

**DETERMINANTS OF GROWTH OF SMALL AND MEDIUM ENTERPRISES IN
THIKA TOWN, KIAMBU COUNTY, KENYA**

BY

JACINTA NDANU NGOLYA

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN
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DECLARATION

This research project is my original work and has not been presented for award of a degree or for any similar purpose in any other institution.

Signature:Date:

Jacinta Ndanu Ngolya

BUS-G-4-0032-16

This research project has been submitted with my approval of the University supervisor

Signature:Date.....

George Mugwe

School of Business

Gretsa University

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DEDICATION

This work is dedicated to small and medium enterprises in Thika that works hard to put food on the table and also have been in the fore front for the growth and transformation of Thika and in particular Kiambu County.

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ABBREVIATIONS

SMEs-Small and Medium Enterprises

GDP- Gross Domestic Product

CBD-Central Business District

MDGs- Millennium Development Goals

OPERATIONAL DEFINITION OF TERMS

Enterprise growth: it is development process of small enterprises from small to big and from weak to strong in terms of financial resources. In these case, it is measured in terms of financial growth e.g. profitability or sales turnover, strategic growth e.g. new product, structural growth e.g. new assets and finally organizational growth in terms of number of employees.

Financial Decision: these are decision made by owners and managers of small enterprises in relation terms, cost, source, investment and financing of small firms. They aim to minimize cost of finance while maximize on wealth creation for growth of small firms.

Small and medium Enterprises: these are enterprises with a range of 10 to 50 employees. They have high potential for growth though their growth is hindered by such factors as lack of capital and appropriate management skills.

ABSTRACT

Most economies in the world are depended on small business enterprises. They contribute significant amount to county's GDP. Thus, small enterprises are very important instruments for economic growth. Effective measures should be put in place to boost and sustain their growth rate in the long run. Most of big companies and organizations started as small firms. The purpose of this research was to study the key determinants responsible for growth of small business enterprises. It concentrated sources of finance, quality of management and cash management. The enterprise growth theory based on the gene combination theory and pecking order theory were used. The study used descriptive survey research design. The study was located in thika town. The target population was 10,000 small and medium enterprises. A sample size of 100 small and medium enterprises was used. Respondents were selected using simple random sampling technique. Questionnaire and personal interviews were used in collecting data. Pretesting of research instruments were done before the actual study. Data collected was analyzed qualitatively and quantitatively. Results were presented by use of frequency tables. The study on cost of capital, sources of finance, management skills and experience and cash management as the major factors affecting growth of SMEs. The findings revealed that easier access to source of finance was a key determinant to the growth of small and medium enterprises. The study also noted that bottlenecks in accessing source of finance lagged behind the growth of small and medium enterprises. The study noted that majority of the respondents stated that they financed their small and medium enterprises through family and friends contributions, chamas and sacco's, mobile loan applications and financial institutions. It was revealed that owners with efficient management skills and experience had a positive correlation with the growth of small and medium enterprises. The study also noted that poor management skills with no experience led to collapsing of small and medium enterprises. The resulted showed that small and medium enterprises that kept records of their financial statements were growing faster than those that did not keep any financial records of their businesses. The study revealed that majority of the small and medium enterprises had been prudently managing the cash flow in the business. There is need for those intending to establiush enterprises be trained on necessary skills required to maintain, and sustain busineses for survival and growth as some had started businesses and collapsed after a short period.

CHAPTER ONE: INTRODUCTION

This chapter will describe a brief background on the research. It will explore the statement of the problem, research objectives, research questions, scope of the study, significance of the study limitations and delimitations of the study.

1.1 Background of the Study

Small and medium enterprises growth has played a great role in economic development. The SMEs constitute about 90% of total business units in Ghana and account of 60% of Ghana's employed labor force (GHUESS, 2008) SMEs are increasingly recognized as important drivers of economic growth , productivity, innovation and employment ,and are widely accepted as a key aspect of economic dynamism (Hisrich2014). Thinking of economic opportunities from ideas is a positive issue of entrepreneurship in the SME environment. History shows that economic growth has been advanced by people who are entrepreneurial and innovative, able to exploit opportunities and willingly to take risks (Fabayo, 2014). Visser (2013) argued that SMEs form the backbone of emerging economies and are major source of income for most people in urban and rural communities. Hamel and Sapienza (2014) reveal that in current business conditions, where product and business model life cycles have short lifespan; such qualities are positively connected with better development and growth of enterprises. SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic businesses. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). Kongolo (2010) noted that the Small businesses in Africa play a crucial role in enhancing employment for the entire population. Small and medium sized enterprises (SMEs) are an important job generator (Carree & Klomp,1996).This is also supported by a research done on small businesses in the United States by Dr. Charles in June 2006, which indicated that U.S small businesses numbered 23 million in 2003,and it employed about half of the private sector work force, and also produces about half of the nation's private sector output. Hence, insight into the determinants of firm growth is important from a policy perspective. To this end, Ladzani and Van Vuuren (2002) stated that over 80% of the globally most rapidly developing organization are Small and medium businesses. Growth is an organizational outcome resulting from the combination of firm-specific resources, capabilities and routines (Nelson & Winter, 1982). A firm's growth opportunities are

