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# ENTREPRENEURSHIP IN MICRO-ENTERPRISES

## *A Strategic Analysis of Manufacturing Industries in Kenya*

***Textiles, Woodwork, and Metalwork***

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To our beloved children:
Toni Cooley
Lancy Gray
Tunuka Gray
Khadijah Gray
David Lutabingwa
Brenda Oyugi
Geoffrey Oyugi

*Entrepreneurship in Micro-enterprises* is a result of a research project entitled "The Determinants of Success of Small-Scale Business Enterprises in Kenya," conducted jointly by Jackson State University and Jomo Kenyatta University of Agriculture and Technology. The research was made possible by funding from the United States Agency for International Development (USAID) under the Research Grant Program for Historically Black Colleges and Universities (HBCUs) of the Center for Human Capacity Development.

# PREFACE

The Kenyan Government recognizes the important role that micro-enterprises and the informal sector play and will continue to play in the economy. Employment projections for the year 2000 indicate that 75 percent of all new jobs created in urban areas will be in the informal sector and that 50 percent of all rural employment will be in non-farm sectors. These estimates underlie the importance of micro-enterprise and informal sector development in Kenya as the major generator for employment and growth today and in the future. It is this recognition of the importance of this sector that prompted the government to produce the *Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya*. This document, which has now been adopted in the *Development Plan 1994 - 1996*, outlines the government's policy on the development of the small enterprise and Jua Kali sector in Kenya.

It is within this context that institutions of higher learning are called to play their role as a source of new ideas and innovations and as a disseminator of new technologies. Jomo Kenyatta University of Agriculture and Technology (JKUAT) is proud of its contribution to the development of entrepreneurship within the informal sector in Kenya. The formal entrepreneurship education and training program in institutions of higher learning began in 1990 at the Kenya Teachers' College with funding provided by the United Nations Development Program (UNDP) and the International Labor Organization (ILO). In 1992, the program was transferred to Jomo Kenyatta University of Agriculture and Technology in the Institute for Human Resource Development (IHRD). The entrepreneurship program, although still young, has now gained momentum and much attention in Kenya.

JKUAT has committed itself to the development of entrepreneurship in Kenya, particularly within the Jua Kali sector. As part of this commitment, the university established, in 1992, a formal relationship with Jackson State University (JSU) in Jackson, Mississippi, USA, to jointly work together in areas that will strengthen the

JKUAT's capacity to work with entrepreneurs. *Entrepreneurship in Micro-enterprise* is one result of our effort. JKUAT/IHRD and JSU/Department of Management and Marketing, with funding from USAID, collaboratively undertook a two-year study to determine the factors that contribute to the success of small-scale business enterprises in Kenya. We are very proud of the development of this study. It is our sincere hope that *Entrepreneurship in Micro-enterprise* will be of great use to JKUAT, the government of Kenya, and other entities involved in the development of the Jua Kali sector in Kenya.

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# ACKNOWLEDGEMENTS

*Entrepreneurship in Micro-enterprises* is the outgrowth of a larger study entitled "Determinants of Success of Small-Scale Business Enterprises in Kenya." This research is a collaborative endeavor between Jackson State University/Department of Management and Marketing (JSU) in Mississippi, USA, and Jomo Kenyatta University of Agriculture and Technology/Institute for Human Resource Development (JKUAT/IHRD) in Kenya.

We are grateful to the U.S. Agency for International Development (USAID), Research Grants Program for Historically Black Colleges and Universities, which provided funding for this research. We are particularly thankful for the cooperation, interest and support shown by USAID/Nairobi in the course of conducting this research. This support was very visible, through the presence of Dr. George Jones, Director of USAID/Nairobi, at the Nairobi conference where preliminary research findings were shared. We also wish to thank Mr. Dwight Wilson of the USAID/Africa Bureau in Washington, D.C. for attending the Nairobi conference and providing useful comments and suggestions in completing work on this book.

The study would not have been possible without the cooperation of 330 firms and entrepreneurs who willingly devoted their time to our interviewers. We know that these entrepreneurs work under difficult conditions with very little time to spare for self-interested academicians. We are indeed indebted to these firms and entrepreneurs. We learned a great deal from all individuals we interacted with during the course of data gathering. We hope the results of the research will provide insight to entrepreneurs into how they can manage their businesses to become more successful. Moreover, it is our hope that *Entrepreneurship in Micro-enterprises* will

provide some hints on how to re-orient government policy toward micro-enterprises.

Without the institutional support from JSU and JKUAT the researchers would not have been successful in undertaking this study. These two institutions contributed various resources that researchers used in conducting this study. At JSU, we are particularly indebted to Dr. James E. Lyons, Sr., President of JSU and Dr. Ally Mack, Director of the Office of International Programs, who served as the Project Director. We equally owe a great deal of thanks to both Professor Ratemo W. Michieka, Vice Chancellor of JKUAT, and Dr. Ruth Mutua, who served as Project Coordinators in Kenya. It is in order that we also acknowledge Dr. Calib Wangia, former Director of the Institute for Human Resources Development at JKUAT, who served as the initial Co-Principal Investigator. Through his diligence, he laid the foundation for subsequent work. We are equally grateful to the six graduate research assistants at JKUAT who meticulously assisted in the collection of the data: Mr. P. Ngure, Mr. Phill Obiero, Mr. Zablon Ochung, Mr. S. Mwonele, Ms. Bett Kipkoech, and Mr. Pius Kandie.

A word of thanks also goes to all of numerous individuals who participated in the Nairobi conference. We received useful information, comments and suggestions that have enriched the final draft of this book. We are indebted to members of the Conference organizing committee: Dr. H. M. Bwisa, Mr. E. Mukulu, and Mr. P. Karanja who worked tirelessly to make the Conference a success. Our thanks go to all those individuals at JKUAT who presented papers at the conference. There are many other individuals whose names are not mentioned here who contributed in one way or another to the successful completion of this research. To you all, we express our appreciation for your assistance.

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# CHAPTER I

## ENTREPRENEURSHIP IN MICRO-ENTERPRISES: AN INTRODUCTION

The entrepreneurship spirit is growing internationally as market-oriented economies replace planned economies, as individual/corporate capitalism replaces state capitalism, and as democracy and pluralism replaces single party rule. In countries such as the United States, small business and entrepreneurship make significant contributions to the economy. Small businesses (businesses with up to 100 employees) employ close to 50 percent of the American workforce and produce over 40 percent of the gross national product (GNP). And since they create most of the new jobs, they are a key tool for guiding the economy out of recessions. In a real sense, small business and entrepreneurship make up the centerpiece of the American free enterprise economic system.

Many policy-makers in developing countries, especially with the collapse of central planned economies and increasingly at the urging of international bodies such as the International Monetary Fund (via the sometimes controversial structural adjustment policies), are adopting free enterprise mechanisms. One of these mechanisms, small business/entrepreneurship, is looked at with particular enthusiasm and it is frequently thought or taken for granted that entrepreneurship "will lead the way to new economic development" (Giamartino, 1991). There are a number of reasons for such a pronouncement.

First, during colonial times, governments were responsible for all economic activities. This colonial legacy must be dismantled and entrepreneurship is one way to do it. Second, another legacy of colonialism is state enterprises, a good example of which are the ubiquitous marketing boards. These state enterprises are failing badly (Blunt and Jones, 1992; Kiggundu, 1989). They are leaving major gaps in the output of goods, services, and jobs. Entrepreneurs are needed to expand and continue these operations. Third, colonial governments and the multinational corporations originating from foreign countries tended to favor capital intensive technologies amidst a shortage of capital and an abundance of labor (Langdon, 1986). What is needed are local entrepreneurs to start new enterprises using labor intensive technologies. Fourth, some sections of the population in developing countries were deprived and, in some instances, continue to be deprived of access to resources. Such deprivation prevents these populations from participating in the national (political and economic) development process. Starting their own businesses is the only option available to them. This nation-building role of entrepreneurship, probably a secondary one in most developed countries, is a primary one in many new countries where entire ethnic or religious groups do not have, as yet, a good sense of belonging to "their" country.

Another factor that makes entrepreneurship crucial in developing countries is the vital role it plays in economic growth process (Leibenstein, 1968). The interaction between the creation of economic capacity and the related creation of demand is moderated by the entrepreneur. Thus, some rough balance between capacity growth and demand growth takes place. The entrepreneur serves as a gap filler, input completer, and as prime mover of the capacity creation part of the economic growth process (Casson, 1990).

These are but a few of the dimensions of the relationship between entrepreneurship and development. *Entrepreneurship in Micro-enterprises* investigates the form entrepreneurship in the East African country of Kenya is taking and its prospects for the future.

Kenya's micro-enterprise manufacturing industry, popularly known as "Jua Kali," is dynamic. In markets, backyards, vacant lots, and side-street workrooms, women and men supply the everyday needs of local people and a few items for export, using simple tools and manufacturing techniques. Artisans work alone or with a few others in a productive structure more akin to cottage industries than to large factories. Their hard work and ingenious use of resources are striking. The Kenya Government hails these small manufacturing businesses as playing a vital role in economic growth of the country (Kenya Government, 1992b).

# SCOPE OF RESEARCH

*Entrepreneurship in Micro-enterprises* looks at the development of this important activity in the East African country of Kenya. Much of what follows is a result of research conducted over a period of two years beginning in August of 1993. The purpose of that research was to examine: (1) the state of micro-enterprises in Kenya, (2) the impact of government policy on those enterprises, and (3) what can be done to improve their well-being. The study examined micro-enterprises in the manufacturing sector. The focus was on three industries: textiles, woodwork, and metalwork. This allowed for policy analysis and recommendations on the government, industry, and firm levels.

To obtain a representative sample of micro-enterprises in the country, the researchers selected three rural towns. The towns of Kisumu, Eldoret, and Meru were chosen to obtain a geographically representative sample of the nation's informal sector activity in the respective industries. Micro-enterprises in these rural towns are an important segment of the population not often cited in the literature. The literature focuses almost exclusively on enterprises in the two main metropolises of Nairobi and Mombasa. There are also several additional extensions of previous research on the informal (Jua Kali) sector in Kenya. This study is different from previous studies in that it employs a sub-sector approach by studying specific industries (i.e., tailoring, woodwork, and metalwork). This is done in conjunction with a strategic management approach which allows for assessment of enterprise competitiveness and profitability within industries. Finally, the study focuses on entrepreneurship. The data for the research was collected employing face-to-face structured interviews from 320 micro-enterprises who manufacture in Kisumu, Eldoret and Meru.

It should be noted that in Chapters IV, V, and VI fictitious names have been used in the Case Studies to protect the identity of the individuals who were interviewed.

## MICRO-ENTERPRISES IN KENYA

For more than a decade, it has been clear that Kenya is facing a worsening employment crisis (Gray, 1991; ILO, 1986). In spite of a growing labor force, public sector hiring has slowed and formal private growth has stagnated. Increasingly, attention has turned to the micro-enterprise sector as a provider of employment. This sector, often called the informal or Jua Kali sector, has been the object of much study and speculation, both in the amount of employment it can generate and in its potential to provide stability and growth (McCormick, 1993; Onyango, 1992; Ouma, 1990; King and Abuodha, 1991). *Jua Kali* means "harsh sun" and is used in Kenya for businesses located out of doors. The term is also becoming a popular way of describing any activity that is unregulated, informal, or sub-standard As development practitioners look for ways to tie the Kenyan economy into the more dynamic export market, new questions arise about the linkages between micro-enterprises and the medium- and large-scale sector.

## Size of Enterprise Definitions

For the purposes of our discussions the terms "firm," "establishment," "business," and "enterprise" are used interchangeably. An "enterprise" is defined here as any income-earning activity that is not in primary agriculture or mineral production. "Micro-enterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers. Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya while there are a few medium enterprises (Parker and Torres, 1994). Small enterprises are almost non-existent. As well, micro-enterprises are indigenous while the medium-scale and lager manufacturing enterprises are dominated by Asian (Indian) capital. The Asian firms are very entrepreneurial but raise a different set of issues which are not covered in this study. *Entrepreneurship in Micro-enterprises* will be confined to manufacturing enterprises and takes an in-depth look at micro-enterprises. Studies of enterprise growth consistently find that most startups never become large. Birch (1988) has noted that most startups level off after employing less than half a dozen people (60 percent have 4 or less by the time they are ten years old), while a much smaller percentage go on to grow substantially.

## Magnitude and Importance of the Sector

The micro-enterprise sector consists of approximately 910,000 enterprises, employing more than 2 million individuals (Kenya Government, 1992a). Roughly three-forths (78 percent) of the enterprises and employment are located in rural areas, employing about 1.5 million people. The remaining 22 percent are urban with 8 percent of the enterprises in Mombasa and Nairobi, 10 percent in other large urban areas, and the other 4 percent in small urban areas (Parker and Torres, 1994). This study examined the three rural towns of Eldoret, Kisumu and Meru where the greatest opportunity for employment gains in micro-enterprises is to be found.

The importance of the micro-enterprise sector is particularly apparent in terms of its ability to provide employment for those of working age. Using an estimate of 13 million Kenyans of working age in 1993, micro-enterprises provide employment for 16 percent of the labor force (World Bank, 1992).

## The Importance of Subsector Industry Analysis

In providing goods and services, enterprises are part of a chain linking those that provide production inputs all the way through to those who deliver the finished products to the final customer. This chain of actors makes up what we call a subsector or industry: a set of enterprises making, trading, transporting, and servicing a related set of goods. Industries can be identified either by their raw material base (as in the case of commodity subsectors), or by the finished product market (such as the garment or footwear markets). Rather than defining activities as "manufacturing," "commerce," or "services," a subsector industry is driven by a definition of the input or product and will inevitability include a combination of manufacturing, commercial, and service activities that service that particular market (Boomgard, Davies, Higgblade, and Mead, 1991). As assistance programs increasingly target their programming to growing markets, designers will inevitably be thinking along subsector industry lines.

The subsector analysis approach emphasizes the forces that influence the competitive position of micro-enterprises within single product groups, or subsectors. This approach places considerable weight on understanding the interaction - both competitive and complementary - among firms of different sizes and in different functions. Moreover, this approach acknowledges the potential value of indirect interventions, those that route micro-enterprise assistance via intermediaries. Even when assistance is provided directly to the micro-enterprise, supporting research using the subsector approach permits an understanding of the competitive context in which the target enterprises operate.

In this study three subsector industries, defined by their raw materials (such as agricultural or forest-based products), are identified and studied: (1) Textile products; (2) Woodwork (forest-based) products; and (3) Metal products

**Textiles Industry:** The textiles industry is dominated by women, who make up 62 percent of the proprietors and 60 percent of the workers (Parker and Torres, 1994). The subsector is also characterized by very small enterprises, where 72 percent of the enterprises have 3 or fewer workers and only one has more than 10 workers. This sector has the highest percent of one-worker enterprises.

Although the majority of textile enterprises are in rural areas, one-third are found in urban areas - typically those involved in garment-making or the retail of secondhand clothing. The textile subsector shows many of the characteristics typically ascribed to the informal sector. Enterprises in the subsector serve the final customer rather than other businesses, with few backward linkages. They tend to operate from traditional marketplaces and homesteads, relying on their own savings for capital.

**Woodworking Industry:** This industry is central to the micro-enterprises sector, and makes up 63 percent of the enterprises in the more broadly defined forest-based product subsector (Parker and Torres, 1994). It consists largely of enterprises making wooden furniture but includes charcoal, rope or twine, and baskets. Not included in the Subsector are enterprises transforming forest-based resources into building materials, which instead appear in the construction subsector. Roughly half of the firms in this subsector have firms of three or fewer employees and 70 percent of the firms have been in existence for more than three years. About equal proportions of establishments are to be found in open-air sites and permanent site locations.

**Metalwork Industry:** The metal product industry is made up of those that make, sell, and repair metal products, either for households or for other businesses. The subsector represents only two percent of micro-enterprises and one percent of micro-enterprise employment nationwide (Parker and Torres, 1994).

A higher percentage of enterprises in the metal industry started with one worker than in any other subsector. In addition, only 36 percent have expanded since opening.

The metal products subsector is predominantly urban, with the exception of domestic hardware retailers. It depends more heavily on imports than do many of the other subsectors. Finally, businesses in the metal subsector use more formal credit than in most other subsectors; however, use of formal credit was only reported by male-run or multi-owner enterprises. About equal proportions of establishments are to be found in open-air.

## ENTREPRENEURSHIP AND MICRO-ENTERPRISE DEVELOPMENT

A distinction is made here between "small business" and "entrepreneurship," which is considered something special. A small business is any business that is independently owned and operated, is not dominant in its field, and doesn't engage in new or innovative practices (Vesper, 1990; Drucker, 1985). An entrepreneurial venture, on the other hand, is characterized by innovative strategic practices, and/or products. In general, a small business owner establishes a business for the principal purpose of furthering personal goals, which may include making a profit. Thus, the owner may perceive the business as being an extension of his or her personality, which is interwoven with family needs and desires. This is placed in contrast to the entrepreneur, who starts and manages a business for many reasons, including achievement, profit, and growth. Such a person is characterized principally by innovative behavior and will employ strategic management practices in the business.

The entrepreneur, said the French economist J.B. Say around 1800, "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." Joseph Schumpter (1934) further refined Says' definition, suggesting five categories of functions entrepreneurs may perform: (1) introduction of new goods, (2) introduction of new methods of production, (3) opening of new markets, (4) opening of new sources of supply, and (5) industrial reorganization. Often the entrepreneur is defined or understood to be one who starts his/her own, new and small business. But as defined above, not every new small business is entrepreneurial or represents entrepreneurship. To be entrepreneurial, an enterprise has to have special characteristics over and above being new and small (Fry, 1993; Baumack and Mancuso, 1987). Entrepreneurs create something new, something different; they change or alter values.

An enterprise does not need to be small and new to be entrepreneurial. Often entrepreneurship is being practiced by large and many times old enterprises. Also, entrepreneurship is not confined solely to economic institutions. The service and public sectors in every nation today are in great need of entrepreneurship as we have defined it. As a larger proportion of GNP in all countries are now service sector-related, this area of entrepreneurship is of growing importance.

The entrepreneur always searches for change, responds to it, and exploits it as an opportunity. Entrepreneurs innovate. Innovation is the special instrument of entrepreneurship. Innovation is the act that endows resources with a new capacity to create wealth. Systematic innovation consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might offer for economic or social innovation.

In many of the cases explored in this volume, entrepreneurship is expressed as a new business strategy that penetrates new markets or the creative segmentation of an existing market. This illustrates that entrepreneurship can be looked for not only in new product development but as well in innovative processes and/or through the creation of a distribution system. It is the entrepreneurial activity or innovation that enables the business owner to maintain a competitive advantage over other firms in an industry. Once that competitive advantage is lost, the very survival of the enterprise is usually at stake.

## ORGANIZATION OF THE BOOK

The strategic management literature has provided some valuable organizing principles that fortunately help to sort out what otherwise might be an undifferentiated mass. Everything that one sees can appear equally important - and there are many things one is not likely to notice without some kind of guideposts. The ultimate objective of analysis is action: doing something to solve problems or to sustain good results. But action is too risky without good analysis of why things are as they are. We all need ways of figuring out just what factors have led to the particular behaviors and configurations we find in societies of which we're a part or which we somehow have to manage.

Though in actuality no social system is static while holding different parts constant, for analytical purposes liberty is taken in writing as if various components of our social system can be separately examined. Only then can we begin to improve our ability to understand and affect the behavior of components of our society.

Chapter II begins by mapping out the "environment" within which social institutions operate. The term environment refers to institutions or forces that are outside the enterprise and potentially affect the firm's performance. This term is further divided into the general environment and the specific environment. The general environment includes economic factors, political conditions and technological factors. It encompasses conditions that may affect the firm but whose relevance is not clear. The development of a technology that would transform metalwork would clearly affect those in that industry and possibly the woodworking industry as well. The majority of the entrepreneur's attention is usually given to the firm's specific environment. The specific environment is the part of the environment that is directly relevant to the achievement of a firm's goals. It consists of critical constituencies or components that can positively or negatively influence the firm's effectiveness. In our case, the specific environment is the industry in which the enterprise is operating.

What kinds of effects ventures have on the economy and what effects the environment has on ventures are topics on which economists have many theoretical viewpoints. In some, the entrepreneur is viewed with considerable impersonality and usually in an aggregate as a risk-taker, innovator, combiner of resources, manager, or mixture of these and is discussed in terms of market structure and opportunities, investment climate, governmental regulations or encouragements, and technological change. Underlying these viewpoints there often appears to be an implicit assumption that the occurrence of latent entrepreneurs is a rather random occurrence and that whether they act out this inclination is governed by the economic environment at hand.

*Entrepreneurship in Micro-enterprises* develops three conceptual schemes that are utilized to analyze data on three levels: the industry, the firm, and government policy. According to C.W. Hofer and W.R. Sandberg (1987), three factors have a substantial impact on a new venture's performance. In order of importance, they are: (1) structure of the industry entered, (2) the venture's business strategy, and (3) the behavioral characteristics of the entrepreneur. At the industry level, Michael Porter's (1980) technique for analyzing industries is developed in Chapter III and used in chapters IV through VI. At the level of the firm, analysis of competitive business strategies based on the product-market matrix is employed in Chapter VII. Finally, gap analysis is applied to government policy in Chapter VIII.

In chapters IV through VI, a brief sketch is provided of three manufacturing industries (textiles, woodwork, and metalwork). This is followed by a description of the characteristics of the entrepreneurs in each industry. The analysis continues with an investigation of competitive forces shaping a firm's behavior in the industry. These forces are determined by (1) entry barriers, (2) bargaining powers of the firms' suppliers, (3) bargaining powers of the firms' customers, (4) threat of substitute products, and (5) intensity of rivalry among competing firms. Relations to civil authority is another category investigated to understand the business-government relationship (McCormick, 1988).

In last two chapters of the book, entrepreneurship and business strategies used by successful entrepreneurs are examined. This is followed by a discussion of government policy toward micro-enterprises.

Chapter VII details successful entrepreneurs in their use of business strategies to develop distinctive competencies for their businesses. Four strategies are found to be most often applied: market penetration; market development; product development; and diversification. This chapter also examines family involvement in micro-enterprise activities and issues that affect women entrepreneurs.

Finally, in Chapter VIII a discussion of government policy toward the informal sector brings together the previous analyses. Gap analysis is utilized here to organize information from preceding chapters. The analysis identifies four essential factors: (1) background factors, (2) required system, (3) emergent system, and (4) consequences for competitiveness. The background factors include historical development of government interaction with the elements of the informal sector. This is examined in Chapter II. The required system consists of what is required by law, government policy and social customs. This is also discussed in Chapter II. The emergent system encompasses what actually exists, what behavior, actions and attitudes result from the background factors and the required system. This is explored in chapters IV to VI. The reality of what is actually happening constitutes the consequences for competitiveness in terms of productivity, satisfaction and development. This is discussed in chapters VII and VIII. In effect, gap analysis contrasts the required system with the emergent system in an effort to bring out significant gaps where new actions can be taken.

