

**SOCIO-ECONOMIC DETERMINANTS OF PERFORMANCE OF  
SMALL  
AND MEDIUM ENTERPRISES IN GILGIL TOWN OF NAKURU  
COUNTY, KENYA.**

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BY


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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT FOR  
THE REQUIREMENTS OF THE AWARD OF DEGREE OF MASTER OF ARTS IN  
PROJECT PLANNING AND MANAGEMENT OF THE UNIVERSITY OF NAIROBI**

C 2012

**DECLARATION**

This research report is my original work and has not been presented for a degree in any other university.

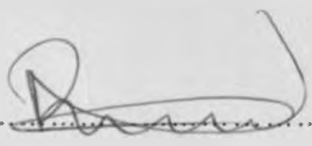
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## DEDICATION

This research report is dedicated to the creator, the Almighty God who gave me the physical and mental strength to carry on and to my loving family for their understanding and moral support throughout my study.

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I would like to absolve all individuals and institutions mentioned above for any errors of omission and/or commission or any interpretational error. For these, I remain solely responsible.

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## ABBREVIATIONS AND ACRONYMS

EJP - Euro Journals Publishing

GDP - Gross Domestic Product

ICPAK - Institute of Certified Public Accountants of Kenya

ICT – Information Communication Technology

NCST- National Council for Science and Technology

NGOs – Non Governmental Organization

SMEs – Small and Medium-sized Enterprises

SPSS- Statistical Package for Social Sciences

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## ABSTRACT

This study sought to establish the socio-economic determiners of performance of SMEs in Gilgil town of Nakuru County, Kenya. The study was guided by the following objectives: To investigate the extent at which managerial training and experience influence performance of SMEs; to determine the extent at which education and skills among the proprietors influence performance of SMEs; to find out the extent at which access to financial resources influence performance of SMEs; and to assess the extent at which appropriate technological adoption influence performance of SMEs. The study adopted a survey research design involving SMEs in Gilgil town. Questionnaires were used as research instruments to gather information on variables of interest. The target population of the study included the 400 SMEs in Gilgil town registered with the County Council of Nakuru in the year 2012 and thereafter a sample size of 196 (49%) SMEs owners was systematically selected as respondents for the study. Data collected was coded and analyzed with the aid of Statistical Package for Social Sciences (SPSS) computer programme. Quantitative data was analyzed using descriptive statistics such as percentages and frequencies while the qualitative data derived from open-ended questions was analyzed according to themes based on the study objectives and research questions and there after inferences and conclusions were drawn. The study revealed that very few SMEs owners had obtained management training; most of them had only obtained secondary education; SMEs lacked access to financial resources and very few had integrated technology in their business operation. These shortcomings have adversely affected the performance of the SMEs in Gilgil town going by the low profits that they are making. The study recommended that the government through the ministry of trade facilitate management training of SMEs owners; government and local authorities encourage prospective SMEs proprietors with higher level of education like diplomas and degrees to venture into SMEs business; lending institutions in Gilgil town to revisit their lending policies so as to make their services and products accessible to SMEs; and government and development agencies facilitate SMEs to acquire appropriate technologies that will aid SMEs in their operations.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

The definition of small and medium enterprises (SMEs) differs according to the study one is carrying out or the size of the economy being studied. Criterion used in a given country of study also differs, depending on the purpose of classifying the business into SMEs or large. A business in Europe could be described as big in Kenya (Storey and Stokes 1978). (Ombok (1990) points out that the point under which an enterprise is deemed to be small and the way in which its size is measured has been a debatable subject for a long time. There is no general consensus as to the definition of what a small, medium or large business is. (Hah and Urat 1994) point out that, in countries such as United States, Britain and Canada businesses are defined in terms of paid up capital and number of employees. But the most appropriate definition of SMEs for this particular research study is of (Beladress, 1987) who defines SMEs as manufacturing or non manufacturing service enterprises which the owner management is not necessarily actively engaged in production but perform the various task involved in the leadership without the help of a specialised staff.

There is growing recognition of the important role that SMEs play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Kenya with now an estimated population of almost 40 million people is still rated among the poor countries in the world.

The country's development challenge remains in finding sustainable poverty eradication strategies and the SMEs have been identified as one of the strategies that can bring faster development and accelerate the employment creation (Government of Kenya (GOK). 2006).

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Gockel and Akoena, 2002).

The lack of managerial know-how places significant constraints on SME development. Euro Journals Publishing (EJP) (2010) observes that even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs' efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula and Quarkey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency.

In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (EJP, 2010).

In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

EJP (2010) continue to posit that regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. For instance, the World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. In addition, Ibid notes that it takes longer (176 days) in South Africa and there were 18 procedures involved in dealing with licensing issues.

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, their limited international marketing experience, poor quality control and product standardization, and little access to international partners, continue to impede SMEs' expansion into international markets. They also lack the necessary information about foreign markets (EJP, 2010).

Most importantly, the lack of adequate financial resources places significant constraints on SME development. Cook and Nixon (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs.

For instance, Wanjohi (2009) posits that lack of access to credit is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Wanjohi continues to note that credit constraints operate in a variety of ways in a country like Kenya where undeveloped capital markets force entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

According to Wanjohi and Mugure (2008), Kenya has an estimated 1,300,000 SMEs; increasing at a rate of about 300,000 per year. Only about 50% are considered to be operating successfully; with the other half staggering towards closing down due to numerous challenges namely: Lack of Managerial Training and Experience, Inadequate Education and Skills, Lack of Credit, National Policy and Regulatory Environment, Technological Change, Poor Infrastructure and Scanty Markets information.

The number of small businesses is growing rapidly in Kenya as evidenced by the growth in the small business activities in the country (Sessional Paper number 2, 2005). Every industry or sector of operation has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors (political/legal.



economic/demographic, socio-cultural, technological and globalization) as well as internal business factors (management expertise, resources, individual characteristics, etc). In the dynamism and turbulence, small businesses are affected more than the large organizations because the response to environmental changes in small businesses is different from that of large companies (Hartshon & Wheeler, 2003: 203-320). A large company can move from one business to another and have resources and strategic choices not available to small business enterprises.

According to the 2006 Economic Survey, employment within the Sector accounted for 74.2 % of the total persons in employment. Also along with the overall policies and strategies of economic development especially with the adoption of a free market economic policy since 1991, small enterprise and business development has been recognized as a key element to promote the development of the country. The sector contributes up to 18.4 % of the country's Gross Domestic Product (GOK, 2006). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization in Kenya. It is expected that by the year 2030, Kenya will be transformed into a newly industrialized nation. If the country has to make this leap, then the small enterprises are expected to play a key role in this transformation. To play this role, the small enterprises must succeed and the failure rate characterizing the sector be minimized if not eliminated.

The current study therefore sought to determine the critical socio-economic factors affecting performance of SMEs in Gilgil town and assess possible strategies that can address some of the common factors impeding the development, growth and profitability of the SMEs in the town.

The town is approximately 25 Kilometres from Nakuru town and was initially in the larger Nakuru district before the split in 2009. Lowe (2007) had noted that Nakuru town, which was the main town of the larger district before the split, had an unprecedented proliferation of informal income-generating activities, which, despite offering great opportunity for employment, were faced with major difficulties that included: Lack of access to sources of capital; prohibitive business regulations; lack of effective marketing strategies and inadequate business management skills. The study assumed that these characteristics of the mother district were shared among the split districts that latter included Gilgil, Naivasha, Nakuru North, Rongai, Njoro and Molo.

### **1.2 Statement of the Problem**

SMEs are of great importance to the Kenyan economy as they provide the much needed employment opportunities to a big number of its population who join the unemployment bracket every year. Besides SMEs form the base towards industrialization through growth and diversification of the enterprises over time. They take part in the wealth creation which ultimately raises the standard of living of the urban community. They also contribute to the Kenya's Gross Domestic Product thus boosting economic growth. However, despite the potential role of SMEs to accelerated growth and job creation in developing countries, studies have indicated that SME development, growth and profitability is hampered by a number of varied factors, including lack of adequate financing, lack of managerial skills, equipment and technology, regulatory issues, access to international markets, inadequate education and skills, poor infrastructure and scanty markets information (Wanjohi & Mugure 2008). Although a number of these researches have dwelt considerably on factors that contribute to success or failure of SMEs in general, none had focused on the exclusive socio-economic determiners of performance of SMEs in Gilgil town of Nakuru County, Kenya. This study therefore sought to

determine the critical socio-economic factors affecting the performance of SMEs in Gilgil town and assess possible strategies that could address some of the common factors impeding the performance of the SMEs in this town.