highly related to its current organizational production activities (Coad, 2014). Moores and Mula (2000) in their study, the role of managerial control systems, including financial management in survival and successful growth of nearly 300 Australian family businesses. Moores and Mula's (1993) results clearly indicate increasing emphasis on financial management as businesses grow in employment terms and progress through the earlier stages (including a growth stage) of a business life-cycle model. Also, Stephen and Elvis (2011) noted, the Kenyan small businesses owners lack sufficient financial management skills. Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors (Winborg and Landstrom, 2001). In this regard, the government is striving to develop and adopt systems through which to empower the owners to efficiently manage their finances. Zhu, Hitt and Tihanyi (2006) argued that Small businesses are emerging as a new economic frontier due to their ability to apply the basics intangible competitiveness edges such as customer service. In spite of these facts, policy papers and support strategies have stipulated the performance of the SMEs as still dismal.

Some SMEs close down within their 1st year of operation, others within less than 2 years old and others within less than 6 years; thus hardly gain from experience. Philip and Kirchhoff (1989) argues that young firms without growth or with negative growth are more likely to fail in future. However, small businesses do not always stay small. The Kenyan vision 2030 and Millennium Development Goals (MDGs) aims to improve growth rate of small enterprises in order to maintain economic stability, eliminate unemployment by increasing job opportunities, boost country's GDP and improve country's welfare generally in the long run.

In most parts of the world, industrialization and economic growth started as SMEs that eventually grew to become big industries (Harris and Gibson, 2014)

The SMEs in South East Asian countries like China, Japan and India among others have grown in terms of market share, asset value, profitability and even sales return over based on the production of quality goods and services (Maragia, 2013). In Kenya, through SMEs contribution to the economy, and to poverty reduction, business people in the SME have faces many problems in financial credit, market and support from the government.

1.2 Statement of the Problem

Kenya is one of the rapidly growing 3rd world countries in Africa. Small and medium enterprises have proved to a significant contribution to the economic development and growth of GDP. They are the key employment sector in the country, employing up to 80% of the Kenya's population. Due to lack of adequate knowledge, small businesses pay little attention to their management issues by concentrating on short term factors such as profit maximization. There are determinants of growth which includes cash management, investment decision, cost of capital and sources of finance which are underutilized or never utilized at all leading to slow growth, stagnation or even collapse of small enterprises. In Thika, there have been rise of small and medium enterprises with even itinerant traders on rise particularly in the evening. Therefore this study sought to establish the determinants of the growth of small and medium enterprises in Thika town.