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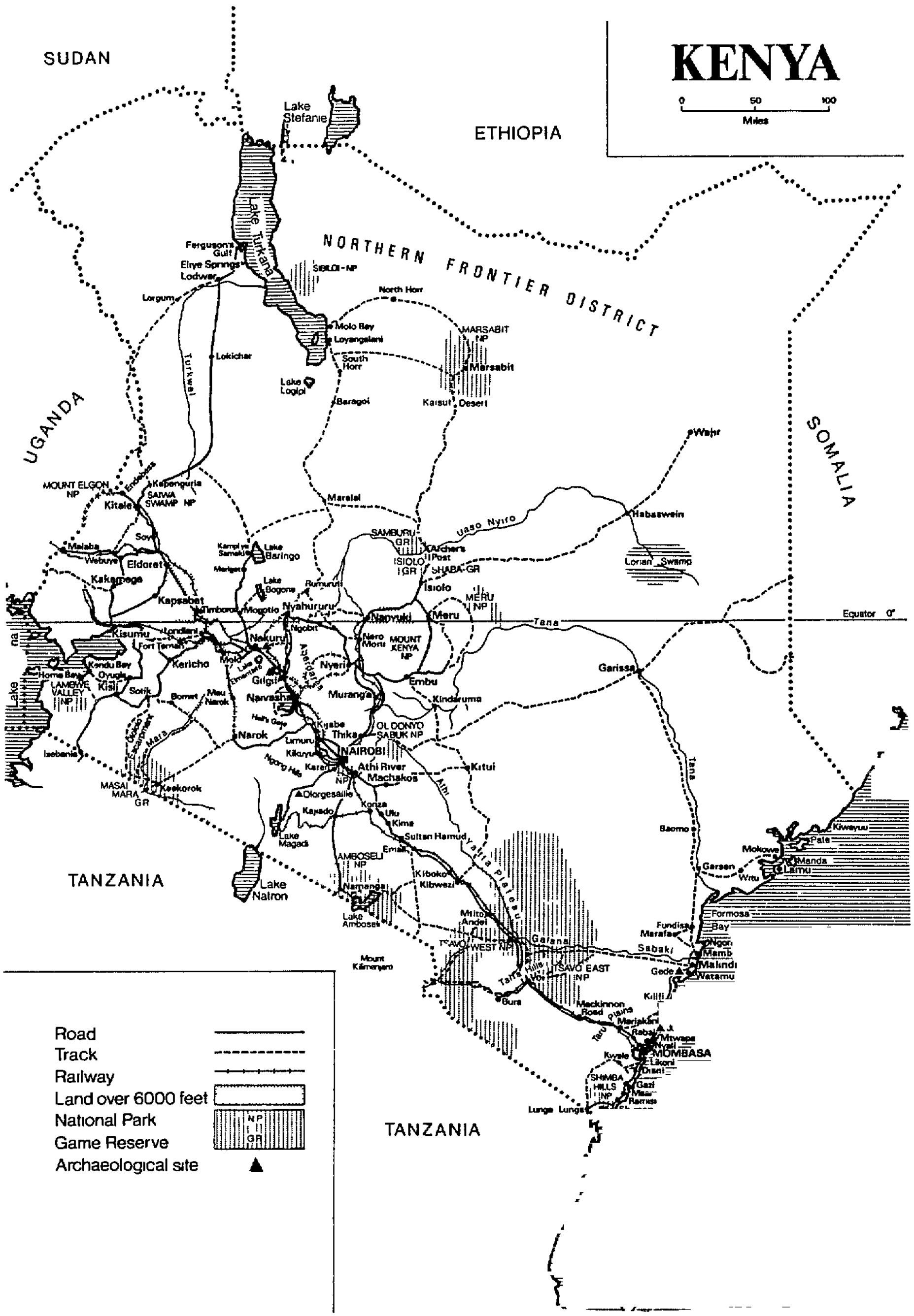
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Ferguson's Gulf
Eliye Springs
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South Horr
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Kaisut Desert
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Maralal
Habaswein
Uaso Nyiro
Lorian Swamp
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Archers Post
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Lake Amboseli
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Kibwezi
Yatta Plateau
Mtito Andei
Galana
TSAVO WEST NP
Mount Kilimanjaro
Taita Hills
Voi
TSAVO EAST NP
Bura
Mackinnon Road
Taru Plains
Mariakani
Rabai
Mtwapa
MOMBASA
Kwale
Likoni
Diani
SHIMBA HILLS NP
Gazi
Lunga Lunga
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Garsen
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Mokowe
Kiwayuu
Pate
Manda
Lamu
Formosa Bay
Fundisa
Marafa
Sabaki
Ngomeni
Malindi
Watamu
Gede
Kilifi
Road
Track
Railway
Land over 6000 feet
National Park
Game Reserve
Archaeological site

# CHAPTER II

## THE GENERAL ENVIRONMENT OF MICRO-ENTERPRISES IN KENYA

This chapter examines the general environment within which micro-enterprises operate in Kenya. As stated previously, the term environment refers to institutions or forces that are outside the enterprise and potentially affect the firm's performance. The general environment includes economic, political, and technological factors or forces. It encompasses conditions that may affect the firm but whose relevance is not clear. The development of a technology that would transform metalwork would affect those in that industry and possibly the woodworking industry as well. Or possibly the introduction of a financial innovation such as the institution of installment credit schemes by material and equipment suppliers. This would have a dramatic effect on enterprises in Kenya as it did on manufacturing and farming enterprises in the U.S. in the middle of the 19th Century. This type of innovation, when introduced, changes the economy from supply-driven to demand-driven, regardless almost of the productive level of the economy (Drucker, 1985).

In attempting to navigate the general environment, one aspect of interest to entrepreneurs and policy-makers is speculation about what circumstances are most likely to be supportive of which kinds of small businesses. One line of economic reasoning claims that inflationary settings hold less promise for manufacturing startups, as opposed to real-estate or other asset speculations (Langdon, 1986). Another line of reasoning points out that shifts in governmental trade restrictions and tariffs may create shelters for new types of startups or trade opportunities for import-export ventures (Little, 1987). As such, government policies and efforts to manage the economy and the economic development process create winners and losers in the struggle for enterprise survival and success.

Recent trends in economics, technology, and politics, as they affect Kenyan enterprises, are covered in the following pages to provide the context for later discussion.

## THE ECONOMIC ENVIRONMENT

The Kenyan society is marked by a dichotomy in its economy, income distribution, wealth, opportunity and technological capacity. According to the Canadian International Development Agency's (CIDA) 1985-1990 country briefing, the richest 10 percent of the Kenyan population receive 45.8 percent of total household income, while the poorest 20 percent receive only 2.6 percent of total household income (CIDA, 1991). Modern sector employment accounts for only 16 percent of total employment in Kenya, while over 80 percent of the Kenyan working population are in agriculture, the rural non-farm and urban informal sectors (Gray, 1991).

The modern sector tends to be highly sophisticated, complex, prestigious, and expensive and uses more advanced technology. Its operations run on a larger scale and need a relatively high level of technological capacity to operate, service, and maintain. Food processing and textiles industries dominate the modern manufacturing sector. Extremely little foreign direct investment is targeted for the manufacturing sector with more emphasis until recently on inefficient import substitution than on production for export. Only 5 percent of Kenya's exports are manufactured products (Kenya Government, 1994).

By contrast the informal sector, to which micro-enterprises belong, uses simpler technology, scrap, or unusable materials from the modern sector. It uses local materials, has a very low ratio of capital investment per job, needs limited technological capacity, and has very limited contacts with foreign technology suppliers. The informal sector is characterized as having very limited access to modern facilities and services such as electricity, credit, and government services.

In the 1990s, the Kenyan economy has experienced a slowdown in its real growth. In this sense, Kenya is not different from other African countries. In 1992, according to the World Bank, Kenya's gross national product (GNP), measured at average 1990-1992 prices, was US $8,453 million, equivalent to $330 per capita. During 1985-1992, it was estimated that GNP per capita increased in real terms at an average annual rate of 0.6 percent. Over the same period, the population increased by an annual average rate of 3.5 percent (Kenya Government, 1994). This population growth rate is the highest in Africa. It is projected that Kenya's population will double in the next eighteen years, but food production in 1991 was 38 percent less per capita than it was forty years earlier (Kennedy, 1994).

While the Kenyan economy has undergone mixed experiences of ups and downs since independence, its growth domestic product (GDP) generally averaged 4.8 percent between 1971 and 1989. Since 1990, however, the rate of growth in GDP has continued to fall below 4 percent. In 1992, the GDP fell to a mere 0.4 percent, the lowest it has been since independence (Kenya Government, 1994).

There are several factors that have contributed to the weak performance of the economy. During the 1990s, Kenya experienced a decline in real output and value added in agriculture. This was due to: (1) poor weather conditions, (2) sluggish growth in aggregate private domestic demand, (3) and foreign exchange shortages. The aggregate result of these three factors was reduced imports of intermediate goods. During this same period, the international financial institutions and donors suspended foreign assistance to Kenya. Mismanagement of the scarce resource by government officials also played a part in this decline (Holmquist, Weaver, and Ford, 1994).

Since independence, the agricultural sector has played a pivotal role in the economy. However, in recent years, the agricultural sector's contribution to the economy has steadily declined from over 45 percent of GDP in 1963 to about 26 percent in 1992. The manufacturing sector, although declining like all other sectors, has steadily expanded and remains the engine of growth for the Kenyan economy in the 1990s. In 1992, the growth rate in the manufacturing sector was only 1.2 percent from its average growth rate of 4.8 percent in the 1980s (Kenya Government, 1994).

The high inflation rate, with observable consequences to the micro-enterprise and small enterprise sector, is one of the never ending cries in Kenya. Within a six-year period, the inflation rate in Kenya has more than quintupled from 4.7 percent in 1986 to 27.5 percent in 1992 (Kenya Government, 1994). This was the highest inflation rate ever recorded since independence. While it is recognized that the state of the international economy has played a part in high inflation levels in Kenya, domestic policies and price control regimes have also contributed their fair share to the inflation problem. During the period 1990-1992, high levels of inflation were largely attributed to (1) the stepped-up implementation of the structural adjustment programs (SAPs) resulting in rapid decontrol of consumer prices, (2) the continued depreciation of the Kenyan shilling, (3) the accelerated growth in money supply, and (4) the 1991 freeze of donor assistance to Kenya.

## THE TECHNOLOGICAL ENVIRONMENT

In examining micro-enterprises in Kenya, the technological environment in which these businesses operate is of particular importance. This environment must not be seen as an isolated point in time. Rather, it must be viewed as a point on a continuum of the history of Sub-Saharan Africa. If there were two distinct points, one representing a pre-colonial Africa and the other colonial Africa, two different pictures would emerge. The pre-colonial picture would show Sub-Saharan Africans employing the latest technology of that day. For example, the diverse ecological zones of Africa demanded that a variety of land management schemes evolve. In the equatorial and tropical zones where Kenya is located, rainfall is high and the peak of biological activities on farms usually coincides with periods of maximum rainfall. However, the intense convection rain storms which occur at the beginning and end of the rainy season result in problems of excess soil moisture and cloud cover. African indigenous peoples managed through centuries of trial and error, to evolve some highly complex, diversified, and therefore risk spreading, sets of management strategies, which cope with, rather than over-ride, nature. Complex land-use combinations were evolved for agriculture production, such as multiple cropping and upland cultivation combined with valley bottom flood retreat cultivation (Davidson, 1986; Mshana, 1992). Attention devoted to various activities varied through the season to make maximum use of available labor. In addition, livestock, often subsisting on farm and household by-products, acted as savings; and hunting and gathering constituted important buffers against periodic famine (Rodney, 1972).

Traditional farmers used hand tools designed by them to perform various tasks needed on their farms. They were right to avoid wheeled vehicles such as ploughs and tractors. Apart from their prohibitively high initial cost, and high running and maintenance costs, their usage would not have been in harmony with the tropical environment, nor would they have fit into the cropping systems evolved by the people. Ploughing over-exposes tropical soil and injures the soil's physical characteristics for retaining nutrients and releasing them for plant growth under the impact of the intense tropical rainfall. Heavy ploughing loosens the soil and prevents it from maintaining a penetrable but stable rooting medium to counteract the battering of wind and rain.

These indigenous farming methods were by no means as primitive or unproductive as agricultural scientists had formerly supposed. They were skilled and detailed and were of a considerable complexity, in which quality was as important as quantity (Chambers, 1993; Davidson, 1986; Mshana, 1992).

Technological progress is the by-product of education and training which brings changes in production techniques, new products, and new management techniques which may include social innovations. Training, health, nutrition and other community developments are important to the long-term development of the informal sector.

## Socioeconomic Development and Technology

E.F. Schumacher (1976) in *Small is Beautiful* uses an example of a visit to a refinery to explain what he calls the "Evolution of development." Imagine a visit to a modern industrial establishment, say a great refinery.

> As we walk around in its vastness, through all its fantastic complexity, we might well wonder how it was possible for the human mind to conceive such a thing. What an immensity of knowledge, ingenuity, and experience is here indicated in equipment. How is it possible? The answer is that it did not spring ready-made out of any person's mind; . . . it is the concrete evidence of a collective accumulation of knowledge, skills, expertise and experiences derived over centuries. It is a show of the cultural capabilities of the society that built the equipment (p. 154).

Schumacher then went on to explain that this had started quite simply, then one thing was added and another modified. Gradually and systematically, this went on until eventually the whole thing became more complex.

> What is actually seen in the refinery is only the tip of the iceberg. What is not seen is far greater than what

> is seen; multitudes of consignments of refined products properly prepared, packed and labelled; and the most elaborate distribution system, for example, are not seen. The intellectual achievements behind the planning; the organization; the great educational background which is the pre-condition of it all, extending from primary schools to universities, and specialized research establishments without which, nothing of what is actually seen would have been there, are all part of the invisible.
>
> It is, therefore, worthless for an alien society to import and erect such a refinery with the hope that its presence will cause development to happen. If the invisible aspects of the refinery are not supplied, then the refinery becomes a foreign body, which has to depend, for most of its life, upon the society which produced it (p. 157).

This is what Schumacher gave as his definition of evolution, or development.

Most African nations have since independence based their development efforts on such a premise. Foreign structures have been brought in without the necessary cultural capabilities to sustain them. This action has led to the creation of a "dual economy" - a modern sector where 15-20 percent of the population live in relative affluence, and a rural sector, where the majority live in poverty.

It is in the rural areas where one can find the traditional cultural capabilities - the starting point of a genuine evolutionary process (Juma, Torori and Kirima, 1993). A cultural heritage does exist. This heritage has been serving the needs of the majority of the people, and has come about through centuries of evolution. The systems evolved are small scale but are cost efficient.

Today, in post-colonial Sub-Saharan Africa, we see a people estopped from advancing and keeping up with the latest technology.

The prevailing technology on the continent lags woefully behind the state of the art in developed countries. There is a wide spectrum of efficient technologies in the informal sector with a predominance of small scale labor intensive techniques.

Much of the "development community" maintains that Kenya and other Sub-Saharan countries only need to import technology from developed countries. However, the alteration of a culture imposed by colonization is not easy to erase. Many of the people of rural Kenya are accustomed to operating at the craft level of technology. Furthermore, it is difficult for one or two to move up the technology ladder alone. The use of modern technology requires a major support system (Oyugi, 1992). In addition, the use of such technology may pose marketing problems as efficiencies are introduced.

During colonization, the various colonial powers first destroyed or denigrated local institutions and management practices and then developed their own colonial educational and administrative systems. The destruction was particularly severe because the colonists were convinced of their cultural, biological, and technological superiority and the inferiority of African institutions and administrative systems. Crawford Young (1986) has argued that this destruction was a necessary precondition for the complete institutionalization of colonialism. In any case, its effects were the destruction of the indigenous organization, management, and technological systems, some of which were situationally more appropriate. As well, there was the psychological destruction of the African self-esteem and its subtle but debilitating impact which manifests itself in different forms at different levels of modern African society.

Today we find a considerable amount of modern technology in Nairobi and Mombasa. To a large degree, the technology is in the hands of non-native Africans (i.e. Asians). In the rural area and relatively small towns, the technology is basically craft. Furthermore, many businesses operate without electrical power or running water.

This is the technological environment in which micro-businesses in our study exist.

## THE POLITICAL ENVIRONMENT

Kenya is one of several countries in Africa that has enjoyed a relatively stable political environment. It is also one of the countries that has moved in recent years toward a multi-party, democratic styled form of government. In December of 1993, multi-party elections were held and the government of President Moi was victorious. First under President Jomo Kenyatta and later under President Arap Moi, Kenya has developed and consolidated its political institutions (Holmquist, Weaver, and Ford 1994).

However, the recent political pluralism in Kenya has come at a great cost to its citizens. There have been many inter-ethnic conflicts resulting in loss of life and destruction of property. Indeed, ethnicity has been one of the key feature of the Kenyan political and economic reality. The Kikuyus, particularly during the Kenyatta era, have been the dominant political and economic players. Another group that has wielded considerable economic power, and consequently influenced political development, is Asians (Oyugi, 1992).

The Kenyan government's recognition of the informal sector, which comprises the Jua Kali entrepreneurs, began with the 1972 International Labor Organization (ILO) study entitled *"Employment, Income and Equality: Strategy for Increasing Productive Employment in Kenya."* This study examined unemployment in Kenya and coined the term "informal sector." The report describes the sector as not just marginally productive but economically efficient and profit-making. The sector is small in scale and limited by simple technologies, little capital and lack of links with the formal sector. Categories of those employed include tailors, carpenters, metalworkers, cooks, masons and others. It offers a full range of the basic skills needed to provide goods and services for a large though poor section of the population. The report discounted the belief that the informal sector is stagnant, non-dynamic and a place for those who fail to secure jobs in the formal sector. The ILO Mission contended that the sector was often ignored, was thriving and could be the source of Kenya's wealth. The report made recommendations for major policy changes for the transformation of the economy. However, the report made recommendations without clear mechanisms for implementation and sustained change.

The ILO Mission report on unemployment was favorably received by the Kenyan Government, which incorporated its proposals in the planning process. Although the government had come up with proposals for policy changes in the sector from recommendations from the 1972 report, by 1980, not much had been implemented. This was attributed to the inability of the Central Government to exert control over the actions of municipal authorities, where most of the activities in the informal sector take place. Through the 1980s, the Government stepped up its effort for support of the informal sector. A new education system was introduced (called 8-4-4, after its 8 years of primary, and 4 each for secondary and university, inaugurated in 1985) with all sorts of subjects thought to be relevant to enterprise, self-employment, and self-reliance (Achola, Gray, Kerre, 1990). This was, as the ILO Mission recommended, "the preparation of students for available employment opportunities, especially in the rural areas and in the informal sector" (ILO, 1972).

Since the 1980s, the Government of Kenya has recognized the important role that the informal sector (Jua Kali) plays in the economy. The sixth national *Development Plan 1989-1993* (Kenya Government, 1989) projected the creation of 1.9 million jobs. Approximately 31 percent of these jobs were expected to be created in the Jua Kali sector. It is, therefore, not surprising that the government prepared and adopted the Sessional Paper No. 2 of 1992 titled *"Small Enterprise and Jua Kali Development in Kenya"* (Kenya Government, 1992b). This document provides a government policy framework for promoting small scale and Jua Kali enterprise development. The importance of small enterprises and Jua Kali is also highlighted in the seventh national *Development Plan 1994-1996* (Kenya Government, 1994). From the mid-1980s, the Kenyan government's approach toward micro-enterprises and small businesses shifted from one of primarily interventionist (i.e., initiating a government assistance program or establishing a government organization to do so) to one of facilitating (i.e., concentration on the creation of infrastructure facilities and an economic environment in which entrepreneurs can emerge, develop and grow).

Providing an enabling environment sensitive to the needs of the sector was seen as the way forward (JASPA, 1986; Kenya Government 1993). A conducive enabling environment is one where the government adopts appropriate policies which address the exchange rate, protection measures on import quotas and tariffs, burden of taxation, subsidies and concessions, interest rates, licensing requirements, price controls and local authority by-laws and regulations. These are constraints which have continued to put at a disadvantage the operators in the informal sector. The government can remove these constraints by providing adequate infrastructure in the rural areas, enhancing availability of market information which can stimulate exchange of products between regions, using appropriate technology and making credit available. The provision of non-financial services to the sector in order to equip operators with managerial skills and techniques is essential.

## CURRENT ACTIVITIES

There is currently considerable support for small and Jua Kali enterprise development in Kenya (KREP, 1993). The sector's potential and importance have been increasingly acknowledged. This is reflected in the responsive fashion in which government policy towards the sector has changed and evolved as well as in the increased number of institutions with projects and programs in support of the sector.

Some of the institutions with support projects and programs for small and Jua Kali enterprises, focus exclusively on enterprise assistance; others conduct a variety of other development activities in addition to their projects for small and Jua Kali development. These institutions vary considerably in size, visibility, effectiveness and efficiency. The Kenya Rural Enterprise Program (KREP) has identified over one hundred such programs and activities as of 1993.

## Government and Parastatal Institutions

The KREP inventory included five parastatals: Industrial and Commercial Development Corporation (ICDC), Kenya Commercial Bank (KCB), Investment Promotion Center (IPC), National Bank of Kenya (NBK) and Kenya Industrial Estates (KIE). The largest government institution is the Ministry of Research, Technical Training and Technology (MRTTT) with programs such as the Joint Loan Board (JLB) Scheme. In total there were 15 government institutions in 1993.

## Private Sector Institutions

Sixteen private sector institutions have projects and programs in support of small and Jua Kali enterprises in Kenya. These institutions include two major commercial banks - the Barclays Bank of Kenya and the Standard Chartered Bank; a non-bank financial Institution - the Kenya Finance Corporation; Association of Entrepreneurs and Private Companies such as the Kenya National Chamber of Commerce and Industry (KNCCI), Kenya Association of Manufacturers (KAM), Federation of Kenyan Employers (FKE), Kenya Small Traders and Entrepreneurs Society (KSTES), and Kenya National Federation of Jua Kali Associations (KNFJKA); Development Finance Institutions (DEFCO); and private organizations which basically provide money for the sector projects such as the Asian Foundation and the British American Tobacco (BAT).

## Non-Governmental Organizations (NGOs)

In the past ten years, there has been a proliferation of non-governmental organization (NGO) programs in support of small and Jua Kali enterprises, particularly the enterprises belonging to the informal sector. These organizations range from small charitable organizations in a limited geographical area (e.g., Provide International in the Korogocho slum in Nairobi) to large institutions, covering the whole country and carrying out a variety of activities (e.g., the National Council of Churches of Kenya).

## Donor Organizations

The number of donor organizations for small and Jua Kali development projects and programs is more than eleven. These are programs funded and operated by United States Agency for International Development (USAID), Ford Foundation, the Germany Government Agency for International Development (GTZ), Overseas Development Administration (ODA), Friedrich Ebert Stiftung (FES), United Nations Development Program (UNDP), and others.

# THE GOVERNMENT POLICY

The government of Kenya sees its role relative to Jua Kali sector as that of "facilitating" its development. As such, the government's strategy is to concentrate on the creation of infrastructural facilities and an economic environment in which small entrepreneurs would emerge, develop, and grow (Kenya Government, 1992b). Here, some key elements of the government policy toward micro-enterprise development are presented.

## Investment Incentives to Small Scale Enterprises

It is the government policy to provide investment incentives to small scale enterprises in order to facilitate their development and growth. Such incentives include the following:

- Investment allowances for establishing new factories outside Nairobi and Mombasa;
- Exemption from import duties on capital machinery for small enterprises located in rural areas, where the cost of machinery does not exceed Kshs. 20 million;
- Establishment of a District Development Fund (DDF) in June 1987, with the objective of providing the enabling infrastructure through the development of Rural Trade and Production Centers (RTPC) in selected towns;
- Establishment in December, 1989, of a Rural Enterprise Fund which has already been allocated to the Districts to finance Jua Kali entrepreneurs; and
- Provision of finance through the Jua Kali Fund in the Ministry of Research, Technical Training, and Technology for the construction of Nyayo sheds to accommodate Jua Kali artisan workshops located in rural centers.

## Infrastractural Development for Small Scale Enterprises

The government also has specific policies aimed at expanding its program of infrastructure development. This is coordinated through the District Development Committees (DDCs) whereby:

- Adequate needs assessments are conducted at the district level in close consultation with DDCs and small scale business associations on the actual and prioritized requirements of infrastructure which are necessary to enhance small scale enterprises development and growth;

- Local groups of artisans are encouraged to form associations in order to make it easier for the government to administer assistance programs; and
- Industrial land within the designated industrial sites is made available to small scale enterprises to construct and install their own facilities.

## Small Scale Enterprises and Technology

Lack of or unfamiliarity with available technologies was one of the problems of small scale entrepreneurs identified by the government. As such, the government sought to stimulate research based on proper needs assessment, identification of markets, and the use of appropriate technologies. In order to address this problem:

- The Kenya Industrial Research and Development Institute (KIRDI) was to assume additional responsibilities for modifying and adapting foreign technologies;
- A machine tool industry was to be established in the private sector as a further step towards the development of production-related technologies;
- The government was to use the public procurement procedures and regulations to support small scale enterprises in finding markets for their products in the public sector; and
- KIRDI, in collaboration with universities and appropriate Ministries, was to identify technology research needs of the Jua Kali sector; conduct the necessary research, adopt and develop appropriate technology, and widely disseminate the results to the small enterprise sector.

## Marketing Support Systems

The government recognized the fact that the growth of small enterprises hinged upon three factors: (1) the rate of market expansion through improved linkages between large and small scale enterprises, (2) exploitation of export market opportunities, and (3) entry of small scale enterprises into the service sector. For this reason, the government sought to provide the following supportive services:

- Dissemination, by District Industrial Development Officers to small scale entrepreneurs, of market related information in a manner that ensures that all target groups are reached;
- Encouragement of the development of appropriate inter-industrial linkages through tax incentives and other measures as a means of stimulating demand for and supply of small scale enterprise products and services and generating alternatives to imports; and
- Exploration by the Ministry of Industry of implementation modalities of sub-contracting between large and small scale enterprises.

Additionally, after recognizing the fact that the policy instruments that existed were not aimed specifically at small scale enterprises, the government sought to provide a conducive environment in this area. The Ministry of Commerce, in collaboration with the Investment Promotion Center, was given the responsibility of:

- Formulating a national export policy for small scale enterprise products and services;
- Carrying out studies of overseas consumer markets including aspects such as product quality, packaging, and pricing; and
- Providing specialized technical support and training to small scale enterprise exporters.

## Regulations and Small Scale Enterprises

While the government had already taken some supportive measures to ease regulatory constraints for small scale enterprises, additional measures were deemed necessary. These measures, among other things, include the following:

- A comprehensive review of all pertinent Acts and an in-depth analysis of the extent to which such Acts have adverse impact on the small scale enterprises either directly or indirectly; and
- A review of licensing arrangements and building codes for small scale enterprises with a view of relaxing any of them that hinder small scale enterprise businesses.

## Financing Small Scale Enterprises

While it is difficult to determine precisely how much commercial banks extend loans to small scale entrepreneurs, it is well known that their loans to the small scale enterprise sector represents a small fraction of their total lending. This is a result of three factors: (1) inadequacy of loanable funds, (2) stringent collateral requirements, and (3) the negative attitude of lending institutions toward small scale entrepreneurs.

