

**INFLUENCE OF ENTREPRENURIAL MOTIVATION ON MICRO AND  
SMALL ENTERPRISE GRADUATION IN ELDORET TOWN, UASIN GISHU  
COUNTY**

**BY**

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**DECLARATION**

I do hereby declare that this project is my original work and has not been presented to any other university or institution of higher learning for examination

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## **DEDICATION**

I dedicate this work to my wife Lonah, who is my inspiration; I thank God everyday for you. You are my best friend now and forever. And to my Sons: Raymond, Titus and Caleb who always put a smile on my face. Thank you for motivating me to be a hardworking father.

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## ACRONYM AND ABBREVIATIONS

<b>CBD-</b>	Control Business District
<b>CBS-</b>	Central Bureau of Statistics
<b>EC-</b>	European Community
<b>EP-</b>	Effort Performance Probability
<b>GDP-</b>	Gross Domestic Products
<b>ILO-</b>	International Labour Organization
<b>LAs-</b>	Local Authorities
<b>MSEs-</b>	Micro and small enterprises
<b>NBSSI-</b>	National Board for Small Scale Industries
<b>ROK-</b>	Republic of Kenya
<b>SAP-</b>	Structural Adjustment Programs
<b>PO-</b>	Performance Outcome
<b>V-</b>	Value Outcome
<b>WB-</b>	World Bank

## OPERATIONALISATION OF KEY TERMS

**Autonomy:** Refers to freedom of self determination or independence

**Empirical:** refers to an experiments or experience in an enterprise continuum rather than ideas or theories.

**Fiscal:** Refers to how enterprises plan to spend government financial support during a particular period.

**Graduation:** Refers to growth to the next scale. How much of SMEs have scaled up over the number of years and have graduated to the next level from their existing micro and small level in the enterprise continuum.

**Growth:** is assumed that employing more workers (paid or unpaid), high turnover, increased stock, high profit, high sales, improved productive and expansion in general.

**Innovate:** Refers to entrepreneurial skills to introduce new ideas to make changes.

**Medium enterprises:** Refers to enterprises with 50-99 employees.

**Micro enterprises:** refers to enterprises with 1-4 employees.

**Small Enterprise:** Refers to enterprises with 5-49 employees.

**Entrepreneurial Motivation:** Refers to the stimulation of interest of an entrepreneur to feel enthusiastic and determined to achieve growth.

**Psychological perspective:** Refers to relatively pattern or profile of thoughts, feelings and actions that characterize a particular entrepreneur.

**Small firm:** Refers to enterprises with 5-49 employees, capital base of Ksh. 5,000,000 and sales turnover of Ksh. 20,000,000 per annum.

## ABSTRACT

Micro and Small enterprises enormously contribute to the Kenyan economy through employment and income generation. In spite of this contribution, their performance in terms of graduation is little understood. The evidence supporting the view of micro and small enterprises as the engine of growth is limited. This study was based on Schein's model by Edgar Schein career Anchors was anticipated to shade light on the motivation on the graduation of MSEs. The main objective of the study was to assess the influence of entrepreneurial motivation on Micro and Small Enterprises (MSEs) graduation. The specific objectives were; to determine the relationship between the psychological perspective of the entrepreneur and enterprise graduation; to assess the influence of the internal entrepreneurial factors on enterprise graduation; to assess the effect of the contextual factors on enterprise graduation; and to examine the barriers to enterprise graduation. The study was conducted in Eldoret Municipality Central Business District (CBD) in Uasin Gishu County targeting micro and small enterprises licensed and registered by Eldoret Municipal Council. A sample size of 189 respondent was selected. A Stratified and simple random sampling techniques was used. Primary and secondary data was used to achieve the objectives of the study. Primary data was collected using questionnaires and secondary data was collected from Eldoret Municipal achieve. Data was analyzed using descriptive statistics and inferential statistics. The study findings indicated that; the psychological perspective of an entrepreneur and contextual entrepreneurial factors had no statistical relationship with graduation. While the internal entrepreneurial factors had a statistical relationship with enterprise graduation. The study concludes that entrepreneurs' perceptions on contextual entrepreneurial factors should be improved in order for them to graduate in the enterprise continuum. Secondly, MSEs owners should enhance their entrepreneurial competence.

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## **CHAPTER ONE**

### **INTRODUCTION**

This chapter presents an introduction to the background of the study, the problem statement, research objectives and research hypothesis. It also highlights scope of the study and the significance of the study.

#### **1.1 Background of the Study**

This study focused on the influence of entrepreneurial motivational factors on the graduation of Micro and Small Enterprises in Eldoret Town Kenya. A starting point is then how many micro and small enterprises effectively graduate. For the purposes of this study “graduation” is defined as growth to the next scale in terms of Number of workers. That is, from the category of 1-4 workers are categories as (micro-enterprise). It is assumed that employing more workers (paid or unpaid) indicates higher sales, improved productivity and expansion in general (Mead and Liedholm, 1994).

The distinction between micro, small and medium enterprises varies greatly by country and even within a single country, different organizations categories firms differently. Some define a micro-enterprise as a business with up to five workers, while others situate it at ten workers. This study specifies in 1-4 workers a micro-enterprise, 5-49 workers as small firms, 50-99 workers as medium enterprises.

It follows Mead and Liedholm’s pioneering work, situating the threshold at 10 and 50 workers respectively (Mead and Liedholm, 1994).

The evidence supporting the view of micro and small enterprises as the “engine” of growth is in fact not conclusive, developed and developing countries show that job

creation and growth are highly concentrated. These imply that great majority of MSEs are not very growth prone. The European Commission found that 50% of total net job creation in the MSEs sector is created by a mere 4% of these firms (Manu, 1998).

In Sub-Saharan Africa indicates a similar pattern: the enterprises that significantly contribute to employment growth are in fact just 1% of the MSEs (Mead, 1994). By implication, it would appear that small-enterprises fall into two categories. There is a very large group of them that, for various reasons, will not develop their business beyond a certain (small) scale, and there is a very small group of entrepreneurs who are capable of expanding their business. A question arises then, how long do startup business typically last?

A study on business longevity by National Federation of Independent Business (NFIB) titled “business starts and stops” found that slightly more than 10 percent of businesses ceased operations in less than one year. Twenty five percent stopped business between one and two years, while another 20 percent closed their doors between their third and fifth anniversaries. Only 13 percent lasted longer than 21 years, (Hatten, 2009; 17). In terms of enhancing growth and job creation, there is increasing interest in identifying and promoting those enterprises in the second group category to graduate from micro to small and to medium. The University of Michigan (USA) lead by Liedholm and Mead study the micro and small enterprise dynamics.

In 1987 they reported on the lack of growth of micro and small businesses. A phenomenon that ran against the ‘engine of growth’ views that considered these micro-entrepreneurs as a seedbed for development.

They concentrated on six developing countries: Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt. (Liedholm and Mead, 1987:67) Data was gathered around 1980 covering every firm in selected locations, considering micro and small enterprises those with less than 50 workers.

They found, in principle, that these firms were especially prominent in countries with lower per-capita income. More than half of the existent firms were one worker firms and 85% of them employed five workers or less. This study seek to address the different motivational factors which when applied allows the enterprise to graduate to the next level as well as the challenges faced by MSEs that lead to their failure and eventually closure in the enterprise continuum.

A number of entrepreneurs who emerge at any given time are motivated as individuals to pursue entrepreneurial career (Wickham, 2006:103) which lures hardworking people. A large number of civil servants retire upon attaining the mandatory age whilst others opt for early retirement to pursue their entrepreneurial dreams. Using the severance given by Central Bureau of Statistics (2003), a large number of school and college leavers also come up with start-up business ideas due to reduced employment opportunities in the mainstream job market, (Wickham,2006:103). There are basically two forces that influence individuals to make a choice and start-up an enterprise. These are the pull forces and push forces.

The environmental pull into entrepreneurship is those forces which encourage individuals to become entrepreneurs by virtue of attractiveness of the entrepreneurial option. This calls for creativity and courage in order to explore new fields. Push forces on the other hand, are those which encourage entrepreneurs to get out of employment and start up their own enterprises. These might be thought of as the “Get



out, the kitchen is too hot! Aspects propelling individuals from job employment because the working environment becomes intolerable hence forces one to leave employment to venture elsewhere, (Wickham, 2006). The number of entrepreneurs operating in Eldoret town at any one time will depend on the strength of the pull and push forces. If the forces are strong then a large number of entrepreneurs will emerge. Over the past few months, there have been an increasing number of retail enterprises mushrooming all over the country, all promising amazing results.

However, evidence indicated that very few MSEs graduate to the next level. According to Kenya National Bureau of Statistics (2007), the success rate of a new business in Kenya is at 40% .Yet 60% of these new businesses have to shut down during its infant stage (Michael & Mureithi, 2009). Past statistics also indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007).

The closure is usually preceded with notices on office doors and Newspaper advertisements that give long tales about restructuring the company to serve their clientele better. The story is similar to many retail enterprises, and has a familiar ending, loss of money by the millions and endless suffering for the hardworking people (Michael & Mureithi, 2009).

Despite many seminars, workshops, and conferences being held frequently by professionals in the field of entrepreneurship to train entrepreneurs; with management and entrepreneurial skills, it is not clear as to why there is a persistent failure of these Micro and small enterprises not only in the Eldoret Town but in Kenya as a whole. The researcher's choice of Eldoret Town was because it is at the heartbeat of Rift

Valley that records high number of farmers and entrepreneurs drawn from across the country. Some have called Eldoret the “Money Magnet”. It is the central market of the province where majority of the inhabitants from the surrounding environs get their provisions. Eldoret Town has approximately 3 million people and is a fertile ground for entrepreneurial ventures.

Starting and operating a small business includes a possibility of graduating as well as failure. It is in this regard that this study aims to address the major issues faced by the MSEs that de-motivates and demoralizes them. It seeks to give solutions and device ways that could be implemented to enhance the gradual graduation of these enterprises. There is need therefore to investigate the motivation factors that influence these majority enterprises to graduate to the next level.

## **1.2 Statement of the Problem**

Micro and Small Enterprises are expected to contribute enormously to the Kenya economy in terms of employment and income generation. This could be achieved if the micro and small enterprises graduate to the next level. However, studies suggest that micro and small enterprises hardly graduate to small, medium and eventually large enterprises. This study therefore examines the influence of entrepreneurial motivation factors on the graduation of micro and small enterprises in Eldoret Town.

## **1.3 Purpose of the Study**

The purpose of this study was to assess the influence of entrepreneurial motivation on Micro and Small Enterprises graduation in Eldoret town Kenya.

#### **1.4 Research Objectives**

The main objective of this study was to assess the influence of motivation factors on MSE's graduation. Thus, the Specific Objectives were:

1. To determine the relationship between the psychological perspective of the entrepreneur and enterprise graduation;
2. To assess the influence of the internal entrepreneurial factor on enterprise graduation;
3. To assess the effect of the contextual factors on enterprise graduation; and
4. To examine the barrier to enterprise graduation.

#### **1.5 Research Hypotheses**

This research tested three hypotheses:

**H<sub>01</sub>** There is no statistically significant relationship between the psychological perspective of an entrepreneur and enterprise graduation;

**H<sub>02</sub>** There is no statistically significant relationship between internal entrepreneurial factors and enterprise graduation;

**H<sub>03</sub>** There is no statistically significant relationship between contextual Entrepreneurial factors and enterprise graduation;

#### **1.6 The Scope of the Study**

This study was conducted in Eldoret Town, Uasin-Gishu County in Kenya between December, 2011 and February 2012. It covered the MSEs from various industries within Eldoret Town. The study attempted to identify the relationship that exists between entrepreneurial motivation factors and the MSEs graduation, the various

challenges faced by entrepreneurs and entrepreneurial graduation in the enterprise continuum.

### **1.7 Significance of the Study**

The results of this study aids in giving insights to the small enterprises on how to graduate the business to the next level. It brings up the critical issues which the enterprises examined to enhance their graduation. This piece of research is useful in identifying the best motivational factors of the MSEs. The study contribute valuable knowledge as to why some MSEs succeeded and why others fail. This study therefore focuses on the existing and potential entrepreneurs in Eldoret Town.

It makes a significant policy for references to be used by the governing council of Uasin Gishu County. This is basically crucial since MSEs provide high opportunities of employment in the county. It also boosted the economic level of the people as well as engage them in productive activities and relative chain of support that provided to them. It forms a useful material of reference to scholars and other researchers in learning institutions in the county such as, Moi University and other several learning institution. The study emphasizes that Micro and small enterprises are not a survival mechanism for the poor but have an insightful, inspiring and motivating impact in the society. The study comes up with the best factors that aids the MSEs to manage and operate their enterprises profitably and prevent them from collapsing hence create an avenue of job creation among the local people. Thus, emergence of Micro and small enterprises and its graduation will have a positive economic impact to the entire society of Uasin Gishu County and country at large. In conclusion, this research aims at empowering the MSE operators with the different motivational activities to be able to record growth as well as remarkable graduation of these enterprises.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Overview**

This chapter presents the review of graduation of MSEs, psychological perspective of an entrepreneur, internal motivation factors of an entrepreneur, contextual motivation factors of entrepreneur, the different motivational theories, empirical evidence, the entrepreneurial performance in Kenya and conceptual framework of the study.

#### **2.1 Graduation of MSEs**

In spite of the great expectations arisen by the micro and small enterprise sector, such optimism is not supported by the actual facts in either the developed or the developing world. Few solid empirical studies on graduation rates exist (Mouly, 1978). The main exception is a unique data source from the Gemini project led by Liedholm and Mead, which systematically collected information on informal enterprises to empirically test assumptions about enterprise survival, death, growth and graduation. Over a time span of fifteen years starting in 1980, the group gathered data on more than 50,000 enterprises employing up to 50 workers in the Dominican Republic, Botswana, Kenya, Malawi, Swaziland, Zimbabwe, Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt. It was estimated that fewer than 20% of those enterprises with four or less workers grew at all (Mead, 1994; 1999). Most enterprises that start small continue to be small: in the segment of enterprises of four or less workers only 1% graduated to the next size category of more than 10 workers (Liedholm & Mead, 1987; Mead & Liedholm, 1998).

Other research teams reported similar findings. Less than 10% of firms in the size-class with fewer than 10 workers ever grow to the 10-59 workers' category in five Sub-Saharan countries. In the next size-class (10-49 employees), where more firms tend to be formal and entry costs are higher, there was more mobility: 22% of the firms (most with start-up sizes averaging about 40 employees) had been able to grow beyond their size-class since their inception. A more recent World Bank report in Ghana, Kenya, Zimbabwe and Cameroon estimated slightly higher rates (World Bank, 2004). It established that over a period of 5-6 years the graduation rate in Ghana was 20% and in Kenya, 10%. It also confirmed (ILO, 2004) that micro-enterprises (less than 10 workers) almost never jump two categories to become medium enterprises (more than 50 workers). The World Bank report shows higher graduation rates but covered only the manufacturing sector.

According to (Eversole, 2000), it is clear intuitively that not all the poor can become entrepreneurs and develop a successful business. The first difference is motivation: entrepreneurs are simply not interested in expanding their business. They are forced into creating a firm by unemployment or other economic shocks, while growth-oriented entrepreneurs make an affirmative choice based on the identification of a specific business opportunity (Reynolds *et al.*, 2004). Entrepreneurs raise capital, carry out investments, and claim the resulting residual earnings, but they are far from following learning-led competitiveness strategies and are not driven by entrepreneurial goals. Their objective is to feed their families and preserve their precarious, subsistence-level micro-enterprises 'in the hope that something good will happen' (Cotter, 1996) in the enterprise continuum.

Even when they receive assistance services (credit, bulk purchases, technology, and export promotion schemes). Their inability to sustain a specified level of well-being leads them to diversify their income sources, so if it fails, it would have only a limited, manageable impact on the total household income (Wood, 2003). As posed by Wright, the poor are too smart or too risk-averse to put all their eggs in one basket and invest exclusively in one activity or enterprise (Wright, 1999). Research has found that around 20% of the households in India who had a micro-enterprise had a second and even third source of income (Banerjee & Duflo, 2007). The percentages rise to 47% in Cote d'Ivoire and Indonesia, 36% in Pakistan, 20.5 % in Peru and 24 % in Mexico. A survey in eight districts in West Bengal found that the median family had three working members and seven occupations (Banerjee *et al.*, 2006; 2007).

The specialization necessary to develop a larger-scale micro-enterprise (and the exposure that comes from it) is not what the poor are looking for, however profitable such a mono-focused micro-enterprise may be. Research in Zambia found that as much as half of the enterprise owners saw their business as a survival effort and did not show any entrepreneurial capabilities ( risk taking or plans for expansion), while another 30% saw their micro-enterprise as a temporary activity while a market gap existed or until they could find waged work (Phillips & Bhatia-Panthaki, 2007).

