



## Record Keeping and Growth of Micro and Small Enterprises: *An Empirical Study of MSEs in Selected Urban Centres in Kenya*

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### Abstract

Despite the effort made by the government of Kenya to support the growth of MSE sector by creating enabling environment through appropriate legal and regulatory procedures, and in spite the fact that banks have recently made micro-credit accessible to MSEs (MESPT, 2011), there is no indication that the sector is growing. Research has shown that sixty percent (60%) of MSEs fail within few months of their operation (Bowen, 2009). Studies also confirmed that poor or lack of proper recordkeeping in small enterprises lead to their collapse (Germaain 2010). This study therefore sought to investigate the extent to which the owners or managers of Micro and Small Enterprises kept records in their businesses. Descriptive reach design was used to achieve the following specific objectives: To establish the types of records the MSEs keep; the challenges they face in recordkeeping and the extent to which recordkeeping support operations and growth of the MSEs. The target population of the study was the owners or managers of MSEs in Thika municipality in Kenya. The study used multi stage sampling including purposive sampling of MSEs which had been in operations for a minimum of 5years, along the main streets in the Central Business District, and random sampling of 10% of the 862 MSEs. Questionnaires were used to collect both qualitative and quantitative data through personal interviews of the respondents while document analysis was used to gather quantitative data. The all the collected data was analyzed using descriptive statistics with the aid of SPSS. The study found out that the MSEs kept sketchy incomplete records, largely unprofessionally done, with non-conceivable contents and patterns. The accounting record was poorly done because of lack of accounting knowledge and for the fear of the cost of hiring professional accountants. It was also revealed that there was inefficient use of accounting information to support financial performance measurement by MSEs. This made it difficult for the entrepreneurs to make informed financial and economic decisions for their businesses. The study however established that the owners and managers of MSEs were highly willing to learn more about book keeping and accounting but the forums for such trainings were lacking.

**Key words:** book-keeping, accounting, MSEs, business growth, entrepreneurs.

### 1.1 Background of the Study

Micro and Small Enterprises (MSE) plays important role in the economic growth of a country. Moore, Petty, Palich and Longenecker (2008) assert that Micro, Small and Medium-sized enterprises play important roles in the economic growth and sustainable development of every nation. Due to this, The Government of Kenya has since independent supported the Micro and Small enterprises (Dondo, 1991; Republic of Kenya Sessional Paper 1992). The Government has been doing this to ensure economic growth and sustainable development. The enterprises have however been facing numerous problems including lack of efficient access to finances from the banks and other lending institutions and collapsing of the MSEs due to mismanagement ( Koril, 1999; MESPT, 2011; Kyendo, 2010).

With the current legal and regulatory framework in Kenya and with the increase in number of the lending institutions, the problem of funding for this sector has decreased (Economic Survey 2006). The problem that might require emphases in research would be the management of the MSEs. Efficient managing of these enterprises involves accounting a practice which is highly dependent on the record keeping of the business transactions (Maseko and Manyani, 2011). Micro and small Enterprises (MSEs) play an important role in many developing countries. Nead (1998) observes that especially in the developing countries the health of the economy as a whole has a strong relationship with the health and nature of Small and Micro Enterprises sector. In Kenya for example, the MSEs sector contribute more than 50% of new jobs created (Economic Survey 2006). Due to the importance of SMEs to the Kenya economy, the Government of Kenya has made notable intervention by putting in place measures that are geared towards promotion of and development of MSEs. One of the major interventions is the creation of an enabling environment for the Small enterprises through an appropriate legal and regulatory framework (Sessional paper No 2 of 1992). Furthermore, the banking sector has recently improved its financial services to the MSEs. The banks in Kenya are currently offering microfinance to the SMEs without demanding for collateral as (Kyendo (2010). This means that the previous financial constraints that were faced by majority of the owners of MSEs in Kenya are under control. Despite their significance, and the financial support given to them, the MSEs are faced with the threat of failure with the past statistics indicating that three out of five fail within the first few months of operation. Bowen (2009) affirms that starting and operating a small business include a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to death of a small enterprise hence no opportunity to learn from its past mistakes.

Poor finance management has been posted as the main cause of failure on the MSEs (Longeneter et al 2006). Bowen (2009) observes that there is a strong relationship between business performance and the level of training in the business management especially in business finance record keeping. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is especially one major factor that impacts positively on sustainability and growth of SMEs. Failure to record business financial transactions (bookkeeping) leads to

collapsing of the business within few month of its establishment (Germain 2009). In essence, recordkeeping is one thing an entrepreneur cannot afford to ignore.

