

FACTORS AFFECTING TRANSITION OF SMALL SCALE BUSINESSES TO MEDIUM ORGANIZATIONS IN KENYA: A SURVEY OF CLEARING AND FORWARDING COMPANIES IN MOMBASA

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and authors duly acknowledged.

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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ABSTRACT

Small and Medium-Sized Enterprises (SME) sector has an important role to play in developing economies not only in economic development, but also in poverty alleviation, innovation and invention and in job creation. However, their transition from one phase to another is faced by many challenges which inhibit the rate of transition. This study sought to determine the factors affecting transition of small businesses to medium organizations in Kenya by conducting a survey of the clearing and forwarding companies in Mombasa. To achieve this objective, the study was guided by three specific objectives which were: to establish the effect of organizational characteristics on the transition of the clearing and forwarding companies in Mombasa, to determine the effect of organizational factors on transition of the clearing and forwarding sector in Mombasa and to establish the effect of environmental factors on transition of the clearing and forwarding companies in Mombasa. The study focused on the clearing and forwarding companies in Mombasa and was conducted in the month of July 2016. The study adopted a descriptive research design to help build a profile of the factors affecting transition of small businesses to medium organizations. The target population was 1298 small and medium enterprises in Mombasa and the sample size for the study was 221 respondents from small and medium sized enterprises. The collected data was analyzed using descriptive statistics like mean and standard deviation and presented using tables and figures. The study found out that the characteristics of an organization often reveal the growth pattern of small to medium sized enterprises and were characterized by having a single product or service and an increase in numbers of employees, the growth of small sized enterprises was determined by the effectiveness of transforming firms' resources into products and transition of small scale enterprises into medium scale enterprises was affected by its business climate and the legal framework. The study concluded that the organizational characteristic of an enterprise was affected by a number of factors like size of the business, the nature of the business, the diversity of the business, the characteristics of the market, the characteristics of the strategy and the future plans of the organizations. The study recommended that in order for small scale business to transits to medium organization, there should be diversification of product or service and an increase in numbers of employees, small scale businesses should efficiently transforms firms' resources into products by having quick decision-making process and proper monetary management and government through their legal avenues should protect small scale enterprises against unfair competition and high tax rates.

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TABLE OF CONTENTS

DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
DEDICATION	viii
LIST OF FIGURES	ix
LIST OF TABLES	x
DEFINITION OF TERMS	xii
LIST OF ABBREVIATIONS AD ACRONYMS	xii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	7
1.3 Objectives of the Study	9
1.4 Research Questions.....	10
1.5 Significance of the Study.....	10
1.6 Scope of the Study	11
1.7 Assumptions.....	11
CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 Theoretical Framework.....	12
2.3 Empirical Review	16
2.4 Transition from Small to Medium Sized Enterprises	23
2.5 Knowledge Gap	24
2.6 Conceptual Framework.....	25
2.7 Research Hypothesis.....	25
2.8 Operationalization.....	26

CHAPTER THREE.....	27
RESEARCH METHODOLOGY.....	27
3.1 Introduction.....	27
3.2 Research Design	27
3.3 Target Population.....	28
3.4 Sampling and Sampling Procedures	28
3.5 Instrumentation and Data Collection Procedures	29
3.6 Validity and Reliability.....	30
3.7 Data Analysis Techniques and Presentation	31
3.8 Research Ethics.....	32
CHAPTER FOUR	34
DATA ANALYSIS AND PRESENTATION	34
4.1 Introduction.....	34
4.2 Background Information.....	34
4.3 Effect of Organization Characteristics on the Transition of Small usinesses to Medium Organization	37
4.4 Effect of Organizational Factors on Transition of Small Businesses to Medium Organization	39
4.5 Effect of Environmental Factors on Transition of Small Businesses to Medium Organization	42
4.6 Transition from Small to Medium Sized Enterprises	45
4.7 Factor Analysis	47
4.7.1 Factor Analysis for Organizational Characteristics	47
4.7.2 Factor Analysis for Organizational Factors	52
4.7.3 Factor Analysis for Environmental Factors	57
4.8 Correlation Analysis Results	63
4.9 Regression Analysis Results.....	65
CHAPTER FIVE.....	68
SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS.....	68
5.1 Introduction.....	68
5.2 Summary of the Findings.....	68
5.3 Discussions	70
5.4 Conclusions.....	73
5.5 Recommendation	74
5.6 Limitation of the Study.....	74
5.7 Area for Further Research.....	75

REFERENCES	76
APPENDICES.....	80
APPENDIX I: LETTER OF INTRODUCTION	80
APPENDIX II: QUESTIONNAIRE.....	81

DEDICATION

This work is first and foremost dedicated to the almighty God for the wisdom and gift of life that has made me realize and see the conclusion of this research and to all those who helped me carry out this research.

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LIST OF FIGURES

Figure 2.1: Ansoff Growth Strategy Matrix	15
Figure 4.1 Scree Plot for Organizational Characteristics	50
Figure 4.2 Scree Plot for Organizational Factors	55
Figure 4.3 Scree Plot for Environmental Factors	60

LIST OF TABLES

Table 2.1: Operationalization of Variables.....	26
Table 3.1: Target Population	28
Table 3.2: Cronbach' Alpha Results.....	31
Table 4.1 Highest Level of Education Attained	35
Table 4.2 Period Working in the Company	36
Table 4.3 Position Held in the Company.....	36
Table 4.4 Effect of Organization Characteristics.....	37
Table 4.5 Extent to Which Organizational Characteristics Influenced the Transition of Small scale enterprises into Medium Organizations	39
Table 4.6 Effect of Organizational Factors on Transition of Small Businesses to Medium Organization	40
Table 4.7 Extent to Which Organizational Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations	42
Table 4.8 Effect of Environmental Factors on Transition of Small Businesses to Medium Organization	43
Table 4.9 Extent to which Environmental Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations	45
Table 4.10 Transition from Small to Medium Sized Enterprises	46
Table 4.11 Extent to which the Factors Affects the Transition of Small Scale Enterprises into Medium Organizations.....	46
Table 4.12: Communalities for Organizational Characteristics.....	48
Table 4.13: Total Variance Explained for Organizational Characteristics	49
Table 4.14 KMO and Bartlett's Test for Organizational Characteristics.....	49
Table 4.15 Component Matrix for Organizational Characteristics.....	51
Table 4.16 Rotated Component Matrix for Organizational Characteristics	52
Table 4.17 Communalities for Organizational Factors.....	53
Table 4.18 Total Variance Explained for Organizational Factors	54
Table 4.19 KMO and Bartlett's Test for Organizational Factors.....	54
Table 4.20 Component Matrix for Organizational Factors.....	56
Table 4.21 Rotated Component Matrix for Organizational Factors	57
Table 4.22 Communalities for Environmental Factors.....	58
Table 4.23 Total Variance Explained for Environmental Factors	59
Table 4.24 KMO and Bartlett's Test for Environmental Factors.....	59

Table 4.25 Component Matrix for Environmental Factors.....	61
Table 4.26 Rotated Component Matrix for Environmental Factors	62
Table 4.27 Correlation Matrix	63
Table 4.28 Correlation Analysis Results	64
Table 4.29 Regression Model Results	65
Table 4.31 Model Coefficients	67
Table 4.30 ANOVA Results	66

LIST OF ABBREVIATIONS AND ACRONYMS

OECD	Organization for Economic Co-operation and Development
SME	Small Medium Enterprises
EU	European Union
WTO	World Trade Organization
EO	Entrepreneurial Orientation
IS	Information System
MNCs	Multinationals Corporations
GDP	Gross Domestic Product
IFC	International Finance Corporation

OPERATIONAL DEFINITION OF TERMS

- Small sized enterprise:** These are small businesses classified on the basis of number of employees which is 10 to 49 and making annual profits of less than Ksh500,000 and having a turn-over of between Ksh500,000 to Ksh 5 Million (Ongori & Migiro, 2010)
- Medium sized enterprises:** These are business enterprises that have between 50 to 99 employees and make a profit of between Ksh500, 000 to Ksh 25 Million and having a turn-over of between Ksh 5 Million to Ksh 100M (Ongori & Migiro, 2010)
- Growth:** Growth is economic expansion as measured by various indicators, including expanding products and services or expanding target markets, or some combination of each (Olawale & Garwe, 2010)
- Transition:** Transition is the progression of a small business unit into a bigger/larger business unit, characterized by increased market share, market presence, operations, more products and sales leading to higher profits and growth (Turner, Ledwith, & Kelly 2010)

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There are a number of ways of classifying small businesses. They can be classified on the basis of annual sales, annual profits, total assets, number of employees or some combination of these parameters. The basis of classification is usually an output parameter (e.g. sales, revenues and profits) or an input parameter (e.g. assets, number of employees and raw materials). The number of workers and employees has been selected to define the criteria of the small businesses in Kenya, and is based on standard criteria (Ongori & Migiro, 2010). The small Enterprises' are independent businesses, having a small market share and managed by its owner or part-owners. They operate in all sectors of the economy, employing millions of people and producing products that are consumed by many households. In Europe's economies, for instance, SMEs employ as much as 66% of the total employed personnel in the private sector and account for 55% of total revenues in the EU (Ruirie, 2012).

According to Ruirie (2012) Small and Medium Enterprises (SMEs) in Kenya are majorly defined by the number of employees it has, this ranges from 1-49 employees who maybe skilled, semi-skilled of unskilled. Another description of small and medium enterprises is in terms of capital base they hold; normally it ranges from a few hundred shillings to several hundredths of thousands and making averagely an annual revenue of Kenya shillings 50 million (Ruirie, 2012).

According to Bouazza, Ardjouman and Abada, 2015; Zhou and Wit, 2002 there studies show that the transition in growth of small enterprise into medium enterprises

largely determines the economic development of nations; this is due to the fact that a critical mass of people in such countries are captured within this net. The small business enterprises should look at their strengths and opportunities in order to exploit their strategic abilities to overcome their weaknesses and threats in order to improve their performance, effectively grow in their financial earnings and expand their operations and produce to new markets and transit to become medium enterprises (Papulova and Papulova, 2006). And again Inyang (2013) says small enterprises are heralded as the engine for economic growth, the incubator of innovation, and the solution to decades of persistent unemployment problems in developing countries and in the first world countries. In Portugal around 98% of the industrial sector is composed of small and slightly medium enterprises. These firms are seen as a black box that influences economic development through measures taken by them such as entrepreneurial strategies and entrepreneurship actions (Griffy-Brown & Chun, 2007).

In Kenya, the small and medium enterprises (SMEs) are increasingly seen as playing an important role in the economy. The small enterprises and medium enterprises sector provided 78% of total employment and contributed over 57% of the new jobs created; furthermore of the 503,000 jobs in year 2010, 440,400, or 80.6 per cent were in the SMEs. Only 62,600 or 12.4 percent were created in the formal sector, this is according to the Economic Survey of 2010. The survey further indicated that a crucial element in the development of the small and medium enterprises (SMEs) sector is access to finance to enhance growth while the manufacturing small and medium enterprises (SMEs) have unique factors affecting their growth as most of them import raw materials which is affected by fluctuation in foreign currency, availability of raw materials, tariffs and oil

price changes. Whenever the challenges of small enterprises are dealt with then the small enterprises have a chance to transit and become medium enterprises in their operation eventually becoming large enterprises operating in large markets –locally and globally (Inyang, 2013).

According to Inyang (2013), the three major items that determined whether a small enterprise will transit and grow into a large organization was in how they managed their finances, their resources and how well their planning is. But Ongori and Migiro (2010) advance that there are three main factors that affected the transition of small enterprises to medium sized organization, they are namely: organization characteristics; organizational factors and environmental factors. Organizational characteristics looked at the structure at the work place, the leadership style employed and resources especially the human resources. Secondly the organizational factors handled the aspects effectiveness and capabilities of the company's resources such as labor and capital. While, the environmental factors included the legal framework covering the business unit; the technological capabilities and the current situation of the industry and the sector of the economy.

1.1.1 Concept of Small Scale Business

Small businesses are categorized as those having little capital, are either owned by sole proprietors, partners or privately owned corporations. They are limited in the number of staff working in the business as they cannot afford to employ more staff. In some countries small businesses qualify in applying for government support and some even get tax incentives like they are exempted from paying taxes to the exchequer for a few years. This is normally done in an effort to boost their growth and allow them to expand. On the

other hand small businesses can be classified according to other methods, including the annual revenues they make either as gross or net revenues, sales, assets owned and the number of employees that they have is among the most commonly used classification for then small scale businesses (Ruirie, 2012).

But as the small businesses grow and expand their classification changes from small to medium and eventually to large enterprises which may have its operations in one country or region to having a global presence. Most of the rules and regulations are favored towards small enterprises as compared to the large establishments; such rules included liberal price setting, tax exemption benefits to small business startups, less administrative controls and wage formation. But as the small enterprises grew; the rules changed such that the small scale enterprises experience difficulties that make them unable to transit and become large business establishments. Some of the difficulties included economic difficulties leading to decline in production, stiff competition caused by the ability of large enterprises to advertise and garner the market and the shortcomings of economic legislation which is difficult for all businesses and it is especially hard for small and medium enterprises (Turner, Ledwith, & Kelly 2010).

This study was limited to the small and medium clearing and forwarding companies in Mombasa and only on factors affecting their transition. Quite clearly there is a need for further studies to be done in other towns to establish whether the same factors are responsible for a lack of transition of small to medium sized companies.

