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Effect of Business Regulatory Procedures on Growth of Youth Owned Small Medium Enterprises in Kenya: A Case Study of Ruiru Sub County

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Abstract:

Studies in Kenya regarding registration and certification of SMEs demonstrate a complex and tedious process that require money and time. This study aims at assessing the influence of registration procedures on growth of youth owned SMEs in Ruiru Sub-County, Kiambu County in Kenya. A descriptive survey design was adopted for this study. This study targeted all the 571 SMEs run by Youths in Ruiru town and have benefited from the Youth Development Fund. A sample size of 235 respondents operating in Ruiru Sub-County market, Kiambu County, Kenya was selected. Questionnaires were administered to the youths who were sampled. Priori coding and descriptive statistics was utilized in analyzing the data collected. Analyzed data was then presented using appropriate frequency tables illustrating the registration factors that influence the growth of Small and Medium Enterprises in Kenya with a specific reference to SMES within Ruiru Sub-County market. From the study findings, the key steps that the SMEs were supposed to go through so as to begin operations in Ruiru Sub-County are business permit from the local authority, business name registration, PIN from Kenya Revenue Authority and stamp duty registration. The cost of the registration procedures is very high and highly complex while the process of obtaining approvals for doing business is very challenging in Ruiru Sub-County. From the study findings it can be concluded that registration procedures influence the growth of youth owned SMEs in Ruiru Sub-County.

Keywords: Business registration, youth owned, complexity

1. Introduction

Any business is required to comply with rules that are set for the specific type of business so as to operate without difficulties and interference from either the government or local authorities where the business is situated. Globally, entrepreneurs are expected to possess a wide variety of licenses and trade permits for legitimacy. However, Nteere (2012) notes that, though many governments have made significant strides in reforming the legal and regulatory framework, some existing laws and regulations still remain a hindrance to the growth of SMEs.

Abor and Quartey (2010) while studying the registration procedures for SMEs in Ghana cited the complexity of SMEs' registration and indicated that 127 days are needed to deal with licensing and registration alone while 16 procedures should be followed while registering a business in Ghana. The registration process in South Africa is even more complicated with 176 days required for licensing issues with 18 procedures in place.

Studies in Kenya regarding registration and certification of SMEs demonstrate a complex and tedious process that require money and time. This at times forces the entrepreneur to evade some of the procedures, which in the longrun ends up being costly due to the penalties involved. Muraguri (2010) states that SMEs in Kenya are required to adhere with the Business Names Act and register a business name, a process that takes 3 days and costs 100 shillings per reservation. In addition, any entrepreneur registering a business is required to pay stamp duty valued at 1% of the nominal capital of the business in addition to 2005 shillings for memorandum and articles and 100 shillings as bank commission (Nduna, 2017). Depending on the business type being registered, the entrepreneur might be required to sign a declaration of compliance form before a commissioner of oaths at a cost of 200 shillings; a process that takes one day (Muraguri, 2010). The entrepreneur is also required to pay for a business permit from the local authority whose cost varies depending on the type of business whereby in most cases the minimum cost is 5000 shillings (Nduna, 2017).

1.1. Statement of the Problem

The Kenya National Bureau of Statistics (2016) Economic Survey outlines that the SME sector contributed to over 50% of new jobs in the year 2015. Despite this contribution, Kenya National Bureau of Statistics (2010) state that three

out of five SMEs fail within a short time after their start-ups due to various reasons. Most of these SMEs have a potential to expand and employ an additional one to five people compared to a projected growth into medium-size enterprises to employ 50 to 100 persons. (Fadahunsi, 2012). In an effort to address the challenges, the Kenyan government has come up with several initiatives especially on financing of SMEs. Despite these efforts, youth enterprises continue to face challenges of growth and expansion. Bett (2016) studied the factors influencing SME growth for youth owned enterprises and found out access to finance as the major challenge. The research further demonstrated access to information and high interest rates as other challenges to youth owned SMEs in Bomet County. While undertaking a study on youth owned and operated SMEs in Kasipul constituency, Okello (2015) cited access to finance as a reason for poor growth of youth owned SMEs. However, most studies have continually addressed the issue of access to finances by the youth but have failed to address other factors that are key to the expansion and growth of these SMEs. Therefore, this study seeks to evaluate the influence of registration procedures on growth of youth owned enterprises in Ruiru Sub-County, Kiambu County in Kenya.