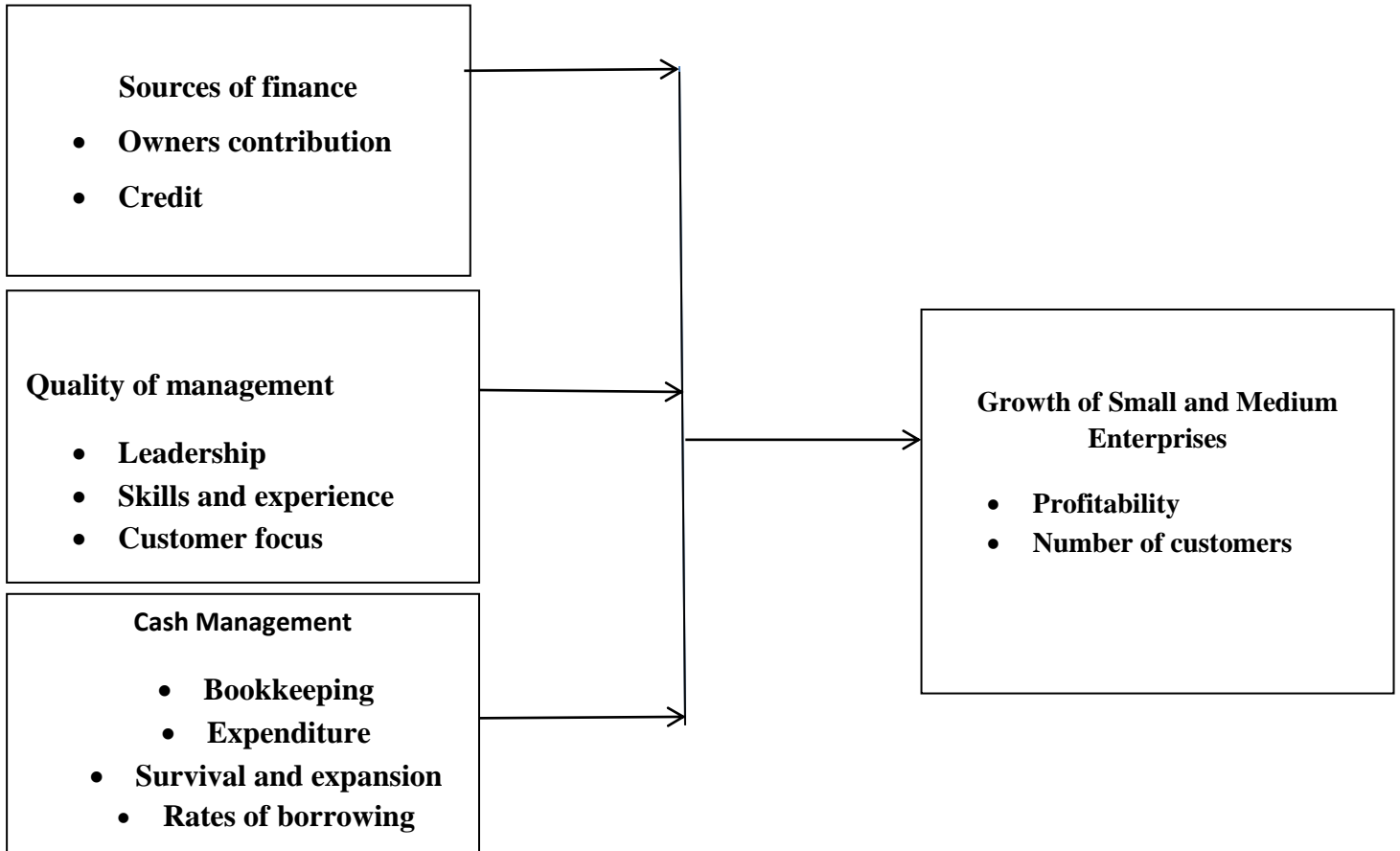
1.3 Purpose of the Study

This study aimed to examine what determines the growth of small and medium business in Thika town.

1.4 Conceptual Framework

Independent Variable

Dependent Variable



Source: Researcher (2020)

Figure 1: Conceptual Framework

1.5 Research Questions

The study questions were:

1. How does source of finance affect the growth of small and medium enterprises?
2. How does quality of management affect growth of small and medium enterprises?
3. How does the cash management affect the growth of small and medium enterprises?

1.6 Objectives of the study

1.6.1 General Objectives

The general objective of this study were to find out the determinants of growth of small and medium enterprises in Thika Town, Kiambu County, Kenya.

1.6.2 Specific Objectives

The study objectives were:

1. To find out how sources of finance affect the growth for small and medium enterprises.
2. To assess how quality of management affect the growth of small and medium enterprises.
3. To assess how cash management affect the growth of small and medium enterprises.

1.7 Significance of the study

As the current Kenyan constitution emphasizes on devolution as the key driver to attaining local sustainable development at county level, the findings of this study make bargains in formulating both national and county budgets with aim of promoting small organizations. This greatly boost the growth of these firms. Also, the output of the research may be used by potential investors who aim to start small enterprises. It provide information about financial constraints in the sector to facilitate such investors make informed decision. Again, the current managers and owners of small firms will use the research findings of the study for their competitive advantage, growth and expansion strategies.

1.8 Delimitations of the study

The study was carried out in Thika Town which is in Kiambu County, Kenya. Thika town being one of the rapidly growing towns in Kenya with small business units, it made a suitable area of interest appropriate for this study. In addition the town Centre is a secure place with good transport and communication networks. The study focused on factors responsible for growth of

small firms. It was interested in accessing management skills, cost of finance, and the sources of finance to small and medium enterprises only.

1.9 Limitations of the study

The study was limited by bureaucracy. The researcher encountered hard time during the process of answering questionnaires because of the rules and regulations stipulated by the organizations. The researcher also faced the limitation of secondary data. The researcher used secondary data that is information about the company that is already published. This was subject to inaccuracy or old and out of date data.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviewed literature that was related to the key determinants of small and medium enterprises growth. It identified the knowledge gaps specifically on availability of capital investment among small enterprises, cost of finance, sources of funds to small and medium businesses and management of cash as the determinants of growth of small businesses. This chapter also contained a theoretical framework for the study.

2.2 Review of Literature

According to Kenya National Bureau of statistics (2013) , three out of every five SMEs businesses close down within the first two years of operation. The government and the private and public organizations realized that economic growth helps in investing in the SME sector. Therefore these bodies have encouraged people to engage in small and medium enterprises so as to create job opportunities.