To increase the flow of loanable funds, the government sought to intensify its efforts to acquire supplementary soft foreign loans for on-lending to public and private financial institutions for lending to the small scale enterprise and Jua Kali sector. Commercial banks were also given freedom to charge competitive interest rates on small scale enterprise loans, with adequate margin to cover the relatively high costs of administering such loans. Furthermore, the Ministry of Research, Technical Training and Technology, in consultation with the Treasury and the Directorate of Personnel management, was to establish a special training fund for small scale enterprises and Jua Kali entrepreneurs. In order to boast small scale enterprise exports, the government also committed itself to providing adequate export financing arrangements. Through the Central Bank, the government was to establish an export credit guarantee insurance scheme as well as the small scale enterprise export credit fund.

Small scale enterprise and Jua Kali borrowers are often unable to provide the required collateral which are rigidly stipulated in Central bank guidelines. The Central Bank, in collaboration with commercial banks and other financial institutions, was to review the lending regulations and procedures with a view to making the collateral requirements more liberal, flexible, and responsive to credit needs of the small scale enterprise and Jua Kali sector.

One of the banks' barriers to lending to small scale enterprise and Jua Kali sector has been the negative attitudes of bank officers towards small scale borrowers. Small scale borrowers are viewed by bank officers as being risky with high credit delivery cost. In order to overcome this problem, the government instructed the banks to develop training programs geared toward helping bank officials to see the potential of small scale borrowers.

## FROM THE GENERAL TO THE SPECIFIC ENVIRONMENT

This chapter has surveyed the general environment. One can understand that firms are not self-sufficient. They interact with and are influenced by their environment. Firms depend upon their environment as a source of inputs and as recipients of its outputs. They must also abide by the laws of the land and respond to groups that challenge firms' actions. As such, suppliers, customers, government agencies, NGOs, and similar constituencies can exert power over small business firms. Many of these environmental forces are dynamic and create considerable uncertainty for entrepreneurs. New laws are passed, suppliers can not meet contractual agreements, and competitors introduce new technologies, products, and services. To the degree that these environmental uncertainties cannot be anticipated, they force entrepreneurs to respond in ways that they might not prefer. The greater the environmental uncertainty an organization faces, the more the environment limits the entrepreneur's options and its freedom to determine its own destiny.

Firms, as elements of a social system, interact with and depend upon their specific environment (the industry within which it operates) but remain ever mindful of the potential influence of their general environment. The next chapter outlines a framework for analyzing the specific environment within which firms operate.

# CHAPTER III

# CONCEPTUAL FRAMEWORK FOR INDUSTRY ANALYSIS AND METHODOLOGICAL ISSUES

This chapter has two goals: to provide a conceptual framework for industry analysis and to provide information on the methodology used in collecting data for the study. The following three chapters (IV-VI) discuss in detail the findings of the research in each of the three industries studied. Industry analysis is the framework utilized in organizing the information in those three chapters. Before the findings of the study are provided, however, methodological issues are discussed in order to provide the reader an understanding of how the data was collected.

## INDUSTRY ANALYSIS OF MICRO-ENTERPRISES

This section draws heavily from Michael Porter's (1980) seminal work on strategic planning and industry analysis. The competitive environment consists of factors within an industry that have a direct and often immediate impact on firms. This includes a firm's competitors (existing and potential), customers, and suppliers. Potential competitors, for example, may include a supplier thinking of integrating forward. The state of competition in an industry depends on five basic forces:

- Entry Barriers (Threat of New Entrant to the Market),
- Bargaining Power of the Firm's Suppliers,
- Bargaining Power of the Firm's Buyers,
- Threat of Substitute Products, and
- Intensity of Rivalry among Competing firms (jockeying for position).

The collective strength of these forces, comprising the competitive environment, determines the ultimate profit potential of an industry. It ranges from intense in industries like tailoring, carpentry, and metal work, where no company earns spectacular returns on investment, to mild in industries like oil field services and equipment, soft drinks, and toiletries, where there is room for quite high returns.

In the economists' "perfectly competitive" industry, jockeying for position is unbridled and entry to the industry very easy. This kind of industry structure, of course, offers the worst prospect for long-run profitability. The weaker the forces collectively, however, the greater the opportunity for superior performance.

Whatever their collective strength, the entrepreneur's goal is to find a position in the industry where her/his company can best defend itself against these forces or can influence them in its favor. Understanding these forces highlights the critical strengths and weakness of a company in its industry. It also proves to be of help in considering areas for diversification.

(1) Entry barriers (Threat of Entry)
Six major sources:
- Economies of scale,
- Product differentiation,
- Capital requirements,
- Cost disadvantages independent of size,
- Access to distribution channels, and
- Government policy.

(2) Bargaining Power of Suppliers
More powerful if:
- Dominated by a few companies and more concentrated than the industry it sells to,

- Its product is unique or at least differentiated, or if it has built up switching costs,
- It is not obliged to contend with other products for sale to the industry (i.e., monopoly power),
- It poses a credible threat of integrating forward into the industry's business, and
- The industry is not an important customer of the supplier group.

(3) Bargaining Power of Buyers
More powerful if:

- It is concentrated on purchases in large volume,
- The products it purchases from the industry are standard or undifferentiated,
- The products it purchases from the industry form a component of its product and represent a significant fraction of its cost,
- It earns low profits, which create great incentive to lower its purchasing costs,
- The industry's product is unimportant to the quality of the buyer's products or services,
- The industry's product does not save the buyer money, and
- The buyers pose a credible threat of integrating backward to make the industry's product.

(4) Substitute Products:
By placing a ceiling on prices it can charge, substitute products or services limit the potential of an industry. Unless it can upgrade the quality of the product or differentiate it somehow (as via marketing), the industry will suffer in earnings and possibly in growth.

(5) Jockeying for Position:
Rivalry among existing competitors takes the familiar form of Jockeying for Position - using tactics like price competition, product introduction, and advertising slugfests. Intense rivalry is related to the presence of a number of factors:

- Competitors are numerous or roughly equal in size and power,
- Industry growth is slow, precipitating fights for market share,
- The product or service lacks differentiation or switching costs, which locks in buyers and protects one combatant from raids on its customers by another,
- Fixed costs are high or the product is perishable, creating strong temptation to cut prices,
- Capacity is normally augmented in large increments,
- Exit barriers are high, and
- The rivals are diverse in strategies, origins, and "personalities."

The key to growth, even survival, is to stake out a position that is less vulnerable to attack from head-to-head opponents, whether established or new, and less vulnerable to erosion from the direction of buyers, suppliers, and substitute goods. Establishing such a position can take many forms: solidifying relationships with favorable customers, differentiating the product either substantively or psychologically through marketing, integrating forward or backward, or establishing technological leadership.

Research shows that the chances for success are greater for entrepreneurial ventures that enter rapidly changing industries than for those that enter stable industries (Fry, 1993; Baumack and Mancuso, 1987). In addition, prospects are better in industries that are in the early, high-growth stages of development because there competition often is less intense. Fast market growth also allows growing ventures to make some mistakes without serious penalty. Small ventures also increase their chances of success when they enter markets in which they can erect entry barriers to keep out competitors.

## METHODOLOGICAL ISSUES

The data for the study was collected employing face-to-face structured interviews with representatives of 320 micro-enterprises who manufacture in Kisumu, Eldoret and Meru. A census in the industrial areas of the three towns counted 2,626 small manufacturers with 20 or fewer workers. Since only 1 percent of this population fell between 10 and 20 workers, we are ostensibly writing about firms with 10 or fewer workers. The general category of textile work, including tailoring, dressmaking, knitting, and sewing of textile products, is the largest activity group (Table 3-1). Woodworkers are the second largest group and are composed of carpenters mostly making wooden furniture, supplying wooden doors and windows and doing repair work. The last category is the metalworkers producing cooking utensils, charcoal stoves, metal boxes, small hardware, metal furniture, metal door and window frames, and iron gates.

The population of enterprises revealed roughly 20 percent women entrepreneurs but this hides the fact that roughly 90 percent of that figure are in the textiles trade with very few women entrepreneurs in carpentry or metalwork. This bias of women toward textiles plays on sterotypes of women as seamstresses who are barred from other areas of gainful employment. Social expectations and attitudes are found underlying unconscious behavior that lingers on after education and social change have deemed such attitudes unproductive. The businesses in the population considered were quite small. Fifty percent had 1 worker and another 29 percent had 2 or 3 workers. Not surprisingly, due to the youthful nature of the Kenyan population, more than two-thirds of the population were under forty.

TABLE 3-1
POPULATION DATA BY GENDER, ACTIVITY
AND FIRM SIZE

| | NUMBER | PERCENT |
|---|---|---|
| **PROPRIETOR'S GENDER** | | |
| Male | 2,124 | 80 88 |
| Female | 502 | 19 12 |
| **Total** | 2,626 | 100.00 |
| **TYPE OF ACTIVITY** | | |
| Textiles | 1,384 | 52 70 |
| Woodwork | 714 | 27 20 |
| Metalwork | 528 | 20 10 |
| **Total** | 2,626 | 100.00 |
| **FIRM SIZE** | | |
| 1 worker | 1,338 | 50 95 |
| 2 - 3 | 751 | 28 60 |
| 4 - 6 | 376 | 14 32 |
| 7 - 10 | 134 | 5 10 |
| 10 - 20 | 27 | 1 03 |
| **Total** | 2,626 | 100.00 |

The number of firms selected from each size stratum was estimated to ensure adequate representation by sampling strata as they are proportioned in the population. After numbering firms sequentially in each size category, we used random numbers to select business owners for interview. The proportion taken from each stratum ranges from 10.69 percent of the one-person firms to 16.42 percent of the seven-to-ten-worker firms, with an overall sample of 12.19 percent of the population (Table 3-2). After administration of the questionnaire, purposeful sampling (relying on expert judgement to select units "typical" of the population) was used to select 16 cases out of the population of 320 for in-depth study. The general strategy was to identify important sources of variation in the population then select a sample reflecting that variation. These cases provided additional insights into the distinguishing characteristics of entrepreneurs, differences among trade groups, and common operating problems.

TABLE 3-2
SAMPLING FROM THE POPULATION OF ENTERPRISES BY SIZE

| # OF WORKERS | # OF FIRMS IN SAMPLE | # OF FIRMS POPULATION | PERCENTAGE IN SAMPLE |
|---|---|---|---|
| 1 worker | 143 | 1,338 | 10 69 |
| 2 - 3 | 101 | 751 | 13 45 |
| 4 - 6 | 50 | 376 | 13 30 |
| 7 - 10 | 22 | 134 | 16 42 |
| 10 - 20 | 4 | 27 | 14 81 |
| **Total** | 320 | **2,626** | **12.19** |

The sampling is further broken down to the industries of textiles (n = 175), woodwork (n = 98), and metalwork (n = 47). As can been seen from Table 3-3, about one-half were textile, one-third were woodworking and the remainder, one-sixth were metalwork. This is approximately the same proportion of firms found in the population.

TABLE 3-3
SAMPLE OF ENTERPRISE SIZE BY INDUSTRY

| # OF WORKERS | TEXTILES | | WOODWORK | | METALWORK | |
|---|---|---|---|---|---|---|
| | # | % | # | % | # | % |
| 1 worker | 95 | 54.29 | 33 | 33 67 | 15 | 31 91 |
| 2 - 3 | 50 | 28 57 | 37 | 37 75 | 14 | 29 79 |
| 4 - 6 | 18 | 10 29 | 20 | 20 41 | 12 | 25 53 |
| 7 - 10 | 11 | 6 29 | 5 | 5 10 | 6 | 12 77 |
| 10 - 20 | 1 | 0 57 | 3 | 3 06 | 0 | 0 00 |
| **Total** | 175 | 100.01 | 98 | 99.99 | 47 | 100.00 |

Very few firms were a year old or less in terms of age of the business (see Table 3-4). Thus, the firms are not transient which is what one would find by examining enterprises in the service sector where the needed start-up capital is much smaller. Half of the firms have been in existence over five years in all categories of industries studied. The businesses were on average six years old with 15 having been in business for more than twenty years and only 6 in business for less than one year. Firms were found to be slightly older in metalwork subsector where businesses are more capital intensive. While slightly younger firms were found in the textile industry which is less capital intensive.

TABLE 3-4
YEARS IN BUSINESS
OF ENTERPRISES BY INDUSTRY

| YEARS IN BUSINESS | TEXTILES # | TEXTILES % | WOODWORK # | WOODWORK % | METALWORK # | METALWORK % |
|---|---|---|---|---|---|---|
| Less than 1 | 1 | 0 57 | 5 | 5 10 | 0 | 0 00 |
| 1 - 3 | 44 | 25 14 | 25 | 25 51 | 8 | 17 02 |
| 3 - 5 | 38 | 21 71 | 16 | 16 33 | 10 | 21 28 |
| 5 - 7 | 25 | 14 29 | 10 | 10 20 | 4 | 8 51 |
| 7 - 10 | 26 | 14 86 | 16 | 16 33 | 8 | 17 02 |
| 10 - 20 | 30 | 17 14 | 24 | 24 49 | 15 | 31 91 |
| Over 20 | 11 | 6 29 | 2 | 2 04 | 2 | 4 26 |
| **Total** | 175 | 100.00 | 98 | 100.00 | 47 | 100.00 |

According to most previous studies, the variables related to the site of the business establishment are "the" defining characteristics of informal sector activity (McCormick, 1988; Onyango, 1992, Ouma, 1990; Aboudha and King, 1991). The literature includes the nature of the physical premise as well as the business' access to water and electricity as key variables. In this study, a dichotomy in the nature of resources available to micro-enterprises was found (see Table 3-5). Clearly there are those who have permanent premises or access to electricity or water outside their premises on the one hand and those who do not.

**TABLE 3-5**
**SITE OF BUSINESS ENTERPRISES, ACCESS TO ELECTRICITY, AND WATER BY INDUSTRY**

| | TEXTILES | | WOODWORK | | METALWORK | |
|---|---|---|---|---|---|---|
| **SITE** | # | % | # | % | # | % |
| Open Air | 70 | 40 00 | 24 | 24 49 | 20 | 42.55 |
| Semi Perm | 22 | 12.57 | 24 | 24 49 | 2 | 4 26 |
| Home | 10 | 5 71 | 3 | 3 06 | 2 | 4 26 |
| Market Stall | 28 | 16 00 | 1 | 1 02 | 2 | 4 26 |
| Shop | 45 | 25 71 | 46 | 46 94 | 21 | 44 68 |
| **Total** | 175 | 100.00 | 98 | 100.00 | 47 | 100.00 |
| Chi square[1] = 39 17 | df = 8 | | p ≈ 0 | | | |
| **ELECTRICITY** | | | | | | |
| No | 145 | 82 90 | 64 | 65 30 | 25 | 53 20 |
| Lights | 13 | 7 40 | 9 | 9 20 | 2 | 4 30 |
| Machines | 17 | 9.70 | 25 | 25 50 | 20 | 42 60 |
| **Total** | 175 | 100.00 | 98 | 100.00 | 47 | 100.00 |
| Chi square = 29 59 | df = 4 | | p ≈ 0 | | | |
| **WATER** | | | | | | |
| None | 132 | 75.40 | 75 | 76 50 | 34 | 72 30 |
| Outside | 31 | 17 70 | 19 | 19 40 | 12 | 25 50 |
| Inside | 12 | 16 90 | 4 | 4 10 | 1 | 2 10 |
| **Total** | 175 | 100.00 | 98 | 100.00 | 47 | 100.00 |
| Chi square = 10 8 | df = 4 | | p ≈ 0 0943 | | | |

Approximately 35 percent of the entrepreneurs interviewed in each industry had workplaces which were open-air at the informal extreme or permanent physical establishments, that is, market stalls and shops at the formal extreme of the small business sites. The remaining

[1]The Chi-square test looks at the distribution, by comparing the observed distribution against some expected distribution, to determine if a statistically significant difference is present.

30 percent had semi-permanent establishments or worked from their home. This dichotomy of work place site has lent validity to the concept of an informal sector distinctly separate from formal sector activities.

A Chi-square test on the tabulated responses revels that it is highly unlikely that firms in the industries studied are from the same distribution. In other words, the industries should be treated separately and not as one homogeneous sector. Expressed in another way, there is a systematic relationship between "site" and "industry type." In later chapters we find additional variables such as level of education and management of the enterprise that are significantly different in the industries studied and merit more specific policy proposals. This finding is in contrast with blanket "informal sector" proposals which up till now have been advocated by policy makers and others who are interested in assisting entrepreneurs in this sector.

The paucity of infrastructure in terms of electricity and water available to micro-enterprises is of great concern to the government of Kenya and the donor community. This concern is validated here where we find water not accessible to roughly 75 percent of the firms surveyed in all industries. This large proportion of firms without access to water rendered the Chi-square test result insignificant among these industries. We find the use of electricity to be more needed and accessible particularly to the woodworkers and metalworkers. And similar to our conclusions for the site of the enterprise, a Chi-square test indicates that the industries studied should not be treated as one homogeneous "informal" sector. Notwithstanding, the provision of basic infrastructure will surface as essential for the development of the three industries.

# CHAPTER IV

## INDUSTRY ANALYSIS: TEXTILES

The textile industry is highly dispersed and is dominated by women, who make up over half of the proprietors and 60 percent of the workers (Parker and Torres, 1994). The industry is also characterized by very small enterprises, where 72 percent of the enterprises have three or fewer workers. This sector has the highest percentage of one-worker enterprises. A common pattern would be for a firm to have two or three machines and the same number of workers. Most of the work is done to order, but there is always plenty of goods on display.

Although the majority of textile enterprises are in rural areas, one-third are found in urban areas - typically those involved in garment-making or the retail of second-hand clothing. The textile industry shows many of the characteristics typically ascribed to the informal sector. Enterprises in the industry serve the final customer rather than other businesses, with few backward linkages. They tend to operate from traditional marketplaces and homesteads, relying on the proprietors' own savings for capital.

About 75 percent of the entrepreneurs in this industry are between 21 and 35 years of age with only 1 percent having not completed primary school (see Tables 4-1 and 4-2). Forty-two percent had completed secondary education; 52 percent had completed primary education. The education attainment observed reflects the large proportion of women in this industry. Five percent had higher than secondary education. We should note that what is defined as "no education" are those without even a year of any formal education. Primary education consists of those with at least four years of education, standard seven primary school graduates, the 8-4-4 educational system, and the colonial level standard eight. These are all combined under primary level education.

**TABLE 4-1**
**AGE OF THE OWNERS IN TEXTILES**

| AGE OF OWNER | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| 16 - 20 | 7 | 4 0 |
| 21 - 25 | 44 | 25 3 |
| 26 - 30 | 50 | 28 7 |
| 31 - 35 | 37 | 21 3 |
| 36 - 40 | 14 | 8 0 |
| 41 - 45 | 12 | 6 9 |
| 46 - 50 | 3 | 1 7 |
| 51 - 55 | 3 | 1 7 |
| 56 - 60 | 1 | 0 6 |
| Over 60 | 3 | 1 7 |
| **Total** | 174 | 99.9 |

**TABLE 4-2**
**FORMAL EDUCATION OF OWNERS IN TEXTILES**

| YEARS OF EDUCATION | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| No Formal Educ | 2 | 1 1 |
| 6 or Primary | 62 | 35 6 |
| 8 | 28 | 16 1 |
| 10 | 39 | 22 4 |
| 12 | 35 | 20 1 |
| 14 | 8 | 4 6 |
| **Total** | 174 | 99.9 |

# BARRIERS TO ENTRY

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Economies of scale and product differentiation are listed as the first two of six sources that provide barriers to entry into an industry. For textiles, both economies of scale and product differentiation are found to be slight and do not provide a substantial barrier to firms intending to enter into this industry. The small-scale manufacturer interviewed in this study are not of the size that would take advantage of significant economies of scale and the proliferation of standardized output provide for ease of entry here.

In textiles, about half of the entrepreneurs will have had only one job experience before taking on self-employment. The periods spent in employment appear to be less than in the other industries of woodwork and metalwork (where on average one has about two job experiences before entering into self-employment). This again, provides a minimal barrier to entry.

Low initial financial requirements a primary the basis of easy entry into the sector (King and Abuodha, 1991). Initial machinery capital was the smallest of those industries examined at Kshs. 8,000. Relative to entry into the formal sector (where one must pay for a license and fees as well as establish permanent quarters) as a new entrepreneur, this is very low cost. Eighty-six percent of respondents reported that they rent the premises they use (see Table 7-2). Initial costs are, as well, low due to entrepreneurs ability to make machines or rent them. In tailoring, renting of machines combined with repair production enables an individual to start with initial can amount to as low as Kshs. 500. Machinery can be hired at Kshs. 300 per month, and working capital can cost as little as Kshs. 200. The entrepreneur then saves from repair earnings to buy her/his machinery and sets up her/his own production. Most investments are financed from past savings. Currently firms start business with no formal attachment to formal banking institutions. In fact, slightly over half of the respondents reported that they do not use banking facilities in their business (see Table 4-3). This relegates their status to not being credit worthy. Only 8 percent of the entrepreneurs said they had applied and obtained a loan.

A ready market of individuals prepared to purchase from a convenient textile manufacturer adds to the ease of entry. No strong loyalty exists between most producers and their target market. Thus, the market is ripe for anyone who enters with any competitive advantage.

TABLE 4-3
RELATIONS WITH FINANCIAL INSTITUTIONS:
TEXTILES

| MONEY IN BANK | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 90 | 51 4 |
| Yes | 85 | 48 6 |
| Total | 175 | 100.0 |
| RECEIVED LOAN | | |
| No | 33 | 18 9 |
| Yes | 14 | 8 0 |
| Never Applied | 128 | 73 1 |
| Total | 175 | 100.0 |

Another factor contributing to the ease of entry is the lack of sophisticated training required to enter the field. For example, dresses and shirts are easy to produce after a minimum amount of training. Several entrepreneurs interviewed indicated that a friend taught them in a short period of time. Training within the sector would add to ease of entry.

Cost disadvantages, independent of size, is another possible barrier to entry for new firms. Here, existing firms will have an advantage due to the effects of the learning curve (or in other terms the experience curve), or a favorable location. For this industry this would seem to provide a significant barrier in that of the sampled firms very few were found to be under two years of age (see Table 3-5).

The final two barriers to entry are access to distribution channels and government policy. Distribution channels are examined under the topic relations with suppliers and customers while the government policy is discussed the under the topic relation with civil authority. To summarize, access to distribution is not a strong barrier to entry while government restriction to those entering the field (through business registration and taxation) is all but ignored.

## RELATIONS TO SUPPLIERS

A number of questions were asked of textiles entrepreneurs concerning their relationship with their suppliers. One of the most crucial questions concerned the extent to which the supplier would extend credit to the respondent's business. Table 4-5 summarizes their responses.

**TABLE 4-4**
**RELATIONS WITH SUPPLIERS: TEXTILES**

| CHARGED FAIR PRICE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 90 | 51 4 |
| Yes | 80 | 45 7 |
| N/A | 5 | 2 9 |
| **Total** | **175** | **100.0** |
| **WHY CURRENT SUPPLIER** | | |
| N/A | 61 | 34 9 |
| Only Source | 69 | 39 4 |
| Nearby/Accessible | 19 | 10 9 |
| Sells in Quantities | 25 | 14 3 |
| Gives Credit | 1 | 0 6 |
| **Total** | **175** | **100.1** |

In textiles, 78 percent said that they must always pay cash when purchasing materials. Only 17 percent of all firms answered "yes" to the question of whether their "raw materials were hard to get." Yet over half of all firms said that they did not feel that they were being charged a fair price for their raw materials (see Table 4-5 above). About 40 percent of firms questioned said that this was their only source of supplies. Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services.

A number of producers bought sufficient raw materials to sell to other producers. This system precluded any one supplier from charging prices out of the ordinary. Moreover, buyers were able to do a limited amount of comparative shopping. Materials seem to be easy to get, yet there is a perception of unfairness by suppliers in the pricing of products to firms in this industry. The supplier group seemed to be dominated by a few companies which again, renders those companies power over industry customers.

## RELATIONS TO BUYERS (i.e., CUSTOMERS)

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other. All of this is at the expense of industry profitability. Almost 89 percent of the respondents said that they bargain with their customers in order to increase sales (see Table 4-6). This is a very common practice in all informal sector activity. One strategy by entrepreneurs to increase profitability is to differentiate their product from other similar products. In this way, the entrepreneur can charge a premium for her/his differentiated product. In the textile industry, 94 percent of those interviewed said that their products are identical to others being sold in the market. This is the highest response to this question in the three industries investigated. Thus, a standard or undifferentiated product shifts relative power to the buyer. While a third of the industry is more craft oriented in production of their product (the entire product is produced by one person), it would seem that mass production techniques are used to drive down unit costs in production.

Several factors mitigate against the buyer and for the seller. Most products do not represent a significant fraction of the buyer's costs or purchases. Also, the buyers do not usually purchase in bulk which would enhance their position.

**TABLE 4-5**
**SELLING STRATEGIES: TEXTILES**

| STRATEGY | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| Fixed | 15 | 8 6 |
| Discount | 5 | 2 9 |
| Bargain | 155 | 88 6 |
| **Total** | **175** | 100.1 |

## SUBSTITUTE PRODUCTS

Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. Substitute products are those that can perform the same function as the product of the industry. For textiles, the source of greatest competition is from the imported second-hand clothing market.

This represents a major threat to a number of the small textile businesses. One shoe maker indicated that he could not repair shoes as cheaply as a person could buy a new imported pair. Yet, he stated that he hoped that customer loyalty would cause her/him to buy home produced products. Unfortunately for this producer, history has shown that one generally seeks to satisfy his/her own self interest.

