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THE EFFECT OF GOVERNMENT POLICY ON THE PERFORMANCE OF SELECTED MANUFACTURING ENTERPRISES IN KENYA

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Abstract
The purpose of this study was to investigate the legal framework and its effect on the performance of medium scale manufacturing enterprises in Kenya. Descriptive research design was adopted in obtaining data from 56 Chief Executive Officers, General Managers or equivalent senior management staff of sampled enterprises with an employment level of between fifty-one (51) and two hundred persons (200). Mean responses received in a Likert scale of 1 – 5 for each of the tested item was calculated by summing up all the codes from all the 56 respondents. The study established that manufacturing enterprises face challenges brought about by a complicated regulatory regime, unfriendly customs and trade regulations, tight monetary and credit policies, corruption and excessive tax regimes, workforce and labour regulations, thus impacting negatively on their performance. The study concluded that governmental policies are important in providing an environment that is conducive to business development. Policy initiatives should therefore be directed at removing bottlenecks, lowering and reforming the tax systems, creation of flexible customs and port regulations, embraced information technology to reduce bureaucracy and increase transparency while maintaining transparency and accountability among public officials in charge of SMEs regulation. The government should also support infrastructure development to facilitate raw material sourcing, bulking, collection and cold storage, timely transport, upgrading access roads, etc. The study's findings is important in designing and operationalizing mechanisms to level the playing field to enhance competitiveness of manufacturing enterprises towards achievement of Kenya's big four agenda and vision 2030.

Keywords: Manufacturing, Medium scale, SMEs, Regulatory Framework, Competitiveness.

1. Introduction

It is generally accepted that the growth and development of Small and Medium Enterprise (SME) sector is critical in the promotion of a sustainable economic development of nations, wealth creation, employment and poverty alleviation (Baptista, Escaria, & Madruga 2005; Beck & Levin 2005). The small and Medium Enterprises (SMEs) are also considered training grounds for entrepreneurship and act as channels for mobilizing local savings and ensuring a more equitable distribution of income (Kongmanila & Kimbara 2011). With their active industrial initiatives, the SMEs constitute a dynamic and critical part of the private sector whose entrepreneurial viability is essential in inducing responsiveness to fluctuations in the economic conditions of various countries.

In Kenya, Sessional paper No. 2 of 1996 on Industrial Transformation; Sessional paper no 2 of 2005 on Development of Micro and Small Enterprises for wealth and employment creation, and

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Sessionl paper No. 10 on Kenya Vision 2030 recognizes SMEs as an important agent of economic development through the generation of employment for poverty alleviation. With unemployment rapidly reaching new heights arising from harsh economic conditions, the SME sector development in Kenya has therefore been considered a counteracting force by creating productive employment and generating value added income, thus making a significant contribution towards the attempt to reach the poorest of the poor (Olawale & Garwe, 2010). Due to their size, the SMEs require a relatively small capital investment for start-up thereby offering a relatively high labour to capital ratio. However, it is in this era of liberalization of markets that large enterprises have witnessed a tremendous growth in terms of market penetration and geographical expansion (Omar, Arokiasamy & Ismail 2009). Business competition at both the local and international markets has become fierce thereby putting a supplementary strain on the competitiveness of firms in the SME sector since they have to compete in a globalised business environment that seems to favour larger firms (Krasniqi, 2010). Moreover, SMEs have been structurally and institutionally marginalized as a result of many factors, one of which is the unsupportive regulatory framework (Schlogl, 2004; Omar, Arokiasamy & Ismail, 2009; Abor & Quartey, 2010; Bouazza *et al.*, 2015). As pointed out by Clement and Ang (2004), a good legal and regulatory framework by governments is critical for job creation, poverty reduction and national economic development. The legal and regulatory framework within which an enterprise operates influences its survival and growth potentials (Khan, 2014). Regulations by governments produces an atmosphere for businesses to grow or crumble (Luiz, 2011 Abor & Quartey, 2010; Bouazza *et al*., 2015). In the same vein, Chen *et al.* (2007) observed that when the legal and regulatory framework in a given economy are excessive, they may inhibit creativity and innovation, improved efficiency and enhanced productivity and growth of business enterprises. Likewise, Fonseca *et al.* (2007) pointed out that regulatory requirements that are in most cases not well streamlined cause a lot of stress to entrepreneurs in their desire to develop their business enterprises.