2.3 Sources of finance for small and medium enterprises

Often, small business entrepreneurs use their family finances to fund their businesses. Some also seek external funding which can include extra equity or debt from family and friends, debt from financial institutions or equity from venture capital funds. According to pecking order theory, companies prioritize their sources of financing according to the principle of least effort. That is companies first use internal financing and if they cannot get any other capital through debt financing, they opt for external equity. This theory was first suggested by Danaldson (1961) and later on modified by Myers and Mujluf (1984). This idea can be explained by the fact that internal financing is the cheapest way to raise capital and also, for small and medium businesses, they have limited access to debt financing and equity financing. And if they have to use external finance, they should be ready to pay a high price for it. Small enterprises mainly have a higher failure risk Huggherbaert and Van de Gught,(2007). This limits growth of such firms. A study by A J (2005)suggest that, small enterprises are reluctant to sharing ownership which leave them opting for short term debt financing which limit the rate of growth. It has been argued that businesses which share and are willing to share part of their ownership with other parties are likely to grow than those which are not willing to share equity (Kinsella et al 1993). Thus the significance of the source of financing cannot be overlooked since capital is a major determinant of growth of small and medium businesses. A research is needed on the forms of finance offered

by lending institutions and investors. Also we need to predict how different forms of finance will affect the allocation of profit between income, investment and consumption, all of which determine the growth of the concerned firm. Firms first exhaust internal sources before going for external sources.

Cost of finance is one of key determinant of growth of small and medium enterprises. Research shows that over the last three years, small and medium enterprises have resulted to using external financing. However, high interest rates and unfavorable terms among small businesses have been a great hindrance. Interest rates of small business loans are generally higher than those for large business loans and mortgages. Previous studies have highlighted the limited access to financial resource availability to smaller enterprises as compared to longer organizations and consequence for their growth and development (levy 1993). Typically, small enterprises face higher transaction costs than larger enterprises in obtaining finance (saito and villanueva 1981). Insufficient funding has been made available to finance working capital (ped and Wilson 1996). Also poor management and accounting practices have decreased the ability of smaller enterprises to raise finance. Despite these claims some studies show a number of small enterprise fail because of non-financial reasons (Liedhdm, Maeperson and Ghutu 1994). However its strongly argued that, in the current world cost of finance is one of the key determinants of growth of all firms, especially small and medium when considerable amount of knowledge is known about the cost of finance and growth of small enterprises. This knowledge continues to be imperfect due to dynamic move in economic environment. This still pause a large number of questions which remain unanswered in the growth of small and medium enterprises.

2.3 Quality of Management

Apart from source of finance, the skill and level of experience is another key factor which determines growth of small and medium businesses. Research done by Enock Mconok (2010) show that many small and medium businesses managers and owners lack past experience in the same business since in most cases, they are the real entrepreneurs who actually sorted the business from sorup. Contrary it is hypothesized that background skills and experience are likely to be associated with more rapid growth of small firms. This is true as experience gives such entrepreneur(s) or manager(s) adequate managerial capabilities to handle and overcome easily problems which are experienced as the new business grows. In this context management background skills and experience implies previous self-employment in the same business as

previous business failure. According to Enock Mconok(2010) a research on factors limiting growth of small businesses, small and medium enterprises often experience slow growth rate due to lack of management skills and experience. However, these researchers did not explain to what extent does management skills and part experience influence growth of small firms.

2.5 Cash Management in Small Enterprises

Business ability to collectively manage its current asset most effectively reflects its overall capacity for future growth and exposition. The question is whether businesses will grow faster if they hold a sustained level of current asset (cash) to pay off their short term liabilities. Mateer and Anastason (2010) measure the level of short term liquidity by current ratio. The ratio was part of firms specific characteristic which may affect the company`s growth. According to Beckman and Robinson(2004), a good cash cycle begins with healthy working capital and good relationships with supplier. Furthermore, Gill and Mathur(2011) found out that firms that are able to maintain higher liquidity levels will face less severe financing constrains. Surplus cash will minimize financing constraints enabling the company to finance growth opportunities at lower cost. Basically a company that is able to invest at a reduced cost will be more motivated to invest more, specifically aiming for growth. From the above, a determining technique namely decision tree induction used by limere and van hoof 2004 proved that increased growth ambitions will finally strengthen the firms growth. To add on, Adderson 2002 expressed in his working paper, published by the national bank of Belgium, similar beliefs about holding liquid assets. Generally researchers, managers and entrepreneurs believe that cash management has a positive impact on firm`s growth but they are not certain. Holding excess working capital may cause a firm to have a slow growth rate or even see it close down.

2.6 Theoretical Framework

2.6.1 Pecking order theory

This theory was first suggested by Donaldson in 1961 and was modified by Stewart C Myers and Nicholas Majly in 1984. It states that, companies prioritize their sources of financing from internal to equity, according to the principle of least effort or of least resistance preferring to raise equity as a financing of last resort. Hence, internal financing are used first and when that is depleted, debt is issued and when it is not sensible to issue any more debt, equity is issued.

Firms prefer internal financing source of finance and cost of finance available to small firms.

If external financing is required, firms issue the safest security first. There is also the negative signaling associated with issuing equity and a positive signaling associated with debt –which relates to management skills and experience, source and cost of finance.