### **1.3 The purpose of the study**

The purpose of this study was to investigate the socio-economic determinants of performance of small and medium enterprises in Gilgil town of Nakuru county, Kenya.

### **1.4 Research Objectives**

The study was guided by the following objectives:

- i. To investigate the extent at which managerial training and experience influence performance of SMEs in Gilgil town
- ii. To determine the extent at which education and skills among the proprietors influence performance of SMEs in Gilgil town
- iii. To find out the extent at which access to financial resources influence performance of SMEs in Gilgil town.
- iv. To assess the extent at which appropriate technological adoption influence performance of SMEs in Gilgil town.

## **1.5 Research Questions**

To investigate the above mentioned objectives, the study addressed the following research questions:

- i. To what extent does managerial training and experience influence performance of SMEs in Gilgil town?
- ii. To what extent does education and skills among the proprietors influence performance of SMEs in Gilgil town?
- iii. To what extent does access to financial resources influence performance of SMEs in Gilgil town?
- iv. To what extent does appropriate technological adoption influence performance of SMEs in Gilgil town?

## **1.6 Significance of the Study**

The study will be of benefit to the government because it has provided a basis of formulating policies that will accommodate the unique needs of SMEs in the country. The Small and Medium business enterprises will benefit from this study because when appropriate policies are formulated, their plight will be addressed which will in turn creates a favourable environment for their performance. Other service providers like lending institutions, insurance companies and consulting firms can also use the study findings to adjust their services to accommodate the unique needs of the SMEs. The study has also contributed literature in the area of socio-economic determiners of performance of SMEs that will be beneficial to other scholars.

### **1.7 Limitations of the Study**

- i. Not all the SMEs in Gilgil town acquire trading licences from the County Council of Nakuru and thus some might have been left out of the sampling frame which might have affected the generalization of the study findings.
- ii. Suspicion from SMEs owners might have affected their honesty and response rate.
- iii. Some SMEs owners delayed the return of questionnaires this led to difficulty in data collection because SMEs are not accountable to the public and the owners are the only ones privy to critical information concerning their businesses.

The researcher countered the above limitations by explaining to the respondents that the study findings were only intended for scholarly work. The researcher had also prepared a work plan and committed all the available time to this study. Follow ups were made to ensure that as many research instruments as possible were filled.

### **1.8 Delimitations of the Study**

The study focused on the socio-economic determiners of performance of SMEs in Gilgil town of Nakuru County. SMEs owners were targeted as the main respondents because according to the Institute of Certified public Accountants of Kenya (ICPAK) (2009) SMEs are not liable to public accountability and thus the proprietors are the only ones privy to critical issues concerning their businesses.

The study was carried out in Gilgil town. The rationale for choosing the town was that it is home to many SMEs dealing with all sorts of businesses including those associated with agricultural produce, hotel industry, manufacturing industry, and clothing among others. The town was also

chosen as a research site due to the researcher's own interest and knowledge of the area. Singleton (1993) observes that the ideal setting for any study is one that is directly related to the researcher's own interests.

## **1.9 Definitions of Significant Terms Used**

**Access to Finance-** Possibility that an enterprise can access financial services, including credit, deposit, payment, insurance and other risk management services.

**Credit-** Money lent by an institution or individual to an enterprise for its operation.

**Performance-** Growth, development and profitability of SMEs

**Socio-economic determiners-** Social and economic factors that influence performance of SMEs

**Lending institutions-** An organization such as a bank, credit union, saving and loans association or finance company that makes loans.

**Lending Policy-** Lending institutions statement of its philosophy, standards and guidelines that its employees must observe in granting or refusing a loan request.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews literature related to the study. It contains discussion and comparison of the findings from researchers who have done their work in the field of SMEs. It is arranged according to the following topics: Lack of managerial training and experience; education and skills; lack of adequate financial resources; technological change; Characteristics of SMEs in Developing Countries; and conceptual framework of the study; Lastly, a summary of the literature review is given.

#### 2.2 Lack of Managerial Training and Experience

It is believed that management is an important activity that helps organizations achieve or pursue their goals and hence management actions are very important (Gunningham, Thornton & Kagan 2005:289-316). Indeed, managers and management are essential in our modern business organisations and society (Hendricks & Singhal, 2001: 269-285). The activities undertaken in management, determine whether the business performs or does not perform well. For example, if a company or organization is in financial difficulty, then cost cutting may be inevitable (Nickels, McHugh & McHugh 2007:239). The way management tackles problems determines the long-term outcome of an organization (Balfanz & Koelmel, 2009).

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error.



As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill 1987). Wanjohi (2009) opines that although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

King and McGrath (2002) adds that majority of those who run SMEs are ordinary lot whose educational background is lacking, hence they may not be well equipped to carry out managerial routines for their enterprises.

### **2.3 Education and Skills**

Education and skills are needed to run micro and small enterprises. King and McGrath (2002) observe that those with more education and training are more likely to be successful in the SME sector. Ibid continue to explain that those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. According to Wanjohi (2009) research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. As such, people need to be well informed in terms of skills and management for small businesses to do well in Kenya.

This notwithstanding, SMEs in ICT sector appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

#### **2.4 Lack of Adequate Financial Resources**

Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2000).

Access to financial services by SMEs is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt and Kropp, 1987).

For small-scale enterprises, reliable access to short term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt and Kropp (1987) further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established (Hossain, 1988).

On the issue of interest rates, the bank also supports the view that high interest rate credit can help to keep away the influential non-target group from a targeted credit programme (Hossain, 1988). This further demonstrates the need to develop appropriate institutions for the delivery of loans to small-scale borrowers.

Notable disadvantages of the formal financial institutions are their restriction of credit to specific activities, making it difficult to compensate for losses through other forms of enterprises, and their use of traditional collateral like land. There is need for a broad concept of SMEs finance to encompass the financial decisions and options of small businesses economic units, to consider

the kind of financial services needed by these business holds, and which institutions are best suited to provide them.

According to Wanjohi (2009) lack of access to credit is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan.

Wanjohi continue to note that credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. The other financial challenges that face small enterprises include the high cost of credit, high bank charges and fees.

## **2.5 Technological Change**

Change of technology has posed a great challenge to small businesses. Wanjohi (2009) observes that since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies.

Those who seem to be well positioned, are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies.

In most of the African nations, Kenya inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (Muteti, 2005). There is a digital divide between the rural and urban Kenya. With no power supply in most of the rural areas, it is next to impossible to have Internet connectivity and access to information and networks that are core in any enterprise. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs and may end up creating further divide between the rural and urban locations.

## **2.6 Performance of SMEs**

It is generally recognized that despite their immense contribution to the developing countries' economies, SMEs continue to face unique challenges which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Some of these challenges identified as lack of managerial training and experience, inadequate education and skills, lack of adequate financial resources, and technological change which are the current study's independent variables are discussed here below.

Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner

and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first Category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste and consumption patterns of domestic consumers, and the level of development of the export markets (EJP, 2010).

The number of small businesses is growing rapidly in Kenya as evidenced by the growth in the small business activities in the country (Sessional paper 2005). Every industry or sector of operation has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors (political/legal, economic/demographic, socio-cultural, technological and globalization) as well as internal business factors (management

expertise, resources, individual characteristics, etc). In the dynamism and turbulence, small businesses are affected more than the large organisations because the response to environmental changes in small businesses is different from that of large companies (Hartshon & Wheeler, 2003: 203-320). A large company can move from one business to another and have resources and strategic choices not available to small business enterprises. The current study seeks to determine the critical socio-economic factors affecting the performance of SMEs in Gilgil town and assess possible strategies that can address some of the common factors impeding the development, growth and profitability of the SMEs in the town.

According to the 2006 Economic Survey, employment within the Sector accounted for 74.2 % of the total persons in employment. The sector contributes up to 18.4 % of the country's Gross Domestic Product (GOK, 2006). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization.