Research has shown that in any business, recordkeeping is the first step of the accounting process, which also includes classifying, reporting and analyzing the business financial data. It involves organizing and tracking receipts, cancelled checks and other records generated by financial transactions. Bookkeepers chronologically record all transactions: cash disbursements, cash receipts, sales and purchases, and others in a journal and post the journal entries to a general ledger of accounts, which is essential for preparation of monthly financial statements. This is imperative for a profitable business. Further, research has in the past shown that in business management, proper keeping of records of all business transactions is vital for the success of the business (King and McGrath 1998). In addition, Butler (2009) asserts that without accurate and complete records of business transactions the business is doomed to fail at its onset.

In respect of the fact that good record keepers require training in this field and in consideration of the fact that in Kenya majority of the MSEs fail few months after they are established (Bowen, 2009), one would be eager to find out the extent to which the owners and managers of the enterprises are trained in record keeping and how well they keep the records of their enterprises. The fact that these enterprises may have very little capital they may not be capable to hire or employ qualified accountants to enable efficient recordkeeping. In this case the owners or managers of the enterprises should have proficiency in keeping their business records.

According to Bowen (2009), as with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. In this sense, it would be imperative to add to the limited studies about SME by investigating the extent to which MSEs owner or managers keep track of their business transactions. In essence, it is against this background that this study was set to find out engagement in recordkeeping by MSEs owners and managers; the activity which is key to the success of their business.

## 1.2 Statement of the Problem

Despite the effort made by the government of Kenya to support the growth of MSE sector by creating enabling environment through appropriate legal and regulatory procedures, and in spite the fact that banks have recently made micro-credit accessible to MSEs (MESPT, 2011), Research has shown that sixty percent (60%) of MSEs fail within few months of their operation (Bowen, 2009). Furthermore research has also confirmed that poor or lack of recordkeeping in a business and especially the Small enterprises lead to their collapsing (Germain 2010). In essence, the cause of the collapse of these MSEs within few months of their operations should be investigated to establish fruitful interventions towards entrepreneurship development in Kenyan urban settings. This study concentrated on the implications of record keeping on growth of micro and small enterprises in selected urban centres in Kenya. This study therefore sought to investigate the extent to which the owners or managers of Micro and Small Enterprises kept records in their businesses.

## 1.3 Research Design and Methodology

Descriptive reach design was used to achieve the following specific objectives: to establish the types of records the MSEs keep; the challenges they face in recordkeeping and the extent to which recordkeeping support operations and growth of the MSEs. The target population of the study was the owners or managers of MSEs in Thika municipality in Kenya. The study used multi stage sampling including purposive sampling of MSEs which had been in operations for a minimum of 5years, along the main streets in the Central Business District, and random sampling of 10% of the 862 the sample size was therefor e 86 respondents. Questionnaires were used to collect both qualitative and quantitative data through personal interviews of the respondents as supported by Orodho (2005), Mwiria and Wamahu (1995) and Kerlinger (1986) and document analysis as supported Srsedt, (2011) who defines document Analysis as a technique used to gather information in research that describes the act of reviewing the existing documentation of comparable business processes or systems in order to extract pieces of information that are relevant to the study .

*According to the Thika Municipal Council office ( 2011), the total number of registered MSEs in the municipality was 22,451. Those within the Central Business District were 17,864, Out of which about 862 had been in operation for at least five (5) years in Biashara and Kwame Nkrumah streets of the town (appendix a). According to Creswell (2003) ten percent or more of any population is appropriate representation of the population and for generalization of research findings. Due to this, 10% which make eighty six (86) of the total population of MSEs in both Biashara and Kwame Nkruma streets was randomly sampled for this study.*

For analysis purposes, the qualitative data was organized in themes and arranged according to the objectives of the study and analyzed using quantitative statistics. The Quantitative data on the other hand were analyzed with the aid of Statistical product and Service Solutions or SPSS (formally the Statistical Package for the Social Science) version 17.0.

## 1.4. Results and Discussion

### 1.4.1 The Response rate and frequency distributions

This survey was conducted among the 86 sampled MSEs in Thika Municipality where 100% response rate was realised.