A second characteristic that differentiates survival and graduation-oriented entrepreneurs is that the former barely have an income to satisfy the needs of the household, let alone reinvest profits in the business. Estimating earnings is evidently a very difficult task, but was attempted in Kenya by the Gemini team (Daniels, 2001). For two thirds of the firms surveyed, earnings were even below the minimum

subsistence wage set by the government for unskilled workers, which is considered too low for a family to satisfy even its basic needs. Entrepreneurs kept their business open, nevertheless, because half of them had this business as a complementary source of income that provided less than half of the household needs. In turn, without accumulation technical innovation is minimal. (Cotter, 1996: 53) points out that entrepreneurs realistically ask themselves: 'why spend money to buy more supplies with which to produce more products to sell to poor people shopping in markets already saturated with cheap goods, when your customers won't pay higher prices so you can't recoup your product improvement investment.

Another difference is market positioning. Enterprises are found in segments of the market characterized by low barriers to entry, market saturation, price- rather than quality-driven purchases and a low skill component. In a study in Zambia, (Phillips *et al.* 2007) found that as much as 50% of the entrepreneurs thought there was a market opportunity to develop a business because they saw others in that activity. It is a choice explained by the risk aversion of the poor, stronger than their appetite for returns (and consequent higher risks). They therefore read market saturation as a signal that a sector is profitable, which further depresses prices and profits.

There is also a gender dimension distinguishing survival and graduation of enterprises. Most of the entrepreneurs are women struggling to balance their productive and reproductive roles (Karim, 2001; Marcucci, 2001). They can hardly work on the expansion of their enterprises when they become pregnant every year or are overworked in the household, uneducated and unexposed to markets.



‘Poor women prefer to expand only to the limits of their own labour and management capabilities’, so not expanding their business makes a lot of sense to them (Marcucci, 2001). According to the ILO ‘Going for Growth’ project report (2004), the majority of women who own micro-enterprises live in rural areas with limited access to markets, credit, information, training, business development services, technology, business networks and proper business premises. They are sometimes restricted from holding title to property (which impacts on their ability to borrow from banks without the consent of their husbands), and are restricted in their mobility due to child-care and household responsibilities. In some cases, women are constrained from networking with men in a business environment and this seriously impedes their ability to access information, markets and business services.

In a study in Bangladesh, the Philippines, Zimbabwe and Tunisia, Marcucci (2001) reports that women’s enterprises tend to be younger and smaller, use less modern technology, are concentrated in low investment and less profitable sub-sectors. Instead, men tend to be concentrated in more economically dynamic sub-sectors. In fact, most women have a micro-enterprise because they are responsible for the food security in their households and not as a result of entrepreneurial capabilities or personal choice (Mayoux, 1995). Men, on the other hand, are seen as responding to the attractive characteristics of self-employment such as increased earnings, independence and the opportunity to directly benefit from one’s own work.

While entrepreneurs may qualify for micro-credit schemes, the amounts loaned are normally too small for growth-oriented entrepreneurs, who seek different sources of funding and credit facilities (Zandniapour *et al.*, 2004).

These programmes often target women alone; they use group lending and group-based collateral arrangements which are not appropriate for growth-oriented entrepreneurs (Richardson *et. al.*, 2004). In contrast, a study of evaluation papers of Business Development programmes in Africa, Asia, Middle East, North Africa, Latin America, the Caribbean, and transition countries commissioned by USAID revealed that while these programmes helped enterprises to increase their sales, those firms with 10 to 45 workers benefited more from participating than micro-enterprises with 1 to 9 workers (Zandniapour *et. al.*, 2004). However, a starting point is then how many micro and small enterprises effectively graduate.

## **2.2 Psychological Perspective of an Entrepreneur**

Psychology is the understanding of the ways of a relatively stable pattern or profile of thoughts, feelings and actions that characterize a particular personality of the entrepreneur, (Wickham, 2006). Desire to create something new or innovate is the ability to see problems in new ways, the ability to recognize which ideas are worth pursuing coupled with persuasive skills- being able to persuade other of the value of this new ideas (Baron, 2008).

Psychology is a subject that is characterized by an understanding of the ways that different schools of psychology approach the concept of personality and the application of those approaches for thinking about the personality of the entrepreneur (Wickham, 2006). He suggested that each school has its own theoretical underpinning and methodological approach. Critically, each sees the concept of personality in a different light, (Carver and Scheier, 2000).

Develop definition of personality that covers areas of general agreement across the different schools. They suggest personality is:

*Organized*- it has a coherent unity and is not fragmented.

*Active*- personality is maintained by and revealed through dynamic processes.

*Physical*- personality is psychological concept, but it is derived from physical (anatomical, neurophysiologic) processes, particularly, but not exclusively, in the brain.

*Casual*- personality determines how an individual will act and react in particular circumstances.

*Regular*- the personality of an individual is consistent over periods of time, and lead to consistent patterns of behavior.

*Manifest*- it shows up in many different ways, including physical states, effective moods, personal feelings, decisions and actions. Around this core, different psychological schools develop different interpretations of the personality concept. (Pares 1987; Mischel 1999; Carver and Scheier, 2000; and Jarvis 2000).

Desire to do something new to graduate - usually the motivation of entrepreneurs relates to a sense of achievement. In essence, the size of the venture is a way of “keeping the score”. Entrepreneurs are also driven by a desire to make a difference to the world, (Sangram, 2005).

### **2.3 Internal Motivation factors of an Entrepreneur**

These factors refers to the production techniques, human resource factor, production and service quality, financial position of the enterprise and the product position. These factors influence the entrepreneurial activity to grow and graduate, Nassiuma (2011).

Financial position of the enterprise, human resource factor, production techniques (tools and equipment), production and service quality, and production position in the market are considered to be the internal motivation factors that influence the graduation of Micro and Small enterprises in the enterprise continuum.

Lack of access to credit is almost universally indicated as a key problem for Micro and small enterprises. This affects technology choice by limiting the number of alternatives that can be considered. Many Micro and Small enterprises may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan is being lacked by entrepreneurs (Zimmerer *et. al.*, 2008; Stokes *et. al.*, 2010). Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance (Stokes *et. al.*, 2010).

There are various other financial challenges that face small enterprises. They include the high cost of credit, high interest bank rates and charges. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the investors.

They promise 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, which eventually turn into

a disaster. Financial constraint remains a major challenge facing MSEs in Kenya (Wanjohi and Mugure, 2008).

#### **2.4 Contextual Motivation Factors of an Entrepreneur**

These factors refer to the economic, political, social, cultural and legal issues which influence origin and growth of entrepreneurship in an economy. As such, entrepreneurial activity needs an environment conducive to its growth and development (Sangram, 2005).

*(a)Economic growth* is a goal shared by businesses and Government alike, ( Adrian and Bob, 2006). Every business rest on an economic structure and that structure influence its ability to compete and succeed, Harvard Business Essentials (2005) suggested that Business can grow in size and graduate to the next level because of the favourable economic condition of an enterprise.

*(b)Access to market gap:* Market is a strong mechanism of entrepreneurial growth. The success of any MSEs depend on the availability of a good market, whether Local, national, regional or international. This may motivate the entrepreneur to work hard and produce innovative products and services that can create demand in the local and international market, Sangram (2005) in the enterprise continuum. Market availability encouraged entrepreneurs to concentrate in their businesses.

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to

rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (Muteti, 2005) and poor connectivity especially in rural areas where there is a great market opportunity.

*(c) Legal and regulatory framework:* Availability of supporting policy that encourages entrepreneurial activities among all concerned stakeholders (government authorities, financial institutions, small enterprise associations, service providers, etc.) may be motivating factors to MSEs. This is because it will create a conducive market environment, (National Board for Small Scale Industries, 2007).

Entrepreneurship involves a transformative process of social and market change that create value for individual and society. This process takes place with the progression from opportunity identification through to realizing value. This value can be personal wealth, family security, social inclusion, or cultural and aesthetic pleasure. (Stoke *et al.*, 2010). The national policy and regulatory environment has an important impact on decisions at the enterprise level. The Structural Adjustment Programs (SAPs) implemented in many African countries Kenya included is aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the SMEs. Structural adjustment programs (SAPs) tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries (USAID, 1991).

*(d) Credit accessibility:* As a general rule, banks and other financial institutions in Kenya do not wish to bear the risks associated with small entrepreneurs having little equity, limited business experience and confronting innovative activities. If there are

ways in which MSEs will be assisted to get access to credit facilities, it will be leverage to them (Gomez, 2008). Lack of access to credit is almost universally indicated as a key problem for SMEs. This affects growth and graduation of SMEs by limiting the number of alternatives that can be considered in accessing funds.

*(e) Friends and relatives:* Entrepreneurs may have a detailed knowledge of business opportunity and the access to the resources necessary to initiate it. However, the entrepreneurs will make the move if friends and relatives encourage him or her to start the business. The entrepreneur through the encouragement of friends and relatives will feel comfortable with the level of risk the venture will encounter. Friends will connect people and quickly developed a large customer base which they had not seen for a long time (Stokes *et. al.*, 2010).

*(f) Profit:* The main aim of any business is to generate profit. A successful entrepreneur with excellent business acumen and managerial efficiency is expected to generate sufficient profits. This can motivate an entrepreneur, (Sangram, 2005)

*(g) Opportunity to diversification and extension:* The ability of the small enterprises to engage in other related business activities will enhance its expansion. Proper and careful diversification and extension will lead to a smooth growth to even a big operating business if not a limited company. This can motivate an entrepreneur. Business diversification contributes to the continuity of an enterprise.

If most small enterprises will exercise this mode, it will be hard for them to collapse since if one line of business fails or out of season, then the other can maintain the

business and vice versa hence will record constant business revenue and expansion of operating capital (Gomez 2008).

Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constraints operate in variety of ways in Eldoret Town, Uasin Gishu County, Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives.

Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which 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 micro and small enterprises (SMEs) in Eldoret Town, Kenya (Wanjohi and Mugure, 2008). Thus, enterprise graduation is not realized.



## 2.5 Barriers to Enterprise Graduation

Underestimating the difficulty of business startups is one of the most common barriers to enterprise graduation. Competition, lack of managerial experience, lack of financial backing, poor location, unexpected growth and communication skills are considered to be some of the barriers to enterprise graduation (Mary *et. al.*, 2009)

## 2.6 Motivation Theories

While graduation of micro and small-enterprises from the very small scale to a medium-size rarely happens, it is still possible if entrepreneurs are motivated in the enterprise continuum.

### 2.6.1 Schein's model

According to Feldman and Bolino (2000) the Schein's model of 'career anchors' is used to evaluate the motivation entrepreneurs have. Edgar Schein identified eight themes and has shown that people will have prioritized preferences for these. For example a person with a primary theme of Security or Stability will seek secure and stable employment than a challenging and riskier job. People tend to stay anchored in one area and their career will echo this in many ways.

**Technical or Functional competencies:** This kind of person likes being good at something and will work to become a guru or expert. They like to be challenged and then use their skill to meet the challenge, doing the job properly and better than almost anyone else in their field.

**General Managerial competence:** Unlike technical or functional people, these people want to be managers (and not just to get more money, although this may be

used as a metric of success). They like problem-solving and dealing with other people. They thrive on responsibility. To be successful, they also need emotional competence.

**Autonomy or Independence:** These people have a primary need to work under their own rules and steam. They avoid standards and prefer to work alone.

**Security or Stability:** Security-focused people seek stability and continuity as a primary factor of their lives. They avoid risks and are generally 'lifers' in their job.

**Entrepreneurial Creativity:** These people like to invent things, be creative and, most of all, to run their own businesses. They differ from those who seek autonomy in that they will share the workload. They find ownership very important. They easily get bored. Wealth, for them, is a sign of success.

**Service or Dedication to a cause:** Service-oriented people are driven by how they can help other people more than using their talents (which may fall in other areas). They may well work in public services or in such as human resource.

**Pure Challenge:** People driven by challenge seek constant stimulation and difficult problems that they can tackle. Such people will change jobs when the current one gets boring and their career can be very varied.

**Lifestyle:** Those who are focused first on lifestyle look at their whole pattern of living. They not so much balance work and life as integrate it. They may even take long periods off work in which to indulge in passions such as sailing or traveling.

A decisional model of the motivation to start a business might emphasize the balance of reasoning about the advantage and disadvantage of the move compared to alternative, (Wickham, 2006). It is through motivation that small enterprises employ creativity in inducing growth within the enterprise and embedding an image which they hope will lead to their graduation and growth of their product or services over their competitors.

There are several theories that have been used to explain the relationship between motivation and graduation of small enterprises. These theories seek to rationalize the fact that small enterprise graduation is influenced by the kind of motivation practiced.

### **2.6.2 ERG Theory of Motivation**

Alderter (1972) developed ERG theory which allows people in business to deal with two sets of needs at once and it also distinguishes between chronic, (long-lasting needs) and episodic (occasional) needs. It emphasizes that the business needs are arranged along a continuum rather than in a hierarchy, and that there are three rather than five groups of needs, viz existence, relatedness and growth. Existence needs correspond to Maslow's lower levels; relatedness corresponds to Maslow's social needs, while growth corresponds to Maslow's higher- level needs (Cole, 2002).

### **2.6.3 Achievement Motivation Theory**

Achievement motivation is generally associated with the work of McClelland and colleagues at Harvard University (1961). McClelland focus his attentions on three particular needs of the people running an enterprise which include, the need for

achievement, the need for affiliation and the need for power. Of these three, the need for achievement received the greatest emphasis in the research.

The need for achievement drives one or the business to have the relatively stable tendency, and was activated by the external events in the business situation. This would ensure that the need for achievement is constant and the operators would sought tasks which they would exercise responsibility. The business operators would then seek feedback on their customer needs. (Cole, 2002).

#### **2.6.4 V.H. Vroom & Expectancy Theory**

For small enterprises to succeed, it must seek to engage the skills of professionals or talents of people in the same line of business. According to Vroom, (1970) this theory focuses on individual behavior in the work place. It observes the work behavior of individuals with the object of explaining the processes involved. It emphasizes on observed behavior that would be motivated to enhance the anticipated satisfaction from the individuals' outcome. At the heart of the model are three components: the effort performance probability (EP), the performance- outcome probability (PO), and the value of outcome (V) (Schwid, 1995). Therefore, this study will follow the combination of ERG Theory of Motivation, Achievement Motivation theory and expectancy theory. Where an entrepreneur expect need for achievement, performance and value of outcome.

#### **2.7 Empirical Evidence**

Theories effectively combine diverse and isolated pieces of empirical data to create an intelligible conceptual model which is capable of being more generally applied.

(Mouly, 1978) expressed it like this: If nothing else, a theory is a convenience – a necessity, really – organize a whole sought of unsorted facts, laws, concepts, and constructs, principles, into a meaningful and manageable form. The empirical evidence in this study constitutes an attempt to make sense on effect of entrepreneurial motivation factors that can enhance graduation of enterprises to the next level in the enterprise continuum, (Walliman, 2005).

## **2.8 Entrepreneurial Personality Characteristics**

Entrepreneurial personality is both socially constructed and reliant upon a set of consistent behavior, skills and competencies, (Chell, 2008). Education and skills are needed to run micro and small enterprises.

Research shows that majority of the lot carrying out micro and small enterprises in Eldoret Town, Uasin Gishu County are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the MSEs sector (King and McGrath, 2002). As such, for small businesses to do well in Eldoret Town, Uasin Gishu County, people need to be well informed in terms of skills and management. MSEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure (2008).

Through past working environment in an established business organization, entrepreneurs have gained exclusive knowledge and experience to apply, use, and

protect their own ventures. They therefore want to put such experiences into practice by engaging in their own ventures (Wickham, 2006).

Education background, past experience, training, leadership style, managerial skills, age and gender are considered to be the major motivation characteristics of entrepreneurial personality.

- (a). Education – The entrepreneur must know of a particular business opportunity and have an idea and knowledgeable on how it might be exploited profitably. The individual entrepreneur must know that the entrepreneurial option exists and they must be aware of its potential, (Wickham, 2006).
- (b). Some entrepreneurs have worked in an established business organization which they have gained exclusive knowledge and experience to apply, use, and protect their own ventures. They therefore want to put such experiences into practice by engaging in their own ventures, (Wickham, 2006).

## **2.9 Performance of Enterprises in Kenya**

On average, MSEs in Kenya employ 1.8 million people. Majority of MSEs have less than 10 employees, while 70% of them are one person. This infers that majority of MSEs are operating at the bottom of the economy, with a significant percentage falling among the 53% of Kenyans living below the poverty line of US\$ 1 per day. The latter are largely for subsistence and engage in economically uncompetitive activities both in the urban and rural areas (Central Bureau of Statistics, 2003).

The 1999 Statistical Baseline Survey (CBS, *et.al.*, 1999) indicated that there were 1.3 million MSEs which contribute 18% of Kenya's Gross Domestic Product (GDP). The

survey stated that about 64% of the MSEs are in trade. This sub-sector is engaged in buying and selling of goods. Income from the trade sub-sector is ranked lowest among in this sector, but they are vital to the livelihoods of many urban and rural poor as well as the economy at large. Small trade activities are sometimes referred to as ‘survivalist’ enterprises- they allow entrepreneurs to survive with hardly any savings.

Most of these small trade enterprises operate within the informal economy, a sector previously referred to as informal sector, or in the Kenya context, ‘*Jua Kali*’. The Kenya Labour Force Survey Report of 1998/99 indicates that the sector covers all semi-organized and unregulated activities that are small scale in terms of employment. The report notes that the activities are largely undertaken by self-employed persons or employees with few workers in the open markets, in market stalls, in both developed and undeveloped premises, in residential houses or on street pavements (ROK, 2003b).

