

**INNOVATION AND PERFORMANCE OF MICRO AND SMALL
ENTERPRISES IN KIAMBU TOWN**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE
(ENTREPRENEURSHIP AND INNOVATION MANGEMENT), SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI.**

November 2014

DECLARATION

This research proposal is my original work and has not been submitted for examination to any other University.

Signed í í í í í í í í í í í í í í Date í í í í í í í í í í í í í ..

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DEDICATION

To Loving Mum, Josephine Wanjiku Kiburi

Thank you for taking me to school and for your encouragement to always be objective in life. Without you I wouldn't be this far. May God bless you.

To My Husband – Benard Wainaina

Thank You for Your Love, Support.

To My Son – Liam Kariuki

You are a precious jewel from God.

My Siblings – Antony Kiburi, Reuben Njenga and Joan Njeri

Thank you for your support and Advice.

ACKNOWLEDGEMENT

I would like to thank the Almighty God for having taken me this far. During the trying moments of writing and compiling this project, some several key people came in to assist and therefore need to be acknowledged for their professionalism, generosity and input, considering the time this research project has taken to come to fruition. I thank my supervisor Dr. Kate Litondo, my Moderator Dr. Justus Munyoki, and Florence Muindi whose incisive reading and constructive critiques of the project progress have been invaluable. My supervisor has been remarkably patient, providing consistent guidance, constructive comments and suggestions as well as helpful advice during the successive stages of this work. I would also like to acknowledge and thank all the entire staff and lecturers of School of Business at The University of Nairobi whom out of their busy schedule spared some time to ensure the progress of this project. Special appreciation goes to the County Government of Kiambu the Micro and Small Enterprises who graciously gave their time to be interviewed and provide relevant information. I am deeply indebted to Mr. Vincent Mwinjiro whose generous and logistical support made this project possible. To my mum for your love and blessings, to my husband, Benard Wainaina for your indomitable spirit, ever helping hand and positive energy, my son Liam Kariuki for being a motivating factor and siblings for the love and moral support. To all my friends and classmates who have given me both intellectual and emotional support, I offer my utmost gratitude to you.

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ABSTRACT

Today, Micro and small enterprises around the world are paying more attention to innovation. The benefits of innovation according to a study conducted in Pakistan by (Hafeez, 2013), include increasing Profit/Margins increase, Product diversification and differentiation, to meet and exceed needs, securing a market strategic position, to make use of new business opportunities, create a brand, improve product quality, create new markets, maintain market share, meet government regulations, standards and legislation, lower production costs, improve working environment, improve product flexibility, reduce environment damage, replace products being faced out. The general Objective of the study was to investigate Innovation and performance of MSEs in Kiambu Town especially to determine extent of innovation among the MSEs, establish the benefits of innovation to the MSEs, determine the challenges of adopting innovation in MSEs and to establish the relationship between innovation and performance of the MSEs. The study used descriptive research design to relationship between innovation and performance of MSEs in Kiambu Town. The target population of this study comprised of the Licensed MSEs in Kiambu Town. The town was targeted because of the variety of MSEs operating there, from Wholesalers to informal sector to transport, agriculture, hospitality, technical services, private education and health, and manufactures. A questionnaire with open ended and closed ended questions was developed by the researcher and used in data collection. The study found and concluded that Process, Product, Positioning and Paradigm types of innovation had a positive relationship with the performance of some business types of the Micro and Small Enterprises in Kiambu Town. It was recommended that embracing innovation after research on which suits which Micro and Small enterprise best. The study further proposed several considerations: Having mechanisms to implement tax incentives, involving key stakeholders in the business types and academia in R&D, develop policies to encourage innovation listed in this study, identify and reward innovative MSEs to promote innovation, initiate programs that tap innovators, and encourage Banks and other stakeholders to fund more viable innovative ideas.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSEs); with the acronym "MSEs" been used by the European Union, international organizations like the World Bank, the World Trade Organization (WTO) and the United Nations; are commonly defined according to their employee headcount, turnover or annual balance-sheet total. In Europe as is in the USA, a small enterprise is said to be a business which employs less than 50 employees and whose yearly balance sheet total and/or annual turnover does not go beyond EUR 10 million. The definition of a micro enterprise is a venture which employs less than 10 Staff and whose yearly turnover and/or balance sheet total does go beyond EUR 2 million (Legislation, 2014).

The Indian Government as passed in the (MSMED) Micro, Small, & Medium Enterprise Development Act of 2006 defines a micro venture as an enterprise whose equipment investment does not go beyond Rs. 10 lakh while a small enterprise is a business whose equipment investment is more than Rs.10 lakh but does not exceed Rs. 2 crore. In Nigeria, the Central Bank defines MSEs with an asset base between N5 million-N500 million and 11-300 employees. According to (Ministry of Trade, 2012), Kenya's meaning of a Micro Enterprise is a business with 1-9 employees with sales of less than Ksh.500, 000 per year. A Small Enterprise's sales are between Ksh.500,000 to Ksh.1 million per year and has between 10-50 staff.

There are four kinds of MSEs: service, farm, trade and manufacturing/industry. They are larger in number compared to medium and large corporate businesses, and account for more employments in most parts of the world including Kenya. This means that competition is increased, constant technology advancements as well as changes in consumer trends among others (Shiu & Walker, 2007). Some MSEs hence do better than others. They come in various guises and therefore it is not easy to generalize when it comes to individual performance. Metrics or Key Performance Indicators(KPIs) range from kind to kind but based on things like Customer retention rates, Achieving goals, volume of online traffic, strengths, marketing (Sales growth, market share, distribution processes, sales-force training and effectiveness, product quality, supplier retention rates), performance can be measured (Neely, 2002). Micro and Small enterprises mostly experience similar challenges and opportunities; particularly if compared to larger enterprises. The main characteristics include Ease of entry and exit; small scale nature of activities; self-employment; little capital and equipment, labor intensive technology, low level of skills, low level of organization with little access to organized markets, unregulated and competitive markets; Limited access to formal credit, low levels of education and training, Limited access to services and amenities (Authority(KRA), 2007).