### 1.4.2 Gender of the MSE Owners or Managers

**Table 1: Distribution of Respondents according to Gender of the owner or Manager.**

Entities	Managers-Owners		Percentages
Gender	Male	Female	
Micro Enterprises	18	36	64
Small Enterprises	13	17	36
Total	31	53	100

Source (Survey data 2012)

Table 1 shows that a total of 86 informants acted as respondents of the study. 53 of them were female of which 36 among them operated Micro enterprises and 17 of them operated Small enterprises. There was a total of 31 Males operating the MSEs of who 18 of them operated Micro enterprises and 13 of them operated the Small enterprises. Out of the 86 respondents 64% of them operated the Micro businesses while the rest 36% operated the Small enterprises.

#### 1.4.3 Business Types

**Table 2: Distribution of Enterprises in terms of Industrial Sector**

Industrial sector	Micro	Small	Total
Retail shops	21	17	38
Manufacturing	9	8	17
Other services	13	16	29
Total	43	41	84
Percentage (%) frequency	51	49	100

Source (Survey data 2012)

From Table 2, a total number of 43 Micro and 41 Small enterprises were involved in the study. Among the Micro enterprises there were 21 retail shops, nine manufacturing businesses and 13 enterprises which offered other services including transport, audio and video recording and so on. The Small scale businesses included 17 retail shops, 8 manufacturing firms and 16 enterprises that offered other services. In total 84 enterprises were involved in the study. In terms of percentage frequency, the study involved 51% of micro and 49 % of the Small enterprises.

#### 1.4.4 Legal Ownership of MSEs

For the purpose of in-depth information, the study further considered the legal ownership of the MSEs as presented which Table 3.

**Table 3: Legal Ownership of MSEs**

Industrial sector	Family business	Sole proprietor	Partnership	Total
Retail shops	16	13	9	38
Manufacturing	7	6	4	17
Other services	14	10	5	29
Total	37	29	18	84
Percentage (%) frequency	44	35	21	100

Source (Survey data 2012)

From Table 3, forty four percent (44%) of the enterprises were owned by families, 35% were sole proprietors and partners owned the rest 21 % of the enterprises.

#### 1.4.5 Accounting Records kept by MSEs

The first objective of this study was to find out the types of records MSEs kept of their transactions. In this case, the respondents were asked to choose accounting records they kept in SMEs from a given list. The study found out that the MSEs kept various records of their business transactions as presented in Table 4.

**Table 4: Accounting Records kept by the MSEs**

Industrial sector	Purchase (order) book	Day Sales (Receipt) book	Day Expenditure (bills) book	Payroll records	Asset register
Retail shops	18	28	9	17	8
Manufacturing	13	11	6	12	14
Other services	16	14	22	10	13
Total	47	53	37	39	35
Percentage (%) frequency	58	63	44	46	42
Ranking	2	1	4	3	5

Source (Survey data 2012)

Table 5 shows that the sales day (receipt) book ranked highest with 63% and the purchases day (order) book ranked second with 58%. The payroll records book ranked third with 46%, the expenditure (bills) book ranked fourth (44%) and the asset register book ranking last (fifth) with 42%. Twenty eight (28) out of the 38 retailers kept Sale day (receipt) books, 18 of them kept the Day Purchase (order) book, 17 of them kept the Payroll record while only nine (9) of them kept the Expenditures (bill) book. Only eight of the retailers kept the Asset register. On the other hand the manufacturers were found to be more concerned in keeping register of their assets (14) and the Purchase (order) book (13). Payroll records were also kept by 12 out of the 17 manufacturing enterprises. 12 of the manufacturing enterprises kept the Sale day (receipt) book while only 6 of them kept the expenditure (bills) book. The findings also shows that enterprises that offered other services like transport, photography, video recording and so on emphasized more on keeping the Expenditure (bills) book (22) followed by the Purchase day (receipt) book (16). the sales (receipt) book was the third most kept (14) followed by the Asset register (13) and lastly the Payroll record which was kept by 10 out of the 17 manufacturing enterprises involved in the study.

Respondents were also asked to select from a given list of financial statements those that they prepared for MSEs. The results were as presented in Table 5

**Table 5: Financial Statements prepared by MSEs**

Industrial sector	Statement of Income	Statement of Cash Flow	Statement of Financial Position	Statement of Changes in Equity	None
Retail (shop)	10	8	6	2	13
Manufacturing	6	4	3	2	2
Other Services	13	7	9	7	11
Total	34	19	18	11	26
Percentages (%)	40	23	21	13	40
Frequency					
Ranking	1	2	3	4	1

Source (Survey data 2012)

Table 5 shows that the statement of income ranked highest with 40% but also the same percentage disclosed that they didn't keep any of the financial statements. The statement of Cash flow ranked the second (23%) followed by the Statement of financial position third while Changes in equity ranked fourth with 13%.