In Kenya, the concepts of informal economy, small scale business and *Jua Kali* are often used interchangeably. The sector is a major source of employment and income of Kenyans’ MSEs. By the end of the year 2001, informal employment was estimated at 4.6 million accounting for 72% of total wage employment and 81% of private sector employment. The contribution of MSEs is more than double that of medium and large manufacturing sector that stands at 7% of the GDP (ROK, 2003a). Overall, the MSEs employ 2.4 million people and create 75% of all new jobs. Estimates based on the 1999 Baseline Survey of MSEs show that in the year 2002 alone, the MSEs sector employed about 5,086,400 people up from 4,624,400 in 2001.

This was an increase of 462,000 persons and consisted of 74.2% of total national employment (CBS, *et.al*, 1999). The Micro and small enterprises operations cut across almost all sectors of the economy, and sustain a high percentage of households in Kenya. In the 2003, National Budget Speech, the Minister for Finance noted that the MSEs activities form a breeding ground for businesses and employees, and provide one of the most prolific sources of employment. Their operations are more labour intensive than the larger manufacturers. At the same time, they are the suppliers of low cost products and services in the domestic market. This indicates that the small scale enterprises contribute significantly to the economy of Kenya and thus, it needs to be given a serious attention in the development programs of the country.

The Economic Strategy for Wealth and Employment Creation (2003a) points out that the Government is convinced that employment creation is the most effective strategy for halting the increasing poverty. The Government, through the strategy will address factors responsible for the poor performance of productive sectors. These factors include: high cost of engaging in productive activities, high cost of capital particularly for MSEs and lack of supportive services and weak institutions. The goal to be achieved by removing various regulatory impediments that increase the cost of doing business, promoting MSEs by finalizing and implementing a Sessional Paper on the sector, focusing on employment creation and formalization of informal sector activities. In spite of the sub-sector being a major source of livelihood for a large majority, especially those living below the poverty line, the government has not managed to implement major policy provisions geared for the development of the sub-sector ROK (2007) National Development plan.

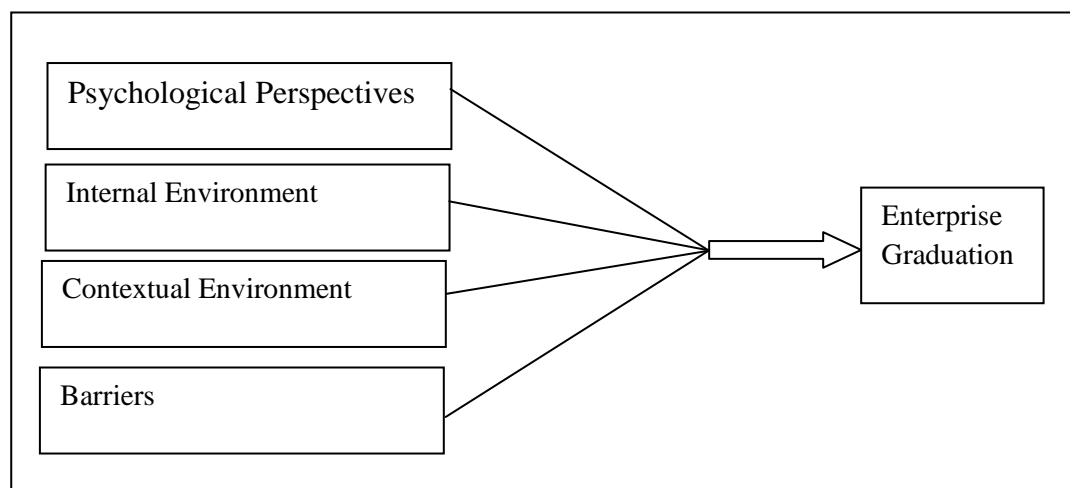


The key organs of government such as Parliament and related policy making institutions such as Local Authorities (LAs) have to grasp the role of government in MSEs development, and be more aware of new policies and laws on the operations of small enterprises. In this process, the government has to set the institutional framework for business, the rules of the game, and to ensure that enterprises receive appropriate incentives to facilitate efficient performance. Such interventions have potential for mainstreaming the informal economy alongside larger formal enterprises (Devas and Kelly, 2001).

## 2.10 Conceptual Framework

The study analyzed the influence of entrepreneurial motivation to different Micro and small enterprises in order to enhance the graduation to the next level of the enterprise.

The conceptual framework for this study is presented in Figure 2.1.



**Figure 2.1: Conceptual Framework**

**Source: Author, 2011**

It is the assumptions of this study that enterprise graduation is achieved through a process that combines entrepreneurial motivation factors. The independent variables in this study included psychological perspective, internal environment, contextual environment and barriers. The dependent variable was enterprise graduation. Psychological perspective included willing to risk, entrepreneur's confidence, creating new products, achieving targets, taking control of business and confidence in decision making. Internal entrepreneurial factors included motivated staff, market availability, modern tools and equipment and access to finance. Contextual entrepreneurial factors included economic situations, technology, legal and regulatory frameworks and business structure. Contextual environment included business running ability, passion for business, patients in business and networking. The above figure indicates that the various motivation factors that MSEs can tap into, or exposed have an influence on graduation of small enterprises.

### **2.11 Research Gap**

Graduation of micro and small enterprises is exceptional, as stated so far, but it still possible and happens for a small portion of enterprises. A pattern of who is more likely to graduate needs to be identified in order to support perhaps increase the proportion of enterprises that grow. This study explored entrepreneurial motivation factors on MSEs graduation against other studies.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.0 Overview**

This chapter presents the study area, research design, sample procedures, types of data and data collection instruments and data analysis.

#### **3.1 Study Area**

This study was conducted in Eldoret Town which is located in Uasin Gishu County (appendix IX). There are 3,006 small traders, distributed among all the estates such as Langas, Huruma, Pioneer, Kimumu, Central Business District (CBD), Kapsoya, Kidiwa, and Maili Nne. This study concentrated in central business district (CBD) which had 1176 Micro and small enterprises. The researcher's choice of Eldoret Town is because it is at the heartbeat of Rift Valley that records high number of farmers and entrepreneurs drawn from across the country. Eldoret Town has approximately 3 million people and is a fertile ground for entrepreneurial ventures.

#### **3.2 Research Design**

This study employed a survey research design. The purpose of using a survey design provides a quantitative or numeric description of trends, attitudes or opinions of MSEs population by studying a sample of MSEs population (Creswell, 2012). It generalizes from sample to a population so that inferences can be made about the characteristics and behavior of MSEs in Eldoret Town (CBD) (Babbie, 1990). A survey design was the preferred type of data collection procedure for the study because of the economy of the design and the rapid turnaround in data collection. It

provides a wide and inclusive coverage of MSEs in Eldoret Town and the results was the representative of the wider MSEs population.

A survey design research can be subjected to further testing leading to confirmation or refutation of its findings. The survey is an effective tool to get opinions, attitudes and descriptions as well as for capturing cause-and-effect relationships, (Ghauri *et al*, 2010; 118). In this study, group-administered survey is conducted where a research assistant is to distribute and collect the research questionnaires undertaken in Eldoret central business district (CBD) from the respondents (Martyn Denscombe, 2010; 16).

The respondents were selected using stratified and simple random sampling techniques. Stratified sample was simply to divide the MSEs population of 1176 into streets (Table 3.1) then take a random sample from each, with the number chosen from each street ensuring that the overall sample contains that each enterprise has an equal chance of selection in the selection process of MSEs ( Allen *et al*; 2011).

The study employed questionnaires as the research tool because it is economical than other data generation methods (Oates, 2010; 229). A large amount of data can be generated for relatively low cost of materials and time. Questionnaires are easy for respondents to complete and easy for researcher to analyze. Descriptive statistics was used by using pie charts, bar graphs, frequencies and percentages. Inferential statistics was used by applying spearman's rho correlation of coefficient to ascertain the relationship between the variables. Ordinal regression was used to estimate the effect of the independent variables on the dependent variable and phi was used to look at the strength of the relationship between variables.

### 3.3 Target Population

The target population of Micro and Small enterprises in Eldoret town, central Business district (CBD) is represented in Table 3.1.

**Table 3.1 Target Population**

<b>Block</b>	<b>Street</b>	<b>Target Population</b>
1	Ronald Ngala	164
2	Oginga Odinga	207
3	Kenyatta Avenue	123
4	Oloo	82
5	Muliro	145
6	Dharma	289
7	Kago	102
8	Takore	64
<b>Total</b>		<b>1176</b>

**Source: Eldoret Municipal Council, 2011**

#### 3.3.1 Target Population

A population is the entire collection of micro and small enterprises being considered in Eldoret Town, Uasin Gishu county, Kenya, (Donald *et al*, 2010; 392). The target

population is the group the researcher wants to generalize his findings to, (Daniel Muijs, 2008; 37). The target populations in this study were Micro and small enterprises operators in Eldoret Town, Uasin Gishu County. The respondents were drawn from the target population of 1176, who are major decision makers in the business. Thus, MSEs operators serve as our key informants in the study. Because of time, cost, size to consult every member of the population a sample is therefore chosen. A sample must be typical of the population and unbiased.

### **3.3.2 Sampling Frame**

A sampling frame is a list, directory or index of whole population of micro and small enterprises in Eldoret Town Central Business District (CBD), (Table 3.1) which are 1176 and is included in the survey research design from which a sample of 189 MSEs is chosen (Table 3.2). (Briony, 2010; 95). It is important to note that the degree of generalization of the study depends on the sampling frame from which the sample was selected (Mugenda & Mugenda, 1999). The sampling frame for this study was drawn from the licensed small traders of Eldoret Municipal council operating within the central business district (CBD), while other parts of Eldoret Town estate like Langas, Huruma, Pioneer, Kapsoya, Kidiwa and Maili nne was not included because of short of time and financial constrained.

### **3.3.3 Sample Size Determination**

The sample Size was determined using the coefficient of variation formula (Nassiuma, 2000). He suggests that in most surveys or experimentations, coefficient of variation of at most 30% are usually acceptable. Thus, in this study a coefficient of

variation of 30% and standard error of 0.02 was used. The formula for calculating the sample size is presented as follows:

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

Where

- n = sample size
- N = population
- C<sup>2</sup> = covariance
- e = standard error

Therefore the sample size of this study is

$$\begin{aligned} n &= \frac{1176 \times 0.3^2}{0.3^2 + (1176 - 1)0.02^2} \\ &= 189 \end{aligned}$$

### 3.4 Sampling Procedure

In order to get the necessary data the study population was divided into a number of strata based on the administrative blocks. A total of 189 respondents were used to get the necessary information for the study. To get the required and representative sample size, the researcher employed stratified and simple random sampling technique. In order to do this, a list of all micro and small enterprises that operate in each block in central business district (CBD) was taken from the municipal office.

Then the required number of respondents was selected randomly from the list. Random selection is necessary because it gives equal chance for the target population

to be included in the sample. Thus, this sampling method is free from bias (Curwin, 2002). Enumerator a trained research assistant was used to facilitate data collection and helped to complete data collection exercise in good time. The following table shows the number of entrepreneur in each block and the sample size.

**Table 3.2 Sampling Design and Determination**

<b>Block</b>	<b>Street</b>	<b>Target Population</b>	<b>Sample Size</b>	<b>Sample</b>
1	Ronald Ngala	164	164/1176*189	26
2	Oginga Odinga	207	207/1176*189	33
3	Kenyatta Avenue	123	123/1176*189	20
4	Oloo	82	82/1176*189	13
5	Muliro	145	145/1176*189	23
6	Dharrma	289	289/1176*189	46
7	Kago	102	102/1176*189	16
8	Takore	64	64/1176*189	12
<b>Total</b>		<b>1176</b>		<b>189</b>

**Source: Researcher, 2011**

### **3.5 Types of Data and Data Collection Instruments**

Both primary and secondary data was used to get the required information ( Curwin *et al*, 2002; 34). The secondary data includes information that was gathered from Eldoret municipal archives. Primary data was glean information on demographic and personal characteristics of MSEs, personality of the Enterprise operator, types of businesses, ownership of the businesses, when the businesses were started, the number of employees in the businesses, sources and magnitudes of the start-up funds for the businesses, the current amount of capital that the business uses.



Any other motivational factors, how the businesses have advanced and its progress in terms of growth, and assistance obtained from Government, NGOs and other bodies, psychological perspective of an entrepreneur, internal entrepreneurial factors, contextual entrepreneurial factors, challenges in the process of entrepreneurial graduation and graduation measures. Problems encountered in running the businesses, and procedures followed to prevent problems from occurring.

There was a structured questionnaire designed with close-ended and partially closed questions for the respondents to fill (Martyn, 2010; 155). The data collection instruments were selected to avoid non responses as is associated with self administered questionnaires. It also gives in-depth information, allowing for clarification with respondents and it is flexible. The use of partially closed questionnaires was also selected to provide in-depth information from respondents and ease of comparing responses during analysis.

### **3.6 Pilot testing**

A pilot test was conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. (Cooper and Schindler, 2001:81). The pilot test in this study was draw from the target population which is 1176 MSEs from Kitale Central Business District (CBD) which stimulate the procedures and protocols that had been designed for data collection. Trained research assistance conducted the survey using a 6-page questionnaire. The headings in the pilot survey, includes Demographic, psychological perspective of an entrepreneurs, internal entrepreneurial factors, contextual entrepreneurial factors and barriers to

enterprise graduation. The answers to the questionnaires were intended to give a complete depiction of an entrepreneur. (Nicholas 2006:72).

This ensures the questions are clear to understand and help remove ambiguity (White, 2000). In this study, ten respondents had been asked to answer the questions and have commented on their understandings of them (Ghauri and Gronhaug, 2010), it is important that pilot work to be done before proceeding to the main study because of a good idea of what will be found in the full study will be established. (Mc Burney and White 2010:236) they further suggested that reputations for excellent design are often found by those who do extensive pilot study.

### **3.7 Reliability and Validity of Research Instruments**

It is essential that the principles that lie behind the measurements of reliability and validity are being understood. (Riley *et al* 2000:126) Riley suggested that a display of reliability and validity gave a useful research methodology.

**Reliability:** A scale is reliable to the extent to which repeated application of the scale produce the same results given that the attitudes under investigation remain the same. (Riley *et al* 2000:126) Riley views that reliability is about replication being able to repeat or reproduce similar results The Cronbach's Alpha reliability analysis of this study is clearly illustrated in Table 3.3.

**Table 3.3 Reliability analysis Cronbach's Alpha**

<b>Items</b>	<b>Cronbach's alpha</b>
Psychological perspective	0.600
Internal entrepreneurial factors	0.530
Contextual factors	0.600
Barriers to enterprise graduation	0.640
Graduation	0.761
Overall reliability analysis	0.642

**Source: Researcher, 2011**

**Validity:** on the other hand, validity is about whether your measuring instruments actually measure what you intend it to measure. (Polonsky and Waller, 2010:128) they suggested that the methodology should be checked for internal validity (whether the manipulation of the independent variable actually caused the effect on the dependent variable) and external validity (whether the cause and effect relationship can be generalized to other situations).

### **3.8 Distribution and Returns of Questionnaires**

A summary of the instruments administered and delivered for analysis is presented in Table 3.4. The numbers and percentages describing respondents of this study were (187, 99%) and non-respondents were (2, 1%).

**Table 3.4 Distribution and Returns of Questionnaires**

<b>Response</b>	<b>No. of questionnaire</b>	<b>Percentage</b>
Effective questionnaire	187	99%
Returned but defective	2	1%
<b>Total</b>	<b>189</b>	<b>100</b>

**Source:** Researcher, 2011

### 3.9 Data Analysis and Interpretation

The collected data was coded and entered into the computer and was analyzed using SPSS version 16 software program. Both Descriptive statistics and inferential statistics were employed to achieve the objectives of the study.

**Descriptive statistics:** Descriptive statistics enable the researcher to summarize and organize data in an effective and meaningful way (Ghauri and Gronharg, 2010). The results in this study were presented in form of frequency tables, pie charts, and bar charts, which are the excellent way to describe and compare data. Simple tables were used to display numbers and since they are arranged in columns and rows the numbers can be easily compared. Brian (2000) further suggested that tables help to reveal trends and patterns. As actual numbers are quoted, tables are more precise than figures and the reader can identify particular values.

Pie charts; comes from the fact that a circle is divided up into slices, like a cake or pie. (Brian, 2000:119) gave suggestion that both manual and a software package can be used to draw pie charts. The whole circle represents the whole sample and it is

divided according to the size of each component part. Bar chart: is used to show the value or breakdown of a variable. They are represented vertically or horizontally with each bar presenting a variable (Polonsky *et al* 2010).

**Inferential statistics;** cover all the techniques which allow us to explore in depth relationships between variables (Somekh and Lewin, 2009:226). It is a statistical analysis that goes beyond describing the characteristics of the data and the examination of correlations of variables in order to produce predictions through inference based on the data analyzed (Nicholas,2006;434). In this study non-parametric technique was used because the mean and standard deviation cannot be calculated. Inferential statistics was by spearman's rho correlation, ordinal regression, phi and chi square.