The MSE sector has been recognized worldwide for its role in wealth generation, employment creation, and poverty reduction. Micro and Small Entrepreneurs pay taxes to the governments. They therefore are crucial aspects for poverty reduction for governments and donors. The delivery of services delivery from the governments depends on revenue collection where a large part of it comes from tax. The tax revenue of

governments depends on various factors that include: the taxable capacity of tax payers and tax base. The entrepreneurs are vital stakeholders of poverty reduction for many countries as they form a big tax base and their revenue (capacity) is very important for any government to have a high taxable capacity thus enabling it to provide services to the public (Shiu & Walker, 2007).

According to the Kenya's economic recovery strategy for wealth and employment creation, MSEs contribute 18% GDP, plays a critical role in easing foreign exchange constraint, penetrating new markets, stimulating growth and development particularly in the rural areas. The sector also acts as the seed bed for entrepreneurial pursuits and complements the process of adjustment in large enterprises by bringing backward and forward linkages for products and services previously not available in the market. Other contributions in Kenya include boosting the output of goods and services; Adding a pool of semi skilled and skilled labor; strengthening forward and backward linkages in diverse sectors; employment of indigenous citizens; generating opportunities to nurture and grow managerial and entrepreneurial skills among others (Authority (KRA), 2007).

1.1.1 Innovation

Innovation is the process through which an invention or idea is translated into a service or good which creates value (Kantor, 2001). This school of thought views that innovation should satisfy a definite need; It continues to explain how innovation differs from invention whereby the former refers to the use of an enhanced and, thereby, a new idea or method, while invention is more of the creation directly of the idea or method itself. Joseph Schumpeter's simple explanation of what is Innovation is carrying out of new

combinations. The Economists have focused their understanding of innovation on economic factors and have taken more of a market rather than personal perspective as seen in the previous theories stated above. They argue that innovation results from the endogenous lack of some factor of production and thus the need to fill in the space to survive. Consequently, the use of tractors was adopted in the United States of America to curb the increasing labor costs. This basically is the "scarcity is the mother of all invention" school (Ruttan, 1984). For the purpose of this study, the author will adopt Kantor's definition of Innovation, that of the Economists and improve it with contributions of Joseph Schumpeter: A process through which an invention or idea is translated into a service or good which creates value results. This results from the endogenous lack of some factor of production and thus the need to fill in the space to survive or do better.

Some of the main innovation areas around the world are: product development and improvement; creating entirely new set of products; etc. Firms which innovate tend to last longer and grow (Kantor, 2001). Examples in Kenya are firms that have adapted paying of goods or services by customers with electronic cards, mobile service such Mpesa and zap. It has been noted that their businesses have grown tremendously as clients prefer them due to not having to carry cash which is risky. Innovation is also about value adding through manufacturing processes such as branding like in the case of some buses and tuktuks (public service vehicles that carry five passengers commuting for small distances) painting the cars in catchy colours and giving passengers a branded sweet. Other

innovation areas in Kenya are seen in Packaging where innovative traders pack up goods in unique attractive wraps that has their business contacts on them Kantor, 2001).

There are however various risks to overcome while implementing innovations as there are benefits of course. Some experienced by MSEs include the product being rejected by the market; high innovation investments that are not paid back during the product life cycle; losing authenticity, excessive concentration of resources and attention on the new product at the expense of quality and marketing of the existing products; becoming reliant on the new process/product; no ability to implement innovation among others (Voordt, 2011). According to a study conducted in Pakistan by (Hafeez, 2013), benefits include increasing Profit/Margins increase, Product diversification and differentiation, to meet and exceed needs, securing a market strategic position, to make use of new business opportunities, create a brand, improve product quality, create new markets, maintain market share, meet government regulations, standards and legislation, lower production costs, improve working environment, improve product flexibility, reduce environment damage, replace products being faced out.

1.1.2 Organizational Performance

Different ways are used by different businesses to measure performance. Most prefer financial indicators to gauge their performance (Kiraka, 2013). Return on assets (Hafeez, 2013), the average half or annual customer rate, Gross profit and the return on investment (Mwobobia, 2012) are also used. Some other frequent performance measures include productivity, market share, profitability, growth, competitive position and stakeholder satisfaction (Kantor, 2001). However, financial elements are not the only indicator for

measuring firm performance (Chesbrough, 2010); business performance is split into four dimensions, rational goals, internal processes, human relations and open system, where each gets measured by whichever changes is in its variables.

1.1.3 Kiambu County

Kiambu County was previously the Central Province of Kenya. It is adjacent to the northern border of Nairobi County with a total of 2,449.2 km² (945.6 sq. mi). It is primarily rural, a bit cosmopolitan, with a dominant Kikuyu tribe. Kiambu County has a population of 1,623,282 (Male; 49%, Female; 51%) with 638 people per km. The national Percentage of the people is at 4.20% with an annual Growth Rate 2.56. The age Distribution is 0-14 years (34.5%), 15- 64 years (61.9%), 65+ years (3.6%). The County has 12 constituencies which include Thika Town, Ruiru, Juja, Kiambaa, Githunguri, Limuru, Lari, Kikuyu, Kabete, Gatundu South, Gatundu North and *Kiambu Town* which is the second largest after Thika, the Capital and case of this study (KNBS, 2010). It has a total number of small and medium enterprises to 5720.