1.1.2 Clearing and Forwarding Organizations

Clearing and forwarding companies are companies which are engaged in providing any service, either directly or indirectly, concerned with the clearing and forwarding operations in any manner. A clearing and forwarding company normally undertakes the following activities: receiving the goods from the factories or premises of the principal or his agents; warehousing these goods; receiving dispatch orders from the principal; arranging dispatch of goods as per the directions of the principal by engaging transport on his own or through the authorized transporters of the principal; maintaining records of the receipt and dispatch of goods and the stock available at the warehouse. Clearing and forwarding companies in Kenya acts like an intermediary between a shipper (person shipping or cargo owners) and other logistics providers on chain supply logistics.

There are many clearing and forwarding companies in Kenya mainly at the coastal town of Mombasa due to the port that handles millions of containers arriving from the sea freights and is transported inland. Many of these organizations are small sized in nature and are mostly owned by individuals and families. Many of this organizations too, concentrate on only one type of service or product. The above issues and others conspired to make it difficult for this clearing and forwarding companies to grow to the next level and become medium sized enterprises. The companies have remained in the same start they were founded in because of the structure of ownership. The founders still hold on to the company controls. There is a very heavy concentration of small scale enterprises in this industry, a lot of this companies have remained small many years after formation.

Some of the clearing and forwarding organizations have fully adopted electronic systems to ease their work load and improve efficiency i.e. Customs Automated Services

(CASE) which capture all Customs entry declaration data, calculate duties and other taxes. And others have the use of computers and computer aided programs to help them improve efficiency and performance at work (Katua, 2014).

And even with all these efforts some of small clearing and forwarding enterprises faces many challenges in their quest to transit and grow into medium and large enterprises. Bouazza, Ardjouman, and Abada (2015) identified several factors affecting the growth of small enterprises wishing to transit into medium enterprises include: the cumbersome legal and regulatory constraints, lack of access to external financing, low human resources capacities, lack of management skills and training, and low technological capacities. Griffy-Brown and Chun (2007) argues that an unfavorable business climate, competition, unfavorable tax system, complicated rules and regulations, cost of complying with regulations and increased tax rates increases small firms' expenses all have negative effect on small firms' growth. However, the growth and desire of transition from small scale enterprises into medium scale enterprises is not without challenges. It is often argued that small scale enterprises are, in contrast to large firms, informationally more opaque, have on average higher growth rates that aren't sustainable, are financially more constrained, and are more dependent on bank loans whenever outside financing is needed. Furthermore, small scale enterprises find it a challenge in accessing finance from commercial banks and other financing institutions largely because of the limited information available about them which increases the risk (Bouazza, Ardjouman, & Abada, 2015). This study therefore sort to establish what factors affecting transition of small businesses to medium organizations in Kenya: A survey of the clearing and forwarding companies in Mombasa.

1.2 Statement of the Problem

The small enterprises play a very important role in the economy of Kenya. They create the most jobs in the country, are efficient, they are very innovative and they also provide entrepreneurial training needed to develop into larger organizations. When they transit into medium enterprises, they are able to employ more people, their market share would increase hence controlling more of the economy. They would also be more efficient due to economies of scale and hence attract more investment.

The small enterprises sector though faces a number of constraints especially in accessing finance, markets; training and technology in their efforts to transit from being a small enterprise into a medium sized enterprise. Several studies have been done on the subject including Zhou and Wit (2002) on the determinants and dimensions of firm growth, scales; the study categorized the factors affecting the growth of SMEs into either individual factors, organizational factors, or environmental factors. While Turner, Ledwith, and Kelly (2010) says that the entry rates of new firms in the SME sector are high but many of them collapse majorly due to high competition in the field and lack of enough personnel who are qualified in their field of specialization.

Chittithaworn, Islam, Keawchana and Yusuf (2011) posit that the lack of access to external financing is considered a major challenge to the growth of SMEs, and it has accounted for high rates of failure among the SMEs in Thailand. Krasniqi (2007) mentions that chances of small enterprises obtaining loans from banks is hard due to policies and collateral requirements. And Olawale and Garwe (2010) on the obstacles to the growth of new SMEs in South Africa; found that there are internal factors including organizational structures and systems determine the outcome of firm growth. And there is

a positive correlation between the amount of resources available and firm growth. So, small enterprises with little resources have a harder chance at growth than the big firms with lots of resources.

Kigera (2011) in the influence of business development services on business growth in small and micro enterprises run by women: a case of Kasarani Constituency, Nairobi Province. The findings show that women entrepreneurs had not accessed entrepreneurship, technological and marketing training making them unable to grow and transit into being medium scale enterprises and it recommends that they need to be empowered through training. Wanyama (2011) in his study on the challenges of financing small and micro enterprises (SMEs) in Nairobi, it found that most small enterprises don't have sufficient funds to finance their projects and securing loans from banks is hard as they demand past financial records. Waliaula (2013) examined the relationship between microcredit and the growth of Small and Medium Enterprises in Kenya and established a very strong positive relationship between the variables. It further concludes that the access and utilization of microcredit leads to growth of small and medium enterprises. And according to Wanjohi (2009), while looking at the challenges facing SMEs in Kenya; found that inadequate business skills by the entrepreneur and the management at the enterprise affected the performance of business as the investment decision may not be viable because decision makers are not skilled. This has led to many small enterprises remaining as they are for a long period without growing.

These studies by Zhou and Wit; Krasniqi; Chittithaworn, et al., and Turner, Ledwith and Kelly were conducted in different contextual environment from those of the current study thus findings may not be applicable in the Kenyan setting. While Wanyama,

Kigera, Waliaula and Wanjohi did their studies in Kenya they looked at the challenges facing SMEs and not transition of the small into medium organizations despite the benefits that is accrued by such a move. This study therefore wished to fill the research gap and also provide literature on factors that affect transition of small scale businesses to medium organizations in Kenya: a survey of the clearing and forwarding companies in Mombasa. The study sort to establish why there is a very large number of organizations defined as small enterprises as opposed to medium sized enterprises in this industry. This study sort also to establish why the small enterprise preferred to remain small. This study also sort to establish whether it was the characteristics of the firms, organizational factors or environmental factors which were major contributors to the firms not transiting into medium or even larger enterprises. The study concentrated in Mombasa because this is where all the clearing and forwarding companies have their offices. The study was made easier because all the companies' offices were all concentrated in one location near the Mombasa port which was were their business is concentrated.

1.3 Objectives of the Study

The main objective of the study was to determine the factors affecting transition of small businesses to medium organizations in Kenya: A survey of the clearing and forwarding companies in Mombasa. The following are the specific objectives;

- i. To establish the effect of organization characteristics on the transition of small businesses to medium organization.
- ii. To determine the effect of organizational factors on transition of small businesses to medium organization.

- iii. To establish the effect of environmental factors on transition of small businesses to medium organization.

1.4 Research Questions

This research study sought to provide answers to the following research questions:

- i. What are the effects of organizational characteristics on transition of small businesses to medium organization?
- ii. What are the effects of organizational factors on transition of small businesses to medium organization?
- iii. What are the effects of environmental factors on transition of small businesses to medium organization?

1.5 Significance of the Study

It is hoped that the findings of this study would be valuable to a better understanding as to what challenges face small enterprises from transitioning to medium sized enterprises and also identify ways that this can be mitigated or solved. The knowledge acquired from the research outcome will help create an improved environment for transition of the small enterprises into medium sized enterprises. The study will also be valuable to a number of stakeholders including the managers and owners of SME, the Government of Kenya and future scholars and academicians.

For the management teams in SMEs, the findings of this study would bring to the fore the key factors affecting the growth of SMEs. This would inform their strategy development and inform the way they manage SMEs for better growth. For the SME owners, the findings of this study would be important in informing them the key factors

affecting their businesses growth thus they can develop appropriate strategies to overcome the challenges posited by these factors to realize growth in their businesses.

For the Government of Kenya, the findings would inform their policy formulation on SMEs so as to ensure that the SMEs grow to boost economic development further. It is also hoped that the findings would inform the Government on the appropriate policies and regulation framework for a vibrant SME sector.

The findings of this study would also be valuable to future scholars and academicians as it would act as empirical literature which can be referenced besides suggesting areas for further research.

1.6 Scope of the Study

The study focused on the clearing and forwarding companies in Mombasa. The study was done in the month of July and August 2016.

1.7 Assumptions

The study assumed that the respondents are knowledgeable on the the factors affecting transition of small enterprises to medium sized enterprises

The study assumed that the researcher received all necessary cooperation from all respondent in the small and medium enterprises and the respondents were truthful and willing to provide accurate and valid information freely.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the various works done by various researchers and authors on the factors affecting growth of small and medium enterprises. It also presents various theories related to this topic.

2.2 Theoretical Framework

This study is based on the entrepreneurial business growth theories. The study specifically anchored on transitional model, Storey's Growth model and the Ansoff's Growth matrix. These are discussed in details below.

2.2.1 Storey's Growth Model

In Storey's model, strategy is "action taken by the firm once in business" (Storey, 1994). Market positioning, new product introduction and technological sophistication are the key drivers. Technological sophistication relates to product innovation and does not include management Information system (IS). The other two drivers that support growth are a willingness to borrow money to fund it and to devolve decisions to a management team. Both of these reinforce the importance of the owner's attitude towards growth. Churchill and Lewis (1983) identify four firm related success resources: financial, personnel, systems and business (including customer and supplier relations). A key message is the need to plan for systems ahead of the stage of growth for which they are required. They also identify four owner-related factors: business goals, operational skills, managerial ability and strategic abilities.

However, it is not critical for SMEs to use all these skills at all stages. For example, owners' personal skills become less relevant as the firm grows. The importance of financial resources changes with business growth. Scott and Bruce (1987) develop Churchill and Lewis' (1983) model. They identify six factors that influence growth: top management role, style, structure, product and market research, system and controls, and sources of finance. They argue that movement to the next stage is occasioned by a crisis and suggest it is unlikely that firms require formal management. This is in line with the first objective of organizational characteristics that indicates how these characteristics affect the growth and expansion of small enterprises

2.2.2 Ansoff's Growth Matrix

The most common model for analyzing the possible strategic directions that an organization can follow towards growth is the Ansoff Matrix (Kotler, 2000). This strategy was first published in the Harvard Business Review in 1957 and has remained popular since then. Ansoff's Matrix is a strategic grid that can help firms identify their future strategic direction, and is often used when firms are planning for growth. The matrix itemizes four basic ways in which a firm can develop its portfolio of products and markets, but importantly also emphasizes the degree of risk of each approach. To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). In this model potential areas where competencies and generic strategies can be deployed can be depicted in four broad alternatives: market penetration, market development, product development and diversification.

The market penetration, market development, product development and diversification are all influenced by the economic status of the country. Successful organizations practice market penetration, market development, product development and diversification for them to grow but the success of these strategies towards growth as suggested by Ansoff depends on the economic environment (Kotler, 2000). The growth matrix is applicable in this study as it helps in understanding the growth challenges hence bringing out the organizational factors that affected the transition of small enterprises into medium organization. It helps organisations to come up with better strategies for growth on development of existing and new products as they transition into large organizations.

Figure 2.1: Ansoff Growth Strategy Matrix

		Product	
		Existing	New
M a r k e t	Existing	Market Penetration (increase market share)	Product development (new or (new or improved product)
	New	Market Development (new Customers, new market segments or new countries for existing	Diversification (new products into new markets)

Source: Kotler (2000 p.49)

2.2.3 Transition Model

The Transition Model was created by change consultant, William Bridges in 2005 in his book on ‘Managing Transitions.’ The main strength of the model is that it focuses on transition which is internal as it is what happens in people's minds as they go through change. Change can happen very quickly, while transition usually occurs more slowly over a long period of time affecting so many factors of an organization, firm or business unit.

The model highlights three stages of transition that people go through when they experience change. These are: Ending, Losing, and Letting Go, the second is the Neutral Zone and lastly the new beginning. Bridges (2010) says that people will go through each

stage at their own pace. For instance, those who are comfortable with the change will likely move ahead to stage three quickly, while others will linger at stages one or two.

This model is applicable in this study as it shows the transitional challenges that small scale enterprises and the entrepreneur will go through and the measure that they have to take in order to transition in an orderly manner to a medium sized enterprise. This model looks at the stages of transitions that organizations go through, thus preparing the organization for better transition.

2.3 Empirical Review

This section looks at the various empirical studies on the factors affecting growth of small and medium enterprises. They are discussed in accordance with the study objectives.

2.3.1 Organization Characteristics and Transition of Small to Medium organizations

The characteristics of an organization often reveal the growth pattern of small firms and how they transit into medium sized enterprises and eventually large corporations. There are several stages that organizations often pass through as they grow and transit from one small stage to another bigger phase of their business operation. According to Ceptureanu, (2015) in the survey regarding resistance to change in Romanian innovative SMEs from IT Sector; The findings reveal that these stages included the initial stages of transition where the organization has a single product or service but as it grows more and more products are made and the organization is known via its list of products. At this point the organization is characterized by a lot of stresses as the management tries to cover the costs of running the organization and its process. At this point the key character that

would propel the organization to the next level is the positive leadership exhibited by the management team at the organization (Ceptureanu, 2015).