In Kenya, a recent World Bank report, ranked the country at number 61 out of the 190 economies sampled for the survey in terms of regulatory quality and efficiency for business start-up, getting credit, trade across the border, ease of doing business, paying taxes, among others (World Bank Report, 2018). Though this is an improvement compared to number 80 in year 2017, this ranking shows that there is still work to be done in enhancing the business climate in the country. The authorities therefore need to identify and address any regulatory constraints that are crucial in the successful performance of businesses, particularly the SMEs. Though SMEs are important towards Kenya's industrial and economic take-off, a review of literature reveals that most of the studies on firm performance have examined large scale enterprises in relation to macro-economics and governmental-industrial policies (Bouazza *et al*., 2015; Hayford, 2012; Aryeetey & Ahene, 2005; Abor & Quartey, 2010; Sarpong, 2012). On the other hand, the MSE Act of 2012 seeks to provide an institutional framework for the micro and small enterprises. This means that there is a missing middle without adequate literature and specific legal framework for medium scale enterprises that could take into account the unique nature of activities and challenges experienced by these types of firms. This lack of specific studies on legal and regulatory constraints to the competitiveness of medium scale enterprises counteracts sincere efforts in designing programmes to best facilitate and aid the growth of the sector.

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As pointed out by the Parliamentary Budget Office (2018), the manufacturing value addition sector has had very minimal growth stagnating at about USD 5 billion for more than a decade. This shows that Kenya is losing its market share within the East African Community its competitiveness in the international trade. For instance, Kenya had held a dominant position in supplying the region with manufactured goods with Uganda as the largest trade partner, though lately, Kenya's manufactured exports to the region have shrunk considerably. According to Kenya's Parliamentary Budget Office (2018), Kenya's exports to Uganda and Tanzania dropped in year 2017 by 5.4 and 29.59 per cent respectively as compared to 2013. To cement this view, many Manufacturing companies such as Procter and Gamble and Reckitt Benckiser have in the recent past relocated from Kenya to other regions citing high cost of doing business. In view of this, the current study therefore sought to examine the regulatory framework and its effect on the performance of medium scale manufacturing enterprises in Nairobi City County, Kenya.

2. Methodology

The unit of analysis for this study were Medium Scale Manufacturing Enterprises (MSMEs) in Nairobi City County, with an employment level of between fifty one (51) and two hundred persons (200). The chosen MSMEs were from a cross section of the manufacturing or value addition sector, while the employment level of between 51 and 200 was arrived at considering the definition of micro and small enterprises provided in the MSE Act of 2012, and also the definition by the European Economic and Social Committee (GOK, 2012).

Nairobi City County was chosen because it is not only the regional business hub, but also because over 80 per cent of the manufacturing or value addition enterprises are based there (KAM, 2019). The manufacturing sector was chosen because its output is often traded in local, regional and international markets than service output. The manufacturing firms are also more likely to be in direct competition with foreign firms attempting to develop substitute technology using similar processes and targeting the same customers. Moreover, the industrial sector in Kenya comprises of the manufacturing, quarrying and mining and construction activities, out of which the manufacturing activities accounts for the greatest share. In addition, industrialization (which includes manufacturing), has been hailed as the "engine for growth" for newly emerging economies in the world and that is why the Kenya Government recognises this as a core goal to the attainment of vision 2030 (GOK, 2013; World Bank, 2001). The Chief Executive Officers, General Managers or Senior Management Executives of the MSMEs were identified because they would be in a better position to respond to questions touching on the overall competitiveness of their respective enterprises.