The county is endowed with lots of agricultural resources and an entrepreneurial spirit among the residents exists. Furthermore, there are also local tourism activities such as visiting the Rift Valley View point, agricultural tourism ó visits to tea and coffee farms and factory with opportunity to purchase freshly processed tea and coffee at a premium, Cable car transport at the Great Rift Valley ó spectacular views utilize Karura Forest for tourism and Construct cultural villages. Kiambu town has not only been the capital but also has the biggest population of all the other constituents and a hub of many micro and small entrepreneurs mostly in the Agri-business sector. It is ranked as the second best out

of the 47 in terms of economic growth in the last 5 years hence understanding the relation between innovation and performance in both large and small firms is relevant for researchers, policy-makers and managers of large and small companies alike. This study; Innovation and Performance in Micro and Small Enterprises becomes even more relevant in Kiambu town for the above stated reasons and also since the Member of Parliament Hon. Jude Njomo stated in January 2013 that the ambition to become the County's most competitive and innovative Constituents by year 2030. It hence makes it a good place to conduct the study.

1.2 Research Problem

The global market changes every now and then and depending on service/product type a business whether micro, small, medium or big needs to counter that or lose its clients. So competition is high, the customers behavior and needs are changing, IT, high operational costs, competition, globalization, inadequate resources are some of the dynamics that are being faced by MSEs. Taking up innovation is basically a critical measure to stay relevant and survive (Kiraka, 2013). MSEs Play a very significant role in the Kenyan Economy and (KRA, 2007) found that this sector contributed more than 50 percent of new jobs in year 2005. In spite of their importance, sad fact as indicated by past statistics by (KNBS, 2010) is that out of five businesses, only two survive within the first few operational months. And those that do make it do not flourish very well. Other challenges are lack of sufficient expansion capitals, legal and regulatory constraints, inaccessibility to appropriate technology, limited entrepreneurial culture and decline in economic growth, lack of managerial training, inadequate education and skills, poor infrastructure, scanty market information and lack of access to credit. Market saturation is also a major

problem for MSEs related to a lack of access to higher value markets and lack of an innovation drive (Ministry of Trade, 2012).

A study on Hafeez (2013) Innovation and Relational Learning Influence SME Performance: An Empirical Evidence from Pakistan was taken and the results of the research revealed that value added innovativeness and its components had a significant positive relationship with companies' profitability. Another study on innovativeness and Firm Performance was taken by Kiraka (2013) where the objective of the research was to depict the then state of knowledge regarding the relation between innovation and performance in general and for SMEs in particular. The results showed that product and process innovativeness had a considerable positive relationship with performance of SMEs (Ruth, 2011) did a study in Kisumu city to understand the relationship between the characteristics of Small and Medium Enterprises and performance while another closely related research by Kiraka (2013) on Innovation and Micro, Small & Medium enterprises in growth in Kenya as a whole.

The significant gap on this among other studies is; how innovation is associated with performance of Micro and Small Enterprises in Kiambu? For that reason, this study contributed in filling these pertinent gaps in literature by answering the following research problems: How much innovation do MSEs engage in? What benefits and challenges do they experience from innovation? What influence does innovation have on their performance?

1.3 Research objectives

General Objective: Investigate Innovation and performance of MSEs in Kiambu Town especially to:

- i. Determine extent of innovation among MSEs in Kiambu town
- ii. Establish the benefits of innovation to the MSEs
- iii. Determine the challenges of adopting innovation in MSEs
- iv. Establish the relationship between innovation and performance of MSEs in Kiambu town

1.4 Importance of the Study

The results from this study are of tremendous help if used by the County Government of Kiambu, the Ministries of Trade, Youth Affairs, Gender and social services while coming up with various policies such as the disbursement of the Uwezo fund, offering loans and support through the Youth and Women funds to the small businesses and many others.

Development Partners and other Non-Governmental Organizations (NGOs) will see the importance of the study while dealing with the white collar job mentality among the youth as well as poverty eradication.

Findings of this imperative study can be distributed around different institutionsØ classrooms including usage in workshops; published and saved in all major Libraries consequently I will contribute to the Knowledge.

The recommendations of the result from the study can also benefit the Micro and Small Entrepreneurs not only in Kiambu County but also in Kenya and Africa as a whole in deciding whether to be innovative or not.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on theories of innovation, MSEs and innovation, product innovation, process innovation, market innovation, business performance, MSE and business performance. It ends with the summary of Literature review and a conceptual framework.

2. 2 Innovation

The Innovation concept was popularized by a German economist, Joseph Schumpeter where his analysis comprised of aspects of creativity, new services/ products, research and development (R&D), advanced technologies and new processes, (P.A, 1995). According to Kemp (2003) innovation is defined as the creation of new-fangled wealth or the enhancement of existing products or services so as to generate new wealth. For Wladawsky-Berger (2008), Innovation is a process where an idea is created, developed into an invention which in the end the market gets new products, processes and/or services. Presently, this innovation concept is been applied in almost every aspect of social activities which makes concept turn out to be more intricate and multidimensional. Kantor (2001) is of the opinion that innovation is key factor in economic progress of any country as well as in gaining competitive advantage for different industries. A crucial role for both large firms, medium, small and Micro is played by innovation (Wladawsky-Berger, 2008). Kemp (2003) maintains that innovation remains to be one of the main competitive weapons in a firm and is distinguished as a business's core. It is also considered by Ruttan (1984) as a very effective means to progress a business's

productivity should there be resource limitations. Polevoi (2013) adds that it is very important for a business to exploit new prospects and possibly gain competitive advantage through market, process and product innovation