Furthermore Alberola, Julian and Garcia-Fornes (2012) stated that transition is characterized by the organization having grown in terms numbers of staff, number of products being manufactured, increased distribution lines, increased presence in the market and profits. This means that the organization and its leaders must create structures to manage and control the whole organization and its operations. Cardon and Steven (2004) in the study on managing human resources in small organizations: What do we know? The study mentions that some of these structures include human resources division to manage the staff from the recruitment stage till exiting stage of every employee; the training and development stage to help horn the skills of staff and improve their morale to help them be more productive. As the owner losses control the entry of electronic based systems like the use of CCTV cameras, and electronic clocking system when employees check in for every morning and this would help in controlling actions (Cardon & Steven, 2004). Lee (2008) also indicated that that the success in terms of business growth and expansion where business grow to be categorized into medium or large enterprise; majorly depends on the people within that business unit. If they have knowledge and skills, as well as opportunities for development, they will be able to improve their jobs and enhance their performance (Lee, 2008).

Manolova, Manev and Gyoshev (2010) in the journal on 'In good company: The role of personal and inter-firm networks for new-venture internationalization in a transition economy', mentioned that in the last stages as the firm keeps expanding, the organization is characterized by having bureaucratic systems and a lot of red tapes. With the expansion

the decision making process becomes longer and longer as more people need to put their input before a decision is made. But with these last stages the firm matures and stabilizes with its operations and production. As the company grows then its managerial duties and soon handled by professionals who propel the business further (Manolova, Manev & Gyoshev, 2010).

According to Wataku (2007) while doing a study on the extent to which the adoption of e-commerce has facilitated business in clearing and forwarding firms in Nairobi. The study found out that many of the Clearing and Forwarding firms have internet and domain addresses but they haven't adapted to the use of e-commerce; yet there are many benefits to using the internet based applications and operations. Such benefits include improving efficiency, cutting down costs and saving time for other activities that would improve the performance and profitability and eventually their transition to medium and large sized business organizations that would yield more revenues (Wataku, 2007).

2.3.2 Organizational Factors and Transition of Small to Medium organizations

The small sized firms and medium sized firms (SMEs) are backbone of a state which is in the stage of progress and growth. These play very vital role in the development of any nation and no one country can complete its growth stages without small and medium sized enterprises. The growth of small scale and medium scale (SMEs) can be determined by the effectiveness and capabilities of the company's resources such as labor, capital and knowledge acquired, organized and transformed into products and services through the activities of the organization, practices and structures (Ruirie, 2012). A key distinguishing feature of a successful SME is a balanced alignment of the owner or entrepreneur's intention, his/her business abilities, and environmental opportunities that

can manipulated towards the success of the business unit. Crucially, each of the variable sets of intention, ability, and opportunity are linked intrinsically, and business growth is unlikely to be achieved should one be missing or unduly weak.

There are internal organizational factors that affect the growth and transition of the small scale business units into medium size firm in the economy. These factors include; the first is managerial skills and staff competencies. Managerial competencies are sets of facts, skills, behaviors and approaches that contribute to individual usefulness within an organization; these are very significant to the continued existence into future times and enlargement or expansion into new markets, growth of clientele volumes for the new small and medium enterprises. A lack of education and training of managers in the SMEs has contributed to management inaptitude in new firms and is one of the reasons for the low level of entrepreneurial formation and the high collapse rate of new business enterprises (Olawale, 2010). Another issue is that the owners (entrepreneurs) of most of small scale enterprises act as managers of the same enterprises and they treat it as an everyday job, this might not be simple to some of them leading to losses and closure. Therefore, the majority of the small scale enterprises do not purpose perform well due to the holdup of decision-making method, deprived association, poor employment, weak scheming and directing. These factors simple mean that the chances of small scale enterprises transiting into becoming medium or large enterprises are small.

Monetary management of the majority of the small scale enterprises is established to be very feeble since most small scale enterprises do not work out total expenses, total proceeds, earnings etc, for they do not keep any account methodically. Thus for growth and expansion of the small scale enterprises; the management be it the owners or

externally sourced persons must get adequate education and training on how to run the organization for the success of the small scale enterprises and its expanding to become medium scale enterprises.

The second factor is political stability, this enables the small scale enterprises to prepare for long term tactics that would enable them to expand and survive into the future times. If there is a smooth recurrent change in regime from one political government to another, then the economic policies which are often changed will not affect SMEs negatively. Lack of political stability, leads to indecision by the business class and thus the business is unfavorably exaggerated if the government is not stable (Trehan, 2010). Political instability is expected to compact policymakers' horizons foremost to sub-optimal short term macroeconomic strategies. It may also guide to a more normal switch of policies, creating instability and therefore, pessimistically upsetting macroeconomic concert (Veiga, 2011).

Another factor is organizational culture; Culture can be considered as an idiosyncratic asset which is accumulated a long time and can become a source of competitive advantage if it is valuable, rare, and difficult for competitors to imitate. In addition, it constitutes an important success factor in the growth process of small scale enterprises owing to its important role in establishing the firm's strategic framework and its influence on other organizational aspects such as the structure, management style employed at the business, or human resources management. Promoting company culture should make growth and stability of SMEs easier, thus contributing to establishing a shared organizational vision, commitment in terms of common projects, team work, autonomy in decision making, and a stimulus to continuous (Lee, 2008).

The last factor is the access to finances (Leitner, & Guldenberg, 2010) for the SMEs, this is necessary to produce a fiscal state that enables firms to produce and flourish, grow and expand their activities. Small scale enterprises in growing countries, though, face important barriers to economics. These small scale enterprises find it very difficult to assess finances and if they do, the rates are high and the regulations put in place by financial institutions further restrict them; this inhibits their efforts to expand and grow into a large enterprise. Financial restraints are superior in growing countries in all-purpose, but small scale enterprises are mostly controlled by gaps in the fiscal structure such as high administrative costs, high wear and tear of materials and lack of information inside economic intermediaries. Better than before admission to money for SMEs can get better fiscal circumstances in developing countries by promotion novelty, macro-economic softness, and GDP growth (Delberg, 2011).

2.3.3 Environmental Factors and Transition Small to Medium organizations

According to Brown (2007) the growth and transition of small scale enterprises into medium scale enterprises are affected by its business climate. The legal and regulatory framework as noted by Krasniqi (2007) is unfavorable to businesses and thus negatively impacts on small firm growth and transition. Brown (2007) identified competition as one of the major hindrances to the growth and expansion of small firm and small scale enterprises. If governments through their legal avenues do not protect small scale enterprises against unfair competition by the multinationals corporations (MNCs) and international companies, then their chances of growth and survival is very minimal. Ruirie (2012) noted that an unfavorable tax system, complicated rules and regulations can heavily hamper small firms' growth. SMEs do not have the capacity to pay high taxes

and unless they are given tax incentives it will be difficult for their growth and yet their contribution towards employment of the locals and the youths and GDP cannot be ignored. Krasniqi (2007) showed that corruption is a major source of the rise in unfair competition. Where big businesses can bribe their way in while the SMEs cannot hence this greatly affects their growth and hampers their chances of surviving. He further emphasized that the cost of complying with regulations and increased tax rates increases small firms' expenses while limiting their growth. Likewise, St-Jean et al., (2008) noted that unfair competition from the informal sector, cumbersome regulations, and tax rates are the main obstacles on small business growth.

A study done by International Finance Corporation (IFC; 2013), based on responses of more than 45,000 firms in developing countries, found that the top obstacles to their operations are a poor investment climate, especially red tape, high tax rates, and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply. Whereas informality is a major hindrance of small scale enterprises in middle-income countries, an inadequate power supply is the most important challenge for companies in low-income countries. If governments either the national or at local areas would ensure adequate and consistent water and power supply, this would help in the growth of small scale enterprises. A good telecommunication and infrastructure would greatly help the SMEs to grow in sales volumes, profitability and market presence and in the end further be sustainable (Lee, 2008).

Ruirie (2012) noted that new technologies improve efficiency, enable greater production, and are a source of profit for small scale enterprises. Although the initial cost

of acquiring the technology maybe high, the benefits far outweigh the cost and in the long-run it will pay off the business. This is a worthy investment that would help SMEs to grow and expand their activities. According to Morse et al. (2007), technological capabilities benefit SMEs in several ways: they enhance SME efficiency during their production process, reduce costs and wastage of time, and broaden market share, both locally and globally; as the world has become a global village. As noted by Ruirie (2012), a small business that adopts greater levels of technological sophistication can be expected to grow more rapidly than a similar firm that does not. Morse et al. (2007) pointed out that low technological capabilities hinder and discourage SMEs from fully reaching their potential. As noted by Wendel Clark (2012), countries with high levels of technological growth tend to have high levels of entrepreneurial growth.

The above information, indicate that there is no clear understanding or specific theory as to whether SMEs will sustain, grow, succeed, or fail. Scholars have put forward a number of factors concerning the important elements of the growing firm, such as Storey's (1994) identification of three necessary factors for growth: the entrepreneur, the firm, strategy and the environment as contributing to the growth of the SMEs. However, there appears to be no unified pattern and one answer that would see the SMEs flourish but evidence points towards a complex set of interrelated factors that affect small business growth (Olawale & Garwe, 2010).

2.4 Transition from Small to Medium Sized Enterprises

Transition is the progression of a small business unit into a bigger/larger business unit, characterized by increased market share, market presence, operations, more products and sales leading to higher profits and growth (Turner, Ledwith, & Kelly 2010). Turner,

Ledwith and Kelly (2010) further says that most small and medium sized enterprises started to be established in the early 1990s due to favorable legislation by the central governments and attractive opportunities that led to rapid growth rate in the sector as entrepreneurs choose to enter this field. The rules of the economic game favored small enterprises as compared to the large establishments; such rules included liberal price setting, tax exemption benefits to small business startups, less administrative controls and wage formation. But as the small enterprises grew; the rules changed such that the small scale enterprises experienced difficulties that made them unable to transit and become large business establishments. Some of the difficulties included economic difficulties leading to decline in production, stiff competition caused by the ability of large enterprises to advertise and garner the market and the shortcomings of economic legislation which is difficult for all businesses and it is especially hard for small and medium enterprises (Turner, Ledwith, & Kelly 2010).

2.5 Knowledge Gap

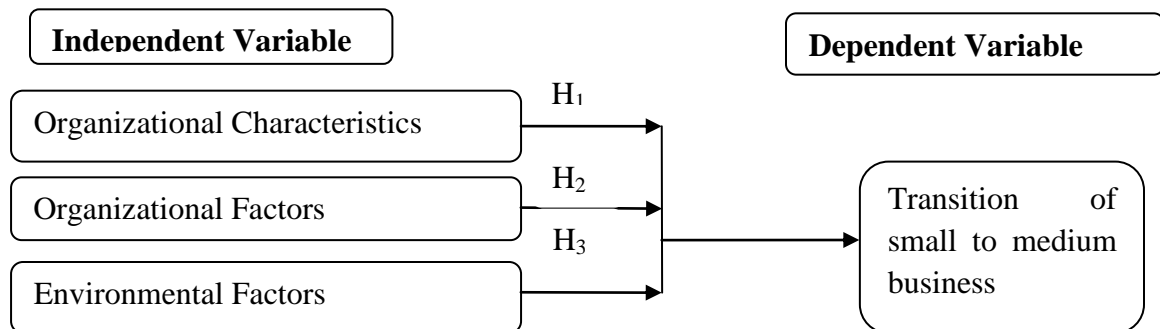
Olawale and Garwe (2010) in their study on obstacles to the growth of new SMEs in South Africa, found that access to financing and difficult legal frameworks hampered the growth of SMEs in South Africa. This study finding isn't applicable in the Kenyan scene. Bouazza, Ardjouman and Abada (2015) stated that Small and Medium Enterprises (SMEs) face many challenges in their quest to grow. They identified several factors affecting the growth of SMEs including: the cumbersome legal and regulatory constraints, lack of access to external financing, low human resources capacities, lack of management skills and training, and low technological capacities. The study was done in Algeria and its findings may not be applicable in the Kenyan context.

Griffy-Brown and Chun (2007) argues that an unfavorable business climate, competition, unfavorable tax system, complicated rules and regulations, cost of complying with regulations and increased tax rates increases small firms' expenses all have negative effect on small firms' growth. This study was done in Japan and its findings may be irrelevant in the Kenyan context as Japan is a developed country.

Ruirie (2012) in his study on the determinants of growth of manufacturing SMEs in Kenya: A case study of industrial area in Nairobi. The results showed that interest rates, dollar rate, fuel Cost, business skills and political instability were the major factors found to influence SMEs growth into large business enterprises. This study was done in the manufacturing sector and the findings may not be applicable for this study.

2.6 Conceptual Framework

Figure 2. 2: Conceptual Framework



2.7 Research Hypothesis

H₀₁: Organizational characteristic has no significant effects on transition of small business to medium in Kenya.

H₀₂: Organizational factors have no significant transition of small to medium businesses in Kenya.

H₀₃: Environmental Factors have no significant effect on transition of small to medium businesses in Kenya.

H₀₄: All the factors combined have no significant effect on transition of small to medium businesses in Kenya.

