SELECTED DETERMINANTS OF PROFITABILITY OF MICRO AND SMALL ENTERPRISES IN KENYA.CASE STUDY NAKURU CITY

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DEFINITION OF TERMS

Micro Business enterprises: Business enterprises that have less than 10 employees and annual turnover no exceeding Kshs 500,000.

Small business enterprises: business enterprise that employs between 10 to 49 employees and have annual turnover between Kshs 500,000 to 5, 000,000.

Medium Business enterprises: defined as business enterprise with annual turnover between Kshs 5 million to Kshs 800 million and employ between 50-99 employees.

Micro Small and Medium enterprises: these are all business enterprises that have annual turnover not exceeding 800 Kenya Shillings and employees no exceeding 99 people.

Central Business District: The main business area or commercial centre within a city or a considerably big town. It is usually characterized with high multi-storey buildings, high number of people, offices, shopping malls, business centers among others.

Government policies: various principle of action, rules, and regulations adopted by the government of Kenya to regulate and support growth of MSEs. This may include provision of incentives coupled with various rules and regulations to check their activities.

Finance: Resources needed by MSEs to start and sustain their business. Aims at funding business activities. Can be obtain from banking or non-banking financial institution, formal of non-formal lenders as well as from personal saving or disposing some of the assets.

Location of the business: physical location where the Micro and Small Business is situated in the central business district.

Competition: Business enterprises who compete for the same resources or customers in the market.

ABSTRACT

Micro and Small business Enterprises (MSEs) play important role of industrialization, innovation and vibrant growth in both developing and developed countries. This study focuses on Micro and Small businesses in Nakuru City Town. The study was guided by the following objectives; to examine the effect of government regulations and policies, accessibility of credit financing, market competition and location on profitability of MSEs in Kenya. The study adopted mix research design. The target population was 1486 MSEs businesses operating in Nakuru city Town. A sample of 296 MSEs-20% of the target population-was selected using multi stage sampling that involved stratifying the MSEs according to their business activities then selecting the respondents using simple random sampling method. A structured interview guide and questionnaire with both closed and open ended questions were used to collect data. Piloting and content validity test were used to assess the validity whereas Cronbachs alpha coefficient was used to assess the internal consistency and reliability of the data collection instruments. The data was analyzed using quantitative methods the percentages, mean and standard deviation whistle inferential statistics Pearson correlation coefficient analysis, simple regression model and multiple regression analysis were used to analysis the relationship between the dependent and independent variables. Where applicable ANOVA analysis tested the extent to which the independent variable was able to explain dependent variable. In support to analysis SSPS version 21 was used to analyze the data. The study concluded government regulation, credit financing, competition and location affects profitability of MSEs in Kenya to great extent. The study recommended the central and county governments need to reduce legal requirements and regulations governing SMEs as well as set some funds apart in order to support them. Its further recommend financial institutions should also have credit financing products which can fit MSEs. The county and central governments should also provide infrastructure, security and provide clean and accessible markets where these traders can conduct their businesses.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

European commission (2012) defines Micro, small and medium sized enterprises commonly abbreviated as (SMEs) depending the number of employees and annual turnover. Micro, small and medium sized enterprises are defined as enterprises which employ less than 250 persons and have annual turnover not

exceeding 50 Million Euros and or an annual balance sheet total not exceeding 43 million Euros. In Kenya, under Micro and Small Enterprise Act of 2012, micro enterprises are defined as business enterprises that have a maximum annual turnover of Kshs 500,000 and employ less than 10 people. Small enterprises have annual turnover between Kshs 500,000 and 5 million and employ 10-49 people. Medium enterprises are not covered under the act, but have been reported as comprising of enterprises that employs between 50-99 people and with a turnover of between Kshs 5 million and 800 million.

World Bank Economic (2020) conducted by World Bank, indicated that Micro, Small and Medium business enterprises (MSMEs) account for approximately 95 percent of firms in majority of the countries in the world. MSMEs satisfy local demand for goods and services, create jobs opportunities, contribute to Gross Domestic Product (GDP), fuel industrial growth and development as well as support large firms with inputs and services. In 2020 World Bank economic survey session paper 5 also noted in Africa, MSEs create 80 percent while in Kenya 87 Percent of jobs created in 2019 were dominated by SMEs. Hence MSEs play a key role in economic development and job creation. Bowen, et.al (2019) noted MSEs are the major driver for innovation, competition and employment in many economic sectors.

In the contemporary trade concepts, MSEs occupies a remarkable market share in the fields of services, retail, construction, household and front end of supply chain industries (Mbugua et.al, 2017). They reflect the competitive spirit and efficiency of any market economy by providing outlet for entrepreneurial talents, wide variety of consumer goods and services, check monopoly inefficiencies, a source of innovation, and a seedbed for new industries. Calvin et.al 2018) added MSEs they allow economy to be more adaptable to structural change through continuous initiatives embodying new technologies, skills, processes or products.

Melissa, (2017) noted in Africa, MSEs has established a new middle class by creating 80 percent of both direct and indirect employment, and stimulating innovation and demand for new goods and services. She added this is attributed to their simple structure and their ability to quickly respond to changing economic conditions and meet local customer's needs. Hence MSEs have played crucial role in development of African economy, through provision of jobs hence complementing the government effort of job creation. Oludele and Emilie, (2019) added the SMEs in Africa struggles to achieve a stable growth rate and maintain the vision that was set by the entrepreneurs due to the market uncertainty and lack of guidance from established organization. SMEs should be supported furthermore to empower the national economy

and contribute in solving the high unemployment problem. Reijonen & Komppula, (2019) mentioned Dubai and UAE countries supports SMEs in transformation of their economy and to diversify the sources of income than just relying on oil exports proceeds. It is estimated that MSEs count for 90% of business enterprises within UAE that provide provides about 63% of the employment opportunities to the citizens; contributing to approximately 70% of the Emirates GDP.

According to Kenya Economic Report (2021) Small-scale enterprises are significant players in the Kenyan economy bringing about enlarged participation of native people in production and provision of services while promoting utilization and usage of local resources and technologies. The report maintains SMEs are principal source of jobs and income. In Kenya, most SMEs fall under the informal sector of which it is estimated to constitute 98 percent of business in Kenya, contributing 70 percent of jobs created contributing approximately 44% to the Kenyan GDP in 2019 and over thirty percent of the value added in industrial manufactured goods. The government recognizes the role of the informal sector and SMEs which are estimated to be approximately 8.5 million in the year 2019. The figure is expected to raise in the consecutive years hence the government should seek for ways to integrate these SMEs into the formal sector since they play a fundamental role in the economy. Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Gichuke, 2019).

(Kinyua, 2017) economic planners have realized the importance of the Micro and Small Enterprises (MSEs) sector in achieving economic development. According to Capital Market Authority report, (2015) MSEs create employments for more than seventy percent of people in urban areas and over ninety percent in the rural setup. Kenya Economic Report, (2021) identified the role played by MSEs in terms of industrialization and economic growth. They also help the countries to grow and increase their per capita income, create employment opportunity, enhance regional economic balance through industrial distribution and promote utilization of locally available resource that are critical for engineering growth and development.

Most SMEs tend to be concentrated in a relatively narrow range of activities such as knitting, dressmaking, retail trading and in jua-kali and other service industry (Sharu & Guyo (2017). William & Abraham (2018)

identified MSEs Enterprises to include a variety of firms; handicraft makers, small machine shops, restaurants and computer software shops firms that possess a wide range of sophistication and skills and operate in very difficult markets and social environments. Despite the importance of micro and small enterprises, most of them are able to operate to optimum level due to the challenges they face (Tolentino, (2015).

Kenya National Bureau of Statistics, (2018) three out of five businesses fail within the first few months of operation. Mwaura (2018) recognized that MSEs in Kenya face unique problems, which affect their growth and profitability hence diminish their ability to contribute effectively to sustainable development. He identified these problems as inaccessibility to credit, inadequate managerial and technical skills, low level of education, poor market information, inhibitive regulatory environments, and lack of access to technology.

According to Gelderen and Frese (2018) approximately 65% of small businesses in United Kingdom considers federal regulations, economic uncertainty, keeping up with technology and access to adequate capital and retaining qualified workers as the greatest challenges to the growth and profitability of their business. This is also the case in Kenya as noted by Humphrey, (2017), that growth and profitability of most MSEs in Kenya is affected by inadequate capital. Ogola, (2019) further urged the problem is further fuelled by inability of Micro and Small enterprises to access credit financing from banking and non-banking financial institutions such as commercial banks due to lack of adequate collateral security. Mwangi, N. (2019), observed that despite improved involvement of Kenyan banks in funding SMEs as compared to many to other sub-Saharan African countries, SMEs in Kenya continue to face challenges related to financing. The government of Kenya with conjunction with World Bank and Bill Gates foundation has established Kenya's Financial Sector Deepening (FSD) program in 2016 to expand accessibility of financial services to lower-income households and micro and small enterprises. Economic Survey: National Micro and Small Enterprise Baseline Survey Results 2017 revealed banks were not serving SMEs effectively. Ogola, (2018) suggested for Kenya to fulfill its desire to achieve vision 2030, SME lending must be improved.

According to Kenya Management Assistance programme (2017), SMEs growth can be sustained through improved funding by financial institutions, as well as reducing the cost of credit. This should be

accompanied by developing more innovative finance products such as factoring and leasing as well as by adopting more efficient collateral registration processes.

National government through legislative organ, County government and other stakeholders are continually introducing new laws and regulations for industries and enterprises in Kenya to regulate their operations, protect public interest and spearhead sustainable economic growth in the country. However, such regulations sometimes pose tremendous threat to the growth of SMEs in Kenya since some are too punitive and tough (Ruirie, (2017). Mailit Robert (2019) identified other challenges facing MSEs in Kenya as poor infrastructure, poor management of resources and inadequate support from the government. According to Doing Business in Kenya report (2017) stated starting a business involves seven procedures, takes 22 days and costs 21.1% income per capita for both men and women. Muthini (2019) noted this have prevented many youth and other small scale entrepreneurs to venture into business.

Vision 2030, is the Kenya's blueprint of transforming the country into a newly industrializing middle-income industrialized country. The aims is support and improve the informal sector- specifically SMEs-hoping to accelerate economic growth by improving laws that govern business practices, institutional reforms, improving infrastructure and reducing energy costs as well as increase job opportunities. It is believed that SMEs shall represent the main pillar for the national economy by 2030 supported by international funding associations (Kenya Management Assistance programme (2017).

Nakuru town was founded by British settlers- colonial government- in 1904. It became Nakuru municipality in 1952 and a city in 2020. Nakuru city is the fourth largest city in Kenya behind Nairobi, Mombasa and Kisumu and the largest in Rift Valley and central Kenya region. The city is situated in Nakuru County approximately 160 Kilometers from Nairobi city along Nairobi-Eldoret highway. Its lies 6080 feet (1850 M) above sea level at coordinates 0°18'S 36°4'E. It is well interlinked by road, rail and air. Nakuru city is a metropolitan town hosting almost all the communities in Kenya though it was dominantly inhabited by Kikuyus and Kalenjins. According to Kenya National Bureau of Statistic (KNBS) (2019), it had urban and rural population totaling to 570,694 inhabitants.

The major economic activities in Nakuru and the surrounding areas include agriculture, manufacturing, tourism, real estate business and retailing. An agricultural activity includes crops and daily farming done in both small and large scale. Common grown crops include maize, beans, coffee, wheat, barley, pyrethrum

and potatoes. The crops provides raw materials for local manufacturing and processing firms such as flour milling, milk processing plant, grain ginneries, insecticides processing plants among others. Other manufacturing plants includes Menengai oil and soap factory, cement manufacturing, textile industries, Eveready battery, Fertiplant East Africa for manufacturing fertilizers, General motorcycle plant, Kenlands food processing, among others. It's also a good tourist destination with attraction site including but not limited to Lake Nakuru home of flamingos, Lake Nakuru National Park, outstanding 3 to 5 stars, Menengai crater, and tranquil weather among others. The city is also education hub hosting a public library and many private and public primary, secondary and tertiary institutions. Almost all private and public universities in Kenya have a branch in Nakuru city. The current growth in real estate industry in Nakuru cannot be underestimated- a clear indication of the future growth potential of the city.

A study by UN released in 2011 rate Nakuru as the fastest growing city in Africa and fourth in the world. The city also host all the largest retail chain stores in Kenya such as Quickmart, Naivas, Gilanis and Tuskys which were all found in Nakuru. It also host small retail business that supports agriculture and manufacturing sector through provision of goods and services. It also have large public markets Town market selling fresh food, Wakulima Market, Maasai Market, Gikomba Market, Kipanga, Ponda Mali, Soko Mjinga, Soko ya Mawe, Nakuru Municipal Shabab Market among others. The county government of Nakuru have been spending a lot of resources. In the year 2021, the county government of Nakuru approved construction of a five storey complex mega market at a cost of 700 Million Kenya Shillings.