2.3.1 Product Innovation

This is the creation of new products from new materials or altering existing products so as to meet or exceed customer satisfaction and expectation. Product Innovation can also be defined as the introduction of entirely new services or products with an aim of creating new clients or markets (P.A, 1995). Ruttan (1984) argues that product innovation is made by exploiting new ideas. It is one of the main sources of gaining competitive advantage for a small and micro business (Kiraka, 2013). Innovation leads to enhancement of the quality of products which results to the business performing better as well as gaining (Hafeez, 2013). According to Kemp (2003), Potential protection for a business is offered by product innovation from its competitors and market threats. Ngirigacha & Bwisa (2013) provide evidence that there is a significant and positive link between product innovation and a business performance. Using number small enterprises in Kenya as samples; Ongwae, Muluku, & Odhiambo (2013) also confirmed of a positive result of innovation on business performance. Rosli & Sidek, (2013) Found that the dimensions of product innovation (worth and effectiveness) influence and are related to MSE performance. Therefore, a hypothesis stating that product innovation and business performance are associated positively.

2.3.2 Process Innovation

It is defined as the method of improving and reengineering the internal business operations processes (P.A, 1995). Process innovation is said to be the execution of a novel or notably improved production and/or delivery method such as noteworthy technique changes, changes in equipment or even software (Cooper, 2009). Process innovation involves various aspects of a business's day to day functions, including human resource, technical design, manufacturing, management, R&D and commercial activities (Freeman, 1997). According to Kantor (2001), process innovation is concerned with improvement or creation of techniques and improvement in process or the systems. Example, used during the process of transforming input into output are innovation in skill, system, technology, techniques and procedure which is (Zhang & Duan, 2010).

Consistent with this, Hafeez (2013) study on SMEs in Pakistan found process innovation to be positively linked to business performance. In another recent study by Atandi & Bwisa (2013), a major relationship linking new technology and business performance was found where new technology was used a proxy for the process innovation. As such, a hypothesis that Process innovation is also positively associated with Business performance.

2.3.3 Market Innovation

According to Ruttan (1984), market orientation has been described as that tradition of putting customer satisfaction at the center of the business operations thereby producing better value for clients as well as achieving outstanding business performance. According to P.A, (1995), market innovation involves the market selection and mix so as to meet a client's buying preference. The consumer needs, wants and expectations change from

time to time. Meeting these demands and the responsiveness to an ever changing market hence, become a vital part for a business to succeed (Freeman, 1997). Responsiveness to these changing markets needs often calls for continual market innovation, a business reason being the high-tech marketing tools such as the internet, make it very possible for competitors to be able to get to those prospective consumers across the globe very fast (Freeman, 1997). Cooper (2009) hence asserts market innovation to playing an important role in meeting the market needs and quickly responding to emerging market opportunities.

The significance of the market innovation to business performance, albeit narrow, is discussed too. Neely (2002) learned that there is a positive outcome on the sales growth of a firm through conducting market innovation. Similarly, Zhang & Duan (2010) found strong evidence in Japan which indicated that market innovation had positive effect on a business performance. Adding to this finding, Hafeez (2013) in Pakistan using an estimated model also backed up the same with the outcome of a highly significant relationship connecting market innovation and a business performance. This consequently leads to another hypothesis: Market innovation has a positive relationship with a business performance.

2.4 Benefits of Innovation

In this ever-evolving world, innovation is the key to life and growth of a country's economy. Many firms have realized the significance of innovation to gain competitive advantage. For that reason, they are engaging in different innovative activities like manufacturing processes, improving their products and initiatives for customer

satisfaction. Presently, the business environments have become extremely dynamic with the increasing demanding clientele and market competition. And to be able to meet this, many firms are now producing new products, services and solutions to provide a totally better experience for their clients (Chesbrough, 2010).

Innovation merely just about technology, it is also involves been able to understand and explore untapped needs that need addressing in a competent way. It should take place at each stage of a product/ service or solution development cycle. Consequently, managing innovation is quickly becoming a priority internationally. Firms that do innovate tend survive and even grow to a larger extent. Most of the successful people, the managers and leaders in most recent businesses are those that are not only innovative on their own but encourage and help others in been innovative (Kemp, 2003).

The main innovation areas include: development of products/services and improvement, the manufacturing processes and creation of entirely new products. In the area of managing supply chains, innovations aid in making supply chains more responsive, efficient and efficient. This innovation in supply chains can be used to help reduce the costs, in offering better collection of consumer centric products as well as in decreasing the time in marketing and driving firm growth. Innovation is the key idea for shaping businesses life and help companies adopt strategic options. It aids in reduction of cost of production, helps increase the avenues of income avenues and to maintain efficient operating systems. Innovation enables one to see possible acquisitions not just on cost basis but as a means to accelerate profitable revenue growth and enhance business

capabilities. It is also responsible for expanding the R&D base of many countries and in bringing the most up-to-date technologies to the country. Innovation also gives an edge in that one is able to penetrate new markets quicker and deeper (Kemp, 2003).

Thus, innovation is appropriately referred to as the changes done to products and services, processes or any business models. In order to continue with their growth and to get to newer heights, Firms need to recognize the significance of innovation for maintaining competitive edge as well as in fuelling additional growth. Innovation may perhaps be linked to firm performance and business growth by improving efficiency, quality, productivity, competitive positioning and market share. Innovation be the development of new customer value by coming up with solutions which meet any new needs, the unarticulated needs, and/or old client and market needs in some new ways. The growth and economic benefits comprise of further innovation, increased investment, improving infrastructure and quality of the workforce. Clear understanding of one's roles, senior management support, strategic partnerships, investment in human resource and organization restructuring can enrich an organization's culture and innovation (Polevoi, 2003).