Rivalry among existing competitors takes the familiar form of jockeying for position, that is, using tactics like price competition and new product introduction. In the textiles industry, competitors are numerous and are approximately equal in size and power. This promotes the intense competition already in place due to the slow growth of the industry.

## RELATIONS TO CIVIL AUTHORITY

Writers with the ILO (1972) stressed the relationship to law and civil authority as essential to micro-enterprises' designation as formal or informal. Examples usually cited are the presence or absence of a business license, the payment of taxes, and instances of official harassment (McCormick, 1988). Government restriction to those entering the field through business registration and taxation is as well a possible barrier to entry.

**TABLE 4-6**
**RELATIONS WITH THE GOVERNMENT: TEXTILES**

| HAVE A LICENSE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 96 | 54 9 |
| Yes | 79 | 45 1 |
| **Total** | 175 | 100.0 |
| **PAY TAXES** | | |
| No | 159 | 91 9 |
| Yes | 14 | 8 1 |
| **Total** | 173 | 100.0 |
| **HAVE BEEN HARASSED** | | |
| No | 139 | 79 4 |
| Yes | 36 | 20 6 |
| **Total** | 175 | 100.0 |

While almost 55 percent of firms said they had no license, an astounding 92 percent said they paid no taxes (Table 4-7). Roughly 20 percent of firms in this industry indicated they had been harassed by government officials. This is about the same number as reported in earlier studies (King and Abuodha, 1991; House, 1978).

## CONCLUSION

Textiles has experienced less conspicuous technological growth over the years than the other sectors studied. Entrepreneurs in this industry are currently better educated than 20 years ago (King and Abuodha, 1991). Higher costs of living and a continuous steady fall in real wages in the sector have put pressure on both highly educated and less educated workers to seek alternative ways of earning, to uphold and improve the quality of their lives. This could be the basis for improving educational levels in the sector.

In tailoring, a large proportion of firms compete head-to-head in just one or two sub-groupings. A majority of entrepreneurs in these sectors produce low quality goods meant for low income consumers. Sixty-seven percent of tailors produce for this market. Input into this industry's production methods in terms of product design and man-hours of labor are cheap and low due to the similarity of products. Such production methods are widespread and can be achieved by any tailor. Product duplication is rampant.

Such product duplications across an industry tend to lower prices of the product. Competition is very stiff among enterprises in this industry. Again textile workers produce for low income earners. This would seem to indicate serious constraints in product design and differentiation in these industries. Because of poor quality production in tailoring, the magnitude of second-hand clothing seriously affects garment sales. These second-hand products are primarily cheap, of better quality even though used and might be even more durable. The tailoring industry has to take these considerations into account if the sector is to grow into a meaningful garment-making sector.

# TEXTILES INDUSTRY CASES

## Textiles Case Number 1: The Agutu Petticoats Enterprise

Mrs. Celestine Agutu (25) was born in the late 1960s in Ugenya, Siaya district, to a technician father and a businesswoman. Mrs. Agutu has been married twice. The first marriage ended due to social wrangles. The second marriage has been successful. The couple has no children.

Mrs. Agutu completed her primary and secondary education in the district. Unfortunately, she did not excel during her secondary education, thus compelling her to drop out while in Form III. A few months after she dropped out of school, her mother advised her to pursue another career that would make her secure financially. Mrs. Agutu then moved to Nairobi, where her father decided that she should attend a technical college. She finished her training and received certification within a year's time. She proceeded to Kisumu in 1989 where she worked at her mother's tailoring business, gaining valuable business experience. By mid-1990, she had become a qualified fundi (craftsman), specialized in tailoring all types of women dresses.

Mrs. Agutu's business is located in Kibuye Market. The market is located off the Jomo Kenyatta Highway, approximately 1.6 miles (2.5 kilometers) from the Kisumu town center. Kibuye market is the largest open air market in Nyanza and possibly in Western Kenya. This is where all of the essential businesses in Kisumu take place. Moreover, it is the center for the Jua Kali artisans in Kisumu.

Mrs. Agutu's enterprise produces petticoats and inner-wears in all sizes. This is a very competitive market in Kibuye. Making petticoats is very inexpensive and but productive activity. As a result of these two key factors, her business has been quite successful.

She claims that unlike other business owners in the market who rely on customers from different parts of the province, she travels throughout the three bordering provinces marketing and selling her products. She believes that this strategy has worked to her advantage. The disadvantage of this strategy, however, is that within the three provinces of Nyanza, Western, and Rift Valley in which she travels, most customers are from rural areas. It, therefore, takes her longer to meet the same number of people than her competitors.

Workers in her business are very efficient and competitive because they are paid per piece produced, that is, the faster each worker completes a final product the more he/she is paid. Since it takes a minimum of 10 minutes for a worker to complete one petticoat, the business has been able to produce approximately 3,500 of this product in a week. The high productivity in Mrs. Agutu's enterprise is, in part, the result of the friendly relationship between the owner and worker. In addition to being a very personable individual, Mrs. Agutu offers her workers favorable incentives. For example, the owner pays for the lunch of any worker who works during lunch break.

Mrs. Agutu's business was started by her mother in January 1989. Although her mother was not a tailor herself, she managed the enterprise for one year before handing over everything to Mrs. Agutu as a wedding gift. At that time, the business had two sewing machines and some materials. But after several months, the business was boosted by Mrs. Agutu's first husband who brought three second-hand sewing machines and additional capital.

Mrs. Agutu's business has suffered two additional setbacks that have caused a drastic slump in business: a fire and a robbery. In July 1993, a fire destroyed property worth Kshs. 30,000. After the fire, looters stole a sewing machine, reducing the level of tailoring at Mrs. Agutu's business. This, however, has not discouraged her. She is determined to make her business stronger again. At the present, Mrs.

Agutu believes that her business is still fledgling primarily due to the prevalent problems of marketing and inflation.

## Textiles Case Number 2: Nyal Aliew Tailors

Mrs. Esther Oketch (44) comes from Kisumu district (Nyanza Province). She is married to a husband who has had great health-related problems. Her husband suffers from diabetes. Her husband's deteriorating health has greatly consumed the family's income. This problem has subjected Mrs. Okech's business to severe financial and management constraints. Taking care of her sick husband has also been very time-consuming. For example, she has to regularly travel about 50 miles (80 kilometers) from Kisumu to the private hospital where her husband is receiving medical treatment. Mrs. Okech has five children, three daughters and two sons, all of which are in secondary school.

The business is located in Manyatta estate in a section called Manyatta "A". The building is a permanent structure and situated on a side road along the Kondele-Manyatta road, opposite New Nyanza General Hospital. The premises have a sign posted at the main entrance reading "Nyal Aliew Tailors". The business specializes in making ladies dresses and school uniforms. At times, Mrs. Okech repairs damaged clothes; however, she only does repairs very seldom because this line of business yields little profit.

She started her business in January 1982 using the money she received from working as a laborer for the Kisumu Municipal Council. At the start of the business, she bought two sewing machines from a friend whose business had just collapsed due to financial difficulties. She then hired two casual workers who assisted her in making the products. Because she did not have tailoring skills which she acquired later, her responsibility was mainly managerial.

Mrs. Okech says that she has had a great deal of family-related problems. As a result, she has been forced to sell one of her sewing machines to have enough money to support her children's education and the ailing husband. Although she currently owns two sewing machines, she wanted to rent three from a friend. She was unable to do so because of a lack of adequate funds. Mrs. Okech indicated that she is the only person working in the business currently because there is not enough income to pay other hired fundis. Being alone has caused her to change her production strategy. She now make dresses on order only. One of the most difficult problems for Mrs. Okech is the decrease in her regular customers. Since she has to care for her sick husband, she is not always in her shop when her customers need her. As a result, her customers have occasionally found other entrepreneurs to meet their tailoring needs.

Another problem she is facing is the lack of license which the Municipal Council requires. If she does not obtain one by the deadline, the Council threatens closure of her business. On one occasion, the Council confiscated her sewing machines, thus forcing her to close the business for three weeks. As a result, she had to solicit funds to reopen the business.

## Textiles Case Number 3:
## A Housewife Turned Business Entrepreneur

Mrs. Wilhelmina Onyango (44) operates a small scale textile manufacturing industry in Kibuye Market which is located approximately 1.5 miles (2 kilometers) from Kisumu town center. She is married with five children. Her eldest son works with a big firm in Nairobi. Two of her children are attending secondary school while the remaining two are in primary school. Her husband works for the Ministry of Finance in the Department of Income Tax. Aside from the income generated by her business, she receives between Kshs. 3,000 and 4,000 monthly from her husband and her eldest son. Mrs. Onyango and her family live in Manyatta estate, located within Kisumu town but about 2.5 miles (4 kilometers) from the town center.

Mrs. Onyango started operating her business in 1986. She, however, comments that between the period 1986 to 1989 the undertaking was not really a serious business because she had one sewing machine and was only repairing clothes. At that time, she did not even operate her business from a temporary structure, but from her home. Thus, she could only do this work once a week due to too many domestic chores. Mrs. Onyango says she considered herself more as a housewife than an business entrepreneur.

She received her starting capital from her husband who still provides some financial support for the business. Only after being advised by her friends, did she decide to seriously take up this business to supplement the family income. From 1989 to 1993, she operated her business in Nairobi, but moved to Kisumu when her husband was transferred from Nairobi in late 1992. She says that operating her business in Kisumu is better than in Nairobi because the cost of living and cost of operating the business is lower in Kisumu.

Other advantages to working in Kisumu include the environment. Mrs. Onyango came from Seme in Kisumu district the people she interacts with are Luos (one of Kenya's ethnic groups). She is a Luo herself. Thus, most of her customers are Luos. She maintains that she and the Luos understand each other better.

For a woman, she says that running a business is an extraordinary difficult task as one must take care of the family members in the morning before they go to their usual destinations and must be back home before they return. This forces her to have to leave for her business at around 10:00 a.m. and leave for home at 3:00 p.m. At the end of her day's activities, she retires to bed as the most exhausted member of the family.

At the time of the interview, Mrs. Onyango's business had four sewing machines. She said that she bought the other three from profits she receives from her business and from financial assistance from a women's group called the Kojwach Rangers Women Group. This organization assists members financially. The members also save money together. When questioned about acquiring loans from financial institutions, she indicated that she believes these loans are for rich people in society, who have collateral. She presently does not have the required collateral to qualify for such loans.

## Textiles Case Number 4: Ogola Apparels

Ms. Joyce Ogola (22), is the sole proprietor of a tailoring business. Her shop is located on the veranda of a small hotel on a main road in a residential neighborhood. She makes apparel for small children, thus her products are identical to those of other fundis. However, she tends to make shorts, shirts, and dresses for small children in the pre-school standard. Her main products are shirts and dresses. Her business began in April 1993 with the purchase of a sewing machine and a pair of scissors from her own savings. Her beginning capital was Kshs. 3,000.

She acquires her raw materials such as cloth, thread, buttons, zippers and elastic bands, from shops in town and pays cash for them. She likes purchasing from these shops because they are easily accessible, the prices are fair, and the materials which she needs are always available. Occasionally, she keeps raw materials in stock for her own use. Ms. Ogola works alone without the assistance of hired fundis or casual laborers. It is for these reasons that she feels, that her business is still in its infancy stage. She feels the machinery she uses is inferior for producing quality products. Her ambition, therefore, is to obtain more and better equipment in her work place.

Her method of calculating prices is far different from the pricing methods of most fundis. She charges only for labor and bargains with her customers. Customers who bring their own materials receive the best bargains.

Ms. Ogola's shop is located on the veranda of a hotel without electricity. She does not believes she suffers any disadvantage because she does not use electricity in the production process. Piped water is also unavailable. This does not create a problem because she seldom uses water to make her products. There is no fee charged for the transportation of raw materials because they are of meager quantities. Thus, overall her overhead is low.

She does not pay taxes, and she does not have a license. She is constantly being harassed by municipal tax or revenue collectors who require her to have a license. Ms. Ogola rents her business premises for Kshs. 300 per month. The rent has not increased significantly in the last year. She has been rather fortunate that she does not have any other expenses connected to the work place.

Most of her customers are people who live in her neighborhood and who are encouraged to bring their own material when requesting her to make an item for them. A nominal fee is paid down by a customer when placing an order. In order to let her customers know when the shop is open, she place a sign on the veranda with specific times. Credit is extended to her regular customers for up to two months, and, at times, she allows them a grace period. At the time of the interview, her receivables were only Kshs. 400.

## Textiles Case Number 5: Mrembo Tailors

Mrembo Tailors, operated by Mr. Amos Onchuru, a 24 year old man, is located on the veranda of a dry cleaning/laundry premise in the Huruma estate in Eldoret town. The business is located on a side road called Pilot Street. Mr. Onchuru is a sole proprietor of a tailoring business where he specializes in making men's apparel, namely suits, trousers, and shorts.

Mr. Onchuru has no children. He, however, has six dependents: his parents and four brothers. His family depends on him because he was the only one to complete the primary level education. He speaks fluent Kiswahili, English, his vernacular language, and Luo.

Realizing that his parents could not afford to put him through secondary school, Mr. Onchuru chose tailoring as his trade because it is less expensive and easier to learn. He received his training at the Jua Kali land which belonged to a relative with whom he stayed when he came to Eldoret in September 1990. He has never done any other work because tailoring is the only trade he has learned.

Mr. Onchuru started his business in February 1993 with a capital of Kshs. 300 from own savings. At that time, he had no tools or machinery. He used money that he earned doing some manual work for a relative for several months. He later used part of the money to buy materials and to rent the machines.

Mr. Onchuru is among the few manufacturers who rent machines for use in his business. He works alone and does not employ casual laborers because business is still unable to support itself. As his business is still relatively young, he is looking forward to buying his own machines and better equipment. Hopefully he will also be in a position to hire someone to help him.

This tailor makes products identical to those of other fundis. He buys his materials from town very easily. He continues to buy from shop owners in town because they sell the vast quantities he needs at a fair price.

With the help of other well established fundis who own highly efficient machines for making button holes, he is able to make descent products. When making an item, his price includes material cost, labor charge, and profit. He usually bargains with his customers, keeping his price at a competitive minimum. His customers pay a deposit of more than fifty percent of the selling price.

Because he does not have enough capital, he does not keep extra materials in stock. When he can not obtain raw materials, he repairs clothing. He only charges for labor for repair jobs. His customers must always pay cash regardless of whether he is making apparel for them or repairing an item.

Due to the relatively young age of his business, he feels there is no need for a business license. He has, however, endured constant harassment from municipal council revenue/tax collectors. For this reason, he hopes to obtain a business license soon. He feels that he can only do so after finding a better location for his business in town.

He pays a monthly rent of Kshs. 200 to a private land owner and this rent has increased since he started renting the premises. Although he needs piped water instead of electricity in making his products, it is unaccessible at this time. In the future, he wishes to have a permanent structure with electrical power, locks, security, and better equipment.

To purchase the equipment and raw materials necessary for expansion and improvement of his business, he clearly needs additional capital. However, because his business is still young, this businessman does not foresee the need for taking out a loan in the near future.

As for his market, his main buyers are people from town and those in rural areas. He takes samples to potential customers to encourage them to buy his products. This is done by displaying ready-made products for those customers who are awaiting their orders from him before they come to collect the items. When he has earned enough money for selling to the public, he displays the extra apparel on the premise.

Because he does not keep written records of his business transactions, he can not keep track of his own expenditures. He believes the business costs him about Kshs. 1,600 per month. The young man takes money for his personal expenses as needed and uses the rest of the profit to support his six relatives.

Mr. Onchuru does not belong to any business association since he is still unaware of the existence of such associations. He is willing to get financial consulting and assistance, although to date he has never been a beneficiary of these services. He feels that owning one big business is a worthwhile investment because it is easier to manage and it yields more profit. However, Mr. Onchuru laments that his parents are very poor. The main reason for this poverty is they have a very small farm that uses all the harvest to subsist.

However, he is optimistic that forming a larger association would be advantageous to him and other business people. He believes that dependency upon others may force a business to fail; therefore, he prefers an association in which businesses would remain independent, but at the same time, would join hands in buying raw materials. This, he believes, would solve the problem of marketing. If there was a ready market available, he would happily work day and night to gain more profits. Though he feels his business is somewhat successful, he believes that acquiring assistance for improving business and furthering his skills could result in much greater prosperity for him.

## Textiles Case Number 6:
## Mr. Ingasia the Shoe Maker

Mr. David Ingasia (20) is a single man, who was born in Kakamega (Western Province). He came to Langas, Eldoret in 1985 with his parents. He dropped from primary school at an early age. He speaks Kiswahili and, of course, his native language, but he does not speak English.

Mr. Ingasia makes leather and canvas shoes, a craft which he learned from his father who is also a shoe maker. He originally worked for his father, then left to set up his own shoe making business. This is just one of several of the family businesses. The shoe making business is located at the Langas Stage on a veranda of a semi-permanent building.

His products are identical to those made by many fundis around the area. He obtains his leather, canvas, glue adhesives, and threads from shops in town. At times, he runs short on raw materials, and consequently, must stop making the items until he can obtain the materials. Sometimes when money is available, he buys a stock that can last for at least a week.

Mr. Ingasia works alone in this business. When his business grows larger and more profitable, he plans to train and employ other people, including women. He hopes to marry a young woman to assist him with work when he is away or when the work load becomes too much for one person to handle.

Like many other businessmen, he charges a fair price for his products to attract more customers. Usually, that amount is Kshs. 270 per pair, however he often negotiates a price with his customers. Generally, Mr. Ingasia makes leather shoes more often than canvas shoes. He primarily sells his products to people who live around the area, and at times to people from rural areas. He has been trying to obtain orders from potential customers who will buy shoes in large quantities, but he has yet to succeed. He believes his only way of winning customers is by being polite, friendly, and convincing with high quality product, especially in such a highly competitive area. Therefore, Mr. Ingasia makes sure his products are always available and of high quality. He also is careful to ensure that he fulfilled the terms to which he and his customers agree so they do not loose confidence in him.

It is unfortunate that there is no electricity in the building, causing him to abandon work at times when it gets dark. For this reason, he is not able to complete all of his orders for the day. This results in a mistrust between him and his customers who come the following day, only to find that the work is not completed by the time agreed upon.

Because he is not well established, Mr. Ingasia has not obtained a license for his business. Nonetheless, he has not been harassed at any time by the municipal council authorities. He rents the workplace at a rate of Kshs. 100 per month.

Of all problems associated with the business, lack of capital to buy raw materials and equipment is supreme. When he worked with his father, he earned Kshs. 300. He used this money to buy some materials to start repairing shoes. After working diligently, he finally gained economic stability and was able to start making new shoes.

In most cases, those who can provide evidence of surety can be granted a loan. However, he has never applied for a loan for his business because he cannot afford to make the principal and interest payments. Mr. Ingasia hopes he will be able to apply for a loan in five years time.

He does not keep records of business transactions because he has not learned how to do so. He, however, believes that his products have yielded some profit, although he does not know how much. He uses some of these profits to cover personal expenses.

He chose to work in this business because he likes it better than other trades. He was motivated to start a business early in his life when he had to leave school at an early age. He believes that there is no real advantage to employment with a larger company which manufacturers the same product, because he feels he can earn just as much money, if not more, at his current business. However, he feels that forming a large organization with other shoe makers is a good idea because the production process would be divided and efficiency would be achieved. Furthermore, Mr. Ingasia believes that their products would be more easily marketed. The only disadvantage of this larger organization would be dishonesty among members. Mr. Ingasia prefers a co-operative in which the management and the employees would all participate. This option would provide employees with an opportunity to play a role in the management of the business.

Mr. Ingasia hopes to see his business grow much larger, although, at the moment, he sees it as unsuccessful. He hopes to buy more raw materials and equipment, like a sewing machine, that would help to save money and time. To help make his business a success, Mr.

Ingasia would like two things: (i) technical assistance to help him make better products; and (ii) transportation as a means of getting the products to the export market.

Mr. Ingasia is worried that competition may drive him out of business. He pointed out that second hand imported shoes and clothing, called "mitumba," are very popular and are being sold at a cheaper price. These shoes and clothing, he admitted, are sometimes better than locally made products. However, he feels that the patronization of the market of and upcoming local shoe makers is desperately needed. But because the location of competitors is closer to town, people prefer to buy shoes from them will eventually cause problems for businesses such as Mr. Ingasia's. If the trend continues, Mr. Ingasia hopes to relocate to the country-side to establish a new small business.

## Textiles Case Number 7: Mrs. Ndegwa the Eternal Optimist

One can not judge Mrs. Esther Ndegwa's personality simply by looking at her physical appearance. Her physical appearance gives no clues of who Mrs. Ndegwa is. After few minutes of visiting with her, one discovers that Mrs. Ndegwa is a fiercely determined individual who has much confidence in her work and her ability to succeed. These two characteristics have enabled her to achieve much success in her business within a short period of time.

Mrs. Ndegwa (27) is married to Rev. Koome Ndegwa, a local pastor in Meru town (Eastern Province). Their three-year marriage has resulted in two-year old twins: a boy and girl. Although Mrs. Ndegwa was not a high achiever in school, she received a decent education. After finishing primary school in 1987, she joined a local harambee secondary school. She did not excel in secondary school, thus she was forced to consider enrollment in a trade school as college was out of the realm of possibilities. For Mrs. Ndegwa, going to college was just one of many life dreams. Her parents did not make enough money to put her through a private college.

Many in her situation would have given up early in life. Mrs. Ndegwa, the eternal optimist, however, did not allow herself to wallow in self pity and despair. Her sense of determination in spite of the odds almost moved the interviewer to tears. She told her life story with such hope that, rather than pitying her, he felt inspired. As she continued, the interviewer could not help but notice the enthusiasm with which she worked. Even, his barrage of questions did not seem to interfere with her work, which she continued to meticulously undertake, namely sorting, straightening, sewing, and folding the clothing as if the interviewer was not present. When asked, "How, then, did you learn this skill", Mrs. Ndegwa sighed deeply and looked as if she was reminiscing. She replied that she learned the skill from a friend in Meru.

After years of working on her parent's farm, in 1988 Mrs. Ndegwa decided to move to Meru and live with an aunt while looking for financial security. While there, she met June, who had a profound impact on her life. June was probably inspirational in part because she shared a similar background with Mrs. Ndegwa. June operated a small tailoring kiosk. In June, Mrs. Ndegwa found what she lacked in herself; self-motivation.

Like Mrs. Ndegwa, June had also come to Meru to look for a job, but after finding none, taught herself tailoring. She enrolled in part-time classes with the assistance of her oldest sister. June introduced Mrs. Ndegwa to a sewing machine and allowed her to practice some simple sewing. Not only did June teach Mrs. Ndegwa about the fundamentals of tailoring, but also how to keep customers (customer relations), good records (bookkeeping), and exploring new designs to meet the clothing needs of a dynamic society (marketing). It was through this apprenticeship that Mrs. Ndegwa became a competent tailor.

Although Mrs. Ndegwa had a talent and skills for sewing, she lacked equipment and tools of her trade. Initially, she sold her services to other established "fundis", while continuing to help her parents with farming. Later, her parents gave her money from selling some produce from their farm. In addition, her mother, who was a member of a self-help women's organization, obtained some money for the purchase of equipment, including a sewing machine.

Once she secured the tools of her trade, the next step was to locate a site for her business. She located a shopkeeper who was amenable enough to allowing her to work on his premises and entered an agreement to use some space on his veranda.

Mrs. Ndegwa later managed to purchase a top of the line sewing machine. She spent much time mending worn-out clothes, however, her real specialty was original items that she sewed. Her business' popularity was certainly due to the original items she sold. But, Mrs. Ndegwa, realizing the importance of keeping all of her options open, made a conscious effort to do all types of tailoring work.

When she married in 1990, she had to cope with both her married life and a career. Then, Mrs. Ndegwa realized that she needed more working space as her business expanded. With the help of her husband, Mrs. Ndegwa managed to purchase a shed at Makutano Market. By the end of 1990, the shed had been transformed into a sizeable tailoring kiosk.

Mrs. Ndegwa then began training another person to assist in the event purchase orders exceeded production. By mid-1992, although she was expecting a child, work proceeded as normal because she had an assistant.

Of all of her business-related experiences, Mrs. Ndegwa still vividly remembers how she acquired her second machine. "You know what," she explained, "God moves in mysterious ways. His wonders to perform. While I was scratching my head wondering where to get another machine, I simply won one in the OMO [powder detergent manufactured by the East African Industries Ltd.] sales promotion competition!"

Mrs. Ndegwa's kiosk is very popular because she knows the secret to a successful business: Always treat your customers with a smile and place their interests before yours. For this reason, she receives many orders and particularly likes designing new tailored fashions.

To operate more efficiently, Mrs. Ndegwa has begun saving money to purchase an electric sewing machine which should boost her sales. Presently, she continues to face various obstacles. Inflation makes her customers unreliable, which in turn makes it difficult for her to acquire a permanent structure. In spite of these challenges, she remains full of hope for the best and continues to provide top quality tailoring.

## Textiles Case Number 8: Murerwa Shoe Repair

Juma Murerwa is a sole proprietor who makes and repairs shoes, on Njuricheke Road, Meru town. Juma's location is very striking because he can be seen from a far off the road. His business site is located at a veranda of another shop. This proprietor is in leather footwear business. He makes and repairs shoes. He has no shelter, no adequate roof to protect him from the hot sun and rain: a typical Jua Kali person in Kenya. He has put four sticks up to hold a polyethylene paper to keep him from getting wet when it rains.