1.2 Statement of the problem

SMEs play an important role in the economic growth of any country. According to Capital Market Authority report, (2015) MSEs create employments for more than seventy percent of job in urban areas and over ninety percent in the rural setup. Kenya Economic Report, (2021) identified the role played by MSEs in terms of industrialization and economic growth. They are the major agents of employment and economic growth in the world today (Kimuyu and Omiti, (2016). According to Capital Market Authority (2015) in Kenya 60% of SMEs fail annually, despite the government of Kenya efforts to promote SMEs. When the conditions of macro and micro economic environment are less satisfactory, opportunities for profitability, employment and expansion for MSEs are limited. KNBS report (2015) established that in every five businesses started in Keya three of them fail within the first six months of operations and about eighty

percent will fail before they reached their fifth year. MSEs are characterized by myriads unique factors that affect their growth and profitability and limit their ability to contribute effectively to the economic development of a nation. Mwaura (2018) recognized some problems as inaccessibility to credit, inadequate managerial and technical skills, low level of education, poor market information, inhibitive regulatory environments and legal framework, and lack of adequate and appropriate technology and information.

Performance of MSEs has been of interest to many researchers in Kenya. Recent studies on MSEs in Kenya include Muthini (2015), Mugo (2016), Sharu and Guyo (2017), Humphrey (2017), Wanjohi and Mugure (2018), Mwangi (2019), Gichuke, (2019) have been conducted in Nairobi and its environs. Kinyua (2017) did a study on factors affecting the performance of SMEs in Jua-kali sector in Nakuru town and concluded financing and competition were the major factors that affected their performance. Among the studies identified, none have attempted to examine the effects of government policies and regulations, credit financing, competition and location profitability of all Micro and Small Enterprises in Nakuru city town.

1.3 Objectives

1.3.1 General objective

To investigate determinants of profitability of micro and small business enterprises (MSEs) in Kenya. A case study of Nakuru City town.

1.3.1 Specific Objectives

a) To investigate the extent to which government regulations affect profitability of MSEs in Kenya.

b) To examine how access to credit financing influence profitability of MSEs in Kenya.

c) To determine the effect of competition on profitability of MSEs in Kenya.

d) To establish the impact of location on profitability of MSEs in Kenya.

1.4   Research Questions

a) To what extent does the government regulation affect profitability of MSEs in Kenya?

b) Does access to credit financing affect profitability of MSEs in Kenya?

c) To what extent does competition affect profitability of MSEs in Kenya?

d) What is the impact of location on profitability of MSEs in Kenya?

1.5 Significance of the study

The study will be of benefits to the following parties

1.5.1 The government of Kenya

The government will use the study for the purpose of policy formulation that will create a suitable environment for the small and micro entrepreneur to increase business growth and the consequent social standard improvement. The research project will also serve as a guide to the government administration in formulating and implementation of significant strategic decisions thereby creating a suitable environment for various entrepreneurs. Policy makers will gain a lot from the study recommendations and conclusions. They will be in a position to make better and informed policies relating to businesses especially small and medium firms. Such policies can be like those relating to financing of businesses. Since the study will find out the possible factors affecting profitability of small businesses, policy makers will have an easier task of formulating policies while referring to the study findings.

1.5.2 Central Business District Government of Nakuru

The research will assist the Nakuru County government in formulating policies that will assist in setting policies that will factor in all traders in the Central Business District including small and micro entrepreneurs.

1.5.3 Researchers and Academicians

The study will be of benefits and will add knowledge to the researcher and academicians. By using the findings of this study, the researchers will be able to understand the factors affecting profitability of SMEs in Kenya in addition to the previous studies that has been done on the topic. The study will be of much significance to research institutions, students and other researchers who will get the findings of this study useful in their investigation in the area of study. It will also act as a source of literature for academics in the field of Business. Also, the findings will be used as a source of data and a base for other findings and reference for future studies.

1.6 Justification of the study

The findings from this study will be helpful to the Government, MSEs and other stake holders in the sector as they will be able to understand the factors affecting profitability of MSEs in Kenya. Hence they will be

able to put down the policies, frameworks and strategies that will address the factors and how to overcome them.

1.7 Scope of the Study

The study on determinant of profitability of Micro and Small sized enterprises in Kenya was limited to four independent variables. Identifying the effects of government regulation and policies, credit financing, competition and location of the business on profitability of micro and small businesses. The researcher examined those MSEs operated in Nakuru city town that are registered and licensed by the Nakuru municipal council.

1.8 Chapter Summary

This chapter presents the background and introductory framework of the study. The researcher identified the research gap, general and specific objectives and the research questions. Further, the chapter has highlighted the significance, justification and the scope of the study.
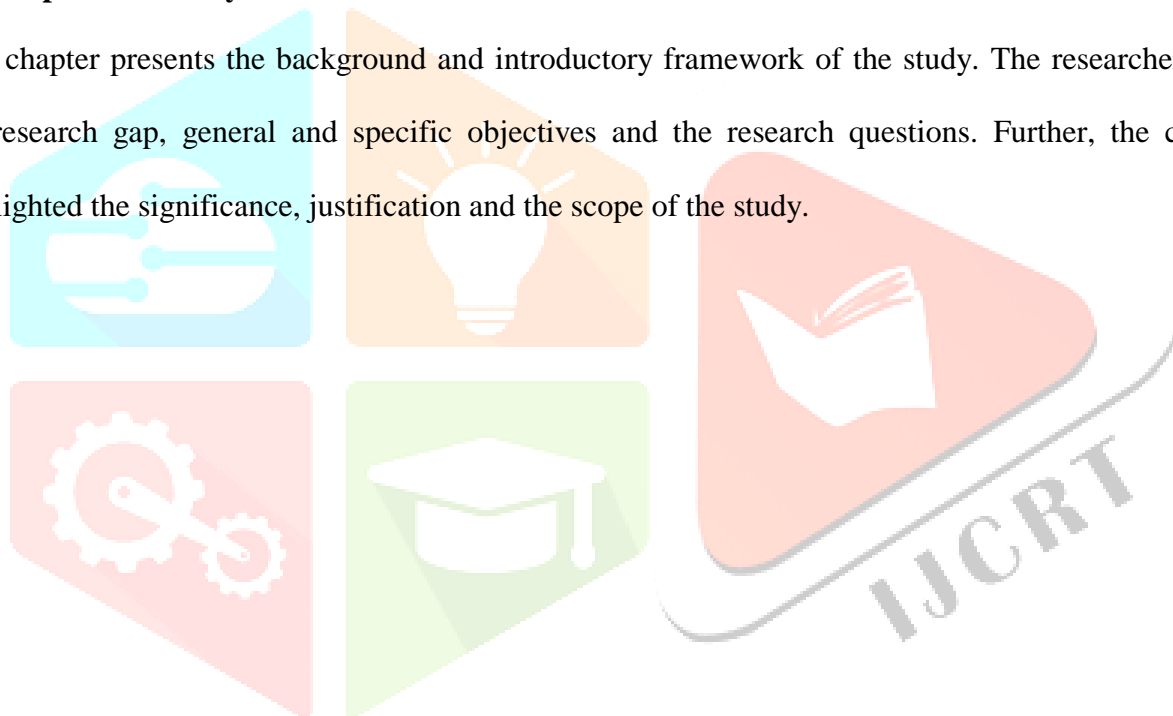
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter examines the theoretical framework and empirical review of the study. A conceptual framework and literature review gap are drawn on the determinant of profitability of MSEs in Kenya. Hence it presents a critical review of the various variables that affects profitability of small and micro business enterprises in Kenya.

2.2 Theoretical Framework

A theory is a set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Cooper and Schindler, 2010).

2.2.1 Chaos Theory

The Chaos theory was put forth by Bower (1988). The theory insists on the importance of maintaining order and controls any business situation in speed and agility so as to reduce exposure to unfair business practices, fraud, transaction failure, protection of client information and reduce security anxiety. According to Benita and Beamon (2008), setting adequate and reasonable laws to regulate business activities may reduce chaos associated by poor structured market. Jim, B (2013), further commented that regulating the behavior of the firms as well as setting the conditions that eliminates complex loopholes and enhances security, the interest of both consumers and traders are to great extent protected. Some authors such as Hitt, L. M. et al, (2002) disagreed on the needs of authorities to set laws on how the business should be operated, standards required, level of integrity to be practiced and how they should behave in the market place. They urged that the consumers are more informed and firms have moral obligation to behave ethically rest they lose their position in the market. Keith, Davis, and William Me (1992), argued that the businesses should regulate themselves for there no laws which can be universely accepted in all markets unless all diversities are considered.

Chaos theory study since it attempts to explain how various rules and regulations formed by the government affects the sustainability of SMEs in Kenya. It's worth noting that the laws, rules and regulation are meant to reduce chaos in the business as well as ensuring fair business practices are enhanced and customers' interest protected. Kessler (2013) adds that the way security concerns are managed invariably affects all the others. Cultural and social Factors should be considered when setting the business regulations. He further agrees for business to thrive order must be maintained.

2.2.2 Frank Knight's Risk Theory

The theory was developed by Frank Knight's (1885-1972). He adopted the theory from the economists who were there by then. The theory introduces risk as a factor of production. He argued risk taking is the integral role of an entrepreneur and help the entrepreneur earns profit to reward the risk (s) he has taken.

He asserted that the main function of an entrepreneur is to anticipate the uncertain future. A clear distinction was made between uncertainty and risk of which risk were classified as non-calculated and calculable risks (Knight 1972). He further added those risks whose probability of occurrence can be estimates statistically are calculable risks. Altman (2014) gave examples of calculable risks as risk due to accidents, fire and theft and further stated they can be insured in exchange of premium. Further stated such premium can be added to the cost of production as 2it's used to hedge unforeseen occurrence.

Altman (2014) also support Knight that risk whose possibility of occurrence cannot be anticipated is non-calculable risks. Further argued this risk are uncertain and unpredictable. They gave examples of competitors' strategies and cost of eliminating competitions cannot be ascertained neither calculated accurately. Risk is also non –calculable risk which is uncertain and such events are not insurable. Due to this uncertainty, decision making becomes a fundamental role of a manager or any an entrepreneur. If the decisions made are correct and align with the subsequent events, an entrepreneur makes a profit and the opposite is true. Hence Knight's theory of 1972 is anchored on foundation that profits are generated from decisions made under the conditions of uncertainty (Altman, 2014).

Knight (1972) argued profits may be generated out of various decisions made about market such as increasing the degree of the monopoly, prospecting on stock may lead to a windfall gain, development and introduction of new products, use of new production techniques among others. The main criticism of the theory as noted by Altman (2014) is that he attributed all the profits of an entrepreneur to completely to uncertainty. He did not consider other important factor and functions that may contribute to total profits such as organizing and coordinating business activities, networking, bargaining invention, innovation among others.

2.2.3 Perking Order Theory (POT)

Perking Order Theory was developed by Myers and Majluf (1984). The theory is based on the assumption that management is better informed on the true value of the firm than investors. The theory looks at managers as insiders and investors as outsiders. This results to information asymmetry that leads to varying costs of additional external finance and undervaluation of the firm. Potential investor view equity capital more risky than acquisition of debt capital. To overcome the possibility of undervaluation arising from information asymmetries the firm would prefer to finance its investment project using equity generated

internally. Once internal equity is exhausted, the business use debt financing before resulting to external equity.

POT theory is relevant to Small and Micro business enterprises since they experience relatively high information asymmetries and high cost of external financing (Ibbotson, et.al 2011). According to Jordan, Taylor and Lowe (2018) majority of entrepreneurs in this area are the sole owners of the business who desires to have managerial independence and retain control of the firm. These facts suggest that Small and Micro business enterprises entrepreneurs use perking order when sourcing for capital. First they raise capital internally from the savings, retained earnings and capital ploughed back; then results to short-term debts before going for long-term borrowing and finally introducing equity capital or new investors in the business which is perceived as total intrusion.

Haynes, (2016) supports there exist empirical evidence that support applicability of Perking Order Theory in financing Small and Micro business enterprises. The study emphasized the micro, small and medium firm mostly rely on internal financing at inception and external debts to finance growth and business operations. Very few MSEs use external equity. There are several studies that confirms that majority of MSEs operate under perking order, and they rarely go for external equity (Howorth, 2011).

Perking Order Theory adherence depends mostly on two major factors; preferences on demand-side preferences, and the availability of the preferred source of financing. Supply side of finance depends on several factors such as business stage of development, market forces on firms' product and the market structure which the firm is operating. At start-up personal savings from the owner and funds from family and friends is most preferred. Howorth (2011) noted even though the perking order theory is applicable in other areas, entrepreneurs especially in small and micro business enterprises tend to seek finance from their own resources, then from friends and families (quasi-equity); after those avenues are exhausted, they source funding from banks in terms of short and long-term borrowing.

2.2.4 Human Capital Theory

The theory was proposed in 1960s by Theodore Schultz who argued knowledge and skills are form of capital which is a product of deliberate organizational growth. Human capital concept implies investing in people. This is through education and training. Theodore compares knowledge and skills as a unique factor

of production. Rochaa, (2014) further argues difference in earning results from disparities in access to health and education. Hence by investing health, training and education, it leads to improvement of human capital consequently resulting to leading to increase rate of returns, growth of the firm and achieving organization goals.

Human capital theory is closely associated with resource-based theory. The theory proposes for a firm to enjoy sustainable competitive advantage, it need to develop a pool of manpower/ human resources whose skills and knowledge cannot be imitated or substituted by its competitors. Rochaa, (2014) further added employers need to invest in training and developing employees as means of attracting and retaining employees. The returns of training and development in the organization are expected to be greater flexibility, competence and capability to innovate as well as improvement in productivity and performance base.