2.8 Operationalization

Table 2. 1: Operationalization of Variables

Objective	Variable Type	Indicators	Type of data analysis
To establish the effect of organization characteristics on the transition of the clearing and forwarding companies in Mombasa.	Independent Organizational Characteristics	<ul style="list-style-type: none"> • Leadership • Morale of staff • Internet usage • Improved performance 	Descriptive Multiple Regression
To determine the effect of organizational factors on transition of the clearing and forwarding companies in Mombasa.	Independent Organizational Factors	<ul style="list-style-type: none"> • Objectives • Policies and procedures • Organizational structures • Access to finances 	Descriptive Multiple Regression
To establish the effect of environmental factors on transition of the clearing and forwarding companies in Mombasa.	Independent Environmental factors	<ul style="list-style-type: none"> • Legal and regulatory framework • Technology advancement • Good Infrastructure 	Descriptive Multiple Regression
	Dependent Transition from small to medium businesses	<ul style="list-style-type: none"> • Number of products • Turn over • Number of employees 	Descriptive Multiple Regression

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at the research design that was used to carry out the research. It also covered the population of the study, the sampling technique and procedures, the instrument for data collection, the data collection, data analysis procedures and the research ethics considered.

3.2 Research Design

A research design constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). Descriptive research design was adapted by the study in collecting its findings. Creswell (2009) observed that a descriptive research design is used when data is collected to describe persons, organizations, settings or phenomena. The choice of the research design depends on the objectives of the design in order to be able to answer the research questions. According to Mugenda and Mugenda (2003), a descriptive research design determines and reports the way things are.

Descriptive studies are not only restricted to fact findings, but may often result in the formulation of important principles of knowledge and solutions to significant problems. They portray an accurate profile of people, events or situations therefore this study employed a descriptive research design where the respondents were the managements and employees of SMEs in the clearing and forwarding companies in Mombasa. The factors affecting transition from small to medium organizations in Kenya were then assessed using descriptive methods.

3.3 Target Population

The target population includes the management and employees working in small and medium sized enterprises in the clearing and forwarding companies in Mombasa. Mombasa being the gateway for the export and import of goods into East Africa has meant that all clearing and forwarding companies have offices in Mombasa and are concentrated near the port, hence the choice of Mombasa city. Mugenda and Mugenda (2003) define population as an entire group of individuals, events or objects with some observable characteristics. According to the KRA (2014), there are 1298 small and medium sized enterprises licensed in the transport and storage sector in Mombasa.

Table 3.1: Target Population

Stratum	Target Population
Small sized enterprises	948
Medium sized enterprises	350
TOTAL	1298

Source: KRA Report (2014)

3.4 Sampling and Sampling Procedures

The target population was systematized into small and medium sized enterprises and systematic sampling technique was used to select the sample business units for this study. The desired sample size was arrived at by using the simplified formula proposed by Israel (2009). This was as the formula below;

$$SS = \frac{Z^2 * (p) * (1-p)}{C^2}$$

where:

Z = Z value (e.g. 1.96 for 95% confidence level)

p = percentage picking a choice, expressed as decimal

(.5 used for sample size needed)

c = confidence interval, expressed as decimal (e.g., .04 = ±4)

Correction for Finite Population

$$\text{new ss} = \frac{SS}{1 + \frac{SS-1}{\text{pop}}}$$

where: pop = population

For our calculation;

Z=1.96

P=.5

C=.06

Ss=266.78

When correction for finite population occurs (Israel, 2009), we have;

New ss=266.78/1+ (266.78+1/1298)

New ss=221

Hence the sample size for the study is 221 small and medium sized enterprises.

3.5 Instrumentation and Data Collection Procedures

The study used structured questionnaires as the preferred research instrument. Structured questionnaires according to Marshall and Rossman (2014) entail several questions that

have structured response categories whose main aim is to learn about the distribution of characteristics, attitudes or beliefs. The use of questionnaires is important in this case because of the issue of anonymity of the respondents in that they can respond without fear of being known or identified hence accurate and correct information is received (Mugenda, 2008). Creswell (2009) defines data collection as a means by which information is obtained from the selected subjects of an investigation. Letters of consent were sent to the management of the SMEs prior to the study so as to obtain permission from the management to carry out the study. The questionnaires were administered using the 'drop and pick later method' where respondents had one week to fill the questionnaires before they are picked for analysis.

3.6 Validity and Reliability of Instruments

Pre-testing was done on 10 respondents from small scale business in Nairobi County and any unclear areas and misunderstandings were identified and corrections or amendments made to the questionnaires. Furthermore, to enhance validity of the instruments, the questionnaire was thoroughly reviewed by the researcher, supervisor and experts in the field to ensure that the questions achieve the research objectives and answer the research questions. Kothari (2004) states that validity indicates the degree to which an instrument measures what it is supposed to measure, that is the extent to which differences found with a measuring instrument reflect true differences among those being tested. Validity ensures accuracy and meaningfulness of inferences based on the research results and makes sure that analysis of the data actually represents the phenomenon under study.

Pre-testing the questionnaire would also help in gaining the reliability of the test instrument the questionnaire. In this study the test and retest technique was used in order

to test for reliability at the pre-testing point. According to O'Connor and Kleyner (2011) reliability is defined as a measure of how consistent a research method is. The pre-test tested the clarity of the questions and any ambiguity was removed and corrected.

To test the reliability of the Likert scale used in this study, reliability analysis was done using Cronbach's Alpha as the measure. A co-efficient of reliability of .70 or higher is considered acceptable. The Alpha coefficient of the twenty eight items is .786, suggesting that the items have a relatively high internal consistency.

Table 3.2: Cronbach' Alpha Results

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.786	.775	28

Source: Author (2016)

3.7 Data Analysis Techniques and Presentation

Once the filled questionnaires are received, the data were coded using Statistical package for Social Sciences Software (SPSS) and then analyzed. Data collected was analyzed using statistical method SPSS – which helped develop the means, frequencies, percentages and standard deviation while doing the analysis. According to Kothari (2004) data analysis and interpretation involves cleaning up collected research data before undertaking to deduce it so as to give meaningful interpretation and explanation.

Factor analysis was done handling each of the three objectives Organizational characteristics, organizational factors and environmental factors. Regression analysis was also used to test for the relationship between the independent variable (Organizational

characteristics, organizational factors and environmental factors) and the dependent variable (Transition)

The Regression model is:

$$Y = a_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y = Transition

$$a_1 = \text{Constant}$$

β_1 , β_2 , β_3 and β_4 are Coefficients of the factors affecting transition of small businesses to medium organizations in Kenya: A survey of the clearing and forwarding sector in Mombasa.

ε = error term

X_1 = Organizational characteristics

X_2 = Organizational factors

X_3 = Environmental factors

Graphs, charts, pie charts, figures and tables was used to present the data from analysis of the study.

3.8 Research Ethics

Ethics is the basic concept and fundamental principles of decent human conduct. Resnik (2015) defines ethics as norms for conduct that distinguish between acceptable and unacceptable behavior. Anonymity and confidentiality of data was highly maintained to protect the respondents from any victimization that may be associated with their answers. Any names or personal details were not disclosed to anyone, whatever the reason.

All respondents participated voluntarily and no one was forced to participate against their will. Permission was obtained prior to the study to ensure participants are aware and ready to partake in the study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND PRESENTATION

4.1 Introduction

This chapter presents the research findings on the basis of data collected from the field. The main objective of the study was to determine the factors affecting transition of small businesses to medium organizations in Kenya: A survey of the clearing and forwarding companies in Mombasa. Data was collected using questionnaires as the data collection instruments and summarized by use of descriptive statistics which involves the use of frequency tables, percentages, mean and standard deviation.

4.1.2 Response Rate

A total of 221 questionnaires were distributed out of which 147 questionnaires were return giving a response rate of 67%. This response was good enough and representative of the population and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is excellent.

4.2 Background Information

The study in this section sought to enquire from the respondents' general information including, gender, highest level of education attained, years working with the company and position in the company. This general information is presented in the following subsections.

4.2.1 Gender Distribution

The respondents were asked to indicate their gender.

Based on the research findings 54% of the respondents were male while the remaining 46% were female. This shows that all genders were represented thus provided relevant information for the study.

4.2.2 Highest Level of Education Attained

The respondents were asked to indicate their highest level of education. The findings are shown below in Table 4.1.

Table 4.1 Highest Level of Education Attained

	Frequency	Percent
Certificate	12	8.2
Diploma	39	26.5
Bachelors Degree	78	53.1
Masters	15	10.2
PhD	3	2
Total	147	100.0

Source: Author (2016)

From the findings on Table 4.1, majority 53.1% of the respondents had bachelor's degree, 26.5% had diploma, 10% had masters, 8.2% had certificates and 2% had PhD. This implied that majority of the respondents had relevant knowledge on factors affecting transition of small businesses to medium organizations thus they had ease in addressing the question and provided the correct responses hence the data collected was reliable for the study.

4.2.3 Period Working with the Company

The study sought to determine the period of time the respondents had been working with their respective companies. The findings are shown on Table 4.2.

Table 4.2 Period Working in the Company

	Frequency	Percent
1 -3 years	44	29.9
4-6 years	30	20.4
6-9 years	57	38.8
10 years and above	16	10.9
Total	147	100.0

Source: Author (2016)

As shown on Table 4.2, majority 38.8% of the respondents had worked for between 6-9 years, 29.9% for between 1-3 years, 30% for between 4-6 years and 10.9 for above 10 years. This shows that data was collected from individuals who have had experience and gave valid information on transition of small businesses to medium organizations.

4.2.4 Position Held in the Company

The study sought to determine the positions held by the respondents in their respective companies. The findings are shown below in Table 4.3.

Table 4.3 Position Held in the Company

	Frequency	Percent
Managers/Owners	53	36.1
Operations managers	56	38.1
Other staff	38	25.9
Total	147	100.0

Source: Author (2016)

As shown on Table 4.3, majority 38.1% of the respondents were operation managers, 36.1% were managers/owners and 25.9% were other staff. This shows that the study covered across all the positions in the companies thus the information provided by the respondents were relevant for the study.

4.3 Effect of Organization Characteristics on the Transition of Small Businesses to Medium Organization

Several statements on organizational characteristics and its impact in transition of a small scale business into medium organization in Kenya were identified and the respondents were required to indicate the extent to which you agree or disagree with these statements. A scale of 1-5 where 0 - 0.9 = No extent, 1 – 1.9 = little extent, 2 – 2.9 = moderate extent, 3 – 3.9 = great extent and 4 – 5 = very great extent was used. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.4.

Table 4.4 Effect of Organization Characteristics

	Mean	Std. Dev
The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises	4.02	1.100
Small firms are characterized by having a single product or service	3.55	1.098
Small organization is characterized by a lot of stresses as the management tries to cover the costs of running it	3.69	.727
Positive leadership exhibited by the management team would help the small enterprise transit to a medium sized enterprise	4.01	.776
Transition from small to medium enterprise is characterized by an increase in numbers of employees	3.98	1.170
The small organization must create structures to control the whole organization in enabling its transition process	3.66	.779
Transition depends on the knowledge and skills the people possess to enhance their performance at work	4.06	1.080
Transition from small to medium enterprise is characterized by employing professional staffs	4.10	1.079
Overall Mean	3.88	

Source: Author (2016)

As shown in Table 4.4, the characteristics of an organization to a very great extent reveal the growth pattern of small to medium sized enterprises with a mean of 4.02 and a

standard deviation of 1.100, small firms were to a great extent characterized by having a single product or service with a mean of 3.55 and a standard deviation of 1.098, small organization is to a great extent characterized by a lot of stresses as the management tries to cover the costs of running with a mean of 3.69 and a standard deviation of 0.727, positive leadership is to a very great extent exhibited by the management team which would help the small enterprise transit to a medium sized enterprise with a mean of 4.01 and a standard deviation of 0.776, transition from small to medium enterprise is to a great extent characterized by an increase in numbers of employees with a mean of 3.98 and a standard deviation of 1.170, small organization must to a great extent create structures to control the whole organization in enabling its transition process with a mean of 3.66 and a standard deviation of 0.779, transition to a very great extent depends on the knowledge and skills the people possess to enhance their performance at work with a mean of 4.06 and a standard deviation of 1.080 and transition from small to medium enterprise is to a very great extent characterized by employing professional staffs had a mean of 4.10 with a standard deviation of 1.079. The overall mean value was 3.88 an indication that the respondents were to a great extent in agreement with the statements to a great extent.

From the table transition depends on the knowledge and skills the people possess to enhance their performance at work with a mean score of 4.10, is the most important variable that influences transition in the effects of organizational characteristics. This could be because the respondents seem to understand the importance of the fact that increased knowledge and skills leads to increased productivity and ultimately growth of their organizations. Small firms are characterized by having a single product or service with a mean score of 3.55 appears to be the least important from the above table.

4.3.1 Extent to Which Organizational Characteristics Influenced the Transition of Small Scale Enterprises into Medium Organizations

The respondents were asked to indicate the extent to which organizational characteristics influenced the transition of small scale enterprises into medium organizations in Kenya. The findings are shown in Table 4.5.

Table 4.5 Extent to Which Organizational Characteristics Influenced the Transition of Small scale enterprises into Medium Organizations

	Frequency	Percent
No extent	11	7.5
little extent	1	.7
moderate extent	36	24.5
great extent	71	48.3
very great extent	28	19.0
Total	147	100.0

Source: Author (2016)

From the findings in Table 4.5, 7.5% indicated no extent, 0.7% indicated little extent, 24.5% indicated moderate extent, 48.3% indicated great extent and 19% indicated very great extent. Majority of the respondents felt that organizational characteristics greatly influenced the transition of small scale enterprises to medium organizations. This is because characteristics have been shown to have significant impact on organizational performance.