It is expected that by the year 2030, Kenya will be transformed into a newly industrialized nation. If the country has to make this leap, then the small enterprises are expected to play a key role in this transformation. To play this role, the small enterprises must succeed and the failure rate characterizing the sector be minimized if not eliminated.

It is also noteworthy that most of the businesses in this sector remain micro, employing less than five people and having such a high mortality rate as such, hence the firms hardly graduate into

large or even medium organisations. Research findings show that many do not celebrate their third birthday (Sessional paper, 2005).

## **2.7 Conceptual Framework**

This study focused on the socio-economic determinants of performance of SMEs. The study conceptualized that when managerial training and experience, adequate education and skills, adequate financial resources, and appropriate technological adoption which were viewed in this study as the Independent Variables (IV) are put in place and then supported by the presence of a favourable national policy and regulatory environment viewed in this study as the Intervening Variable, then enhanced SMEs performance could be actualized in a country. The study was guided by the conceptual framework on the relationship between the independent and dependent variable in Fig 1.



**Independent Variables**

**Managerial training and experience**  
Level of training  
Amount of experience

**Education and skills**  
Level education  
Amount of human capital stock

**Financial Resources**  
Availability  
Accessibility  
Affordability

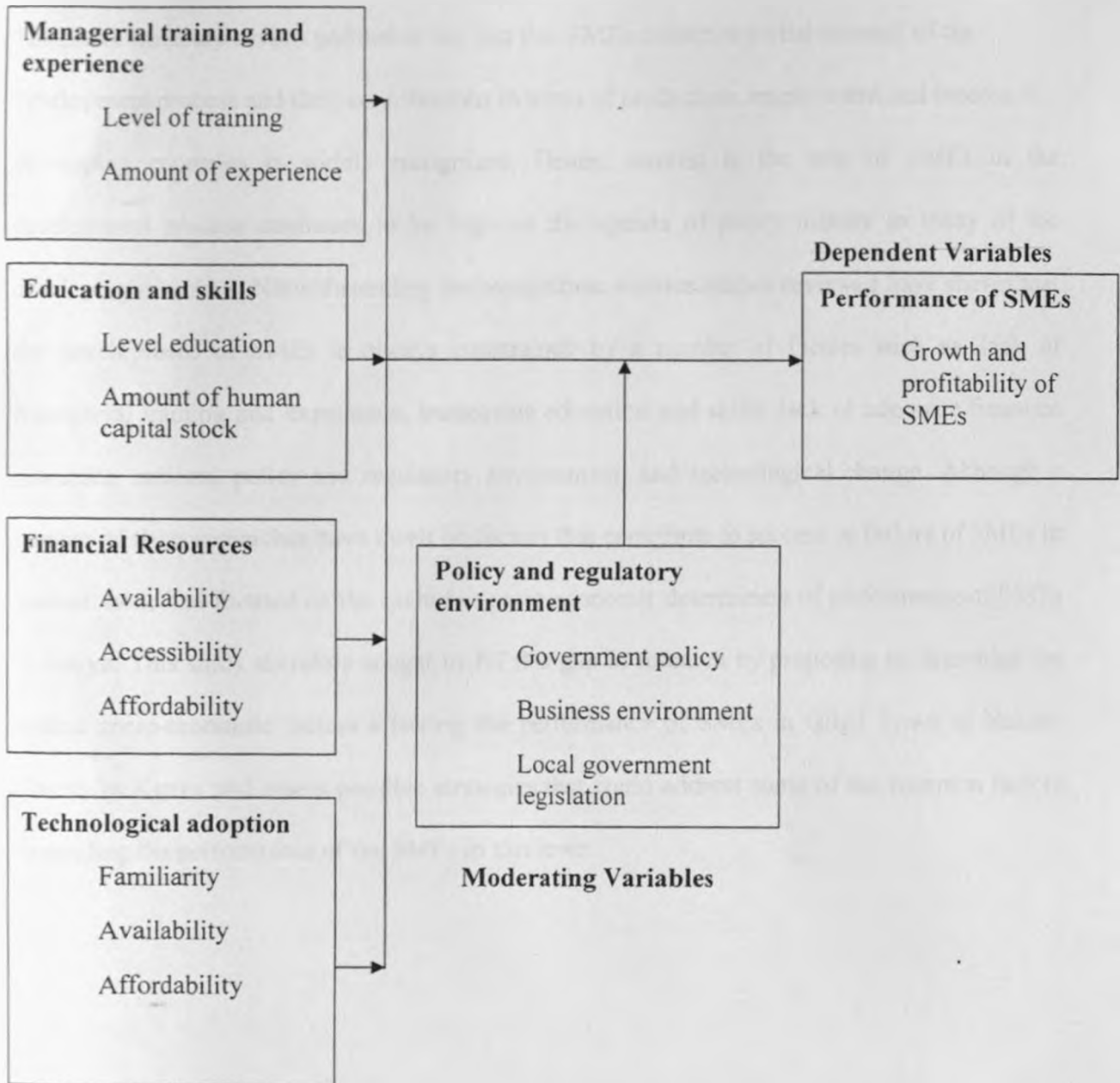
**Technological adoption**  
Familiarity  
Availability  
Affordability

**Dependent Variables**

**Performance of SMEs**  
Growth and profitability of SMEs

**Policy and regulatory environment**  
Government policy  
Business environment  
Local government legislation

**Moderating Variables**



**Fig 1 .Conceptual Framework**

## 2.8 Summary of Literature Review

The above literature review pointed to the fact that SMEs constitute a vital element of the development process and their contributions in terms of production, employment and income in developing countries is widely recognized. Hence, interest in the role of SMEs in the development process continues to be high on the agenda of policy makers in many of the developing countries. Notwithstanding the recognition, various studies reviewed have shown that the development of SMEs is always constrained by a number of factors such as, lack of managerial training and experience, inadequate education and skills, lack of adequate financial resources, national policy and regulatory environment, and technological change. Although a number of these researches have dwelt on factors that contribute to success or failure of SMEs in general, none had focused on the exclusive socio-economic determiners of performance of SMEs in Kenya. This study therefore sought to fill this gap in research by proposing to determine the critical socio-economic factors affecting the performance of SMEs in Gilgil Town of Nakuru County in Kenya and assess possible strategies that could address some of the common factors impeding the performance of the SMEs in this town.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes strategies and procedures that the researcher used while undertaking the study. The chapter focuses on the research design; target population; sample size and sampling procedures; instrumentation; data collection procedure and data analysis techniques.

#### 3.2 Research Design

The study adopted a descriptive survey design. Lockesh (1984) notes that descriptive survey studies are designed to obtain pertinent and precise information concerning the current status of a phenomenon and wherever possible to draw valid general conclusions from the facts obtained. This study surveyed a sample of SMEs in Gilgil town of Nakuru County so as to determine the critical socio-economic factors affecting their performance. The design was appropriate for this study because it allowed the researcher to obtain data from various SMEs in Gilgil town about the socio-economic determinants of performance of the SMEs and thereafter make inferences and conclusions that guided him to make appropriate recommendation.

#### 3.3 Target Population

Mugenda and Mugenda (2003) define target population as that population to which a researcher wants to generalize the result of a study. The current targeted all the 400 SMEs registered with the County Council of Nakuru in the year 2012 within Gilgil town. The owners of these SMEs were targeted as the main respondents in the current study because they are the only ones privy with critical issues that pertains to their businesses.

They were required to give information about the socio-economic factors affecting the performance of SMEs in Gilgil town and suggest any possible strategies that could be used to address those factors impeding the performance of the SMEs in the town.

