation process. The above revelations are in line with study findings on many authors. For instance, Anan, Cobbinah and Manu (2013) is study in Ghana noted that MFI provide cheap credit without much strict regulation to many un-banked rural small and medium enterprises. A report of FAO (2011) underscored the important role played by MFI in providing reliable credit to business women in rural areas. These observations confirm that MFI will continue to play its rightful role of providing cheap and readily available credit to upcoming MSEs.

Further, majority 61.5% agreed that loan application process was not friendly and 61.2% agreed that charging of high interest rates hindered credit access while 59.6% agreed that the credit period was too short. These findings were in tandem that, credit access amongst is constrained by a myriad of challenges which are meant to evaluate their credit capacity (Benkraiem & Gurau, 2013). The situation is worsened by their ability to access generate revenue, profit, unpredictable credit access and low tangible assets (Benkraiem & Gurau, 2013). Congruent to this, Richard (2010) concluded that the MSEs are not able to get the funds from banks due to the following reasons; the banks conditions being too stringent, security requirements, corruptions, funds accessing process being too technical, unfriendly policies, high interest rates and the funds repayments period is being too short.

Table 4.13: Effect of Entrepreneurial Capital Services Access from Banks and Government on Micro and Small Enterprises Growth in Kenya

	Percentage (n=322)					Mean	Std
	SD	D	NAD	A	SA		
Conditions are too stringent	0.6	3.4	5.9	71.7	18.3	4.0	0.7
Require security	0	5	4.7	59.3	31.1	4.2	0.7
Corruption in giving out funds	1.2	5	5.3	62.1	26.4	4.1	0.8
Process too technical	0	4.7	2.2	68.6	24.5	4.1	0.7
Policies are too unfriendly	2.2	4	3.1	61.5	29.2	4.1	0.8
The interest is too high	0.6	2.2	5.6	61.2	30.4	4.2	0.7
The payment period is too short	0.6	6.2	5.9	59.6	27.6	4.1	0.8
Overall average						4.1	0.7

**SD: Strongly disagree, D: Disagree, NAD: Neither Agree nor Disagree, A: Agree, SA: Strongly Agree*

4.6.6 Business Finance Services

Secondly, the study examined the effect of entrepreneurial business finance services on growth of micro and small enterprises in Kenya. To achieve this five-point Likert scale was adopted ranging from strongly disagree to strongly agree. Results are presented in Table 4.14. Majority 78.3% agreed that through microfinance entrepreneurial savings services they have learnt how to save for growth. Mean scores of 3.7, 4.0, 4.1 and 3.8 respectively revealed that majority agreed that they have been inducted on how to save for expenses, manage their savings, ensured that they save always, how to keep accounting records, how to market and how to increase credit worthiness respectively.

These findings were in congruent with Nahamya *et al.* (2013) in Uganda who underscored the major role micro finance service delivery play on the growth of MSEs. The study found that the types and flexibility of the saving regime determine the success of many micro finances and their contribution to MSEs performance. Further, the findings corroborated with Kisaka and Mwewa (2014) who found that microcredit and micro-savings contribute positively to MSEs' growth and performance. This cemented Ishengoma and Kappel (2011) who purported that flexibility of financial services have optimal effect in promoting SMEs growth.

Further, in support Güngör and Öndeş (2013) indicated that, "lack of financial management knowledge and collection of receivables in working capital management" are among the most common financial problems in SMEs. Training on what the MFI can offer help to disseminate information that attract customers and in so doing increase confidence. Lack of proper training programmes leads to information asymmetry which leads to lack confidence and results in low saving with MFIs. This concurred with in Ghana by Quaye *et al.* (2014) who found that lack of elaborate training of SMEs operators by MFIs on proper business practices has led to low uptake of MFI credit.

Table 4.14: Effect of Entrepreneurial Business Finance Services on Micro and Small Enterprises Growth in Kenya

	Percentage (n=322)					Mean	Std. Deviation
	SD	D	NAD	A	SA		
How to save for growth	2.5	6.5	5.3	78.3	7.5	3.8	0.8
How to save for expenses	1.9	14.6	9.6	62.4	11.5	3.7	0.9
How to manage savings	1.2	4.7	4.3	71.7	18	4	0.7
How to ensure that you save always	0	7.5	3.4	66.1	23	4.1	0.7
How to keep business books	2.2	15.8	3.7	54.3	23.9	3.8	1
Management skills	0.6	17.4	2.8	58.7	20.5	3.8	1
Marketing strategies How to increase credit	1.6	14.6	5	64.3	14.6	3.8	0.9
worthiness	2.8	14.3	5.9	56.8	20.2	3.8	1
Overall average						3.8	0.9

**SD: Strongly disagree, D: Disagree, NAD: Neither Agree nor Disagree, A: Agree, SA: Strongly Agree*

4.6.7 Capacity Building Services

Thirdly, the effect of entrepreneurial capacity building services on MSEs growth in Kenya was sought. Entrepreneurial capacity building services was operationalized as number of training, job rotations and interviews carried out for the past four years. Study findings were presented as shown in pictorial presentations below. Pictorial presentation shown in figure 4.5 revealed that the modal number of trainings carried out in a year were less than 2 as indicated by 87% in 2012, 72% in 2013, 76.4% in 2014, 73.9% in 2015 and 74.5% in 2016. Similar patterns were observed for two to three trainings per annum and more than three training cycles increased from 2012 (3.1%) to 9.9% in 2016. This showed an increase in training cycles amongst MSEs.

These findings were in support of Osoro and Muturi (2013) who argued that the MSEs moves away from the start up stages the need of trainings diminishes because they become busy thus lacking time to attend such trainings. Kisaka and Mwewa (2014) noted that MFI saving services have positively influenced positively to the growth and

performance MSEs in Kenya. However, Kisaka and Mwewa argued that the training conducted by MFI does not address the material needs of MSEs which have led to many MSEs especially the mature and well established one to shun MFI services.

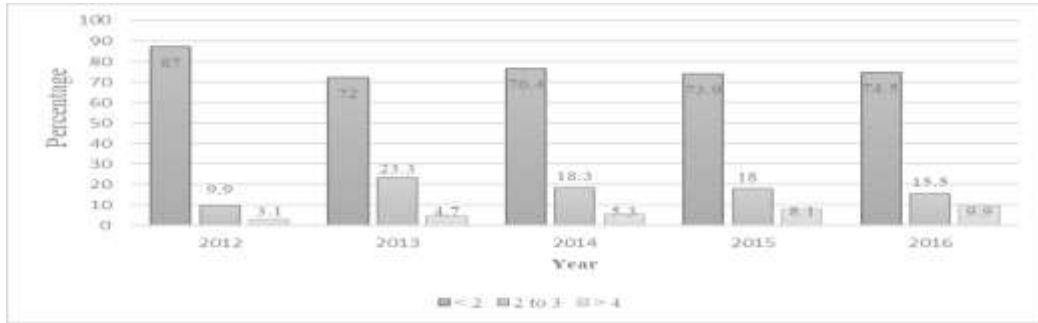


Figure 4.5: Number of Training Sessions Conducted by Micro and Small Enterprises in Kenya

4.6.8 Number of Job Rotations Carried out

Further the study investigated number of job rotations carried out amongst MSEs in Kenya. Job rotations would create an avenue to transfer and acquire new skills amongst employees. Pictorial presentation in Figure 4.7 revealed that modal job rotations amongst MSEs were less than two as accounted for by 87.3% in 2012, 75.5% in 2013, 73.9% in 2014, 77.6% in 2015 and 78.9% in 2016. Although, job rotations had upward trajectory for those firms with 2 to 3 rotations. The trend was reversed in the last two years under investigations. This calls for thorough sensitization on benefits accrued through job rotations this will enhance sharing employees in heterogenous departs.

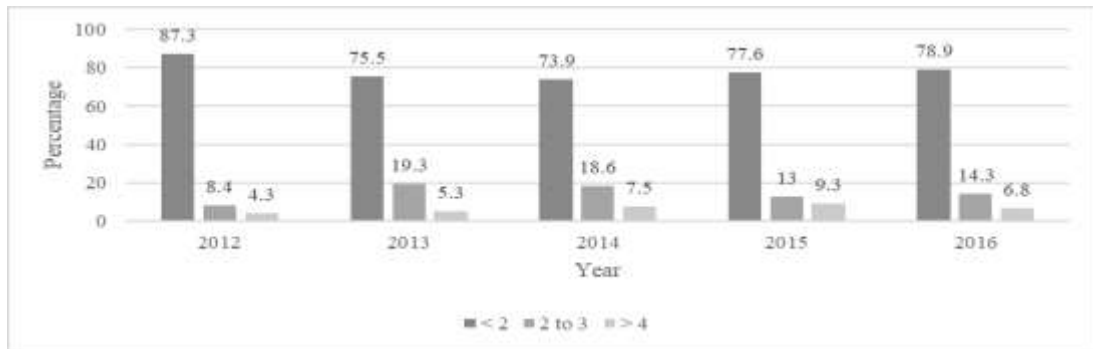


Figure 4.6: Number of Job Rotations Executed by Micro and Small Enterprises in Kenya

4.6.9 Number of Interviews Conducted

In addition, the study investigated the number of interviews executed prior to recruitment of employees amongst MSEs in Kenya. Employees interviews would enhance employees as per organization needs and skills which they can provide in the specific organization. Results of the study in Figure 4.7 revealed that majority 92.5% in 2012 carried out less than two interviews, 82.3%, 81.4%, 85.7% and 82.6% had similar interviews in years 2013, 2014, 2015 and 2016 respectively. Those who carried more than four interviews registered an upward trend throughout the period under investigation with 1.2% in 2013 and 5.3% in 2016. There is need for MSEs to adopt human resources management principles and policies which are customized towards addressing employee's quality of work life issues and embrace employee motivation strategies so as to leap optimal benefits from their skills.

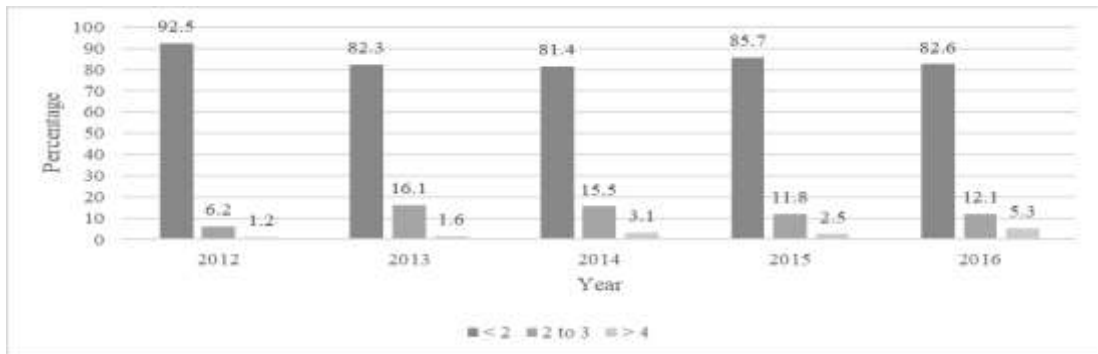


Figure 4.7: Number of Interviews Conducted Prior to Staff Recruitment by Micro and Small Enterprises in Kenya

4.6.10 Number of New Products Developed

Growth and sustainability of MSEs in Kenya is dependent on ability of firm customer development and market segmentation. This can be achieved through development of new products and services, consequently the study investigated on number of new products developed upon completion of MFIs training. Results shown in Figure 4.9 revealed that majority 70.2% had introduced one new product followed by 18.9% who had two new products and only 2.5% had more five and above new products. From the findings it can be deduced despite undergoing training there were low chances of introducing new products. This could be attributed by low levels of formal education training which may hamper acquisition of research and development skills.