2.5 Challenges of Innovation

The product is not accepted by the market; To innovate it might imply high investments that are not paid back during the product life cycle; Excessive concentration of resources and attention on the new product at the expense of quality and marketing of the existing products; The company was overtaken by partners when the innovation is done in partnership / risk of transfer of know-how; The company has become dependent on the

new product; There is no capacity to implement the innovation; The competitive advantage of innovation, benchmarking and developing rapidly making an imitation of a more efficient or that exceed the initial innovation by incorporating some distinctive elements (Wladawsky-Berger, 2008).

2.6 Business Performance

The outside environment generally rates a business's capability according to its performance (Kantor, 2001). This explains why a firm's performance is more of a mirror for the enterprises. The goal accomplishment level is used more often than not to define how a business is performing (Kemp, 2003). Firm performance is said to be the outcome that is achieved when a firm meets its goals (Wladawsky-Berger, 2008). Conventionally, the variation in firm's performance is linked to business structure (Ruttan, 1984). The neo-classical economic theory however sees a business's growth as the process of achieving the minimum point of the average cost. P.A, (1995) came in and came up with a theory that was resource-based where a business's performance is reliant on the firm resources and abilities the business has to source sustainable market competitive advantages. Ruttan (1984) argues that for firms to grow, they must be able to mobilize access and position resources. How a business adopts and uses different strategies also determines the performance. To each business, its own strategy; therefore performance is concerted in its strategy (Wladawsky-Berger, 2008).

2.6.1 Innovation and MSEs Performance

The contribution of innovated new products was more to total sales than to profits. Neely (2002) whose study focused exclusively on product innovations in German, UK, and Irish

MSEs, ascertained that the output of innovative MSEs grew significantly faster than that of non-innovators implying that innovated products contributed to the faster growth of the former (Hafeez, 2013). Similar to Neely (2002) found that sales turnover of innovative firms grew faster than that of non-innovative firms. They detected a significant relationship between the share of innovative sales and sales turnover change of firms. Chesbrough (2010) found that innovation effects were felt in terms of both product-oriented results such as: improvement in quality of goods and services, and secondly, increased range on goods and services, and process-oriented results like increased production capacity and improved production flexibility.

Given that innovation can yield positive benefits for businesses it seems plausible to conclude that innovation equates to business performance. An empirical survey carried out by the Cambridge Small Business Research Centre (SBRC) provides useful insights into MSEs innovative behavior in the UK. During the study data was collected from more than 2000 MSEs on a range of issues relating to technology and innovation. This is by far the largest and most authoritative empirical survey. The research found that 60% of the sample had initiated a major product or service innovation in the last five years. The results suggest that MSEs are highly innovative across sectors. The survey did not measure inputs, such as: innovation cost, proportion of resources consumed and the efficiency in resource usage, and outputs such as: impact on firm performance, market share and profitability. Therefore, it was not possible to quantify the relationship between innovation (generally) and performance (P.A, 1995). This is because Innovation mostly

comes out in specific product innovation, process, market innovation as well as a business organization in some (Ruttan, 1984).

2.7 Research gaps

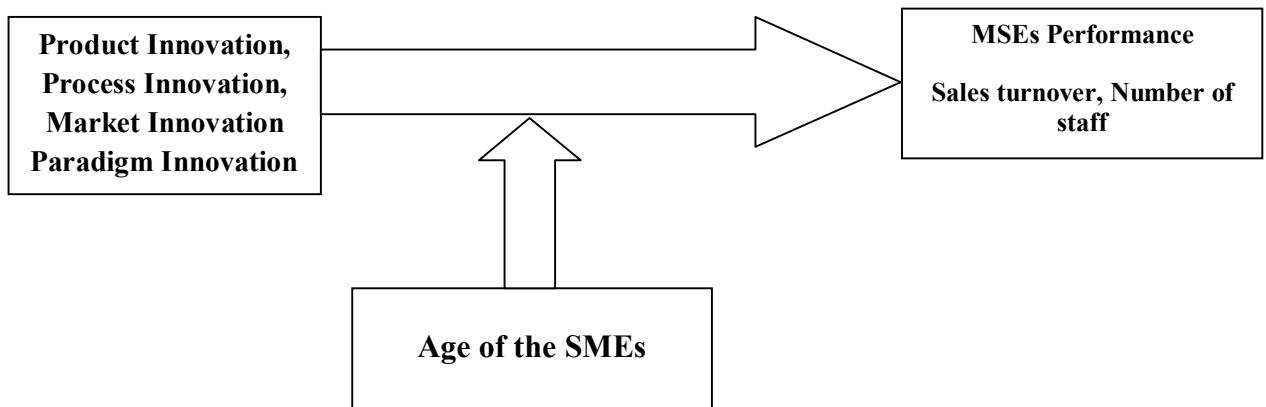
A study by Hafeez (2013) on the outcome of innovativeness on business performance of Iran State Companies investigation with the purpose to investigate the role of innovativeness and its connection with financial performance of the Iran state companies during years 2010 to 2012 with 49 state companies as the sample was done. The results of this study disclosed that only value added innovativeness together with its components had a major positive relationship with those companies' profitability. Rosli & Sidek (2013) Conducted a study on impact of innovation on SMEs Performance with main purpose been to comprehend the innovativeness of the indicated proxy variables on the businesses performance and any related expenses that of the business contribution to value creation.