Eniola and Entebang (2015) suggested a key factor that determines prosperity of the business and organization are knowledge, skills and competence. Empirical research emphasize on human capital as one of the major factor that leads to success and achievement of organization objectives. Highly educated employees use the knowledge and the social contacts acquired through the education system to generate resources required perform efficiently and effectively. Precision in training and past experience can lead to specialized human capita. Hence greater focus to training on entrepreneurial skills is important for growth, development and profitability of MSEs (Rochaa, 2014).

2.3 Empirical Review

2.3.1 Government regulations

Micro and Small Enterprise Act 2012 (MSE Act 2012) of Kenya constitution provide a framework that give opportunity to micro small and medium enterprises to evolve and develop through devolution framework. However, the impact of devolution of micro small and medium enterprises (MSMEs) development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy. Mbugua et.al (2017) noted the government that does not promote entrepreneurial growth in micro, small and medium business enterprises need to re-examines the impact of its plans, policies, programs and regulation on small and micro businesses. Government policies and regulations that

may affect growth of informal sector may include business registration, taxation, licensing, wages, subsidies and other incentives and infrastructural facilities. They further added without careful attention, government policies and regulation can crush informal and small business sector in any country.

Kauffmann, (2017) acclaim Government regulation and policies can constrain and pose significant challenges to development of MSEs entrepreneur. Wanjohi & Mugure, (2018) emphasized, in light of many wide range structural reforms being put in place, prospects for enterprise development are still addressed at the firm level. High cost of legal claims, delay in court proceedings, licensing, registration, high cost of living and the level of taxation may adversely affects operations of small and micro business in any economy. Despite the promulgation of new constitutional in 2010, Kenya regulatory and legal frame work is bureaucratic and expensive. These make not easy to do business in Kenya since it have multi negative consequences to the performance of micro and small businesses. Eniola and Entebang (2015) assert MSEs in comparison to large organizations are further repressed by inexplicably hefty charges due to their size. Sharu and Guyo (2017) added tax regime in Kenya is unfavorable to many small businesses thence resulting to most informal businesses failing to formalize into micro enterprise.

According to Baurer (2015) legal and regulatory framework may impose constrain to small and medium business enterprises due to complex and excessive licensing and registration requirements. This coupled with costly and tedious reporting practices are likely to place additional heavy burden on small and medium sized entrepreneurs. Adebisi and Gbegi (2018) emphasized that the government should create legal and regulatory framework that provide environment which have effective and supportive sustainable programs to micro, small and medium- sized entrepreneurs. This would stimulate establishment of new business enterprises as well as foster their growth and viability. Hence creation of conducive and enabling policies together with supportive legal and regulatory environment are very crucial to the development of MSEs Entrepreneurs.

According to Nkya (2016), the process of licensing business is considered to be too bureaucratic by most entrepreneurs. This is attributed by centralization whole licensing process Oludele and Emilie (2019) supported that the periodic or annual practice of renewing the business license raise the cost of staring and maintaining micro, small and medium sized enterprises. They further added for the MSEs to remain formal, it must periodically (usually annually) acquire certification and clearance from same authorities who

participated in the initial process of acquiring licenses. The process is costly, tedious and consumes much of the entrepreneurs' time. Due bureaucracy involved, the process encourages corruption. Despite many calls to consolidate and digitize entire licensing, business registration and all legal and regulatory requirements, implementation of harmonization still remains a nightmare to date. Tolentino, (2015) also noted micro, small and medium sized entrepreneurs are frustrated by punitive and   bureaucratic laws, regulations and procedures and further discourage them from competing with more established businesses.

Gangi and Timan (2020) noted there are improvements achieved in digitizing some business in Kenya. They identified procedure such as search for business name, business registration and licensing have been digitized through E-Citizen electronic platform. They also argued much need to be done to improve business regulation, labor laws and insecurity of tenure for MSEs traders. Further claimed laws and supportive institutional procedures to protect rights and interest of local entrepreneurs are not properly articulated or do not exit. Learning government regulations affecting businesses and the compliance cost relate to the same in terms of effort, synch, and time is usually very high due unavailability of the all the necessary and appropriate information (Gangi and Timan 2018) and sometimes accompanied by informal penalty from government officials as they solicit for bribes.

Government regulation should create a favorable atmosphere that promote and encourage development and use of local technology. By promoting local tools industries and encuranging use of local available resources can enable the country to earn from exports, reduce imports at the same time encourage entrepreneurs to venture into businesses. MSMS business face are 'liability of smallness' due to their resource limitations and the size. Hence are neither able to improve the existing technologies nor develop invention. Studies by Mbugua, et.al (2017) conclude if the government of Kenya can initiate appropriate and proper legal and regulatory framework, coupled with specific technological policy measures and infrastructure, evidence shows MSEs entrepreneurs have potential initiate minor technological innovations that can fit their circumstances.

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it must periodically (usually annually) acquire certification and clearance from same authorities who participated in the initial process of acquiring licenses. The process is costly, tedious and consumes much of the entrepreneurs' time. Due bureaucracy involved, the process encourages corruption. Despite many calls to consolidate and digitize entire licensing, business registration and all legal and regulatory requirements, implementation of harmonization still remains a nightmare to date. Tolentino, (2015) also noted micro, small and medium sized entrepreneurs are frustrated by punitive and bureaucratic laws, regulations and procedures and further discourage them from competing with more established businesses.

Oludele & Emilie (2019) noted despite the unsuccessful effort to harmonize the entire trade/business licensing, business registration and legal and regulatory procedures, entrepreneurs in informal sectors experience problems such as deplorable and poor infrastructure. Others operate in substandard structures often under threat of demolition. Informal enterprises in some areas are considered an environmental hazard by urban planners arguing that they are danger to the public, especially those that are carried out along roads and sidewalks. However, these problems can be countered if the county governments can allocated proper structures and land to the micro and small business enterprises traders.

Many economies all the world including Kenya are aiming at eliminating inappropriate and distortionary government policies that are viewed to constrain and detriment growth of Micro, small and medium enterprises and the whole private sector in general. Oludele and Emilie (2019) indicated that a conducive legal and regulatory business environment a very vital factors that influence the growth of MSMEs in any economy. They emphasized unfavurable government policies coupled with high taxation level and grand corruption are a major threat to profitability MSMEs in Kenya. Another major obstacle as noted by Mwaura, (2018) is the harassment from county officials especially on micro and small traders in informal sector. He concluded the county governments train micro and small entrepreneurs on legal, business regulations, policies and procedures to be followed and encourage them to follow them. Kinyua, (2017) noted that in Kenya, the government has made a significant landmark in the creation of an enabling environment for MSMEs. Nkya (2016) recommended the government should establish laws with preferential treatment to traders in micro and small enterprises to foster their growth and formalization through simplification of registration, administrative and tax exemptions. Hence maximization of profit

2.3.2 Limited Access to Credit

Limited accessibility to credit financing is a universal predicament facing MSEs especially in Africa notably in Kenya. Humphrey (2017) noted availability of sufficient financial capital is the limitation to the growth of small and micro businesses in Kenya. Kimuyu and Omiti, (2016) emphasized acquisition of adequate business funding stands out as the major predicament majority of micro and small entrepreneurs endure. They further argued, even after launching the business, acquisition of the necessary financial resources to manage growth and maintain its solvency is still another problem. Humphrey (2017 added credit financing constraints is real in developing countries due to underdeveloped capital market forces. This forces entrepreneurs to rely on self-financing, selling some of their assets or borrowing from friends or relatives of which the resources raised may not be sufficient for Mses to perform its business activities optimally.

Hospes (2018) argued majority of small and micro business entrepreneurs do not have access to long-term credit financing. This forces them to go for short-term debts from formal and non-formal financial institutions at very high cost. Formal financial institutions were identified as banking and non-banking financial institution recognized by law as lending institutions. Baking institutions includes commercial banks, of which their lending activities are mostly controlled by the monitory poly of the country –Central Bank. Non-banking financial institutions are established to finance a specific sector of the economy such as industrial sector Kenya Industrial Estate, Savings and Credit Cooperatives Society, National Housing Corporations among others. Non formal financial institutions includes shylocks, mobile phone lending applications and other informal lending merchants whose activities are not controlled by the monetary policies of a country.

According to Gelderen and Frese (2018), financial institutions are very cautious when lending loans to small and micro businesses since they are considered risky. Lack of external lending is regarded as a major hindrance to of growth of small and micro business. As a result, they are neither able to expand, modernize nor meet urgent orders from customers and this has led to high rates of business failure. Due to high risk attributed to MSEs, banks and other lending institutions usually charge them relatively higher interest and provision collateral security which tend to discourage them from getting debt financing.

According to Malhotra (2015), many commercial banks shun giving loans to small and micro enterprises due to inadequate security, high perception of risks, heightened asymmetric information as well as high administrative costs that comes along with small-scale lending. This factors may can across virtually all the business but they are more prevalent in new, evolving and small businesses than in large business establishment. Micro and Small enterprises naturally would require relatively smaller loans in comparison to large firms due to their nature and size. However, the transaction, processing and administration cost are high and fixed hence financial institutions often find processing of small loans unproductive.

A study carried out by Mwangi (2019) found that majority of young entrepreneurs encounter challenges in accessing credit financing. Reasons cited were lack of collateral security and high cost of credit due to high loan processing fees, high interest rate and cost of insurance, high rate of legal fee, as well high expenses, time and effort expended in the process looking for credit. The study recommended that the financial institutions should develop credit financing products that are attractive to MSEs and young entrepreneurs. The lenders and other stakeholders should explore the possibility of lowering interest rates and other costs associated with acquisition of credit products especially for the MSEs. Ongile, (2018) also pointed high rate of interest affected access to credit by women entrepreneurs owning small scale garment business enterprises in Kenya.

Large, medium, small and micro businesses requires sufficient funds to support the solvency, growth and expansion process (Reijonen and Komppula (2019). True costs include realistic time commitment from owners to achieve a goal, a clear identification of expenses associated with a tactic, or unexpected cost overruns by vendors (Melissa, (2017). Lack of access of finances for small enterprises forces them to rely on high-cost short term finance from relatives and friends. For instance; numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2018).

Studies by Ruirie, (2017) acknowledged family and friends play a major role in financing small and micro businesses. Blood capital assist the owner of the business to boost their operations and improve solvency of

the business. They further provide statistics that on average of 40% of the finances comes for MSEs are from family and friends, 24% came from financial institutions while on average 30% from business savings. Kimuyu & Omiti 2017) attributed lack of awareness of credit services available, intensive vetting procedure by the banks, lack of guarantor and collateral security and cost of loans as the major obstacles hindering MSEs of from accessing credit from formal financial institutions.

Thapa, (2017) observed access to finance enables the MSEs to improve the level of competitiveness as well as invest in new technologies, skills, inventions and innovation. Majority MSEs have identified medium-term and long-term medium financing as their major obstacle to competitiveness, expansion, growth and investment. These obstacles results from monetary, macroeconomic and microeconomic policies of a country noted by (Sesan and Stonge (2015). They further identified high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of financing by small and micro-sized enterprises especially in developing countries. Rusdy (2017) observed other constraint that affect profits of MSEs such as competitions, business risks, access to the market and technology. Hence argued debt is not the most effective way of helping the less fortunate people in enhancing their economic situation. The same is echoed by Ogola, (2018) who describe credit financing as not the only constraint for MSEs but pointed other factors such social services, business development and financial management. This enable MSEs divert and make an informed move for profit maximization.

2.3.3 Competition

Rice, and Matthews, (2021) defined competition as a situation in which different economic firms seek to maximize its share of a limited market of its products through varying the elements of the marketing mix: (product, price, promotion, place, physical facilities, processes and people/employees). Bartol & Martin (2017) examined competition in classical economic perceptive and argue competition gives consumers greater selection and quality products since it makes commercial firms to develop new products, services and technologies. Further argued competition causes prices for the products to be lower, compared to the situation there was no competition or little competition.

The MSMEs falls in perfectly competitive market structure. The prices are solemnly determined by price mechanism forces that is - forces of demand and supply- which implies sellers conforms to an analogous price level margin. The suppliers simply settle for the price at which the commodity or service is already

being offered in the industry. Any SMEs that is aggressive enough to increase the price is likely to lose market share because the buyer can freely and comfortably switch to the competitor (Longnecker, 2015).

Rice and Matthews, (2021) also noted micro and small sized enterprises face stiff competition from large and established business thus hindering their development. Majority of micro and small business enterprises in Kenya deal similar commodities almost homogeneous as noted by Ongile, (2018) that can be processed, produced and sold by virtually anyone and everywhere, hence becoming extremely easy to attract many traders to the small business arena. William and Abraham (2018) noted micro and small business fails due to miscalculation and underestimation of customer loyalty and increased rivalry among competitors. Micro and small firms in Kenya rarely conduct market research hence overestimate the demand of the product. Inability of Micro and small business enterprise to understand the competitive marketing environment make them fall short of developing any unique selling proposition and differentiation measures in already saturated market. Thence result to poor performance and low profitability (Sharu and Guyo, 2017).