These findings are consistent with Jones and Bartlett (2010) from literature review when they argued that, for any business with growth market strategies, the organization is attempting to gain more sales from existing market and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers.

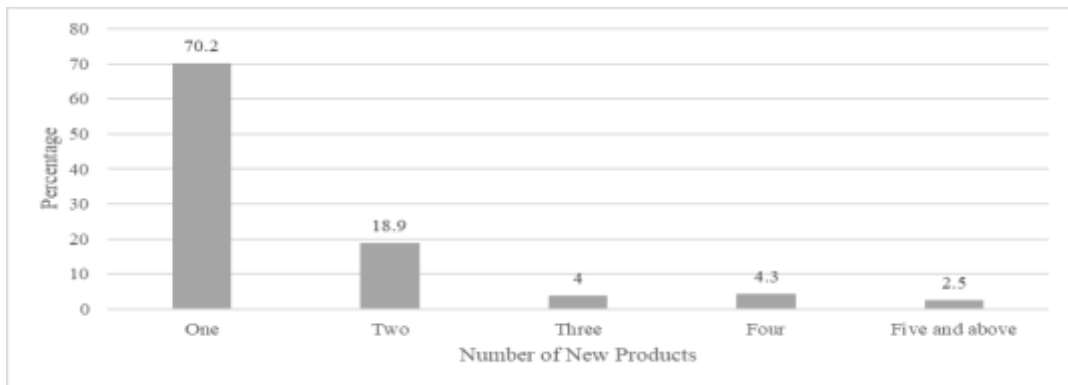


Figure 4.8: Number of New Products Developed by Micro and Small Enterprises in Kenya after Training

4.6.11 Number of New Services Introduced

Further, the study investigated on the number of new services introduced by MSEs in Kenya. Incorporation of new products and services could be an epitome of superior performance and competitive advantage. Results shown in Figure 4.9 revealed that 52.8% of MSEs in Kenya introduced one service after training, 28% introduced two services and 5% introduced five and above products. There is need to customize MSEs training in Kenya since this would enhance acquisition of relevant skills which would aid in attainment of MSEs specific objectives.

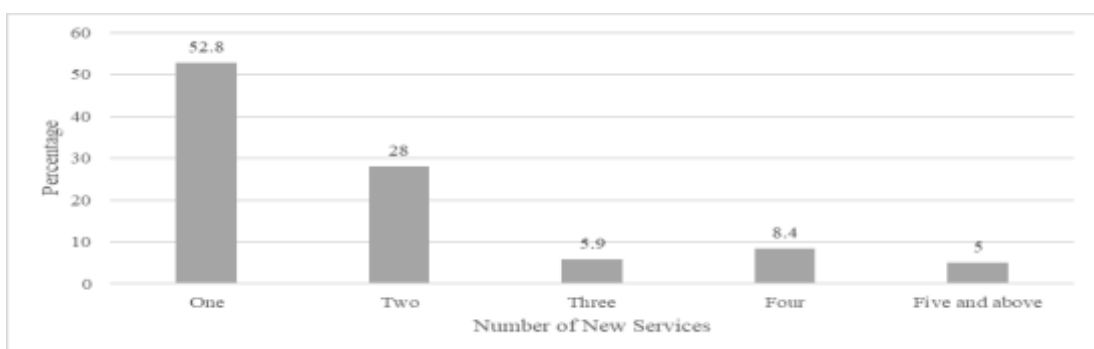


Figure 4.9: Number of New Services Introduced by Micro and Small Enterprises in Kenya after Training

4.6.12 Capacity Building Services

Further, the study investigated the level of agreement on ability of entrepreneurial capacity building services to enhance MSEs growth in Kenya. On a five-point Likert scale ranging from strongly disagree to strongly agree responses were analyzed using frequency, mean, percentage and standard deviation as shown in Table 4.15. From the finding's majority 79.2% agreed that planning and budgeting skills had effect on MSEs growth. Secondly, majority agreed mean = 4.1 that skills to act quickly on detecting environmental changes, maintenance of good customer relationship, business environmental changes detections skills, financial management skills and market segmentation skills respectively had effect on MSEs growth in Kenya.

These finding concurred with Arasa, (2012) who contended that strategic planning enables a company to gain as effectively as possible a sustainable edge over its competitors and further states that strategic planning assists organizations to develop a comparative advantage or an edge over competitors and creates sustainable competitive advantage. Therefore, a range of potential benefits to intrinsic values accrues to both the company and external stakeholders from the use of strategic planning. Zaei *et al.* (2013) also demonstrates that the use of strategic planning and management in business organizations whether public or non-profit organization can help organization clarify the future direction, think strategically and develop effective strategies, establish priorities, deal effectively with rapid changing circumstances, build teamwork and expertise, solve major organizational problems and improve performance.

Further, the study found that majority mean = 4.1 agreed that ability to secure capital, management expertise, competent employees' retention and recruitment, effective cost control and management, clarity on organization structure, ability to focus on quality product design and provision of wide range of goods and services respectively had impact on MEs growth in Kenya. These findings confirmed the World Bank (2012) report that about 90% of small enterprises in the Sub-Saharan Africa had credit as a major constraint to new investment. Moore (2013) found that a large portion of the MSEs sector in Kenya does not have access to adequate and appropriate forms of credit

and equity or indeed to financial services more generally. Congruent to this study results, Naziri (2012) in his research concluded that there is a weak inverse significant relationship between organizational structure and organizational entrepreneurship.

Table 4.15: Effect of Entrepreneurial Capacity Building Services on Micro and Small Enterprises Growth in Kenya

	Percentage (n=322)					Mean	Std. Dev
	SD	D	NAD	A	SA		
Planning and budgeting skills affects growth Skills to act quickly on detecting changes in the environment	1.2	3.1	6.2	79.2	10.2	3.9	0.6
Skills to maintain good customer relations affects growth Skills to detect changes in the environment affects my MSE growth	2.5	1.9	1.9	69.9	23.9	4.1	0.7
Skills to ensure that financial records are maintained affects my MSE growth	1.9	4	3.4	66.1	24.5	4.1	0.8
Skills to assess sales problems affects my MSE growth	0.9	5	2.8	64.9	26.4	4.1	0.8
Skills to obtain market share that suits the size and capability of the business	2.5	4.3	2.2	67.7	23.3	4.1	0.8
Skills to secure capital.	0	3.7	5.3	66.8	24.2	4.1	0.7
Management expertise skills	1.6	5.3	5.6	68	19.6	4	0.8
Skills to attract and keep competent employees affects my MSE growth	0.3	3.4	2.5	75.5	18.3	4.1	0.6
Good cost control skills affect my MSE growth	0.3	3.7	1.9	69.6	24.5	4.1	0.7
Skills to arrange organizational structure with clear lines of authority affects my MSE growth		3.4	2.8	72.4	21.4	4.1	0.6
Skills to focus on quality and design of the growth Products affects my MSE growth Skills in working together with other businesses in the same industry affects my MSE growth	0.6	3.1	3.1	73.3	19.9	4.1	0.6
Skills to provide attractive range of products affects my MSE growth	0.9	3.1	1.9	74.8	19.3	4.1	0.6
Skills to delegate responsibility to employees when necessary affects my MSE growth	0.3	4.3	1.6	69.9	23.9	4.1	0.7
Marketing strategy skills affects my MSE growth	0.9	5.3	2.5	67.7	23.6	4.1	0.7
Overall average		2.8	2.5	73.9	20.8	4.1	0.6
	0.3	1.6	5	71.4	21.7	4.1	0.6
	1.9	2.5	1.9	65.5	28.3	4.2	0.7

**SD: Strongly disagree, D: Disagree, NAD: Neither Agree nor Disagree, A: Agree, SA: Strongly Agree*

4.6.13 Entrepreneurial Training

Further, the study investigated the effect of entrepreneurial training on MSEs growth. Comparative analysis was carried out to compare before and after training effects. Results shown in Table 4.15 shows that prior to training the rate of change of MSEs

on aspects of general business overview, costing and pricing of product and services, record keeping, preparation of business plans and taxation management all were fair as accounted for by means of 1.9, 2.1, 2.3, 2.3 and 2.4 respectively. Moreover, there was good marketing strategy for goods and services.

Table 4.16: Rate of Micro and Small Enterprises Growth before Entrepreneurship Training in Kenya

	Percentage (n=322)				Mean	Std. Deviation
	Poor	Fair	Good	Excellent		
Overview of Business Management	34.8	41.3	18.9	5	1.9	0.9
Costing & Pricing of Products/Services	24.5	48.8	22.4	4.3	2.1	0.8
Record Keeping	20.2	40.7	33.2	5.9	2.3	0.8
Preparing Business Plans	20.5	37	30.7	11.8	2.3	0.9
Taxation Issues in Business	20.2	31.4	32.9	15.5	2.4	1.0
Marketing of Business Products/Services	17.7	33.2	33.5	15.5	2.5	1.0
Overall average					2.3	0.9

4.6.14 Rate of Growth after Entrepreneurship Training

Further, the study investigated the impact of MFIs training on several business aspects. Results of the study were summarized as shown in Table 4.17. From the study findings there were positive changes worth noting upon training since most MSEs recorded either excellent or good impact on their MSEs. It can be reported that the modal rating was good as accounted for by means of 2.9, 3.1, 3.3, 3.4, 3.4 and 3.5 respectively for general business management, costing of product and services, record keeping, business plans preparations, taxation and marketing strategies adopted by MSEs in Kenya. These findings are in consistent with Osinde, et al., (2013) who reported positive contribution of entrepreneurial training on SMEs performance. This was depicted by more 80% improvement on SMEs performance after managerial training as compared to 40% change amongst those who never attended any training. This calls for thorough evaluation of training curriculum to ensure that requisite skills are accorded to SMEs.

Table 4.17: Rate of Micro and Small Enterprises Growth after Entrepreneurship Training

	Percentage (n=322)				Mean	Std. Deviation
	Poor	Fair	Good	Excellent		
Overview of Business Management	5.6	17.4	42.9	34.2	2.9	0.9
Costing & Pricing of Products/Services	3.7	27.6	46.9	21.7	3.1	0.8
Record Keeping	9.6	26.7	46	17.7	3.3	0.9
Preparing Business Plans	14	31.7	35.4	18.9	3.4	1.0
Taxation Issues in Business	13.7	33.2	30.4	22.7	3.4	1.0
Marketing of Business Products/Services	16.8	33.9	29.5	19.9	3.5	1.0
Overall average					3.3	0.9

4.6.15 Leadership Training

Leadership training has impact on governance and development of organization structure with MSEs which may impact positively on its growth. Pictorial presentation shown in Figure 4.10 revealed that 59% reported that they had not undertaken leadership training. This calls for incorporation of leadership skills in MFIs entrepreneurship training this would enhance skills development. This would concur with Makena (2011) did research on “Challenges faced by SMEs in accessing financing in Kiambu town and found out that 25% of the respondents had made effort at seeking financing from banks and of those, 56% had been turned down by the banks. Lack of structures in the firms and limited skills from the owners and managers were identified as the main hindrance to accessing to financing.