### 3.4 Sample Size and Sampling Procedures

Using the Krejcie and Morgan sample size table and Cochran's formula, the researcher found that the sample size should be 196 SMEs owners. The study has applied the Systematic sampling technique as further explained in the following paragraphs:

#### 3.4.1 Sample Size

The determination of sample size was done using Cochran's (1977) formulas. In Cochran's formula, the alpha level is incorporated into the formula by utilizing the t-value for the alpha level selected (e.g. t-value for alpha level of 0.05 is 1.96 for sample size above 120). For categorical data, 5% margin of error is acceptable (Krejcie and Morgan 1970). Cochran's sample size formula for categorical data is:

$$n = \frac{(t)^2 \cdot (p)(q)}{(d)^2}$$

$$n = \frac{(1.96)^2 \cdot (.5)(.5)}{(.5)^2} = 384$$

n= the desired sample size

t= value of selected alpha level of .025 in each tail=1.96 (the alpha level of .05 indicates

the level of risk the researcher is willing to take ,true margin of error may exceed the margin of acceptable margin of error

$(p)(q)$  =estimate of variance =.25. (Maximum possible proportion (.5)\* 1-maximum possible Proportion (.5) produces maximum possible sample size)

$d$ =acceptable margin of error for proportion being estimated=.05? (Error researcher is Willing to accept)

Therefore, for a population of 400 SMEs owners, the required sample was calculated as follows:

$n$

$n_f = \dots\dots\dots$

$(1+n /Population)$

384

$n_f = \dots\dots\dots =196$

$(1+384/400)$

Using the Krejcie and Morgan sample size table, the researcher found that the sample size should be 196 SMEs owners (Krejcie & Morgan, 1970). This was supported by what was calculated by using Cochran's (1977) formula.

### **3.4.2 Sampling Procedures**

Systematic sampling technique, which according to Orodho (2008) involves selecting members at equal intervals by picking some random point in the list and where then every *n*th element is selected until the desired sample size is obtained, was used to determine the representative sample of 196 (49%) of SMEs owners. The County Council license register which was obtained from County Council of Nakuru was used as the sampling frame.

### **3.5 Research Instruments**

Questionnaires were used to collect data from the SMEs owners. According to Orodho (2009: 157) a questionnaire is an instrument used to gather data, which allows measurement for or against a particular viewpoint and it has an ability to collect a large amount of information in a reasonably quick space of time. Kombo and Tromp (2006) also explain that questionnaires facilitate the collection of information from a large sample and diverse regions. Structured questionnaires were preferred for the current study because the questions, their wordings and sequence are usually fixed and identical to all respondents targeted. Such questions have the advantage of obtaining standard responses to question items, making it possible to compare between sets of data. Section 'A' of the questionnaires elicited demographic data of the respondents; Section 'B' sought information on the extent at which managerial training and experience influence performance of SMEs in Gilgil town; Section 'C', the extent at which education and skills among the proprietors influence performance of SMEs in Gilgil town; Section 'D', the extent at which access to financial resources influence performance of SMEs in Gilgil town; and Section 'E'. the extent at which appropriate technological adoption influence performance of SMEs in Gilgil town.

### **3.5.1 Pilot Testing of the Instrument**

The instruments were piloted to a population similar to the target population in the neighbouring Nakuru town. Piloting was essential to eliminate ambiguity in question items, establish problems in administering the instruments, test data collection instructions, establish the feasibility of the study, anticipate and amend any logical and procedural difficulties regarding the study, and allow preliminary (dummy) data analysis. During piloting, the research instruments were given to five respondents not included in the study sample to fill in. The five respondents were preferred so as to allow adequate comparability of responses. The researcher created rapport with the five respondents after purposively sampling them; explained to them the purpose of the pilot study and then administered the instruments to them. The answered instruments were scored manually and after a period of two weeks the same instruments were administered to the same group and scored manually.

### **3.5.2 Validity of the Instrument**

Mugenda and Mugenda (2003) define validity as the accuracy and meaningfulness of inferences, which are based on the research results. Content validity of the research instruments was established in order to make sure that they reflected the content of the study concepts. Firstly, the researcher went through the instruments and compared them with the set objectives to ensure that they contained all the information that answered the set questions and addressed the objectives. Secondly, expert input from the supervisors and authorities in the area of study was sought to scrutinize the relevance of the items on the instruments against the set objectives.

### **3.5.3 Reliability of the Instrument**

Mugenda and Mugenda define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Test-retest method was used to check the reliability of the instrument. During piloting, the research instruments were given to the five respondents not included in the final sample to fill in. The answered instruments were scored manually and after a period of two weeks the same instruments were administered to the same group and scored manually. A comparison of the first and second score was made using Pearson's product moment correlation coefficient to determine the reliability of instruments. A correlation coefficient of 0.8 was obtained and considered high enough to judge the instrument as reliable for the study as advised by (Orodho, 2008).

### **3.6 Data Collection Procedure**

After receiving approval from the University, the researcher applied for a research permit from the National Council of Science and Technology (NCST) and after obtaining the permit he sought audience with the County Council of Nakuru business registration department to brief them about the purpose of the intended study. The researcher then proceeded to the field, established a working rapport with the sampled respondents and explained the purpose of his study to them. After obtaining their consent, the researcher personally distributed the questionnaires to the selected respondents so as to collect data. The completed questionnaires were collected after two days: collected data verified and then coded to await analysis process.



### **3.7 Data Analysis Techniques**

Data collected was coded and analyzed using Statistical Package for Social Sciences (SPSS) computer programme to facilitate addressing the research objectives and questions. This was done using both qualitative and quantitative statistics. Quantitative data was analyzed using descriptive statistics such as percentages and frequencies while the qualitative data derived from the open ended questions was analyzed according to themes based on the study objectives and research questions and there after inferences and conclusions were drawn. Findings were presented using tables.

### **3.8 Ethical considerations**

The researcher firstly obtained a research permit from the National Council of Science and Technology (NCST) and then sought audience with the County Council of Nakuru business registration department to brief them about the purpose of the intended study. While on the field, the respondents were fully informed about the nature of the research, the purpose of the research and the expected benefits to the respondents and the society. After obtaining the respondents informed consent, the researcher administered the instruments. The privacy and anonymity of the respondents was maintained and questions like, the level of income was based on average or on estimation depending on one occupation.

### 3.9 Table of operational definition of variables

Table 3.1 give the variables, measurable indicators, data collection instruments and techniques of data analysis. An operational definition is a demonstration of a process such as a variables, terms or objects in terms of the specific process or set of validation test used to determine its presence and quantity. The independent variables were operationalized as shown in Table 3.1.

**Table 3.1 Operational definitions of variables**

Research objectives	Variables	Indicators	Measurement	Measuring scale	Tools for data collection	Techniques of Data Analysis
To investigate the extent at which managerial training and experience influence performance of SMEs in Gilgil town	Managerial training and experience	-Level of training -Amount of experience	-Trained/ Untrained	Nominal  Likert scale	Questionnaire	Percentages and frequencies  Themes based on study objectives
To determine the extent at which education and skills among the proprietors influence performance of SMEs in Gilgil town	Education and skills	-Level of education -Amount of human capital stock	-Primary, Secondary, diploma and degree levels of education	Nominal  Likert scale	Questionnaire	Percentages and frequencies  Themes based on study objectives
To find out the extent at which access to financial resources	Financial	-Availability	-Available	Nominal scale	Questionnaire	Percentages and

influence performance of SMEs in Gilgil town.	Resources	-Accessibility -Affordability	- Accessible -Affordable	Likert scale		frequencies  Themes based on study objectives
To assess the extent at which appropriate technological adoption influence performance of SMEs in Gilgil town	Technological adoption	-Familiarity -Availability -Affordability	-Appropriate technology available -Adaptability	Nominal Scale  Likert scale	Questionnaire	Percentages and frequencies  Themes based on study objectives

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION.

#### 4.1 Introduction

This chapter presents the results and discussion of the study that sought to investigate the socio-economic determinants of performance of small and medium enterprises in Gilgil town of Nakuru county, Kenya. The following subthemes are discussed here in: Questionnaire return rate; respondents demographic characteristics; the extent at which managerial training and experience influence performance of SMEs in Gilgil town; the extent at which education and skills among the proprietors influence performance of SMEs in Gilgil town; the extent at which access to financial resources influence performance of SMEs in Gilgil town; and the extent at which appropriate technological adoption influence performance of SMEs in Gilgil town.

#### 4.2 Response return Rate

The study used a sample size of 196 (49%) of the 400 SMEs owners who were the target population in this study. The response rate was 100% and this good response rate was attributed to the fact that the researcher works in the area and was able to establish a good rapport with the SMEs owners who facilitated his work.

#### 4.3 Respondents Demographic Characteristics

Under the study the researcher analyse how gender, age, and level of education influence performance of SMES.

### 4.3.1 Age and Gender of the Respondents

Respondents were required to give their age and gender and Table 4.1 shows the two aspects.