The findings in this objective of the study show that MSEs do keep subsidiary books of accounts, especially to capture sales and cost of sales. There is however little accounting information captured on operating expenses as evidenced by a few number of MSEs keeping books to record expenses. MSEs in the retail shops business kept sales day books for controlling inventory and those in the manufacturing sector kept records for non-current assets as owners try to safeguard their assets. It could be clinched that record keeping in MSEs was therefore not being done for the purpose of capturing accounting information for performance measurement but for security and control.

The results further show that most MSEs do not prepare a complete set of financial statements with some not preparing any financial statement at all. This confirms the findings of the research by McMahon (1999). An entity may fail to prepare financial statements even with well-maintained books of accounts because the preparation of financial statements requires accounting skills. Although the need to prepare a complete set of financial statements increases as an entity grows since reporting will not only be limited to internal users but also to external users like lenders. It is imperative that the owners/managers of the MSEs acquire the skill in advance (Everaert et al. (2006).

#### 1.4.6 Challenges faced by the Entrepreneurs in record keeping

The second objective of this study was to find out the challenges the MSEs operators face in keeping records of their business transactions. In line with this the respondents were asked to describe the challenges they face. They gave challenges which are presented in Table 6.

**Table 6: Challenges faced by MSEs Owners/managers in Record keeping**

Challenges	Frequencies	Percentage responses
Lack of accounting knowledge	53	63
Cost and time constraints	18	22
Fear of discouragement in case of loss	13	15
Total	84	100

Source (Survey data 2012)

Table 6 shows that the majority of MSEs (63%) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 22% of MSEs indicated cost and time constraints as challenges while 15% cited fear of discouragement in case of a loss in their business as contributing to challenges they faced in keeping proper records.

The reasons given by the respondents as to why they don't practice recordkeeping in their enterprises are not unique to Kenya. Lack of accounting knowledge on the part of the managers or the owners of MSEs has been cited in various studies in the world ((Everaert et al. (2006). Cost and time constraint is an obvious reason given by many business owners but researchers and scholars have emphasized the business operators should persevere and keep records of their business transactions for the purpose of efficient management (King and McGrath, 2010; Mitullah, 2003)

#### 1.4.7 Attitude of MSEs Operators towards Recordkeeping

The fourth objective of this study was to find out the attitude of the MSEs operators towards recordkeeping in their enterprises. Accordingly the respondents were asked to disagree, agree or state that they don't know about some statements concerning their attitudes towards the record keeping. The results were as presented in Table 4.5.

**Table 7: Attitudes of MSEs Owners/Managers towards bookkeeping**

Statements	Frequency & Percentages		
	Agree	Disagree	Don't know
Bookkeeping is vital to my business	72 (86%)	0 (0%)	12 (14%)
Some business eg Micro entities do not require recordkeeping	10 (12%)	64 (76%)	10 (12%)
Record keeping for business is tedious and less fruitful	6 (7%)	76 (90%)	2 (2%)
I would appreciate if given opportunity to learn about accounting	78 (93%)	0 (0%)	6 (7%)
My business can be successful even though I don't keep records of its operation	12 (14%)	67 (80%)	5 (6%)

Source (Survey data 2012)

From Table 7 it is evident that majority of the Owners-managers (93%) would love to be trained in accounting. Moreover 86% of them believed that bookkeeping practice is vital for their businesses. Fourteen percent (14%) of the entrepreneurs however believed that their businesses would do well even if they don't keep accounting records. twelve percent (12%) of them stated that some business and especially the Micro enterprises do not require bookkeeping while only 7% of the entrepreneurs argued that the practise of record keeping in business is tedious and less beneficial.

From the result presented in Table 7, it is evident that the respondents were having positive attitude towards recordkeeping. Ninety three (93%) of the respondent were willing to be further trained in the recordkeeping. The responses that some businesses do not require recordkeeping could be said to have emanated from this lack of enough knowledge of recordkeeping. According to Otenyo-Matanda (2008) most of the MSEs general lack this knowledge.