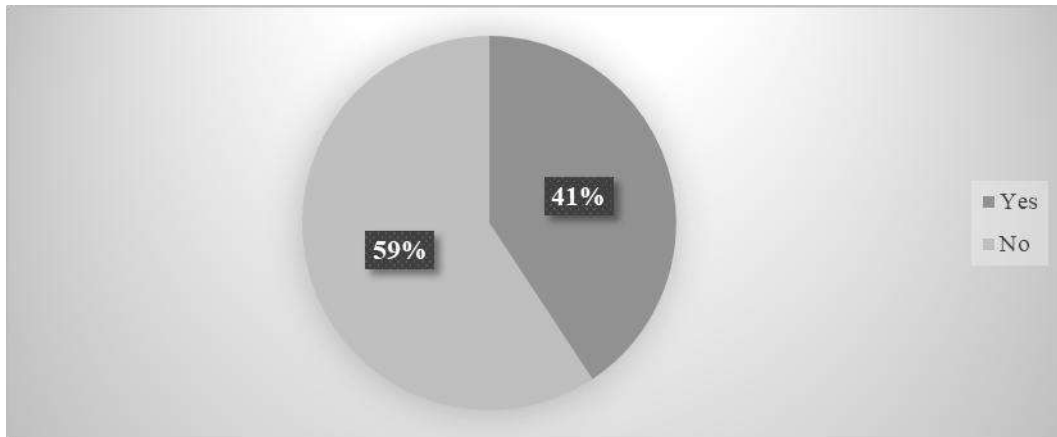


Figure 4.10: Leadership Training among Micro and Small Enterprises in Kenya

4.6.16 Leadership Training on Improving Business Management

Further, the study investigated the extent to which MSEs growth improved after the training. Results of the study shown in Figure 4.11 revealed that there 30.1% reported that MSEs growth changed to low extent, 19.3% reported either moderate or very great extent on changes of MSEs growth. There is need to customize training programs so as to address unique needs of MSEs in Kenya. These results contradicted Nusair *et al.* (2012) posit that, rapid environmental changes and uncertainties call for a flexible and determined leadership which can inspire employees to participate enthusiastically to achieve organizational goals and that a weak leadership results in having weak and unmotivated employees who are not effective in their growth.

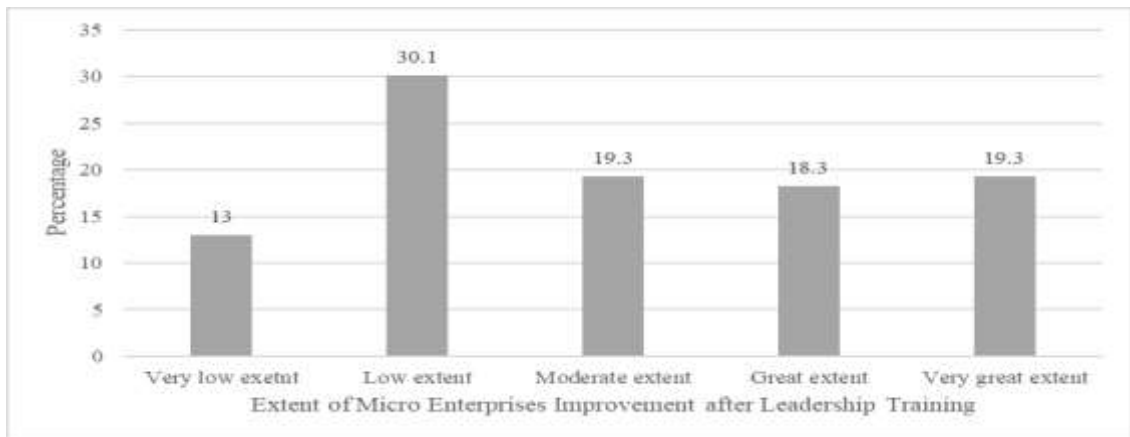


Figure 4.11: Extent of Leadership Training on Improving Business Management among Micro and Small Enterprises in Kenya

4.6.17 Capacity Building

Employees' capacity building is anticipated to enhance quality of work life and employee commitment within an organization. The duo will create an avenue for superior growth amongst MSEs consequently the study investigated the impact of capacity building on MSEs growth. Pictorial presentation in Figure 4.12 revealed that 42.2% reported an increase in MSEs growth, followed by 40.4% who reported no change and 17.4% who reported reduction of MSEs growth. These findings concurred with Maina (2013) who found the value of entrepreneurial training in alleviating youth unemployment.

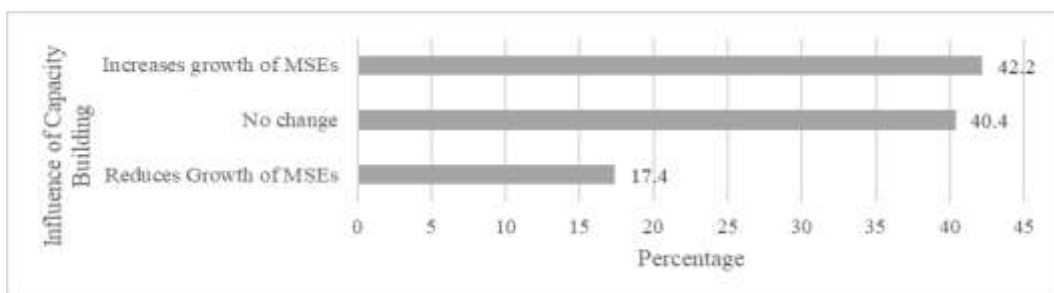


Figure 4.12: Influence of Capacity Building on Growth of Micro Enterprises in Kenya

4.6.18 Networking Forums

The fourth objective of the study examined the effect of entrepreneurial networking forums on growth of micro and small enterprises in Kenya. To achieve this, the study first examined membership of social networks amongst MSEs in Kenya. Results in Figure 4.13 revealed that 51% of respondent were members of social networks and the rest were not. These findings were in congruence with Olekamma (2016) who posits that networks can also be used by SMEs to overcome the challenge of accessing limited resources and markets. Through networking SMEs are able to access information, get advice and capital.

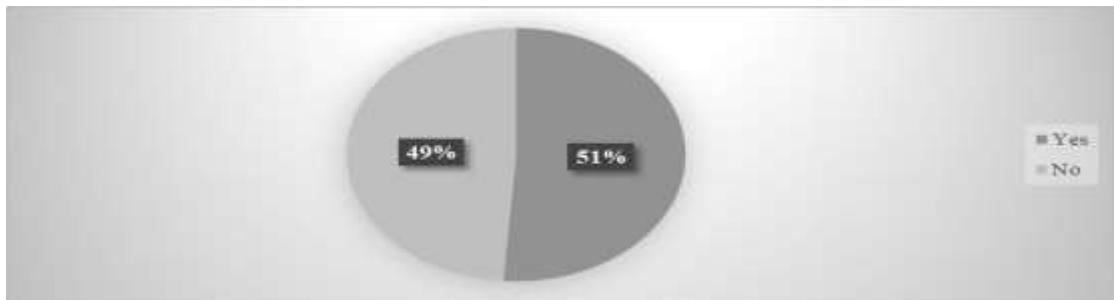


Figure 4.13: Membership of Social Network amongst Micro and Small Entrepreneurs in Kenya

4.6.19 Social Network

In line with examination on the effect of social networking membership, the study investigated its impact on MSEs growth in Kenya. Pictorial presentation in Figure 4.14 revealed that 32.9% reported that social networking platforms had great influence on their MSEs performance followed by 29.5% who reported it to have low extent. These results supported Omondi (2010) who showed that being a member of any social network/social groups influences the performances of MSEs to a great extent and therefore should be encouraged.

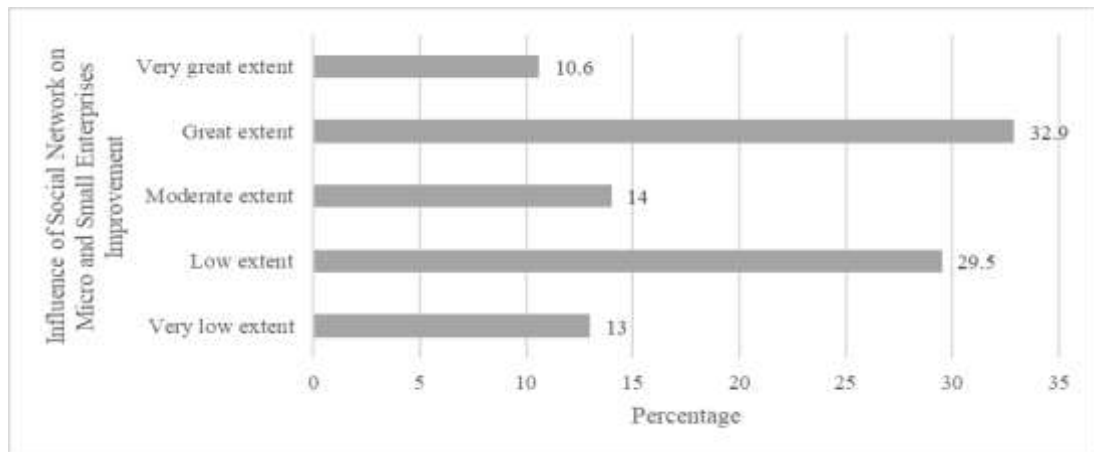


Figure 4.14: Influence of Social Networks on Micro and Small Enterprises Growth in Kenya

4.6.20 Networking Skills

Further, the study established how business networks contributed to SMEs growth. Study findings are shown in Table 4.18. Results of the study revealed that majority mean = 3.6 agreed that SMEs have fewer business contacts, less knowledge on how to deal with governmental bureaucracy and less bargaining power. Secondly, 65.5% of the respondents agreed that social networks help SMEs to access more information on how to enhance their business. Thirdly, majority mean =3.9, 3.7 and 3.9 agreed that the social networks assist SMEs to raise starts up capital, lack of networks deprives them awareness and exposure to good role models and they were well not well represented in trade fairs and business organization. Further, majority agreed mean =4 that networking increases marketing of SMEs and enhances utilization of external links to gain recognition from government. This finding concurs with Pandula (2011) who revealed that there is a positive relationship between networking and access to finance. Thrikawala (2011) SMEs that network with government agencies are able to improve their performance and access credit.

Table 4.18: Influence of Networking Skills on Growth of Micro and Small Enterprises in Kenya

	Percentage (n=322)					Mean	Std. Deviation
	VLE	LE	ME	GE	VGE		
SMEs have fewer business contacts, less knowledge of how to deal with the governmental bureaucracy and less bargaining power	5.3	6.5	21.4	57.1	9.6	3.6	0.9
Social networks help SMES to access more information on ways to enhance their business	2.8	5.9	10.6	65.5	15.2	3.9	1.8
The social networks assist SMES with startup capital	5.9	5.9	16.1	59.9	12.1	3.7	1.0
Lack of networks also deprives SMES of awareness and exposure to good role models	2.5	5.9	8.7	61.8	21.1	3.9	0.9
SMEs businesses are not well represented in industry, trade or business associations	2.8	6.5	9	61.2	20.5	3.9	0.9
Networks increase the marketing for SMEs	2.5	2.8	8.4	68.6	17.7	4.0	0.8
Network helps business utilize external markets and gain recognition from government	1.6	4.3	6.2	64.6	23.3	4.0	0.8
Overall average						3.9	1.0

**VLE: Very Low Extent, LE: Low Extent, ME: Moderate extent, GE: Great extent, VGE: Very Great Extent.*

4.6.21 Benefit Accrued for the Last Three Years from Social Networks

The study sought to establish how various networks in the industry have helped in MSEs improve their growth. The responses were rated on a five-point Likert scale where: 1= strongly disagree; 2= Disagree; 3=Neutral; 4 = Agree; 5 = Strongly Agree. Results of the study were summarized as shown in Table 4.19. It was found that majority agreed that through networking they were got more customers, understood their competitors, distribution and retailers, suppliers, business networks and clusters and relative and close friends as accounted for by mean of 4.1, 4, 4.2, 4.2, 4 and 3.6 respectively.