4.4 Effect of Organizational Factors on Transition of Small Businesses to Medium Organization

Several statements on organizational factors and its impact in transition of a small scale business into medium organization in Kenya were identified and the respondents were required to indicate the extent to which you agree or disagree with these statements. From

their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.6.

Table 4.6 Effect of Organizational Factors on Transition of Small Businesses to Medium Organization

	Mean	Std. Dev
The growth of small sized enterprises is determined by the effectiveness of transforming firms' resources into products	3.84	.873
A successful small sized enterprises is a balanced alignment of the owners' abilities	3.97	.859
Environmental opportunities affect the transition of the small scale into medium sized firm in the economy.	3.82	1.018
Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm	3.75	.933
Many small scale enterprises do not do well due to the holdup of decision-making process	3.95	.992
Monetary management of the majority of the small scale enterprises is established to be very feeble	3.98	1.033
Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises	3.69	.840
Small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises	4.02	1.069
Overall Mean	3.87	

Source: Author (2016)

As indicated in Table 4.6, the growth of small sized enterprises is to a great extent determined by the effectiveness of transforming firms' resources into products with a mean of 3.84 and a standard deviation of 0.873, a successful small sized enterprises is to a great extent a balanced alignment of the owners' abilities with a mean of 3.97 and a standard deviation of 0.859, environmental opportunities to a great extent affect the transition of the small scale into medium sized firm in the economy with a mean of 3.82 and a standard deviation of 1.018, uneducated and untrained managers have to a great extent contributed to low chances of transition of the small to medium sized firm with a mean of 3.75 and a standard deviation of 0.933, many small scale enterprises to a great

extent don't do well due to the holdup of decision-making process with a mean of 3.95 and a standard deviation of 0.992, monetary management of the majority of the small scale enterprises is to a great extent established to be very feeble with a mean of 3.98 and a standard deviation of 1.033, lack of access to finances, to a great extent inhibits the growth of small scale enterprises to medium enterprises with a mean of 3.69 and a standard deviation of 0.840 and small scale enterprises to a great extent need to prepare for long term tactics that would enable them expand to medium enterprises with a mean of 4.02 and a standard deviation of 1.069. The mean value was 3.87.

From the table above small scale enterprises need to prepare long term tactics that would enable them expand to medium enterprises has the highest mean score at 4.02. This means that most respondents saw this as having the most effect in organizational factors on transition of small scale enterprises into medium organizations. Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises had the least score, with a mean score of 3.69. This could be a result of the fact that in most cases, the clients have to pay for some of the services upfront thus the freight companies do not require a huge financial outlay.

4.4.1 Extent to Which Organizational Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations

The respondents were asked to indicate the extent to which organizational factors influenced the transition of small scale enterprises into medium organizations in Kenya. The findings are shown in Table 4.6.

Table 4.7 Extent to Which Organizational Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations

	Frequency	Percent
No extent	3	2.0
little extent	6	4.1
moderate extent	33	22.4
great extent	54	36.7
very great extent	51	34.7
Total	147	100.0

Source: Author (2016)

From the findings in Table 4.7, 2% indicated no extent, 4.1% indicated little extent, 22.4% indicated moderate extent, 36.7% indicated great extent and 34.7% indicated very great extent. The highest number of respondents felt that organizational factors had a great extent of influence on transition of small scale enterprises into medium organizations.

4.5 Effect of Environmental Factors on Transition of Small Businesses to Medium Organization

Several statements on environmental factors and its impact in transition of a small scale business into medium organization in Kenya were identified and the respondents were required to indicate the extent to which you agree or disagree with these statements. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.8.

Table 4.8 Effect of Environmental Factors on Transition of Small Businesses to Medium Organization

	Mean	Std. Dev
The transition of small scale enterprises into medium scale enterprises are affected by its business climate	3.97	.935
The legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm	3.77	1.012
Competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises	3.89	.980
Governments through their legal avenues should protect small scale enterprises against unfair competition	3.75	.781
High tax rates are the main obstacle on small business growth to medium size enterprises	3.90	.813
Governments should ensure adequate and consistent amenities (water & power) to enhance growth of small scale enterprises	3.85	.906
A good telecommunication infrastructure system would greatly help the small firm transition to medium firm	3.98	.883
New technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises	3.86	.841
Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition	4.08	.887
Overall Mean	3.89	

Source: Author (2016)

As indicated in Table 4.8, the transition of small scale enterprises into medium scale enterprises are to a great extent affected by its business climate with a mean of 3.97 and a standard deviation of 0.935, the legal framework is to a great extent unfavorable to businesses thus it negatively impacts on small firm transition to medium firm with a mean of 3.77 and a standard deviation of 1.012, competition to a great extent is one of the major hindrances to the growth of small size enterprises into medium size enterprises with a mean of 3.89 and a standard deviation of 0.980, governments through their legal avenues to a great extent should protect small scale enterprises against unfair competition with a mean of 3.75 and a standard deviation of 0.781, high tax rates are to a great extent the main obstacle on small business growth to medium size enterprises with a mean of 3.90 and a standard deviation of 0.813, governments should to a great extent ensure

adequate and consistent amenities (water & power) to enhance growth of small scale enterprises with a mean of 3.85 and a standard deviation of 0.906, a good telecommunication infrastructure system would to a great extent help the small firm transition to medium firm with a mean of 3.98 and a standard deviation of 0.883, new technologies to a great extent improves efficiency enabling greater production, leading to high profits for small scale enterprises with a mean of 3.86 and a standard deviation of 0.841 and technological capabilities to a very great extent benefit small sized firms by reducing time wastage costs thus enabling their transition with a mean of 4.08 and a standard deviation of 0.887. The mean value was 3.89 an indication that the respondents were in agreement with the statements.

The study from the table see that technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition had the highest mean score at 4.08. This suggest that technological capabilities has made the business organizations to reduce time and also cost. This too could have contributed to the organizations remaining small since they can do much more with technology without employing more people or moving to bigger premises. Governments through their legal avenues should protect small scale enterprises against unfair competition had the least mean score at 3.75.

4.5.1 Extent to Which Environmental Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations

The respondents were asked to indicate the extent to which environmental factors influenced the transition of small scale enterprises into medium organizations in Kenya.

The findings are shown in Table 4.9.

Table 4.9 Extent to which Environmental Factors Influenced the Transition of Small Scale Enterprises into Medium Organizations

	Frequency	Percent
No extent	5	3.4
little extent	14	9.5
moderate extent	32	21.8
great extent	49	33.3
very great extent	47	32.0
Total	147	100.0

Source: Author (2016)

As shown in Table 4.9, 3.4% indicated no extent, 9.5% indicated little extent, 21.8% indicated moderate extent, 33.3% indicated great extent and 32% indicated very great extent. In this instance majority of respondents felt that environmental factors to a great and very great extent influenced the transition of small scale enterprises into medium organizations. This could be due to the effects of the business environment, cumbersome legal system which most do not comprehend and competition from larger better resourced organizations.

4.6 Transition from Small to Medium Sized Enterprises

Several statements on transition of a small scale business into medium organization in Kenya were identified and the respondents were required to indicate the extent to which you agree or disagree with these statements. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.10.

Table 4.10 Transition from Small to Medium Sized Enterprises

	Mean	Std. Dev
The number of product has increased	4.12	.908
The turnover has increased	4.53	.633
The number of employees has increased	3.82	.970

Source: Author (2016)

As indicated in Table 4.10, the of number of product has increased had a mean score of 4.12 and a standard deviation of 0.908, the turnover has increased a mean of 4.53 and a standard deviation of 0.633 and the number of employees has increased mean of 3.82 and a standard deviation of 0.970. This indicates that a great number of the respondents felt that the turnover has increased was more important. This probably due to the fact that most of the firms can easily related to increased turnover as a measure of success.

4.6.1 Extent to which the Factors Affects the Transition of Small Scale Enterprises into Medium Organizations

The respondents were asked to indicate the extent to which the factors affect the transition of small scale enterprises into medium organizations in Kenya. The findings are shown in Table 4.11.

Table 4.11 Extent to which the Factors Affects the Transition of Small Scale Enterprises into Medium Organizations

	Frequency	Percent
Little Extent	19	12.9
Moderate Extent	33	22.4
Great Extent	42	28.6
Very Great Extent	53	36.1
Total	147	100.0

Source: Author (2016)

From the findings in Table 4.11, 12.9% of the respondents indicated that the factors affect the transition of small scale enterprises into medium organizations in Kenya indicated little extent, 22.4% indicated moderate extent, 28.6% indicated great extent and 36.1% indicated very great extent. The respondents indicated that the factors to a very great extent affected the transition of small scale enterprises into medium organizations.

4.7 Factor Analysis

Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors (Yount, 2006). Factor analysis is a method used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. The study carried out factor analysis on the factors affecting transition of small businesses to medium organizations in Kenya. The findings were presented based on the study objectives.

4.7.1 Factor Analysis for Organizational Characteristics

Communality is the proportion of variance that each item has in common with other factors. Findings shown in Table 4.12 below indicate that, transition depending on the knowledge and skills the people possess to enhance their performance at work had the greatest communality or shared relationship with other factors (95.4%), followed by characteristics of an organization often revealing the growth pattern of small to medium sized enterprises (92.9%) while small firms being characterized by having a single product or service had the lowest communality (32.2%). Findings are as shown below.

Table 4.12: Communalities for Organizational Characteristics

	Initial	Extraction
The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises	1.000	.929
Small firms are characterized by having a single product or service	1.000	.322
Small organization is characterized by a lot of stresses as the management tries to cover the costs of running it	1.000	.909
Positive leadership exhibited by the management team would help the small enterprise transit to a medium sized enterprise	1.000	.594
Transition from small to medium enterprise is characterized by an increase in numbers of employees	1.000	.849
The small organization must create structures to control the whole organization in enabling its transition process	1.000	.900
Transition depends on the knowledge and skills the people possess to enhance their performance at work	1.000	.954
Transition from small to medium enterprise is characterized by employing professional staffs	1.000	.923

Extraction Method: Principal Component Analysis.

Source: Author (2016)

Total variance taking all the factors for organizational characteristics was presented in Table 4.13 below. Factor extraction was carried out via the analysis of principle component. Eigen values were used to measure the variation amount in the total sample as accounted by each factor. A factor with low Eigen value implies that it's contributing less to the total variance of the variables and thus may be ignored. According to Table 4.13, the first factor accounts for 51.537% of the total variance while the second factor accounts for 23.214% of the variation.

Table 4.12: Total Variance Explained for Organizational Characteristics

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.523	56.537	56.537	4.523	56.537	56.537
2	1.857	23.214	79.751	1.857	23.214	79.751
3	.810	10.128	89.879			
4	.482	6.027	95.906			
5	.177	2.214	98.121			
6	.078	.980	99.100			
7	.048	.598	99.698			
8	.024	.302	100.000			

Extraction Method: Principal Component Analysis.

Source: Author (2016)

The study conducted KMO and Bartlett's tests for organizational characteristics and found KMO value of 0.808 and Bartlett's test, $\chi^2(28, N = 147) = 1403.871, p = .000$. The results are presented in Table 4.14 below.

Table 4.14 KMO and Bartlett's Test for Organizational Characteristics

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.808
Approx. Chi-Square	1403.871
Bartlett's Test of Sphericity	df
	28
	Sig.
	.000

Source: Author (2016)

A scree plot was also obtained. The scree plot for organizational characteristics showed that only 2 components had Eigen value greater than one. This finding confirmed the results for total variance explained. The results are presented in figure 4.1 below.