A Sampling Frame was prepared as per the list obtained from the Kenya Association of Manufacturers (KAM) and the licensing department of the Nairobi City County Government. This was done to ensure only the inclusion of legal business enterprises. It was also necessary to use both lists because not all MSMEs are members of KAM. The next step was to augment the list using the most recent data from the Kenya National Bureau of Statistics. As a result, 484 enterprises were identified from the various economic activities in the manufacturing sector as follows: Food Processing, Wood Workings, Fabricated Metal Products, Non-metallic products and Leather, Textiles and Garments.

Out of the 485 enterprises, 392 are located or have their offices within Nairobi City County which is the study's geographical setting. Of these 392 firms, only 90 fell within the required

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employment level of between 51 and 200 persons as per the study's definition of an MSME. The short-listed 90 enterprises were then classified into three (3) clusters based on employment level of 51-100, 101-150; and 151-200. In each of the clusters, the selected firms were further subdivided into five (5) substrata of Food Processing, Wood Workings, Fabricated Metal Products, and Leather, Textiles and Garments. This was done to ensure that the whole population was evenly covered to avoid biased representation (Hunter & Schmidt, 2004; Oslo Manual, 20057). In addition, this method was deemed useful in three ways. First, it was conceived that each stratum would be homogenous internally but heterogeneous with other strata of the population. Secondly, stratification would be useful if there was going to be a need to study the characteristics of certain sub-groups. Lastly, it was useful for the application of different methods of data collection where necessary in the different parts of the population (Saldana, 2011).

Using Krejcie and Morgan's (1970) table of determining sample size, 73 is the actual number of firms that is required to form a representative sample, out of a population of 90. The applicable formula is: $s = X^2\ NP\ (1- P) \div d\ 2\ (N\ -1) + X\ 2P\ (1- P)$, at a confidence level of 95% and a margin of error of plus or minus 5%, where:

s = required sample size.

$X2$ = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size.

P = the population proportion (assumed to be .50 since this would provide the maximum sample size).

d = the degree of accuracy expressed as a proportion (.05).

Having determined the required sample size to be 73 MSMEs out of 90, it was found prudent to add additional enterprises to cover for possible non responses from the respondents, and also increase the reliability of the findings. The residue MSMEs seventeen (17), though five (5) had already been used during the pilot study, thus unavailable for inclusion. Since the remaining twelve (12) firms were judged not to be many, it was found wise to include them in the study to act as a buffer zone for possible non responses. As a result, all the eighty five (85) available MSMEs were included in the study, thus making it unnecessary to establish the sampling fraction. The collected data was analysed using descriptive statistics.

3. Review of Relevant Literature

3.1 Study Context

Kenya government's big four agenda on food security, affordable housing and universal health care proposes support to the manufacturing sector with a view to raising its share of GDP to 15 per cent by 2022. The manufacturing sector is also a critical pillar towards the realization Kenya's Vision 2030 due to its strong forward and backward linkages with other sectors in the economy. Despite this critical role of the manufacturing sector, its contribution to GDP over the

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last five years has been on a downward trend according to the Parliamentary Budget Office (2018). For instance the sector contributed 10.7 per cent of GDP in year 2013, though this has progressively declined to 8.4 per cent as at 2017. The manufacturing sector's real value rose slightly by 0.2 per cent in 2017 as compared to a growth of 5.6 per cent in 2013.

Ironically, more than eighty per cent of the manufacturing or value addition enterprises in Kenya are based in Nairobi City County which is the capital city and political seat of policymakers in the country. The rest of the value addition outfits are located in other major counties, including Mombasa, Kisumu, Kakamega Nakuru, Uasin Ngishu, Machakos, Nyeri and Kiambu (KAM, 2019). According to data from the Kenya National Bureau of Statistics (2016), the manufacturing sector in Kenya recorded a decelerated growth of 3.5 per cent from a revised growth of 3.6 per cent in 2015. The sector's growth remained stifled in 2016 mainly due to underperformance of other sectors such as agriculture and energy (electricity) that provide inputs for manufacturing activities. The near stagnation in the growth of manufacturing was also manifest in the slow uptake of credit from Kshs 290.1 billion in 2015 to KSh 276.7 billion in 2016. In year 2017, the manufacturing sector posted a marginal growth of 0.2 per cent compared to a revised growth of 2.7 per cent in 2016. The slowed growth was partly attributable to uncertainties related to the 2017 general elections, high cost of inputs and stiff competition from cheap imports. Generally, most activities in the sector recorded significant decline leading to the slowdown experienced in 2017. The volume of food products manufactured declined by 10.8 per cent in 2017 compared to 1.9 per cent growth in 2016 (Kenya National Bureau of Statistics, 2019).