**Spearman's rho correlation coefficient;** was used because the data is in a rank order and are represented numerically but differences between values may not be equal hence there is no true numerical meaning, (Somek et al, 2009), (Water 2011). Ordinal variables are ordered but we don't know whether the distance between the categories is the same at every scale point (Muijs, 2008), for instance, the psychological perspective internal entrepreneurial factors, contextual entrepreneurial factors and the barriers to enterprise graduation where agreed or disagreed are identified (Jon *et. al*, 2002; 370).

Spearman's rho correlation coefficient is used when interpreting ordinal data which implies that an entity being measured is quantified in terms of being more than or less than, or of greater or lesser order than (Nicholas, 2006; 102). Ranking in this situation

is applied where enterprises are asked to put items into an order, Strongly agreed, agreed, disagreed or strongly disagreed was identified (Jon Curwin 2002:371). To calculate a spearman's rho correlation coefficient, we are simply trying to find out the relationship between variables (Daniel Muijs 2008; 151). To do this we need to use a formula known as spearman's coefficient of rank correlation:  $r = 1 - \frac{6 \sum (d^2)}{n(n^2 - 1)}$

Where: **d** = the difference in ranks.

**n** = is the sample size.

In this study, SPSS software was used in calculating spearman's rho correlation coefficient. The relationship that exists between the variables, the direction of the relationship and its magnitude are established (Wallman, 2006:302). A positive coefficient means there is a positive relationship between two variables, that is, as one variable goes up the other variable also goes up. A negative coefficient means there is a negative relationship between the two variables, that is, as one variable goes down the other variable goes up. A zero coefficient means there is no relationship between the variables. The value of this calculation is between -1 and +1 (Oates, 2010).

**Ordinal regression;** In this study ordinal regression was used to establish the cause and effect of the variables. In regression analysis, we attempt to establish the nature of the relationship between the dependent variable from values of the independent variable. It gives estimation (prediction) of the values of one variable given the value of the other. The regression analysis is a statistical method that deals with the formulation of mathematical models depicting relationship amongst variables. These modeled relationships are used for the purpose of prediction (Gupta, 2001; 436).

The major aim of regression analysis is to make prediction that is to predict what will happen to one variable when the other one change (Shenoy *et al*, 2008; 320).

**A chi-square;** a chi-square or  $\chi^2$  test ( $\chi$  is the Greek letter chi-pronounced “kie” rhyming with “lie”) is used in this study to test the hypothesis (Water, 2011:407). In chi-square we are formally testing the null hypothesis that two things are independent. Chi-square only tells us if there is an association between variables or if there is independence. If we reject the null hypothesis because we have significant results we can do further analysis to look at the strength of relationship that exist between two variables (Somekh and Lewin 2009:232). To explore the strengths of relationship requires using one of the post-hoc analyses in measures of association such as phi or Cramers V, (Field 2000:67). This study used phi to explore the strength of the relationship between the independent and dependent variables, (Muijs, 2008; 126).

<0.1 weak;

<0.3 modest;

<0.5 moderate;

<0.8 strong;

$\geq$ 0.8 very strong.

### **3.10 Ethical Issues**

The researcher upholds ethical issues in the process of the study and assures that all information is researcher’s own work and no plagiarism and the respondents’ information is treated with the highest level of confidentiality. The researcher needs to respect the participants and the sites for research. The researcher does have responsibility to fellow researchers, respondents, the public and the academic

community. The researcher do not put participants at risk and respect all micro and small enterprises (MSEs) in Eldoret municipal council (CBD). Researcher had his research topic be reviewed by the National council for science and technology and issued a research permit (appendix III and IV), and a letter from the office of the town clerk, Eldoret municipal council authorizing the researcher to undertake his research work (appendix V). This is to avoid any legal action at all against the researcher.

### **3.11 Limitation of the study**

Most of the micro and small enterprises (MSEs) in Eldoret Town (CBD) did not have confidence that the information supplied by them to the researcher and his research assistant was not misused or revealed to their competitors and as such they were reluctant in supplying the needed information. Though this limitation did not affect the intended results, the concept of secrecy was sacrosanct to MSEs in Eldoret Town so much so that it proves an impermeable barrier to the researcher. Thus, the researcher generate the confidence the information/data obtained from MSEs was not misused. Other limitation of this study which eventually was overcome and intended result was obtained was short of time and finance.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

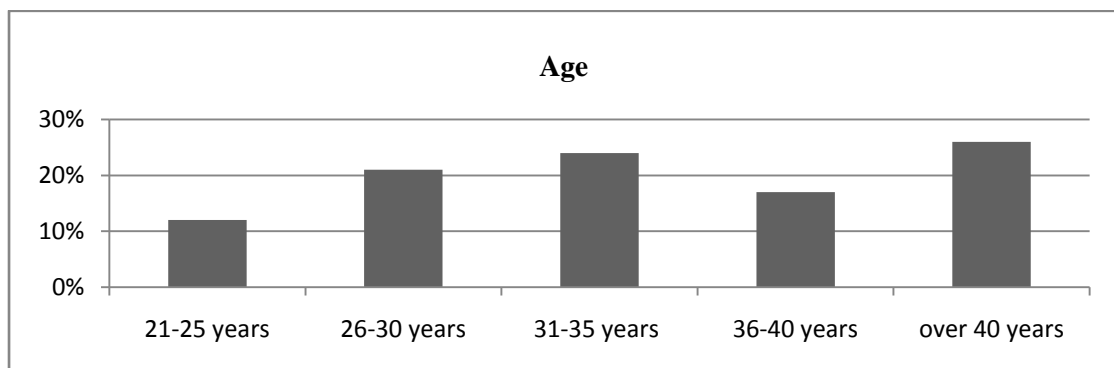
#### 4.0 Overview

This chapter presents data analysis as accurately as possible. Frequencies, percentages, bar charts and pie charts were used to show the data obtained from the study. Descriptive and inferential statistic was also used to determine the significant relationship between the dependent and independent variables.

#### 4.1 Respondents Demographic Characteristics

This section provides background information on the age, gender, education level, marital status, business experience, business category and the nature of the business of the entrepreneurs in central business district CBD, Eldoret Town.

**Age:** The results on the age of the respondents are presented in Figure 4.1. The age structure indicates that the older age group of entrepreneurs is the majority while those of the younger age group are the minority.



**Figure 4.1: Age of Respondents**

**Source: Researcher, 2011**

The results show that the entrepreneurs of the age of 40 and above (48, 26%), the age of 31-35 (45, 24%), the age of 26-30 (39, 21%), the age of 36-40 (33, 18%), and the age of 21-25 (22, 12%) indicates that older entrepreneurs are the majority and the trend decline until the younger entrepreneurs are the minority.

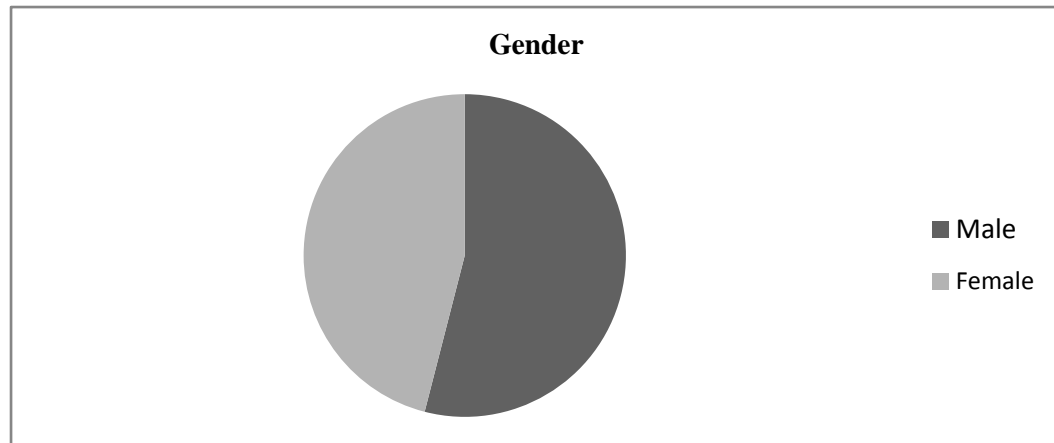
This could be that, the retired civil servants and those who opt for early retirement venture into business hence increased the percentage of this age bracket.

The age between 21-25 are the minority simply because at this age, majority of the people could still be seeking for job employment or working in the employment sectors and others are still pursuing their career in colleges and universities.

**Gender:** The gender of the respondents was presented in Figure 4.2. This results show that (100; 54%) entrepreneurs are male and (87, 46%) are female entrepreneurs. It is clear that both genders are enthusiastic in venturing into business.

Another individual characteristic among entrepreneurs that had been studied was gender. (Hisrich et.al., 2008;64) in his book he said that , there were significant growth in female self- employment with women now starting new enterprises at higher rate than men. He suggested that women are starting businesses in the united state at twice the rate of all businesses and are staying in business longer.

Although the characteristics of male and female entrepreneurs are generally very similar, female entrepreneurs differ in terms of motivation, business skills, and occupational backgrounds. Factors in the start-up process of an enterprise for male and female entrepreneurs also differ in area like support systems, and source of funds.



**Figure 4.2: Gender of Respondents**

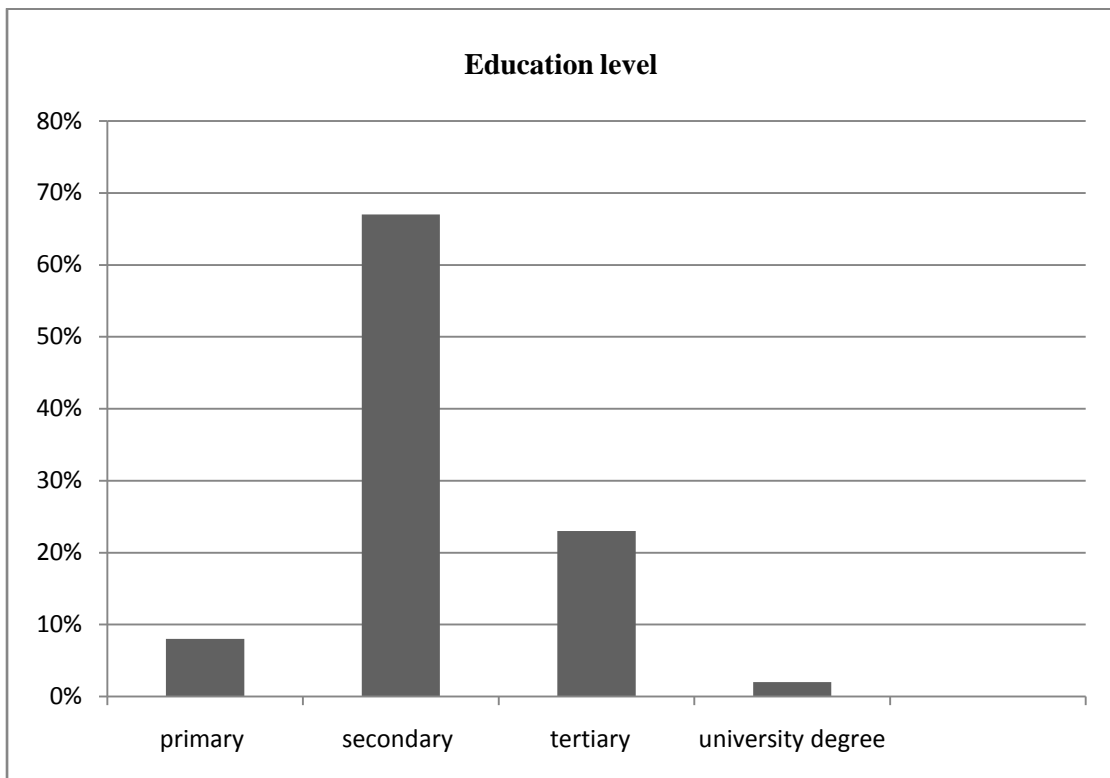
**Source: Researcher, 2011**

The (54%) male entrepreneurs indicate that male carry the heavier responsibility of the families as they are considered in the society to be the head of the families and bread winners. Males are the providers of the family basic needs such as education, food, shelter and clothing's as compared to female entrepreneurs.

**Education level:-**The education level of individual entrepreneur was measured in terms of the academic qualification he or she has achieved as in Figure 4.3.

This study showed that majority entrepreneurs are those with secondary level of education (125, 67%), followed by those with tertiary level of education (44, 24%), then those with primary level of education (15, 8%).

The minority entrepreneurs are those with university level of education (3, 2%). Education improves the relevant capability of the people who are engaged in the production process. A positive relationship is expected between the level of education of an individual and his or her entrepreneurial ability. People with more education especially in enterprise education are significantly more highly represented.



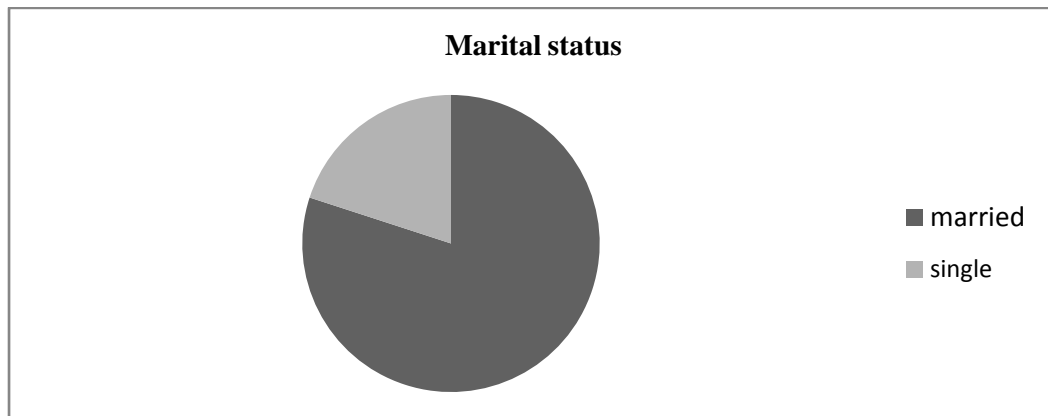
***Figure 4.3: Education Levels of Respondents***

**Source: Researcher, 2011**

Education empowers an individual to perform his or her entrepreneurial activity in more intelligent and efficient manner. Education enable an individual to see entrepreneurial activity as a business that can generate profit, enables him to consider the costs and benefits associated with different enterprises.

Entrepreneurs can also choose the best among the possible alternatives. Education also makes the entrepreneur more innovative, accept new technology and implement research findings according to the recommendations.

**Marital status:**-The majority of the entrepreneurs in CBD Eldoret Town are married couples with (149, 70%), followed by singles with (38, 20%) as in Figure 4.4



**Figure 4.4: Marital Status of Respondents**

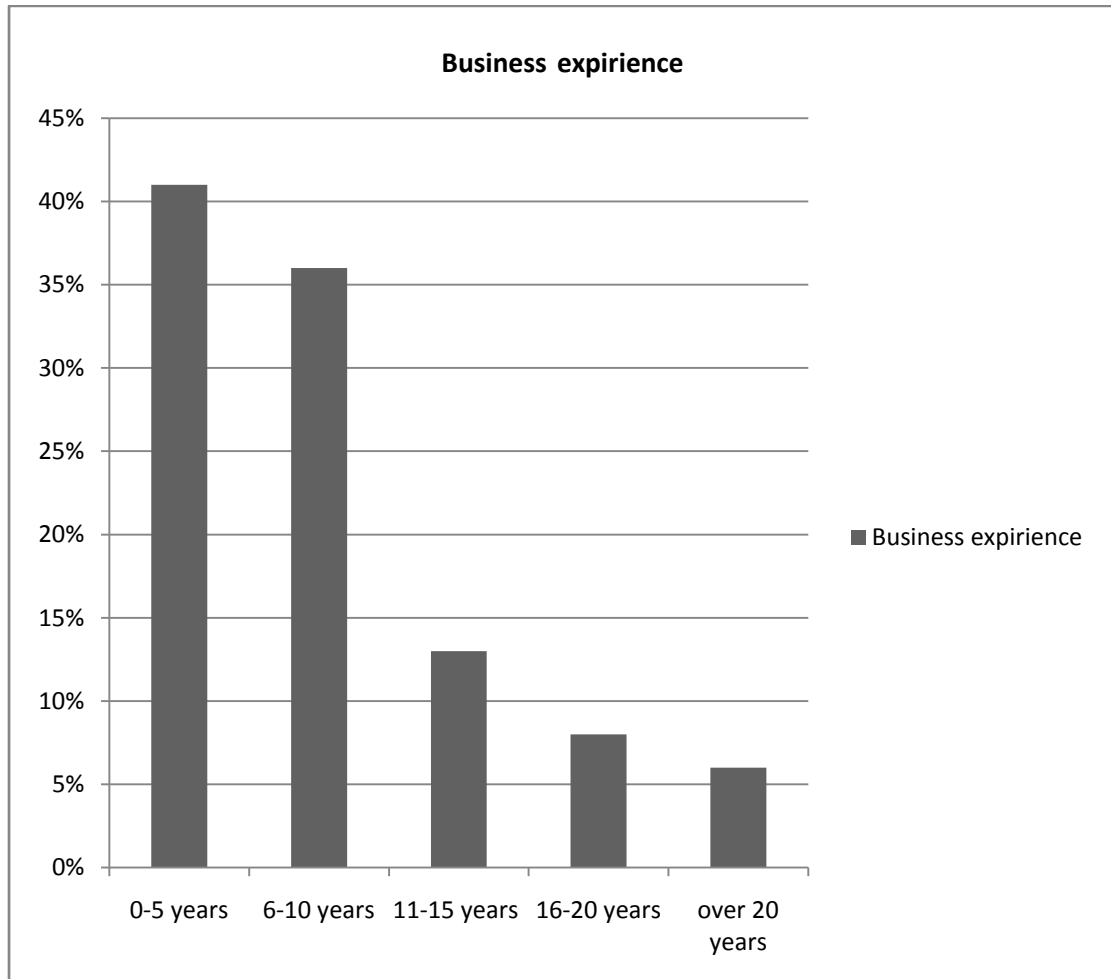
**Source: Researcher, 2011**

The married being majority entrepreneurs suggest that families have much responsibilities as compared to the singles. The married couples have children who feed, educate and bringing them up. The married could be possibly combining both job employment and doing business at the same time, while majority of singles could be concentrating with their job employment only.