2.6.2 The enterprise growth theory based on the gene combination theory

The authors of this theory are Francis J Govillart and James N Kelly's in their book "Business Transformation 1988"

In this book, the enterprise is regarded as the organism and various factors influencing the growth of the enterprise are looked upon genes and chromosomes, which present a special view. The concept of "Biological Corporation" is proposed in the book, and the eternal life of a body, "Biological Corporation" rested with that whether it had the ability to drive all systems to transform and describe those systems i.e. "Twelve Biological Corporation Systems". The business transformation theory thought that the role of the leader was the gene engineer of "Biological Corporation". Just like the organism, because of tiny mistakes of DNA reproduction, certain gene will mutate and the result of this mutation may be good or bad, and maybe this mutation just limits the theoretical base ship which induces last bud private enterprise growth and makes the individual develop to good direction. Therefore, the environment change does not mean good or bad and the key problem is that the change doesn't mean opportunity or threat for the "Biological Corporation" i.e. the enterprise. So the transformation of "Biological Corporation" should be the transformation of various systems together.

Genes relate to other factors which determine growth of an enterprise such as source and cost of finance, and management skills and experience. The theory suggest that, a tiny mistake with

financial managers when deciding these determinants will greatly affect the growth of the entire organization either positively or negatively.

The theory also suggests that, external level of technology will have no significant effect on the growth of enterprise unless influenced by management through making appropriate decisions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It indicates the various steps that are generally adopted by a researcher in studying his research problem. This chapter discussed the research design, the area where the study was carried out, target population, sampling techniques, sample size, measurement of the variables, research instruments, validity and reliability of the measurements, data collection techniques, data analysis and the logical and ethical considerations in the research.

3.2 Research design

The research used a descriptive survey design to gather data. According to Kombo and Tom (2006) define descriptive survey as a method of research which gathers data at a particular point in time with the intention of describing the existing conclusions of or determining specific information. This design enabled use of questionnaires, interviews and observation schedules to gather information for the study. The design used both quantitative and qualitative data to find the solution to what will be study

3.2 Study Area

The study was conducted at Thika town Centre, CBD. This town is found in Thika constituency in Kiambu County. The researcher was interested in the area because it is one of rapidly growing town in Kenya with many small business enterprises emerging each and every day. The area generates high cash flow towards the county's economy.

3.3 Target population

A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. Schindlers (2003) described the target population as the complete set of individual's area of objects with some common characteristics to which the researcher wants to generalize the result of the study. The target population was composed of small business owners, managers, accounting and finance personnel and the support staff in the small businesses within Thika CBD .These were key people concerned with the both daily and long term running of small firms hence they will be able to provide accurate information. As per the county reports in 2019, there were 10,000 registered small and medium enterprises within Thika town (County report, 2019).

3.4 Sampling technique

A small portion of small and medium businesses was selected within Thika Town Centre. Simple random sampling technique was used. The study randomly selected 100 respondents.

3.5 Sample size

According to Mugenda and Mugenda (2003), 10-30% of the target population can be used as sample size. The study used 10% of the target population. Hence, the sample size was 100 respondents.

3.6 Research instruments

The researcher used Questionnaires, interview schedules and document analysis schedule during the fieldwork. The tools was administered as follows.

3.7.1 Business Owners, managers and finance personnel's Questionnaire.

The questionnaire was given to the owners of the business, managers and finance personnel to give crucial information. It was aimed at collecting information relating to: cost and source of finance, cash management tools, management skills and past experience. This technique was used because it was suitable to collect confidential information. Questionnaires was easily circulated and cover a wider area. The questionnaire contained closed ended questions. They were delivered to the target group physically.

3.7.2 Business owners and managers interview schedule.

This technique was administered to collect information on; how they finance their business, past management experience, and professional skills. The technique was applied because firsthand information was obtained. The researcher was able to interact with the respondents on face to face basis. There was a room for clarification. Researcher was able to ask questions outside the interview schedule in order to obtain more clear information.

3.7.3 Document analysis schedule.

Document analysis schedule was facilitated by accounting personnel together with support staff to analyze financial statements, balance sheets and cash flows reports during the fieldwork with permission from the business owners or top managers. This technique was applied because it obtained firsthand information directly from the financial records. It avoided cases biased information as the researcher was able to see the physical evidence of information provided from questionnaires and interviews. It was basically act as a supplement source of information. This

technique was also help in minimizing misinterpretation and eliminate errors from information provided.

3.8 Validity of Measurements

Validity is the degree by which the sample of test items represents the content. The data was tested for reliability to establish issues such as data collection, presence of any biasness and the level of accuracy. The test for reliability was to establish the extent to which the results are consistent over time. Reliability test was carried out to test the consistency of research tools with a view of correcting them. The researcher checked and verified questions and any other collected information during the process of data collection to ensure completeness and accuracy of data. The researcher administered pre-testing of instruments to ensure that respondents were able to understand the questions correctly.

3.9 Reliability of measurements

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Orodho, 2017). In order to collect reliable information; the researcher designed the interview schedule and questionnaires through an elaborate procedure involving a series of revisions to ensure that field work is conducted by use of high quality data collection.