#### 1.4.8. Extent to which recordkeeping supported operation of the MSEs

The fifth objective of this study was to establish the extent to which recordkeeping supported operation and growth of the MSEs. Accordingly, the respondents were requested to explain how the record keeping practices benefited their businesses operation and growth of their enterprises. The responses were as presented in Table 8

**Table 8: Record keeping in support of growth of MSEs**

Responses on benefits of recordkeeping	Frequency	Percentage
Allows analyses of spending and revenue one item at a time in my business	56	67
Assist in making accurate report of current spending and revenue to help compare actual results with projections in the business budget.	33	39
Accurate records ensure documentation to back up my tax deductions.	18	21
It ensures accuracy of each payroll period to make sure that each employee receives the proper amount	13	15
Assists in calculating profit for my business	61	73

Source (Survey data 2012)

From Table 8, 73% of the respondents explained that the record keeping assisted in calculating profit for their businesses. Sixty seven (67%) of the entrepreneurs found the recordkeeping important since the practice enabled them to analyse in detail the spending and revenue of their businesses. 39% of the respondents stated that accurate record of their business transactions assisted them in efficiently reporting of the business current spending and revenue to help compare actual results with projections in the business budget. 21% of the respondents agreed that accurate records ensured documentation to back up their tax deductions. Finally, 15% of the respondents receptive that accurate record keeping of their business transactions ensured accuracy of each payroll period and made sure that each employee received the proper amount.

The respondents were further requested to give their suggestions to improve the record keeping practice in their businesses. Table 9 presents the findings.

**Table 9: Respondents' suggestions to improve Recordkeeping practices of SMEs**

Suggestions	Frequency	Percentage responses
Training in bookkeeping	40	48
Hiring of consultancy	25	30
Policy on mandatory record keeping in all enterprises	19	23
Total	84	100

Source (Survey data 2012)

Table 4.9 shows that most of the MSEs (48%) suggested training in bookkeeping as a way to improve their recordkeeping practices. Twenty five percent (25%) of the respondents suggested they would hire consultants and nineteen percent (19%) that policy on mandatory record keeping in all enterprises would improve their recordkeeping practices.

The fact that majority of the respondents (40%) suggested to be trained on the recordkeeping shows that the respondents lacked this skill and that they would be willing to undertake the training for the benefit of their enterprises. Due to the time constraints on the part of the entrepreneurs, some (20%) desired to employ experts in the field of recordkeeping. this would be appropriate if the enterprise is grown enough to meet the cost. But still according to Clelland (1961) the entrepreneurs regardless of the size of their businesses require to have some basis of accounting.

## 1.5 Summary of Findings

### 1.5.1 Types of records kept by MSEs

The findings showed that some of the MSEs owners/managers kept various records which included the purchase day or order records, the receipt book, the expenditure or bills book, the payroll records and the assets register. In addition to keeping these, some of the MSEs prepared statements on incomes, statement of cash flow, statement of change in equity and statement of financial position. Some of the enterprises however did not keep any records of their business transactions and they did not also prepare the accounting statements.

### 1.5.2 Challenges faced by the MSEs in recordkeeping

The second objective of the study was to find out the challenges faced by the MSEs entrepreneurs in recordkeeping. The findings of the study indicate that the MSEs faced various challenges common ones being lack of the recordkeeping knowledge, Time constraints and lack of knowledge on the importance of keeping the records by some of the entrepreneurs.

### 1.5.3 Attitude of MSEs operators towards recordkeeping

The third objective of the study was to find out the attitude of the MSEs operators towards recordkeeping in their enterprises. The findings of the study showed that the owners/managers of the MSEs had positive attitude towards the recordkeeping but lacked knowledge of the recording. Majority of the owners/managers stated that they would highly appreciate an opportunity to be trained on the recordkeeping skills. Moreover, the respondents also regardless of the size of their business were interested to learn about the account recording.

### 1.5.4 Support of account recording practices on MSEs operation and growth

The fourth and the last objective of this study was to establish the extent to which recordkeeping support operation and growth of the MSEs. The study findings showed clearly that accurate recordkeeping of MSEs transactions is essential to the growth of the enterprises. The respondents of this study explained that by accurately keeping the records they were able to calculate the business profit more accurately, they were able to have some document to back up their tax records and that they avoided losses by paying salaries and other bills inaccurately.

## 1.6 Conclusion and Recommendations for Policy Implication

The study revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. As a result, there is inefficient use of accounting information to support financial performance measurement by MSEs. This made it difficult for the entrepreneurs to calculate their business profit efficiently. Failure of keeping of accurate records was highly blamed on the lack of skills in this field. The study further revealed that the owners and managers of MSEs were highly willing to learn more about how to keep accurate records of their business transactions.