These findings supported Le and Nguyen (2009) networking with government officials promotes usage of bank financing in SMEs' capital structure. In their study on the

impact of networking on bank financing it was revealed that there is a positive relationship between SMEs networking and access to finance. Finding consists with a research done by Javed (2011) on determinants of business success of small and medium enterprises which revealed that financial resources and government support have a positive and significant influence on business success. Zizah et al., (2010) in his research on influential factors for SME internationalization in Malaysia found that SMEs that network with government agencies and other institutions are able to get relevant and updated information about their business. Nurbani et al., (2010) through networking with the government agencies SMEs are trained on procedures that are required when applying for a loan and easier and faster ways to promote their products abroad. Through social networks SMEs are able to access and share knowledge from other SMEs and also access external finance from banks and other lending institutions (Ngoc & Nguyen, 2009).

Similarly, Leroy (2012), revealed that managerial positions are meant to promote networking. The reason for the active participation of SMEs in social and managerial networks can be the ease of participation in the networks, meaning that social and managerial networks result from interactions that are more frequent than the other types of networks. Thus, this might result in the networks forming effortlessly. General business networks, on the other hand, might be more difficult for the SMEs to form and participate in. Unlike social networks and managerial networks, general business networks and ethnic networks do not result from the SME owners' day-to-day interaction with his/her environment. General business networks and ethnic networks require the SME owners' deliberate effort to participate and might even at times require financial investments, such as membership fees.

Table 4.19: Benefit Accrued for the Last Three Years from Social Networks amongst Micro and Small Enterprises in Kenya

	Percentage (n=322)					Mean	Std. Deviation
	SD	D	NAD	A	SA		
Customers	1.6	2.8	4.3	66.8	24.5	4.1	0.7
Competitor	2.8	3.4	5.6	67.1	21.1	4.0	0.8
Distributors and retailers	2.5	1.9	2.8	60.2	32.6	4.2	0.8
Suppliers	1.6	4	2.8	59.9	31.7	4.2	0.8
Business networks and clusters	2.8	9.6	3.1	57.8	26.7	4.0	1.0
Public research institutions	6.8	30.4	8.1	35.7	18.9	3.3	1.3
Public funders	8.7	33.2	8.4	31.1	18.6	3.2	1.3
Relatives and close friends	6.8	15.8	8.1	45.7	23.6	3.6	1.2
Overall Average						3.8	1.0

**SD: Strongly disagree, D: Disagree, NAD: Neither Agree nor Disagree, A: Agree, SA: Strongly Agree*

4.6.22 Support Services Accorded

Further, the study investigated support services accorded to MSEs by MFIs in Kenya. Results shown in Table 4.20 revealed 66.5% of MSEs received financial services, 49.1% consulted on business matters, 43.8% shared information who aided in business management, 44.4% were able to access resources and 33.9% benefited on marketing skills. These results confirmed Brush *et al.* (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. SMEs generally do not have the knowledge or information about other markets; thus, this limits their ability to market their products to larger groups of customers and expand their business.

Table 4.20: Micro Finance Institution Support through Networking on Micro and Small Enterprises Growth in Kenya

	Frequency	Percentage(n/322)
Financial assistance	214	66.5
Consulting/ business	158	49.1
Information	141	43.8
Marketing	109	33.9
Minimizing cost	41	12.7
More customers	45	14.0
Access to resources	143	44.4
Moral support	81	25.2

4.6.23 External Environment

The fifth objective investigated the effect of external environment on micro and small enterprises growth in Kenya. Respondents rating was sought on a five-point Likert scale as shown in Table 4.21. Descriptive statistics using mean, standard deviation, frequency and percentage were used to summarise the data. From the findings it can be inferred majority mean = 3.9, 4, 4.1, 4.1, 4.2, 4.1, 4 and 4.1 respectively agreed that external environment contributed to decreased number of transactions, decreased number of customers worn, failure to deliver goods and services, reduced price of goods and services, increased quality of production, uncertainty in business environment and increased taxation and tariffs.

These findings concurred with sentiments that, external business environment is a major driver that impact on all business including SMEs. According to Dzisi *et al.* (2014) SMEs in developing countries are vulnerable to external business environment effects. He said, the challenges the SMEs face can be attributed to macro environmental factors, competitive forces and strategic group competition.

Table 4.21: Descriptive Analysis on the Effect of External Environment on Micro and Small Enterprises Growth in Kenya

	Percentage (n=322)					Mean	Std. Deviation
	SD	D	NAD	A	SA		
Decreases the number of transactions	0.9	5.9	5.9	73.9	13.4	3.9	0.7
Decreases the number of customers won	0.3	7.5	3.7	68.6	19.9	4	0.8
Lead to failure to deliver of goods and services	1.6	8.1	3.4	56.8	30.1	4.1	0.9
Reduces the prices of goods and services	3.1	3.7	2.8	63	27.3	4.1	0.9
Increases the quality and cost of production	1.6	4.7	1.9	61.5	30.4	4.2	0.8
Creates uncertainties in the market	2.2	4.3	1.9	69.3	22.4	4.1	0.8
Increases taxes and tariffs	5.3	4	3.1	64.6	23	4	0.9
Overall average						4	0.8

**SD: Strongly disagree, D: Disagree, NAD: Neither Agree nor Disagree, A: Agree, SA: Strongly Agree*

4.6.24 Measures Taken to Improve Enterprises Competitive Advantage

Further, the study investigated measures taken to improve enterprises competitive advantage after the training. Through training it is anticipated an entrepreneur will acquire skills which will aid in attainment of superior performance. Results in Table 4.22 revealed that 75.2% of respondents reported additional if greater value through innovation, 27% reported controlled visits to their competitors and 35.7% reported enhancement of overall in-house experience. These findings mirrored past empirical scholars who argued that innovation also plays a crucial role in now day business and it is regarded as a key characteristic of SMEs, mainly due to the attitude of the manager. Innovative companies are able to respond within the bounds of the knowledge about existing products or services to changes required by the customer within their niche market (Chadamoyo & Dumbu, 2012).

Table 4.22: Measures to Improve Competitive Gap after Entrepreneurial Training amongst Micro and Small Enterprises in Kenya

	Frequency	Percentage (n/322)
By adding greater value through innovation	242	75.2
By making the process of visiting a competitor routine and controlled	87	27.0
By enhancing the overall in-house experience	115	35.7

4.6.25 Competition on Business Operation

MSEs do not operate in isolation, they run their operations in a competitive environment. Consequently, this investigated the effect of competition on business operations amongst MSEs in Kenya. Results shown in Table 4.23 revealed that 50.6% reported decrease in their prices, 40.4% reported introduction of product ranges and services or they intensified their marketing. Majority 79.5% reported that they emphasized more on customer satisfaction. These findings were in congruent with Gunasekaran *et al.* (2011) who argued that competition increases prices, this is because the competitive standards change continuously due to consumers changing needs and expectations, technological developments and globalization of markets. Furthermore, these findings concurred with provision of blue ocean strategy which stipulates on the need to discover new markets which are purely demand driven and firms would face least resistance from their respective competitors.

Table 4.23: Effect of Competition on Business Operation among Micro and Small Enterprises in Kenya

	Frequency	Percentage (n/322)
Lower prices	163	50.6
Greater range of services	130	40.4
More advertisement	130	40.4
Customer satisfaction	256	79.5

4.6.26 Micro and Small Enterprises Growth

The study dependent variable was the growth of the MSEs. It was operationalized by changes in revenue, number of employees, capital investment, sister companies or number of branches, growth in market share and change in profitability. Study findings were analyzed and presented in Table 4.28. Findings in Table 4.24 revealed that the modal revenue change amongst MSEs was less than 5% as accounted for by 77.6% in 2012, 68.3% in 2013, 67.4% in 2014, 68.9% in 2015 and 72.7% in 2016. Although, increased revenue between 5 to 10 % increase in initial years the trend was reversed in 2016. This is because the MSEs also contribute significantly to a country's GDP, for example, between 1993 and 1999, the contribution of MSEs to Kenya's GDP increased from 13.5% to 18.4% (RoK, 1999) whereas total employment created by MSEs increased from 3.7 Million in 1999 to 12.6 million in 2015 (RoK, 2016). This could be attributed to changing political environment which could impact firm growth amongst MSEs in Kenya.

Also, it revealed that most of firms increased their number of employees by at most 5% within the period under investigation as indicated by 66.1% in 2012, 59.6% in 2013, 67.7% in 2014, 60.6% in 2015 and 62.4% in 2016. Similar growth patterns noted in revenue for changes ranging from 5 to 10 % were noted on the number of employees recruited amongst MSEs in Kenya. Access to capital would alleviate challenges associated with capital access. Results revealed majority MSEs had capital investment changes of at most 5 % within the period under investigation. The highest 46.6% recorded in 2013 and 2016 respectively and 44.7% recorded in 2012 and 2015 and 41.6% in 2014. It was important to note that there was cyclical trend on capital investment of between 5 to 10% which indicated irregular access to capital amongst MSEs in Kenya. Moreover, it can be argued that after training MFIs were better placed to lend more finances to MSEs. Further, the study interrogated to examine the number of new branches or sister companies which were opened within the period under investigation. Results revealed that the highest number of branches or sister companies were opened in 2014 and they increased by 5 to 10% of which accounted for 50.9% and this rate of change recorded an upward trajectory within the period under investigation.

Table 4.24: Descriptive Analysis on Micro and Small Enterprises Growth

Year	% Change	Revenue		Number of employees		Capital Investment		Sister company/branches	Market share		Profitability		
		F	%	F	%	F	%		F	%	F	%	
2012	<5 %	250	77.6	213	66.1	144	44.7	151	46.9	200	62	197	61
	5 -10 %	56	17.4	62	19.3	117	36.3	125	38.8	90	28	86	27
	>10%	16	5	47	14.6	61	18.9	46	14.3	31	10	38	12
2013	<5 %	219	68	192	59.6	150	46.6	141	43.8	180	56	185	57
	5 -10 %	81	25.2	85	26.4	108	33.5	148	46	115	36	95	29
	>10%	21	6.5	45	14	64	19.9	33	10.2	27	8	43	13
2014	<5 %	217	67.4	218	67.7	134	41.6	115	35.7	166	52	175	55
	5 -10 %	74	23	54	16.8	127	39.4	164	50.8	119	37	100	31
	>10%	31	9.6	50	15.5	61	18.9	43	13.4	37	12	46	14
2015	<5 %	222	68.9	195	60.6	144	44.7	140	43.5	181	56	183	57
	5 -10 %	76	23.6	82	25.5	115	35.7	145	45	110	34	95	30
	>10%	24	7.5	45	14	63	19.6	37	11.5	31	10	44	14
2016	<5 %	234	72.7	201	62.4	150	46.6	132	41	183	57	192	60
	5 -10 %	52	16.1	72	22.4	110	34.2	144	44.7	98	30	81	25
	>10%	36	11.2	49	15.2	62	19.3	46	14.3	41	13	49	15

**F-Frequency %-Percentage*

4.7 Inferential Statistics

The current study was based on several hypotheses. These hypotheses were tested using regression analysis. All hypotheses were tested at 5% level of significance and in cases when P value were less than 0.05 then the null hypotheses were rejected in favor of alternative hypotheses. In addition, correlation analysis was carried out to show the strength of the effect of each independent variable on MSEs growth in Kenya.