**Business Experience:** The experience of the entrepreneur has been measured in terms of the numbers of years that he or she has been engaged in business activities.

The frequency in percentage of the respondents in business experience is shown in Figure 4.5. It shows that entrepreneurs who have been in business, 0-5 years (77, 41%), 6-10 years (68- 36%), 11-15 years (24, 13%), 16-20 years (15, 8%) and those entrepreneurs with more than 20 years (3, 2%). The greater their relevant experience

and knowledge, the more likely they are to launch a successful enterprise because of their understanding of challenges they will face.



**Figure 4.5: Business Experiences of Respondents**

**Source: Researcher, 2011**

An entrepreneur gains relevant knowledge of production and services and marketing over time and hence had advantage over new and an inexperienced entrepreneur. Experience is an important factor in enterprise activity like any other business which enhances the entrepreneurial productivity. This result shows that majority of entrepreneurs 0-5 years experience (77, 41%) are the majority as compared with

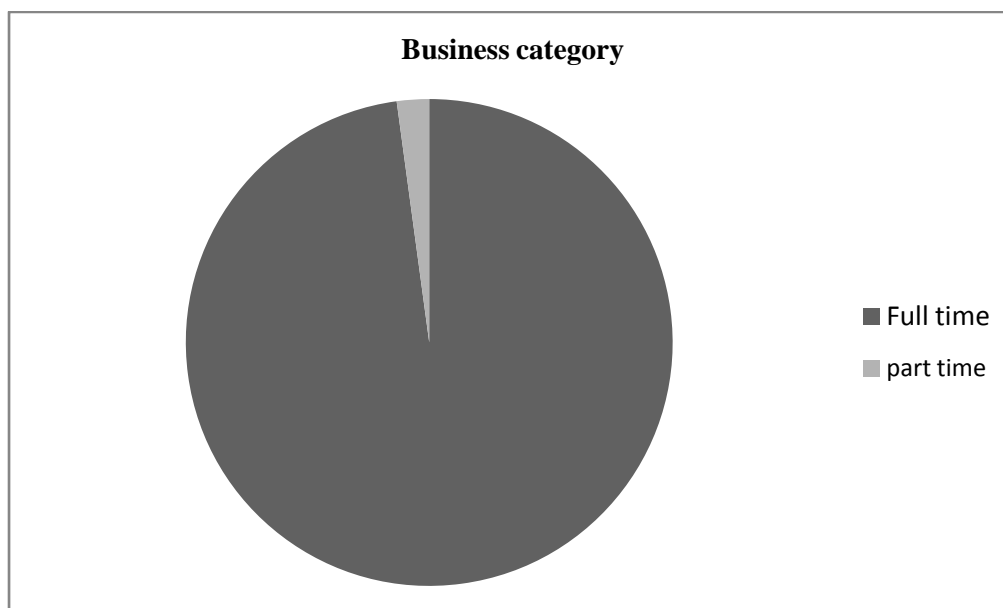
entrepreneurs with more than 20 years experience (3, 2%). The more years in enterprise activity, the more he or she learns and know the pattern of the season and uses it as a guide in making decision on which type of product or service to be ready for his or her customers. According to the findings of this study the majority of the respondents have been in business for about 0-5 years (41.2%) while (36.4%) have been in business for about 6-10years. The results showed a negative relation between the entrepreneurs activities and experience. this results is in agreement with Liedholm and Mead (1987; 67) in their study in Bangladesh, Sierra Leone, Jamaica, Honduras, Thailand and Egypt which found that in the segment of enterprises of four or less workers, only 1% graduated to the next size category of more than 10 workers. This may be attributed to the age of the entrepreneurs.

When the decision makers (entrepreneurs) get older, they become contended with the system and the technology of the entrepreneurial operation which at one time was the best. Thus they are resistant or slow to adopt new technology. In addition to that when they get older; they will not have capacity to perform the entrepreneurial operation which at one time was the best.

They are resistant or slow to adopt new technology. In addition to that when they get older, they will not have capacity to perform the entrepreneurial operations on time as they use to. Due to the above factors together with steep competition in the enterprise sector may go down. That is why as year's advances in experience the number of entrepreneurs reduces.

**Business Category:** The result on the business category of the respondents is presented in Figure 4.6. According to the findings of this study, the majority of the respondents are in full time business (183, 98%) while those in part time are (4, 2%).

This could be because of the government policies and regulations which do not allow civil servants to do business and working in public offices at the same time has caused these results to show that the majority respondents are in full time business. Entrepreneurial opportunities also exist because of regulatory change.



**Figure 4.6: Business Categories of the Respondents**

**Source: Researcher, 2011**

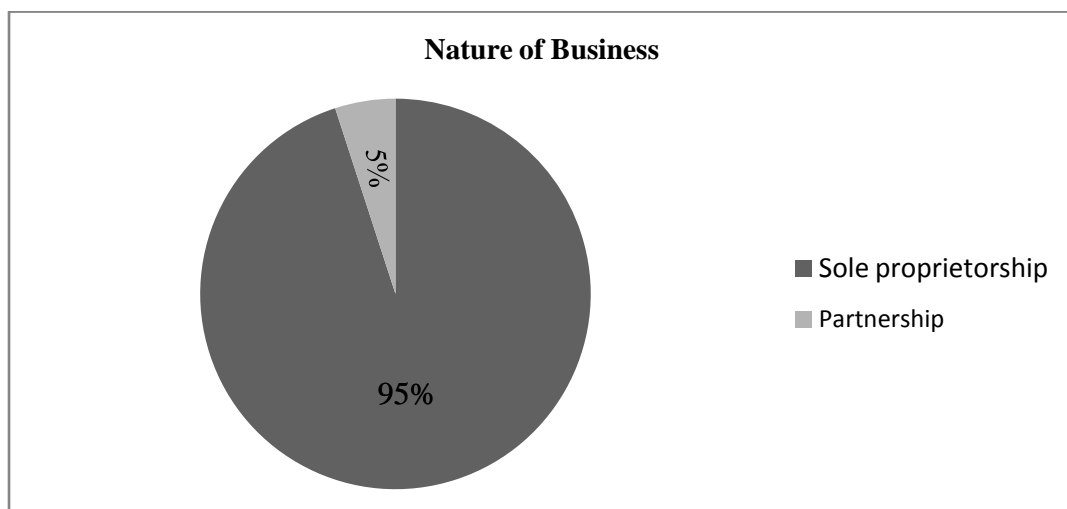
The majority of these entrepreneurs in full time are retired civil servants, young ladies and gentlemen who have failed to secure job employment and those civil servants who opted to go on early retirement.

**Nature of the Business:** - The simplest and most popular form of business ownership is the sole proprietorship, according to this study (178, 95%) respondent is sole



proprietors. It is a situation in which businesses is owned and manage by one individual, while (9, 5%) are partnership as shown in Figure 4.7.

The advantage of a proprietorship is simple to create Norman (2011; 155). One of the most attractive features of a proprietorship is how fast and simple it is to begin. If an entrepreneur wants to operate a business under his own name, he simply obtains the necessary licenses from state, county, or local government and begin operation. For most entrepreneurs, it is possible to start proprietorship in a single day.



***Figure 4.7: Nature of Business of Respondents***

**Source: Researcher, 2011**

Most business are sole proprietors for reasons that such business are simple to create, The costs involved in setting a sole proprietorship are low. A proprietor is in total control over his or her business operations and the decisions are made by him or her. He or she keeps all the profit and they truly own their businesses. Thus, Majority of the entrepreneurs as shown by the finding of this study are sole proprietor.

#### 4.2 Demographic Perspective of an Entrepreneur and Enterprise Graduation

The Spearman's rho correlation coefficient of Demographic perspective of an Entrepreneur and enterprise graduation is presented in Table 4.1. Analysis of demographic changes begins with the MSEs population in Eldoret town. Age distribution among MSEs is far more important. The segmentation by education attainment, that is, primary, secondary, tertiary, and University College is equally important. Marital status and singles are very important demographic analysis.

**Table 4.1: Spearman's rho correlation coefficient of Demographic perspective of an entrepreneur and enterprise graduation**

		<b>Enterprises graduation</b>
Age		
Correlation		0.324**
P value		0.000
Gender		
Correlation		0.090
P value		0.219
Education		
Correlation		-0.265**
P value		0.000
Marital status		
Correlation		-0.243**
P value		0.001
Business experience		
Correlation		0.347**
P value		0.000

**Source: Researcher, 2011**

The spearman's rho coefficient of demographic perspective of an entrepreneurs and enterprise graduation on age indicates a positive relationship, education indicates a negative relationship, marital status indicates a negative relationship and experience indicates positive relationship.

**Age:** the spearman's rho correlation coefficient on age indicate a positive relationship on enterprise graduation ( $r_s=0.324^{**}$ ,  $P < 0.05$ ). A positive relationship with age on enterprise graduation is because as the entrepreneurs advanced in age they gained more skills and knowledge on how to run their businesses. This answer suggests that, as entrepreneur's advances in age, they gained more experience and knowledge over their competitors. The entrepreneurs also gets skills on when to purchase certain products and when not to. The computations of the costing in running the business have been well understood by the entrepreneurs. Therefore age and enterprise graduation has a positive relationship.

**Education:-**The education had a negative relationship on enterprise graduation ( $r_s=-0.265^{**}$ ,  $p < 0.005$ ) may be to the fact that as more educated people venture into businesses they use the knowledge and skills they have already acquired thus, enables them to do work which used to be done by several people . Education sharpens the understanding of the entrepreneurs and enables them to reduce the cost of running their enterprises. Few people will be employed, budget estimation will come down, and procurement will be realistically estimated. In this scenario, human resource requirement will reduce as well as others costs; hence a negative relationship on education is realized.

**Marital status;**-marital status had a negative relationship with enterprise graduation ( $r_s=-0.243^{**}$ ,  $P<0.05$ ). The negative relationship could be probably because married couples normally have more responsibilities than singles. Married couples engage themselves with other family matters that take a lot of time which could have been used in doing business unlike singles. Married couples indicate negative relationship with enterprise graduation because married couples do have more responsibilities, such as educating their children, providing food, shelter and Clothing. Married couples have dependants which are the sole providers' of the basic daily needs such as, education, shelter, food and clothing. To singles, they have little or no responsibilities to gather for as compared to married couples.

**Experience;**-Experience was positively correlated with enterprise graduation ( $r_s=0.347^{**}$ ,  $P<0.000$ ). In the same way experience had a positive relationship with enterprise graduation because as the entrepreneurs remain in business for a long time they gain more experience in business. This study suggest that as entrepreneurs stay long in business they gain good experience and they will know how to manage, run and operate their businesses well. The mistakes which used to be done earlier will be reduced or eliminated after entrepreneurs gained business experiences. They will also have a competitive advantage over inexperienced business entrepreneurs and thus, they will capitalize their experience by making sure that their competitors are based out of market completely or get a little market share as much as possible. The spearman's rho coefficient correlation gives us the relationship and direction of variables. The results of this study reveal that age had a positive relationship ( $r_s=0.324^{**}$ ,  $P <0.05$ ). Gender had no relationship with enterprise graduation, ( $r_s=0.090$ ,  $P >0.05$ ). Marital status had a negative relationship with enterprise

graduation ( $r_s = -0.243^{**}$ ,  $P < 0.05$ ) and business experience had a positive relationship with enterprise graduation ( $r_s = 0.347^{**}$ ,  $P < 0.000$ ). This result is in agreement with (Oates, 2010, 258) that to find out the strength of any apparent link, or correlation between two variables, we need to calculate the correlation coefficient for them. Spearman's rho correlation works with ordinal data and that a positive coefficient means there is a positive relationship between two variables. For instance, in this study, age and business experience had a positive relationship. A negative coefficient means there is a negative relationship between two variables. Thus, education and marital status had a negative relationship with enterprise graduation.

#### **4.3 Demographic Perspective of an Entrepreneur with Enterprise Graduation**

The demographic perspective of an entrepreneur with enterprise graduation is presented in Table 4.2.

**Table 4.2 Ordinal Regression of Demographic Perspective of an Entrepreneur with Enterprise Graduation**

95% Confidence Interval							
Variation		Estimate	Std. Error	Wald	Lower Bound	Upper Bound	Sig
<b>Threshold</b>							
Number of employees=1		-3.268	2.140	2.332	-7.461	0.926	0.127
Number of employees=2		-1.273	2.127	0.358	-5.443	2.896	0.547
<b>Location</b>							
Age=2		-2.029	1.065	3.633	-4.116	0.057	0.057
Age=3		0.766	0.759	1.018	-2.254	0.772	0.313
Age=4		-1.341	0.664	4.073	-2.643	0.039	0.044
Gender=1		-1.064	0.327	10.561	-1.705	-0.422	0.001
<b>Model</b>		<b>-2 log Likelihood</b>		<b>Chi-square</b>			
Intercept only		322.084					
Final		267.225		54.859		0.000	

Nagelkerke = 0.274

**Key:** Age= 2=21-25yrs, 3-26-30yrs, 4-31-35yrs, 5-36-40yrs, Gender=1-Male, Number of employees=1-1 employee, 2-2employees, 3-3employees.

**Source:** Researcher, 2011

The results indicate that entrepreneurs of the age bracket between 21-25, 26-30 and 36-40years had no effect ( $p>0.05$ ) on enterprise graduation. The respondents between 31-35years had a negative effect ( $\beta = -1.341$ ,  $p<0.05$ ) on enterprise graduation. At this age the entrepreneurs are at the prime age where they are facing several issues to handle in their lives, they could either go for job employment or venture into business. Thus, this scenario causes a negative effect on enterprise graduation. The male gender showed a negative effect ( $\beta= -1.064$ ,  $p<0.05$ ) on enterprise graduation. The finding further reveals that the education level and business experience had no effect on enterprise graduation.

#### 4.4 Graduation of Micro and Small Enterprises

This results show that enterprises with four or less workers (183, 98%) do not graduated to the next size category of five workers and more. (4, 2%) enterprises do graduate to the next size category. This indicates that most enterprises that start small continued to be small or decline and eventually close down. The frequency of enterprise graduation is presented in Table 4.3.

**Table 4.3: Descriptive Statistics of Graduation of Micro and Small Enterprises**

Number of Employees	Enterprises	Percentage
1	51	27
2	71	38
3	50	27
4	11	6
Greater than 5	4	2
<b>Total</b>	<b>187</b>	<b>100</b>

Source: Researcher, 2011

The enterprises with employees' between 1-4 workers are the majority with (98%) while Enterprises with more than five employees are the minority with (2 %). This study is in agreement with the study by Liedholm and Mead (1987-67) who found that in the segment of enterprises of four and fewer workers only (1%) graduated to the next size category to more than 10 workers.

#### **4.5 Relationship Between Psychological Perspective of An Entrepreneur and Enterprise Graduation**

The relationship between psychological perspective of an entrepreneur and enterprise graduation was based on objective one.

##### **4.5.1 Descriptive Statistics of Psychological Perspective of an Entrepreneur In Relation to Motivation**

The frequencies of Psychological Perspective of an Entrepreneur in Relation to Motivation are presented in Table 4.4.



**Table 4.4: Descriptive Statistics of Psychological Perspective of an Entrepreneur in Relation to Motivation**

	<b>Rank</b>	<b>Enterprise</b>	<b>%</b>
Willing to risk personal assets	Agreement	161	86
	Neutral	5	3
	Disagreement	21	11
<b>Total</b>		<b>187</b>	<b>100</b>
Creating new products and services	Agreement	158	85
	Neutral	17	9
	Disagreement	10	6
<b>Total</b>		<b>187</b>	<b>100</b>
Achievements in business targets	Agreement	185	99
	Neutral	2	1
	Disagreement	0	0
<b>Total</b>		<b>187</b>	<b>100</b>
Taking control of business	Agreement	185	99
	Neutral	2	1
	Disagreement	0	0
<b>Total</b>		<b>187</b>	<b>100</b>
Confidence in decision making	Agreement	182	98
	Neutral	5	3
	Disagreement	0	0
<b>Total</b>		<b>187</b>	<b>100</b>

**Source: Researcher, 2011**

The majority of the entrepreneurs (161, 86%) agreed that they are willing to risk their personal assets in venturing into Business Avenue while (21, 11%) entrepreneurs did not agree, that they should risk their personal assets in venturing into business. (160, 85%) enterprises agreed that they love creating new products and services and making a difference in enterprise continuum, while the remaining (10, 6%) enterprises did not

agree. Enterprises (185, 99%) agreed that they feel good when they achieved their business target. The remaining (2, 1%) enterprises was not in agreement. (185, 99%) of the entrepreneurs agreed that they love taking control of their businesses, while the remaining (2, 1%) entrepreneurs did not agree.