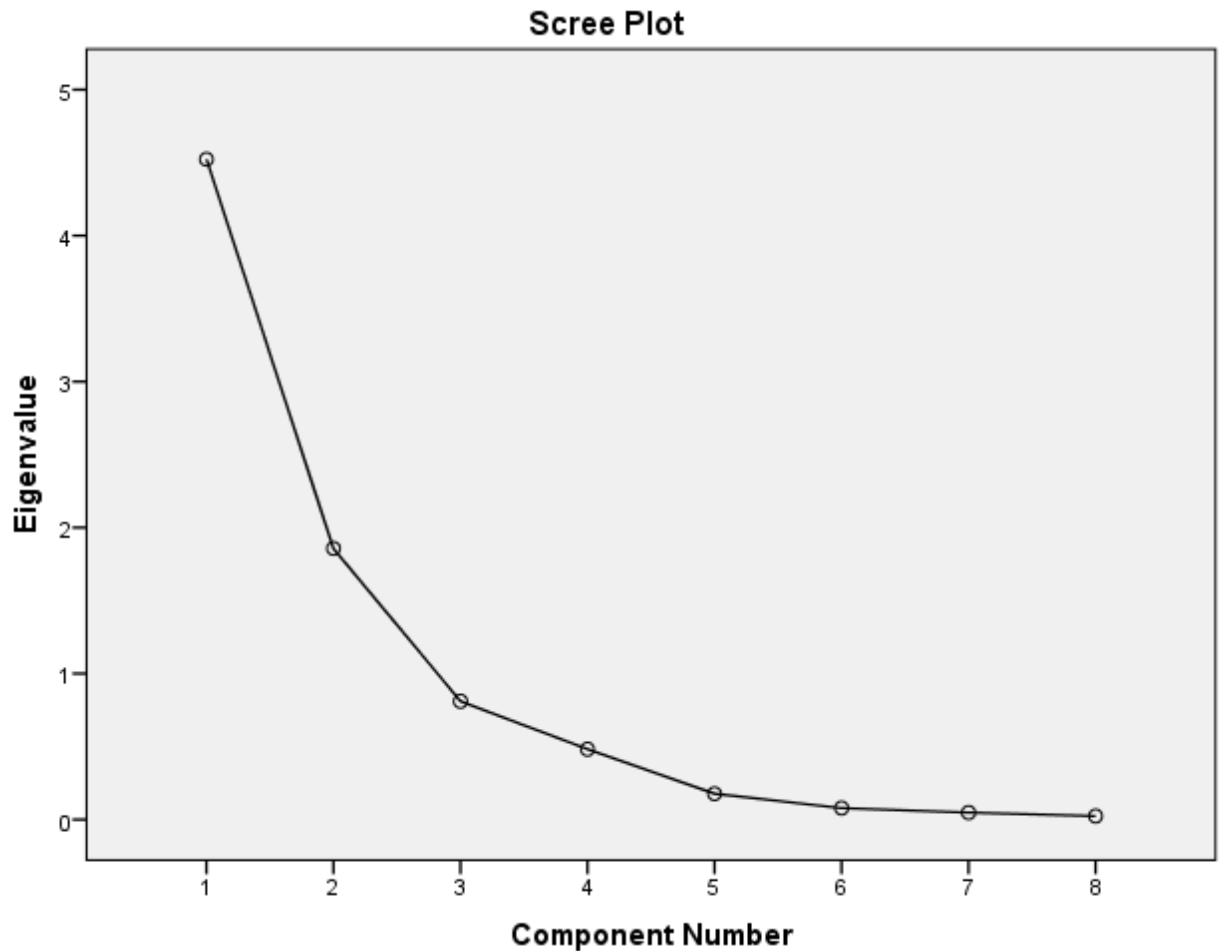


Figure 4.1 Scree Plot for Organizational Characteristics

A component matrix table was obtained for organizational characteristics. Results are as shown in Table 4.15 below. Transition depends on the knowledge and skills the people possess to enhance their performance at work had the highest factor loading of 94.2% in the first component while small organization being characterized by a lot of stresses as

the management tries to cover the costs of running it had the highest factor loading in the second component with 79.4%. Results are as shown below.

Table 4.15 Component Matrix for Organizational Characteristics

	Component	
	1	2
The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises	.935	-.237
Small firms are characterized by having a single product or service	.180	-.538
Small organization is characterized by a lot of stresses as the management tries to cover the costs of running it	.527	.794
Positive leadership exhibited by the management team would help the small enterprise transit to a medium sized enterprise	.725	.261
Transition from small to medium enterprise is characterized by an increase in numbers of employees	.893	-.226
The small organization must create structures to control the whole organization in enabling its transition process	.539	.781
Transition depends on the knowledge and skills the people possess to enhance their performance at work	.942	-.258
Transition from small to medium enterprise is characterized by employing professional staffs	.916	-.290

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Source: Author (2016)

A rotated component matrix table was obtained for organizational characteristics. Results are as shown in Table 4.16 below. The results obtained indicate that transition depending on the knowledge and skills the people possess to enhance their performance at work had the highest factor loading of 97% in the first component while small organization being characterized by a lot of stresses as the management tries to cover the costs of running it had the highest factor loading in the second component with 92.7%. Results are as shown below.

Table 4.16 Rotated Component Matrix for Organizational Characteristics

	Component	
	1	2
The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises	.954	.135
Small firms are characterized by having a single product or service	.371	-.430
Small organization is characterized by a lot of stresses as the management tries to cover the costs of running it	.187	.935
Positive leadership exhibited by the management team would help the small enterprise transit to a medium sized enterprise	.572	.516
Transition from small to medium enterprise is characterized by an increase in numbers of employees	.912	.129
The small organization must create structures to control the whole organization in enabling its transition process	.203	.927
Transition depends on the knowledge and skills the people possess to enhance their performance at work	.970	.118
Transition from small to medium enterprise is characterized by employing professional staffs	.957	.079

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Source: Author (2016)

4.7.2 Factor Analysis for Organizational Factors

Communality was done in the study to determine the shared relationship of each factor with other factors under organizational factors. Findings shown in Table 4.17 below indicate that, uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm had the greatest communality or shared relationship with other factors (82%), followed by monetary management of the majority of the small scale enterprises is established to be very feeble (80.2%) while lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises formed the least shared relationship with other variables at 36.1%.

Table 4.17 Communalities for Organizational Factors

	Initial	Extraction
The growth of small sized enterprises is determined by the effectiveness of transforming firms' resources into products	1.000	.710
A successful small sized enterprises is a balanced alignment of the owners' abilities	1.000	.567
Environmental opportunities affect the transition of the small scale into medium sized firm in the economy.	1.000	.362
Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm	1.000	.820
Many small scale enterprises don't do well due to the holdup of decision-making process	1.000	.503
Monetary management of the majority of the small scale enterprises is established to be very feeble	1.000	.802
Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises	1.000	.361
Small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises	1.000	.710

Extraction Method: Principal Component Analysis.

Source: Author (2016)

Total variance taking all the factors for organizational factors was presented in Table 4.18 below. Factor extraction was carried out via the analysis of principle component. Eigen values were used to measure the variation amount in the total sample as accounted by each factor. A factor with low Eigen value implies that it's contributing less to the total variance of the variables and thus may be ignored. According to Table 4.18, the first factor accounts for 33.021% of the total variance while the second factor accounts for 27.421% of the variation.

Table 4.18 Total Variance Explained for Organizational Factors

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.642	33.021	33.021	2.642	33.021	33.021
2	2.194	27.421	60.442	2.194	27.421	60.442
3	.939	11.737	72.179			
4	.727	9.084	81.263			
5	.590	7.378	88.641			
6	.502	6.269	94.910			
7	.250	3.127	98.037			
8	.157	1.963	100.000			

Source: Author (2016)

The study conducted KMO and Bartlett's tests for organizational factors and found KMO value of 0.649 and Bartlett's test, $\chi^2(28, N = 147) = 438.822, p = .000$. The results are presented in Table 4.19 below.

Table 4.19 KMO and Bartlett's Test for Organizational Factors

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.649
	Approx. Chi-Square	438.822
Bartlett's Test of Sphericity	df	28
	Sig.	.000

Source: Author (2016)

A scree plot was also obtained. The scree plot for organizational characteristics showed that only 2 components had Eigen value greater than one. This finding confirmed the results for total variance explained. The results are presented in figure 4.2 below.

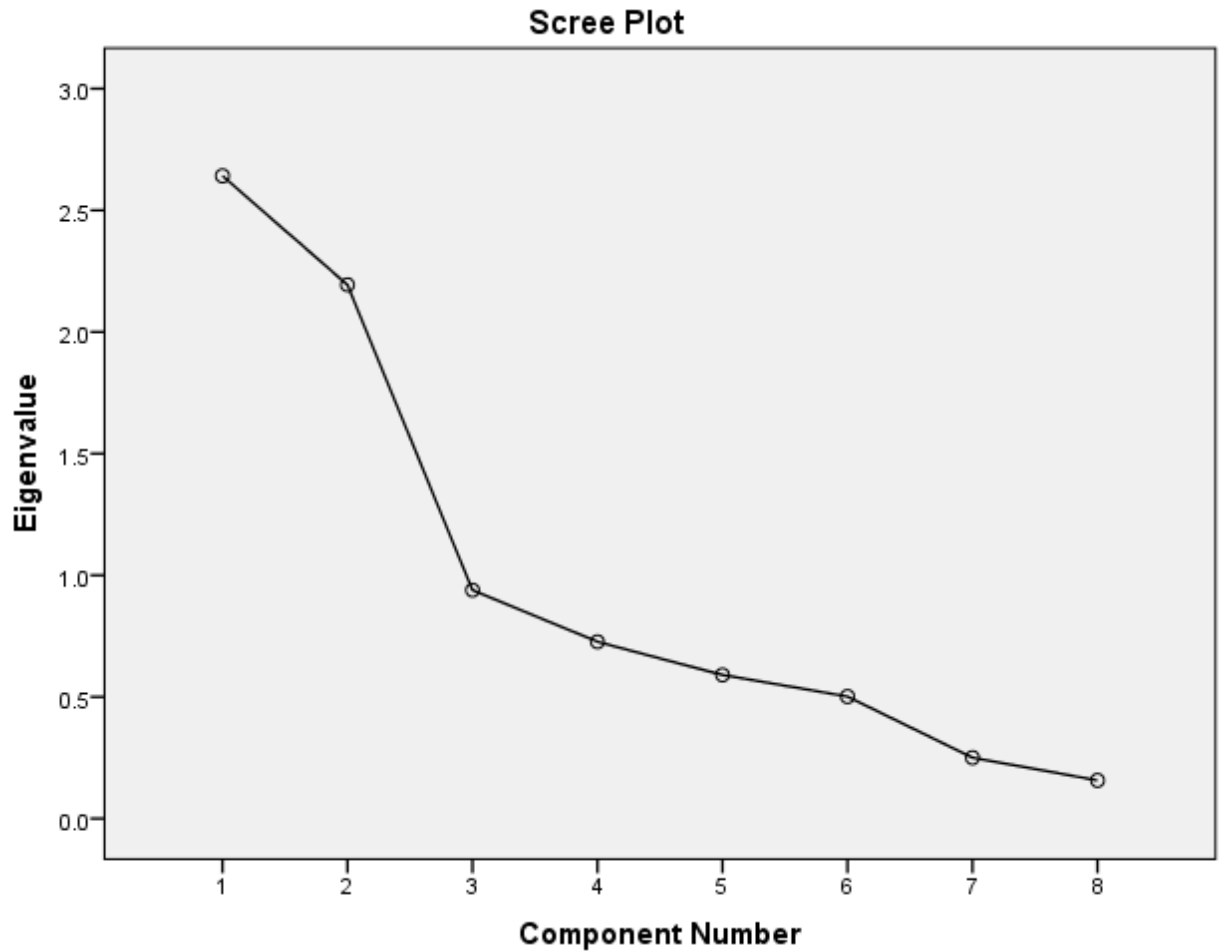


Figure 4.2 Scree Plot for Organizational Factors

Source: Author (2016)

A component matrix table was obtained for organizational factors. Results are as shown in Table 4.20 below. Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm had the highest factor loading of 88.3% in the first component while monetary management of the majority of the small scale enterprises is established to be very feeble had the highest factor loading in the second component with 89.2%. Results are as shown below.

Table 4.20 Component Matrix for Organizational Factors

	Component	
	1	2
The growth of small sized enterprises is determined by the effectiveness of transforming firms' resources into products	.817	-.206
A successful small sized enterprises is a balanced alignment of the owners' abilities	.747	-.097
Environmental opportunities affect the transition of the small scale into medium sized firm in the economy.	.597	.078
Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm	.883	-.199
Many small scale enterprises don't do well due to the holdup of decision-making process	.516	.487
Monetary management of the majority of the small scale enterprises is established to be very feeble	.081	.892
Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises	-.036	.600
Small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises	.081	.839

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Source: Author (2016)

A rotated component matrix table was obtained for organizational factors. Results are as shown in Table 4.21 below. The results obtained indicate that uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm had the highest factor loading of 89.9% in the first component while monetary management of the majority of the small scale enterprises is established to be very feeble had the highest factor loading in the second component with 89.6%. Results are as shown below.

Table 4.21 Rotated Component Matrix for Organizational Factors

	Component	
	1	2
The growth of small sized enterprises is determined by the effectiveness of transforming firms' resources into products	.834	-.121
A successful small sized enterprises is a balanced alignment of the owners' abilities	.753	-.019
Environmental opportunities affect the transition of the small scale into medium sized firm in the economy.	.586	.139
Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm	.899	-.107
Many small scale enterprises don't do well due to the holdup of decision-making process	.463	.538
Monetary management of the majority of the small scale enterprises is established to be very feeble	-.011	.896
Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises	-.098	.593
Small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises	-.006	.843

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Source: Author (2016)

4.7.3 Factor Analysis for Environmental Factors

Communality was done in the study to determine the shared relationship of each factor with other factors under environmental factors. Findings shown in Table 4.22 below indicate that, the transition of small scale enterprises into medium scale enterprises are affected by its business climate had the greatest communality or shared relationship with other factors (80.9%), followed by technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition (70.1%) while competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises formed the least shared relationship with other variables at 31.7%.

Table 4.22 Communalities for Environmental Factors

	Initial	Extraction
The transition of small scale enterprises into medium scale enterprises are affected by its business climate	1.000	.809
The legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm	1.000	.637
Competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises	1.000	.317
Governments through their legal avenues should protect small scale enterprises against unfair competition	1.000	.583
High tax rates are the main obstacle on small business growth to medium size enterprises	1.000	.595
Governments should ensure adequate and consistent amenities (water & power) to enhance growth of small scale enterprises	1.000	.399
A good telecommunication infrastructure system would greatly help the small firm transition to medium firm	1.000	.673
New technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises	1.000	.661
Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition	1.000	.701

Extraction Method: Principal Component Analysis.