3.10 Data Collection Techniques

The work of data collection may be tedious and time consuming considering that three techniques of collecting data was employed. To avoid these shortcomings and increase efficiency, the researcher obtained recommendations from Grets University. The researcher visited the selected firms prior to the actual study. Researcher obtained permission from the relevant authorities to carry out the research on such organizations. Upon grant of research permission, formulated questionnaires were distributed to specified categories person(s) i.e. business owners, managers and finance staff by the management upon request. The interview schedules were administered four days after distributing the questionnaires. The respondents were asked five to eight questions and their responses recorded. Document analysis was also carried out on the same day with the assistance from support staff. The researcher collected the filled questionnaires from the management on the day of interview to finalize on data collection. To get adequate clarification and avoid confusion, the researcher started from the lowest level to the highest.

3.11 Data Analysis

Both qualitative and quantitative methods were used to analyze the data. Quantitative data was generated from the close-ended items in the questionnaires.

3.12 Logistic and Ethical Considerations

3.12.1 Logical considerations

The researcher obtained relevant authority and followed the required chain to get the information from the study area. The major problem in this study was privacy and confidentiality of the respondents. Obtaining a valid sample entailed gaining access to specific lists and files such as financial statements and reports containing vital information of the respondents, which was an infringement on the privacy and confidentiality of the respondents, but this was the only way to construct a sampling frame and generate a representative sample.

3.12.2 Ethical considerations

The respondents were briefed about the purpose of the study before their participation and assured of confidentiality about the data they provided. The respondents were expected to respond voluntarily and thus ignored items that they do not wish to respond to. The researcher had a note book and a pen to record any relevant information. Researcher used both official and national language as per the need. Respect, punctuality and honesty were the key motivator for the respondents to participate in the process.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the responses of the respondents having been analyzed and presented in frequency tables.

4.2 Response Rate

The researcher issued 100 questionnaires to the respondents in a drop and pick later method. The study noted that only 75 respondents returned questionnaires while 25 respondents never returned the questionnaires given to them.

Questionnaires	Frequency	Percentage
Returned	75	75%
Never returned	25	25%
Total	100	100%

Table 1: Response rate

4.3 Respondents Gender

The study showed that 43 respondents were female and 32 respondents were male. The study noted that majority of the respondents were female.

Gender	Frequency	Percentage
Female	43	57%
Male	32	43%
Total	75	100%

Table 2: Gender

4.4 Level of Education

The study wanted to find out the level of education of the proprietors of the small and medium enterprises. The findings revealed that majority of the respondents (34) had received secondary education. The results also noted that 27 respondents had attained college/university education. The study further shown that 14 respondents had never gone beyond primary education.

Education level	Frequency	Percentage
Primary	14	19%
Secondary	34	45%
College/university	27	36%
Total	75	100%

Table 3: Level of education

4.5 Longevity in Business

The study wanted to find out for how long the owners have operated the small and medium enterprises. It was noted 36 respondents had operated for 1-5 years. The results had shown that 28 respondents had in operation for 5-10 years. The findings also revealed that 11 respondents had perservered in business for 10 years and above.

Duration in business	Frequency	Percentages
1-5 years	36	48%
5-10 years	28	37%
10 years and above	11	15%
Total	75	100%

Table 4: longevity in business

4.6 Business Environment

The study wanted to find out if the business small and medium enterprises have conducive environment to operate. The study noted that 56 respondents stated that the business environment was conducive though competitive. The findings revealed that 19 respondents stated that the business environment was not conducive and they were struggling to survive.

Business environment	Frequency	Percentage
Conducive	56	75%
Not conducive	19	25%
Total	75	100%

Table 5: Business environment

4.7 Sources of Finance

The study noted that majority of the respondents stated that they financed their small and medium enterprises through family and friends contributions having recorded the highest mean of 4.16. The analyzed data showed that the owners of the small and medium enterprises had relied on chamas and sacco to operationalize their businesses and had been using them to expand and sometimes to stock their businesses (mean of 3.85). Respondents stated that they had used mobile loan applications to finance their businesses. They argued that mobile loan application was readily available with no collateral required to get loan (mean of 3.79). The

Statements

Mean	Standard deviation
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study found that small and medium enterprises had utilized various government platforms which were offering loan to businesses with no interests with a mean of 3.07. The study further revealed that banks and other financial institutions were the least preferred by small and medium enterprises in accessing loan and capital for expansion and growth with the least mean of 2.84.

Table 6: Source of Finance

4.8 Quality of Management

The study noted that majority of the proprietors running small and medium enterprises had basic management skills in running the affairs of the business with the highest mean 4.45. The findings revealed that respondents asserted that there were no much skills required in operating small and medium enterprises (4.29). The results showed that owners of small and medium enterprises had gained skills and experience while managing and running the business with a mean of 3.77. Some respondents argued that they had experience in running and managing businesses (mean=3.56). Through interviews, they said that they had been employed in other businesses and also runned family businesses before opening their ventures. The study noted that least respondents stated that there were platforms where small and medium enterprises were trained on business management skills particularly in bookkeeping, financial statements, reporting and analysis (mean of 3.38).