(182, 97%) enterprises agreed that they have confidence in decision making abilities when venturing into business. The remaining (5, 3%) enterprises did not agree. According to (Stokes, *et al*, 2010:16), focuses on the entrepreneur that aimed at identifying the so-called entrepreneurial traits. They suggested that this personality perspective takes the premise that certain individuals possess a distinctive range of personality characteristics which are sufficiently stable and enduring to predispose them to entrepreneurial activity (including such characteristics as a high need for achievement, internal locus of control, risk-taking and self-efficacy), which is in agreement with the findings of this study.

Majority of respondents therefore are in agreement that they are willing to risk their assets when venturing into business, Entrepreneurs also feel good when they achieve their business targets and that they have confidence in decision making abilities when venturing into business. This finding is in agreement with (Stokes *et al*, 2010). Entrepreneurial behavior and psychological theories which were put forth by experts and are very much relevant with regard to the entrepreneurial behavior are; Maslow's need hierarchy theory, and McClelland's need achievement theory.

#### 4.5.2 Psychological perspective of an Entrepreneurs and Enterprise Graduation

The spearman's rho correlation coefficient of psychological perspective of entrepreneurs and enterprise graduation is presented in Table 4.5.

**Table 4.5: Spearman's rho Correlation Coefficient of Psychological Perspective of Entrepreneurs and Enterprise Graduation**

		<b>Enterprises graduation</b>
Willing to risk personal assets		
Correlation		0.000
P- value		0.994
Achievement of business target		
Correlation		0.108
P- value		0.140
Creating new products and services		
Correlation		0.008
P- value		0.192
Taking control in business		
Correlation		0.092
P- value		0.210
Confidence in decision making		
Correlation		0.151*
P- value		0.040

\*\*Denotes Correlation significance at 0.01 level (2Tailed)

\* Denotes Correlation significance at 0.05 level (2Tailed)

**Source: Researcher, 2011**

**Confidence in decision making:-**This study reveals that confidence in decision making had a positive relationship ( $r_s = 0.151$ ,  $P < 0.05$ ) with enterprise graduation.

Entrepreneur should have enough self-confidence in demonstrating that they not only believe in themselves but also in the kind of business they are venture or pursuing.

The others psychological perspective factors such as, risk bearing, need to achieve, innovator and creativity and locus of control had no any significant relationship on enterprise graduation.

#### **4.5.3 Psychological Perspective of an Entrepreneur with Enterprise Graduation**

The psychological perspective of an entrepreneur with enterprise graduation is Presented in Table 4.6.

**Table 4.6: Ordinal Regression on Psychological Perspective of an Entrepreneur with Enterprise Graduation**

		95% Confidence Interval					
Variables		Estimate	Std. Error	Wald	Lower Bound	Upper Bound	Sig
<b>Threshold</b>							
Number of employees=1		12.094	3.550	11.605	5.136	19.052	0.000
Number of employees=2		13.830	3.536	15.300	6.900	20.759	0.000
Number of employees=3		15.742	3.518	20.019	8.846	22.638	0.000
Number of employees=4		17.142	3.533	23.540	10.217	24.067	0.000
<b>Location</b>							
Confidence=1p		19.607	1.352	210.404	16.958	22.257	0.000
Confidence=2		19.878	1.311	229.763	17.307	22.448	0.000
New products		-2.717	1.340	4.110	-5.344	-0.090	0.043
<b>Model</b>		<b>-2 log likelihood</b>		<b>Chi-square</b>			
Intercept only		291.763					
Final		272.216		19.546		0.359	

Nagelkerke  $R^2 = 0.107$

Key: 1=SA-strongly Agree, 2=A-Agree, 3=N- Neutral 4=D-Disagree ,5=SD-

Source: Researcher, 2011

The confidence of entrepreneurs when conducting their businesses had a positive effect on enterprise graduation ( $\beta=19.607$ ,  $P<0.05$ ). The results indicates that creating of new products had a negative effect on enterprise graduation ( $\beta =-2.717$ ,  $P < 0.005$ ). The respondents showed that (160, 85%) enterprises agreed that they love creating new products and services and making a difference in enterprise continuum. The negative effect on creating new products and services could be due to high cost of advertisement; potential customers would have developed loyalty to the existing products in the market. As (Baron and Shane, 2008:294) noted that products that ultimately prove to be tremendously successful start out slowly with relatively few users, and only gain popularity later, after the passage of months or even years.

The study also reveals that the respondents who agreed were (96, 13%). This study is in agreement with (Mary *at el* 2009:21) that those people who start small businesses are fiercely dedicated to their enterprises; they further suggested that much time, energy, money and emotion are invested in their businesses. They want to ensure that nothing harms their “baby”. That is, their new business ventures.

### **Psychological perspective chi-square test**

In chi-square we are testing the null hypothesis. In this study, the 1<sup>st</sup> null hypothesis  $H_{01}$  is that there is no statistical significant relationship between the psychological perspective of an entrepreneur and enterprise graduation. Chi-square is the used technique to explore relationship, (Somekh and Lewin 2009; 232) it is a very unusual statistic because it test two things in one test. It is a test of independent and of association. First we consider survey data, in this research is from questionnaires and try to find if there is any association between the dependent and independent variable.

The first step in interpreting a significant chi-square is to look carefully at the SPSS chi-square out-put. In this study the following are the output of psychological perspective of an entrepreneur and enterprise graduation. Intercept only 291.763, final 272.216 chi-square 19.546 and the significant 0.359 which is  $P > 0.05$ . Therefore there is no relationship between the psychological perspective of an entrepreneur and enterprise graduation. Thus, the null hypothesis is accepted.

#### **4.6 Influence of Internal Entrepreneurial factors on Enterprise Graduation**

Influence of internal entrepreneurial factors on enterprise graduation was based on objective two.

##### **4.6.1 Descriptive Statistics of Internal Entrepreneurial Factors in Relation to Motivation**

The frequencies of internal motivation factors of an entrepreneur in relation to motivation and enterprise graduation are presented in Table 4.7.

**Table 4.7: Descriptive Statistics of Internal Entrepreneurial Factors in Relation to Motivation**

	<b>Rank</b>	<b>Enterprise</b>	<b>%</b>
Well motivated staff	Agreement	62	33
	Neutral	34	18
	Disagreement	91	48
<b>Total</b>		<b>187</b>	<b>100</b>
Market availability	Agreement	145	78
	Neutral	26	14
	Disagreement	16	8
<b>Total</b>		<b>187</b>	<b>100</b>
Use of modern tools/equipments	Agreement	112	61
	Neutral	26	14
	Disagreement	49	26
<b>Total</b>		<b>187</b>	<b>100</b>
Access to finance	Agreement	156	83
	Neutral	18	10
	Disagreement	13	7
<b>Total</b>		<b>187</b>	<b>100</b>

**Source:** Researcher, 2011

**Well motivated staff and effective managerial structure:** (91, 49%) enterprises disagree that they have motivated staff and effective managerial structure; (62, 33%) enterprises agreed that they have motivated staff and effective managerial structure. The study showed that majority of the enterprises disagree that they have motivated



staff as well as effective managerial structure. Human resource is one of the input the business convert to create the output it delivers to its customers (Wickham, 2006) he suggested that the entrepreneurs must be conscious of how the human resource requirements of the business will develop in the future by deciding what skill profile is right for their business and what type of people will be needed to contribute those skills. Wickham also said, employing people with the right skills is not enough, He said those people must be directed to use their skills. They must also be motivated if they are to make a dedicated and effective contribution to the business. This study therefore is not in agreement with the previous findings of Wickham.

**Market availability:** - (145, 78%) enterprises agreed that market availability had influence in the enterprise graduation. the remaining (16, 9%) enterprises does not agree that market availability had influence in the enterprise graduation. This study is in agreement with (Timothy Halter, 2009; 293) that market availability should be decided in the early stages by an entrepreneur. An entrepreneur should state what to be accomplished and how they intend to accomplished it. Halter further said that any entrepreneur should be careful in inspecting how to lay out the marketing action that will drive the business. A good marketing strategy will help entrepreneur watch and understand trends that relates to customers, suppliers, demographic and technology. An entrepreneur should also have vision that provides direction for the business as well as having an adaptable, flexible organization.

**Use of modern tools and equipment:** (112, 60%) enterprises agree that use of modern tools and equipment influence enterprise graduation while (49, 26%) enterprises disagree that enterprise graduation is influenced by the use of modern

tools and equipments. Despite the majority of entrepreneurs agreeing that modern tools and equipment influence enterprise graduation, these equipments are very expensive to acquire as well as maintaining of the same (Zimmerer *et al*, 2008;494).

**Access to finance:** (156, 83%) enterprises agree that access to finance influence enterprise graduation while (13, 7%) enterprises disagree that access to finance influence enterprise graduation. Unless entrepreneurs can demonstrate to both debt and equity financing (venture capitalists, business angles, banks, and others) that they have establish a solid foundation for managing their business financial resources and know how to accomplish this task effectively as being suggested by (Baron and Shane, 2008; 168), These potential sources of capital are unlikely to open their wallets and provide the funds entrepreneurs seek.

#### **4.6.2 Internal Entrepreneurial Factors and Enterprise Graduation**

The spearman rho correlation coefficient of internal entrepreneurial factors of an entrepreneur and enterprise graduation is presented in Table 4.7. The study reveals that access to finance had a positive relationship ( $r_s = 0.156^*$ ,  $P < 0.05$ ) with enterprise graduation while others internal entrepreneurial factors had no significant relationship with enterprise graduation. The result compares well with those of (Shame *et. al.*, 2008; 14) that entrepreneurs must assemble wide arrays of required financial resources to engage in business.

**Table 4.8: Spearman's rho Correlation Coefficient of Internal Motivation Factors of an Entrepreneur and Enterprise Graduation**

		<b>Enterprises graduation</b>
Motivated staff		
Correlation		-0.097
P- value		0.189
Market availability		
Correlation		-0.114
P -value		0.122
Modern Equipments		
Correlation		0.109
P- value		0.138
Access to finance		
Correlation		0.156*
P- value		0.033
**Denotes Correlation significance at 0.01 level (2Tailed)		
* Denotes Correlation significance at 0.05 level (2Tailed)		

**Source: Researcher, 2011**

#### **4.6.3 Internal Entrepreneurial factors with Enterprise Graduation**

The ordinal regression of internal entrepreneurial factors with enterprise graduation is presented in Table 4.8.

The ordinal regression of internal motivation factors indicates that there is no significant effect, either positive or negative with enterprise graduation ( $p > 0.05$ ). Factors such as motivation staff and market availability, the use of modern equipments and access to finance (Scarborough, 2011) suggested that the talents, creativity, skills and abilities of enterprise workforce shows up in the innovative strategies, plans, and processes that the people in an enterprise developed and then passionately pursue. An entrepreneur is considered as the business leader and not as simple owner of capital. Entrepreneur is a person with telescopic faculty, drive and talent who perceive business opportunities and promptly seizes them for exploitation. Entrepreneur has character that combines innovativeness, readiness to take risk.

**Table 4.9: Ordinal Regression of Internal Motivation Factors of an Entrepreneur and Enterprise Graduation**

Variables	Estimate	Std. Error	Wald	95% Confidence Interval		Sig
				Lower Bound	Upper Bound	
<b>Threshold</b>						
Number of employees=1	0.696	1.352	0.265	-1.955	3.347	0.607
Number of employees=2	2.546	1.362	3.493	-0.124	5.216	0.062
Number of employees=3	4.541	1.385	10.742	1.825	7.256	0.001
Number of employees=4	5.960	1.452	16.859	3.115	8.805	0.000
<b>Location</b>						
Motivated staff=1	0.531	0.754	0.497	-2.009	0.946	0.481
Market availability=1	1.760	1.209	2.127	0.606	4.132	0.145
Modern equipments=1	-0.400	0.595	0.453	-1.566	0.766	0.501
Access to finance =1	-0.283	0.915	0.096	-2.077	1.511	0.757
<b>Model</b>						
	<b>-2log likelihood</b>			<b>Chi-square</b>		
Intercept only	364.059					
Final	330.319			33.740		0.006
Nagelkerke R <sup>2</sup> = 0.178						

Source: Researcher, 2011

He also suggested that the accumulated knowledge and experience that an enterprise possesses can take money forms including processes, software, patents, copyrights, and, perhaps most importantly, the knowledge and experience of the people in the enterprise (Baron *et. al.*, 2008; 281).

Personal resourcefulness is a critical factor for the growth and graduation of entrepreneurship. The activities undertaken by the individual who require cognitively mediated behavior like emotions, sentiments, inner feelings thoughts and actions. In this situation, entrepreneurs are fully appraised by the situation and knowledge which is shaded by motivational involvement staff of an enterprise. Different authors have given different opinions on human aspect of psychology. Bygrave and Hoffer (2010) highlight the significant of human volition. Schumpeter (2010) pointed out entrepreneurs as innovators which are influence by will to power and will to conquer. While Carland (2010) gives emphasis on organization building for entrepreneurship development.

(Harvard business school, 2005) suggested that before entrepreneurs launch a new enterprise, they should gather information about the market they are planning to enter and customer preference, which is not in agreement with the findings of the study. The objective of all enterprises is to satisfy the needs and wants of the customer. Marketing is therefore the focal point of all business activities. A business is set apart from all other human organization by the fact that it markets a product or service. It is through marketing that individual and social needs are satisfied. They suggested that money is needed at every stage of business development and through all level of

growth. At the launch and at the start-up, Even a mature business with annual sales in billions of shillings need continued financing to stay on the cutting edge of its field.

When it comes to acquiring equipments MSEs can use several ways such as; financing the purchase of new equipment or already used equipment. When new equipment or second hand equipment is being purchased, the enterprise may use the same as collateral depending on its salability. Most equipment vendors encourage MSEs to purchase their equipment by offering to finance them. This method of financing is similar to trade credit but with slightly different terms. Equipment vendors offer reasonable credit terms with only a modest down payment, with the balance financed over the life of the equipment, often several years.

### **Chi-square test on Internal Motivation Factors of an Entrepreneur**

The 2<sup>nd</sup> null hypothesis in this study is  $H_{02}$  there is no statistical significant relationship between internal entrepreneurial factors and enterprise graduation. As we are aware chi-square test the null hypothesis is as follows; intercept only 364.059, final 330.319, chi-square 33.740 and significant 0.006, Table 4.8. The study showed that there is a significant relationship ( $\beta = 0.006$ ,  $p < 0.05$ ) between internal entrepreneurial factors and enterprise graduation. Thus the null hypothesis is rejected. Since we have rejected the null hypothesis because we have significant results, we therefore had to do further analysis to look at the kind of relationship that exist. The internal entrepreneurial factors with enterprise graduation and the strength of that relationship (Somekh and Lewin 2009; 232) are to be established. Chi-square in itself only tells us if there is an association between two things or if there is independence. To explore the strength of relationship requires using one of the *phi* or Cramer's V

(Field A 2000:67) for us to get the *Phi*; SPSS doesn't include measures of strength of relationship. However, they are usually easy to calculate.

The effect size for the chi-square test, which is call *phi*, is calculated by taking the square root of the calculated value of chi- square divided by the overall sample size. This study indicates that; Chi square as indicated in table 4.8, ordinal regression of internal motivation factors of an entrepreneur and enterprise graduation to be 33.740. The sample size in this study was determined using the coefficient of variation formula (Nassiuma 2000) to be 187. This is the valid sample size, excluding all the missing values from the respondents.

We then divide the chi square by the sample size:  $33.740/187 = 0.180$ .

And take the square root of the figure, which is 0.424.

The computation of *phi* is;

$$\begin{aligned} Phi &= \frac{33.740}{187} \\ &= 0.180 \\ &= \sqrt{0.180} \\ &= 0.424 \end{aligned}$$

The relationship therefore is moderate (<0.5), (Muijs 2008:126). The effect size measure varies between 0 (no relationship) and 1 (perfect positive relationship). Therefore, the closer to one the stronger the relationship. The following cut-off points are proposed. <0.1 weak, <0.3 modest, <0.5 moderate, <0.8 strong,  $\geq 0.8$  very strong. Therefore 0,424 is a moderate relationship because it lies within <0.5 as indicated by the cut-off points as proposed.



#### **4.7 Effect of Contextual Factors on Enterprise Graduation**

The effect of contextual factors on enterprise graduation was based on objective number three that, to assess the influence of the contextual factors on enterprise graduation. Contextual entrepreneurial factors are forces that affect the business and its owners. Contextual factors comprise general trends and forces that may not immediately affect the relationships that an enterprise has with its customers, suppliers and intermediaries but, sooner or later change will alter the nature of this relationship. The contextual factors are essential for survival, growth and graduation of MSEs in Eldoret town and its environs. The contextual factors have linkage, for instance, political environment affect the nature of the economic environment that the business faces. Members of the local community may also be customers of business enterprises. Community groups may influence government agencies which in turn affect the activities of business environment. Current economic situation, technology, legal and regulatory framework and, advantage over competitors are contextual factors in the study.