Source: Author (2016)

Total variance taking all the factors for environmental factors was presented in Table 4.23 below. Factor extraction was carried out via the analysis of principle component. Eigen values were used to measure the variation amount in the total sample as accounted by each factor. A factor with low Eigen value implies that it's contributing less to the total variance of the variables and thus may be ignored. According to Table 4.23, the first factor accounts for 18.603% of the total variance, the second factor accounts for 15.390% of the variation, third factor accounts for 13.106% while the fourth factor accounts for 12.634 of the total variation.

Table 4.23 Total Variance Explained for Environmental Factors

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.674	18.603	18.603	1.674	18.603	18.603
2	1.385	15.390	33.993	1.385	15.390	33.993
3	1.180	13.106	47.098	1.180	13.106	47.098
4	1.137	12.634	59.732	1.137	12.634	59.732
5	.975	10.834	70.566			
6	.857	9.525	80.091			
7	.744	8.267	88.358			
8	.611	6.784	95.142			
9	.437	4.858	100.000			

Extraction Method: Principal Component Analysis.

Source: Author (2016)

The study conducted KMO and Bartlett's tests for environmental factors and found KMO value of 0.454 and Bartlett's test, $\chi^2(36, N = 147) = 93.978, p = .000$. The results are presented in Table 4.24 below.

Table 4.24 KMO and Bartlett's Test for Environmental Factors

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.454
	Approx. Chi-Square	93.978
Bartlett's Test of Sphericity	df	36
	Sig.	.000

Source: Author (2016)

A scree plot was also obtained. The scree plot for organizational characteristics showed that 4 components had Eigen value greater than one. This finding confirmed the results for total variance explained. The results are presented in figure 4.3 below.

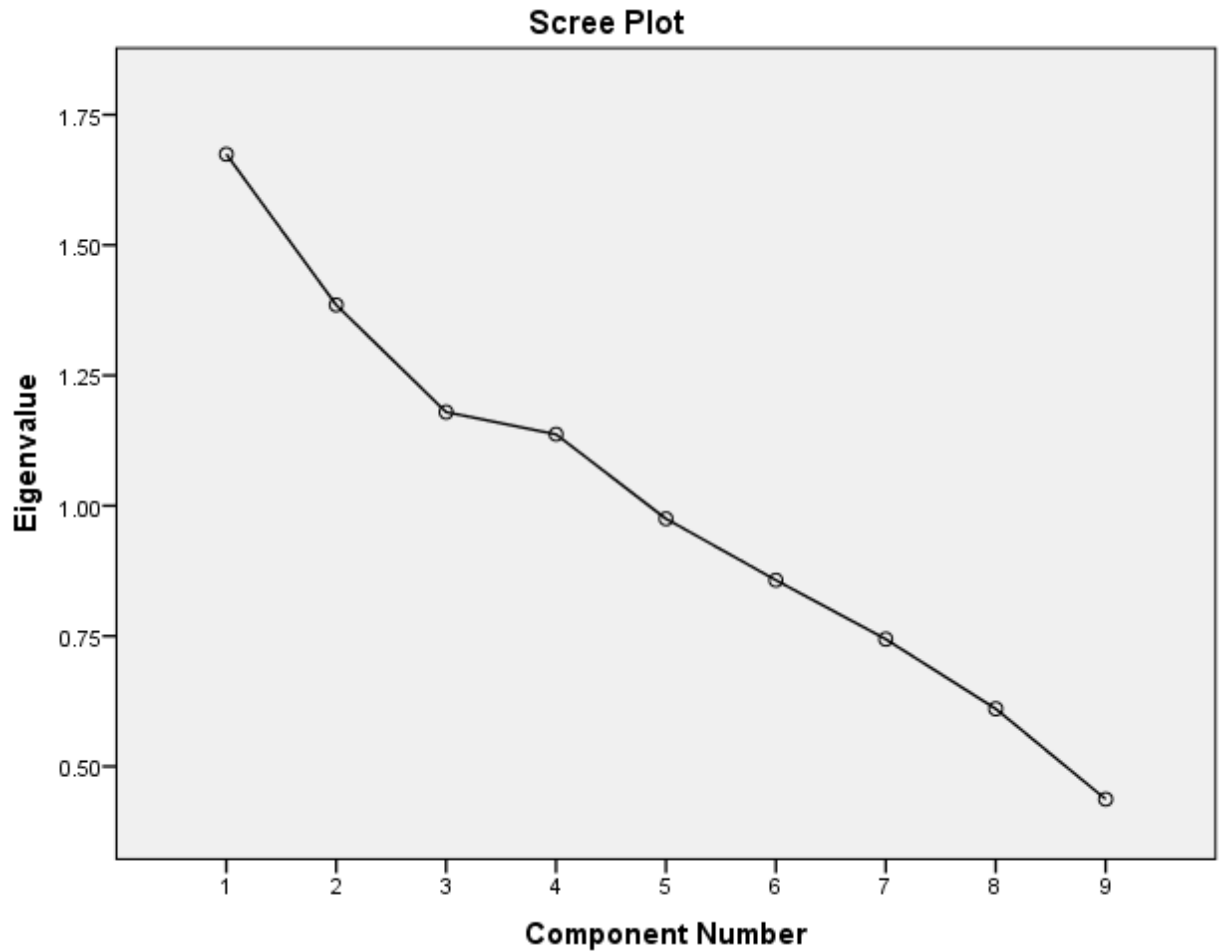


Figure 4.3 Scree Plot for Environmental Factors

Source: Author (2016)

A component matrix table was obtained for organizational factors. Results are as shown in Table 4.25 below. Four components were extracted. Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition had the highest factor loading of 77.3% in the first component, the legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm had the highest factor loading in the second component with 57.6%, new

technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises had the highest factor loading in the third component with 50.2% while the transition of small scale enterprises into medium scale enterprises are affected by its business climate formed the highest factor loading in the fourth component with 73%. Results are as shown below.

Table 4.25 Component Matrix for Environmental Factors

	Component			
	1	2	3	4
The transition of small scale enterprises into medium scale enterprises are affected by its business climate	.241	.266	.385	-.730
The legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm	.161	.576	-.500	.173
Competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises	-.148	.424	.282	.189
Governments through their legal avenues should protect small scale enterprises against unfair competition	-.543	-.349	.323	.250
High tax rates are the main obstacle on small business growth to medium size enterprises	-.186	.464	.234	.538
Governments should ensure adequate and consistent amenities (water & power) to enhance growth of small scale enterprises	.356	-.410	-.320	.047
A good telecommunication infrastructure system would greatly help the small firm transition to medium firm	.425	-.476	.414	.308
New technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises	.577	.269	.502	.067
Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition	.773	-.005	-.133	.292

Extraction Method: Principal Component Analysis.

a. 4 components extracted.

Source: Author (2016)

A rotated component matrix table was obtained for organizational factors. Results are as shown in Table 4.26 below. Four components were extracted. A good telecommunication infrastructure system would greatly help the small firm transition to medium firm had the highest factor loading of 70.9% in the first component, the legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium

firm had the highest factor loading in the second component with 75.7%, high tax rates are the main obstacle on small business growth to medium size enterprises had the highest factor loading in the third component with 72.2% while the transition of small scale enterprises into medium scale enterprises are affected by its business climate formed the highest factor loading in the fourth component with 89.9%. Results are as shown below. `

Table 4.26 Rotated Component Matrix for Environmental Factors

	Component			
	1	2	3	4
The transition of small scale enterprises into medium scale enterprises are affected by its business climate	-.004	.020	-.002	.899
The legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm	-.086	.757	.180	-.158
Competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises	-.002	.026	.560	.054
Governments through their legal avenues should protect small scale enterprises against unfair competition	-.153	-.661	.185	-.298
High tax rates are the main obstacle on small business growth to medium size enterprises	.086	.068	.722	-.249
Governments should ensure adequate and consistent amenities (water & power) to enhance growth of small scale enterprises	.252	.100	-.534	-.203
A good telecommunication infrastructure system would greatly help the small firm transition to medium firm	.709	-.381	-.131	-.088
New technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises	.643	.099	.287	.395
Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition	.695	.419	-.184	-.095

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Source: Author (2016)

Correlation Matrix was obtained for all variables of the study. The findings are as shown in Table 4.27 below.

Table 4.27 Correlation Matrix

	The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises	The growth of small sized enterprises is determined by the effectiveness of transforming firms' resources into products	The transition of small scale enterprises into medium scale enterprises are affected by its business climate
Correlation	1.000	-.054	-.006
	-.054	1.000	-.014
	-.006	-.014	1.000

Source: Author (2016)

4.8 Correlation Analysis Results

The study sought to determine the relationship between Organizational Characteristics, Organizational Factors and Environmental Factors with Transition of businesses. The correlation analysis results are presented in Table 4.28 below.

Table 4.28 Correlation Analysis Results

		Transition	Organizational Characteristics	Organizational Factors	Environmental Factors
Transition	Pearson Correlation	1	.829**	.759**	.722**
	Sig. (2-tailed)		.009	.000	.012
Organizational Characteristics	Pearson Correlation	.829**	1	.753**	.681**
	Sig. (2-tailed)	.009		.000	.000
Organizational Factors	Pearson Correlation	.759**	.753**	1	.918**
	Sig. (2-tailed)	.000	.000		.000
Environmental Factors	Pearson Correlation	.722**	.681**	.918**	1
	Sig. (2-tailed)	.012	.000	.000	

Source: Author (2016)

The study sought to establish correlation between the dependent variable and each of the independent variables. The dependent variable for the study was transition while the independent variables Organizational Characteristics, Organizational Factors and Environmental Factors. Correlation which is a statistical technique employed in this study to show the strength of pairs of variable is used to examine the association between the independent variables above with the dependent variable.

The correlation test was conducted at the 5% level of significance with a 2-tailed test. Thus, the significance critical value is 0.025 above which the association is deemed to be insignificant and vice versa. The strength of the correlation is measured based on the

Pearson correlation scale. The correlation coefficient ranges from -1.0 to +1.0 and the closer the coefficient is to +1 or -1, the more closely the two variables are related.

The correlation analysis results obtained in the study show that all independent variables had a strong positive and significant correlation with business transition. Organizational Characteristics and business transition were strongly correlated, $r = .829$, $p = .009$. Also, Organizational Factors and business transition were strongly correlated, $r = .759$, $p = .000$. In addition, Environmental Factors and business transition were also strongly correlated, $r = .722$, $p < .012$. This shows a strong positive association between the study variables.

4.9 Regression Analysis Results

The study also sought to determine the relationship between the study variables (Organizational Characteristics, Organizational Factors and Environmental Factors and Business Transition) using regression analysis. Results are as shown below.

Table 4.29 Regression Model Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.705 ^a	.497	.454	.52062

a. Predictors: (Constant), Organizational Characteristics, Organizational Factors, Environmental Factors

Source: Author (2016)

As illustrated in table 4.29 above the predictor variables (Organizational Characteristics, Organizational Factors and Environmental Factors) explain 70.5% of the variation in Business Transition. This is as given by the R coefficient with a value of 0.705. Thus, based on this coefficient, other factors that were not considered in this research contribute to 29.5% ($1 - 0.705 = 0.295$ expressed as percentage) of the variability

in business transition. From the table also, the results presented are 49.7% reliable as indicated by the R Square coefficient. This shows that, had the study been conducted using the entire population rather than a sample or could the sample have been altered with to replace some of the respondents selected, the results would have a variance of 50.3% from the current results.

Table 4.30 ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.569	3	3.142	11.593	.000 ^b
	Residual	12.739	47	.271		
	Total	25.308	50			

a. Dependent Variable: Business Transition

b. Predictors: (Constant), Organizational Characteristics, Organizational Factors, Environmental Factors

Source: Author (2016)

As illustrated in table 4.30 above, the significance value in testing the reliability of the model for the relationship between Organizational Characteristics, Organizational Factors and Environmental Factors with Business Transition was obtained as 0.000 which is less than 0.05 the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between dependent (business transition) and independent variables of the study (Organizational Characteristics, Organizational Factors and Environmental Factors). The F value from the table is 11.593 indicating a significant model for the relationship as given by the regression coefficients. This shows that the overall model was statistically significant and reliable in explaining the influence of the predictor variables.

Table 4.31 Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.329	.308		4.308	.000
Organizational Characteristics	.111	.104	.168	1.061	.014
Organizational Factors	.319	.107	.506	2.983	.005
Environmental Factors	.177	.172	.127	1.031	.008

a. Dependent Variable: Business Transition

Source: Author (2016)

The findings shown in table 4.31 indicate that all the variables had a positive and significant influence on business transition. According to the results, Organizational Characteristics had a significant influence on business transition as shown by the coefficient ($\beta = 0.111$, $t = 1.061$, $p > 0.014$). Organizational Factors also showed a significant influence on business transition with the coefficients ($\beta = 0.319$, $t = 2.983$, $p > 0.005$) indicating a positive effect on project success. Environmental Factors as well showed a significant influence with a coefficient of ($\beta = 0.177$, $t = 1.031$, $p > 0.008$) showing a positive and significant relationship.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the findings and conclusion drawn thereof of the study based on the objective of the study which was to determine the factors affecting transition of small businesses to medium organizations in Kenya: A survey of the clearing and forwarding companies in Mombasa. The researcher then presents the major limitations of the study and recommendations for the research and for the policy change and practice.