For business to develop and succeed - Sesan & Stonge, (2015) – it must adopt competitive strategy that cannot be easily copied by competitors hence reducing the number counterfeit products that might pose a big challenge to MSE owners. According to Oludele & Emilie, (2019) for a small and micro entrepreneur to have a competitive edge, they have to adopt a commanding approach. They suggested several strategies MSEs traders can choose within a market place do not possess any out right advantage above others because they trade in homogeneous products or services. Reijonenand & Komppula, (2019) argue the demand for a product establishes a market for any business whereas when the demand is high, the market becomes automatically vibrant and when it falls the sale of a product tremendously shrink. They also argued these also depends on how the products are related. Substitutes or complementary products affect demand of other products and services. When the products are complimentary then an upsurge in demand for one product will cause an increase in demand for the other whilst in the case of substitutes a rise in demand for one causes a decline in the other commodity in question (Malhotra, 2015).

Many small businesses in Kenya and other third world countries in Africa do not conduct indepth market research for their products and/or services to establish their potential and principal competitors. They rarely establish the plans, strategies, actual strengths and weaknesses and the possible reaction of their

competitors (Ruirie, 2017). Majority of the micro and small entrepreneurs has no idea of the taste, preferences and perception of the general public towards their products and the specific locations where potential customers are likely to shop. Proper understanding of this argument will lead to more yield hence maximize on profit

2.3.4 Effect of Location on SMEs profitability

According to Gupta, (2021) geographic location of a business affects its market share and accessibility to other resources and services. Rice and Matthews, (2021) noted accessibility to resources such as skilled manpower, transport and distribution facilities, infrastructure and financial services. Neighborhood security and appearance also affect success and future operations of a business (Nkya, 2016). Orthodox regional development theory stress there is favorable supply side conditions in urban areas as compared to sub-urban and rural areas (Suttle, 2019).

Micro businesses located in urban areas have relatively easy access to customers and resources/ inputs required like merchandise, premises, finance and technology that enable to produce and sell their products with ease (Gupta, 2021). MSEs located in urban areas benefits from social amenities, public utilities and agglomeration economies. Facilities such as good infrastructures, information network with customers, exporters and suppliers, unskilled, specialized and skilled human resources, specialized knowledge among others. These facilities are unlikely to found in rural and sub-urban areas hence making MSEs location in major cities and urban areas to experience added advantages. Suttle (2019) note the cost associated with running a micro or a small business in urban areas in generally higher as compared to rural areas. These cost such as high rent, cost of labour, electricity, water, council licences and other fees may constrain profitability and ultimate growth of the micro and small business enterprises. The author further argued MSEs in urban and big cities may face higher closure possibilities than those establishments in rural areas.

Rice and Matthews, (2021) further noted home-based enterprises in commercial areas generate more income than similar enterprises in more remote areas. They argued MSEs in rural and remote areas have few activities and are there no much innovation due low level of competition, patronage and low value of purchases. These is further aggravated by the fact that most remote and rural areas have underdeveloped infrastructure, public utilities, business and financial services as compared to urban centers. Moreover, lower awareness, inappropriate usage of external business advice and consultancy have been reported as a

major predicament to improve growth and profitability among micro and small business enterprises located in rural areas (Thapa, 2018). Rightful decision on establishment make SMEs to sell more hence more profit

2.4 Conceptual framework

Hafeznia, (2006), define Conceptual framework as a graphical representation showing the relationship existing between theorized variables. It shows the interrelationships between independent and dependent variables and the probable effect of the intervening variable(s) of a study. Dwi, (2011) further argued conceptualization and operationalization of variables in academic study gives a foundation for testing hypothesis and coming up with generalizations in the findings of the study. The independent variables of the study include; government policies, access to finance, competition and location of the business while the dependent variable is the profitability of Micro and Small business enterprises in Kenya.
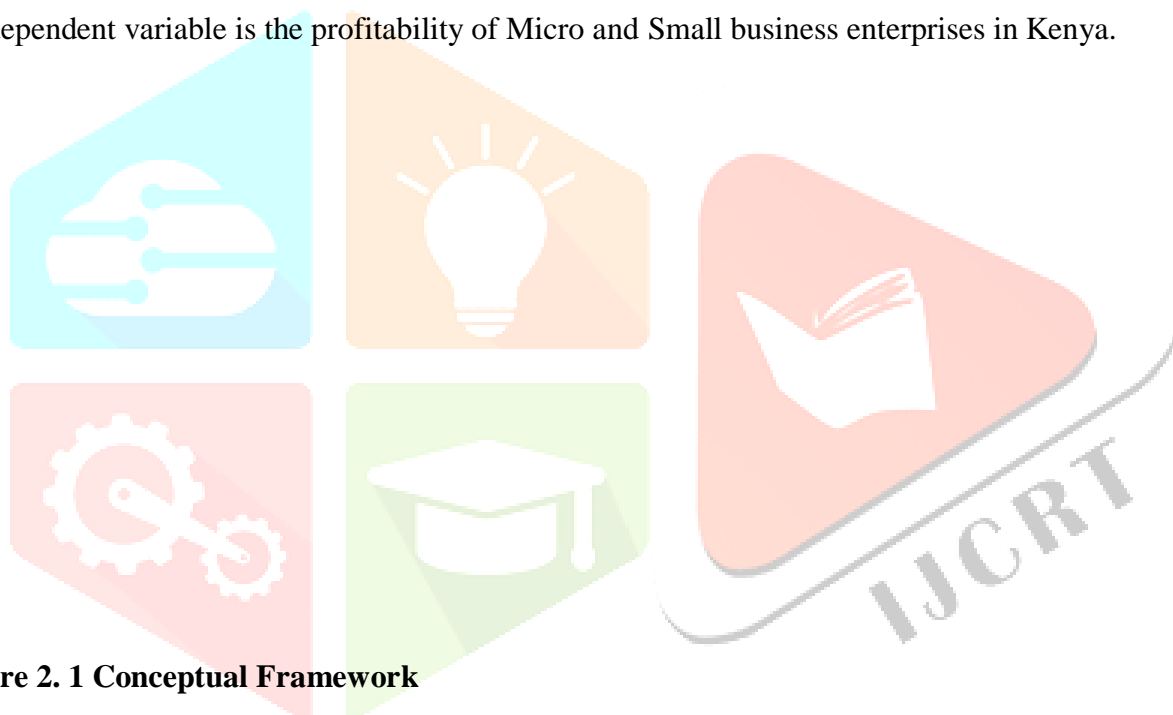
Figure 2. 1 Conceptual Framework

Independent Variables   **Dependent Variable**

Government regulation
1. Business registration
2. Cost of license
3. Taxation

Access to credit
1. Interest rate.
2. Government Grant
3. Collaterals requirement.
4. Repayment period

Profitability of SME's
1. Increased Sales Volume.
2. Growth on Assets and saving

Market Competition

Source: Author (2022)

2.4.1 Government policies

Various principle of action, rules, and regulations adopted by the government of Kenya to regulate and support growth of MSEs. This may include provision of incentives such as tax holidays, provision for funds like Youth and women fund and other infrastructure facilities to promote trade and business activities. Government may also rules and regulations to check their activities. This may include licensing, health and safety measures, methods of curbing unfair trade practices as well legal regulation to be met for one to establish business in a certain area.

2.4.2 Finance

Resources needed by MSEs to start and sustain their business. Aims at funding business activities. Can be obtain from banking or non-banking financial institution, formal of non-formal lenders as well as from personal saving or disposing some of the assets.

2.4.3 Competition

Business enterprises who compete for the same resources or customers in the market. Micro and small businesses faces stiff market competition from other MSEs selling similar/ substitute products and other large scale traders in the market. They also compete for supplies, space and other vital amenities.

2.4.4 Location of the business

Physical location where the Micro and Small Business is situated in the central business district. A good business location is interlinked with appropriate infrastructure, transport and communication network,

ample security, water and electricity among other amenities. It should be easily and conveniently accessible by the customers.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research methodology used to describe the factors that influences profitability of MSEs in Nakuru city Town. The discuss focused on research design used, target population, sampling method and sample size, data collection procedure and instruments, test for reliability and validity, data analysis and presentation as well as ethical considerations observed.

3.1 Research Design

The research thesis used descriptive research design to establish determinant of profitability of small and micro business traders in Nakuru city Town. According to Mugenda O. and Mugenda G. (2008), descriptive research design is most appropriate when the researcher wants to acquire information on the current status of the phenomena. It also enable the research to describe, record, analyse and report the condition as existed in respect to identified variables and condition Kothari (2005). Descriptive research design is appropriate when in-depth and detailed analysis for a study is preferred. It also brings forth valuable and well-focused insight to phenomena that may be blurry or vaguely understood or known. Tromp and Kombo (2016) noted descriptive research method enables the researcher to critically establish factors explaining phenomena as well discover other underlying issues affecting the same. Mugenda and Mugenda (2008)

3.2 Target Population

Singh, et.al (2021) defined target population as all the elements or individual or group of individuals with similar characteristics to be included in the study from which a sample may be drawn from and conclusion of the research study derived.   The study targeted 1486 MSEs operating in Nakuru city-Central Business District. The traders were categorized according to the nature of their businesses as tabulated on 3.1 below.

Table 3. 1 Target Population

BUSINESS CATEGORY	NUMBER OF BUSINESSES	PERCENTAGE
Raw agricultural products	374	26
Boutiques operators (new and second hand clothes and shoes)	628	42
Beauty parlors, salons and barbers	112	8
Bouquet shops	98	6
Furniture traders	48	3
Money transfer agents	94	6
Cyber Cafes	46	3
Ready Food store (hotels and butcheries)	86	6
TOTAL	**1486**	**100**

Source: (Nakuru Municipal Council, 2022).

3.3 Sampling

3.3.1 Sampling Design

Lance and Hattori (2016) noted the major factor to be considered when determining the sample size is the ability of the researcher to obtain detailed data at affordable cost with the the available manpower within the prescribed time and government regulation. Neuman (2018) added the sample size must be manageable and a representative of the target population by ensuring high degree of equivalence between sample population and sampling frame. For the purpose of this study, the researcher selected a sample of 20%. This is ideal for descriptive research design as noted by Cooper and Schindler (2016) who argue a sample of 30% can be choosen if the target population is large and the individual or the groups of individual involved in the study have many similar characteristics. They also added the sample population must be carefully selected.

This study adopted multi-stage sampling method that combines several methods of sampling (McQueen & Knussen (2010). In this the researcher used both stratified and simple random sampling. The MSEs traders were categorized into strata according to the nature/ type of business. Simple random sampling using random numbers was used to select the respondents from each stratum.

3.3.2 Sample Size

Guthrie (2019), sample size is the number of individual or participants that are involved in the study. A sample of 296, representing 20% of the target population was selected. The respondents were classified according to the category of the business they operated as indicated in table 3.2 below.

Table 3. 2 Sample Size

BUSINESS CATEGORY	SAMPLE SIZE	PERCENTAGE
Raw agricultural products	70	26
Boutiques operators (new and second hand clothes and shoes)	122	42
Beauty parlors, saloons and barbers	22	8
Bouquet shops	18	6
Furniture traders	10	3
Money transfer agents	16	6
Cyber Cafes	20	3
Ready Food store (hotels and butcheries)	18	6
TOTAL	**296**	**100**

Source: Author 2022

3.4 Data collection Instrument and Procedure

3.4.1 Data Collection Instruments

A questionnaire and interview schedule was used to collect the data. A questionnaire (Appendix 2) has both open and closed ended questions. It's also divided into five sections according to data collected from each variable. Glass and Hopkins (2012), argued the researcher is able to get detailed controlled response from closed-ended questions while at the same time capture divergent views from the respondent using open-ended questions. Questionnaires were preferred since gave literate respondents a platform to answer questions adequately and conveniently. As noted by Farag (2019), questionnaires are accurate, faster and cost effective when acquiring specific information from large pool of population; hence it provide better results. An interview schedule (Appendix 3) was also used to guide the research or his assistant to collect data from respondents who would not read or write or were not willing to fill the questionnaire.

3.4.2 Data collection Procedure

Before commencement of data collection, the researcher obtained official letters from both National Commission for Science Technology and Innovation (NACOSTI) and Presbyterian University of East Africa (PUEA) to confirm he is student undertaking writing research thesis. Two research assistants were trained on how to distribute the questionnaires and use the interview guide. Copies of printed questionnaires were distributed to sampled MSEs traders in Nakuru city Central Business District using a carefully drafted sample frame.

3.5 Pilot Test

The questionnaire and the interview guide was given to the supervisor who through his guidance, the appropriate amendments were made. The researcher printed some 15 copies of the questionnaire and gave 10 of them to the Micro and Small business traders randomly (not included in the study) to ascertain whether they can comprehend and answer the questions adequately. The other five given to my colleagues and further discussions and amendments were made. Hence all irrelevant, ambiguous, unclear and double edged questions were rectified.

3.6 Validity and Reliability

3.6.1 Validity of Data Collection Instruments

Kothari (2004) defined validity as the degree to which the results obtained from data analyzed fits or represent the phenomena being studied. Content validity was used to examine the extent to which data collected using the questionnaire and the interview guide represented variables under the study. To enhance content validity, the researcher critically reviewed the literature to identify relevant items that were needed to examine the variables and concepts and also ensured the questions covered all the variables in the study. Researcher used two Training Need Assessment experts to examine validity and relevance of each item in the data collection instruments in relation to the variables under the study. Using scale of 1 (strongly disagree) to 5 (strongly agree). CVI of 0.721 was obtained. According to Oso & Onen (2020), validity coefficient of at least 0.70 is acceptable and valid. Hence the research instruments were adapted as valid for the study.