**Table 4.1:**

#### **Age and Gender of the Respondents**

<b>Age</b>	<b>Frequency</b>	<b>Percent (%)</b>	<b>Gender</b>	<b>Frequency</b>	<b>Percent (%)</b>
20-30	75	38.0	Male	141	71.9
30-40	55	28.0	Female	55	28.1
40-60	66	34.0			
<b>Total</b>	<b>196</b>	<b>100.0</b>		<b>196</b>	<b>100</b>

Table 4.1 revealed that most (38%) of the SMEs sampled were run by youth aged between the age group of 20-30 years old. This can mostly be attributed to high unemployment rates in the corporate and formal sectors thus a lot of youth venture in the SMEs. The table also revealed that more males (71.9%) were involved in running of the SMEs in the town than female (28.1%). This finding agrees with Siwadi (2011) who note that under normal circumstances women's enterprises in Africa have low survival rate and limited potential than those owned by men partially due to the type of business activities they engage in, in addition to challenges of access to working capital.

### 4.3.2 Highest Level of Formal Education

Information about the respondents' level of education was sought and is presented in Table 4.2.

**Table 4.2:**  
**SMEs Proprietors Level of education**

Level	Frequency	Percent
KCPE	13	6.6
KCSE	117	59.7
Diploma	53	27.0
Degree	13	6.6
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.2 revealed that most SMEs owners (59.7%) had obtained KSCE level of education followed by diploma level at 27%. This shows that most SMEs in Gilgil town are run by form four graduates. According to Wanjohi (2009) research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills.

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### 4.3.3 Age of Business

Information about the age of business was sought and is presented in Table 4.3.

**Table 4.3**

#### **Age of Business**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
Above 5 years	75	38.3
3-4 years	28	14.3
2-3 years	35	17.9
1-2 years	34	17.3
Below 1 year	24	12.2
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.3 revealed that many businesses in the town (38.3%) were aged above five years meaning that there were well grounded and should be making good returns in normal circumstances.



#### 4.3.4 Approximate Business Profit

Information about the business profit for the year 2011 was sought and is presented in Table 4.4.

**Table 4.4:**

#### **Approximate business profit for the year 2011**

<b>Approximate profit in Kshs.</b>	<b>Frequency</b>	<b>Percent</b>
Above 100,000	29	14.8
50,000-100,000	32	16.3
30,000-50,000	70	35.7
Below 30,000	65	33.2
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.4 revealed that many businesses 33.2% made a profit of below Kshs.30,000 per year meaning that in a month they were making a profit of below Kshs.2,500 which translates to Kshs.30 per day.

#### 4.4 Extent at which managerial training influence performance of SMEs

This theme emanates from objective one and it entails understanding the extent to which managerial training influence performance of SMEs. In order to analyse this, the study first sought to know whether the respondents had attended any management training by posing the question "Have you received any professional training in business management?" This was analysed and the results are shown in Table 4.5.

**Table 4.5:**

**Influence of management training on performance of SMEs**

		Approximate Business Profit for the Year 2011					
		Above 100,000	50,000- 100,000	30,000- 50,000	Below 30,000	Total	
<b>Training in Business Management</b>	<b>Yes</b>	<b>Frequency</b>	26	25	7	8	<b>66</b>
		<b>%(Training)</b>	13.3%	12.8%	3.6%	4%	<b>33.70%</b>
	<b>No</b>	<b>Frequency</b>	45	50	21	14	<b>130</b>
		<b>%(Training)</b>	23.0%	25.5%	10.7%	7.1%	<b>66.3%</b>
<b>Total</b>		<b>Frequency</b>	71	75	28	22	<b>196</b>
		<b>%(Training)</b>	36.3	38.3%	14.3%	11.2%	<b>100.0%</b>

Table 4.5 revealed that only 66 (33.7%) respondents had obtained some form of training in business management. The table also revealed that more 26 (13.3%) of the respondents who have obtained some form of training in business management than 45 (23%) who had not were in the category whose businesses had achieved a profit margin of Kshs. 100,000 and above. This shows that the training has positive influence on the performance of SMEs in Gilgil town.

When asked to say what extent they thought that training in business management influence business performance, the respondents gave out the responses summarized in Table 4.6.

Table 4.6

## Extent that training in business management influence business performance

Approximate Business Profit for  
the Year 2011

	Above 100,000	50,000- 100,000	30,000- 50,000	Below 30,000	Total
--	------------------	--------------------	-------------------	-----------------	-------

Extent that training in business management influence business performance	Very large extent	Frequency %(Extent)	Approximate Business Profit for the Year 2011				Total
			Above 100,000	50,000- 100,000	30,000- 50,000	Below 30,000	
			13 6.6%	13 6.6%	1 0.5%	1 0.5%	28 14.0%
	Large extent	Frequency %(Extent)	28 14.3	33 16.8	13 6.6%	12 6.1%	86 43.9%
	Undecided	Frequency %(Extent)	4 2%	1 0.5%	2 1%	0 0%	7 3.6%
	Small extent	Frequency %(Extent)	13 6.6%	7 3.60%	6 3.1%	2 1%	28 14.3%
	No extent at all	Frequency %(Extent)	6 3.1%	16 8.2%	4 2%	6 3.1%	32 16.3%
	No response	Frequency %(Extent)	7 3.7	5 2.6%	2 1%	1 0.5%	15 7.7%
<b>Total</b>		Frequency %(Extent)	71 36.2%	75 38.3%	28 14.3%	22 11.2%	196 100.0%

Table 4.6 revealed that most (57.9%) of the respondents believed that training in business management influence performance of business in a very large extent and large extent.

The table also revealed that the businesses of most (20.9 %) of those who believed that management training influenced SMEs performance in large extent and a very large extent had achieved a profit margin of above Kshs. 100,000 in 2011. This can be construed to mean that this is the group of SMEs owners who reported in Table 4.5 that they had obtained some business management training hence their businesses better performance a fact that is supported by Balfanz & Koelmel, (2009) who note that management training is a prerequisite for SMEs good performance.

When asked to explain how business management training enhances business performance, the respondents gave the responses summarized in Table 4.7.

**Table 4.7:****How business management training enhances business performance**

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Enhances proper book keeping	10	5.1
Enhances making viable business plans and their execution	38	19.4
Enhances management of workers, customers and suppliers	12	6.1
Enhances understanding and appreciating business ethics, regulations and policies	25	12.8
Enhances generating viable ideas	7	3.6
Enhances generation of business capital and finances	3	1.5
Enhances use of business language	3	1.5
Enhances knowledge of laws that govern business activities and contracts	7	3.6
No response	91	46.4
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.7 revealed that many of the respondents (46.4%) did not respond to the question. This can be explained as being due to lack of knowledge of what is entailed in business management training because most (66.3%) of the SMEs owners had not attended any training as revealed in Table 4.5. It is also in line with the argument by King and McGrath (2002) that majority of those who run SMEs are ordinary lot whose management training background is lacking, hence they may not be well equipped to carry out managerial routines for their enterprises. Most of those who responded gave the following merits of SMEs owners going through business management training:

Enhances making viable business plans and their execution at 19.4%; enhances understanding and appreciating business ethics, regulations and policies at 12.8%; and enhances management of workers, customers and suppliers at 6.1%.

#### **4.4.1 Extent at which Experience in Business Management Influence Performance of SMEs**

This sub theme emerged from the first objective and it entails understanding the extent to which experience in business management influence performance of SMEs. In order to analyse this, the study first sought to know the respondents length of experience in business management by posing the question "For how long have you managed a business of this nature? This was analysed and the results are shown in Table 4.8.

**Table 4.8**

**Influence of proprietors' length of experience in business management on performance of SMEs**

		Approximate Business Profit for the Year 2011					
			Above 100,000	50,000-100,000	30,000-50,000	Below 30,000	Total
Length of experience in business management	Below 1 year	Frequency	6	17	3	7	33
		%(Experience)	3.1%	8.7%	1.5%	3.7%	100.0%
	1-2 years	Frequency	15	22	7	6	50
		%(Experience)	7.7%	11.2%	3.7%	3.1%	25.5%
	2-3 years	Frequency	3	9	2	1	15
		%(Experience)	1.5%	4.6%	1%	0.5%	7.7%
	Above 3 years	Frequency	47	25	16	7	95
		%(Experience)	24	12.8%	8.2%	3.7%	48.5%
	No Response	Frequency	0	2	0	1	3
		%(Experience)	.0%	1%	.0%	0.5%	1.5%
<b>Total</b>	Frequency	71	75	28	22	196	
	%(Experience)	36.2%	38.3%	14.3%	11.2%	100.0%	

Table 4.8 revealed that many (48.5%) of the respondents had experience of business management of above three years. This shows that most of the businesses in the town are being managed by people with considerable experience in business management. The respondents with experience of above three years were more 47 (24%) when it came to the category of those who made a profit margin of above Kshs. 100,000 while those with one year of experience were only

6 (3.1%) in this category. This shows that experience in business management positively influences the performance of SMEs in Gilgil town.