In talking with Juma, one is amazed by his positive attitude despite his situation. He is jolly and happy to talk to the interviewers and more than happy to provide the information he is asked. Juma is married with 5 children. He started his business in 1981 with only primary school education. The biggest problem involved in starting this business was lack of capital to buy raw materials. Equipment and tools were also not available. He started the business with a needle and his own savings of only Kshs. 100. The business was started alone. He has never bothered to apply for loan. When asked why he said he simply cannot afford to payback interest and the principal.

As interviewers continued to talked to Juma, they learned more about his family background. Both his father and grandfather were farmers. His wife and his mother also work in the farm. He seemed to have no background in business and no training. He told the interviewers that the reason he was in that business is because he could not find any other work that he was qualified to do. His family depends on him for support. It costs him between Kshs. 500-600 to run his business. It takes an average of Kshs. 2,000 to take care of his personal and other family responsibilities each month. He does not pay himself a salary, instead he takes money as needed from the business to meet his personal and family needs. Other than this business, he has no other source of money. He confessed that he would like the business to grow. He prefers to continue working in the same business rather than change to something else in the next five years.

The most surprising thing about Juma is the perception of himself. He feels that he is successful in his business. When asked how he substantiate this claim, he simply says: "Anyone who can be able to provide the basic necessities to his family ought to consider himself successful." He expressed the desire that he would also like to see other members of his family engaged in same sort of business. He seemed to be a family man because of all the things centered around his family. It seemed that the main reason for Juma's business was actually to provide for his family. He enjoys the freedom he has in self-employment and the fact that he is flexible to do what he wants. Despite the fact that the Government and the banks have not been able to help him in any way, he did not seem bitter about it. All he said was that he wished there were enough Matatus (mini-buses commonly used for public transportation) so he could travel to and from work comfortably. He wondered why the banks discriminate against "small people" like him. He was interested in knowing what strategies and "magic" he could use to get money from the bank.

He has a part-time worker to help. He, however, said he could never have a woman to help him. He believed that the Meru Culture and traditions do not allow for that. Women should work at home and on the farm but not in public places or on the streets making shoes for that matter.

## Textiles Case Number 9: Tailoring at Gakoromone Market

Many Meru have small tailoring businesses at Gakoromone market. Gakoromone market is in Meru town but situated at one end of the town. Khadijahh Karanja is a tailor who makes clothes for customers in town and rural areas. Although she tailors for both men and women, she says ladies dresses are the most important product in her business. Khadijah (27), started her business in 1990. She is single and looks determined to make her business successful. She was born in Meru and has lived there all her life.

She used her own savings to the tune of Kshs. 2,000 to start the business. Her father also helped her with the business tools. She remembers this support in a very appreciative manner. Her father is a businessman and she can count on him for help. Her mother is a farmer. She has no dependents. In this sense she is unlike many other small businesspersons in Kenya who have a lot of responsibilities to support a number of dependents. Although she is in business to provide for her expenses, she is also out to offer good products to her customers. She knows that the price of her products is not only determined by the materials and time she puts into it but also the quality of her products.

She has never applied for a loan. When asked why she has never applied for a loan she says that the business is too young to take on a loan. Her customers are people who live around the market and people from the rural areas. She advertises by telling customers to bring their friends and all the customers pay cash. She told the interviewers that she had learned a good lesson from other tailoring friends who sold on credit and never recovered their debts.

She is working hard on her business in a more professional/business way. Apart from her primary education she has also attended the Village Polytechnic where she learnt tailoring. She has learnt to keep records which she does every day and also takes money to the bank. She is fearful of her money being stolen like her other friends.

She told the interviewers that she is planning to expand her business by enlarging her present shop. Khadijah seems to be more aware of what the business entails, although not at the advanced level. She has the basic skills and the determination to succeed. She also has the support from her father which is very important.

As the interview progressed, she expressed her doubts and fears about business and her expectations of what she wants the business to be. She seemed to be so afraid of failure. She feels the time is going to come where she will have to support her young brothers and sisters. However, before she can adequately do that, she feels that her business has to grow first.

She complained how the banks are so unfair and biased against women and blamed her culture and traditions for looking down, upon women. She lamented the fact that women have to work twice as hard as men to succeed and be good in businesspersons. She complained about the government and why it cannot fix the ailing infrastructure. Its so hard to get to the rural areas, especially during the rainy season. The lack of support in getting production inputs, marketing her products, and the ability to improve technical capability of the enterprise were her major concerns.

# CHAPTER V

## INDUSTRY ANALYSIS: WOODWORK

This industry is central to the micro-enterprises sector and makes up 63 percent of the enterprises in the more broadly defined forest-based product industry (Parker and Torres, 1994). Woodworking is highly diversified. In recent times, many different kinds of locally made woodlathe and other bench and hand-saws are available. In combination with handtools and clamps, they have revolutionized the design and quality of furniture, especially in the urban areas. This sector consists largely of enterprises making wooden furniture but includes charcoal, rope or twine, and baskets. Not included in the industry are enterprises transforming forest-based resources into building materials, which would be categorized with the construction industry. Roughly half of the firms in this industry have 3 or fewer employees (see Table 3-3) and 70 percent of the firms have been in existence for more than three years (see Table 3-4). About equal proportions of establishments are to be found in open-air sites and permanent site locations (see Table 3-5).

The sub-sector produces for two separate markets. The largest comprises 90 percent of the revenues and is the low quality goods market made for low income consumers. The remaining 10 percent are higher quality goods for more middle income consumers.

Roughly 75 percent of the entrepreneurs in this industry are between 21 and 35 years of age with again only 1 percent having not completed primary school (see Tables 5-1 and 5-2). Fifty-three percent had completed secondary education (compared to 42 percent in textiles) and 43 percent had only completed primary education.

TABLE 5-1
AGE OF THE OWNERS IN WOODWORK

| AGE OF OWNER | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| 16 - 20 | 5 | 5.1 |
| 21 - 25 | 12 | 12 2 |
| 26 - 30 | 37 | 37 8 |
| 31 - 35 | 24 | 24 5 |
| 36 - 40 | 10 | 10 2 |
| 41 - 45 | 3 | 3 1 |
| 46 - 50 | 1 | 1 0 |
| 51 - 55 | 2 | 2 0 |
| 56 - 60 | 2 | 2 0 |
| Over 60 | 2 | 2 0 |
| **Total** | **98** | **99.9** |

TABLE 5-2
FORMAL EDUCATION OF OWNERS IN WOODWORK

| YEARS OF EDUCATION | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| No Formal Educ | 1 | 1.0 |
| 6 or Primary | 21 | 21 6 |
| 8 | 21 | 21 6 |
| 10 | 27 | 27 8 |
| 12 | 24 | 24 7 |
| 14 | 3 | 3 1 |
| **Total** | **97** | **99.8** |

## BARRIERS TO ENTRY

In woodworking, half of the entrepreneurs will have had only two jobs before venturing into self-employment. The periods spent in employment appear to be more than in other industries of textiles and metalwork (on average about ten years working experience).

For woodworking, both economies of scale and product differentiation are found to be slight though higher than in the textiles industry, but still do not provide a substantial barrier to firms intending to enter into this industry. The small-scale manufacturers interviewed in this study are not of the size that would take advantage of significant economies of scale and the proliferation of standardized output provide for ease of entry here.

Again, low initial financial requirements are a primary basis of easy entry into the sector. Initial capital requirement for machinery was Kshs. 13,000, while the initial financial capital was the highest of the industries analyzed at Kshs. 22,500. Relative to entry into the formal sector as a new entrepreneur, this is very low cost. Initial costs here are low as in textiles due to entrepreneurs' ability to make machines or rent them. The entrepreneur saves from repair earnings to buy her/his machinery and sets up her/his own production. Eighty-nine percent of the firms rent the facilities they are using (see Table 7-2). Most investments are financed from past savings. Currently firms start business with no formal attachment to formal banking institutions. Forty-six percent are presently not putting their money into a bank (see Table 5-3). This relegates their status to not being credit worthy. Only 9 percent said that they had applied and obtained a loan.

**TABLE 5-3**
**RELATIONS WITH FINANCIAL INSTITUTIONS: WOODWORKERS**

| MONEY IN BANK | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 45 | 45 9 |
| Yes | 43 | 54 1 |
| **Total** | 98 | 100.0 |
| **RECEIVED LOAN** | | |
| No | 14 | 14 3 |
| Yes | 9 | 9 2 |
| Never Applied | 75 | 76 5 |
| **Total** | 98 | 100.0 |

Cost disadvantages independent of size is another possible barrier to entry for new firms in woodworking. Here, existing companies have a substantial advantage due to the effects of the learning curve (or in other terms the experience curve), or a favorable location. For this industry, favorable location and learning curve experience seem to provide a significant barrier in that of the sampled firms, very few were found to be under two years of age (see Table 3-4).

Training within the sector is readily available and thus adds to ease of entry. The number of local trade schools providing training in woodwork contributed to the ease of entry. In addition, many of the entrepreneurs would train apprentices and at some point in time, the trainees would spin off into their own micro-businesses.

## RELATIONS TO SUPPLIERS

**TABLE 5-4**
**RELATIONS WITH SUPPLIERS: WOODWORKERS**

| CHARGED FAIR PRICE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 53 | 54 1 |
| Yes | 43 | 43 9 |
| N/A | 2 | 2 0 |
| **Total** | **98** | 100.0 |
| **WHY CURRENT SUPPLIER** | | |
| N/A | 33 | 33 7 |
| Only Source | 37 | 37 8 |
| Nearby/Accessible | 22 | 22 4 |
| Sells in Quantities | 6 | 6 1 |
| Gives Credit | 0 | 0 0 |
| **Total** | **98** | 100.0 |

Eighty-four percent of firms in the woodworking sector indicated that they must always pay cash to their supplier. This is slightly higher than the response from the other two industries of textiles or metalwork. Only 9 percent of the firms answered "yes" to the question of whether their "raw materials were hard to get." Yet 54 percent said that they did not feel that they were being charged a fair price for their raw materials (see Table 5-4). About 40 percent said that this was their only source of supplies.

Again, materials seem to be easy to get, yet there is a perception of unfairness by suppliers in the pricing of their products to firms in this industry.

## RELATIONS TO BUYERS (i.e., CUSTOMERS)

Almost 84 percent of the respondents said that they bargain with their customers in order to increase sales (see Table 5-5). In the woodworking industry, 91 percent of those interviewed said that their products are identical to others being sold in the market. This standard or undifferentiated product shifts relative power to the buyer. Fifty-six percent of the industry is craft oriented in production of their product, indicating that mass production techniques are being used to drive down unit costs in production.

**TABLE 5-5**
**SELLING STRATEGIES: WOODWORKERS**

| STRATEGY | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| Fixed | 2 | 2 0 |
| Discount | 1 | 1 0 |
| Bargain | 95 | 97 0 |
| **Total** | 98 | 100.0 |

Several factors mitigate against the buyer and for the seller. Most products do not represent a significant fraction of the buyers' costs or purchases. Also, the buyers do not usually purchase in bulk which would enhance their position.

## SUBSTITUTE PRODUCTS

The number of substitute items for wood were extremely limited. While plastic substitutes are available, they are not used by Jua Kali entrepreneurs. Moreover, chip boards (pressed wood) products were available but not used by Jua Kali entrepreneurs. Metal-type products were the only substitute observed.

# RELATIONS TO CIVIL AUTHORITY

**TABLE 5-6**
**RELATIONS WITH THE GOVERNMENT: WOODWORKERS**

| HAVE A LICENSE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 35 | 35.7 |
| Yes | 63 | 64 3 |
| **Total** | **98** | 100.0 |
| **PAY TAXES** | | |
| No | 70 | 72.9 |
| Yes | 26 | 27 1 |
| **Total** | **96** | 100.0 |
| **HAVE BEEN HARASSED** | | |
| No | 75 | 76 5 |
| Yes | 23 | 23 5 |
| **Total** | **98** | 100.0 |

Government restriction to those entering the field through business registration and taxation is as well a possible barrier to entry. While almost 36 percent of firms said they had no license, 73 percent said they paid no taxes (see Table 5-6). Roughly 23 percent of firms in this industry indicated they had been harassed by government officials. This is about the same proportion as was reported 15 years ago. In this sense, harassment by government officials has not decreased.

## CONCLUSION

In earlier investigations of the woodwork sector it was found that carpenters produced for low income customers only (House, 1981). This has changed in that now the industry produces goods for both the middle class and higher income earners. It is very common to find high quality furniture made by Jua Kali entrepreneurs in high class shops selling at more than 100% of the Jua Kali price. High class shop owners, however, deny that these furnitures are made by Jua Kali entrepreneurs. Additionally, production quality has improved tremendously (Ng'ethe and Ndua, 1992).

Entrepreneurs in this industry are currently better educated than 20 years ago (King and Aboudha, 1991). Higher costs of living and a continuous steady fall in real wages in the sector have put pressure on both highly educated and less educated workers to seek alternative ways of earning, to uphold and improve the quality of their lives. This could be the basis for improving educational levels in the sector.

In woodwork, a large proportion of firms compete head to head in just one or two sub-groupings. A majority of entrepreneurs in this industry produce low quality goods meant for low income consumers. Ninety percent of woodworkers produce for this market. Input into woodworking productions in terms of product design and man-hours of labor are cheap and low due to the similarity of products. Such production methods, as in the case for textile workers in the last chapter, are widespread and can be achieved by any woodworker. Product duplication is rampant.

Such product duplications across an industry tend to lower prices of the product. Competition is found to be very stiff among producers. The potential of this industry will depend largely on the shape of future barriers to entry, the improvement of the industry's position relative to substitutes, the ultimate intensity of competition, and the power captured by buyers and suppliers. Growth in the sector was assessed to be largely a technologically led growth. The technology currently used was acquired from the formal sector through adaptation and adoption.

# WOODWORK INDUSTRY CASES

## Woodwork Case Number 1: We Sell the Highest Quality Timber Available - Bahari Furnitures

Mrs. Owiti (34) is a resident of Kisumu district. She was born in Kisumu in the late 1950s and was married there to her current husband, Mr. Martin Owiti (40). The Owitis have five children who are all under the age of 16.

Mrs. Owiti completed primary school in the mid-1970s and proceeded to a secondary school in Kisumu town and completed Form IV and took the Kenya Certificate of Education (KCE) examination in the late 1970s. Thereafter, she joined a technical training college in Kisumu town where she completed a secretarial course. After 1981, Mrs. Owiti joined the Ministry of Public Works where she worked as a civil servant for eight years. Mr. Owiti was also employed by the same Ministry.

Mrs. Owiti's business started in her home in April 1984 in Manyatta estate. At that time, the only assets she had were carpentry tools, such as hammers, hand saws, and planes. All of these items were borrowed from her father in-law, who was also a carpenter. She had learned carpentry from his father-in-law and ultimately inherited some carpentry tools from him.

Mrs. Owiti's business started as an after work project. Realizing that her and her husband had very little to do after office hours and on the weekends, they decided to make some stools and table chairs for their own use. The process involved making the chairs, varnishing them, and putting them in a special compound to dry. One day, as two stools were drying, an impressed passer-by asked if he could buy them from the Owitis. They agreed. To them, carpentry was merely a recreational activity. Little did they know that they were paving the way for a big business.

Using the money from the stools, they bought timber and made other stools and chairs. To their surprise, they had a ready market. Recognizing that they had an opportunity which could not be wasted, the Owitis decided to buy more timber to make various products. As the amount of work increased, it became necessary to employ a fundi (a more seasoned carpenter) as Mr. Owiti was not particularly skilled in carpentry. Thus, the growth of their business began. With their monthly salaries, the couple bought more material and equipment for the business. After a few years, the business was at its peak. Mrs. Owiti could no longer manage the business and at the same time maintain a full-time employment at the Ministry. In 1989, she resigned from the Ministry to give the business her undivided attention it needed. The business has grown and has been quite successful.

Mrs. Owiti's business is mainly carpentry and wood-working. The enterprise specializes in an array of furniture, such as sofa sets, coffee sets, tables, chairs, double-decks (bunk beds), dinning sets, beds, wall units, and many other carpentry products. The business is one of the most expensive and high quality furniture shops in Kisumu. The enterprise's motto is, "We sell nothing else but the highest quality timber available." Her customers pay, at a minimum, the following prices for her products: Kshs. 9,000 for a coffee set, Kshs. 18,000 for a wall unit, Kshs. 3,000 for a bed, Kshs. 5,000 for a double deck; and, Kshs. 10,000 for a dining room set. Mrs. Owiti is unable to estimate the amount of money needed to operate her business monthly. It is, however, believed that she needs approximately Kshs. 6,000 per month to operate.

The business operates in a permanent structure. The enterprise's formal name is Bahari Furnitures. It is located off Kibos road along the first Kondele-Manyatta street, just opposite New Nyanza

General Hospital staff quarters. This location is approximately 0.47 miles (0.75 kilometers) from the largest market.

Mrs. Owiti's business works on orders only. During the eight years at the Ministry, she had access to and contacts with many people who have come in handy as customers. At the Ministry, she also gained a great deal of marketing experience. One of her strategies involves locating appealing designs in magazines and having her fundis make samples of the designs. She then photographs the samples and uses these photographs in her search for new markets.

According to Mrs. Owiti, the Bahari Furnitures has not experienced many problems. She says the only problem that the enterprise has experienced is the inability to get a large sum of money at once for expansion and relocation to the town center. In 1990, she applied for a loan with Kenya Commercial Bank for Kshs. 100,000. The bank only offered her Kshs. 20,000, which she turned down. She feels that there is a lot of discrimination in the provision of loans, particularly against small business entrepreneurs.

## Woodwork Case Number 2:
## Magembe the Skilled Entrepreneurs

Mr. Samuel O. Magembe (43) is the sole proprietor of a woodwork cum metal workshop. He is married with six children, some in secondary school and the others in primary school at their rural home in Kisii district. Mr. Magembe is one of the few educated and relatively exposed businessmen interviewed in Eldoret. He is a Form IV leaver and had apprenticeship training after leaving school. He is fluent in Kiswahili, English and his mother's native tongue. He has acquired the necessary skills needed to run his business. He is highly skilled in his area of trade, knows the industry quite well, and keeps written records of all business transactions.

His business is situated on the side road popularly called "Mwanzo", which is off Langas Road and Kapsabet-Kisumu Road, both approximately five miles (8 kilometers) from town center. Mr. Magembe makes items similar to those made by other fundis but with some variations.

He started the business in February 1982 with a capital of Kshs. 13,000. According to Mr. Magembe, the major obstacles at that time were lack of adequate capital to buy raw material and equipment, unavailability of machines and tools, finding experienced and good workers. Since he thought he would not qualify for a loan, he never bothered to applied for one to meet his start-up capital needs. He had no partners when he started the business and to this day has never had one. Thus, Mr. Magembe's business was solely financed through his own savings.

Mr. Magembe sees many factors as contributing to his success. To this day, he buys his materials from one hardware and sawmill in town. He believes is charged a fair price and his materials are always available. One snag is that he is required to always pay cash. Since his materials are always available, he has never been without his usual supply of raw materials. This has enabled him to always be in a position to produce his product.

He runs a carpentry shop in conjunction with a metal workshop. His best selling products are beds and tables. In addition, to the above enterprises, Mr. Magembe also keeps extra raw materials which he sells to other manufacturers in the area. When he sells these materials, he charges a little more than the actual purchase value in order to cover transport overhead and other expenses incurred. All of these factors have increased his exposure to customers and their exposure to his products.

As for his work force, Mr. Magembe makes all his products in his factory. He is the only full-time employee, although he has four part-time workers and one trainee. He also employs casual labor to perform manual work, such as cleaning the workshop, cutting timber to desired sizes, and planing timber parts for the part-time workers. It takes several workers to make his products, because some specialize in molding, while others may only do joining, finishing or varnishing. Mr. Magembe also employs a watchman to ensure security of his business premises.

He pays the causal labor and regular part-time workers. He does not pay trainees because they are receiving free training. He even believes the trainees should be paying him in the future for the training they receive. Due to his wealth of business experience, Mr. Magembe personally trains a worker. It takes him approximately two years to properly train his workers the way to produce his products. Mr. Magembe believes that it is important to always motivate his workers. He generally does so by providing them with lunch and paying them well.

All of Mr. Magembe's employees are men. He says that he has never seen a woman searching for employment in his workshop. Even if he had, he believes a woman cannot work in a workshop. He gave no reasons for his belief.

He decides on what to charge for his products taking into account the cost of the raw material, labor and overhead. He then adds an amount for profit and then bargain with his customers. He makes and sells a number of items per week since he lures his customers by charging a fairer price. He is able to do this because he get his materials cheaply. According to Mr. Magembe, "it is better to charge less profit and get more customers than overcharging a lesser number of customers."

Mr. Magembe also markets his product to schools and institutions. He makes both metal and wood products to order. He believes that his business location contributes to his success in the sale of the products. He is one of the few carpenters located near a junction. As such, many potential customers go to him first before reaching his competitors. Most of his customers are mainly people from town, those who live in the neighborhood, and often those from rural areas. All customers must pay him cash.

Mr. Magembe is also one of the most established small manufacturers in his industry because he has machines which are expensive to acquire like a lathe (molding) machine, electric circular saw, electric planer, and welding machine. In spite of this, he would prefer to have additional and better quality equipment. He uses electricity in his workshop for lighting and operation of machines. His business does not have access to piped water although he would like to have it. Having piped water would somewhat reduce his extra expense connected with the premises because currently he must pay a man to bring water to the premises.

Mr. Magembe has several expenses associated with operating his business. He pays approximately Kshs. 400 for transporting raw materials to his business location. His operating license costs him Kshs. 2,000 per annum. He does not pay any other taxes. He has never been harassed by Kenyan Government representatives because he fulfills what the law entails of him. He pays Kshs. 1,200 per month for renting his business site. He would like to expand his current space because the existing space does not accommodate his present business capacity.

Mr. Magembe supports forming a large organization. However, he believes the low level of education attained by most businessmen prevents this from materializing.

## Woodwork Case Number 3: "Mr. Action" Furniture Enterprise

Mr. John Nyoike, popularly known as "Mr. Action", is a small manufacturer who sells all types of household furniture. He is thirty-five years old and married to a woman who works in another family business. Mr. Nyoike speaks both Kiswahili and English.

Mr. Nyoike owns some land in Kaptagat, a place far from the business location. His parents are farmers. He left secondary school after reaching Form III because his father could not afford to pay the school fees. After leaving school, he joined a village polytechnic where he learned carpentry.

Presently, Mr. Nyoike operates a woodwork business, located in the western part of Eldoret. The name of the business location is Langas, situated in a sub-section of the area they call "race-course". The worksite of Mr. Nyoike's woodwork business is a permanent structure with an iron sheet roof. He has been involved in other kind of business other than that of household furnishing. At present, he has a small retail shop managed by his wife whom he considers the actual owner of that business. He spends most of his time managing his household furniture workshop.

He gets his timber for his woodwork business from the sawmills in town. Other materials like glue, varnish, and nails are also purchases in town. The materials which he needs are always available, however, he keeps extra materials in stock, for sale to other carpenters around the area. He does this as an additional line of business. He charges them a little more than he pays to cover transportation and overhead fees.

Excluding himself, he has a total of five workers: three full-time, one part-time, and a trainee. He does not employ casual laborers. All of the people who work with him are paid as follows: trainees receive Kshs. 300 per month; regular part-time employees receive Kshs. 60 per day; and full-time workers receive Kshs. 1,500 per month. All of his employees are male. He would, however, be willing to employ a woman or take her as trainee, but none have ever sought employment with the business.

Like most businessmen, he calculates the cost of raw materials, labor, and profit in his price of his product. He bargains with his customers. Since resources are scarce, he puts a limit on lowering prices.

In his workshop, he makes beds, stools, tables, cupboards, sideboards, and occasionally coffins at his customers' request. The best products are the beds and tables because they sell faster and yield more profit. Judging from his work, his products are not very different from those of other local businessmen. Mr. Nyoike is one of the few successful businessmen within his industry because he uses electricity for lighting and operation of machinery, such as circular planers which is used for molding. This amenity enables him to work over-time, especially for those orders which customers need immediately. He still desires more electric equipment including the lathe machines and electric planes which would greatly increase productivity.

Mr. Nyoike rents the work space. He receives piped water within the business establishment, the cost of which is included in the rent. He has a license to operate.

When he started his business, Mr. Nyoike only had Kshs. 8,000 which he had accumulated through own savings. He did not have materials and equipment. He later applied for a loan to buy raw materials and more equipment through Kenya Industrial Estates (KIE). KIE made the loan to him. He received Kshs. 15,000 with an interest of 18 percentage per annum. This money was repayable after three (3) years with monthly installments of Kshs. 750. He is still paying off the debt, and at the time of this interview, he had an unpaid balance of Kshs. 4,000 left. From this business, he pays himself a salary of Kshs. 3,000 per month to cover his personal expenses.

Most of his customers are people who live around the area and, occasionally, people from nearby rural areas. He markets his products with a sign on the road and by word of mouth of his existing customers.