3.6.2 Reliability of the Study

Lance & Hattori (2016) describe reliability as the measure of the extent or degree to which research instruments yield consistent results in phenomenon under study. The researcher selected a pilot group of 10 individuals, from the target population to test the reliability of the research instruments. Cronbachs alpha coefficient was used to test the internal consistency of research instrument items; that is whether there are within the acceptable range of between 0 to 1 (Mugenda and Mugenda (2003). If Cronbach Alpha Coefficient is closer to 1 the greater the internal consistence and if closer to 0, the less the internal consistence of the items in the data collection instrument. The study had 0.72 Cronbachs alpha coefficient. Singh, et.al (2021), suggest any value between the range 0.5 and 0.8 is adequate and acceptable for internal consistence, while Sekaran (2000) quoted the general acceptable rule of thumb for internal consistency in Cronbach's Alpha is 0.8>a>= 0.7.

3.7 Data Analysis and Presentation

The study on factor that affects profitability of Small and Micro Business Enterprises a case Nakuru CBD collected both qualitative and quantitative data. The quantitative data collected using closed ended questions was analyzed using Statistical Package for Social Science (SPSS) computer program version 21.

The analysis were described in terms of frequencies, mean, percentages and standard deviation. Inferential statistics such as Pearson Correlation Coefficient analysis was used to the relationship between explanatory and explained (dependent) variable. The findings were presented in tables. Qualitative data collected using interview guide and open ended questions in the questionnaire were analyzed through content analysis technique and presented inform of narration.

One-way ANOVA was used measure the variance among the mean of independent variables to predicted variable with aim of ascertaining whether there exist any significant difference among the variables under the study at 95% level of significance.

The researcher also conducted multiple regression analysis to examine the effect of each independent variable on the dependent variable. Multiple regression equation is listed below as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y is the dependent/ explained variable (Profitability of Small and Micro Business enterprises), β_0 is the regression constant, β_1, β_2, β_3, and β_4 are coefficients of the explanatory/ independent variables, X_1 is Government regulations, X_2 is Credit financing, X_3 competition and X_4 is Location and ε is error term.

3.8 Ethical Consideration

All parties involved in the study had a major obligation to ensure the rights and the welfare of all the parties was protected. The researcher ensured privacy; safety and ethics were upheld all along while conducting the research project. The respondent was informed the reason why the researcher was conducting the study and their participation was voluntary; they would even withdrew if they did not wish to continue. The information collected was treated with a lot of privacy and it was neither diverted to any other use apart from academic purposes nor disclosed to any other party. The researcher collected the data which was very relevant to the study eliminating any participants' personal details. There was no discrimination based on ethnicity, race, gender or any other factor not related to integrity and scientific competence.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The chapter describes analysis and presentation of both quantitative and qualitative data. The data was analyzed using SPSS, quantitative and qualitative methods and presented using tables, and narrations.

4.2 Response Rate

The study sampled 296 respondents. 70 were dealing with agricultural products, 122 selling new and Second hand clothes and shoes, 22 saloons and barber shops, 18 floristry shops, 15 from Furniture, 16 Money transfer agents, 20 Cyber Cafes and 18 from Ready Food store including hotels and butcheries. The response rate was as indicated in table 4.1 below.

Table 4. 1 4.1 Number of Respondents

CATEGORY OF TRADERS	SAMPLE SIZE	PERCENTAGES
Raw agricultural products	42	20
Boutiques (New, Second hand clothes and shoes)	84	40
Beauty parlors, saloons and barber shops	20	10
Bouquet/ floristry shops	18	8
Furniture	10	5
Money transfer agents	12	5.5
Cyber Cafes	14	6.5
Ready Food store (hotels and butcheries)	10	5
TOTAL	**210**	**100**

Source: Researcher data, 2022

Out of 296 questionnaires that were issued, 234 questionnaires that is 80% were returned duly filled. 24 questionnaires were rejected since they were inconsistent while others were incomplete. A total 210 questionnaires- approximately 71% were analyzed as shown in the table above. Mugenda & Mugenda (1999) noted a response rate of 50% is adequate for analysis whistle 60% is good and 70% and above excellent.

4.3 **Background Information**

The section analyzed the demographic profile of the MSEs traders in NCBD such as sex, age, business they conduct, level of education, the number of years and employees they have been in business.

4.3.1 Demographic Information

To establish gender distribution of MSEs traders in Nakuru CBD, the researcher requested respondents to indicate their gender.

Table 4. 2 Demographic information

Gender	Frequency	percentages	Cumulative percentage
Male	141	67.4	67.4
Female	69	32.2	100.0
Total	210	100.0	

Source: Author 2022

From the table 4.1 above, out of 210 respondent, 141were male while 69 were female. This represent 67% male and 33 % female. Hence the majority of the traders were male.

4.3.2 Distribution of MSEs businesses at Nakuru CBD

Table 4. 3 Business trader conduct at Nakuru Central Business District

POPULATION CATEGORY	SAMPLE SIZE	PERCENTAGE
Raw agricultural products	42	20
Boutiques (New, Second hand clothes and shoes)	84	40
Beauty parlors, saloons and barber shops	20	10
Bouquet/ floristry shops	18	8
Furniture	10	5.0
Money transfer agents	12	5.5

Cyber Cafes	14	6.5
Ready Food store (hotels and butcheries)	10	5.0
TOTAL	**210**	**100.0**

Source: Researcher Data, 2022

20% of the traders were dealing with Raw agricultural products such as groceries, horticulture, milk vendors; 40% deal with new and Second hand clothes and shoes, 10% operate saloons, barber shops and beauty parlor, 8% selling bouquet and floristry shops, 5% dealing with furniture, 5.5% operating money transfer agents such as Mpesa, bank agents, Airtel money among other, 6.5% Cyber Cafes and 5% from Ready Food store (hotels and butcheries).

4.3.3 Age Distribution of Mses Traders in Nakuru Central Business District in Nairobi

Table 4.4 below shows age distribution of Mses Traders in Nakuru Central Business District. 4.3% of the respondents were below 20 years, 10% are between age of 20 t0 25 years, 8.6% between 26 to 30 years, 30 to 35 years 26.1%, 24.8% were between 31 to 35 years; 36 to 40 24.8%, 41 to 45 years 6.7%; 46-50 years 12% and 51 years and above 7.5%. Hence majority of the respondent were between 26 to 40 years totalling to about 60%.

Table 4. 4 Age Distribution of traders in Nakuru CBD

Age in Years	Frequency	Percentage	Valid Percentage	Cumulative Percentages
20 and below	9	4.3	4.3	4.3
21-25	21	10	10	14.3
26-30	18	8.6	8.6	22.9
30-35	55	26.1	26.1	49
36-40	52	24.8	24.8	73.8
41-45	14	6.7	6.7	80.5
46-50	25	12	12	92.5
Above 51	16	7.5	7.5	100
Total	210	100.0		

Source: Author Data 2022

4.3.4 Highest Level of Education

The author sought to establish the highest level of education attained by Small and Micro Business traders. The aim was to establish their literacy level- the ability to read, write, understand, interpret and fill questionnaire appropriately. Hence the traders were requested to indicate the highest level of education attained.

Table 4. 5 Highest Level of Education

Highest Education Level	Frequency	Percentage	Valid Percent	Cumulative Percent
No formal Education	9	4.3	4.3	4.3
Primary Certificate	30	14.2	14.2	18.5
Secondary Certificate	86	41	41	59.5
Diploma/Certificate	75	35.7	35.7	93.3
Graduate Degree and Above	16	7.7	7.7	100.0
Total	**210**	**99.1**	**100.0**	

Source: Author 2022

Table 4.5 above indicates 4.3% of traders have no formal education, 14.2% had attained Kenya Primary of Secondary Education (KCSE), and 41% Kenya Certificate of Secondary Education whistle 35.7% had Diploma and certificates from tertiary education institute. 16% of the respondents had university degrees and above. From the above statistics, 81% of the respondent are literate (had acquired secondary school

and above). Hence majority of the respondents had ability to read, comprehend and answer the questionnaire adequately and accurately.

4.3.5 Period in Years Operating MSEs in Nakuru CBD

The researcher sought to identify the period of time in years the trader had operated his/her business in Nakuru Central Business District. The aim was to establish how well the respondent was acquainted with factors that influences profitability of their business.

Table 4. 6 Period operating MSEs in Nakuru CBD

Period in years	Frequency	Percent	Cumulative Percent
Below 1 year	12	5.7	5.7
1 - 5	22	10.4	21.1
6 – 10	54	26	47.1
11 -15	70	33	80.1
16 - 20	42	20.0	91.5
21 and above	20	9.5	100.0
Total	**210**	**99.1**	

Source: Researcher data, 2022

Table 4.6 above shows that 5.7% of the respondents had operated MSEs in Nakuru CBD for a period below 1 year. 10.4% had operated 1 to 5 years; 26% between 6 to 10 years; 33% 11 to 15 years; 20% 16 to 20 year's whistle 9.5% 21 years and above. Hence the majority of the MSEs traders approximately 85% had operated their business in Nakuru CBD for a relatively long period of time that is more than 5 years.

4.3.6 Number of workers Employed

The study aim at establishing the number of employee's MSEs traders in Nakuru Central Business District had employed. The aim was to evaluate whether all the business under the study qualified to be classified as MSEs.

Table 4. 7 Number of Workers employed in MSEs

Employees	Frequency	Percentage	Cumulative Percentage
NIL	113	55	55
1-5	84	40	95
6-10	10	4.9	99.9
11 and above	2	0.01	100
	210	100	

Source: Researcher data 2022

From the above tabulation, 55% operated their businesses alone with no employee(s), 40% had employed between 1-5 employees, while 4.9% had 6-10 employees. Only 2 respondent comprising of 0.01% had 11 employees and above. Hence majority of the MSEs had between 0-5 employees that is approximately 99%.

4.4 Factors affecting profitability of Small and Micro Business enterprises in Kenya

Study sought to examine whether government regulation, credit financing, competition and location affect the profitability of small and micro business enterprises in Nakuru CBD.

Table 4. 8 Factors affecting profitability of small and micro business enterprises in Nakuru CBD

Factor	Government regulations	Credit financing	Competition	Location
Yes	97.3	87.6	95.4	83.2
No	2.7	12.4	4.6	16.8

	Total	100	100	100.0	100

Source: Researcher data, 2022

This was vital for the researcher to identify whether the traders were conversant with factors affecting the profitability of their business. 97.3% agreed government regulations and policies affected the profitability of their business followed by competition with 95.5%; credit financing 87.6% while those whose location affected the profitability of their business were 83.2%. 2.7% of the respondent claimed government regulations have no effect on returns of their business. 12.4%, 4.6% and 16.8% replied credit financing, Competition and location does not affect profitability of their business respectively.

4.4.1 The extent factors affect profitability of MSEs in Nakuru Central Business District

Study sought to examine the extent to which government regulation, credit financing, competition and location affect the profitability of small and micro business enterprises in Nakuru CBD.

Table 4. 9 The extent factors affect profitability of MSEs in Nakuru CBD

		Government regulations	Credit financing	Competition	Location
N	Valid	210	210	210	210
	Missing	1	1	1	1
	Mean	4.6543	4.5731	4.2781	3.7231
	Std. Deviation	.79042	.86431	.72492	.62167

Source: Researcher data, 2022

Table 4.9 above indicate majority of the traders concurred that Government regulations, Credit financing, Competition and location affect profitability of MSEs but in varying extent. Government regulations had mean of 4.65 and SD .79042, Credit financing mean of 4.5731and SD .86431, Competition mean of 4.2781and SD .72492while Location had mean of 3.7231and SD .62167.

4.4.2 Effect of government regulations on profitability of MSEs Nakuru CBD

The researcher sought to examine the extent to which the regulations imposed by the government affects the profitability of Small and Micro Business Enterprises in Nakuru CBD.

Table 4. 10 Effect of government regulations on profitability of MSEs

	Business registration procedure	Procedure of acquiring license	Cost of license	Tax compliance	Health and safety compliance
	210	210	210	210	210
Mean	3.9601	3.6872	4.6681	4.7563	2.8421
Std. Deviation	.83691	.85193	.94519	.96531	.53361

Source: Researcher data, 2022

Table 14.10 above shows that government regulations affected the profitability of MSEs in Nakuru CBD. Out of maximum of 5 (extremely great extent), Business registration procedure had mean of 3.9601and standard deviation .83691; Procedure of acquiring license 3.6872, standard deviation .85193; Cost of license mean of 4.6681, and SD of .94519; Tax compliance had mean of 4.7563; Standard Deviation of .96531 and Health and safety compliance with mean of 2.8421with standard deviation of .53361. Hence government regulations greatly affect the profitability of MSEs in Nakuru Central Business District.

4.4.3 Government assistance and profitability of MSEs

The study sought to establish whether the government assistance in provision of financial assistance, infrastructure training, promotion and political instability affects profitability of MSMEs in Nakuru Central Business District.