This study thus fills these pertinent gaps in literature by studying the selected independent variables on innovation and performance of micro and small enterprises specifically in Kiambu Town, Kenya. It will add value to the existing research done by Ongwae, Mukulu & Odhiambo (2013) of Jomo Kenyatta University of Agriculture and Technology on Innovation Activity and Firm Growth across Key Sectors of The Kenyan Economy, a study on The Influence of Innovativeness on the Growth of SMEs in Kenya by John Karanja Ngugi, Kenya Maurice Otieno Mcorege, Joseph Mwangi Muiru. It will by providing empirical evidence on the influence of innovativeness on the performance MSEs in Kiambu County, Kenya and fill the existing contextual and conceptual gaps.

2.8 Conceptual Framework

The conceptual framework indicates that innovation influences the performance of an MSEs, however, literature tells us that the length of time an MSE has been operational can also influence the performance of an MSE.

Figure 2.1 Conceptual Framework



CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter describes the procedures that the researcher used in the study to collect and analyze the data collected from the field. It comprises of research design, population, sampling, data collection, pre-testing, data analysis and presentation.

3.2 Research Design

The design adopted for this study was cross section descriptive survey. It is the most appropriate because of the exploratory and descriptive nature of the study. A descriptive research design determines and reports the way things are (Legislation, 2014). The design employed is aimed at acquiring the most recent, relevant and in-depth information on the relationship between innovation and performance of the Micro and Small Enterprises in Kiambu Town.

3.3 Target population

Population refers to an entire group of persons or elements that have at least one thing in common. Population also refers to the larger group from which a sample is taken (Orodho & Kombo, 2002). The target population of this study comprised of the Licensed MSEs in Kiambu sub county Town which are as listed in appendix 2. The town was targeted because of the variety of MSEs operating there, from Wholesalers to informal sector to transport, agriculture, hospitality, technical services, private education and health, and manufactures. It is also the hub of many operations such as hosting the County government offices. More so, Kiambu town is growing tremendously. The

respondents are going to be the micro and small business owners or managers who are going to be found in their places of business.

3.4 Sampling

Judgmental Sampling was used to pick 100 MSEs. Stratified sampling technique was used to pick the MSEs as listed below in Table 3.1.

Table 3.1 Types of MSEs

MSE TYPE	NO. OF RESPONDENTS
General Trade, Retail, Wholesale Stores	64
Accommodation and Catering	11
Industrial Plants, Factories, workshops	6
Professional and technical services	6
Agriculture	5
Private Education, Health and Entertainment	5
Informal Sector	3
Transport, Storage and Communications	2
TOTAL	100

Author (2014)

3.5 Data Collection

In this research, questionnaires use was considered appropriate. The study collected data sourced through an interviewer administered questionnaires which contained both closed and open ended questions. This was expected to facilitate collection of accurate information and clarifying them appropriately. The questionnaire was developed and

circulated to the respondents at their work stations. The questionnaire was preferred because of its ability to collect data from a large group within a short period.

3.6 Data Analysis

Based on the nature of the questionnaire, both quantitative and qualitative data was generated. The data collected was cleaned, coded and systematically organized in a manner that facilitated analysis using the Statistical Package for Social Sciences (SPSS). Qualitative data was analyzed by categorizing, tabulating and recombining evidences to address the research questions. Quantitative analysis was analyzed through descriptive statistics like measure of central tendency to generate relevant percentages, frequency counts, mode, and median and mean where possible.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

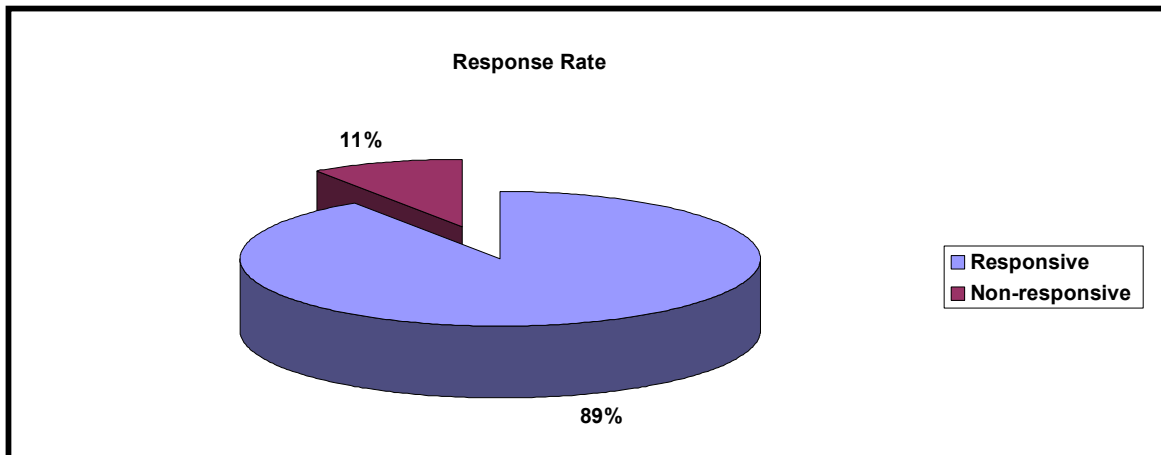
4.1 Introduction

This chapter covers data analysis, findings and discussions on data gathered from the field. The data is summarized and presented in the form of percentage scores and frequency count Tables and Figures.

4.2 Response Rate

Data was collected from eight different MSE types located in Kiambu Town. The Respondent's samples were 110 out of which 100 of them responded translating to 89% response rate which is regarded as overwhelming and hence yield a very clear picture of the objectives under investigation. This response rate is agreeable with Fincham, (2008) who asserted that a response rate of 50%-60% or greater is optimal. The 89% response is attributed to mainly to the friendly and welcoming nature of the respondents. The response rate result is as shown in Figure 4.1.