Statements	Mean	Standard Deviation
I have prudently managed the cash flow in the business	4.06	0.98
I have been trained on business management skills	3.38	0.79
I have an experience in running and managing business	3.56	0.51
Every cash entering business must be accounted before any expenditure	3.69	0.55
I have basic management skills in running affairs of the business	4.45	0.92
No much skills required in operating the businesses	4.29	0.76
I have gained skills and experience while managing and running the business	3.77	0.83

Table 7: Management skills and experience

4.9 Cash Management

The study revealed that majority of the small and medium enterprises had been prudently managing the cash flow in the business, it was noted with the highest mean of 4.06. The findings through observations and interviews that small and medium enterprises had kept financial statement of the business which guided in analyzing and reporting the progress of the business (mean of 3.98). The study impressively showed that respondents had utilized the income in business by expanding business and repaying loan (mean of 3.83). Respondents stated that they were accounting for every cash that entered business without any expenditure (mean of 3.69). The study further revealed that small and medium enterprises were receiving several training, seminars and conferences on cash management which had improved small and medium enterprises with the lowest mean of 3.50.

Table 8: Cash management

4.10 Growth of Small and Medium Enterprises

The study noted that management skills and experience has led to the growth of small and medium enterprises in Thika town with the highest mean of 3.89. The findings also showed that prudent cash management with financial statements and bookkeeping had assisted in knowing the progress of the business and making informed decision (mean of 3.81). Respondents agreed

Statements	Mean	Standard deviation
Easier source of financing has led to growth of small and medium enterprises	3.54	0.79
Management skills and experience has boosted the growth of small and medium enterprises	3.89	0.76
Prudent cash management has sustained and enhanced growth of small and medium enterprises	3.81	0.75

that easier source of financing had contributed immensely to the growth of small and medium enterprises in Thika town.

Table 9: Growth of small and medium enterprise

4.11 Regression Analysis

The coefficient of determination (R square) illustrates how changes in dependent variable can be illustrated by changes in independent variables. In table 10, independent variables (source of finance, management skills and experience and cash management) were illustrated by 58.5% (.585-R square) of the small and medium enterprises. This implied that the three independent variables considered only determined 58.5% of the growth of the small and medium enterprises. However, other variables that were not incorporated in the study contributed to 41.5% (100%-58.5%) of the determinants of the growth of small and medium enterprises.

Model R R square Adjusted R square Std. Error of the Estimate

1 .765^a .585 .579 0.354

Table 10: Model fitness

a. Predictors: (constant), source of finance, management skills and experience and cash management

Dependent: Small and medium enterprises

4.12 Analysis of Variance

The study tested the extent of the relationship between independent variable and dependent variable using p-value. When the significant number is less than p value (statistically set at 0.05), it can be concluded that there is a significant relationship between source of finance, management skills and experience and cash management with small and medium enterprises. The statistical significant number was 0.000. This indicated that the independent variables were key determinants of the growth of small and medium enterprises. This was strengthened by F statistics of 120.148.

Model	Sum of the square	Df	Mean Square	F	Sig.
Regression	54.265	5	13.568	120.148	.000 ^b
Residual	37.528	344	0.208		
Total	91.793	349			

Table 11: Analysis of variance

4.13 Regression Coefficient

From the table below, when growth of small and medium enterprises are at constant (0.471), there are no determinants. The findings showed that any increase in source of finance, management skills and experience and cash management at 0.368, 0.385 and 0.372 would lead to increase in the growth of small and medium enterprises. The model is significant since it is less than 0.05. The formula is as follows;

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + c$$

X1=Source of finance, X2= Management skills and experience X3= cash management c= constant

Y=depedent variable

$$Y = 0.368X_1 + 0.385X_2 + 0.372X_3 + 0.471$$

Model	Unstandardized		Standardized	T	Sig.
	coefficient				
	B	Std. error	Beta		
Constant	0.471	0.096		3.692	0.000
Source of finance	0.368	0.058	0.179	2.041	0.000
Management skills and experience	0.385	0.063	0.182	2.538	0.000
Cash management	0.372	0.066	0.291	2.373	0.000

Table 12: coefficient of determination

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the findings in regard to chapter four, gives conclusion and recommend policies for action and further study.

5.2 Summary

The study focused on the determinants of the growth of small and medium enterprises in Thika town. The determinants considered were source of finance, management skills and experience and cash management. A total of 100 respondents took part in the study, however only 75 respondents actively took part in the study. Majority of the respondents were female. Most of the respondents had completed secondary education. The study noted that majority of the respondents had been operating their enterprises for 1-5 years and the business environment was conducive though competitive.