4.4.4 Extent of Government assist profitability of MSEs in Nakuru CBD

The study sought to examine the extent to which government assist SMEs trader in operating their business and how its assistance impact on profitability of the businesses in Nakuru Central Business District.

Table 4. 11 Government assistance of MSEs

	Financial assistance	Provision of infrastructure	Entrepreneurial training	Political stability	Promotion of local products	Giving tenders to MSEs and the youth
N	210	210	210	210	210	210
	1	1	1	1	1	1
Mean	1.2591	4.4645	1.1012	4.7821	1.2391	1.3479
Std. Deviation	.40952	.50465	.51894	.57135	.61731	0.7639

Source: Researcher data, 2022

The table 4.11 above shows the extent to which the government of Kenya, through various initiatives, have assisted SMEs in Nakuru CDB in improve their profitability. Financial assistance through youth and women fund and County government institutions had mean of 1.2591 and SD of .40952; Provision of infrastructure (roads, electricity, security, sewerage, water, among others) mean of 4.4645 standard deviation .50465; Entrepreneurial training on managerial and technical skills mean of 1.1012 and standard deviation .51894; Political stability mean 4.7821 and standard deviation .57135; Promotion of local products had mean 1.2391 and standard deviation .61731; whistle giving tenders to MSEs and the youth

had mean of 1.3479 and SD of 0.7639. Hence the extent to which the Government had assisted on improving profitability of MSEs was low as shown in table above.

4.5 Credit Financing and Profitability of MSEs in Nakuru CBD.

4.5.1 Major Source of Capital

The researcher sought to identify the major source of capital for traders operating Micro and Small business enterprises in Nakuru CBD.

Table 4. 12 Sources of capital

Sources of Capital	Percentage
Personal Savings	15%
Borrowing From Friends And Relatives	49%
Commercial Banks	3%
Self-help groups	18%
SACCOS	9%
Shylock	1%
Others	5%

Source: Author data 2022

From table 4.12 above, 15% of traders got capital from personal savings, 49% borrowed from friends and relatives, 3% from Commercial Banks, 18% % Self-help groups, 9% from SACCOs, 1% from shylocks while 5% from other sources more than above. Researcher noted personal savings, borrowing from friends and relatives (filial capital) and self-help groups are the major sources of capital for MSEs traders operating in Nakuru CBD.

4.5.2 Effect of accessibility to credit finance on profitability of MSEs

The researcher aimed to establish how accessibility to credit financing affect the profitability of MSEs Nakuru Central Business District. The results are tabulated below.

Table 4. 13 Effect of Credit Financing on Profitability MSEs

	Availability of business loans from financial institutions	Credit from non-formal lending firms like shylocks	Loan acquisition Procedure	Interest rate	Collateral required	Repayment period
N	210	210	210	210	210	210
Mean	3.7429	1.3128	4.3812	4.7391	4.9219	3.1623
Std. Deviation	.86291	.53951	.69216	.88419	.89275	.42761

Source: Researcher Data 2022

Table 4.13 shows Credit financing affects profitability of MSEs in Nakuru CBD. Research used a likert scale of 1- 5 was used where 5 represent extremely great extent whistle 1 is very little extent or no effect. Out of possible a mean of 5, Availability of business loans from financial institutions had mean of 3.7429 and standard deviation of .86291, Credit from non-formal lending firms like shylocks mean of 1.3128 and standard deviation of .53951, Loan acquisition procedure mean of 4.3812 and standard deviation of .69216, Interest rate mean of 4.7391and standard deviation of .89275, Collateral required mean of 4.9219and standard deviation of .89275, Repayment period mean of 3.1623 and standard deviation of .427614.6 The extent Competition affects profitability of the MSE

4.6.1 Level of Competition

The sought to examine the level at which MSEs in Nakuru CBD face competition from their fellow traders and other medium and large scale traders. From the table 4.15 below 2% of traders indicated they do not face any competition, 20% they face minimum competition but 78% indicated they face very high competition.

Table 4. 14 Level of Competition MSEs in Nakuru CBD

	Frequency	Percentage	Cumulative Percent
No competition	4	2	2
Minimum competition	42	20	22
Very high competition	164	78	100
Total	210	100.0	

 Source: Researcher Data 2022

4.6.2 Extent Competition affects profitability of the MSEs in Nakuru CBD

The researcher sought to establish the extent to which competition affects profitability of the MSEs in Nakuru CBD.

Table 4. 15 Extent Competition affects profitability of the MSEs in Nakuru CBD.

	Competition for customers	Perfect substitute	Competition for supplies	Price wars	Competition from large business
N	210	210	210	210	210
Mean	4.897	4.6015	2.5318	4.7618	3.1831
Std. Deviation	.5991	.64913	.53714	.67341	.77342

Source: Researcher data, 2022

Table 14.16 above shows competition affects the profitability of MSEs in Nakuru Central Business District. Out of the possible maximum mean of 5 (Extremely great extent), Competition for customers had mean of 4.897that is low extent and standard deviation of .5991, Perfect substitute mean of 4.6015and SD .64913, Competition for supplies, mean of 2.5318 and SD .53714, Price wars mean of 4.7618and SD .67341 and Competition from large business had mean of .1831 and SD of .77342. Hence competition affect profitability of the MSEs.

4.7 Impact of Location on MSEs profitability in Nakuru CBD

The study seek to examine extent to which location affects profitability of the business in Nakuru CBD. The results are shown in table 4.17 below.

Table 4. 16 Extent competition affects profitability of the business

	Ease of access by customers.	Availability of infrastructure.	Accessibility to suppliers	Security	cost of operation	Presence of social amenities
N	210	210	210	210	210	210
	1	1	1	1	1	1
Mean	4.8775	4.2793	3.2892	3.9743	3.7419	2.7212
Std. Deviation	.83792	.81713	.85307	.93213	.78319	.87325

Table 4.17 above the majority of traders acknowledge location affects profitability MSEs business in Nakuru CBD to great and moderate extent in the following areas; Ease of access by customers; (Mean 4.8775and SD .83792); Availability of infrastructure (Mean 4.2793; SD .81713) and Accessibility to suppliers (Mean 3.2892; SD deviation .85307); Security (mean 3.9743and SD deviation .93213), cost of operation (mean 3.7419 and SD .78319) and Presence of social amenities (mean 2.7212and ISD .87325).

4.8 Other factors affect the profitability of MSEs in Nakuru Central Business District.

The study sought to identify the other factors that affect profitability of the MSEs in Nakuru CBD apart from government regulations, credit financing, competition as well as location of the business. Through

content analysis of qualitative data, the following other factors were came to the limelight. Top on the list is harassment and corruption vested by Nakuru municipal council officials as they solicit bribes from licensed and law abiding traders drew much of the traders' profit. Other factors that affected their trading activities included frequent relocation by county officials in quest of upgrading their trading areas and decongesting the Central Business District. High cost of living, depreciation of currency, high cost of transport aggravated by increase in price of petroleum products, draught that affected agricultural production and Covid-19 pandemic were also highlighted. It also become clear many of government policies to assist Micro and Small business enterprises have not benefited MSEs traders operating in Nakuru CBD. This policies include business stimulus program given MSEs after Covid pandemic, government tenders to SMEs, entrepreneurial training, youth and women fund as well as fund from county government.

4.9 Inferential Statistics

Inferential statistics were used to make examine the strength of the relationship between the dependent and independent variable, determine the fitness of data to the regression model, predictions of the effect of independent variables on dependent variable from the collected data and its generalization it to all MSEs traders at Nakuru CBD and in Kenya.

4.9.1 Pearson Correlation Analysis

Pearson Correlation Coefficient was used to establish the strength of relationship or association between explained and the explanatory variables. In this study, Pearson correlation analysis was conducted using SSPS computer package Version 21. Table 4.18 below show there exist a strong positive correlation between profitability of MSEs in Nakuru Central Business District and Government regulations with correlation coefficient factor of 0.797 and significance value of 0.000. This relationship is statistically significant as significant value of 0.000 was below the level of significance of 0.05 (0.01 level (2- tailed test). The study also found a strong positive relationship between credit financing and profitability of Small and Micro Business enterprises operated in Nakuru city- Central Business District with correlation coefficient factor of 0.811, 0.000 level of significance which is below 0.01 in 2-tailed test. Competition and Location also showed strong positive relationship on profitability of MSEs in Nakuru CBD with correlation

coefficient factor of 0.791 and 0.807 respectively. Both competition and location have significance value of 0.00 hence they are statically significance since it is below 0.05 or 1% in 2-tailed test.

Table 4. 17 Correlations

	Effect on profitability of MSEs in Nakuru CBD	Government Regulations	Credit Financing	Competition	Location

Profitability of MSEs in Nakuru CBD	Pearson Correlation	1	.797**	.811**	.791**	.807**
	Sig. (2-tailed)		.000	.000	.000	.000
Government Regulations	Pearson Correlation	.797**	.642**	.507**	.598**	.706**
	Sig. (2-tailed)	.000		.000	.000	.000
Credit Financing	Pearson Correlation	.811**	1	1	.490**	.593**
	Sig. (2-tailed)	.000	.000		.000	.000
Competition	Pearson Correlation	.791**	.592**	.490**	1	.780**
	Sig. (2-tailed)	.000	.000	.000		.000
Location	Pearson Correlation	.807**	.691**	.593**	780**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	Pearson					

**. Correlation level of sig 0.01 (2- tailed).

b. List-wise N=210

Source: Researcher data, 2022

4.9.2 Coefficient of Determination (R2)

Coefficient of determination (R squared) is a statistical measure that determines how well the data used fits the regression model. It measures the goodness of fit of the model. It explains the proportion of variance in the dependent variable that can be explained by the predictive/ explanatory or independent variables in the regression model.

Table 4. 18 Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimates
1	.781[a]	.734	.702	.52784

Source: Researcher Data 2022

Coefficient of determination model was used to determine the extent to which the model used in the study fitted the data. As shown from table above, the model fit was 73.4% as shown by squared (R2). 70.2% is the proportion of the dependent variable explained by the explanatory variables. Hence the variation in profitability of MSEs in Nakuru CBD had been explained by explanatory variables used in the study as indicated above by adjusted R2. Hence the variations in profitability of MSEs in Nakuru CBD had been explained by predictive variables such as government regulations, Credit financing, Competition and the Location of the business.

4.9.3 Multi Regression Analysis

The researcher used multiple regression analysis statistical technique to measure the influence or the impact of the each independent variables on dependent holding all other.

Table 4. 19 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std Error	Beta		
(Constant)	-1.436	1.7547			
Government regulations	.793	.041	0.412	63.472	.000
Credit Financing	.713	.051	0.596	43.872	.000
Competition	.798	.059	0.615	75.43	.000
Location	.735	.056	0.601	63.498	.000

Source: Researcher Data, 2022

The coefficients of equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$) as generated by SSPS output was:

$$Y= -1.4+0.793X_1 + 0.713X_2 + 0.798X_3 + 0.735X_4 + 1.7547$$

Regression analysis revealed a unit change in government regulations, holding all other factors constant affect profitability of MSEs in Nakuru CBD by coefficient factor 0.793; a unit change in Credit financing while holding all other factors constant would affect profitability of MSEs by coefficient factor 0.713; a unit change in level of competition holding all other factors constant change the profitability of MSEs in Nakuru CBD by coefficient factor 0.798; while a unit change in location of MSEs in Nakuru CBD while holding all other factors would change profitability of MSEs by coefficient factor 0.735. Hence government regulations, credit financing, competition and location of the business have direct influence on profitability of MSEs in Nakuru Central Business District.

4.10 Summary of the Chapter

The researcher used descriptive statistics of frequency and percentages to analyze demographic and background information of the respondents. This included gender (male or female), age distribution, level of education attained, number of employees and the length of period respondents had operated their business in Nakuru- CBD. Factors that influence profitability of MSEs in Nakuru CBD such as government regulations, credit financing, competition and location were analyzed by mean and standard deviation. Inferential statistics such as 2 tailed person correlation with 0.01 level of significance was used to evaluate the strength of relationship among variables while coefficient of determination examined whether the model used in the study fitted the data collected. Multi regression analysis examined the effect of unit change in independent variable to dependent variable while holding all other factors. Content analysis was used to analyze qualitative data.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter dealt with summary, conclusion, recommendation of the study, limitation and recommendation for further study. The aim is to establish whether the study have been able to identify factors that affect profitability of Micro and Small business enterprises in Kenya and whether the results from Nakuru CBD can be generalized to the entire country -Kenya

5.2 SUMMARY OF THE STUDY

5.2.1 Summary Background information

Out of 296 questionnaires issued to the respondents, 210 questionnaires were returned duly fully filled. This represented approximately 72% of the sampled population. 20% of the traders were dealing with raw agricultural products such as groceries, horticulture, milk vendors; 40% deal with new and Second hand clothes and shoes, 10% operate saloons, barber shops and beauty parlor, 8% selling in bouquet and floristry shops, 5% dealing with furniture, 5.5% operating money transfer agents such as Mpesa, bank agents, Airtel money among other, 6.5% Cyber Cafes and 5% from Ready Food store (fast food hotels and butcheries). Hence majority of MSEs in Nakuru CBD deals with raw agriculture products and new and second hand clothes and shoes.