4.7.1 Correlation Analysis

According to Sekaran and Bougie (2013) there are two types of correlation analysis. These are classified as Pearson product moment correlation which is used if both dependent and independent variables are in interval measurement scale or Spearman's

rank correlation coefficient in case some variables are in nominal scale. Currently, Pearson product moment correlation was fitted. There was strong positive and significant effect of entrepreneurial capital services on MSEs growth in Kenya ($\rho = 0.882$, p value < 0.05). Secondly, there was strong positive and significant effect of entrepreneurial business finance services and MSEs growth in Kenya ($\rho = 0.881$, p value < 0.05). Thirdly, there was strong and positive influence of entrepreneurial capacity building services and MSEs growth in Kenya ($\rho = 0.891$, p value < 0.05).

Further, there was strong positive and significant influence of entrepreneurial networking forums and MSEs growth in Kenya ($\rho = 0.884$, p value < 0.05). There was strong and positive significant effect of external environment on MSEs growth in Kenya ($\rho = 0.843$, p value < 0.05). Although, most independent variables had positive and significant influence on each other there was none which exceed correlation coefficient of 0.8. Therefore, it can be concluded that there was no multicollinearity. These results are congruence with VIF and tolerance limits tests.

Table 4.25: Correlation Analysis

		MSEs Growth	ECS	EBFS	ECBS	ENF	EE
MSEs Growth	Pearson Correlation	1					
	Pearson Correlation	.882					
Entrepreneurial Capital	Pearson Correlation	**	1				
Entrepreneurial Business Finance Services	Pearson Correlation	.881	.291				
	Pearson Correlation	**	**	1			
	Sig. (2-tailed)	0.00	0.00				
	N	322	322	322			
Entrepreneurial Capacity Building	Pearson Correlation	.891	.498	.079			
	Pearson Correlation	**	**	6**	1		
	Sig. (2-tailed)	0.00	0.00	0.00			
	N	322	322	322	322		
Entrepreneurial Networking	Pearson Correlation	.884	.468	.401	.853		
	Pearson Correlation	**	**	**	**	1	
	Sig. (2-tailed)	0.00	0.00	0.00	0.00		
	N	322	322	322	322	322	
External Environment	Pearson Correlation	.843	.486	.603	.470	.832	
	Pearson Correlation	**	**	**	**	**	1
	Sig. (2-tailed)	0.00	0.00	0.00	0.00	0.00	
	N	322	322	322	322	322	2
	N	322	322	322	322	322	2

** Correlation is significant at the 0.01 level (2-tailed).

4.8 Diagnostic Tests

The main model for analysis was classical linear regression which was employed to examine the effect of entrepreneurial training on MSEs growth in Kenya. Prior to fitting regression model classical regression assumptions were tested. They included multicollinearity, normality, heteroskedasticity, serial autocorrelation and linearity.

4.8.1 Normality Tests

According to Sekaran and Bougie (2013) prior to carrying out any parametric test there is need to establish normality of data so that if the data is not normally distributed then requisite data transformation can be carried out. In the current study both Kolmogorov-Smirnova and ShapiroWilk test were carried out. In both test the null hypothesis was that the data was normally distributed against an alternative that the data was not normally distributed. Results shown in Table 4.26, results of the study indicated that all variables were normally distributes since all p values were greater than 0.05 and there was no enough evidence to warrant rejection of the null hypothesis at 5% level of significance.

Table 4.26: Normality Tests

	Kolmogorov-Smirnov	Statistic	df	Sig.
Entrepreneurial Capital Services				
Entrepreneurial Business Finance Services		0.841	322	0.2
Entrepreneurial Capacity Building Services		0.528	322	0.2
Entrepreneurial Networking Forums		0.753	322	0.2
External Environment		0.724	322	0.2
MSEs Growth		0.816	322	0.2

4.8.2 Heteroskedasticity

Heteroskedasticity assumes that there is uniform variance across the error term. In this BreuschPagan/Cook Weisberg heteroskedasticity test was carried out with the null hypothesis that there was constant variance against an alternative on non-constant variance. Results shown in Table 4.27 revealed that there was no enough evidence to warrant rejection of the null hypothesis at 5% level of significance. Hence, we can conclude that there was uniform across the error term. In case there was no uniform variable then regression model with robust standard errors was fitted.

Table 4.27: Breusch-Pagan/ Cook Weisberg Heteroskedasticity Test

Null Hypothesis	Variables	Chi Square	Sig.
Constant variance	ECS, EBFS, ECBS, ENF	216.01	0.865

4.8.3 Multicollinearity Tests

Tolerance and Variance Inflation Factor (VIF) method was used to test for multicollinearity (Cooper & Schindler, 2011). Also, O'Brien (2007) suggested that a tolerance of less than 0.10 and a VIF of above 10 indicates a multicollinearity problem. Multicollinearity is reflected by lower tolerance values and higher VIF values. Table 4.28 indicates that Variance Inflation Factor (VIF) results for the study variables was less than 10 while Tolerance limits were greater than 0.1 which shows no multicollinearity between predictor variables.

Table 4.28: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Entrepreneurial Capital Services	0.6123	1.6332
Entrepreneurial Business Finance Services	0.6326	1.5808
Entrepreneurial Capacity Building Services	0.6236	1.6036
Entrepreneurial Networking Forums	0.7236	1.3820
External Environment	0.6329	1.5800
Mean VIF	0.6450	

4.8.4 Serial Correlation

Serial correlation is the relationship between a variable and a lagged version of itself over various time intervals. Repeating patterns often show serial correlation when the level of a variable affects its future level. Serial autocorrelation was tested using Lagrangian multiplier test. The test null hypothesis states that there no serial correlation against an alternative that their serial correlation. As shown in Table 4.29,

there was no serial autocorrelation since p value was greater than 0.05. Consequently, it was appropriate to fit ordinary least squares regression on the data.

Table 4.29: Autocorrelation Test: Lagrangian Multiplier Test

Test			
value			Sig
F-statistic	1.20	Prob	0.279
Obs *R Squared	1.27	Prob. Chi-Square	0.259

4.8.5 Linearity Test

The fourth assumption for regression analysis is that there is a linear relationship between each independent variable and the dependent variable. This was tested using scatter plots as shown in Figure 4.15. From the pictorial presentation there was positive relationship between entrepreneurial capital services and MSEs growth in Kenya. Secondly, there was positive relationship between entrepreneurial savings services and MSEs growth in Kenya. Thirdly, there was a positive relationship between entrepreneurial capacity building services and MSEs growth. There was positive relationship between entrepreneurial networking forums and MSEs growth in Kenya. Finally, there was positive relationship between external environment and MSEs growth in Kenya.

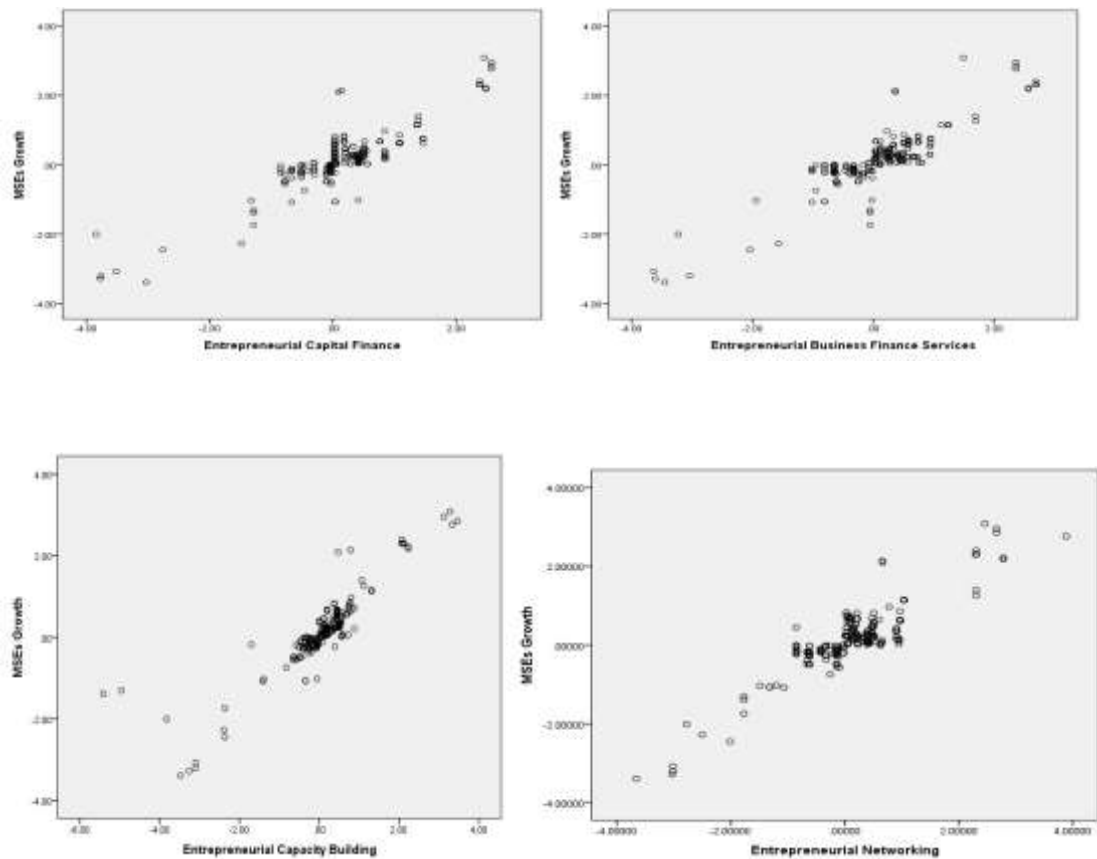


Figure 4.15: Linearity Test

4.9 Statistical Modelling

4.9.1 Entrepreneurial Capital Financing has no significant effect on Micro and Small Enterprises Growth in Kenya

The first hypothesis of the study stated that entrepreneurial capital financing has no significant effect on MSEs growth in Kenya. Simple linear regression was applied to test this hypothesis. Model summary results in Table 4.30, revealed that 77.7 percent of changes in MSEs growth in Kenya can be accounted for by entrepreneurial capital financing while the remaining percentage can be accounted for by other factors excluded in the model. Analysis of variance results revealed that there was significant influence of entrepreneurial capital financing on MSEs growth in Kenya $F(1, 320) = 1117.725, p \text{ value} < 0.00$. There was positive and significant effect of entrepreneurial

capital financing on MSEs growth in Kenya ($\beta = 0.8080$, $t(322) = 33.667$ p value < 0.05). This implies that unit increase in entrepreneurial capital financing is associated with increased MSEs growth.

These results were in congruence with Akingunola, Adekunle, Adegbesan and Aninkan (2013) who reported positive influence of micro finance services and development of entrepreneurship in Nigeria. Furthermore, micro finance aid was attributed to MSEs growth which led to economic development. These findings were in conjunction with Babajide (2011) who reported positive and significant influence of micro financing on growth and survival of small and medium enterprises in Nigeria. Although, micro financing was associated with growth, sustainability of firms was not guaranteed.