When asked to what extent they believed that length of experience in business management influence business performance, the respondents gave the responses summarized in Table 4.9.

**Table 4.9**

**Extent in which length of experience in business management influence business performance**

		Approximate Business Profit for the Year 2011				Total
		Above 100,000	50,000- 100,000	30,000- 50,000	Below 30,000	
What extent does length of experience in business management influence business performance?	Very large extent	Frequency 13 6.6%	Frequency 17 8.6%	Frequency 4 2%	Frequency 5 2.6%	39 19.9%
	Large extent	Frequency 40 20.4%	Frequency 41 20.9%	Frequency 19 9.7%	Frequency 11 5.6%	111 56.6%
	Undecided	Frequency 0 .0%	Frequency 9 4.6%	Frequency 0 .0%	Frequency 1 0.5%	10 5.1%
	Small extent	Frequency 11 5.6%	Frequency 8 4.1%	Frequency 4 2%	Frequency 5 2.6%	28 100.0%
	No extent at all	Frequency 5 2.6%	Frequency 0 .0%	Frequency 0 .0%	Frequency 0 .0%	5 2.6.0%
	No response	Frequency 2 1%	Frequency 0 .0%	Frequency 1 0.5%	Frequency 0 .0%	3 1.5%
<b>Total</b>		Frequency 71 36.2%	Frequency 75 38.3%	Frequency 28 14.3%	Frequency 22 11.2%	196 100.0%



Table 4.9 revealed that most (76.5%) respondents believe that length of experience in business management influence performance in a large and very large extent. The table also revealed that in among those businesses that were making a margin profit of above Kshs. 100,000, most (27%) of their owners believed that experience was important meaning that they had some experience in business management that enabled their businesses to performing better than the rest. When asked to explain how length in business management influences business performance, the respondents gave the responses summarized in Table 4.10.

**Table: 4.10**

**How length in business management influences business performance**

<b>Explanation</b>	<b>Frequency</b>	<b>Percent</b>
Enhances knowledge of business dynamics	13	6.6
Enhances skills of prediction of risks and how to deal with them	31	15.8
Enhances choice of appropriate business plans	17	8.7
Enhances evaluation of new trends in business	9	4.6
Enhances skills of management of workers, customers and suppliers	110	56.1
Enhances skills of adopting to new business conditions	7	3.6
No response	9	4.6
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.10 revealed that most (56.1%) of the respondents said that experience in business management enhances skills of management of workers, customers and suppliers.

#### 4.5 Extent at which Education among the Proprietors Influence Performance of SMEs

This theme emanates from objective two and it entails understanding the extent to which education influence performance of SMEs. In order to analyse this, the study first sought to know the highest level of education of the respondents by posing the question "What is your highest level of education?" This was analysed and the results are shown in Table 4.11.

Table 4.11

#### Influence of education on performance of SMEs

		Approximate business profit for the year 2011				Total
		Above 100,000	50,000-100,000	30,000-50,000	Below 30,000	
K.C.P.E	Frequency	2	6	2	3	13
	%(Education)	1	3.1%	1%	1.5%	6.6%
K.C.S.E	Frequency	39	45	20	13	117
	%(Education)	19.9%	23%	10.2%	6.6%	59.7%
Diploma	Frequency	19	24	4	6	53
	%(Education)	9.7%	12.2%	2%	3.1%	27%
Degree	Frequency	11	0	2	0	13
	%(Education)	5.6%	.0%	1%	.0%	6.6.0%
Total	Frequency	71	75	28	22	196
	%(Education)	36.2%	38.3%	4.3%	11.2%	100.0%

Table 4.11 revealed that most (59.7%) of the respondents reported that their highest level of education was KCSE followed by 27% who said that they had a college diploma while the degree holders were only 6.6%. This finding agree with Wanjohi (2009) who note that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. The table also revealed that most 11 (5.6%) of respondents with degree level of education steered their businesses to achieve a profit margin of above Kshs. 100,000 in 2011 while only 2 (1%) with primary education were able to achieve this margin. This clearly shows that educational level of the SMEs proprietors has some influence on the performance of SMEs in Gilgil town. This finding is in agreement with King and McGrath (2002) who observe that those with more education and training are more likely to be successful in the SME sector because they are better placed to adapt their enterprises to constantly changing business environments.

When asked to what extent they thought proprietors level of education influences business performance, many of the respondents (39.8%) said in a large extent thus agreeing with the findings in Table 4.10. When the respondents were asked how they thought education influenced performance of their businesses, they gave out the responses summarised in Table 4.12.

**Table 4.12**

**How proprietors' education influences business performance**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Enhances skills of business language	59	30.1
Enhances understanding of business concepts	45	23.0
Enables one to understand and conform to laws and regulations set	7	3.6
Enhances adoption to new changes and innovations	11	5.6
Enhances understanding and implementation of business plan	7	3.6
Enables appreciation of role of research in business	4	2.0
Enhances analysis of viable business contracts	4	2.0
Experience in business management is more valuable than education level	17	8.7
No response	42	21.4
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.12 revealed that many (30.1%) of the respondents believe that education influences business performance in that it enhances skills of business language followed by 23% who believe that education enhances understanding of business concepts.

King and McGrath (2002) explain that those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments

#### 4.6 The extent at which Access to Financial Resources Influence Performance of SMEs

This theme emanates from objective three and it entails understanding the extent to which access to financial resources influence performance of SMEs. In order to analyse this, the study first sought to know whether the respondents had access to financial resources by posing the question "Do you have a steady access to financial resources to run your business?" This was analysed and the results are shown in Table 4.13.

Table 4.13

#### Influence of access to financial resources on the performance of SMEs

		Approximate business profit for the year 2011					
			Above 100,000	50,000- 100,000	30,000- 50,000	Below 30,000	Total
Access to financial resources	Yes	Frequency	27	20	9	3	59
		%(Finances)	13.8%	10.2%	4.6%	1.5%	30.1%
	No	Frequency	39	55	19	19	132
		%(Finances)	19.9	28.1%	9.7%	9.7%	67.3%
Total		Frequency	71	75	28	22	196
		%(Finances)	36.2%	38.3%	14.3%	11.2%	100%
		Percentage	100.0%	100.0%	100.0%	100.0%	100%

Table 4.13 revealed that most (67.3%) of the respondents said that they had no ready access to financial resources. This finding agrees with Wanjohi (2009) who notes that lack of access to credit is almost universally indicated as a key problem for SMEs. The table also revealed that more 27 (13.8%) of those who had access to financial resources had achieved a profit margin of above Kshs. 100,000 in 2011 while only 39 (19.9%) of those who had no access to financial resources had been able to achieve this margin. This shows that access to financial resources have a positive influence on the performance of SMEs in Gilgil town just as it was noted by Cook and Nixson (2000) who argued that access to finance is a critical element to the growth and development of SMEs.

When asked to what extent they thought that access to financial resources influenced business performance, most of them (53.6%) said in a large extent. When asked to say how access to financial resources influences business performance, the respondents gave the responses summarised in Table 4.14.

**Table 4.14:**

**How access to financial resources influence business performance**

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Enhances expansion of business	75	38.3
Enhances investment in modern technology	10	5.1
Enhances acquisition of more resources	14	7.1
Enhances investment in personnel development	11	5.6
Enhances countering of business risks	12	6.1
No response	74	37.8
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.14 revealed that many (38.3%) of the respondents said that they believed that access to financial resources influenced business performance in that it enhances expansion of business. This agrees with Cook and Nixson (2000) who explain that the role of finance is viewed as a critical element for the development of SMEs. Schmidt and Kropp (1987) posit that in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes.