Mr. Nyoike is the only businessman interviewed in Eldoret who belongs to an association. This association is called the Kesses Jua

Kali Association. The members learn new production techniques and assist each other financially and with the local authorities whenever they are harassed. To date however, they have never been harassed.

Mr. Nyoike does not plan to change to another business because he earns enough money and enjoys the freedom that his present job offers. He would like to see his company develop into a larger organization, such as a partnership; however, he has cited corruption as the main disadvantage in such organizations. In spite of his desire to see his business grow larger with many employees producing a variety of products, he feels that his business has been somewhat successful.

When asked about the problems he and other businessmen in his industry have encountered, Mr. Nyoike mentioned the effects of the recent tribal clashes and the impact that they had on the market. He and others were fearful about the security of their businesses. He expressed hope that these clashes would someday come to an end.

Lack of capital was also expressed as another problem when one needs to start a business or to expand the existing business. In his opinion, it would have been good for the government to set aside funds to help these businessmen without necessarily requiring a surety, such as title deeds, since not all people are privileged to own land.

He also proposed making grant monies available through an organization formed with the businessmen from the area and abroad. The funds would rotate from one member to another after a given period of time. He was very optimistic about the honesty of the said members on this point. As an alternative, he proposed that the government, or any non-governmental organization, could help them buy the necessary equipment, which would normally be too expensive for an individual alone to purchase. This would enable the members to use the equipment either free of charge or at a subsidized price. This equipment would include items that even Mr. Nyoike needs, such as the molding machine (lathe machine) and the circular planes.

Mr. Nyoike admits that his lack of understanding of business management has hurt him. He believes he would greatly benefit from assistance of experienced persons, whether governmental or non-governmental, who could hold seminars for businessmen on management and skills in production. "You can make many good products, but if no one buys them, they are equally useless," says Mr. Nyoike. For this reason, he is seeking for alternative markets such as institutions and large companies instead of relying solely on the people who live around the area and the few from the rural areas.

## Woodwork Case Number 4: Machabe Furniture Enterprise

Mr. Gikutua Machabe is a man who upon meeting him for the first time and one can quickly tell his profession from his physical appearance. Mr. Machabe is a well-built man, with a body shape accustomed to physical labor. He is very masculine and agile, even at the age of forty-four. Mr. Machabe is married with four children: three girls and a boy.

Mr. Machabe is in the furniture making business in Meru. His furniture business is located on Makutano Street. Looking at the business from the outside, one can not decipher whether the items on display are made there or elsewhere. But upon entering the workshop, one is surprised by the intricate network of operations. Mr. Machabe makes a wide range of furniture pieces from wall units, through wardrobes, sofa sets, and beds to coffee sets.

Since 1979, the year he started his business at the age of twenty-nine, the enterprise has grown considerably. He had very little formal education. After primary school, he was working as an office messenger. He had no exposure to wood work, but had an innate desire to work with wood. He says that he thrives from working with wood. His love for carpentry compelled him to do carpentry work in his home after office hours. He started by repairing and upgrading furniture at home. Whenever he found new designs, he studied how they were made and duplicated the item. After some time, he drew the attention of villagers who began to bring their broken pieces of furniture for repair. Attracted by his skills, more people began placing orders for small pieces of furniture, stools, tables and chairs.

Later, he found himself committed to making furniture for people who had become acquainted with him and his good work. As more orders were placed and the demand for his products increased, he found it difficult to hold onto his messenger job at the office. He, therefore, resigned from his office job to become a full- time carpenter.

Mr. Machabe started gathering timber and preparing a small workshop with very few tools. The tools he started with included a saw, jack plane, chisel, hammer and mallet which he bought with his savings. Mr. Machabe realized that his business was starting to grow fast. He noticed that his business was overlapping with other operations at home. He, therefore, inspected a place in town. After finding an open plot of land, he negotiated with the owner who leased it to him. His business is now flourishing successfully in town. The business has expanded and now includes six other workers and machines ranging from the wood lathe, the bed saw, and circular saws.

Mr. Machabe says that there are many problems that he must iron out in order for the business to produce at its maximum. For example, he says, "I need more modern machines which will be more efficient for mass production and the best quality products. I also need a permanent location because the semi-permanent shed which I have built, I have rented out".

# CHAPTER VI

## INDUSTRY ANALYSIS: METALWORK

The metal product industry is also very diversified and made up of those that make, sell, and repair metal products, either for households or for other businesses. A higher percentage of enterprises in the metal industry started with one worker than in any other industry. In addition, only 36 percent have expanded since opening. In the nationwide population, only 37 percent of the enterprises are run by women, and men hold 65 percent of all jobs (Parker and Torres, 1994).

The metalwork products industry is predominantly urban, with the exception of domestic hardware retailers. It depends more heavily on imports than do many of the other industries. Finally, businesses in the metalwork industry use more formal credit than in most other industries; however, use of formal credit was only reported by male-run or multi-owner enterprises. About equal proportions of establishments are to be found in open-air sites or permanent site locations.

Close to 60 percent of the entrepreneurs in this industry are between 26 and 35 years of age with 4 percent having no formal education; compared to 1 percent for both textiles and woodwork (see Tables 6-1 and 6-2). Thirty-eight percent had completed secondary education (compared to 42 percent in textiles and 53 percent in woodwork). Forty-nine percent had only completed primary education. The implication here is that metalworkers have on average significantly less formal education than those in the other industries of woodworking and textiles.

TABLE 6-1
AGE OF THE OWNERS IN METALWORK

| AGE OF OWNER | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| 16 - 20 | 3 | 6.4 |
| 21 - 25 | 6 | 12.8 |
| 26 - 30 | 13 | 27.7 |
| 31 - 35 | 13 | 27.7 |
| 36 - 40 | 5 | 10.6 |
| 41 - 45 | 3 | 6.4 |
| 46 - 50 | 1 | 2.1 |
| 51 - 55 | 1 | 2.1 |
| 56 - 60 | 1 | 2.1 |
| Over 60 | 1 | 2.1 |
| **Total** | 47 | 100.0 |

TABLE 6-2
FORMAL EDUCATION OF OWNERS IN METALWORK

| YEARS OF EDUCATION | NUMBER OF OWNERS | PERCENTAGE OF OWNERS |
|---|---|---|
| No Formal Educ. | 2 | 4.3 |
| 6 or Primary | 17 | 36.2 |
| 8 | 6 | 12.8 |
| 10 | 7 | 14.9 |
| 12 | 11 | 23.4 |
| 14 | 4 | 8.5 |
| **Total** | 47 | 100.1 |

## BARRIERS TO ENTRY

For metalworking, both economies of scale and product differentiation are found to be slight though higher than in either textiles or woodworking industries, and provide the most substantial barrier to firms intending to enter into any of the industries studied. The small-scale producers interviewed in this study are not of the size that would take advantage of significant economies of scale and the proliferation of standardized output tend to provide for ease of entry.

In metalwork, about half of the entrepreneurs will have had only two jobs before venturing into self-employment. The periods spent in employment appear to be longer than in other industries (on average about ten years working experience).

TABLE 6-3
RELATIONS WITH FINANCIAL INSTITUTIONS: METALWORKERS

| MONEY IN BANK | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 21 | 44 7 |
| Yes | 26 | 55 3 |
| Total | 47 | 100 0 |
| RECEIVED LOAN | | |
| No | 7 | 14 9 |
| Yes | 7 | 14 9 |
| Never Applied | 33 | 70.2 |
| **Total** | 47 | 100.0 |

Low initial financial requirements are the basis of easy of entry into the industry. Initial machinery capital in metalwork was Kshs. 14,800, while the initial financial capital was Kshs. 6,400. Relative to entry into the formal sector (where one must pay for a license and fees as well as establish permanent quarters) as a new entrepreneur, this is very low cost. Initial costs are low due to entrepreneurs ability to make machines or rent them. The entrepreneur then saves from repair earnings to buy her/his machinery and sets up her/his own production. Seventy-two percent of firms rent the premises in which they are working (see Table 7-2). Most investments are financed from past savings. Currently firms start business with no formal attachment to formal banking institutions. Forty-five percent of the entrepreneurs said that they do not put their money in the bank (see Table 6-3). This relegates their status to not being credit worthy. Fifteen percent of the respondents said that they had applied for and received a loan. This is almost double the rate of successful loan application in comparison to the other industries of woodwork and textiles. Training within the sector, in terms of apprenticeships, would add to ease of entry into this sector.

## RELATIONS TO SUPPLIERS

Cost disadvantages independent of size is another possible barrier to entry for new firms in metalworking. Here, existing companies have a substantial advantage due to the effects of the learning curve (or in other terms the experience curve), or a favorable location. For this industry favorable location and learning experience seem to provide a significant barrier in that of the sampled firms, very few were found to be under two years of age (see Table 3-4).

**TABLE 6-4**
**RELATIONS WITH SUPPLIERS: METALWORK**

| CHARGED FAIR PRICE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 19 | 40 4 |
| Yes | 27 | 57 4 |
| N/A | 1 | 2 1 |
| **Total** | **47** | **99.6** |
| **WHY CURRENT SUPPLIER** | | |
| N/A | 21 | 44 7 |
| Only Source | 19 | 40 4 |
| Nearby/Accessible | 4 | 8 5 |
| Sells in Quantities | 3 | 6 4 |
| Gives Credit | 0 | 0 0 |
| **Total** | **47** | **100.0** |

Almost 80 percent of respondents said that they always had to pay cash for purchases from their suppliers. Nineteen percent of the firms answered "yes" to the question of whether their "raw materials were hard to get." Yet over half said that they did not feel that they were being charged a fair price for their raw materials (see Table 6-4). About 40 percent said that this was their only source of supplies.

Materials seem to be easy to get, yet there is a perception of unfairness by suppliers in the pricing of their products to firms in this industry.

## RELATIONS TO BUYERS (i.e., CUSTOMERS)

Over 87 percent of the respondents said that they bargain with their customers in order to increase sales (see Table 6-5). In the metalwork industry, 85 percent of those interviewed said that their products are identical to others being sold in the market. This was the smallest percentage reported to this question. Sixty-six percent of the industry is craft oriented in the production of their product (the entire product is produced by one person). Craft production allows for greater product differentiation and allows the owner greater power in pricing a product.

Several factors mitigate against the buyer and for the seller. Most products do not represent a significant fraction of the buyers costs or purchases. Also, the buyers do not usually purchase in bulk which would enhance their position.

**TABLE 6-5**
**SELLING STRATEGY: METALWORKERS**

| STRATEGY | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| Fixed | 4 | 8 5 |
| Discount | 2 | 4 3 |
| Bargain | 41 | 87 2 |
| Total | 47 | 100.0 |

## SUBSTITUTE PRODUCTS

There is a limited variety of substitutes ranging from clay to wood used for different products. For example, clay and metal are used to make stoves instead of metal only jikos (stoves); while wooden window or door frames are used in lieu of metal frames.

## RELATIONS TO CIVIL AUTHORITY

Government restriction to those entering the field through business registration and taxation is as well a possible barrier to entry. While 21 percent of firms said they had no license, an astounding 83 percent said they paid no taxes (see Table 6-6). Roughly 17 percent of firms in this industry indicated they had been harassed by government officials.

TABLE 6-6
RELATIONS WITH THE GOVERNMENT:
METALWORK

| HAVE A LICENSE | NUMBER OF FIRMS | PERCENTAGE OF OWNERS |
|---|---|---|
| No | 10 | 21 3 |
| Yes | 37 | 78 7 |
| **Total** | 47 | 100.0 |
| **PAY TAXES** | | |
| No | 39 | 83 0 |
| Yes | 8 | 17 0 |
| **Total** | 47 | 100.0 |
| **HAVE BEEN HARASSED** | | |
| No | 39 | 83 0 |
| Yes | 8 | 17 0 |
| **Total** | 47 | 100.0 |

## CONCLUSION

In early investigations of the metalwork sector, it was found that metalworkers produced rugged manual machine tools and simple consumer durables such as bicycle carriers and hoes as well as bolts and other basic items for the building industry (House, 1981). This has changed in that now the industry produces a wide range of electrical machinery for itself and the woodworking industry. It also produces a variety of steel fabrications and other building parts and machinery for the agricultural service sector.

Entrepreneurs in this industry are currently better educated than 20 years ago (King and Aboudha, 1991). Higher costs of living and a continuous steady fall in real wages in the sector have put pressure on both highly educated and less educated workers to seek alternative ways of earning, to uphold and improve the quality of their lives. This could be the basis for improving educational levels in the sector.

In metalworking several firms were found to produce building fabrications (e.g., steel windows, steel gates, grills, etc.). Another large group produces complementary building products (e.g., "wall pass," hinges, T-hinges, etc.), and a last group, commonly referred to as tinsmiths, produces a range of hand tools and consumer durables (e.g., hoes, metal boxes, sufurias, jikos, etc.). These three basic level products are pronouncedly noticeable. These three groups account for 65 percent of the population. This implies an extremely competitive situation.

In the case of metalwork, one could argue that the Kenyan building industry has a very wide capacity and can absorb more firms into the sector. However, building contracts are not advertised hence entrepreneurs get them through friends and relatives. The result is that a minority do very well and a majority have to survive on a trickle of low income contracts. As mentioned above, since there is an abundance of labor for such productions, individuals (trained and untrained in metalwork) with market connections will enter the market. This aspect of being better placed to obtain business deals may explain the better firm performance of enterprises where owners have more education or training.

For those competing without business connections there is strong pressure to move out of these lines of products to other less competitive forms of products.

The potential of this industry will depend largely on the shape of future barriers to entry, the improvement of the industry's position relative to substitutes, the ultimate intensity of competition, and the power captured by buyers and suppliers. Growth in the sector was assessed to be largely technologically led growth. The technology currently used was acquired from the formal sector through adaptation and adoption.

# METALWORK INDUSTRY CASES

## Metalwork Case Number 1: Ochola's Metal Enterprise

Mr. Khamisi Ochola (30), who is from Seme in Kisumu District, manages the business. Mr. Ochola is recently married. His wife is an employee of Mr. Ochola's father in another family business. Mr. Ochola pays school fees for his younger brothers and sister. Although they have another family business, this business is solely under the management of Mr. Ochola. Typically, there is no business transaction between the two family businesses as Mr. Ochola's enterprise was inherited from his father.

Mr. Ochola went to school up to Form IV, then joined a technical training institute where he graduated as a welder. After he graduated, his father allowed him to manage the business as he was the only person with knowledge of welding technology. During 1990, Mr. Ochola was left to manage the company alone, except for on weekends and during school vacations, when his brothers help manage the business as part-time employees. This arrangement was not only helpful to Mr. Ochola, but also allowed his brothers to earn pocket money for some of their basic needs.

The business is situated along Kondele-Kibos Road and is approximately one half a mile (one kilometer) from Kondele bus stop. Mr. Ochola's business specializes in manufacturing metal gates, steel doors, plate doors, steel windows, and channel doors. The enterprise also repairs metallic appliances requiring welding. His workshop clearly has the most well-finished products on display.

The premises are divided into sections. Every worker had been assigned a certain task. For example, Mr. Ochola managed the stores, while an employee who had been with him the longest heads the workshop. A female employee is a receptionist and is responsible for other secretarial work in the workshop. Undoubtedly, this was one of the most organized manufacturing enterprises interviewed during the study.

Mr. Ochola's father started this business in 1973. Mr. Ochola remembers that when the business was first established, there was only one welding machine, the cost of which he has never known, because he has never asked. Presently, the business owns two welding machines. He was able to purchase the second one using a loan from Kenya Industrial Estates (K.I.E) in the amount of Kshs. 27,000. The business owns other machinery, including electric grinding and drilling machines and a number of manual tools.

The business has a host of problems, including the uneven flow of invested capital. The company is not able to sell finished products as quickly as Mr. Ochola had hoped to enable the enterprise to improve and expand the business further. Sales are flat because of high inflation rates. Mr. Ochola maintains that most Kenyan customers want to buy products on credit and desire to pay off the debt very slowly.

The nature of some of the raw materials used by Mr. Ochola's business also presents a problem. His enterprise uses a raw material called a Tict bar, which is crucial to his business but hard to get from hardware stores in Kisumu. As a result, he is forced to transport them from Nairobi. This additional transportation cost raises production costs, which must be passed on to the customers. As is to be expected, customers are not willing to adjust to high prices, thus Mr. Ochola's enterprise must stop production of certain commodities until these metal plates become available in the local stores.

Mr. Ochola believes a number of actions might assist his business. A loan would allow him to greatly improve his business. He wants to automate his production process. This would substantially increase productivity and cut down labor cost. Mr. Ochola also lacks sophisticated marketing strategies to boost sales. However, the cost for advertising requires substantial financial investment which currently Mr. Ochola does not have.

## Metalwork Case Number 2: Murugwaru Metalwork Shop

Mr. Ramano Murugwaru is a sole proprietor engaged in metalwork at Angaine Road in Meru town. He makes keys. Mr. Murugwaru (30) is energetic and eager to see what will becomes of his business in the future. He was born in Mikinduri the new Nyambene District.

He started this business in 1983. When he started, his biggest problems was lack of capital to buy raw materials, equipment and tools. Finding a good location for his operations was also difficult as was finding customers. All he had to start a business was Kshs. 1,000 from his own savings. He indicated that before he started the business, he applied for a loan from a development organization to buy raw materials and equipment. However, he did not receive the loan. He seemed very bitter about this experience. "They just kept quiet;" he said. He did not bother to go to the banks because he did not meet the requirements. "The government, the banks, the development organizations could not help me. I could not find a job. When I wanted to start a business there was hardly any assistance from anybody;" he said bitterly. As he started his business he was angry about the situation and circumstances that surrounded him, and the fact that he had no way out of his circumstances.

Mr. Murugwaru is married with two children. The main purpose for his business is employment as he had nothing else to earning a living from. Secondly it is to provide for his family. He has only primary education and spoke Kimeru and Kiswahili only. Apart from his business, he helps in farming when he is at home. But he would like this business to grow as it will generate more money and it can help him and his family better.

Mr. Murugwaru did not have any business background. His father was a pastoralist and his mother does farming. He started the present business became there is less competition. He likes his business and expresses the fact he could not look for an alternative because of the freedom and security that he enjoys. He stresses the fact that he would like to see the business grow just large enough to enable him to meet his family expenses. The overriding factor to start the business was simply survival.

Mr. Murugwaru feels that he charges a fair prize for his products. He is never given the raw materials on credit but always has to pay cash he also sells his materials to others. He sells his products at fixed prices but gives some a discount especially for car keys.

## Metalwork Case Number 3:
## Ochieng's Monopoly of Knife Manufacturing in Kisumu

Joel Ochieng (49) lives in Kajulu, approximately 2.7 miles (7 kilometers) from Kisumu town. He is married with eight children. The eldest child, a son, is 26 years old the youngest child is under 10.

Mr. Ochieng attended school up to standard five, which at that time was known as intermediate level. After leaving school, he did not seek employment, rather he entered the business of small-scale farming. In small-scale farming, he learned specifically about subsistence farming and how to raise domestic animals such as cattle, goats and sheep. Although Mr. Ochieng was not farming at a large scale, he managed to subsist. Unfortunately in 1984, farming began to collapse in Kajulu due to drought and the exhausted soil fertility. This occurrence forced small-scale farmers to seek alternative means of sustaining their livelihood.

Mr. Ochieng opened his business in January of 1986, just as Jua Kali was becoming very popular in Kenya. At that time, Mr. Ochieng worked out of a rented house on the Manyatta estate. His only assets were a drill, three hand saws, two hammers, two files, and pliers all worth Kshs. 1,600. The business is located along the Kisumu-Nairobi Road, about 1.2 miles (2 kilometers) from the town center.

Mr. Ochieng's main product is knives. He makes two different types of knives, those with wooden handles and others with plastic handles. Recently, he decided to buy raw materials (e.g. metallic blades) in bulk and sell them to other knife manufacturers. He purchases his raw materials from Mombasa and Nairobi. He has made a reasonable profit from this additional line of business. Mr. Ochieng approximates that between 1,800 to 2,000 knives are made per week. These knives are sold to people who live in rural areas, people in the local area, and exporters from the Kenya-Uganda border.

The business is currently a partnership, operated by Mr. Ochieng and his eldest son. After completing Form IV, Mr. Ochieng's son entered a craft training college. In college he learned metal work skills. When he returned home, he realized that his father's business called for such skills and they became business partners.

To ensure good business and financial management, Mr. Ochieng has taken courses such as book-keeping and business management. The business now employs eight people who include close relatives and friends whom he trains. He provides accommodation and meals for his employees.

There are very few fundis in the business of manufacturing knives. As such, Mr. Ochieng's monopoly of the knife manufacturing business has enabled him to be a very successful entrepreneur in his area.

When Mr. Ochieng first began his business, he found that the biggest problem was buying raw materials. Since he could not get a loan from a commercial bank or cooperative union, he decided to sell his cattle to raise the capital. He sold one bull at Kshs. 1,500, thus enabling him to purchase adequate raw materials. According to Mr. Ochieng, the only problem hindering this enterprise now is inflation which at times reduces sales to almost zero.

# CHAPTER VII

## ENTREPRENEURSHIP AND MICRO-ENTERPRISE DEVELOPMENT

In the introduction in Chapter I a distinction was made between the small business and "entrepreneurship" which is taken as something special. The entrepreneur, or entrepreneurship, herein is characterized by innovative behavior and the employment of strategic management practices in the business. Among the strategic management practices are marketing strategies to establish a niche (or corner) in a market for goods or services. This chapter begins by examining several reasons for beginning an enterprise as were stated by the respondents in the study and family involvement in businesses. Thereafter, examples of firms' strategies for success are given as illustrations, followed by an examination of management practices including the perceived needs of entrepreneurs. Finally, the plight of women entrepreneurs is explored.

In the cases discussed in chapters IV to VI, each firm attempts to develop a competitive edge or a particular characteristic that makes the firm more attractive to customers than is its competitors. Some factors that might provide such an advantage are quality, reliability, integrity, and service as well as lower prices. In some industries, novelty in innovation provides the most important competitive edge. In many enterprises, however, innovation can be a thing as simple as courtesy, friendliness, and helpfulness.

Among many of the cases, there are businesses who established themselves for the purpose of furthering personal goals especially interwoven with family needs and desires. In such cases an apparent market strategy was not found. This is not to say that that particular individual or firm was not successful. A distinction is drawn between servicing new customers or existing customers with innovative products or processes to reduce cost as opposed to no apparent approach toward maintaining one's competitive advantage over similar firms in the same geographical area.

In examining specific examples of entrepreneurial behavior, it is helpful to study how others "played their cards" and, to varying degrees, succeeded. The variety of possible ways of working at entrepreneurship is enormous, but some patterns offer more promise than others. Awareness of alternative strategies that have been experimentally tested by entrepreneurs who have gone before, sometimes with spectacular success, is important. Each entrepreneurial situation is unique and the future always differs from the past, but some tricks repeat well. Knowledge of precedents can help the would-be entrepreneur create effective approaches in new situations.

## REASONS FOR STARTING A BUSINESS

A number of reasons are given as to why entrepreneurs start their businesses. Typically in North America and Europe several of the most often cited reasons are: to be ones own boss, with more control over one's work and life (i.e., independence); to obtain an alternate route for advancement from a dead-end job; to obtain additional money; and to provide products not elsewhere available. This is in stark contrast with the reasons given by the Kenyan entrepreneurs for starting their businesses.

One young man responded to the question of why he started his business by saying, "Realizing that my parents could not afford to put me through secondary school, I chose tailoring as my trade because it is less expensive and easier to learn." Another young man responded that he was motivated to start a business early in his life when he had to leave school at an early age. A young lady commented that her "parents did not make enough money to put [her] through a private college..., [she] was looking for financial security." Yet another entrepreneur responded, "the reason I am in this business is because I could not find any other work that I was qualified to do. My family depends on me for support." Still another entrepreneur said, "I could not find a job."

In sum, these small businesses were started out of necessity, out of a failure to find productive use of their energies in other avenues. This is important because it highlights the importance of government intervention in the form of assistance to increase national productivity.

## EDUCATION AND PREVIOUS BUSINESS EXPERIENCE

Most of the entrepreneurs surveyed had no extensive formal education. In fact, most had not completed secondary school. However, more than a third had attended a local technical school and had some technical knowledge of the industry in which they worked. Interestingly, no one reported any training in business or management.

A review of the experience of the sample was simply astounding. Less than a fourth of the individuals in business had practical experience in producing the product prior to opening their businesses. Few reported that they had gained some experience working with a family member or friend.

In summary, it appeared that the lack of general formal education and business experience worked to the disadvantage of the small business owners. Moreover, they suffered from a complete lack of any formal education in business and management.

## FAMILY BUSINESSES

Family involvement in micro-enterprise activity is quite significant as demonstrated in Table 7-1. This Table shows that over 23 percent of businesses studied have family involvement. Woodworking has the most family involvement with almost one-third of the firms having an employee who is a family member. The family involvement has several aspects of significance. First, family involvement is used to reduced the fixed cost of employing outside labor. Thus, in this case family involvement in the business is used as a flexibility tactic that is useful when operating in an economic environment that is turbulent.