Kenya's manufacturing sector is considered essential to national development because it is expected to play a significant role in economic diversification and employment creation (Sessional paper No. 10 of 2012 on Kenya Vision 2030). This sector serves both the local and export market mainly in the East African region. It is subdivided into twelve sub-sectors which are in processing and value addition (KAM, 2019). The first one is Timber, Wood and Furniture Sector, which produces furniture and fixtures, lumber, sash, doors, windows and door frames, prefabricated wooded parts and structures, veneer, plywood, hard board and particle board, cooperage and other wood stock and excelsior.

According to KAM (2019) Food and Beverage is another sub sector that manufactures Vegetable Oils, Daily Products, Alcoholic Beverages and Spirits, Juices / Waters /Carbonated Soft Drinks, Bakers and Millers, Cocoa / Chocolate and Sugar Confectionery. There is also the Leather and Footwear Sector which manufactures leather and products of leather, leggings, gaiters, footwear, fabrics, and other materials. Another sub sector is the Motor Vehicle which produces engines, brakes, clutches, axle, gears, transmissions, wheels and frames, assembly, rebuilding and major alteration of complete motor vehicles such as passenger automobiles, commercial cars and buses, lorries and truck trailers.

Plastics and Rubber is another sub sector that manufactures tyres and tubes, re-treading tyres, fabricating of plastic articles such as plastic dinnerware, kitchenware, plastic mats, synthetic sausage casings, plastic containers and cups, laminated sheets, plastic components for insulation, plastic furniture, and plastic industrial supplies.

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The manufacturers of tobacco products such as cigarettes, cigars, smoking chewing and homogenised tobacco and snuff, is another sub sector within the manufacturing industry. Others include: Chemical and Allied Sector - Manufacturers of basic industrial chemicals including fertilizers, pesticides, cosmetics, paints and resins; Paper and Board Sector - Manufacturers of pulp, paper and paperboard articles such as glazed, gummed and laminated paperboards, pulp plates and utensils, bottle caps, unprinted cards, envelopes and stationery, wallpaper, towels, toilet paper, straws, mounts, publishing, and allied industries; Electrical and Electronics Sector - Manufacturers of electrical machinery, apparatus, appliances and supplies.

Other sub sectors in the manufacturing industry include the following: Textiles and Apparel Sector - Manufacturers of wearing apparel, weaving and finishing textiles, knitting mills, carpets and rugs; Pharmaceutical and Medical Equipment Sector - Manufacturers of medical equipment, drugs and medicines; Metal and Allied Sector - Smelting and Hot Rolling, pipes and tubes, wire and wire products, general fabricators and allied industries (KAM, 2019).

3.2 Constraints to Small and Medium Scale Enterprises' Competitiveness

It has been shown that small and Mediums Enterprises are very different from large firms. Penrose (1995) uses the analogy that while caterpillars and butterflies are manifestations of the same creature, they cannot be meaningfully compared with each other as the differences are too great. Likewise, Ghobadian and Gallear (1997) in considering the implementation of Total Quality Management (TQM) in business enterprises, conducted a comprehensive review of literature regarding the implications of organizational size. In their report, they concluded that there are significant structural differences between SMEs and large organizations. For instance, they identified 'resource paucity' as the most serious disadvantage faced by SMEs during the implementation of TQM in their enterprises. Here, their definition of the term 'resource' was covering not only financial resources but also knowledge, technical expertise and management time (Yusof & Aspinwall, 2000; Levratto, Tessier & Zouikri, 2010).