Table 4.30: Regression Analysis on Effect of Entrepreneurial Capital Financing on Micro and Small Enterprise Growth in Kenya

Model Summary					
R	R Square	Adjusted Square	R	Std. Error of the Estimate	
0.882	0.777	0.777		0.368033	
ANOVA					
	Sum of Squares	df	Mean Square	F	
Regression	151.394	1	151.394	1117.73	
Residual	43.343	320	0.135		
Total	194.737	321			
Coefficients					
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig
	B		Beta		
(Constant)	0.04	0.0021		19.048	.00
Entrepreneurial Capital	0.808	0.024	0.882	33.667	.00

4.9.2 Entrepreneurial Business Finance Services has no significant effect on Micro and Small Enterprises Growth in Kenya

The secondly hypothesis stated that entrepreneurial business finance and services had no significant effect on MSEs growth in Kenya. As shown in Table 4.31, 77.7% of changes in MSEs growth can be accounted by entrepreneurial business finance services. Analysis of variance results revealed that there was significant influence of entrepreneurial business finance services on MSEs growth in Kenya $F(1, 320) = (1112.894, p \text{ value} < 0.00)$.

There was positive and significant effect of entrepreneurial business finance services and MSEs growth in Kenya ($\beta = 0.822, t(322) = 32.88, p \text{ value} < 0.05$). This implies that an increase in entrepreneurial savings services increased MSEs growth in Kenya. In support, Bett (2014) found that savings and number of training had positive and significant relationship with the SME growth with coefficient of correlation. The findings were in line with those of Bett (2014) who established a positive relationship between microfinance services have and growth of the SMEs. Congruent to above, Electrín, Mosoti, George, Mandere, Jonathan, Kagumba and Njenga (2013) entrepreneurial business finance services impacted performance of SMEs.

Table 4.31: Regression Analysis on Effect of Entrepreneurial Business Finance Services on Micro and Small Enterprise Growth in Kenya

Model Summary						
R	R Square	Adjusted R Square	Std. Error of the Estimate			
0.881	0.777	0.776	0.368653			
ANOVA						
	Sum of Squares	df	Mean Square	F		
Regression	151.248	1	151.248	1112.89		
Residual	43.49	320	0.136			
Total	194.737	321				
Coefficients						
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
(Constant)	0.067	0.021		3.19	0.002	
Entrepreneurial Business Finance Services	0.822	0.025	0.881	32.88	0.000	

4.9.3 Entrepreneurial Capacity Building Services has no significant effect on Micro and Small Enterprises Growth in Kenya

The third hypothesis of the study stated that entrepreneurial capacity building services has no significant effect on MSEs growth in Kenya. Simple linear regression was applied to test this hypothesis. Moreover, step wise regression analysis was used to test the moderating effect of external environment on entrepreneurial capital services. Model summary results in Table 4.32 revealed that 79.4% of changes in MSEs growth in Kenya can be accounted for by entrepreneurial capacity building services while the remaining percentage can be accounted for by other factors excluded in the model. Analysis of variance results revealed that there was significant influence of entrepreneurial capacity building services on MSEs growth in Kenya $F(1, 322) = 1235.099$, p value <0.00 .

There was positive and significant effect of entrepreneurial capacity building services and MSEs growth in Kenya ($\beta = 0.765$, $t(322) = 32.88$, p value <0.05). This implies

that an increase in entrepreneurial capacity services increased MSEs growth in Kenya. Consequently, we reject the null hypothesis at 5% level of significance. Botha et al. (2010) also supported that the training provided by microfinance programs can develop new skills and knowledge relevant to running a business by increasing one's confidence in terms of entrepreneurial abilities and using these skills for business growth. This is aligned with a study by Al Mamun *et al.* (2012) that revealed an increase in microenterprise income with adequate training, and flexible and diversified microfinance programs.

Table 4.32: Regression Analysis on Effect of Entrepreneurial Capacity Building Services on Micro and Small Enterprise Growth in Kenya

Model Summary						
R	R Square	Adjusted R Square	Std. Error of the Estimate			
0.89	0.79	0.79	0.35			
ANOVA						
	Sum of Squares	df	Mean Square	F	Sig.	
Regression	154.67	1	154.67	1235.1	0.00	
Residual	40.07	320	0.13			
Total	194.74	321				
Coefficients						
	Unstandardized Coefficients	Standardized Coefficients	t	Sig.		
	B	Std. Error	Beta			
(Constant)	0.08	0.02		4.2	0.00	
Entrepreneurial Capacity Building	0.77	0.02	0.89	34.77	0.00	

4.9.4 Entrepreneurial Networking Forums Services has no significant effect on Micro and Small Enterprises Growth in Kenya

The four hypotheses of the study stated that entrepreneurial networking forums services have no significant effect on MSEs growth in Kenya. Simple linear regression was applied to test this hypothesis. Moreover, step wise regression analysis was used

to test the moderating effect of external environment on entrepreneurial networking forums services. Model summary results in Table 4.33 revealed that 78.4% of changes in MSEs growth in Kenya can be accounted for by entrepreneurial networking forums services. Analysis of variance results revealed that there was significant influence of entrepreneurial networking forums services on MSEs growth in Kenya $F(1, 320) = 1149.102$, p value <0.00).

There was positive and significant effect of entrepreneurial capacity building services and MSEs growth in Kenya ($\beta = 0.81$, $t(322) = 34.77$, p value <0.05). This implies that an increase in entrepreneurial networking forums services increased MSEs growth in Kenya. Consequently, we reject the null hypothesis at 5% level of significance. The positive impact which networks were found to have on SME growth are similar to previous studies (Leroy, 2012), which also found networking to be an important vehicle for growth. Thrikawala (2011), by using sales growth, business progress and previous year financial outcomes to measure growth measures, established that networking is an important element of SME growth.

Table 4.33: Regression Results on Effect of Entrepreneurial Networking Forums Services on Micro and Small Enterprise Growth in Kenya

Model Summary						
R	R Square	Adjusted R Square	Std. Error of the Estimate			
0.88	0.78	0.78	0.36			
ANOVA						
	Sum of Squares	df	Mean Square	F	Sig	
Regression	152.32	1	152.32	1149.1	.00	
Residual	42.418	320	0.133			
Total	194.737	321				
Coefficients						
	Unstandardized Coefficients		Standardized	t	Sig	
	B	Std. Error	Beta			
(Constant)	0.06	0.02		2.86	.00	
Entrepreneurial Networking	0.81	0.02	0.88	33.63	.00	

4.9.5 Influence on the Influence of Micro Entrepreneurial Services and Micro and Small Enterprises Performance in Kenya

Model summary results in Table 4.34 revealed that 88.9% of changes in MSEs growth in Kenya can be accounted for by entrepreneurial capital financing, entrepreneurial savings services, entrepreneurial capacity building services and entrepreneurial networking forums services. Analysis of variance results shown revealed that there was significant influence of microfinance entrepreneurial services on MSEs growth in Kenya ($F= 632.194$, p value <0.00).

Using a linear regression equation connecting the variables in the form of, $Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$ where Y = MSEs growth in Kenya, X_1 Entrepreneurial Capital Services, X_2 Entrepreneurial Business Finance Services, X_3 Entrepreneurial Capacity Building Services and X_4 Entrepreneurial Networking Services and $\beta_0, \beta_1, \beta_2, \beta_3$ and β_4 being the coefficient of the terms, the regression equation can be presented as $Y=0.051+0.11 X_1 + 0.278X_2 +0.308X_3+0.206X_4$

There was positive and significant influence of entrepreneurial capital services and MSEs growth in Kenya ($\beta = 0.11$, p value <0.05). This implies that a unit increase in entrepreneurial capital financing while holding entrepreneurial savings services, entrepreneurial capacity building services and entrepreneurial networking forums services constant increases MSE growth by 0.11 units. Secondly, there was positive and significant effect of entrepreneurial business finance services and MSEs growth in Kenya ($\beta = 0.278$, p value < 0.05). This implies that unit increase in entrepreneurial savings services while holding constant entrepreneurial capital services, entrepreneurial capacity building services and entrepreneurial networking forums services constant increases MSE growth by 0.278 units.

Thirdly, there was positive and significant effect of entrepreneurial capacity building services and MSEs growth in Kenya ($\beta = 0.308$, p value < 0.05). This implies that unit increase in entrepreneurial savings services while holding constant entrepreneurial business finance services, entrepreneurial capacity building services and entrepreneurial networking forums services constant increases MSE growth by 0.308

units. Further, there was positive and significant effect of entrepreneurial networking forums services and MSEs growth in Kenya ($\beta = 0.206$, p value < 0.05). This implies that unit increase in entrepreneurial networking forums services while holding constant entrepreneurial business finance services, entrepreneurial capacity building services and entrepreneurial capital services constant increases MSE growth by 0.206 units.

Table 4.34: Model Summary on Influence on the Influence of Micro Entrepreneurial Services and Micro and Small Enterprises Performance in Kenya

Model Summary					
R	R Square	Adjusted Square	R Std. Error of the Estimate		
0.943	0.889	0.887	0.261592		
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	173.045	4	43.261	632.194	0.00
Residual	21.692	317	0.068		
Total	194.737	321			
Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.05	0.02		3.4	0.00
ECF	0.11	0.04	0.01	2.5	0.00
EBFS	0.28	0.04	0.21	6.78	0.00
ECB	0.31	0.04	0.06	8.8	0.00
EN	0.21	0.04	0.11	5.282	0.00

The optimal model will be of the form: $Y = 0.05 + 0.11*ECF + 0.21*EN + 0.28*EBFS + 0.31*ECB$.

4.9.6 External Environment has no Significant Moderating Influence on the Influence of Micro Entrepreneurial Services and Micro and Small Enterprises Performance in Kenya

An R squared of 90% of changes in MSEs growth in Kenya can be explained by micro finance entrepreneurial services and external environment. Secondly, micro finance entrepreneurial services, external environment and moderated variables had joint significant effect on MSEs growth in Kenya (F= 311.353 p value <0.05). This implies that at least one of the slope coefficients was non-zero.

From the model there was positive and significant effect of external networking and MSEs growth in Kenya ($\beta=0.084$, p value <0.05). In the combined model external environment had positive and significant effect on entrepreneurial capital services and entrepreneurial capacity building services. Further, it had positive and significant moderating effect on both entrepreneurial networking forums services and entrepreneurial savings services. Using a linear regression equation connecting the variables in the form of, $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Z + \beta_6 X_1 * Z + \beta_7 X_2 * Z + \beta_8 X_3 * Z + \beta_9 X_4 * Z + \epsilon$ where **Y** = MSEs growth in Kenya, **X₁** Entrepreneurial Capital Services, **X₂** Entrepreneurial Business Finance Services, **X₃** Entrepreneurial Capacity Building Services and **X₄** Entrepreneurial Networking Services and **β_0 , β_1 , β_2 , β_3 , β_4 , β_5 , β_6 , β_7 , β_8 and β_9** being the coefficient of the terms, the regression equation can be presented as

$$Y = 0.046 + 0.298X_3 + 0.229X_3 * Z + 0.218X_2 + 0.213X_4 + 0.205X_4 * Z + 0.112X_1 + 0.102X_1 * Z + 0.084Z + 0.081X_2 * Z$$

Table 4.35: Model Summary on Moderating Influence on the Influence of Micro Entrepreneurial Services and Micro and Small Enterprises Performance in Kenya

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.949	0.9	0.897	0.250065		
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	175.227	9	19.47	311.353	0.000
Residual	19.51	312	0.063		
Total	194.737	321			
Coefficients					
	Unstandardized Coefficients		Standardized Coefficients t		Sig.
	B	Std. Error	Beta		
(Constant)	0.046	0.015		3.067	0.000
ECF	0.112	0.043	0.083	2.605	0.000
EBFS	0.218	0.045	0.142	4.844	0.000
ECB	0.298	0.033	0.172	9.03	0.000
EN	0.213	0.04	0.125	5.325	0.000
EE	0.084	0.035	0.082	2.4	0.000
EC*EE	0.102	0.016	0.086	6.375	0.000
EBFS*EE	0.081	0.038	0.002	2.132	0.000
ECB*EE	0.229	0.048	0.012	4.771	0.000
EN*EE	0.205	0.046	0.034	4.457	0.000