5.2 Summary of the Findings

This section presents a summary of the findings as per the research objectives and the research questions. A total of 221 questionnaires were administered and the study managed to obtain 147 completed questionnaires representing 67% response rate. The questionnaires contained questions that addressed the objectives of the study.

5.2.1 Effect of Organization Characteristics on the Transition of Small Businesses to Medium Organization

The study established that the characteristics of an organization affect transition of small business to medium sized organizations to a great extent. The study also found out that the characteristics of an organization often reveal the growth pattern of small to medium sized enterprises. Small firms were characterized by having a single product or service and a low number numbers of employees. The study established that transition is characterized by the organization having grown in terms of number of staff, number of

products being manufactured, increased distribution lines, increased presence in the market and profits. The small organizations were also characterized by a lot of stresses as the management tries to cover the costs of running it. Positive leadership exhibited by the management team helped the small enterprise transit to medium sized enterprises, small organization able to create structures to control the whole organization were also able to create an enabling climate for the transition process to take place. Transition too depends on the knowledge and skills that the people possess to enhance their performance at work thus the need to employ professional staffs.

5.2.2 Effect of Organizational Factors on Transition of Small Businesses to Medium Organization

Further, the study revealed that the growth of small sized enterprises was determined by the effectiveness of transforming firms' resources into products. A successful small sized enterprises was a balanced alignment of the owners' abilities, environmental opportunities affect the transition of the small scale into medium sized firm in the economy and uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm. The study further found out that many small scale enterprises do not do well due to the holdup of decision-making process. The monetary management of the majority of the small scale enterprises was established to be very feeble and also a lack of access to finances inhibited the growth of small scale enterprises to medium enterprises. There is also a need for the small scale enterprises to prepare long term tactics that would enable them expand to medium enterprises. Thus the study established that to a great extent, organizational factors have an influence in the transition of small scale enterprises into medium organizations.

5.2.3 Effect of Environmental Factors on Transition of Small Businesses to Medium Organization

The study further established that the transition of small scale enterprises into medium scale enterprises are affected by its business climate and the unfavorable legal framework which negatively impacts on small firm transition to medium firm. Competition was also one of the major hindrances to the growth of small size enterprises into medium size enterprises. Competition could be from the multinational and large enterprises that have more resources who can afford to undercharge. The governments through their legal avenues should protect small scale enterprises against unfair competition. High tax rates are one of the main obstacles on small business growth to medium size enterprises, The study further established that governments should ensure adequate and consistent amenities (water and power) to enhance growth of small scale enterprises, a good telecommunication infrastructure system would greatly help the small firm transition to medium firm, new technologies also improves efficiency enabling greater production, leading to high profits for small scale enterprises. Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition. Quite clearly therefore the environmental factors influence the transition of small scale enterprises into medium organizations in Kenya to a great extent.

5.3 Discussion of the Findings

The study found out that the characteristics of an organization often reveal the growth pattern of small to medium sized enterprises, small firms were characterized by having a single product or service and small organization were characterized by a lot of stresses as the management tries to cover the costs of running it. This finding concurs with that of

Alberola, Julian and Garcia-Fornes (2012) that transition is characterized by the organization having grown in terms numbers of staff, number of products being manufactured, increased distribution lines, increased presence in the market and profits. Positive leadership exhibited by the management team helped the small enterprise transit to a medium sized enterprise, transition from small to medium enterprise were characterized by an increase in numbers of employees, small organization must create structures to control the whole organization in enabling its transition process, transition depends on the knowledge and skills the people possess to enhance their performance at work and transition from small to medium enterprise is characterized by employing professional staffs. This finding is consistent with that of Ceptureanu (2015) that the key character that would propel the organization to the next level is the positive leadership exhibited by the management team at the organization.

The study also established that the growth of small sized enterprises was determined by the effectiveness of transforming firms' resources into products and a successful small sized enterprises was a balanced alignment of the owners' abilities. This finding is in agreement with that of Ruirie (2012) that the growth of small scale and medium scale (SMEs) can be determined by the effectiveness and capabilities of the company's resources such as labor, capital and knowledge acquired, organized and transformed into products and services through the activities of the organization, practices and structures. The study also established that uneducated and untrained managers had contributed to low chances of transition of the small to medium sized firm, many small scale enterprises do not do well due to the holdup of decision-making process, monetary management of the majority of the small scale enterprises was established to be very

feeble, lack of access to finances inhibited the growth of small scale enterprises to medium enterprises and small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises. This finding is in line with that of Lee (2008) that promoting company culture should make growth and stability of SMEs easier, thus contributing to establishing a shared organizational vision, commitment in terms of common projects, team work, autonomy in decision making, and a stimulus to continuous.

The study also reveals that the transition of small scale enterprises into medium scale enterprises are affected by its business climate and the legal framework was unfavorable to businesses thus it negatively impacts on small firm transition to medium firm, this concurs with the finding of Brown (2007) that the growth and transition of small scale enterprises into medium scale enterprises are affected by its business climate, legal and regulatory framework. The study also reveal that competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises, governments through their legal avenues should protect small scale enterprises against unfair competition, high tax rates are the main obstacle on small business growth to medium size enterprises, governments should ensure adequate and consistent amenities (water & power) to enhance growth of small scale enterprises, a good telecommunication infrastructure system would greatly help the small firm transition to medium firm, new technologies improves efficiency enabling greater production leading to high profits for small scale enterprises and technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition. This finding is consistent with that of International Finance Corporation (IFC 2013) that the top obstacles to their

operations are a poor investment climate, especially red tape, high tax rates, and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply.

5.4 Conclusions

The study concludes that the organizational characteristic of an enterprise was affected by a number of factors like size of the business, the nature of the business, the diversity of the business, the characteristics of the market, the characteristics of the strategy and the future plans of the organizations. A flexible organizational structure enables the organization to quickly and effectively respond to the changes in the market. To keep pace with the changing business setting, organizations are giving a lot of importance to its technical capabilities.

The study conclude that the firm-specific factors such as entrepreneur characteristics, poor management competence, lack of skilled managers, deficiencies in marketing strategies and low technological capacities are prominent factors responsible for limited growth of small scale businesses into medium organization.

The study concluded that unfair competition from the informal sector, cumbersome and costly bureaucratic procedures, laws, policies, and regulations, an inefficient tax system, a lack of access to industrial real estate, a lack of access to external financing and low human resources capacities are the key business environmental factors affecting transition of small scale businesses into medium organization. On the other hand, entrepreneurial characteristics, low managerial capacities, lack of marketing skills, and low technological capacities are the main internal factors responsible for the unstable and limited growth of small scale businesses into medium organization.

5.5 Recommendation

The study recommends that in order for small scale business to transit to medium organization, there should be diversification of product or service and an increase in numbers of employees. They should create structures to control the whole organization in enabling its transition process, enhance knowledge and skills by employing professional staff and have efficient management team.

The study further recommends that small scale businesses should efficiently transform firms' resources into products by having quick decision-making process and proper monetary management. The study also recommends that small scale businesses should prepare for long term tactics that would enable them to expand to medium enterprises.

The study further recommends that governments through their legal avenues should protect small scale enterprises against unfair competition and high tax rates which are the main obstacle on small scale business growth to medium size enterprises and ensure adequate and consistent amenities and infrastructure to enhance growth of small scale enterprises. This study recommends that small scale businesses should adopt long term plans for survival and growth this will ensure that the SMEs survive.

5.6 Limitation of the Study

This researcher experienced various limitations for instance the fear by respondents to provide study information. In this regard the researcher assured all respondents that the information gathered would be used for academic purposes only. The researcher also obtained an introduction letter from the University so as to introduce himself to the

respondents. It was also difficult to access data because some respondents failed to give adequate information. However, the researcher assured them that the information was confidential and would be used only for academic purpose.

The researcher was faced with data collection challenges owing to the nature of operations of the target respondents. The respondents would be away at the port clearing their clients' goods and would not delegate anyone else to fill in the forms. The researcher distributed the research instruments and then picked later this gave the respondents enough time to fill in important details.

5.7 Area for Further Research

This study concentrated on selected small scale business in clearing and forwarding in Mombasa. Additional studies should be carried out to establish how Kenyan small scale businesses are faring on and the challenges they are facing as they transit to medium size enterprises. More emphasis should be put on the following factors: Infrastructure, environment related problems, diversity of taxes and levies, unfair competition, marketing related issues and business opportunities and diversification.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

This questionnaire is administered for the academic purposes and your response will be treated in confidential.

Dear Respondent,

I am a post graduate student of KCA University. In partial fulfillment of the requirements for the award of a MBA in Corporate Management at the School of Business and Public Management, I am carrying out a research study on the topic: **FACTORS AFFECTING TRANSITION OF SMALL SCALE BUSINESSES TO MEDIUM ORGANIZATIONS IN KENYA: A SURVEY OF CLEARING AND FORWARDING SECTOR IN MOMBASA.**

Kindly fill the attached questionnaire by ticking [] the response that best suits your understanding of each question.

Thank you for your cooperation.

Yours sincerely,

David Ongalo

APPENDIX II: QUESTIONNAIRE

Please fill out the questionnaire on: FACTORS AFFECTING TRANSITION OF SMALL SCALE BUSINESSES TO MEDIUM ORGANIZATIONS IN KENYA: A SURVEY OF CLEARING AND FORWARDING SECTOR IN MOMBASA.

PART A: BACKGROUND INFORMATION

1. What is your gender?

Male [] Female []

2. What is your highest level of education attained?

Certificate [] Diploma []

Bachelors Degree [] Masters []

PhD []

3. How long have you worked at this company?

1 -3 years [] 4-6 years []

6-9 years [] 10 years and above []

4. What is your title within this firm?

Managers/Owners []

Operations managers []

Other staff []

PART B: ORGANIZATIONAL CHARACTERISTICS

5. Below are several statements on organizational characteristics and its impact in transition of a small scale business into medium organization in Kenya. Kindly indicate the extent to which you agree or disagree with these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
The characteristics of an organization often reveal the growth pattern of small to medium sized enterprises					
Small firms are characterised by having a single product or service					
Small organization is characterized by a lot of stresses as the management tries to cover the costs of running it					
Positive leadership exhibited by the management team would help the small enterprise transit to a medium sized enterprise					
Transition from small to medium enterprise is characterized by an increase in numbers of employees					
The small organization must create structures to control the whole organization in enabling its transition process					
Transition depends on the knowledge and skills the people possess to enhance their performance at work					
Transition from small to medium enterprise is characterized by employing professional staffs					

6. In general terms, to what extent has organizational characteristics influenced the transition of small scale enterprises into medium organizations in Kenya?

Very great extent []
 Great extent []
 Moderate extent []
 Little extent []
 No extent []

PART C: ORGANIZATIONAL FACTORS

7. Below are several statements on organizational factors and its impact in transition of a small scale business into medium organization in Kenya. Kindly indicate the extent to which you agree or disagree with these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
The growth of small sized enterprises is determined by the effectiveness of transforming firms’ resources into products					
A successful small sized enterprises is a balanced alignment of the owners’ abilities					
Environmental opportunities affect the transition of the small scale into medium sized firm in the economy.					
Uneducated and untrained managers have contributed to low chances of transition of the small to medium sized firm					
Many small scale enterprises do not do well due to the holdup of decision-making process					
Monetary management of the majority of the small scale enterprises is established to be very feeble					
Lack of access to finances, inhibits the growth of small scale enterprises to medium enterprises					
Small scale enterprises need to prepare for long term tactics that would enable them expand to medium enterprises					

8. In general terms, to what extent has organizational factors influenced the transition of small scale enterprises into medium organizations in Kenya?

Very great extent []

Great extent []

Moderate extent []

Little extent []

No extent []

PART D: ENVIRONMENTAL FACTORS

9. Below are several statements on environmental factors and its impact in transition of a small scale business into medium organization in Kenya. Kindly indicate the extent to which you agree or disagree with these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
The transition of small scale enterprises into medium scale enterprises are affected by its business climate					
The legal framework is unfavorable to businesses thus it negatively impacts on small firm transition to medium firm					
Competition as one of the major hindrances to the growth of small size enterprises into medium size enterprises					
Governments through their legal avenues should protect small scale enterprises against unfair competition					
High tax rates are the main obstacle on small business growth to medium size enterprises					
Governments should ensure adequate and consistent amenities (water and power) to enhance growth of small scale enterprises					
A good telecommunication infrastructure system would greatly help the small firm transition to medium firm					
New technologies improves efficiency enabling greater production, leading to high profits for small scale enterprises					
Technological capabilities benefit small sized firms by reducing time wastage costs thus enabling their transition					

10. In general terms, to what extent has environmental factors influenced the transition of small scale enterprises into medium organizations in Kenya?

Very great extent []
 Great extent []
 Moderate extent []
 Little extent []
 No extent []

PART E: TRANSITION FROM SMALL TO MEDIUM SIZED ENTERPRISES

11. To what extent has the following factors affected the transition of your business to medium size. Kindly indicate the extent to which you agree or disagree with these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
The number of product has increased					
The turnover has increased					
The number of employees has increased					

12. In general terms, to what extent has the factors influenced the transition of small scale enterprises into medium organizations in Kenya?

- Very great extent []
- Great extent []
- Moderate extent []
- Little extent []
- No extent []