Firms in the SME sector have to contend with the constraints that are threefold in nature. Some are inherent to being small, because small size per se imposes costs and innovative penalties in the areas of marketing and technology, for lack of economies of scale (Levratto, Tessier & Zouikri, 2010; Yeboah, 2015). Some constraints are an offshoot of distortions in the market and institutions, while others are created by policy interventions. For instance, providers of productive factors (credit, infrastructure, etc.) prefer dealing with a few large customers because they are more economically viable and safer as compared to a range of small and dispersed ones (Dawson, 1997). The argument is that SMEs are more difficult to collect comprehensive information on them, for instance, to facilitate credit rating. They are also said to be more difficult to monitor and the cost of enforcing contracts may be disproportionately large as compared to the size of the transaction (Yeboah, 2015).

Given the critical role of the SME sector in the growth and development of national economies, governments through a myriad of agencies provide specialized programmes, projects and policies geared towards facilitating the development of the sector (Dawson, 1997; Yeboah, 2015; Okeke & Eme, 2014). This regulatory climate strongly influences the SMEs particularly in relation to compliance costs, duration and predictability of the permitting process. Though well

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intended, the policies and institutions relevant to the SME sector are to a large extent, a hindrance to the growth of the SMEs. For instance, tax privileges and/or exemptions of the SMEs from the tax systems, in some countries, provide strong incentives to the entrepreneurs to have their enterprises "remain small" rather than grow large. In countries like India where certain industrial products are reserved for SMEs, it has led to the stifling of competition and retardation of technological upgrading.

The current economic environment provides many challenges and opportunities for the SME sector. Although the status, development and productive orientation of the sector vary from country to country, the extent and level of impediments and challenges experienced are often the same in different countries (Dawson, 1997; Yeboah, 2015). The sector encounters both internal and external problems. Internal problems include low level of management skills, retarded modernisation, and lack of consistent quality controls that contribute to capital problems. External problems inhibiting the growth of this sector, includes the non-conducive, non-transparent and complicated legal and regulatory framework coupled with inefficient bureaucracy. Without resolving the SME problem areas, the contributions of the sector to economic growth cannot be maximised (Mullei, 2003; Yeboah, 2015).

However, the inadequate framework conditions especially in most developing countries continue to be a major impediment to entrepreneurship development, and particularly the Small and Medium Enterprise (SME) sector. To illustrate this challenge, the World Bank in a publication, entitled "Doing Business in 2004", gives a very good account of the business regulations and the associated costs an entrepreneur has to face, irrespective of size of operation. This means that there is need to establish a business-friendly environment that would facilitate SMEs to successfully reorient their business operations in tune with the market requirements. This implies putting in effect policy frameworks and practices that would enable SMEs grow on sustainable basis in the present competitive environment in view of their well-recognised and acknowledged contribution to the social and economic development of a country. For this purpose, many governments as referees on the side-lines of the market, have come up with legislative initiatives and policies geared towards facilitating the SME sector, but within the constraints of tight national budgets and other considerations (Okeke & Eme, 2014). In comparing the policy framework in different countries, one realises there are great differences, as are the similarities. For example, the policies of countries such as New Zealand and Korea are directed at encouraging SMEs to export, while those of countries such as Cambodia are mainly directed at encouraging foreign investments in domestic SMEs (Awasthi, *et al*, 1990**;** Okeke & Eme, 2014).

In Kenya, a lot of funds have been spent in implementing government policies and programmes, and in building institutions specifically aimed at promoting the growth of the SME sector. Unfortunately, the support programmes though seemingly elaborate, are not fully adopted and implemented, mainly because of the ineffectiveness of the institutions concerned with SME sector support (Namusonge, 1999). Though opinions about government policies are mixed, numerous entrepreneurs in the SME sector view government policies as being less supportive of their business pursuits (Yeboah, 2015; Mullei, 2003).