Optimal Model

The optimal model does not change because no variable was dropped since all their p-values were less than 0.05.

$$Y=0.046+0.298X_3+0.229X_3*Z+0.218X_2+0.213X_4+0.205X_4*Z+0.112X_1+0.102X_1*Z+0.084Z+0.081X_2*Z$$

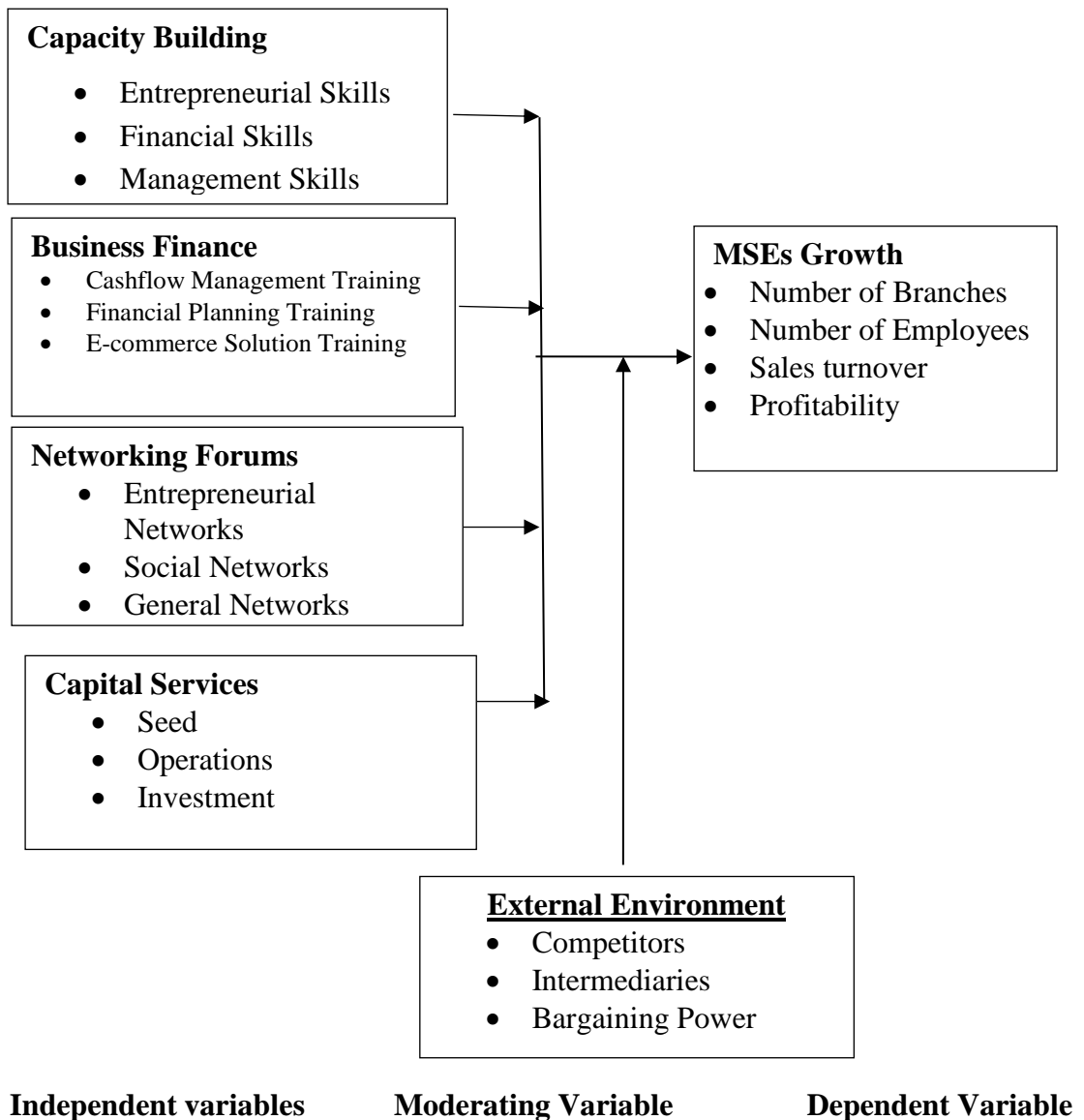


Figure 4.16: Revised Conceptual Framework

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section outlines the summary of the study findings, draws relevant conclusions and then suggests recommendation in relation to the research objectives. This chapter presents summary of the findings giving the analysis of the research findings, conclusion made from the findings, recommendation and suggestions for further research.

5.2 Summary of the Findings

This section presents the summary of the study on examine the influence of Microfinance Entrepreneurial Services on Growth of Micro and Small Enterprises (MSEs) in Kenya was based on the study of specific objectives. It was arranged in line with assessment of the effect of entrepreneurial capital financing services, effect of entrepreneurial business finance services, effect of entrepreneurial capacity building, effect of entrepreneurial networking forums and moderating effect of external environment on growth of micro and small enterprises in Kenya.

5.2.1 Capital Financing Services

Results of the study revealed positive and significant influence of entrepreneurial capital financing services on growth of MSEs in Kenya ($\beta = 0.808$, $t = 33.667$, p value < 0.05). Further results indicated that entrepreneurial capital of MSE the cost of capital does not increases the number of transactions applied, number of customers won and does not lead to successful delivery of goods and services. Collateral availability affects MSE in growth because it leads to increased number of customers won and successful delivery of goods and services as indicated by 82%, 69% and 74% respectively. The growth of the MSEs is influenced by the; Cost of accessing credit, the amount of interest rate paid on loan, the fluctuating interest rates and the amount of credit processing fees as accounted by 78.2% of increased number of transactions

applied, 77.3% of increased number of customers won and 75.1% reported an increased lead to successful delivery of goods and services.

5.2.2 Business Finance Service

There was positive and significant effect of entrepreneurial business finance services and growth of MSEs in Kenya ($\beta=0.822$, $t=32.88$, p value <0.05). The MFIs have been able provide entrepreneurial business finance services to the MSEs banking with them that includes training on; how to save for growth and how to ensure that they save always. This meant that the MFIs have concentrated on emphasizing on business finance by the MSEs. However, they have failed to train the MSEs on how to; save for expenses, manage savings, keep business books, general Management skills, Marketing strategies and how to increase credit worthiness as indicated by mean scores of 3.7, 4.0, 4.1 and 3.8 respectively.

5.2.3 Capacity Building Services

Thirdly, entrepreneurial capacity building services had positive and significant effect on growth of MSEs in Kenya ($\beta = 0.77$, $t =34.77$, p value <0.05). However, capacity building the MSEs do not put emphasis on training their employees and job rotation is not popular among the MSEs and the MSEs do not undertake any formal interviews only a few do which could mean they employ without undertaking formal interviews of employees. Despite the training the MFIs have undertaken for MSEs they did not introduce any new products but a few 40% of them introduced new services which show that MSEs introduced new services after training as compared products.

In relation to skills that affects growth the following skills influences the performance of MSEs; planning and budgeting skills, ability to detect changes in the environment, skills to detect changes in the environment, ability to ensure that the financial records are maintained, assessment of sales problems, market share obtaining, capital securing skills, management expertise, skills to attract and keep competent employees, good cost control skills, skills to arrange organizational structure, quality and design focus skills, skills to work together with other businesses in the same industry, skills to provide attractive range of product and marketing strategy skills. They were notable

changes of by 87% in 2012, 72% in 2013, 76.4% in 2014, 73.9% in 2015 and 74.5% in 2016.

5.2.4 Networking Forums

Entrepreneurial networking also positively influences on growth of MSEs, 33.3% of the corresponding change in MSEs growth can be explained by a unit change in Entrepreneurial Network of the MSEs ($\beta = 81$, $t = 33.63$, $p \text{ value} < 0.05$). Descriptive statistics indicated that to MSEs being a member of any social network/social groups influences the performances of MSEs to a great extent and therefore should be encouraged. Networks to a great extent the networks influence performance because; MSEs have fewer business contacts, less knowledge of how to deal with the governmental bureaucracy and less bargaining power and thus networks help deal with this. Networks helps MSEs to access more information on ways to enhance their business, assist MSEs with startup capital, helps MSEs get exposure to role models and awareness, solve problem of MSEs businesses not being well represented in industry, trade or business associations, increase the marketing for MSEs and helps business utilize external markets and gain recognition from government as indicated by modal means of 4.1.

5.2.5 Moderating Influence of External Environment

Results of the study revealed mixed moderating influence of external environment on micro finance entrepreneurial services on MSEs growth in Kenya. External environment had positive moderating influence on entrepreneurial capital services and entrepreneurial capacity building. Moreover, there effect on MSEs growth was weakened. Also, external environment had positive moderating influence on the effect of entrepreneurial capacity building and entrepreneurial networking services on MSEs growth in Kenya.

Furthermore, competition in the market for the MSEs has led to decreases the number of transactions, the number of customers won, led to failure to deliver of goods and services, increased prices of goods and services and increased quality and cost of production and created uncertainties in the market but has not affected taxes and tariffs.

The MFIs entrepreneurial services has improved the MSEs because they have started adding value through innovations, visiting competitors routinely and enhancing their in-house services experience for the customers. The external environment of the MSEs has changed and they have been forced to; lower their goods/services prices, increase the number of services that they are offering, increase their advertisement and put more emphasis on customer's satisfaction as reported by 32.9% to have great extent on their networking platforms, 51% has been induced to join membership clubs and 42.2% reported improved capacity building skills.

5.3 Conclusion

Based on this study results it can be concluded that Micro and Medium Enterprises to grow need to have access to; working capital service; entrepreneurial business finance services, capacity building service and entrepreneurial networking services from the MFIs. The access to above services has contributed positively to the growth of MSEs. However, the external environment influences networking and capacity building services offered by the MFIs which in turn affects the MSEs growth. This therefore means that the MFIs need to ensure that while offering capital and saving services to MSEs they should also consider external environment while empowering them through capacity building and also entrepreneurial networking.

Regarding the effect entrepreneurial capital services on MSEs growth. There is need to sensitize stakeholders on credit evaluation techniques. This will aid in managing working capital management amongst MSEs and ultimately advocate for healthy credit evaluation techniques which will not only enhance technical evaluation technique but also customize credit evaluation techniques. Concerning entrepreneurial business finance services accorded to MSEs and their ultimate effect on growth. It can be concluded that in order to optimize benefits accrued from them, then the training ought to be customized on book keeping, savings management, marketing strategies management and measures to be undertaken to enhance credit worthiness.

Survival and sustainability of MSEs is dependent on capacity building modalities adopted by MSEs. Therefore, there is need for MSEs in Kenya to develop measures and strategies which are geared towards developing budgeting skills, customer's

relationship management, dynamic organizational structural realignment and skills on market segmentation. This can be achieved through development of a curriculum geared towards addressing specific MSEs sector needs. There is need for MSEs to develop networking forums; this can be achieved through development of business networking initiatives. Upon development of these networks, MSEs owners will be better placed in access to requisite information which will minimize degrees of information asymmetry and ultimately aid in customer discovery as well as market segmentation. Profitability of MSEs is only solely dependent on internal environment but also external environment. There is need for MSEs to continuously evaluate their transaction costs, customer recruitment strategies, measures to enhance quality of goods and services and minimize production cost.

