FIRM-LEVEL DETERMINANTS OF MANUFACTURING FIRMS KENYA: 2002-2011

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DECLARATION AND APPROVAL

This thesis is my original work and to the best of my knowledge has not been presented for the award of any degree, diploma or certificate in this or any other university.

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APPROVAL

This thesis is submitted with our approval as University Supervisors.

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DEDICATION

This study is dedicated to my two daughters Irvine and Nelly.

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ABSTRACT

The growth of manufacturing firms in Kenya has stagnated in terms of to GDP despite Efforts by the government to improve on macroeconomics variables. Since major decisions that affect the performance and hence growth of the sector are made at the enterprise level, the study aimed at looking at the firms‘ level of manufacturing firms in Kenya. The objectives of this study were: to examine the effect of number of employees, leverage, capital stock, labour cost (wages) and energy cost on the growth of manufacturing firms in Kenya. The study used secondary data for 30 manufacturing firms captured by World Bank and other sources such as the Kenya National Bureau of Statistics (KNBS), Central Bank of Kenya, UNIDO (United Nations Industrial Development Organization) and Institute of Policy Analysis and Research (IPAR) for the period between 2002 and 2011. The collected data was analyzed using panel fixed effects model. The study establishes a positive link between level of capital stock and the growth of manufacturing firms in Kenya. However, the study established a significant and negative relationship between leverage, wage bill, electricity cost and fuel costs and the growth of manufacturing firms in Kenya. The number of employees was found have negative but insignificant relationship with the growth of manufacturing firms. On the policy recommendation front, the study recommends government to formulate tax policies that make firms realize increased profit so that firms can reduce dependence on credit for investment. The central Government should ensure there is an anti-trust law restricting arbitrary increase in oil prices and also ensure there is good infrastructure especially roads. The government should also work to bring down the cost of living so that workers do not press for higher wages through their trade unions. Firms on the other hand should embrace capital intensive technique of production because capital was found to increase the growth of firms. The study recommends further research on effect of international policies on growth of manufacturing firms in Kenya and Africa.

TABLE OF CONTENTS