Figure 4.1 Response Rate



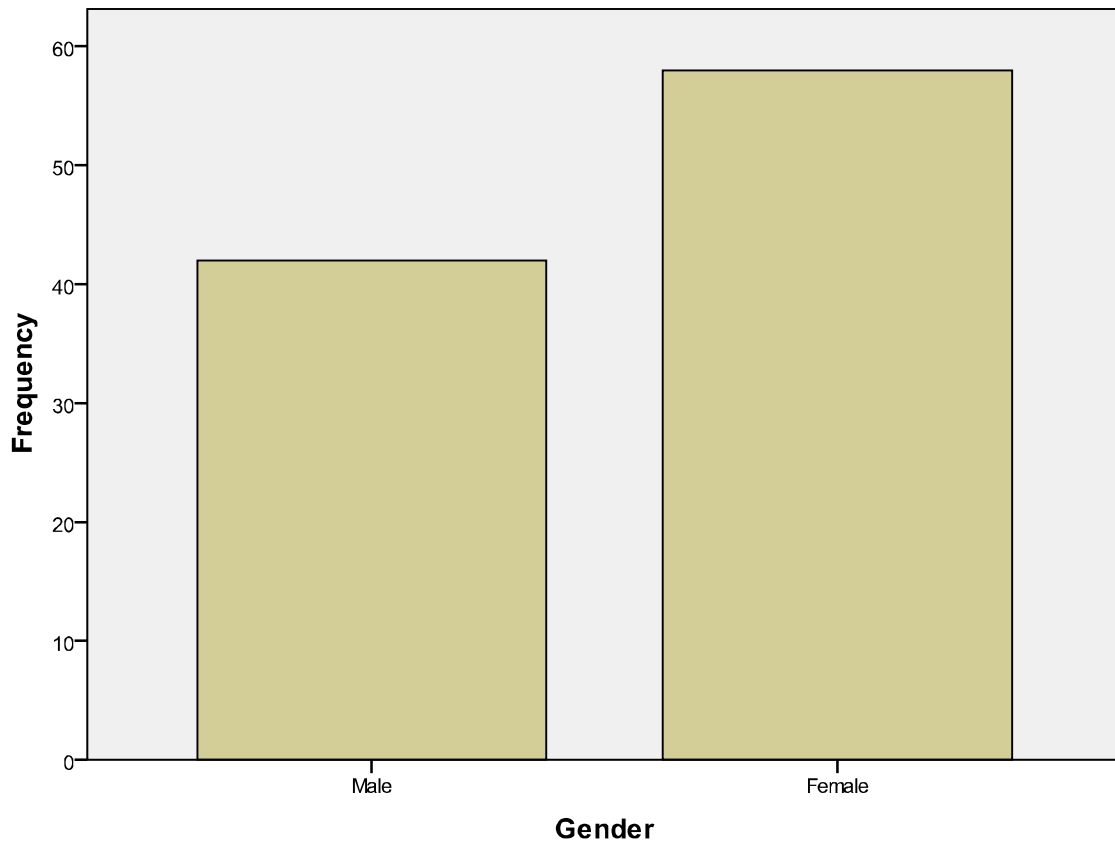
Author (2014)

4.3 Respondents Demographic Profile

4.3.1 Gender

The study sought to establish the gender of the respondents who participated in this research. A simple majority (58%) were female while 42% were men as shown in Figure 4.2. These findings show that there is a fair gender distribution and therefore is a sign of diversity in itself among the MSEs in Kiambu town.

Figure 4.2 Gender

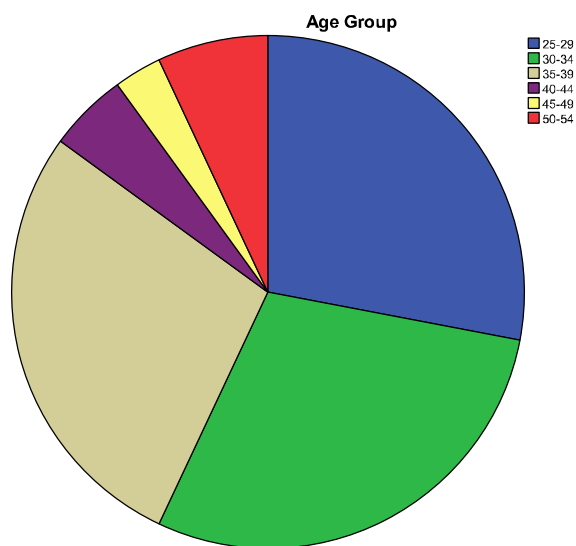


Author (2014)

4.3.2 Respondents Age

The researcher made the decision to divide respondents' age into different reasonable ranges from 25 to over 54 years. From the responses received, majority of the respondents fall in age bracket of 30-34 with 29%, while both years 35-39 and 25-29 represented with 28% each. The age group 50-54 followed with 7%, 40-44 with 5% and 45-49 years were 3% as illustrated in Figure 4.3. Therefore, representation shows that the people who participated in the study were mature and the majority of the Micro and Small enterprises in Kiambu comprised of mixed age groups, mostly the youth, and therefore indication of mature information.