Majority of the traders were male who were 141 while 69 were female. This represent 67% male and 33 % female. 4.3% of the respondents were below 20 years, 10% are between age of 20 t0 25 years, 8.6% between 26 to 30 years, 30 to 35 years 26.1%, 24.8% were between 31 to 35 years; 36 to 40 24.8%, 41 to 45 years 6.7%; 46-50 years 12% and 51 years and above 7.5%. Hence majority of the respondent were between 26 to 40 years totaling to about 60%. The researcher established 4.3% of traders have no formal education, 14.2% had Kenya Certificate of Primary Education certificate, and 41% Kenya Certificate of Secondary Education whistle 35.7% had Diploma and certificates from tertiary education institute. 16% of the respondents had university degrees and above. From the above statistics, 81% of the respondent are literate (had acquired secondary school and above) hence had capacity to read, understand and answer the questionnaire accurately.

The study also established the majority of the MSEs traders approximately 85% had operated their business in Nakuru CBD for a relatively long period of time that is more than 5 years and only about 15% had operated their businesses for less than 5 years. 55% operated their businesses alone with no employee(s), 40% had employed between 1-5 employees, while 4.9% had 6-10 employees. Only 2 respondent comprising of 0.01% had 11 employees and above. Hence majority of the MSEs had between 0-5 employees that is approximately 99%.

5.2.2 Factors affecting profitability of micro and small business enterprises in Kenya

Study aimed at establishing whether the Government regulations, Credit financing, Competition and location affect the profitability of micro and small enterprises in Nakuru CBD. From the data collected 97.3% agreed government regulations and policies affected the profitability of their business followed by competition with 95.5%; credit financing 87.6% while those who indicated location affected the profitability of their business were 83.2%. 2.7% of the respondent claimed government regulations have no effect on returns of their business. 12.4%, 4.6% and 16.8% replied credit financing, Competition and location does not affect profitability of their business respectively. Government regulations, Credit financing, Competition and location affect profitability of MSEs but in great but varying extent. Government regulations had mean of 4.65 and SD .79042, Credit financing mean of 4.5731and SD .86431, Competition mean of 4.2781and SD .72492while Location had mean of 3.7231and SD .62167.

5.2.3 Effect of government regulations on profitability of MSEs in Nakuru TOWN

The government regulations affected the profitability of MSEs in Nakuru CBD. Out of maximum of 5 (extremely great extent), Business registration procedure had mean of 3.9601and standard deviation .83691; Procedure of acquiring license 3.6872, standard deviation .85193; Cost of license 4.6681, and standard deviation of .94519; Tax compliance mean of 4.7563 with standard deviation of .96531 and Health and safety compliance with mean of 2.8421with standard deviation of .53361. Hence government regulations greatly affect the profitability of MSEs in Nakuru Central Business District.

It was also note government initiatives such as political stability (mean 4.7821 and standard deviation .57135) and Provision of infrastructure (roads, electricity, security, sewerage, water, among others mean of 4.4645 standard deviation .50465) had improved profitability SMEs in Nakuru TOWN to a great extent. Financial assistance through youth and women fund and County government institutions, Entrepreneurial

training on managerial and technical skills, Promotion of local products and giving tenders to MSEs and the youth had very little impact on profitability of MSEs. Hence the extent to which the Government had assisted on improving profitability of MSEs was very low.

5.2.4 Credit Financing and Profitability of MSEs in Nakuru TOWN.

The major source of capital for traders operating Micro and Small business enterprises in Nakuru CBD was borrowing from friends and relatives (49%), followed by 18% % Self-help groups, 15% of traders got capital from personal savings, 9% from SACCOs, 5% form mobile phone lending, 3% from Commercial Banks while 1% from shylocks. Researcher noted accessibility to credit affected MSEs profitability to great extent. Out of possible a mean of 5, Availability of business loans from financial institutions had mean of 3.7429and standard deviation of .86291, Credit from non-formal lending firms like shylocks mean of 1.3128 and standard deviation of .53951, Loan acquisition procedure mean of 4.3812 and standard deviation of .69216, Interest rate mean of 4.7391and standard deviation of .89275, Collateral required mean of 4.9219and standard deviation of .89275, Repayment period mean of 3.1623 and standard deviation of .427614

5.2.5 Effect of competition of MSEs Profitability in Nakuru TOWN

The level of competition among SMEs in Nakuru CBD is very high (78%) with only 2% of traders indicating they do not face any competition, 20% they face minimum competition. Competition for customers affects the profitability of MSEs in Nakuru Central Business District to the greatest extent with mean of 4.897 of the possible 5.0 followed by Price wars and presences of Perfect substitute with mean of 4.7618 and 4.6015 respectively. Competition from large business and Competition for supplies and affect the profitability in a relatively moderate extent wit mean of 3.1831 and 2.5318 respectively.

5.2.6 Impact of Location on MSEs profitability in Nakuru TOWN

The study shows approximately 83% MSEs, their profitability is affected by the location of their business. Accessibility by customers affects profitability to very great extent (mean 4.8775and SD .83792); followed by Availability of infrastructure- roads, electricity, water, (Mean 4.2793; SD .81713) Security (mean 3.9743and SD deviation .93213), cost of operation (mean 3.7419 and SD .78319); Accessibility to

suppliers (Mean 3.2892; SD deviation .85307); and Presence of social amenities (mean 2.7212and SD .87325).

5.3 CONCLUSION OF THE STUDY

5.3.1 Conclusion Background information

Majority of MSEs traders in Kenya are male with female constituting on 33% that is third of all traders. 74% of the traders are between the ages of 26 to 40 years. Most of the traders above 45 years had no formal education or had only Kenya Certificate of Primary Education while majority of traders below the age of 35 years had attained secondary education certificate whistle other had degree certificate and above. 65.5% of the traders do not add any value to their products. These include traders selling raw agricultural products such as groceries, horticulture, milk vendors; dealers of new and Second hand clothes and shoes and money transfer agents. Most of these traders operate alone or have less than 5 employees. Majority of Ready Food store, saloons, barber shops and beauty parlor, furniture dealers (local and imported), bouquet and cyber cafes had more than five employees. 93% of these traders had gained Kenya Certificate of secondary education and above.

5.3.2 Conclusion on Factors affecting profitability of MSEs in Kenya

Government regulations, credit financing, competition and the location of the business are determinant of profitability of MSEs in Kenya. It explains the proportion of variance in the profitability that can be explained by the above independent variables was 70.2% as denoted by Adjusted R^2 (R Squared). The data used fit the regression model 73.4% as shown by coefficient of determination (R Squared). These concurred with MSEs traders response of which 97.3%, 95.5%, 86.7% and 83.2% agreed government regulations competition, credit financing, location affected the profitability of their businesses respectively. Researcher further concluded Government regulations and Credit financing affect MSEs to a very great extent (with mean above 4.5 out of possible 5.0) as compared to competition and location had mean of 4.2781and 3.7231 respectively

5.3.3 Government regulations on profitability of MSEs

Pearson correlation analysis showed there is a strong positive relationship between the profitability of MSEs and Government regulations. It had a correlation coefficient factor of 0.797 at 0.05 level of

significance in 2- tailed test. Regression analysis revealed a unit change in government regulations, holding all other factors constant affect profitability of MSEs by coefficient factor of 0.793. Hence business registration procedure, procedure and cost licensing, tax compliance and health and safety compliance greatly affect the profitability of MSEs. It worth noting political stability and provision of adequate infrastructure such as roads, electricity, security, sewerage, water, among others also affect profitability of SMEs to a great extent. Moreover, the extent to which the Government had assisted on improving profitability of MSEs was very low. Government initiative such as financial assistance through youth and women fund and County government institutions, entrepreneurial training on managerial and technical skills, promotion of local products and giving tenders to MSEs and the youth had very little impact on profitability of MSEs.

5.3.4 Credit Financing and Profitability of MSEs in Nakuru Town.

The study concluded majority of MSEs trader have very low access to credit financing especially from financial institutions and non-banking financial institutions such as SACCOs. Most of the traders finance their businesses through borrowing from friends and relatives, loans from self-help groups and merry go-round, personal savings and mobile phone lending application such as Branch, Tala, among others. These have greatly affected the profitability, sustenance and growth of their business as it was indicated by 87.6% of traders. Most traders are not able to access credit financing from financial institutions due to the procedure involved, collateral security needed, cost of the loans and the repayment period being too short for one to breakeven. The study found very strong positive correlation between credit financing and profitability of Micro and Small business enterprises correlation coefficient factor of 0.811, at 0.05 level of significance in 2- tailed test. Also found a unit change in credit financing while holding all other factors constant would affect profitability of MSEs by coefficient factor 0.713

5.3.5 Effect of competition of MSEs Profitability

The study concluded the level of competition among SMEs is very high as acknowledged by 95.5% of the traders. Pearson correlation analysis show a strong correlation relationship between competition and profitability of MSEs at coefficient factor of 0.811 at 0.05 level of significance in 2-tailed test. Consequently, regression analysis showed a unit change in level of competition holding all other factors constant change the profitability of MSEs by coefficient factor 0.798. Hence competition for customers,

price wars, presences of substitutes, competition from large business and competition for supplies affect the profitability of MSEs.

5.3.6 Impact of Location on MSEs profitability

The study also concluded location have great impact on profitability of MSEs as indicated by 83% of the business owners. Accessibility by customers, availability of infrastructure- roads, electricity, water, security, cost of operation such as rent, municipal levies; accessibility to suppliers and presence of social amenities play a major role in determination of profitability of their business. Frequent relocation of their businesses by county officials in quest of upgrading their trading areas and decongesting the CBD have adversely affect their businesses. Regression analysis showed a unit change in location of MSEs while holding all other factors would change profitability by coefficient factor 0.735; whistle person moment correlation indicated a strong relationship between location and profitability of MSEs at coefficient factor of 0.87 at 0.05 level of significance in 2-tailed test.

The study also identified other factors that affect the profits of MSEs apart from the government regulations, credit financing, competition and location of the business. These included harassment and corruption county officials as they solicit bribes from licensed and law abiding traders drew much of the traders' profit, high cost of living, depreciation of currency, high cost of transport aggravated by increase in price of petroleum products, draught that affected agricultural production and Covid-19 pandemic were also highlighted. It also become clear many of government policies to assist Micro and Small business enterprises have not benefited MSEs traders operating in Nakuru CBD. This policies include business stimulus program given MSEs after Covid pandemic, government tenders to SMEs, entrepreneurial training, youth and women fund as well as fund and support from county government.

5.4 RECOMMENDATION OF THE STUDY

The study recommends there is need for the government and county government to provide incentives to MSEs. This would encourage more youth and women for them to venture into MSEs as well motivate more educated citizen that with secondary school education, degrees and above to venture into informal sector. This need to be coupled one stop shop for business registration and licensing. Government should also lower or even abolish licensing and taxes levied to MSEs as well educate traders health and safety requirements associated with their business. The government should also enhance political stability;

provide appropriate adequate infrastructure such as roads, electricity, security, sewerage, water, as well as financial assistance through youth and women fund and County government institutions, entrepreneurial training on managerial and technical skills, promotion of local products, give tenders to MSEs without many stingiest requirements and introduce disaster management or stimuli fund for the MSEs.

The corrupt county government officials who keep on soliciting bribes and harassing traders need to be identified and pruned from the system. It should also avoid frequent relocation of traders from their usual trading areas but providing a permanent strategic location where traders can conduct their business that have adequate and appropriate social amenities.

The major predicament facing SMEs is accessibility to credit especially from financial institution due to the collateral requirement, loan application procedure, cost and repayment period. The study recommend MSEs traders to form SACCOs and self-help groups from which they can guarantee each other when acquiring loans. Financial institution should also develop a credit financing products that can fit MSEs as well educate these traders on good financial management. MSEs should avoid credit financing from shylocks and mobile phone lending companies since they are highly accessible but very expensive to finance hence reducing their profitability greatly. These will greatly improve sustainability, growth and profitability of their businesses.

Competition in business is healthy and inevitable. To conquer competition in MSEs, the trader need to identify the market niche which they can serve better than the competitors, package and price their products to the customer requirements, develop good relationship with the reliable suppliers as well practice good customer relationship and customer service to win loyal and dependable customers. Adding value to raw products and providing additional services can also give MSEs a competitive edge. MSEs traders need to identify a strategic location which is accessible to the customers and supplies. The premises should be affordable in terms of rent and other associated cost with appropriate social amenities.

## 5.5 LIMITATION OF THE STUDY

The researcher experienced some challenges especially when collecting the data. Some of the respondents were not willing to fill the questionnaires since they felt it was not of any importance to them. Others had trust issues while others were illiterate. The researcher had to persuade the respondents and moreover

assure the traders the information collected will be treated with utmost privacy and was to be used for academic purposes only. For those who could not read the researcher had prepared interview schedule which we went through with the respondents as I recorded the response. Other respondents did not return the questionnaire even after doing follow-up while others returned questionnaires which were incomplete while others were inconsistent hence would not be analyzed.