The first objective was to find out how sources of finance affect the growth for small and medium enterprises. The findings revealed that easier access to source of finance was a key determinant to the growth of small and medium enterprises. The study also noted that bottlenecks in accessing source of finance lagged behind the growth of small and medium enterprises. The study noted that majority of the respondents stated that they financed their small and medium enterprises through family and friends contributions. The analyzed data showed that the owners of the small and medium enterprises had relied on chamas and saccoes to operationalize their businesses and had been using them to expand and sometimes to stock their businesses. Respondents stated that they had used mobile loan applications to finance their businesses. They argued that mobile loan application was readily available with no collateral required to get loan. The study found that small and medium enterprises had utilized various government platforms which were offering loan to businesses with no interests. The study further revealed that banks and other financial institutions were the least preferred by small and medium enterprises in accessing loan and capital for expansion and growth.

The second objective was to assess how quality of management affect the growth of small and medium enterprises. It was revealed that owners with efficient management skills and experience had a positive correlation with the growth of small and medium enterprises. The study also noted that poor management skills with no experience led to collapsing of small and medium

enterprises. The study noted that majority of the proprietors running small and medium enterprises had basic management skills in running the affairs of the business. The findings revealed that respondents asserted that there were no much skills required in operating small and medium enterprises. The results showed that owners of small and medium enterprises had gained skills and experience while managing and running the business. Some respondents argued that they had experience in running and managing business. Through interviews, they said that they had been employed in other businesses and also runned family businesses before opening their ventures. The study noted that least respondents stated that there were platforms where small and medium enterprises were trained on business management skills particularly in bookkeeping, financial statements, reporting and analysis.

The third objective was to assess how cash management affect the growth of small and medium enterprises. The resulted showed that small and medium enterprises that kept records of their financial statements were growing faster than those that did not keep any financial records of their businesses. The study revealed that majority of the small and medium enterprises had been prudently managing the cash flow in the business. The findings through observations and interviews that small and medium enterprises had kept financial statement of the business which guided in analyzing and reporting the progress of the business. The study impressively showed that respondents had utilized the income in business by expanding business and repaying loan. Respondents stated that they were accounting for every cash that entered business without any expenditure. The study further revealed that small and medium enterprises were receiveing several training, seminars and conferences on cash management which had improved small and medium enterprises.

5.3 Conclusions

The study revealed that source of finance, management skills and experience and cash management were determinant to the growth of the small and medium enterprises. The findings revealed that easier source of financing, effective and efficient management skills and experience and prudent cash management bolstered the growth of small and medium enterprises. However, the study noted that there were other determinants of the growth of small and medium enterprises and hence recommend for further studies.

5.4 Recommendations for Policy/Practice

1. The study noted that for one to receive government loan, you must be in group, there is need for government to consider giving changing policies to ensure those that want to establish business as an individual be considered in government loans.
2. There is need for those intending to establish enterprises be trained on necessary skills required to maintain, and sustain businesses for survival and growth as some had started businesses and collapsed after a short period.
3. There were poor financial statements and recordings which could not help in decision making. This calls for prudent financial statements and the need to request for assistance on the ways to maintain proper financial statements which will assist in informed decision making and persuade financial institutions while applying for loan.

5.5 Recommendations for Further Research

The study recommends for further research on other determinants of the growth of small and medium enterprises since the study only focused on cash management, source of finance and management skills and enterprises. The study also recommends on the effects source of finance on growth of small and medium enterprises with particular focus on financial institutions such as banks.

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QUESTIONNAIRE

SECTION I: GENERAL INFORMATION

Gender

Male

Female

Level of Education

Primary

Secondary

College/University

How long have you conducted the business?

1-5 years

5-10 years

10 years and above

Do you have a conducive environment for business operation?

Yes

No

SECTION II: SOURCE OF FINANCE

Kindly tick within boxes provided per each statement

SECTION III: MANAGEMENT SKILLS AND EXPERIENCE

Tick within the boxes provided

Statements	1	2	3	4	5
Family and friends have been source of capital to many businesses	1	2	3	4	5
I have been trained on business management skills					
The government is providing capital with no interest to the youth and women					
I have an experience in running and managing business					
There are basic management skills in running affairs of the business					
Characteristics required in operating the business					
Properly gained skills and experience while managing and running the business					
Bank and other financial institutions are always ready to give capital to emerging businesses					

SECTION IV: CASH MANAGEMENT

Statements	1	2	3	4	5
I have prudently managed the cash flow in the business					
I have been able to utilize the income in business by expanding business and repaying loan					
Every cash entering business must be accounted before any expenditure					
I keep financial statement of the business which guide in analyzing and reporting the progress of the business					
There have been several training, seminars and conferences on cash management which have improved small and medium enterprises					

SECTION V: GROWTH OF THE SMALL AND MEDIUM ENTERPRISES

Statements	1	2	3	4	5
Easier source of financing has led to growth of small and medium enterprises					
Management skills and experience has boosted the growth of small and medium enterprises					
Prudent cash management has sustained and enhanced growth of small and medium enterprises					