The study therefore recommends that the Ministry responsible for MSEs development should initiate record keeping training programmes for entrepreneurs running small businesses. Further, this study recommends that record keeping in MSE should be made mandatory to improve their book-keeping and accounting practices to enhance financial and economic decision making, for business growth.

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**APPENDIX A: Biashara and Kwame Nkrumah Streets of Thika Town**



Kwame Nkurumah Street in Thika town



Commercial Street in Thika Town



APPENDIX B: Map of Kenya showing Location of Thika Town

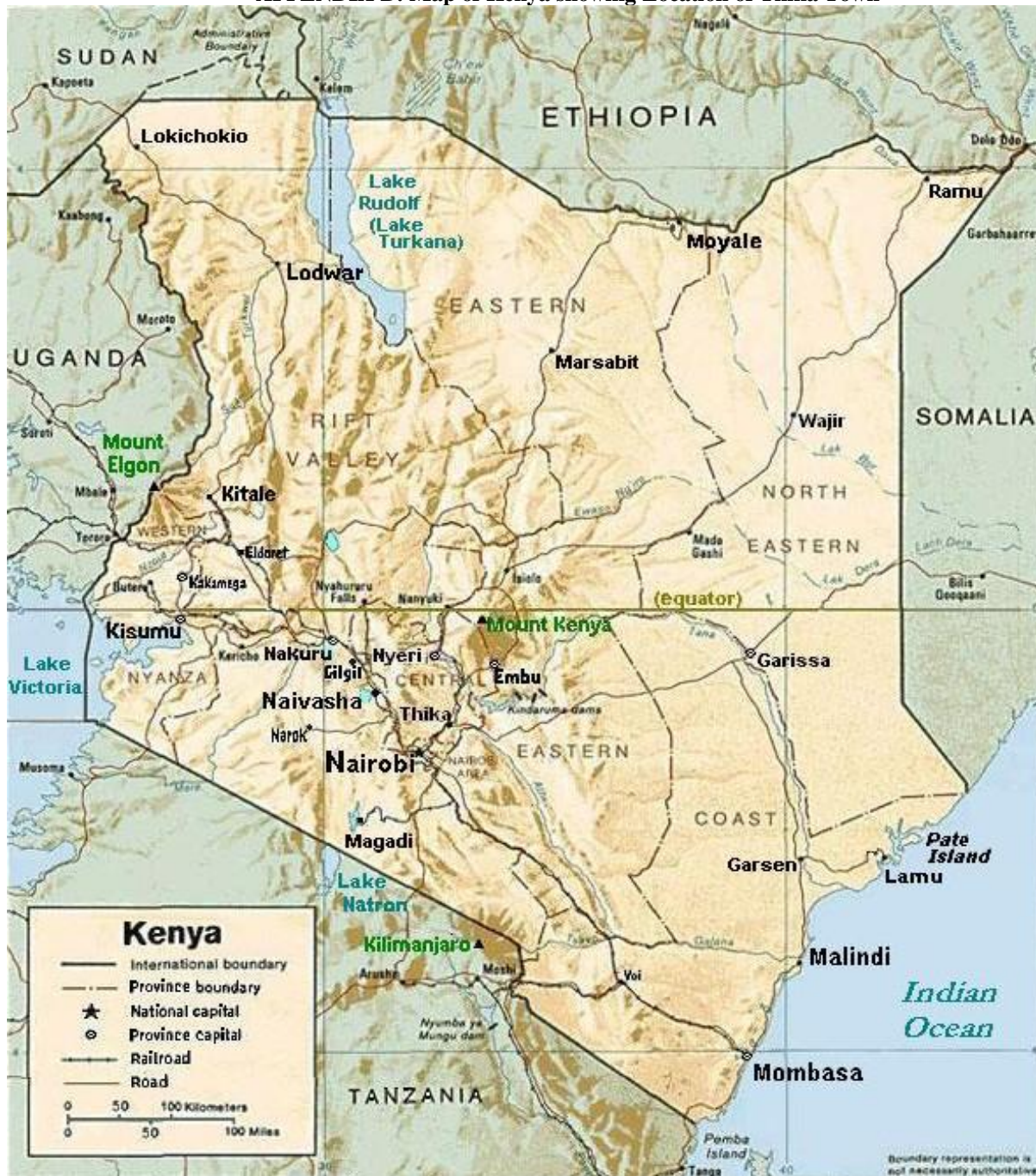


Figure 1.2: Map of Kenya showing location of Thika town