#### **4.7 The extent at which Appropriate Technological Adoption Influence Performance of SMEs**

This theme emanates from objective four and it entails understanding the extent to which appropriate technological adoption influence performance of SMEs. In order to analyse this, the study first sought to know whether the respondents had adopted technology to aid in the operations of their businesses by posing the question "What technology/technologies have you adopted to aid in your business operation?" This was analysed and the results are shown in Table 4.15.

**Table 4.15:**

**Influence of technological adoption on performance of SMEs**

			Approximate business profit for the year 2011				
			Above 100,000	50,000-100,000	30,000-50,000	Below 30,000	Total
Technologies adopted to aid in business operations	Computerized book keeping	Frequency %(Technologies)	5 2.6%	7 3.7%	5 2.6%	0 0%	17 8.7%
	Computers	Frequency %(Technologies)	2 1%	6 3.1%	1 0.5%	3 1.5%	12 6.1%
	Computers and Internet	Frequency %(Technologies)	6 3.1%	6 3.1%	1 0.5%	4 2%	17 8.7%
	None	Frequency %(Technologies)	31 15.8%	32 16.3%	11 5.6%	6 3.1%	80 40.8%
	Automatic equipments and machines	Frequency %(Technologies)	23 11.7%	22 11.2%	8 4.1%	8 4.1%	61 31.1%
<b>Total</b>	<b>Frequency %(Technologies)</b>	<b>71 36.2%</b>	<b>75 38.3%</b>	<b>28 14.3%</b>	<b>22 11.2%</b>	<b>196 100%</b>	

Table 4.15 revealed that most (59.2%) of the respondents said that they had adopted some technologies to aid them in their business operations. The table also revealed that a large number 36 (18.4%) of those who had adopted some form of technologies had steered their businesses to achieve a profit margin of above Kshs. 100,000 in 2011 while only 31 (15.8%) of those who had not adopted any technology had been able to achieve this profit margin.



This shows that the adoption of appropriate technologies has a positive influence on business performance in Gilgil town.

When asked to say the extent that they thought adoption of technologies influences business performance, most (65.8%) of the respondents said very large extent and large extent thus agreeing with the findings in Table 4.15. When the respondents were asked to say how the technologies adoptions influence business performance, they gave out the responses summarised in Table 4.16.

**Table 4.16:****How technology adoption influence business performance**

<b>Responses</b>	<b>Frequency</b>	<b>Percent</b>
Enhances efficiency and effectiveness in business management	53	27.0
Makes work easier	45	23.0
Makes work fast	8	4.1
Makes work neat	3	1.5
Enhances accountability and transparency	4	2.0
Expands market	15	7.7
Technologies are expensive and can eat into business profit	34	17.3
No response	34	17.3
<b>Total</b>	<b>196</b>	<b>100.0</b>

Table 4.16 revealed that many (27%) of the respondents believe that adoption of technologies can enhance efficiency and effectiveness in business management followed by 23% who believes that technology adoption can make work easier for the proprietors business. These findings agree with Pavlou and Sawy (2006) who observe that new technologies can enhance the efficiency and effectiveness of business processes per se and in an absolute sense (e.g., regarding the cost and/or quality of processes before and after using the technologies).

Ibid further notes that it has been argued that organizations decide to adopt ICT technologies since technologies leveraging competence in businesses can develop firms' scope by enhancing knowledge reach and richness, improve firms' flexibility through increased accessibility and availability of knowledge, and accessibility and availability of knowledge by improving communication and increasing information sharing efficiency.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This Chapter gives a summary of the major findings, conclusion and recommendations of the and suggestions for further studies.

#### 5.2 Summary of the Major Findings

Based on the results broadly presented in chapter four about the socio-economic determinants of performance of SMEs in Gilgil town, the following is a summary of the study findings:

Firstly, the demographic data revealed that many (38%) of the SMEs sampled were run by youth aged between the age group of 20-30 years old; more males (71.9%) than females (28.1%) were involved in running of the SMEs in the town; and many SMEs (33.2%) in the town only made an average profit of below Kshs. 30, 000 per year.

Secondly, only 31.6% of the sampled respondents said that they had received some form of training in business management. More 26 (39.4%) of the respondents who have obtained some form of training in business management than 45 (34.6%) who had not were in the category whose businesses had achieved a profit margin of Kshs. 100,000 and above thus showing that the training has a positive influence on the performance of SMEs in Gilgil town. This finding was supported by many (43.9%) of the respondents who said that they believed that Management training influences performance of SMEs in a large extent.

In addition, respondents with experience of above three years were more 47 (49.5%) in the category of those who made a profit margin of above Kshs. 100,000 while those with one year of experience were only 6 (18.2%) in this category. This finding revealed that experience in business management positively influences the performance of SMEs in Gilgil town. The finding was supported by most (56.6%) of respondents who said they believed that length in business management influences business performance in a large extent.

Thirdly, most (59.7%) of the respondents reported that their highest level of education was KCSE followed by 27.6% who said that they had a college diploma. Most 11 (84.6%) of respondents with degree level of education had steered their businesses to achieve a profit margin of above Kshs. 100,000 in 2011 while only 2 (15.4%) with primary education were able to achieve this margin. This finding revealed that educational level of the SMEs proprietors has some influence on the performance of SMEs in Gilgil town. The finding was supported by many (39.8%) of the respondents who said they believed that the proprietors level of education influences business performance in a large extent.

Fourthly, only (30.1%) of the respondents said they had ready access to financial resources. More 27 (45.8%) of those who had access to financial resources had achieved a profit margin of above Kshs. 100, 000 in 2011 while only 39 (29.5%) of those who had no access to financial resources had been able to achieve this margin thus revealing that access to financial resources has a positive influence on the performance of SMEs in Gilgil town. This finding was supported by most (53.6%) of the respondents who said they believed that access to financial resources influences business performance in a large extent.

Fifthly, most (54.6%) of the respondents said they had adopted some technologies to aid them in their business operations. A large number 36 (89.7%) of those who had adopted some form of technologies had steered their businesses to achieve a profit margin of above Kshs. 100,000 in 2011 while only 31 (38.8%) of those who had not adopted any technology had been able to achieve this profit margin. This showed that the adoption of appropriate technologies has a positive influence on business performance in Gilgil town. The finding was supported by most (65.8%) of respondents who said they believed that adoption of technology influences business performance at a large and very large extent.

### **5.3 Conclusions**

Only about a quarter of SMEs proprietors in Gilgil town have received some form of training in business management even though the study revealed that the training have positive influence on performance of SMEs.

Most of the SMEs proprietors in Gilgil town have KCSE as their highest level of education despite the fact that it was clear from the study that higher levels of education had positive influence on SMEs performance.

Although access to financial resources was seen to influence performance of SME in a positive way, only about a quarter of the SMEs owners in Gilgil town have ready access to financial resources.

Only about a quarter of SMEs are using appropriate technologies like computers, Internet and automatic machines to aid in their business operations despite the fact that the technologies were shown to have positive influence on SMEs performance.

This study therefore concluded that the above shortcomings that relate to lack of management training and experience; lack of education and skills; lack of access to financial resources; and lack of adoption to appropriate technologies have adversely affected the performance of the SMEs in Gilgil town going by the low profits that they are making.

#### **5.4 Recommendations**

The following recommendations were made in order to improve business performance of SMES in Gilgil town:

The government through the ministry of trade should facilitate management training of SMEs owners in Gilgil town. This will help create SMEs managers who are analytical, more concerned with long-term issues of their businesses and ones who would be ready to embrace strategic planning in the business concepts.

The government and local authorities in Gilgil town should encourage prospective SMEs proprietors with higher level of education like diplomas and degrees to venture into SMEs business. Research has shown that those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments.

The lending institutions in Gilgil town should revisit their lending policies so as to make their services and products accessible to SMEs.

Research has shown that in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies.

Government and development agencies should facilitate SMEs in Gilgil town to acquire appropriate technologies that will aid SMEs in their operations.

It has been established that technologies can enhance the efficiency and effectiveness of business processes per se and in an absolute sense (e.g., regarding the cost and/or quality of processes before and after using the technologies).



## 5.5 Contribution to the Body of knowledge

Table 5.1 below indicates the contributions made by this study to the body of knowledge.