##### **4.7.1 Descriptive Statistics of Contextual Factors in Relation to Motivation**

The frequencies of contextual factors in relation to enterprise motivation and enterprise Graduation is presented in Table 4.10.

**Table 4.10 Descriptive Statistics of Contextual Factors in Relation to Motivation**

	<b>Rank</b>	<b>Enterprise</b>	<b>%</b>
Current economic situation	Agreement	23	12
	Neutral	18	10
	Disagreement	146	78
<b>Total</b>		<b>187</b>	<b>100%</b>
Technology	Agreement	83	44
	Neutral	37	20
	Disagreement	67	35
<b>Total</b>		<b>187</b>	<b>100%</b>
Legal and regulatory framework	Agreement	155	83
	Neutral	26	14
	Disagreement	6	4
<b>Total</b>		<b>187</b>	<b>100</b>
Advantage over competitors	Agreement	140	75
	Neutral	25	13
	disagreement	22	12
<b>Total</b>		<b>187</b>	<b>100%</b>

**Source:** Researcher, 2011

**Current economic situation:** - (146, 78%) enterprises disagreed that the current economic situation influence enterprise graduation. The finding of this study is in agreement with Palmer and Hartley (2006:389) that the structure of the national economy and the interdependence of the elements within its structure is a complex system whose functioning is influenced by a range of planned and unplanned forces. Unplanned forces such as turbulence in the world economic system. Entrepreneurs should be particularly keen to understand the planned interventions of government that seek to influence the economy for variety of social and political reasons.

**Technology:** - (83, 44%) enterprises agreed that technology influence enterprise graduation, while (63, 35%) enterprises disagreed that enterprise graduation is influenced by technology. (Palmer and Hartley 2006; 131) suggested that business impact can be greater as technology changes the nature of peoples jobs, creating new jobs and making others redundant. Technology influence the way we shop, our entertainment, leisure, the way we work, how we communicate, and the treatment we receive in hospital. Technology impacts on business areas such as the development of new or better products, reduction in the cost of making existing products, improvement in the distribution of goods and services and new methods of communicating with customers and suppliers.

**Legal and regulatory framework:** (155, 83%) enterprises agreed that the legal and regulatory framework influence enterprise graduation, while (6, 4%) enterprises disagreed. In the absence of rules and regulations chaos is likely to ensure in which the strongest people will survive at the expense of the weakest (Palmer and Hartley 2006:172). They further suggest that business do not like to operate in environments

in which there are no accepted rules of behaviors because there is no guarantee that their investments will be protected from unauthorized seizure. The government policy also do not allow civil servant to run private businesses and at the same time working in government offices. When they do this they breach their code of ethics and a conflict of interest between public offices private business will occur.

**Advantage over my competitors:** - (140, 75%) enterprises agreed that advantage over their business competitors influence enterprise graduation, while (22, 12%) enterprises disagreed that the enterprise graduation is influenced by advantage over their business in terms of competition (Sangram 2010; 68) is in agreement with the findings of this study that, now-a-day, entrepreneurs face a numerous challenges while putting up their enterprises. But the most important challenge that drives the entrepreneur is to produce quality products. A new enterprise may confront competition from different types of firms; it may be a small scale, medium scale or a large scale firm. In the present scenario, due to liberalization, deregulation and globalization a new small scale firm may also compete with the products supplied by multinational companies.

Operations and processes are the means by which enterprises produce and deliver products and services. They include the activities, equipments and buildings through which products and services are designed, produced and delivered. The objective collectively is to create enterprise value and this encompasses all organizational activities including marketing, manufacturing and managing people and relationship with suppliers and partners. The idea here is how enterprises add value to their business activities and gain competitive advantage over their business rivals.

Current economic situation, technology, logistic and supply chain innovations can be a source of competitive advantage of an entrepreneur against his competitors. They include the type of environment in which the service is offered, the intensity of contact with service providers and machines, and the competence and reliability with which a promised benefit is delivered (parasuraman *et. al.*, 1985). There is a close relationship between key success factors and the competitive advantage that a small business should seek. Some of these factors are something that customer wants and only you can supply, which gives you an advantage over your competitors.

#### **4.7.2 Contextual Motivation Factors of an Entrepreneur and Enterprise Graduation**

The spearman's rho correlation coefficient of contextual motivation factors of an entrepreneur and enterprise graduation is presented in Table 4.11.

**Table 4.11 Spearman's rho Correlation Coefficient of Contextual Motivation Factors of an Entrepreneur and Enterprise Graduation**

	<b>Graduation</b>
Current economic situation	
Correlation	0.085
P- value	0.248
Technology	
Correlation	0.176*
P- value	0.016
Legal and regulatory framework	
Correlation	0.057
P- value	0.440
Advantage over competitors	
Correlation	0.021
P- value	0.772

\*\*Denotes Correlation significance at 0.01 level (2Tailed)

\* Denotes Correlation significance at 0.05 level (2Tailed)

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**Source: Researcher, 2011**

The spearman's rho correlation coefficient indicates that technology has a positive relationship ( $r_s = 0.176^*$ ,  $P < 0.05$ ) with enterprise graduation. This study is in agreement with (Scarborough N. 2011; 275) that enterprises use technology to find shortcuts wherever possible. Properly intergraded into an enterprise's strategy for speed, technology can restructure an enterprise's operating timetable. Rather than

building costly, time-consuming prototypes many time sensitive businesses use computer aided design to speed product design and testing. The other contextual entrepreneurial factors, the current economic situation, legal regulatory framework and advantage over competitors had no significant relationship on enterprise graduation ( $p > 0.05$ ) because the p-value is greater than 0.05.

### **4.7.3 Contextual Motivation Factors of an Entrepreneur with Enterprise Graduation**

The ordinal regression of contextual motivation factors of an entrepreneur with enterprise graduation is presented in Table 4.12.

**Table 4.12 Ordinal Regression of Contextual Motivation Factors of an Entrepreneur and Enterprise Graduation**

Variables	Estimate	Std. Error	Wald	95% Confidence Interval		Sig
				Lower Bound	Upper Bound	
<b>Threshold</b>						
Number of employees=1	-1.090	1.033	1.112	-3.115	0.936	0.292
Number of employees=2	0.661	1.033	0.409	-1.364	2.685	0.522
Number of employees=3	2.567	1.055	5.893	0.493	4.630	0.015
Number of employees=4	3.990	1.136	12.328	1.763	6.218	0.000
<b>Location</b>						
Economic situation	0.978	1.414	0.478	-1.793	3.749	0.489
Technology	-1.414	0.812	3.028	-3.006	0.179	0.082
Legal frame work	-0.045	1.024	0.002	-2.052	1.962	0.965
<b>Model</b>						
	<b>-2 log likelihood</b>		<b>Chi-square</b>			
Intercept only	310.979					
Final	289.468		21.511		0.160	
Nagelkerke R <sup>2</sup> = 0.117						
Key: <b>Threshold</b> -Number of employees=1-1 employee, 2-2employees, 3-3employees, 4-4 employees, <b>Location</b> -1=SA-strongly Agree, 2=A-Agree, 3=N-Neutral 4=D-Disagree ,5=SD-Strongly Disagree						

**Source: Researcher, 2011**



The ordinal regression reveals that the contextual entrepreneurial factors such as the current economic situation, technology and the legal and regulatory framework had no significant effect on enterprise graduation ( $p > 0.05$ ).

### **Contextual entrepreneurial factors chi-square test**

The 3<sup>rd</sup> null hypothesis in this study is  $H_{03}$  there is no statistical significant relationship between contextual entrepreneurial factors and enterprise graduation. Chi-square is basically to test the null hypothesis. To peruse a significant chi-square is to study carefully the SPSS chi-square output. This study showed that the intercept only 310.979, final 289.468, chi-square 21.511 and significant 0.160 table 4.11. This results showed us that the significant 0.160 is  $P > 0.05$  which indicates there is no relationship between the contextual entrepreneurial factors and enterprise graduation. Therefore the null hypothesis is accepted.

## **4.8 Barriers to Enterprise Graduation**

Barrier to enterprise graduation was based on objective four, and included the following challenge: management, competition, finance and market. The levels were summarized using frequencies and percentages.

### **4.8.1 Frequencies of Challenges Facing Entrepreneurs**

The frequency of challenges facing entrepreneurs is presented in Table 4.13.

**Table 4.13** Frequencies of Challenges Facing Entrepreneurs

<b>Challenge</b>	<b>Frequencies</b>	<b>Percentage%</b>
Management	66	35%
Competition	60	32%
Finance	36	19%
Market	25	14%
<b>Total</b>	<b>187</b>	<b>100%</b>

**Source:** Researcher, 2011

Challenges facing the process of entrepreneurial graduation indicates that (66, 35%) enterprises belief that ineffective business management is one of the major barrier to enterprise graduation. (60, 32%) enterprises say that competition is the challenge to enterprise graduation. (36, 19%) enterprises considered lack of finance to be the barrier to enterprise graduation and finally (25, 14%) enterprises belief that lack of market of their products and services is a barrier to enterprise graduation.

**Inadequate Management:** (66, 35%) entrepreneurs agreed that business management is the major barrier that cause enterprises not to graduate to the next size category. Business management is the efficient and effective use of resources (Hatten 2009:19). For small business owners, management skills are especially desirable and often especially difficult to obtain. Lack of experience is one of the most pressing problems. Small business owners are generalist. They cannot afford to hire full-time experts who could help avert costly mistakes because of limited resources. A small business manager will probably make decisions in areas in which they have little expertise.

Internal factors are the major cause for the failure of enterprises. According to Hatten (2009), he associate internal entrepreneurial problems as those factors that are more directly under the control of the managers, inventory control, human resource, leadership, organizational structure and accounting systems. 89% of the enterprise failures are caused by these factors (Hatten, 2009:19).The manager of a small business must be a leader, a planner, and a worker. A manager might be good in sales, but ignores other important areas of the business, such as record keeping, inventory, and customer service which will negatively affect enterprise graduation.

**Competition:** (60, 32%) of the respondents agreed that competition is another barrier to enterprise graduation. To be a successful in business, you have to offer your customers more value than your competitors do, that value gives the business its competitive advantage(Hatten 2009:13). MSEs in Eldoret Town CBD don't become the most profitable enterprises because they imitate their rivals. Bruce Henderson, founder of Boston consulting group, once wrote that competitive advantage is found in differences. "The difference between you and your competitors are the basis of your advantage" (Harvard Business essentials 2005;53) Henderson believed that no two competitors could co-exist if they sought to do business in the same way.

They must differentiate themselves to survive. He wrote "each must be different enough to have a unique advantage" However, if the same two enterprises sold the same things under the same terms, one or the other would perish, and this is what is happening to many businesses in Eldoret Town CBD. The one that differentiated itself through price, product mix, or ambiance would have the greater likelihood of survival. Harvard Business School Professor Michael Porter (2005) concurs.

“Competitive strategy is about being different”. It means deliberately choosing a different set of Activities to deliver a unique mix of value.

**Inadequate Financing;** (36, 19%) of the respondents agreed that inadequate financing is a challenge to enterprise graduation. Inadequate financing occurs when a fall in revenue and a rise in expense is of such magnitude that the enterprises becomes insolvent and is unable to attract new debt or equity funding which is in agreement with the results of this study Hisrich et al (2008:38).

Business failure due to inadequate financing can be caused by improper managerial controls as well as shortage of capital, Hatten (2009:19). If Entrepreneurs begin business with the main aim of supporting a particular lifestyle by using early profits in investing in large cars and new houses rather than the business, (Bolton et al, 2005:110). This scenario, therefore contribute to the failures for enterprises to graduate to the next scale.

If entrepreneur do not have adequate funds to begin with, they will not be able to afford the facilities or personnel required for starting up the business correctly. If an entrepreneur do possess adequate capital but do not manage his resources wisely, they will not be able to maintain adequate inventory or keep the balance needed to run the business, Hatten (2009:19). Inadequate finance may fail an enterprise in many ways. An entrepreneur can extend too much credit. He can fail to plan for future or not have strategic direction. He can overinvest in fixed assets or hire the wrong people, this contribute to enterprises not graduating to the next level.

**Lack of Market:** (25, 14%) of the respondents believe that lack of market in the enterprise continuum contributes to the failures of enterprises to graduate to the next size category. To be successful, entrepreneurs must develop new products or services that are based on real customer needs. While this probably sounds obvious, surprisingly few entrepreneurs in Eldoret Town, CBD actually follow these principles. Instead, many seem to fall in love with their own products or merely with the idea of starting an enterprise and do not pay enough attention to whether they will actually be providing a product or service that is better than existing alternatives in terms of meeting customer's needs. (Baron and Shane, 2008:282).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Over view

This chapter presents a summary of the findings of the study, the conclusion and the recommendation. The section is organized on the basis of the research objectives.

#### 5.1 Summary

The demographic characteristics of entrepreneurs; the age, gender, education level, marital status, business experience and business category with enterprise graduation were determined. The majority of the entrepreneurs (54%) were male and (46%) were female. The age structure indicates that the entrepreneurs of the age above (40, 26%) were the majority while the age between 21-25 years (12%) were minority. The education level of an individual entrepreneur was measured in terms of individual academic qualification. The findings indicates that (125, 67%) of the entrepreneurs had a secondary level education. The majority of the entrepreneurs (149, 80%) were married. The majority of the entrepreneurs were in full time business (98%) and (95%) of the entrepreneurs are sole proprietors.

The spearman's rho correlation coefficient on age indicates a positive relationship on enterprise graduation ( $r_s = 0.324^{**}$ ,  $p < 0.05$ ). The education had a negative relationship of an enterprise graduation ( $r_s = -0.265^{**}$  and  $p < 0.05$ ). business experience was positively correlated with enterprise graduation ( $r_s = 0.437^{**}$  and  $p < 0.000$ ). Thus, age, and experience had a positive relationship because of maturity factor and acquired skills and knowledge respectively. A negative relationship in education is because one educated person can do workload for many none educated persons.

Ordinal regression of demographic perspective of an entrepreneur with enterprise graduation indicates that entrepreneur of the age bracket between; 21-25years, 26-30 years and 36-40years had no effect ( $p < 0.05$ ) on enterprise graduation. While the respondents between 31-35years had a negative effect ( $\beta = -1.341$  and  $p < 0.05$ ) between demographic perspective and enterprise graduation.

**Objective one:** Relationship between the psychological perspective of an entrepreneur and enterprise graduation.

The descriptive statistic of the psychological perspective of an entrepreneur and enterprise graduation indicates that (161, 86%) of the entrepreneurs were willing to risk their personal assets when venturing into business, while (21, 11%) entrepreneurs did not agree. (160, 85%) enterprises agreed that they love creating new products and services and making a difference in enterprise continuum and (10, 6%) disagreed. (185, 99%) enterprises agreed that they feel good when they achieved their business targets while (2, 1%) enterprise was not in agreement. (185, 99%) agreed and (2, 1%) of the enterprises disagreed to take control of their business. (182, 97%) enterprises agreed that they have confidence in decision making abilities when venturing into business. The remaining (5, 3%) enterprises did not agree.

Spearman's rho correlation coefficient of psychological perspective of an entrepreneur and enterprise graduations indicates confidence in decision making of an entrepreneur on enterprise graduation had a positive relationship ( $r_s = 0.151^*$ ,  $p < 0.05$ ).

The others psychological perspective factors such as, risk bearing, need to achieve, innovator and creativity and locus of control had no any significant relationship on enterprises graduation.

Ordinal regression on psychological perspective of an entrepreneur and enterprise graduation reveals that the confidence of entrepreneurs when conducting their businesses had a positive effect on enterprise graduation ( $\beta= 19.607$ ,  $p<0.05$ ), creating new products and services had a negative effect on enterprise graduation ( $\beta=-2.717$  and  $p<0.005$ ) in enterprise continuum.

The chi-square output on psychological perspective of an entrepreneur and enterprise graduations indicates that, intercept only 291.763 and final 272.216, hence chi-square 19.546 and the significant 0.359 which  $p>0.05$ . Therefore there is no relationship between the psychological perspective of an entrepreneur and enterprise graduation thus the null hypothesis is accepted.

**Objective two:** Influence of the internal entrepreneurial factors on enterprise graduation.

This study shows that (183, 98%) enterprises are with employees between 1-4 workers, while enterprises with more than 5 workers were (4, 2%). (91, 49%) enterprises disagree that they have motivated staff and effective managerial structure, (62, 33%) enterprises agreed. (145, 78%) enterprises agreed that market availability had influence in the enterprise graduation, (16, 9%) disagree. (112, 60%) enterprises agreed that the use of modern tools and equipment influence enterprise graduation,



while (49, 26%) disagreed. (156, 83%) enterprises agreed that access to finance influence enterprise graduation, while (13, 7%) disagree that access to finance influence enterprise graduation.

Spearman's rho correlation coefficient of internal factors of an entrepreneur and enterprise graduation reveals that access to finance had a positive relationship with enterprise graduation ( $p > 0.05$ ).