2. Methods

A descriptive survey design was adopted for this study. This study targeted all the 571 SMEs run by Youths in Ruiru town and have benefited from the Youth Development Fund. The study applied Yamane (1967) formula to select a sample size of 235 respondents operating in Ruiru Sub-County market, Kiambu County, Kenya. Questionnaires were administered to the youths who were sampled. Priori coding and descriptive statistics was utilized in analyzing the data collected. Analyzed data was then presented using appropriate frequency tables illustrating the registration factors that influence the growth of Small and Medium Enterprises in Kenya with a specific reference to SMES within Ruiru Sub-County market.

3. Results

3.1. Registration Steps Required to Go through Before Starting SME in Ruiru Sub-County

The respondents were required to indicate some of the registration steps they are required to go through before starting an SME in Ruiru Sub-County. In this case, they were required to tick more than once and the response is as shown in Table 1.

Procedure	Frequency	Percent
business name	176	87.1
business permit	202	100
stamp duty	133	65.8
incorporation	65	32.2
PIN	168	83.2

Table 1: Registration Steps for Starting an SME

Source: Researcher (2019)

Among the key steps that the SMEs were supposed to go through so as to begin operations in Ruiru Sub-County are business permit from the local authority (100.0%), business name registration (87.1%), PIN from KRA (83.2%) and stamp duty registration (65.8%). Not many SMEs responded on the need for incorporation as evidence by a response of 32.2% of the total respondents. These results are in line with Nduna (2017) who stated any business planning to start operations in Kenya must comply with rules that have been set for specific business type, ranging from central government regulations to regulations set by the local authority from whose locality the business intends to operate.

3.2. Nature of Cost of the Registration Procedures

The respondents were required to indicate the nature of cost of the registration procedures and the response was as follows in Table 2.

Nature Of Cost	Frequency	Percent	Cumulative Percent
very low	6	3	3
Low	13	6.4	9.4
High	81	40.1	49.5
very high	102	50.5	100.0
Total	202	100.0	

Table 2: Cost of Registration Procedures

Source: Researcher (2019)

From the findings in Table 2 above, it is evident that 50.5% of the respondents indicate that the cost of the registration procedures is very high, 40.1% indicate that it is high, 6.4% and 3.0% indicate that it is low and very low respectively. According to Muraguri (2010), depending on the business type being registered, the entrepreneur might be required to adhere to some registration steps at a cost and a process that takes time that would have been invested in expanding and budding the business.

3.3. Complexity of the Registration Procedures

The respondents were also required to indicate the complexity of the registration procedures and the response was as follows in Table 3.

Nature of Complexity	Frequency	Percent	Cumulative Percent
Not complex	9	4.4	4.4
Moderately complex	17	8.4	12.8
Highly complex	106	52.5	65.3
very high complexity	70	34.7	100.0
Total	202	100.0	

Table 3: Registration Procedures' Complexity

Source: Researcher (2019)

According to a response of 52.5%, the registration procedures are highly complex, 34.7% indicate that the procedures have very high complexity, 8.4% and 4.4% indicate that the procedures are moderately complex and not complex respectively. The results are in line with Mwobobia (2012) who studied the challenges facing young women entrepreneurs in Kenya and found out that the registration procedures need fulfilling more regulations and statutory requirements that are difficult to be met by the younger generation due to their complexity.

3.4. Process of Obtaining Investment Approvals

The respondents were required to indicate whether the process of obtaining approvals is challenging or not. In addition, in an open ended question, they were required to explain the reason for their response. The results are as shown in table 4.

Level	Frequency	Percent	Cumulative Percent
Not challenging	4	2.0	2.0
Challenging	74	36.6	38.6
Very challenging	124	61.4	100.0
Total	202	100.0	

Table 4: Level of Challenge in Obtaining Investment Approvals

Source: Researcher (2019)

According to the responses in Table 4, 61.4% of youths owning SMEs in Ruiru Sub-County indicate that the process of obtaining approvals is very challenging, 36.6% indicate that it is challenging while 2.0% indicate that it is not challenging. An analysis on the open ended question in this case regarding the reason why it is challenging to get approvals highlighted the cause being corruption. Most of the respondents cited that they have to pay a bribe for approvals and quick facilitation of approval letters from the relevant authority. The result findings are in line with Sharu and Guyo (2015) study that indicated that one of the major factors influencing the growth of youth owned SMEs in Nairobi County is corruption especially during registration procedures whereby most SMEs have to bribe registration officials for licenses, approvals and permits hence making the process of registration very challenging.

3.5. Response on Statements Regarding the Effect of Registration Procedures on Growth of Youth Owned SMEs

Several statements were presented to the respondents regarding the effect of registration procedures on growth of youth owned SMEs. On a likert scale of strongly agree to strongly disagree, the response is as indicated in Table 5.