Additionally, the policy document (Sessional No. 2 of 1999) advocated for the implementation of an entrepreneurship-training programme at diploma and degree level. But given the inadequacy of personnel and the technical capacity to manage the programme, poor coordination

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of the implementing Institutions, coupled with lack of monitoring, there is almost no evidence of the impact of this programme (Yeboah, 2015, Namusonge, 1999). These challenges are not peculiar to Kenya. In some other countries that have implemented the SMEs training programmes, similar observations have been made. Hoffman (1999) pointed out that the SMEs growth theories have not been translated into successful training modules to enable practicing entrepreneurs grow their enterprises from one level to another. He further agues that for the trainees, the impacted skills rarely goes beyond the gates of the implementing institutions, and no follow up of graduates is undertaken to register the impacts.

4. Results

A total of eighty five (85) MSMEs from a different range of production units were included in this study. The study recorded 66.66% response rate which means that fifty six (56) Chief Executive Officers, General Managers or Senior Management staff participated in the study. The non-response was due to a combination of factors including time constraint on the part of the interviewees, unwillingness and/or inability to respond to items on the questionnaire. The response rate from the various clusters is shown in **Table 4.1**.

Table 4.1: Response Rate

Stratum	**Employment Levels**			***TOTALS***
	51 – 100	**101 – 150**	**151 – 200**	
Food Processing	4	5	4	13
Wood Workings	5	2	2	9
Fabricated Metal Products	3	5	4	12
Non Metallic Products	2	3	4	9
Leather, Textiles & Garments	5	4	4	13
TOTALS	19	19	18	**56**
%	33.9	33.9	32.1	

The sizes of the firms were determined based on the number of employees in the respective enterprises. As presented in Table 4.1, the distribution of the number of employees in the firms showed that most of the Food Processing firms had 101 – 150 employees at 38.46%; Wood Working firms at 55.55% had 51-100 employees, while most in the Fabricated Metal cluster were at 41.66% (101 – 150). In the Non Metallic Products cluster, most firms at 44.44% had 151 – 200 employees as compared to the Leather, Textiles and Garments cluster where most of the firms had 51 – 100 employees. There was however, no significant difference in the sampled firm sizes (χ^2 = 1.721, P = 0.988) since the responses were well distributed across the clusters in the target group.

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4.1 Responses on Policy and Regulatory Framework

When asked to identify issues that hinder the competitiveness of MSMEs, about 94% of the respondents indicated that the current legal framework is supportive of too much liberalisation and by extension, the big enterprises at the expense of firms in the Small and Medium Enterprise sector. Likewise, 54 out of 56 respondents indicated that MSMEs face massive challenges brought about by a complicated regulatory regime that fuels corruption. Other respondents cited unfriendly customs and trade regulations, tight monetary and credit policies and excessive tax regimes, workforce and labour regulations, utilisation of limited and outdated technology, limited information on possible markets, and overlapping roles of institutions with regulatory roles thus impacting negatively on the competitiveness of MSMEs in the market place. Some of the regulatory institutions perceived to have overlapping regulatory mandates are presented in **Table 4.2.**

Table 4.2: Overlapping Regulatory Institutions

Regulatory Requirement	Institution Involved	Products most Affected
Registration & licensing	Registrar of Companies	Textile and Apparel
	Nairobi City County government	Food and Beverages
	Ministry of Industry & Trade; Ministry of Agriculture, Livestock & Fisheries; Kenya Forest Service, Dairy Board, Ministry of Fisheries	Fish and fish products, Scrap metal, Leather and Leather products, Hides and skin
Standard Labeling and Inspection Regulations	Department of Weights and measures, Port Health, Kenya Bureau of standards	Food, drugs and Water
	KRA, NEMA and Nairobi City County government	Textile and apparel
Premises Safety	Ministry of Health, County governments, Kenya Dairy Board, Department of Occupational Health and safety	Business Premises, workplaces, factories
Standards Regulations	Department of Weights and measures, Kenya Bureau of Standards; Ministry of Environment and Forestry	Timber, Wood and furniture, Metal and Allied
Occupational safety and Health Regulations	Ministry of Health, Occupational safety and health services; Public works	Timber, wood and furniture, food processing, metal and allied

When asked what policies the Government can pursue or change so as to make the business environment more accommodative to the MSMEs, eight government policy issues were stated by the firms as presented in **Table 4.3**.