**Table 5.1: The contribution to the body of knowledge.**

Objectives	Contribution to Body of Knowledge
To investigate the extent at which managerial training and experience influence performance of SMEs in Gilgil town.	Only about a quarter of SMEs proprietors in Gilgil town have received some form of training in business management even though the study revealed that the training have positive influence on performance of SMEs.
To determine the extent at which education and skills among the proprietors influence performance of SMEs in Gilgil town.	Most of the SMEs proprietors in Gilgil town have KCSE as their highest level of education despite the fact that it was clear from the study that higher levels of education had positive influence on SMEs performance.
To find out the extent at which access to financial resources influence performance of SMEs in Gilgil town.	Although access to financial resources was seen to influence performance of SME in a positive way, only about a quarter of the SMEs owners in Gilgil town have ready access to these resources
To assess the extent at which appropriate technological adoption influence performance of SMEs in Gilgil town.	Only about a quarter of SMEs are using appropriate technologies to aid in their business operations despite the fact that the technologies were shown to have positive influence on SMEs performance.

## **5.6 Suggestion for further Research**

The following areas are suggested for further research. -

An examination of the impact of the socio-economic factors on SMEs performance in Gilgil town.

An examination of the influence of government policies on SMEs performance in Gilgil town.

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## APPENDICES

### APPENDIX 1: Letter to respondents.

MATHEW MWANGI  
MASTERS STUDENT  
UNIVERSITY OF NAIROBI  
P.O.Box 502-20116  
GILGIL

Dear respondent,

I am a student at Nairobi University undertaking a Masters of Arts degree in Project Planning and Management. As part of the requirements of the course, I am required to undertake a research project in my area of study. My research topic is on '**Socio-Economic Determinants of Performance of Small and Medium Enterprises in Gilgil Town of Nakuru County, Kenya**'. You have been selected as one of the respondents in this project. Your sincere and correct responses will be important in attaining this goal. All information will be treated with utmost confidentiality.

Yours faithfully,

Mathew Mwangi



APPENDIX 2: Letter to county council of Nakuru

MATHEW MWANGI

MASTERS STUDENT,  
UNIVERSITY OF NAIROBI

P.O BOX 502-20116

GILGIL

18<sup>TH</sup> /5/2012

THE COUNTY COUNCIL CLERK,  
COUNTY COUNCIL OF NAKURU

P.O.BOX

NAKURU.

Dear Sir,

**RE: REQUEST FOR ACADEMIC SURVEY RESEARCH**

I am a student under taking masters in project planning and management at the University of Nairobi. I am also Gilgil district youth officer. I am through with my course work and now I am working on my project proposal.

My project area is on social economic determinants of performance of small and medium enterprises in GILGIL town and my research population is the number of small and medium enterprises in the town. I am requesting your permission to collect this information for a paper that I will submit to the University for the above mentioned course.

I promise that this information will be used only for the project area mentioned above and not in any other way. I will highly appreciate any other information you give concerning this topic.

Thank you.

Yours faithfully,

MATHEW N MWANGI.

**APPENDIX 3: QUESTIONNAIRES**

*This questionnaire is designed to collect data on the socio-economic determinants of performance of small and medium enterprises in Gilgil town of Nakuru County, Kenya. Please answer the questions truthfully.*

**SECTION A: Demographic Information**

- 1 (a) What is your age? 20-30 (  ); 30-40(  ); 40-60(  ); 60 and above (  )  
.....
- (b) Gender of the proprietor Male (  ) Female (  )
- (c) Nature of business.....
- (d) Age of the business Above 5 years (  ) 3-4 yrs (  ) 2-3 yrs (  ) 1-2 yrs (  ) Below 1 yr (  )
- (e) What was your business profit level in the year 2011 in Kshs?  
Above 100,000 (  ); 50,000-100,000 (  ); 30,000-50,000 (  ); Below 30,000 (  )

**SECTION B: Influence of Managerial Training and Experience on Performance of SMEs in Gilgil Town.**

- 1) Have you received any professional training in business management?  
Yes (  ) No (  )

Please describe.....  
.....

2) If yes in (1) above, to what extent can you say that the training has positively influenced performance of your business

Very large extent

Large extent

Undecided

Small extent

No extent at all


Please comment.....

.....

3) For how long have you managed a business of this nature?

Below 1 year (    ); 1-2 yrs (    ); 2-3 yrs (    ); Above 3 yrs (    )

4) To what extent can you say that length of experience in business management influences performance of a business?

Very large extent

Large extent

Undecided

Small extent

No extent at all


Please comment.....

.....

**SECTION C: Influence of Education and Skills on Performance of SMEs in Gilgil town**

5) What is your highest level of education?

K.C.P.E ( ) K.C.S.E ( ) Diploma ( ) Degree ( ) Masters ( )

6) To what extent can you say that a proprietors' educational level influences performance of a business?

Very large extent

Large extent

Undecided

Small extent

No extent at all


Please comment.....

.....

**SECTION D: Influence of Financial Resources on Performance of SMEs in Gilgil Town**

7) Do you have a steady access to financial resources to run your business

Yes ( ) No ( )

Please comment.....

.....

8) To what extent can you say that access to financial resources influences performance of a business?

Very large extent

Large extent

Undecided

Small extent

No extent at all



Please comment.....

.....

**SECTION E: Influence of Appropriate Technological Adoption on Performance of SMEs in Gilgil Town.**

9) What technology/technologies have you adopted to aid in your business operation?

.....

.....

10) To what extent can you say that appropriate technological adoption influences performance of a business?

Very large extent

Large extent

Undecided

Small extent

No extent at all



A vertical scale consisting of four empty rectangular boxes, one for each response option: 'Very large extent', 'Large extent', 'Undecided', and 'No extent at all'.

Please comment.....

.....

*Thank you for your honest responses*

#### APPENDIX 4: TABLE FOR DETERMINATION OF SAMPLE SIZE

Table for determining needed size  $s$  of a randomly chosen sample from a given finite population on  $n$  cases such that the sample proportion  $p$  will be within  $\pm .05$  of the population proportion  $p$  with a 95 percent level of confidence

Population	Sample size	Population	Sample	Population	Sample size
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Adapted from R.V. Krejcie and D.W. Morgan, "Determining sample size for Research Activities," *Educational and Psychological Measurement*, 30(3), p. 608, copyright q 1970 by sage publications, Inc. .

APPENDIX 5 : Letter for research authorization.

REPUBLIC OF KENYA



NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY

Telephone: 254 020 27 13471 - 13473

254 020 316571 - 271311

Fax: 254-020-316245, 318244

When replying please quote

secretary@ncst.go.ke

P.O. Box 30621 00100

NAIROBI-KENYA

Website: www.ncst.go.ke

NCST/RCD/14/012/699

13<sup>th</sup> June 2012

Date

Our Ref:

Mathew Ngura Mwangi  
University of Nairobi  
P.O Box 30197-00100  
Nairobi

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Socio-economic determinants of performance of small and medium enterprises in Gilgil town of Nakuru County, Kenya.*" I am pleased to inform you that you have been authorized to undertake research in Nakuru County for a period ending 30<sup>th</sup> July, 2012.

You are advised to report to the District Commissioner and the District Education Officer, Nakuru County before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in pdf of the research report/thesis to our office.

A handwritten signature in black ink, appearing to read 'M. K. Rugutt'.

**DR. M. K. RUGUTT, PhD HSC.**  
**DEPUTY COUNCIL SECRETARY**

Copy to:

The District Commissioner  
The District Education Officer  
Nakuru County



**APPENDIX 6 : Research Permit**

**PAGE 2**

**THIS IS TO CERTIFY THAT:**

**Prof./Dr./Mr./Mrs./Miss/Institution**

**Mathew Ngura Mwangi**

**of (Address) University of Nairobi**

**P.O.Box 30197-00100, Nairobi**

**has been permitted to conduct research in**

**Nakuru  
Rift Valley**

**Location  
District  
Province**

**on the topic: Socio-economic determinants of  
performance of small and medium enterprises  
in Gilgil town of Nakuru County, Kenya.**

**for a period ending: 30<sup>th</sup> July, 2012.**

**PAGE 3**

**Research Permit No. NCST/RCD/14/012/699**

**Date of issue**

**13<sup>th</sup> June 2012**

**Fee received**

**KSH. 1,000**



**Applicant's  
Signature**

**Secretary**

**National Council for  
Science & Technology**