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean
The requirement to possess a wide variety of licenses and trade permits for legitimacy affects the cost of starting a business	2.0% (4)	4.9% (10)	9.4% (19)	54.4% (110)	29.2% (59)	4.040
The requirement to possess a wide variety of licenses and trade permits for legitimacy affects the opening of more branches and businesses by the youth	5.9% (12)	7.9% (16)	4.5% (9)	52.0% (105)	29.7% (60)	3.916
The complexity of the licensing procedures forces the entrepreneur to evade some of the procedures, which in the longrun ends up being costly due to the penalties involved and may lead to business closure by authorities	4.4% (9)	4.4% (9)	13.4% (27)	44.1% (89)	33.7% (68)	3.980
The cost of the registration requirements is a hindrance to many youths opening businesses in Ruiru Sub-County	1.0% (2)	1.0% (2)	3.9% (8)	49.0% (99)	45.0% (91)	4.361
The cost of many registration requirements consumes capital that would have been invested for the expansion of the business	4.9% (10)	4.4% (9)	5.9% (12)	44.6% (90)	40.1% (81)	4.104

Table 5: Level of Agreement on Statements Regarding the Effect of Registration Procedures on SMEs' Growth

Source: Researcher (2019)

From table 5, 29.2%, 54.4%, 9.4%, 4.9% and 2.0% of the respondents strongly agree, agree, are neutral, disagree and strongly agree respectively that the requirement to possess a wide variety of licenses and trade permits for legitimacy affects the cost of starting a business. In addition, 29.7%, 52.0%, 4.5%, 7.9% and 5.9% of the respondents strongly agree, agree, are neutral, disagree and strongly disagree that the requirement to possess a wide variety of licenses and trade permits for legitimacy affects the opening of more branches and businesses by the youth. On the statement "The complexity of the licensing procedures forces the entrepreneur to evade some of the procedures, which in the longrun ends up being costly due to the penalties involved and may lead to business closure by authorities", 33.7%, 44.1%, 13.4%, 4.4% and 4.4% strongly agree, agree, are neutral, disagree and strongly disagree respectively. A combined total of 94.0% of the total respondents agree and strongly agree that the cost of the registration requirements is a hindrance to many youths opening businesses in Ruiru Sub-County. Moreover, 40.1% of the respondents strongly agree, 44.6% agree, 5.9% are neutral, 4.4% disagree and 4.9% strongly disagree the cost of many registration requirements consumes capital that would have been invested for the expansion of the business.

According to Nteere (2012), various existing laws and regulations are hostile for the growth of the SME sector. Licensing and registration costs add up to contribute to the high start-up costs for SMEs thus imposing excessive and unnecessary burdens on SMEs. Muraguri (2010) states that most SMEs find the registration processes as lengthy and time consuming leading to poor compliance which may end up with closure of these businesses by the regulatory authorities.

3.6. Overall Effect of Registration Procedures on Growth of Youth Owned SMEs

Based on the response on the statements regarding the influence of registration procedures on growth of youth owned SMEs, the responses were ranked on whether they implied an influence on growth of youth owned SMEs or not. This was based on the average; the responses below average implied that registration procedures did not have an effect on growth of SMEs while those equal or above average implied that the registration procedures had an influence on growth of youth owned SMEs. The results for this analysis were as shown in table 6.

Overall Effect of Registration Procedures on Growth	Frequency	Percent	Cumulative Percent
Has an effect	170	84.2	84.2
Does not have an effect	32	15.8	100.0
Total	202	100.0	

Table 6: Overall Effect of Registration Procedures on SMEs Growth
Source: Researcher (2019)

Overall, 84.2% of the youths owning SMEs in Ruiru Sub-County believe that the registration procedures have an influence on growth of youth owned SMEs while 15.8% believe that registration procedures do not have an influence on growth of youth owned SMEs. This agrees with Nteere (2012) who notes that, though many governments have made significant strides in reforming the legal and regulatory requirements when registering an SME, some existing laws and regulations still remain a hindrance to the growth of SMEs.

4. Conclusion

The key steps that the SMEs were supposed to go through so as to begin operations in Ruiru Sub-County are business permit from the local authority, business name registration, PIN from Kenya Revenue Authority and stamp duty registration. The cost of the registration procedures is very high and highly complex while the process of obtaining approvals for doing business is very challenging in Ruiru Sub-County. From the study findings it can be concluded that registration procedures influence the growth of youth owned SMEs in Ruiru Sub-County.

5. Recommendations

From the study findings it can be concluded that the Kenyan governments, that is, national government and county governments, should come up with registration procedures that are friendly in terms of cost, steps and requirements for ease of doing business by the youth owned SMEs. Further studies should be conducted to analyze the role of youth owned SMEs in the growth of the economy and factors that limits the Growth of youth owned SMEs in the rural and urban areas of Kenya.

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