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Table 4.3: Governmental Policy Reform Needs in Kenya

Policy issues	f	%
Reduce complicated regulatory regime and remove overlapping roles of the institutions with regulatory roles	31	47.0
Reduce liberalisation to protect indigenous firms	30	45.5
Curbing Corruption	11	16.7
Security Improvement	10	15.2
Avail funding for Business expansion and control hidden charges by commercial banks	9	13.6
Security Improvement in the country	8	12.1
Legislation on Unfair Competition from China	7	10.6
Management and Business skills Training	5	7.6

5. Discussion and Implications

The findings of the study are in agreement with others conducted in the East African region, Africa in General internationally (Adebisi & Gbegi, 2013; Simiyu et al. 2016; Levratto, Tessier & Zouikri, 2010; Yeboah, 2015; Okeke & Eme, 2014). The study's findings on the regulatory framework portend major impediments to MSMEs' attempt to reposition themselves for competitiveness. The complicated regulatory framework, coupled with overlapping roles of regulatory institutions not only increases the cost of doing business but also consumes huge amounts of resources. This situation has created a fertile ground for corruption by individuals the institutions mandated to regulate the sector. Similar studies carried out in Nigeria, the overlapping functions by regulatory agencies makes MSMEs to have to bear with multiple payments for similar licences, more time spent seeking to acquire permits and in some cases, funds expended in court cases due to the complicated nature of the regulatory requirements. This means that the extra expenses incurred by MSMEs have to be included in the final product prising, thus becoming uncompetitive as compared to larger firms that benefit from economies of scale. Therefore, the high cost of doing business and the cumbersome regulatory procedures have discouraged investments and growth of MSME.

These findings mean that the MSMEs in Kenya are still not adequately facilitated to enable them compete effectively in a globalised business environment. This also may have contributed to Kenya’s poor ranking by the world Bank in terms of ease of doing business as compared to other nations that have taken more deliberate steps to facilitate business. For instance, for the Asian tigers, the administrative conditions for founding new small and medium enterprises were improved by the change of the Company Law which abolished the requirements of special permits for carrying out the majority of the activities.

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6. Recommendations on Policy Direction

Given the important role played by MSMEs in income generation and employment creation, the Kenyan government need to come up with more specific legislative initiatives and policies geared towards facilitating them. This can be through the formulation and implementation of a national MSME support programmes geared towards the acquisition of appropriate skills, providing tax incentives, cutting down electricity costs and bringing down costs of raw materials. There is also need to improve infrastructure such as roads, avail reliable water and electricity supply that sustain and increase the competitiveness of locally manufactured goods against cheap imports. The required infrastructure should facilitate raw material sourcing, bulking, collection and storage e.g. establishment of cold storage, timely transport, upgrading access roads etc. The legal framework should also include the enactment of suitable laws on corruption, flexible customs and port regulations, insurance schemes and the creation of a simplified accounting system. In addition, the national government in conjunction with the 47 County Governments should facilitate the formation of industrial structures rich in linkages like clustering of MSMEs and subsequent subcontracting arrangements of these clusters with large enterprises. The policy framework also enable technology grants system to link Universities, Research and technology institutions with MSMEs. This will facilitate the realization of Kenya's vision 2030.

7. Conclusion

There is no doubt that the development of the SME Sector should be regarded as an important step towards the overall economic and industrial takeoff in Kenya. The qualitative and quantitative growth of this sector can lead to several benefits, namely increased employment, exports and foreign exchange earnings. Speedy and optimal solutions to regulatory challenges are an important issue for SME Sector development. The Kenyan Government on its part, will not only need to formulate strategies that seek to enhance business practices that lead to organizational excellence, but also create a conducive environment that enables the SMEs to compete in the global market.

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