The ordinal regression of internal factors such as motivation staff and effective managerial structure, market availability, the use of modern tools and equipments, access to finance of an entrepreneur indicates that there is no significant relationship with enterprise graduation.

The 2<sup>nd</sup> null hypothesis indicates that intercept only 364.059 final 330.319, chi-square 33.740 and significant 0.006. The study showed there is a significant relationship between internal factors and enterprise graduation ( $\beta = 0.006$ ,  $p < 0.05$ ). Thus, the null hypothesis is rejected. Since we have rejected the null hypothesis, further analysis is to be done by using one of the post-hoc such as *phi* or Cramer's *v*, which in this study *phi* is used to establish the strength of the relationship. This study reveals that strength of the relationship is moderate (0.424, which is  $< 0.5$ ).

*Phi* is calculated by taking the square root of the calculated value of chi-square divided by the overall sample size. In this study the,  $33.740/187 = 0.180$  then the square root of  $\sqrt{0.180} = 0.424$ .

**Objective three:** Effect of the contextual factors on enterprise graduation.

(146, 78%) enterprises disagree that the current economic situation influence enterprise graduation, while (23, 12%) agreed. (83, 44%) respondents agreed that technology influence enterprise graduation while (63, 35%) enterprises disagree. (155, 83%) respondents agreed that legal and regulatory framework influence enterprise graduation while (6, 4%) enterprises disagreed. 140(75%) respondents agreed that advantage over competitors influence enterprise graduation, while 22(12%) respondents disagreed.

The spearman's rho correlation indicates that technology had a positive relationship ( $r_s = 0.176^*$ ,  $p < 0.05$ ) with enterprise graduation, while the other contextual entrepreneurial factors such as the current economic situation, legal and regulatory framework and advantage over competitors had no significant relationship ( $p > 0.05$ ) with enterprise graduation.

Ordinal regression of contextual factors and enterprise graduation such as the current economic situation, use of modern technology, legal and regulatory framework, advantage over competitors had no significant effect on enterprise graduation ( $p > 0.05$ ) as indicated by this study.

The 3<sup>rd</sup> null hypothesis in this study reveals that the intercept only 310.979, final 289.468, chi-square 21.511 and significant is 0.160. The significant 0.160 is  $p > 0.05$  which indicates there is no relationship between the contextual entrepreneurial factors and enterprise graduation. Therefore the null hypothesis is accepted.

**Objective four: Barriers to enterprise graduation**

Majority of the respondents (66, 35%) believe that inadequate business managerial skills are a barrier to enterprise graduation to the next level category. (60, 32%) believe that competition is also a barrier to enterprise graduation, (36, 19%) say finance is a barrier while (25, 14%) agreed that lack of market is a barrier to enterprise graduation.

**5.2 Conclusions**

The study concludes that, entrepreneurs in the enterprise continuum should have a positive attitude towards what motivation factors can be applied to MSEs in Eldoret Town to graduate to the next level category.

The reason why (98%) micro and small enterprises never grow and graduate out of their size level category is simply because entrepreneurs do entrepreneurial activities but they do not have the entrepreneurial attitudes or goals. Reynold *et.al* (2004) observed that there is a distinction between necessity and opportunity based forms of entrepreneurship. Necessity entrepreneurs are forced into new business creation by unemployment or other economic shocks, while opportunity based entrepreneurs are forced into new business creation by affirmative choice to start a new business, based on the identification of specific business opportunity. This is because the study reveals that the enterprises of four or less workers, only 2% graduate to the next level category of more than 5 workers.

It is notable that even entrepreneurs who have the entrepreneurial attitude and goals, their poverty status can cause them to start businesses as a mean of surviving while trying to preserve dignity within a hostile environment.

### **5.3 Recommendation**

The findings of this study on the influence of entrepreneurial motivation on micro and small enterprises graduation in Eldoret town call for attention in several areas, enumerated below;

1. Entrepreneurs should be encouraged to invest their resources consistently in their businesses to reach a significant standard of living.
2. A business development services should be established by the government to provide assistance services such as, (credit facilities, bulk purchases, used of modern technology, and other business promotion schemes) to entrepreneurs.
3. A survivalist entrepreneur should be motivated through training programmes to be aware that they have potential to grow and graduate.

### **5.4 Direction for further research**

The study suggests the following area for further research:

1. Examine distinction between necessity, poverty status and opportunity based form of entrepreneurship.
2. Examine the innate factors such as intelligence, personal ambition, and acquired factor such as training on graduation of MSEs.

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**APPENDIX 1: ENTREPRENEURIAL MOTIVATION STUDY**

Eligibility-Micro and Small Enterprise Operators

Good morning/afternoon, my name is Zakayo K.Tallam; I am a student at Moi University. I am undertaking a research study on Micro and Small Enterprises in partial fulfillment of my Master Degree in Master of Philosophy in entrepreneurship studies. I will appreciate if you would respond to the following question. Your response will be treated confidentially and your identity is not required.

Thank you.

Yours Faithfully

Zakayo K. Tallam

## APPENDIX II: QUESTIONNAIRE FOR RESPONDENTS INSTRUCTIONS

The questionnaire is designed to gather information on the “*Influence of Entrepreneurial Motivation on the Graduation of Micro and Small Enterprise in Eldoret town Kenya*”. The questionnaire is divided in **Four** sections, please complete each section as instructed and respond to each question by ticking (✓) the appropriate response or by giving your own opinion as truthfully as possible. Your responses will be completely anonymous and will be used by the researcher for the purpose of this study only. All information in this questionnaire is confidential. **Do not write your name or the name of your enterprise anywhere in this questionnaire.**

### Section A

#### Demographic and Personal Characteristics of the Respondent

1. What is your age? \_\_\_\_\_
2. What is your gender? Male ( ) Female ( )
3. What is your highest level of education? \_\_\_\_\_
4. What is your marital status? \_\_\_\_\_
5. What is your business experience in years? \_\_\_\_\_
6. What category of an entrepreneur are you?
  - Full time ( )
  - Part Time ( )
  - Others Specify ( ) \_\_\_\_\_
7. What is the nature of your business?
  - Sole proprietorship ( )
  - Partnership ( )
  - Joint stock company ( )
  - Limited liability Company ( )

## Section B

The following are indicators of motivation. Please (√) in the appropriate box for the relevant rating of your perception.

### Questionnaire for Respondents

Title of the Study. *“Influence of Entrepreneurial Motivation on the Graduation of Micro and Small Enterprise in Eldoret Town Kenya”.*

**Key: SA-Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD-Strongly Disagree**

#### Part 1. Psychological Perspective of an Entrepreneur

This Part contains questions on your perception of the Psychological Perspective of an Entrepreneur. Please respond as appropriate.

<b>Psychological Perspective of the Entrepreneur</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
I am willing to risk my personal assets in a business venture					
I have confidence in myself when conducting business					
I love creating new products and making a difference in the offering as an entrepreneur					
I feel good when I fulfilled and achieve my business targets					
I love taking control of my business					
I have confidence in my decision making abilities					

#### Part 2. Internal Entrepreneurial Factors

This Part contains questions on your perception of the internal entrepreneurial factors.

Please respond as appropriate.

<b>Internal Entrepreneurial Factors</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
My business has a well motivated staff and effective management structure and processes.					
Market availability of my product and or service has influenced the growth					
The use of modern tools and equipment is important in business					
Access to finance influence the growth and graduation of my business.					

### Part 3. Contextual Entrepreneurial Factors

This Part contains questions on your perception of the External Entrepreneurial Factors. Please respond as appropriate.

<b>External Entrepreneurial Factors</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
The current Economic situation has influenced the growth of my business.					
Technology has helped my business to grow					
Legal and regulatory frameworks have simplified issues for my business to grow					
My business structure is so flexible that my competitors do not have advantage over my business.					



**Section D**

**Challenges In The Process Of Entrepreneurial Graduation**

Please list important challenges in running your business.

- 1.....
- 2.....
- 3.....
- 4.....
- 5.....

Please give any other suggestion not included in the questionnaire.

.....

.....

.....

*Thank You*

## APPENDIX III: NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY

REPUBLIC OF KENYA



**NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY**

Telegrams: "SCIENCETECH", Nairobi  
 Telephone: 254-020-241349, 2213102  
 254-020-310571, 2213123  
 Fax: 254-020-2213215, 318245, 318249  
 When replying please quote

P.O. Box 30623-00100  
 NAIROBI-KENYA  
 Website: www.ncst.go.ke

Our Ref: \_\_\_\_\_ Date: \_\_\_\_\_

**NCST/RRI/12/1/SS-011/1625/4**
**20<sup>th</sup> December, 2011**

Zakayo Kibet Tallam  
 Moi University  
 P. O. Box 3900  
 ELDORET

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Influence of entrepreneurial motivation on micro & small enterprises graduation in Eldoret Town, Uasin Gishu County, Kenya*" I am pleased to inform you that you have been authorized to undertake research in **Uasin Gishu County** for a period ending **28<sup>th</sup> February, 2012**.

You are advised to report to **the District Commissioner, Uasin Gishu District & the Town Clerk, Eldoret Municipal Council** before embarking on the research project.

On completion of the research, you are expected to submit **one hard copy and one soft copy** of the research report/thesis to our office.


  
**SAID HUSSEIN**  
**FOR: SECRETARY/CEO**

Copy to:  
 The District Commissioner  
 Uasin Gishu District

The Town Clerk  
 Eldoret Municipal Council


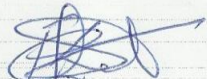


**APPENDIX IV: RESEARCH PERMIT**

<p>PAGE 2</p> <p>THIS IS TO CERTIFY THAT:</p> <p>Prof./Dr./Mr./Mrs./Miss... ZAKAYO KIBET TALLAM</p> <p>of (Address) MOI UNIVERSITY P.O BOX 3900 ELDORET</p> <p>has been permitted to conduct research in .....</p> <p>.....Location, UASIN GISHU COUNTY .....District, RIFT VALLEY .....Province,</p> <p>on the topic INFLUENCE OF ENTERPRENUAL MOTIVATIONON MICRO AND SMALL ENTERPRISES GRADUATION IN ELDORET TOWN, UASIN GISHU COUNTY, KENYA</p> <p>..... for a period ending 28TH FEBRUARY, 2012</p>	<p>PAGE 3</p> <p>NCST/RRI/12/1/SS-011/1625/4 Research Permit No.....</p> <p>Date of issue... 20TH DECEMBER, 2011</p> <p>Fee received... KSH. 1000</p> <div style="text-align: center; margin: 10px 0;">  </div> <p>..... Applicant's Signature</p> <p style="text-align: right;">..... <i>[Signature]</i> Secretary National Council for Science and Technology</p>
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**APENDIX V: OFFICE OF THE TOWN CLERK ELDORET MUNICIPAL  
COUNCIL**

<b>OFFICE OF THE TOWN CLERK</b>		
<b>Municipal Council of Eldoret</b>		
<p>Email: <a href="mailto:info@eldoretmunicipal.go.ke">info@eldoretmunicipal.go.ke</a> or <a href="mailto:emcmun@gmail.com">emcmun@gmail.com</a> or <a href="mailto:mceidoret@localgovernment.go.ke">mceidoret@localgovernment.go.ke</a> Website: <a href="http://www.eldoretmunicipal.go.ke">www.eldoretmunicipal.go.ke</a> Wireless: 020 2329037 Fax: +254-053-2062884</p>		<p>P.O BOX 40, Eldoret, 30100, KENYA. Tel: +254-053-2061330 +254-053-2032603 +254-053-2062208</p>
OUR REF: EMC/ED/D.14/VI/	DATE: 3 <sup>rd</sup> January, 2012	
<b>TO WHOM IT MAY CONCERN</b>		
<b><u>REQUEST TO UNDERTAKE RESEARCH – ZAKAYO KIBET TALLAM</u></b>		
We are in receipt of your letter dated 20 <sup>th</sup> December 2011, Ref.No.NCST/RRRI/12//SS-011/1625/4 on the above subject matter.		
You are hereby authorized to carry out the research on " <b>Influence of entrepreneurial Motivation on Micro &amp; Small enterprises graduation</b> " in Eldoret Municipal Council as from the date in the letter.		
We wish you success in your research.		
 Esther C. Keter <b>FOR: <u>TOWN CLERK</u></b>		
cc. The District Commissioner <b><u>Uasin Gishu County</u></b>		
Zakayo Kibet Tallam P.O. Box 3900 <b><u>ELDORET</u></b>		

## APENDIX VI: TIME PLAN

The proposed time plan for the study is depicted in the table below.

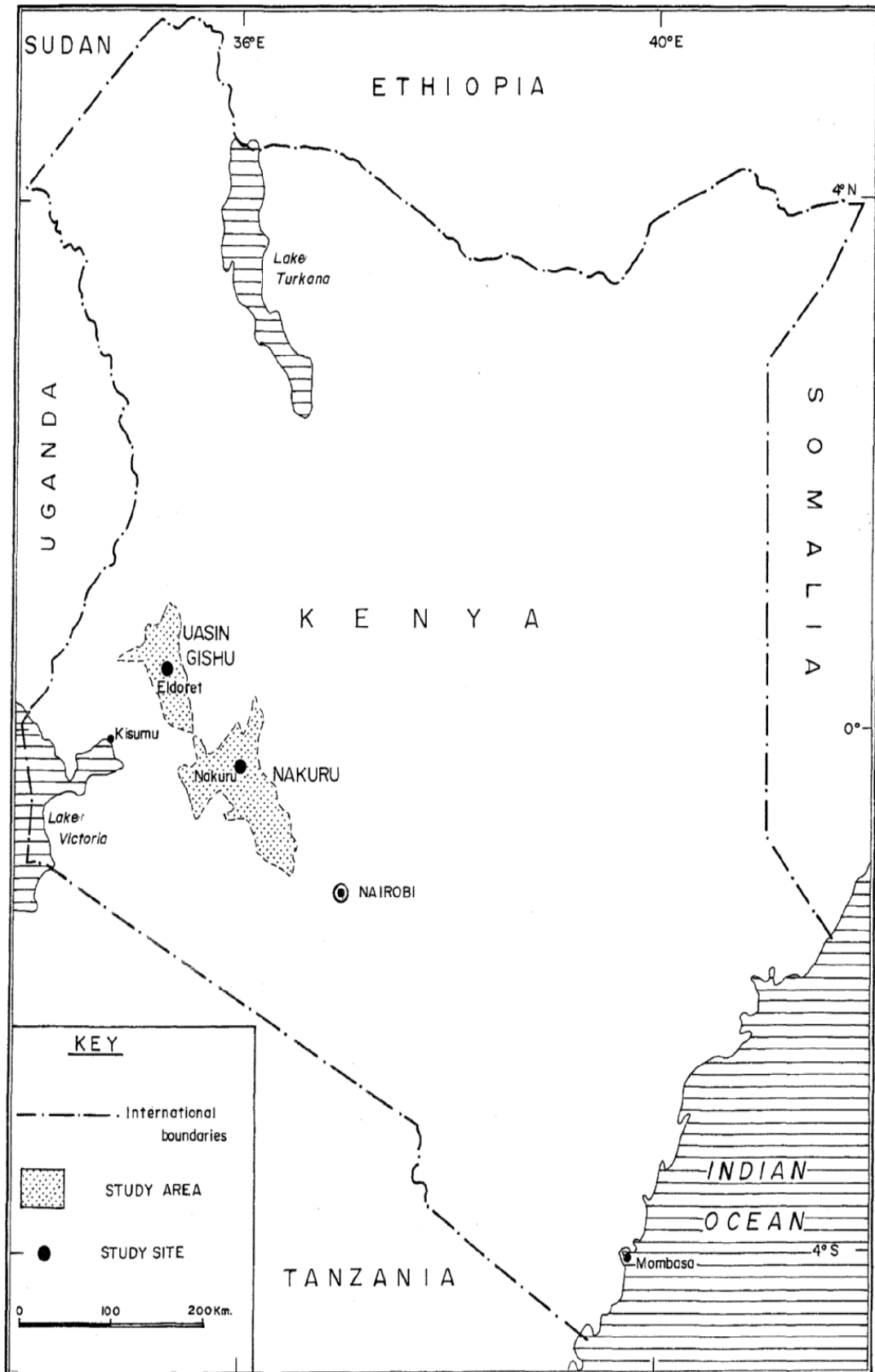
<b>Activity</b>	<b>Time Plan (days)</b>
Inception: printing, questionnaires, preparing field logistics, study tools approval	3
Conducting interviews ( field work)	20
Sorting questionnaires- checking for spoilt questionnaires and replacing / ensuring validity of questionnaires	2
Data entry/ coding	5
Data analysis/ interpretation	2
Report writing	5
<b>Total</b>	<b>37</b>

### APPENDIX VII: BUDGET

The study is anticipated to have cost implication as presented in the table below.

<b>Particulars</b>	<b>Unit</b>	<b>Kshs</b>
Printing of 704 questionnaires (4pages each)	10	28,160
Field transport – 20days	200	4,000
Field allowance (to analyze the data and coding for presentation) – 12 days	200	2,400
Report binding and presentation – 4copies	500	2000
<b>Total</b>		<b>36,560</b>

**APPENDIX VIII: THE LOCATION OF UASIN GISHU COUNTY, KENYA**



APPENDIX IX: THE LOCATION OF UASIN GISHU COUNTY, KENYA