TABLE 7-1
FAMILY WORKERS IN BUSINESS
(in percentage)

| FAMILY IN BUSINESS | TEXTILES (N = 175) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| Yes | 23 40 | 30 60 | 23 40 |
| No | 76 60 | 69 40 | 76 60 |
| **Total** | 100.00 | 100.00 | 100.00 |
| ANOVA[1] | F = 2.801 | df = 2 | p ≈ 0 062 |

For family involvement in businesses, the statistical test to determine the likelihood of the sample deriving from the same distribution (ANOVA) indicates that at a ten percent level of significance, the distribution (or industries) should be treated separately (or based upon their own unique characteristics) and not as one blanket sector, uniform in its salient characteristics. In this case, the woodworking industry would be targeted by program implementers seeking to assist family owned business.

Secondly, by giving one's offspring exposure to the business, the owner is sowing the seeds for future entrepreneurial activity on the part of their child. Research has shown that entrepreneurs tend to come from families with entrepreneurial parents (Fry, 1993; Vesper, 1990). A generation of commercial entrepreneurs in Kenya seems to be

[1]Analysis of Variance (ANOVA): Are the observed differences in sample mean due to chance? Or, are these differences too large to be ascribed to chance, but rather are due to the fact that the samples are from populations that are not all alike.

emerging. The vast majority of parents of those questioned come from parents who were involved in farm activity. Only about ten percent had parents involved in commercial business activity. Lastly, family involvement in business allows avenues for ownership succession. In the U.S. and other developed countries, entrepreneurs sell their businesses when they retire or their children, who inherit the business, often prefer to sell the enterprise. This is because of the active market that exist for small businesses. There does not appear to be a market for existing micro-enterprises in Kenya. None of the respondents reported to have purchased their business from another small business owner. The lack of markets for existing businesses would place a severe limitation on entrepreneurship prospects in Kenya. In other words, the "buying your own business" route to entrepreneurship is not available. Equally, parents who do not want to pass the business on to their offspring have abandonment of the business as the only available option.

**TABLE 7-2**
**WORK OF OWNER'S SPOUSE**
**(in percentage)**

| RESPONSE | TEXTILES (N = 175) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| Not Employed | 23 00 | 22 20 | 14 90 |
| Farm Work | 12 10 | 17 20 | 29 80 |
| Other Family Bus | 8.60 | 25 30 | 19 10 |
| Full Time Emply | 17.80 | 8 10 | 4 30 |
| Work with Owner | 4 60 | 3 00 | 6 40 |

Continuing to investigate further the theme of family business, entrepreneurs were questioned about the activities of their spouses. Table 7-2 displays responses to this question. Of course, farm work ranked high which indicates that Kenya has basically a subsistence agricultural economy. However, here the different industries show markedly different responses to the question. Woodworking has a significant proportion of spouses working in other businesses, while textiles has spouses in full-time paid employment. This could be attributed to the large proportion of female owners in the textile industry, thus, their husbands having salaried jobs. Worrisome is the large proportion of responses indicating not employed in all industries. From the wording of the question, this response would seem to imply that this category represents persons whose families would like them to be employed.

## SUCCESS IS A QUESTION OF STRATEGY: STRATEGIC RESPONSES TO COMPETITIVE FORCES

A market consists of a group of buyers and sellers who interact with one another in order to exchange goods or services at a price each believes is acceptable. Understanding other buyers and sellers and the market they create is critical to a successful strategy (Vesper, 1990). Sellers must know their customers, present and potential, and must know how to keep them and win them. Similarly, smart buyers must analyze the market to know who is selling the product, at what price, and on what terms. The number and type of buyers and sellers in a market determine the nature of competition.

### Basic Marketing Strategies

With an understanding of the market, entrepreneurs can adapt their basic strategies to the competitive context of the environment (Fry, 1993). Any strategy must take into account what other firms in similar and related industries are doing. A firm may have outstanding products, but if it is developed after similar products of competitors are already available, the firm may not be able to attract buyers away from the other firms. The market may be over crowded. A number of different business and marketing strategies were observed in the more successful enterprises. Several of the strategies were used in combination. Figure 7-1 shows how the basic generic strategies of a business can be reformulated to consider the competition.

**Market Penetration:** Refers to a business's commitment to expand sales or revenues from its current customer base, utilizing the same product. Entrepreneurs can increase sales by changing prices, offering special promotions, and increasing product advertising. Each action is designed to help the enterprise further penetrate the market it currently sells in, that is, get a larger share of the existing market for the particular product. This can be done through increasing market share and/or increasing the product usage. The latter method focuses on increasing (1) the frequency of use; (2) quantity of use; or (3) finding new applications for current users.

Market penetration can be demonstrated by Textiles Case Number 3: A Housewife Turned Business Entrepreneur. Onyango's tailoring sells to persons of her ethnic group saying they "understand each other better."

**FIGURE 7-1**
**BASIC MARKETING STRATEGIES**

| | | PRODUCT | |
|---|---|---|---|
| | | **Current** | **New** |
| **CUSTOMERS** | **Current** | Market Penetration | Product Development |
| | **New** | Market Development | Diversification |

**Market Development:** A strategy whereby the enterprise continues to sell the same product but tries to find new customers for that product. The essence of the market development strategy is the aggressive search for new customers who would be attracted to and benefit from the purchase of the enterprise's products. This can be accomplished by expanding geographically or by targeting new markets.

This is best demonstrated by Metalwork Case Number 3. Ochieng, who is in the knife making business, employs geographical market development by selling to outlying areas of the city. He has attained a monopoly on production of his primary product in the town geographical area.

**Product Development:** Even enterprises with a well-developed base of customers find these customers may be induced to try new products. Here the enterprise attempts to reach its current base of customers and induce them to buy the new products it has developed. Product development is one of the most reliable ways of preserving and expanding a firm's market share in an industry. This was the most neglected areas of market strategies among the firms studied. Many of the respondents indicated that their products are similar to those sold by their competitors. Product development can be accomplished through four methods: (1) adding product features or product refinement, (2) expanding the product line, (3) developing a new generation of product, (4) or developing new products for the same market.

**Diversification:** This strategy is an attempt to sell new products to new customers. It does not require abandoning the enterprise's original business. Diversification is a dominant strategy of the most successful businesses studied. Extending one's line of business to a different area or purchasing raw materials in bulk and, in turn, selling them to smaller competitors is used to reduce market risk. Diversification can be either related or unrelated. In related diversification, the firm attempts to create economies of scale; while in unrelated diversification there is an attempt to reduce market risk or manage (allocate) cash flow.

The diversification strategy is demonstrated by Metalwork Case Number 3. Ochieng runs a carpentry shop in conjunction with a metal workshop. Aside from his primary client base he markets to schools and institutions. He purchases raw materials and sells to smaller competitors. The textiles industry is characterized by head-on low-cost price competition with the winners of this competition having very little profit for their efforts.

Of the strategies identified above, we can breakdown each category into functional strategies to operationalize the overall marketing strategy.

## Functional Strategies

Functional strategies attempt to break down the overall business strategy. This strategy should answer the question, how the overall strategy will be achieved in the different areas of management of the business, the most important being in production. The functional strategy provides the marketing thrust of the sales efforts. This is exemplified by a firm's identification with that thrust. For example, "we are the low-cost producer," or "our products are known for their high quality."

**Low-cost:** The thrust of this strategy is to keep the cost low while serving a narrow segment of the market. Cost are kept low through low-cost distribution, labor cost advantage, location advantage, reduction of overhead, and/or from accumulated experience (the learning or experience curve effects). With this strategy the customer is usually very price sensitive. The three cases discussed below employ this strategy.

The Agutu Petticoats Enterprise (Textiles Case Number 1) is located in the largest open-air market in Kisumu. It uses low price raw materials and production processes to keep prices down. The owner travels to different parts of the province marketing and selling her products practicing geographical diversification.

Textiles Case Number 4: Ogola Apparels makes clothing for small children. Joyce Ogola competes based only on price by encouraging customers to bring their own material. She services a narrow geographical range. She extends credit to her customers for up to two months. Her receivables were very low.

Textiles Case Number 5: Mrembo Tailors specializes in men's apparel. It is located on the veranda of a dry cleaner. It competes on price. Customers must always pay cash. It services a narrow geographical range.

**Differentiation:** A differentiation strategy is one in which a product is different from that of one or more competitors in a way that is valued by the customers. The value added should affect customer choice and ultimate satisfaction. Most successful strategies that are not based entirely on a low-cost advantage will be differentiated in some way. Usually this is done by including some extra product feature or service that provides some perceived value to the customer. The extent to which this strategy is success depends on how difficult the point of differentiation is for competitors to copy.

Woodwork Case Number 1: Bahari Furnitures uses this strategy. Mrs. Owiti's firm is one of the most expensive and high quality furniture shops in Kisumu. In order to differentiate her products from her competitors, she locates appealing designs in magazines and has her fundis make samples of the designs.

**Focus Strategy: Low-Cost/Differentiation:** A focus strategic thrust concentrates on one part of the market or product line. This strategy provides the potential to bypass competitor assets and skills. A business that simply lacks the resources to compete in a broad product market must focus in order to generate the impact that is needed to compete effectively. The low-cost/differentiation, therefore, refers to highly differentiated, need fulfilling products or services for the specialized needs of a select group of customers or markets while keeping their costs low. How to differentiate while keeping costs low?

a. Dedication to quality;
b. Process innovations
c. Product innovations
d. Systems innovations
e. Leverage through distinctive competence

These factors are demonstrated in the following cases:

Gikutua Machabe (Woodwork Case Number 4: Machabe Furniture Enterprise) found himself committed to making furniture for people who had become acquainted with him and his good work (quality and dependability). Customers are attracted by his skills.

David Ingasia (Textiles Case Number 6: Mr. Ingasia the Shoemaker) wins customers by being polite, friendly, and convincing with high quality product.

Esther Ndegwa's (Textiles Case Number 7: Mrs. Ndegwa the Eternal Optimist) motto is, "always treat your customer with a smile and place their interest before yours." She provides top-quality tailoring.

Mary, a tailor at Gakoromone market (Textiles Case Number 9), specializes in women's dresses. She offers good, high quality products to her customers.

## CRITICAL MANAGERIAL ISSUES

Business success is associated with the use of management practices such as formal record keeping and human resource management. One of the most frequently encountered problems was the lack of business and management skills. Few of the owners had any true process to determine profitability. Frank Child (1976) observes that most firms are not adept at keeping records. Of those that attempt to keep records, the information is incomplete, inaccurate, and virtually useless as a tool for making decisions by owners or the management. The study found that 21 percent of the firms do not keep records (see Table 7-3). Without records it is difficult to plan, control, get loans and so forth.

**TABLE 7-3**
**BUSINESS RECORD KEEPING BY INDUSTRY**
**(in percentage)**

| KEEPS RECORDS | TEXTILES (N = 175) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| Yes | 29 14 | 18 37 | 14 89 |
| No | 69 14 | 80 61 | 80 85 |
| Missing | 1 71 | 1 02 | 4 26 |
| **Total** | **99.99** | **100.00** | **100.00** |

Chi square = 7 65 df = 5 p ≈ 0 023

A Chi-Square test on the tabulated responses reveals that it is highly unlikely that firms in the industries studied are from the same distribution. In other words, the industries should be treated separately and not as one homogeneous sector. Expressed in another way, there is a systematic relationship between "record keeping" and "industry type." This finding indicates that management training and education is should be targeted in the metalwork and woodworking industries respectively.

**TABLE 7-4**
**BUSINESS TENURE BY INDUSTRY**
**(in percentage)**

| BUSINESS PREMISES | TEXTILES (N = 175) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| Own | 8 00 | 8 16 | 4 26 |
| Rent | 85 71 | 88 78 | 72 34 |
| Just Use | 6 29 | 3 06 | 23.40 |
| **Total** | 100.00 | 100.00 | 100.00 |

Management of risk by use of free or rented quarters, family labor with little capital while incurring minimum fixed cost thus increasing opportunities for additional income. This corresponds with the small and flexible model of enterprises developed by McCormick (1988). Her study revealed that as firm size increased, the return on capital was decreasing. Thus, there was no compensation for increased risk (i.e., increased size).

The cultural characteristics of Kenya as compared to the U.S. are much less individualistic. As such, a less rigid division of labor is observed. Tasks are usually performed through co-operative efforts. Core staff are family members and thus are hired for life. There is a great emphasis on interdependence. The employer might be expected to make special efforts to help a distressed employee (send child to school or help sick relative). This supports the hiring of members from an extended family.

Mutual adjustment appears to be the most often used coordinating mechanism. This method relies on informal communication to achieve the desired coordination of work (Marris and Somerset, 1971). Control of work under mutual adjustment resides with workers themselves.

Frequently it is reported that micro-enterprise manufacturers need to be regulated due to their maltreatment of employees (Gray, 1991; Ng'ethe and Ndua, 1984; Hart, 1973). Some entrepreneurs in the study did not pay trainees, one claiming that "the trainees acquire important skills and need not be paid." This particular employer personally trains his workers, providing them lunch. Others have a more long-term view of employees. One entrepreneur commented: "I believe it is important to always motivate my workers, thus I provide them with lunch and pay them well." Another tailor pays for the lunch of any worker who works during lunch break and maintains a friendly relationship with workers which she says enhances productivity.

## NEEDS OF ENTREPRENEURS

Micro-enterprise entrepreneurs in Kenya have many needs related to their businesses. Table 7-5 contains the rank order responses to the question "What is needed to be a successful businesses." It can be seen that textile firm owners and metalwork owners replied "A better work place" as the only response to out-rank the equipment loan response. It is interesting to note that for metalworkers, stopping harassment by government officials ranked very high. The greatest need of establishments was for better equipment according to roughly sixty percent of the respondents to a differently worded question. Technology remains a key issue in the growth of these industries.

TABLE 7-5
EXECUTIVE JURY OPINION:
WHAT IS NEEDED TO HAVE A SUCCESSFUL BUSINESS
(in percentage)

| RESPONSES | TEXTILES (N = 174) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| Better Work Place | 45 40 | 33 30 | 70 20 |
| Loan for Equipment | 40 20 | 52 50 | 46 80 |
| Working Capital Loan | 29 30 | 33 30 | 23 40 |
| Management Assistance | 28 20 | 28 30 | 27 70 |
| Technical Assistance in Production | 26 40 | 28 30 | 27 70 |
| Big Business Purchase | 26 40 | 30 30 | 23 40 |
| Export Market Assistance | 26 40 | 27 30 | 34 00 |
| Stop Harassment | 24 70 | 24 20 | 36 20 |
| Low Interest Loan | 23 60 | 13 10 | 25 50 |
| Raw material Assistance | 21 30 | 21 20 | 19 10 |

Further examining the perceived needs and opinions of owners of businesses on the issue of whether different industries should be treated separately and distinctly by government policy-makers in the formulation of policies directed toward the informal sector, a Spearman rank correlation coefficient is calculated. This statistical technique is used to test the hypothesis that the rankings are not related or, in other words, can accurately be considered from the same distribution. From the figures generated with the textiles - metalworking and also the woodworking - metalworking there is no evidence to indicate that the rankings are related. Again, subsectors should be treated separately by policy-makers when formulating programs toward the growth and development of the informal sector.

## FINANCING

Business financing in terms of start-up and capital for continued operation is often cited as the greatest problem for small business development. As such, in Kenya start-up capital is a barrier to entry in most entrepreneurial activities. Metalwork had the greatest average amount of start-up capital requirement reported followed by woodworking. Textiles had the smallest average start-up capital reported at only one-third and one-fourth of the other more capital intensive industries. The large standard deviation indicates the wide variation of responses. Table 7-6 features these results with median figures in each category.

TABLE 7-6
START-UP CAPITAL BY INDUSTRY
(in Kenyan Shillings)

| | TEXTILES (N = 174) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| INITIAL CAPITAL | | | |
| Mean | 4,261 | 11,609 | 17,486 |
| Standard Deviation | 7,881 | 37,906 | 38,912 |
| Median | 2,000 | 2,800 | 2,000 |
| ANOVA F = 5 553 | df = 2 | p ≈ 0 004 | |

Lack of capital was cited by eighty percent of all respondents as the greatest start-up problem. Absence of machines and tools was cited by roughly half the respondents as a major start-up problem. For start-up capital, the statistical test again indicates that industries should be treated separately by policy makers in considering the promotion of the informal sector development.

In addition to the start-up capital amounts, the source of start-up capital is shown in Table 7-7. Here, it is clear that personal savings dominate as the primary source of capital in all industries studied. It should be noted that no one had gained their start-up capital from a formal sector source. Relatives, partners and friends were the only other responses given to inquiries about start-up capital. As the business develops and grows, additional capital is needed for expansion. It is expected that the initial sources of capital will prove to be important as sources for expansion capital.

TABLE 7-7
START-UP CAPITAL BY SOURCE[2]
(in percentage)

| | TEXTILES (N = 174) | WOODWORK (N = 98) | METALWORK (N = 47) |
|---|---|---|---|
| SOURCE OF CAPITAL | | | |
| Own Savings | 72 10 | 86 60 | 80 10 |
| Relative(s) | 17 00 | 11 50 | 15 40 |
| Partner(s) | 8.70 | 6 30 | 11.20 |
| Friend(s) | 6 40 | 4 20 | 11 20 |

This is underscored as approximately 92 percent of them elected not to apply for loans or had applied but were rejected. Only nine percent of the firms received any external funding other than from family members. Approximately half of the respondents started their businesses from meager savings.

As previously noted, when entrepreneurs were asked from what sources they had requested external funds, most reported that no requests were made. Most business owners "knew" that they would

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[1]Several entrepreneurs had more than one source of start-up capital. At the time of the survey, the exchange rate was approximately Kshs. 50.00 to U.S. $1.00.

not be granted a loan as they did not have collateral. One owner stated that loans "were made to rich people." Another entrepreneur felt that "there is a lot of discrimination in the provision of loans, particularly against small business entrepreneurs." However, most stated that a source of external funds would improve their businesses significantly.

## TECHNOLOGY

Technological machine capacity in the informal sector is very low and far below the technological capacities in light industries. House (1977) and Aboudha and King (1991) document average capital stocks as a method of grasping the level of embodied technology in an industry. It would be best to look at capital labor ratios (KLRs) over the sector. KLRs give the amounts of capital used by units of labor in the sector. However, a study on technological change is a time series study and looks at changes over time.

**TABLE 7-8**
**AVERAGE CAPITAL STOCK LEVELS BY INDUSTRY**
**(in Kenyan Shillings)**

| | 1990 | 1994 | 1994 Rental/Month |
|---|---|---|---|
| Textiles | 26,400 (N=22) | 8,547 (N=112) | 360 (N=36) |
| Woodwork | 64,886 (N=38) | 17,752 (N=69) | 300 (N=1) |
| Metalwork | 69,076 (N=26) | 24,247 (N=20) | 1,166 (N=3) |
| ANOVA | F = 5 553 | df = 2 | p ≈ 0 004 |

In Table 7-8, relative capital stock levels of the three sectors are compared to data generated from a previous study (Aboudha and King, 1991). Aboudha and King's findings corroborate this study that capital stocks are highest in metalworking followed by woodworking. Our data indicate that metalwork, woodwork and textiles have a capital stock ratio of 3:2:1 in terms of total capitalization. The higher numbers in the previous study are believed to derive for the urban bias in machinery cost verified in Aboudha and King's study. Although capital machine levels in the industries studied are dramatically higher than in the 1970s, they are still too low to develop any meaningful industrial capacity at this stage. The industries studied have only undergone a first stage industrialization process as a result of limited electrification machinery for production (see Table 3-5). Again, for capital stock, the statistical test indicates that at a ten percent level of significance, industries should be treated separately by policy makers in considering the promotion of the informal sector development.

The study findings indicate that growth of the micro-enterprise sector is largely technology lead (particularly in woodwork and metalwork). However, the industries themselves do not generate their own technological spurts, that is, moving to higher echelons of technology (Juma et al, 1993). In fact, we observe the industries studied as moving toward the exhaustion of existing technological capacity. Presently these industries use technology learned from the formal sector through adaptation and adoption. Generally, a lack of understanding of science and engineering behind the technology used was observed.

## WOMEN AS ENTREPRENEURS

Women business owners have all the usual business problems as well as the problems associated with being a woman in a male-dominated arena. Their reasons for starting a business are generally the same as those of their male counterparts. That is, many started their businesses out of necessity. Others started part-time as something supplemental to their husbands' employment activity.

Women's major problem during start-up was credit discrimination. A woman is not allowed to open a bank account or own land without her husband's or father's cosignatory (Gray, 1991). Some of these problems stem from government policy. For example, the

Employment Act restricts most women from running businesses in their own homes or being hawkers. Additionally, although inheritance laws were revised with the Succession Act of 1981, women have rarely inherited land and other property in their own right. This means that they lack title deeds, which are still the most commonly used form of security for borrowing money. Although men have their share of problems, women have a number of special complaints.

Another problem related to availability of credit to women has to do with the negative attitudes of banks and other financial institutions toward women (Robertson, 1988). Traditionally, banks have assumed that women are supported by their husbands. As such, those borrowing money need their husbands' consent and permission if they are to borrow money easily.

The bulk of women entrepreneurs are in textiles (90 percent), while almost no women are represented in the other industries of metalwork or woodwork. This bias of women towards textiles plays on stereotypes of women as seamstresses who are barred from other areas of gainful employment.

Another area of serious concern is that many of the women respondents reported having to contend with numerous responsibilities that took precedence over their managing their businesses. This severely cripples the owners' ability to effectively manage business operations.

The Textiles Case Number 3 makes this point more clearer. Mrs. Wilhelmina Onyango says "[she] did not even operate [her] business from a temporary structure, but from home. Thus, [she] could only do this work once a week did to too many domestic chores." She had "to cope with both her married life and a career." She says that "running a business is an extraordinary difficult task as one must take care of the family members in the morning before they go to their usual destinations and must be back home before they return."

Women in Kenya, as in many developing countries, play multiple roles. The traditional delineation of labor still holds true, with women assuming the entire responsibility for child care, the largest share of family activity in the provision of food, fetching water, collecting firewood, and the general maintenance of the household. With the highest population growth rate, it can be assumed that Kenyan women also are overburdened with frequent pregnancies and child-birth, which take their toll on their health.

Entry into many types of small manufacturing is restricted, especially for poor women (Gray, 1991; Robertson, 1988). Poor women's lower levels of formal schooling, sex-stereotyped vocational training, and attitude about appropriate jobs have narrowed their choice of occupations. While it is true that education and training alone do not guarantee successful entry into businesses, they enhance the women's ability to embark upon non-traditional entrepreneurial activities.

Biases also hurt women. Twelve percent of businessmen in metalwork, carpentry and mostly male occupations answered that they would accept a women trainee or employee. Juma Murerwa (Textiles Case Number 8), a male respondent, said "he could never have a woman to help [him]. [He] believes that the Meru culture and traditions do not allow for that. Women should work at home and on the farm but not public places or on the street making shoes. ..."

Closely tied to the problems of women entrepreneurs is the demographic boom in Kenya. Between 1960 and 1990, Kenya's population quadrupled, from 6.3 million to 25.1 million. This trend is unlikely to be halted because of the traditional belief systems concerning fecundity, children, ancestor worship and the role of women. Most families seek to have as many children as possible; a women's virtue and usefulness are measured by the number of offspring she can bear. The social attitudes that lead women in North America, Europe, and Japan to delay childbearing - education, career ambitions, desire for independence - scarcely exist in Kenyan society. Where such attitudes emerge, they are swiftly suppressed by familial pressures. Just before independence in 1960 the average Kenyan woman had 6.2

children, whereas by 1980 she had 8.2. And this has been in a period when Kenya's economic prospects were deteriorated.

## CONCLUSION: LESSONS LEARNED

While one had to search for strengths in most of the Jua Kali entrepreneurs, several did emerge. First, each micro-business provides an income for the owner and his family, and, in many cases, a livelihood for his/her extended family. This fact was brought home by one of the entrepreneurs in responding to the question as to why he considered his business successful. He replied: "Anyone who can be able to provide the basic necessities to his family, ought to consider himself successful." Indeed, experience in Kenya and elsewhere in the developing countries indicates that micro-enterprises are not primarily oriented toward profit maximization. Although this may be the secondary goal, their immediate goal is to create security for their families. A limitation exist in that there does not appear to be a market for existing micro-enterprises in Kenya. None of the respondents reported to have purchased their business from another small business owner. The lack of markets for existing businesses places a severe limitation on entrepreneurship prospects in Kenya.

A second strength is the fact that most enterprises are highly mobile in terms of location. If the market becomes soft, they could at a moment's notice, move to another location. Many of the entrepreneurs (86 percent) in this study reported that they rented the premises they use. As such, their money is not tied to permanent structures (McCormick, 1993).

A third major strength is that firm owners have created needed products and services for the market, have kept costs competitive, and have attracted and trained people with the needed skills.

The primary weakness of most members of the study group was lack of capital. As a direct result, most were unable to get the appropriate tools or expand their businesses. Almost all of the respondents started their businesses from own savings or loans from relatives. Approximately 92 percent of them elected not to apply for loans or had applied but were rejected. Only in one case had the business owner applied for a Kshs. 100,000 loan from the Kenya Commercial Bank and was offered only Kshs. 20,000, which she turned down because it was inadequate for her purposes. While many of the entrepreneurs were unaware of the ways in which they can go about applying for loans, those who knew how were equally frustrated that their applications are never accepted. One entrepreneur conveyed this frustration when he said that when one submits an application, "they just keep quite."

The most noteworthy factor in the area of business management was the absence of an aggressive marketing strategy. Moreover, most of the businesses surveyed only employed one or two components of the marketing mix: product, place, price and promotion.