5.6 RECOMMENDATION FOR FURTHER STUDIES

More studies can be conducted on Micro and Small Business enterprises in other cities and towns like Nairobi, Kisumu, Mombasa among others. The independent variables identified in the study that is government regulations, credit financing, competition and location can each be in-depth analyzed. Other factors that affect profitability of MSEs highlighted in the study such as corruption and harassment by county officials, lack of government incentives and poor infrastructure can be critically examined.
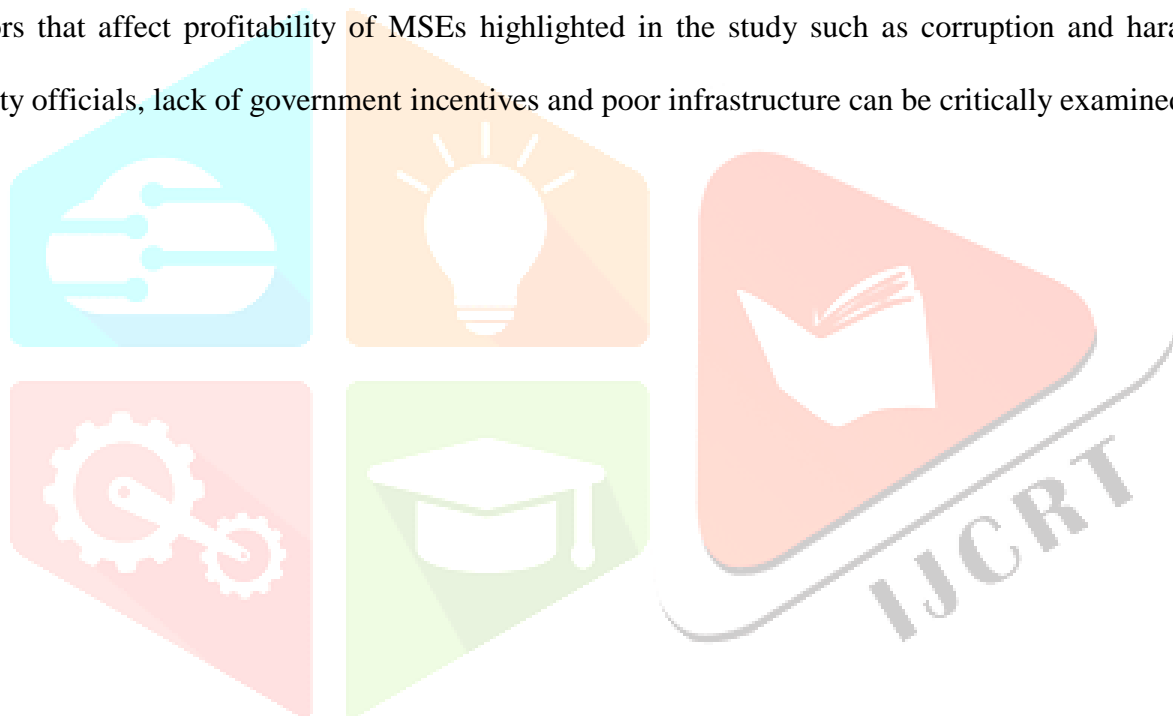
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Cooperative, Industrial Area, Muthura Road, New Delhi 110 044

APPENDIX I: LETTER OF INTRODUCTION

The purpose of this questionnaire is to gather information from the respondents on the factors affecting profitability of Micro and small sized enterprises in Kenya, a survey of MSEs in Nakuru Central Business District. Please complete the questions by putting a tick ($\sqrt{}$) against the preferred responses. The information you provide will be treated in confidence and for research purpose only.

This questionnaire will be conducted solely for academic purposes, leading to award of degree in Masters in business administration. Your response will be treated with utmost confidentiality.

Yours Faithfully,

EDWARD M. MACHARIA

N50/27173/2017

APPENDIX I1: QUESTIONNAIRE

Instruction: please tick where appropriate in the bracket or provided space.

SECTION ONE: DEMOGRAPHIC INFORMATION

i.   Gender: Male ( ) Female ( )

ii.   What is your age bracket? (Tick where appropriate).

19 years and below ( )   20- 24 years ( )   25- 29 years ( )   30-35 years ( )

36-40 years ( )   41- 45 years ( )   46-50 years ( ) 51 years and above ( )

iii.   Tick on the table below the kind of business you conduct at Nakuru CBD

Raw agricultural products	
New and Second hand clothes and shoes (Boutique)	
Saloons, barber shops and beauty parlor	
Bouquet/ floristry shops	
Mini Shops	
Furniture	
Money transfer agents	
Cyber Cafes	
Ready-To-Eat Food Eateries (hotels, butcheries, food vending, etc)	

Others, specify; …………………………………………………………………..

iv.   Indicate your highest level of education; please tick where appropriate.

No Formal Education ( )   Primary school ( );   Secondary school ( ); college certificate or

Diploma ( );   Bachelor degree and above ( )

Others, specify ………………………………………………………….

v.   How long have you being conducting your business at Nakuru Central Business Distric.

vi.   Below 1 year ( ); 1 to 5 years ( ); 6 years- 10 years ( ); 11 years to 15 years ( ); 16-20 years ( ) 21

years and above

vii.   In the space provided, kindly indicate the number of employees in your business

Nil ( )   1-5 ( )   6-10 ( )   Above 10 ( )

SECTION B: EFFECT OF GOVERNMENT REGULATION ON SMES PROFITABILITY

To what extent does the following factors affects the profitability of your business?

Factors affects the profitability	Very Great Extent	Great Extent	Moderate Extent	Small Extent	Very small Extent
Government regulation					
Credit financing					
Competition					
Location					

List others factors not indicated above that affect profitability of your business;

a)…………………………………………………………………………..

b) ………………………………………………………………………………

c)………………………………………………………………………………..

b). indicate the extent to which the government regulations listed below influence profitability of your business. Use a scale of 1-5 where, 1: Very small Extent, 2: Small Extent, 3: Moderate Extent, 4: Great Extent, 5: Very Great Extent.

Government regulation on SMEs profitability		RESPONSE				
		1	2	3	4	5
1	Business registration procedure					
2	Procedure of acquiring license					
3	Cost of licensing					
4	Tax compliance					
5	Health and safety compliance					

List others government regulations that affect profitability of your business;

a) ………………………………………………………………………

b) …………………………………………………………………….

c) …………………………………………………………………….

c) Does the government intervention in provision of the following services have effect on profitability of your business Use a scale of 1-5 where, 1: Not sure, 2: Small extent 3: Moderate extent, 4: Great extent, 5: Extremely great extent.

Government Assistance	1	2	3	4	5
Financial assistance –Women &youth fund, county and other institutions					
Providing infrastructure (roads, water, electricity, sewerage, security)					
Entrepreneurial training					

Political stability					
Promotion of local products					
Giving tenders to MSEs and the youth					

SECTION C: CREDIT FINANCING

a)   What is the major source of your capital? (tick where appropriate)

Personal savings (   ) Borrowing from friends and relatives (   )   self-help groups ( ) commercial Banks

( )   Saccos (   )   Shylock (   )

Others, specify …………….…………………………………………………………

b) Does your business have access to credit?

a)   Yes   [   ]

b)   No   [   ]

Explain…………………………………………………………………………………………………

c) To what extent does credit affects profitability of your business. Use a scale of 1-5 where, 1: Not sure, 2:

Small extent 3: Moderate extent, 4: Great extent, 5: Extremely great extent.

How do the following factors affect profitability of your business		RESPONSE				
		1	2	3	4	5
1	Availability of business loans from financial institutions					
2	Credit from non-formal lending firms like shylocks					
3	Loan acquisition Procedure					
4	Interest rate					

| 5 | Collateral required | | | | | |
| 6 | Repayment period | | | | | |

SECTION D: EFFECTS OF COMPETITION ON PROFITABILITY OF MSEs

Q1). Rate the competition within your business.

a)   No competition at all   [   ]

b)   Minimum competition   [   ]

c)   Very high competition   [   ]

Explain…………………………………………………………………………………

Q2) To what extent does competition affects profitability of your business enterprises. Use a scale of 1-5

where, 1: Not sure, 2: Small extent 3: Moderate extent, 4: Great extent, 5: Extremely great extent.

Effects of competition on profitability		RESPONSE				
		1	2	3	4	5
1	Competition for customers					
2	Traders selling perfect substitute					
2	Competition for supplies (merchandise)					
3	Price wars					
4	Competition from large business					

SECTION E: IMPACT OF LOCATION ON SMES PROFITABILITY

To what extent do the following factors affect profitability of your business? Use a scale of 1-5 where, 1:

Not sure, 2: Small extent 3: Moderate extent, 4: Great extent, 5: Extremely great extent.

	Impact of Location on Profitability	p	2	3	4	5
1	Ease of access by customers.					
2	Availability of infrastructure.					
3	Accessibility to suppliers					
4	Security					
5	Cost-Rent, county levies, etc					
6	Presence of social amenities					

THANK YOU

APPENDIX III: INTERVIEW GUIDE

Are you willing to participate in this interview?

1. How long have you been running this business?

2. Do you have any formal training with regards to running of a business?

3. Do you keep any records of financial of business?

4. Which government regulations do you feel impacts your business either positively or negatively?

5. Which regulations would you prefer to be introduced or removed to create a favorable business environment for your enterprise?

6. Do you feel the current taxation regime favors the SMEs like your business in profit making?

7. In case of financial need to expand the business or taking care of unforeseen expenses are you able to access credit facility? If yes from where? If no, why?

8. Do you feel that it's easier today for small enterprises to access funding from financial institutions compared to the past years?

9. Has your business benefited from loan or grants taken in the past? Explain further

10. Do you feel there is a tough competition the market your business is currently operating in and how are you affected profit wise?

11. What strategy does your business take to keep your customer base and maintain profit margin?

12. How does the competition currently affect your pricing of products and services and finally margin of profits?

13. Do you feel comfortable where currently your business is located? Is it the original place since its inception?

14. Why did you choose this business location compared to other places in the Central Business District?

15. Do you feel this location place a greater role in determining your business revenue?

Is there anything more you would like to add in regard to your business turnovers?

THANK YOU FOR YOUR TIME

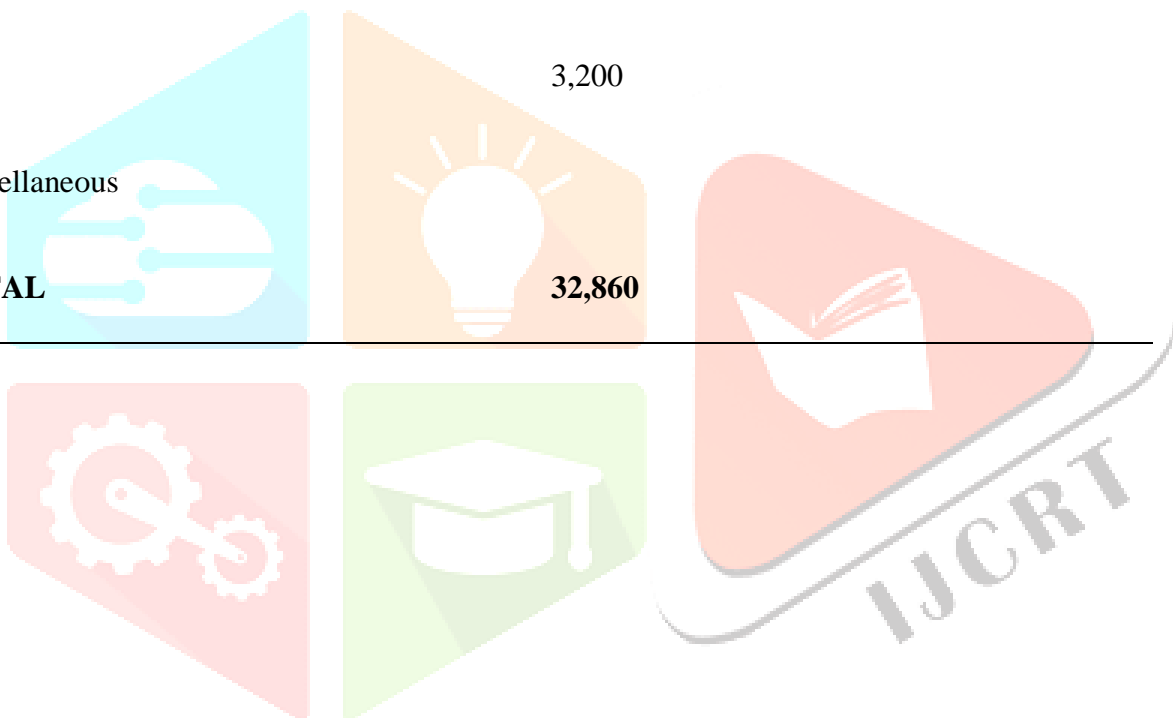**APPENDIX IV: TIME SCHEDULE FOR RESEARCH**

ACTIVITY(MONTHS)	JUNE	AUG	OCT	NOV
Literature review	■			
Proposal draft	■	■		
Data collection		■		
Data analysis		■		
Preliminary copy			■	
Corrections			■	
Research project copy				■
Submission				■

APPENDIX V: BUDGET

ITEMS	AMOUNT (KSH)
Stationery	3500
Typing and photocopy	2050
Binding	2110
Transportation and accommodation	14,000
Field research assistants (2)	8,000
	3,200
Miscellaneous	
TOTAL	**32,860**

APPENDIX V: RESEARCH LICENSE

REPUBLIC OF KENYA

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Date of Issue: **08/September/2022**

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