5.4 Recommendations

There is need to improve capital access policies for the MSEs because they cannot afford the needed collateral, meet the costs of credit. There is also need for the banks and MFIs to reduce interest rates charged and the loan repayment periods so as to make the funds affordable for the MSEs. The policies of making loans process too technical should be reviewed and corruption and fluctuating interest should be reduced. There is need for the MFIs to stop putting emphasis only on savings by MSEs but also introduce other services that empower them to grow through maintaining their business books, manage expenses and how to increase their credit worthiness as well as improve general business skills. The MSEs need to consider job rotation as a way of training their employees and they need to introduce new services and products this should be emphasized by the MFIs during their training. The MFIs need to introduce tailored training that will change and renew how the MSEs are undertaking their business to foster innovation and growth from MSEs to large organization to compete in the dynamic global market that we at in 21st century.

Network play a pivotal role and acts as pillar in any entrepreneurial venture in the current market and therefore there is need for the MSEs and MFIs to find ways to establish business network in the industry and outside. This will enable the MSEs grow the current market and increase their market beyond the current boundaries. This can

be achieved through both business and social networks that will enable them get both social and financial capital that they need for their growth. Although the external environment causes threat to MSEs if they manage the threat in positive way, they can flourish by finding ways to compete with the threats. There is need for the MSEs and MFIS to develop strategies to enhance their goods and services to compete in the global market. This can be achieved by improving through competitive marketing, pricing and increasing marketing through social media

5.5 Suggestions for Further Research

There are a number of gaps in on microfinance entrepreneurial services and growth of micro and small enterprises in Kenya and from the study findings, and would benefit from further research, including realist evaluation to extend and further test the theory that research has developed here; In-depth exploration of challenges facing MSEs survival in the globalized market in Kenya. Import challenges on survival of MSEs and growth in Kenya. Comparative analysis of growth challenges facing the MSEs in service and product industries in Kenya. Moreover, the current study used descriptive research design and relied on primary data. Longitudinal research design ought to be adopted and secondary data applied to examine the effect of microfinance on MSEs performance in Kenya. The study was limited to quantitative data there is need for subsequent to combine quantitative and qualitative data. There is to adopt structural equation modelling instead of regression analysis.

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APPENDICES

Appendix I: Introduction Letter

Purity Ngutiku,

P.O Box 10417-00200,

Nairobi.

To Whom It May Concern

RE: Request to Collect Data on Microfinance Services and Growth of Micro and Small Enterprises in Kenya

I am undertaking a research on the above subject and request to collect data on the same.

This is in partial fulfillment of the requirement of the PhD program which I am undertaking at the JKUAT University.

Your MSEs has been chosen for the study based on its strategic importance in the achievement of the objective of this study. I therefore kindly request your participation in the collection of data through the attached questionnaire.

This is an academic research and therefore, the information obtained during the research process will be used strictly for academic purposes and will be treated with utmost confidentiality. Your kind support in this regard will be highly appreciated.

Thank you in anticipation.

Purity Ngutiku

HD-413-C004-3319/13

Student JKUAT University

Appendix II: Questionnaires For Entrepreneurs

Most of the questions below are organized on table and the financial figures needed are purely for academic purposes, kindly fill where necessary.

Part A. This section of questions asks about your demographics

A1 please indicate your Age

≤ 35 years old > 35 years old

A2 Sex: Male Female

A3 Marital status: Married Single Widowed

A4 what is your level of education? Primary secondary

college university none

PART B: ENTREPRENEURIAL CAPITAL

Please indicate the extent of your disagreement or agreement with the following statements by ticking one of the boxes from (1) to (5) where (1) = strongly disagree (2) = Disagree (3) = Neither agree or disagree (4) = Agree (5) = strongly agree

B1. How does cost of capital affect your MSE in growth?

Increases the number of transactions applied

Increases the number of customers won

Lead to successful delivery of goods and services

Any other (specify).....

B2. How does collateral availability affect your MSE in public growth?

Increases the number of transactions applied

Increases the number of customers won

Lead to successful delivery of goods and services

Any other (specify).....

B2. How does **Access to Capital** availability affect your MSE?

Access to Capital Statement	Very low (%)	Low (%)	Moderate (%)	High (%)	Very high (%)
Cost of accessing credit					
Amount of interest rate paid on loan					
Fluctuating interest rates					
Amount of credit processing fee					

B3. Which one of the following is the reason SMEs do not access funding from the banks or government for growth purposes? (Tick or fill appropriately.)

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	Conditions are too stringent	1	2	3	4	5

2	Require Security	1	2	3	4	5
3	Corruption in giving out funds	1	2	3	4	5
4	Process too technical	1	2	3	4	5
5	Policies are not friendly	1	2	3	4	5
6	The interest are too high	1	2	3	4	5
7	The payment period is too short	1	2	3	4	5

Others (Specify).....

PART C: ENTREPRENEURIAL BUSINESS FINANCE SERVICES

C1. What are the entrepreneurial business finance services that you have received from MFIs?

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	How to save for growth	1	2	3	4	5
2	How to save for expenses	1	2	3	4	5
3	How to manage savings	1	2	3	4	5
4	How to ensure that you save always	1	2	3	4	5
5	How to keep business books	1	2	3	4	5
6	Management skills	1	2	3	4	5
7	Marketing strategies	1	2	3	4	5
8	How to increase credit worthiness	1	2	3	4	5

C2. Can you please explain the effect of the savings services on your growth, if any?

.....
 ...

.....

PART D: CAPACITY BUILDING STRATEGIES RENEWAL

Kindly indicate the **number of trainings sessions** you conducted for the following years

Number of trainings sessions	2012	2013	2014	2015	2016
< 2					
2-3					
>4					

D2. Kindly indicate the **number of job rotations** for the following years

Number of job rotations	2012	2013	2014	2015	2016
< 2					
2-3					
>4					

D3. Kindly indicate the **number of interviews** you conducted before the staff was employed (**screening process of applicants**) for the following years

Number of job rotations
< 2
2-3
>4

D4. What new products did you introduce into your business after the training?

Products introduced One Two Three
 Four Five and above

D5. What new services did you introduce into your business after the training?

Services introduced One Two Three
 Four Five and above

D.6 Relationship between Skills and growth of SMEs

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1.	Planning and budgeting skills affects growth	1	2	3	4	5
2.	Skills to act quickly on detecting changes in the environment	1	2	3	4	5
3.	Skills to maintain good customer relations affects growth	1	2	3	4	5
4.	Skills to detect changes in the environment affects my MSE growth	1	2	3	4	5

5.	Skills to ensure that financial records are maintained affects my MSE growth	1	2	3	4	5
6.	Skills to assess sales problems affects my MSE growth	1	2	3	4	5
7.	Skills to obtain market share that suits the size and capability of the business	1	2	3	4	5
8.	Skills to secure capital.	1	2	3	4	5
9.	Management expertise skills	1	2	3	4	5
10.	Skills to attract and keep competent employees affects my MSE growth	1	2	3	4	5
11.	Good cost control skills affects my MSE growth	1	2	3	4	5
12.	Skills to arrange organizational structure with clear lines of authority affects my MSE growth	1	2	3	4	5
13.	Skills to focus on quality and design of the products affects my MSE growth	1	2	3	4	5
14.	Skills in working together with other businesses in the same industry affects my MSE growth	1	2	3	4	5
15.	Skills to provide attractive range of products affects my MSE growth	1	2	3	4	5
16.	Skills to delegate responsibility to employees when necessary affects my MSE growth	1	2	3	4	5
17.	Marketing strategy skills affects my MSE growth	1	2	3	4	5

D9. Impact of Entrepreneurial Training

In the table below, rate the growth of your business in respect to the areas listed, before and after the training program undertaken. **Note: 1- Excellent 2- Good 3- Fair 4- Poor**

AREA/TOPIC	Before training				After training			
	1	2	3	4	1	2	3	4
Overview of Business Management	1	2	3	4	1	2	3	4
Costing & Pricing of Products/Services	1	2	3	4	1	2	3	4
Record Keeping	1	2	3	4	1	2	3	4
Preparing Business Plans	1	2	3	4	1	2	3	4
Taxation Issues in Business	1	2	3	4	1	2	3	4
Marketing of Business Products/Services	1	2	3	4	1	2	3	4

Leadership

D10. Have you ever been trained by MFIs on leadership to be a better manager of your business?

Yes no

D11. To what extent did the training on leadership that you received assisted you in improving the performance of your business?

Very great extent great extent moderate extent

low extent Very low extent

D12. In your opinion, how does capacity building influence growth of MSEs in Kenya?

Reduces Growth of MSEs

No change

Increases growth of MSEs []

PART E: ENTREPRENEURIAL NETWORKING STRATEGIES

E1. Are you a member of any social network/social groups related to the running of your business?

Yes [] No []

If yes, what are the activities carried out in the social network/social groups?

.....
.....

E2. To what extent does being a member of a social network/social groups assist you in improving the performance of your business?

Very great extent [] great extent [] moderate extent [] low extent []

Very low extent []

E3. The following statements relate to how networking skills influences performance and growth SMES t. To what extent do you agree with each of the statement? Use a scale where 1- To a very low extent, 2- To a low extent, 3- To a moderate extent, 4- To a great extent and 5-To a very great extent

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	SMEs have fewer business contacts, less knowledge of how to deal with the governmental bureaucracy and less bargaining power	1	2	3	4	5
2	Social networks helps SMES to access more information on ways to enhance their business	1	2	3	4	5
3	The social networks assist SMES with startup capital	1	2	3	4	5
4	Lack of networks also deprives SMES of awareness and exposure to good role models	1	2	3	4	5
5	SMEs businesses are not well represented in industry, trade or business associations	1	2	3	4	5
6	Networks increase the marketing for SMEs	1	2	3	4	5
7	Network helps business utilize external markets and gain recognition from government	1	2	3	4	5

E4. During the last three years ... do you have benefited significantly from existing relationships with the following actors when creating new co-operational relationships?

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	Customers	1	2	3	4	5
2	Competitor	1	2	3	4	5
3	Distributors and retailers	1	2	3	4	5
4	Suppliers	1	2	3	4	5
5	Business networks and clusters	1	2	3	4	5
6	Public research institutions	1	2	3	4	5
7	Public funders	1	2	3	4	5
8	Relatives and close friends	1	2	3	4	5

E5. What ways has MFIs supported in networking

Financial assistance [] Consulting/ business []

information [] Marketing []

Minimizing cost [] More customers []

Access to resources [] Moral support []

Any other (specify).....

.....

PART F: EXTERNAL ENVIRONMENT

F1. How does competition disadvantage edge affect participation of your MSE growth?

		Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
1	Decreases the number of transactions	1	2	3	4	5
2	Decreases the number of customers won	1	2	3	4	5
3	Lead to failure to deliver of goods and services	1	2	3	4	5
4	Reduces the prices of goods and services	1	2	3	4	5
5	Increases the quality and cost of production	1	2	3	4	5
6	Creates uncertainties in the market	1	2	3	4	5
7	Increases taxes and tariffs	1	2	3	4	5

Any other (specify).....

F2. How is your MSE looking to increase the competitive gap after MFIs entrepreneurial services access?

By adding greater value through innovation

By making the process of visiting a competitor routine and controlled

By enhancing the overall in-house experience

F3. How has competition affected the way MSEs business is done?

Lower prices []

Greater range of services []

More advertisement []

Greater emphasis on customer satisfaction []

PART G: SMES GROWTH

G1. Kindly indicate the percentage growth in **revenue, number of employees, sales volume, sister companies/branches** for the last five years?

	2012	2013	2014	2015	2016
Number of Employees					
Number of branches/ sister Companies					
Gross Revenue in Kshs.					
Sales Volume in numbers					

THANK YOU