In most cases, the businesses produced products which were carbon copies of others in the industry. This phenomenon was especially true of the textile businesses. One exception was the tailor who said she tried to use a variety of designs as a marketing tool. Several of the metalworkers in the sample noted that they bought raw material in bulk and sold to several smaller operators. In a sense, they performed the production, wholesale, and retail functions in the channel of distribution. Some in the woodworking industry relied on quality and craftsmanship to differentiate their products from their competitors.

Pricing strategy was not evident in most cases. Most used the cost of raw material plus the cost of labor as the starting point. Then, a profit was attached. The final sales price was usually the end product of fierce negotiations between manufacturer and consumer. This pricing method of negotiation seemed to be, to a certain degree, cultural.

Each entrepreneur considered the place or location component of the marketing mix. However, inevitably, location became merely a question of available space. If a lot was unoccupied, regardless of its potential impact on sales, a business owner set up shop merely because it was available. However, in several cases, some owners moved to better locations with the passage of time to improve sales. In addition, many wanted to move to places where they would have better amenities (i.e., electricity and/or water).

Promotion was the least used component of the marketing mix. Most businesses relied on "word of mouth" to disseminate information to their target markets. No case of a systematic promotion process was uncovered. The overall problem of insufficient demand or lack of markets should be reformulated into the broader perspective of the lack of a marketing orientation by business owners (Sabana, 1995).

A number of opportunities exist for micro-enterprise owners to consolidate and enjoy economies of scale through joint ventures, partnerships, and so forth. Theoretically, the entrepreneurs need each other to be able to take advantages of economies of scale. Practically, however, they have to overcome gross mistrust that exists among them. Moreover, a meager amount of business training would put most ahead of the pack. The opportunity exists to differentiate products and thereby create a greater demand for their products.

This study would confirm the literature on several points. Industry product characteristics have a significant impact on an entrepreneurial venture's success. First, an entrepreneurial venture is more likely to be successful when it enters an industry with heterogeneous (different) products than when it enters one with homogeneous (similar) products. In a heterogeneous product industry, an enterprise can differentiate itself from competitors with a unique product; or, by focusing on the unique needs of a market segment, it can find a market niche. Second, according to research data, an enterprise is more likely to be successful if the product is relatively unimportant to the customer's total purchasing needs than if it is important. Customers are more likely to experiment with a new product if its cost is low and product failure would not create a problem.

The key to success for most small ventures is (1) to differentiate the product from other competitors in terms of quality and service and (2) to focus the product on customer needs in a segment of the market to achieve a dominant share of that segment. Adopting guerrilla warfare tactics, these companies go after opportunities in market niches too small to justify retaliation from market leaders.

To continue its growth after it has found a niche, the entrepreneurial firm can emphasize continued innovation and pursue natural growth in its current markets. It also can expand into related markets in which the company's core skills, resources, and facilities offer the keys to further success.

# CHAPTER VIII

# JUA KALI: GAP ANALYSIS

Gap analysis is utilized in this chapter to organize information from preceding chapters. The analysis identifies four components: (1) background factors, (2) required system, (3) emergent system, and (4) consequences for competitiveness. The background factors include the culture, attitudes, values and belief systems found in a given society or social system. Our concern is how they affect the development of entrepreneurship and business operations in a country. The required system consists of what is required by law and government policy. This was discussed in Chapter II. The emergent system encompasses what actually exists, what behavior, actions and attitudes result from the background factors and the required system. This was explored in chapters IV to VI. The reality of what is actually happening constitutes the consequences for competitiveness in terms of productivity, satisfaction, and development. This was discussed in Chapter VII. In effect gap analysis contrasts the required system with the emergent system in an effort to bring out significant gaps where new actions can be taken.

## REQUIRED SYSTEM

The required system is comprised of social policies that government policy-makers create as a larger environment in which firms operate. It consists of government laws and rules and regulations (that shape the attitudes and behaviors) that policy-makers have determined to be required of firms in order to successfully meet the society's objectives (i.e., workforce safety, registration for census collection, charging of fair prices). The requirements usually sound logical, especially to the policy-makers who created them, and have specific purposes of how firms are supposed to benefit.

The behavioral requirements include both activities and interactions with others. These requirements usually begin with required activities such as the acquisition of a license to operate a business, payment of taxes to the government, and so forth. The required activities may be further broken into much more detail, such as renewal of licenses annually at the district government offices. In addition, there are likely to be some required interactions.

These requirements are developed by the government and are frequently called the "formal system." They are usually contained in government documents, by-laws and sessional papers. Written procedures, regulations, and rules are a formal framework intended to guide the behavior of firms.

## Current Micro-Enterprise Policy

Kenyan government's policy in regards to micro-enterprises is clear and unambiguous. As previously articulated in Chapter II, the government's policy is to support the informal micro-enterprise sector by providing:

- Investment incentives to small scale enterprises,
- Infrastructural development for small scale enterprises,
- Technology support to small scale enterprises,
- Market support systems,
- Relief from regulatory requirements,
- Financial support to small scale enterprises, and

Kenya's policy-makers maintained that with the above policies in place, certain national benefits or outcomes would result.

## Desired Outcomes from Micro-enterprises

Kenyan government's belief that the welfare of its people is tied to a vibrant micro-enterprise sector is captured in the statement "a vital role . . . in contributing to renewed economic growth of the country."

Simply put, policy-makers assume that with strong governmental support, the number and the viability of micro-enterprises will increase. This increase, of course, would mean higher employment levels and an overall enhanced quality of life for Kenyans.

## BACKGROUND FACTORS

The background factors include the culture, attitudes, values and belief systems found in a given society or social system. These factors affect the development of entrepreneurship and business operations in a country. The social institutions that values, attitudes and the belief systems are derived from are (1) the subculture of the community to which a person belongs, (2) a person's social class or status in the community, (3) the extended family, and (4) the peer group that shares one's life experience (Odhiambo and Isoun, 1989).

These social institutions reinforce each other to give rise to traditional culture which stresses ascriptive leadership, personal sacrifice for the group/community solidarity, submission/reverence to the established authority, and rejection of outside interference in the status quo (which could well be innovation). With the advent of modernization, many times the results are less motivated individuals who are not inclined to seek personal achievement outside the traditional community. Today, it is often found that some do not even attempt to make use of new opportunities available within their communities.

As with the traditional culture, the purpose of the traditional education system (what today is called informal education) was to transmit, conserve, and perpetuate culture, values, and belief systems from one generation to another (Achola, Gray, and Kerre, 1990). This was very crucial for the community's self-preservation and identity.

During colonialization, the various colonial powers first destroyed or denigrated local institutions and management practices, and then developed their own colonial educational and administrative systems. The destruction was particularly severe because the colonists were convinced of their cultural, biological, and technological superiority and the inferiority of African institutions and administrative systems. Crawford Young (1986) has argued that this destruction was a necessary precondition for the complete institutionalization of colonialism. In any case, its effects were the destruction of the indigenous organization, management, and technological systems, some of which were situationally more appropriate. As well, there was the psychological destruction of the African self-esteem and its subtle but debilitating impact which manifests itself in different forms at different levels of modern African society.

To summarize the impact of these background factors on modern commercial activity, the Kenyan society values community/relationship over individualism. Thus, a less rigid division of labor is observed as compared to Western practices. Tasks are usually performed through co-operative efforts. Core staff in an enterprise are usually family members and thus are hired for life. There is a great emphasis on interdependence. The employer might be expected to make special efforts to help a distressed employee (send child to school or help sick relative). This supports the hiring of members from an extended family.

An example of the dichotomy between the traditional and modern is the use of memory and oral transmission of knowledge in the traditional system, whereas modern commercial organization requires and emphasizes record keeping as a management tool. As noted earlier, in Chapter VII, record keeping is a critical issue.

In total, there is a general lack of development of a culture of entrepreneurship, scientific inquiry, and technical prowess in the Western sense. Modern science is not yet a part of the culture and the populace is not fully aware of the importance and impact of modern technology in their daily lives (Odhiambo and Isoun, 1989). Religion and superstition still play an important role in the thinking of most

Kenyans. The apparent conflict of the traditional and modern must be addressed.

The background factors and the required system set the direction in which the emergent system is likely to develop, but that process of development is dynamic and interactive. Events may reinforce, modify, or undercut that ongoing direction. The emergent system is constantly evolving as time and events occur.

## EMERGENT SYSTEM

Inevitably, because people are social beings with needs greater and more complex than those of machines, a variety of unanticipated behaviors and attitudes that are not required will begin to emerge and over time take on relatively stable patterns. This parallels the way in which the informal organization supplements the formal organization. For example, business owners may develop special relationships with local government officials through what Goran Hyden (1982) calls "economy of affection." Through these relationships, the owners may provide "gifts" to the officials and in the exchange the business owners are excused from frequent harassment by government representatives. In these kinds of ways a social system elaborates itself, leading to emergent and lasting behaviors and attitudes that go far beyond what was originally required just to operate the business. Some of what emerges will be norms - a key form of attitudes - on how to do the task, how much to produce, and so on, while other norms will be related to purely social relationships, such as who has coffee with whom and who likes whom. In both cases, it is this emergent (informal) system which gives a group its particular identity, its view of who should do what, who should have influence, and how close members should feel.

## What Actually Exists

While the Kenyan government's policy in regard to micro-enterprises is clear, what emerges or exists in actuality is far from the government's policy intentions. The study findings reveal the following:

- The government still operates as a regulator as opposed to facilitator of micro-enterprise development,
- There is lack of capital--undercapitalization for micro-enterprise development,
- Most micro-enterprises use rudimentary technologies,
- Micro-enterprises operate in a highly competitive business environment,
- Most micro-enterprises are motivated to compete, but not to expand to a level of greater volume,
- Continual harassment by government representatives is a problem,
- Introduction of cheap used imports is killing local manufacturing micro-enterprises, and
- Many firms operate under open-air or semi-permanent structures.

The key question is: how do we connect what emerges to what is required?

## SALIENT FEATURES: THE EMERGENT SYSTEM

Few of the desired policy-maker's outcomes could be detected in the cases studied. Only 28 of the 320 (nine percent) reported any external financial support. Several reported that regulations were not relaxed. In fact, over 20 percent reported experiencing harassment from local governmental entities. None reported a market that had been open to them as a result of governmental efforts. And, no one suggested that infrastructure development and technological transfers had accrued to their benefit Surprisingly, the government's goal of economic expansion by individual small enterprises was not shared by many of the businesses interviewed.

## Insights into Business Concerns

As anticipated, the entrepreneurs studied cited a litany of concerns. Of course, some were controllable, while others, were not. Perhaps, the most challenging uncontrollable problem several respondents cited was the high rate of inflation which adversely affects all aspects of business operations. As a result, planning was virtually impossible. Certainly, it was difficult to develop any pricing strategy. A second uncontrollable problem was the inability of these entrepreneurs to secure loans from financial institutions. Lack of sources of funds was cited by almost every firm as the primary problem facing the business.

Several businesses stated that operating without a license was causing them problems. These business felt that they could ill afford to purchase licenses or pay taxes. Thus, they endured "harassment" by public officials. One shoe manufacturer indicated that his major concern was the recent influx of shoe imports. He could not compete with their prices, thus hoped that customer loyalty would keep him in business. These business concerns are elaborated upon later in this chapter.

# CONSEQUENCES OF THE EMERGENT SYSTEM

How does the behavior of any firm or industry help the nation sustain its competitive position? In the long run, that is what really matters. Does that behavior create needed products and services, keep costs competitive, attract, train, and keep people with the needed skills? The consequences for sustaining the competitive position of whatever emergent system develops can be assessed along several broad dimensions: productivity, satisfaction, and development/growth.

**Productivity:** Any nation is interested in overall productivity: how well its industries perform, cost per unit of output, quality of output and so on. Productivity is directly proportionate to the level of national competitiveness and a country's standard of living.

**Satisfaction:** For a variety of reasons policy-makers and government officials also are interested in the satisfaction of citizens of their nation. This can affect societal commitment to the nation, an individual's willingness to do more than is required, and people's creativity or flexibility.

**Development:** A third dimension to which we will also pay attention is that of firm and industry development, growth and learning. An industry may be reasonably productive and satisfied but preventing its firms from developing, from learning anything that will increase (a) their profitability, (b) the range of resources available to the firm, or (c) their ability to function effectively as a firm in changed circumstances.

Going back to the industry analyses discussed in chapters IV to VI, the impact of the emergent system and its effect on productivity, satisfaction, and growth/development is observed. At best, these three variables are stable or possibly declining.

Productivity on a national level has been enhanced by the fact that the government has recognized the importance of the sector and now includes the informal sector as part of national economic activity. However, within the industries studied, there is a highly competitive environment directed toward a narrow market segment. Due to this fact, productivity is stagnant within those industries but could increase if there was greater innovation in terms of products, processes, and markets.

In terms of satisfaction, the industries studied create needed products and services for the market in conformity with the needs of the population. The true significance of this is obscured by the fact that these activities are either not covered or not properly differentiated in the national accounts. In the past, it has largely been a "poor man's sector," although some informal sector or micro-enterprise output meets the needs of the high-income group. These enterprises have kept costs competitive and have attracted, trained and retained people with the needed skills. However, profits are squeezed, wages are low, and entrepreneurs work long hours to make ends meet. Kenyans are a very patient people.

As far as development and growth are concerned, the overall Kenyan economy in recent years has experienced a decline (growth of GDP was 0.4 per cent in 1992). This dramatically affects the small scale industrial sector. Most micro-enterprises studied pursue a strategy of remaining small and flexible. The present environment in Kenya encourages micro-enterprises to remain small and thus, outside of the formal apparatus. Over the past thirty years, Kenya's manufacturing sector has been characterized by a "missing middle" in terms of medium scale enterprises. The proportion of Kenya's GDP that is taken up by medium scale manufacturing businesses has remained small and relatively constant. A more stable and supportive general environment would encourage enterprise and industry growth.

## GAP BETWEEN DESIRED AND ACTUAL OUTCOMES

To further elaborate on the issues facing business owners, the primary weakness of most micro-enterprises studied was lack of capital. There are numerous government loan schemes targeted at micro-enterprises in Kenya. One such scheme is the Assistance to Business Creation (ABC). In 1990, the National Bank of Kenya (NBK), in conjunction with the International Labor Organization (ILO), started to implement a credit scheme for small-scale entrepreneurs in Nairobi, Kisumu, and Embu. ILO deposited Kshs. 2 million in the bank and the bank in turn mobilized Kshs. 4 million for lending to small-scale entrepreneurs.

Another scheme, the Rural Enterprise Fund, was launched in 1990. This is implemented through of the Division of Government Investments and Public Enterprises of the Treasury. The fund is targeted at small entrepreneurs and women's groups. The maximum loan size is Kshs. 100,000 with an interest rate of 8 percent. The terms of the loan range from two to five years, with a grace period of twelve months.

The Kenya Commercial Bank (KCB), in collaboration with NGOs such as the Promotion of Rural Initiatives and Development Enterprises (PRIDE), operates yet another loan scheme. This scheme is aimed at availing loans to micro-enterprises which do not normally qualify for credit under the bank's lending terms. These are but a few examples of the various schemes that exist to provide loans to micro-enterprises.

The question that remains unanswered is: who do these institutions lend to? A closer analysis of the characteristics of the firms which secured loans is important if one is to successfully assist the development of micro-enterprises. Ninety two percent of the 320 firms that are included in this study never received a loan from these institutions. It is highly unlikely that in a randomly selected sample of micro-enterprises there should be such a high number of firms that never received loans, particularly given the large number of institutions that are providing such loans.

Again, three major concerns to the Jua Kali sector are apparent. The high level of inflation is a key threat. The high inflation rate, with observable consequences to the micro-enterprises, is one of the never ending cries in Kenya. Between 1986 and 1992, the inflation rate in Kenya more than quintupled from 4.7 percent to 27.5 percent. Without some degree of price stability, planning is almost impossible.

A second threat to some businesses is harassment from the local government representatives to obtain a license and pay taxes. These restrictive policies continue to be followed and have the effects of impeding the sector, ostensibly out of concern for public health, fire hazards, and urban aesthetics. Quality seems to be one major area of concern of the government. There was initially a resistance to promote what are considered "inferior" quality products from the micro-enterprises in the informal sector. This goes along with a resistance toward the proliferation of informal sector establishments with the appearance of "shanty towns" and "bedonvilles." Thus, government policy is that each activity in the informal sector requires a license to operate. One study (Mukui, 1980) found that in less than a year, an individual can be a shoe shiner, a maze (corn) roaster, a car washer, a newspaper vendor, and a cart puller. Since all of these people are supposed to be licensed, the total fees charged to one single person is very high. Approximately 21 percent of the enterprises reported having been harassed by government officials. The findings of this study corroborate Ng'ethe and Ndua's (1992) study of Jua Kali entrepreneurs in the Eastlands of Nairobi. In their study, Ng'ethe and Ndua found that harassment by City Council was the most prominent problem faced by the entrepreneurs. A classic example of government harassment of the Jua Kali sector was the 1990 demolition of micro-enterprise premises in Nairobi. Between July and December, 1990, the City of Nairobi embarked on a massive demolition program which displaced approximately 1,431 enterprises. It is very ironic that, although the government recognizes the important role played by the Jua Kali sector in the economy, there continues to be harassment of entrepreneurs in this sector.

The primary threat to enterprise survival may well be the importation of inexpensive goods into the country especially in textiles. If this trend continues, a large number of small manufacturing firms will simply vanish from the scene.

## Formal vs. Informal Dichotomy

There is a fundamental problem that exists in bridging the gap between formal and informal sectors. The present structure encourages micro-enterprises to remain outside of the formal apparatus. The study's findings, for example, show that very few enterprises pay taxes or have licensing. The question that needs to be addressed is whether these entrepreneurs are actually interested in being formalized. Perhaps a partial answer as to the reason that many of the government programs have not reached the intended beneficiaries (at least those in the study group) can be found here. Qualifying for government assistance may entail registering one's firm. This means that the registered firm must pay taxes and be in possession of a business license. However, most firms would like to avoid this costly involvement with the government. As such, they choose to remain out of the reach of the government's tentacles. Additionally, securing loans from the banks requires that individuals have collateral and postal addresses. The reality is that many micro-enterprises do not wish to be tied up in one location permanently. They want to be able to move quickly without too much loss should the market change.

In terms of linkages between the formal and informal sectors, the transfer of technology necessarily involves a shift to a more capital-intensive mode of production and thus signifies the "formalization" of the informal sector. This process is gradual with limits imposed by the inherent constraints of micro-enterprises, specifically, lack of capital.

Another linkage between the sectors that encourages formalization is a form of technological transfer that involves a formal-sector employee setting up as an informal sector entrepreneur. The stigma of such workers being considered "failures" of the formal, modern sector, unable to integrate themselves in the movement of modernization is slowly disappearing. These individuals are enterprising people who, having learned new skills and market conditions and having acquired savings, branch out to capitalize on their practical experience. University programs are encouraging such career movement. Parastatal privatization and slashing of government payrolls with severance packages targeted toward new business start-ups encourage entrepreneurship.

Is the solution more government or less government? Would the non-governmental actors be more effective in assisting the informal sector? There is definitely a role that the government must play in the development of micro-enterprises. The fundamental issue, however, has to do with the right balance of what the government should do.

The government has moved from the interventionist approach to one of facilitating the micro-enterprise development. However, there is still a mentality, at least in practice, of government as a regulator instead of promotor of commercial activities.

> It would be ironic if the new faith in the promise of the informal sector were to be dashed by the very attention it is currently receiving. Whenever governments turn their attention to something which holds out some promise there is an almost obsessive tendency to fence it around with regulations and procedures - the control mechanisms which all too often concern bureaucrats far more than organizational performance. The acute danger is that the unique feature of the informal sector - its informality - will be destroyed as the state and the international aid agencies try to make use of it (Blunt & Jones, 1992, pp. 5-6).

The solution lies in a more evolutionary development of the traditional sector. This would stand in juxtaposition to the continued importation of foreign technology. We suggest an acceptance of traditional knowledge and technologies coupled with a systematic selection, addition, and modification of appropriate modern technology.

This would eventually produce the right types of social structures conducive to national development. In summary, the development process and approach must flow from the cultural context.

## CONCLUSION

The informal sector in manufacturing is highly competitive and dynamic. The government of Kenya should be commended on its efforts to marshall support for this important sector. The informal sector's prospects for growth are as yet unclear. There would appear to exist a communications gap between the sector's participants and the development implementers who are responsible for designing projects for them. The supposed beneficiaries of the assistance have yet to acknowledge improvement in their conditions. The systems which support the sector are small-scale in nature but are cost efficient. Thus, micro-enterprise technologies, institutions, and organizational systems must still be refined and developed.

Capital formation is clearly a large obstacle to the sector's development. This includes capital formation investment as well as increasing the capacity to save by enterprises. One problem which prevents savings, and which stands in the way of micro-enterprise development would appear to be a lack of suitable institutions in the local communities within reach of potential savers. Typically, countries with under-developed financial sectors also tend to have lower savings rates. In this instance, although there are fewer possibilities for borrowing, and so higher personal savings rates, there are also fewer ways for people to invest their cash efficiently. Thus, government policy will have a great impact on private savings. Reform of pension systems is one area to target. There is a clear relationship between generous state schemes and lower private savings. As one can imagine, political instability inspires people to save less due to shorter time horizons. Given a stable political environment, the demographic profile of Kenya works against increased national savings. Older people, until they retire, tend to save more than the young.

The institution and development of an equity market for the purchase of businesses and to provide venture capital, though problematic, would be a progressive move toward the provision of the magnitude of capital needed for enterprise growth in the informal manufacturing sector. Existing and new institutions need to inspire confidence and invoke a sense of security among the enterprise savers and offer attractive rates of interest on savings and return on investment in equity. This could partially address the problem of available financing. In the absence of such institutions, people have no alternative but to maintain the traditional method of saving, i.e., keeping their money under the floor or roof, in the tops of trees, or in fixed or moving assets, i.e., animals. Moreover, these traditional methods of savings do not facilitate the development and growth of an equity market for businesses. Many successful business owners may find no one to continue their enterprise in the event that their offspring do not wish to take up the perpetuation of family business operation.

Furthermore, the government policy needs to be more targeted or industry specific. Instead of having a blanket policy toward the Jua Kali sector, the government needs to develop specific policies suited to the particular characteristics of each industry. It has been shown that each industry has distinct needs that are not necessarily the same as another. For example, formal education and training is not as extensive in the textile industry as was found in the metalwork industry. Thus educational training needs are going to be different. Another observation was that, proportionately, metalworkers are securing more loans than the other two industries studied. Thus, perhaps the government needs to devise programs that specifically address the concerns of the woodwork and textile industries.

It should not be forgotten that a key constraint hindering the growth of micro-enterprises, particularly in the rural areas, is related to a deficiency of demand. A potential increase in market opportunities arises from the fact that the Kenyan Government, at all levels, is a major buyer of consumer goods. It can increase the informal sector market by buying products such as furniture and utensils that are made in the informal sector. The government should endeavor to subcontract, where possible, to informal metalworkers and woodworkers.

The government's overall development policies can play a key role in overcoming the deficiency of demand. In particular, agricultural policies aimed at a rapid growth of rural incomes are important not only in their own right, but also because they contribute in a major way to the growth potential of non-agricultural, rural micro-enterprises.

From our analysis there is a clear need for a sustainable micro-enterprise support system. This system must be capable of providing management and marketing training and technical assistance, raise the level of technology and narrow significantly the capitalization gap that presently exist.

We suggest two innovations in the creation of such a support system that can address the lack of effectiveness of the multitude of existing programs developed to implement the policy expressed by the Government of Kenya as outlined in Sessional Paper No. 2 of 1992. The donor and NGO community have looked to the sessional paper for direction of their programs. Thus, the implementation of remedies for growth in this sector to enhance employment generation have found ample ground for expression. There are issues of capacity building and development of indigenous technology which are crucial for sustainable development of any program.

The first of the innovations suggested is an entrepreneurial extension service similar to what has been done in the past in agriculture. The second innovation stems from our findings that the loan schemes in existence, though very accountable and easy to track, are not enough to spur significant growth for informal sector manufacturers. Complementary to the loan schemes there should be introduced a venture capital scheme targeted toward the proven micro-enterprises (in existence five years or more) of which there are quite a few (see Table 3-4).

As one of many institutions involved with the Jua Kali sector, Jomo Kenyatta University of Agriculture and Technology (JKUAT), through its entrepreneurship education and training program at the Institute for Human Resource Development (IHRD), is strategically situated and plays a critical role in promoting sustainable development that emerges from Kenyan culture. The entrepreneurship program, although still young, is gaining momentum and much attention in Kenya. Graduates from this program are ideal candidates to serve as extension officers for micro-enterprises. With the help of a technical advisory team of university faculty in marketing, finance, and technology management an extension program could serve as a focal point in rural communities to bring resources to bear on micro-enterprise growth.

JKUAT should continue systematically to study the informal manufacturing sector, ascertaining existing levels of technology, methods of production and distribution, and management techniques. The continued goal of integrating appropriate modern technologies with the existing practices is fundamental for the nation's long-term economic survival. Institutions such as Jomo Kenyatta University of Agriculture and Technology which are on the cutting edge of the development process should be encouraged and supported.

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