Figure 4.3 Respondents Age

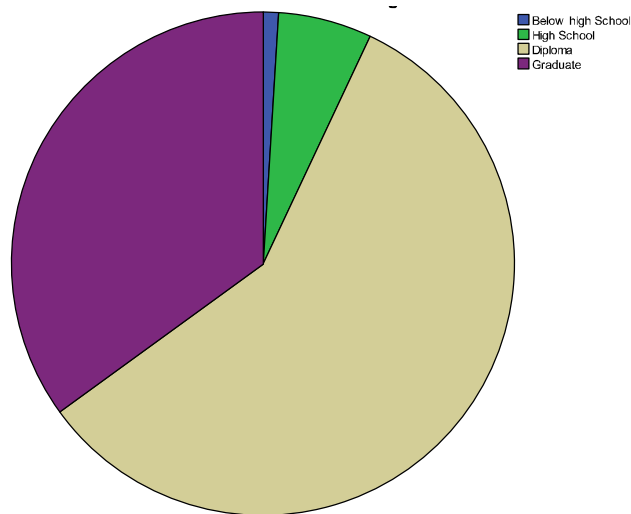


Author (2014)

4.3.3 Level of Education

The study required the respondents to indicate their level of education. Majority of the respondents (58%) fell under the category of diplomas/certificates level. 35% of the respondents had undergraduate degrees, 5% went up to high school while below high school level being the least account for only 2% as shown in Figure 4.5. This is an indication that the respondents were well informed on the topic of research and therefore, gave relevant data for this study.

Figure 4.4 Level of Education



Author (2014)

4.3.4 Number of Years in Operation

On the number of years worked in business, majority 81% of the respondents have been in operation for a period of 1 to 4 years, while 13% have been in operation for 5-9 years and the rest, 6%, fell in the 10-14 as illustrated in Table 4.1. From the outcomes, it can

be understood that many levels of business growth were fairly covered in the study. Therefore an indication that respondents have vast experienced and knowledge about MSEs, hence provided accurate data for the study.

Table 4.1 Years of Operation

Years of Operation	Frequency	Percent
1-4yrs	81	81.0
5-9yrs	13	13.0
10-14	6	6.0
Total	100	100

Author (2014)

4.4 Type of Business

On the types of business, the various registered types of business as obtained from the Kiambu County Government, the research calculated a percentage of each as per to arrive at 15% wholesalers, 4% informal sector, 4% transport, 26% agriculture, 6% hospitality, 20% technical services, 4% private education and health, and 21% manufactures. This indicates that all the business types were represented and hence the information cuts through all MSE types. This is illustrated in Table 4.2

Table 4.2 Type of Business

Business type	Frequency	Percent
General Trade, Retail, Wholesale Stores	15	15.0
Accommodations and Catering	6	6.0
Industrial Plants, Factories, workshops	21	21.0
professional and technical services	20	20.0
Agriculture	26	26.0
Private Education, Health and Entertainment	4	4.0
Informal sector	4	4.0
Transport, Storage and Communications	4	4.0
Total	100	100

Author (2014)

4.5 Product Difference

On whether products were different from others in the market, the study found out that products were different from others in the same industry type to a very great extent of 96% and the not different ones were represented by 4%. As illustrated in Table 4.3

Table 4.3 The Uniqueness of Products

The uniqueness of products	Frequency	Percent
Yes	96	96.0
No	4	4.0
Total	100	100

Author (2014)

4.6 Innovation Type

On types of innovation, the one that was most represented by micro and small enterprises in Kiambu town according to the study was process innovation with 49%, Positioning followed with 39%. While product innovation was done by 11% and the rest took paradigm innovation. This indicates that all types of innovation did indeed happen: some higher than the others as illustrated in Table 4.4.

Table 4.4 Types of Innovation

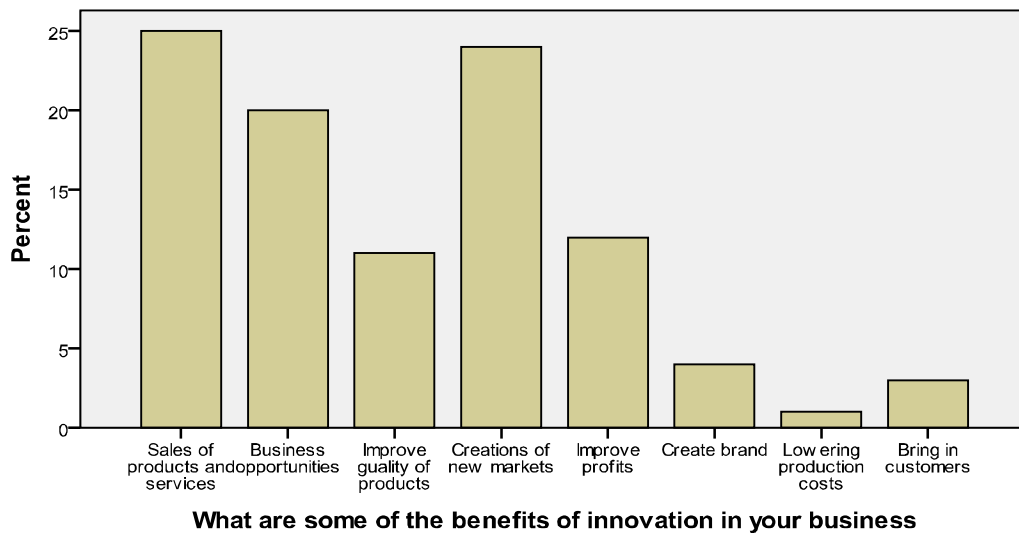
Innovation Types	Frequency	Percent
Product	11	11.0
Process	49	49.0
Positioning	39	39.0
Paradigm	1	1.0
Total	100	100

Author (2014)

4.7 Benefits of Innovation

From the study, some of the benefits of innovation that were mostly found include Sale of products and services, creation of new markets, more business opportunities, improving profits, improving quality, creating a brand, bringing in new customers and lowering production costs. Their percentages are represented below in Figure 4.6.

Figure 4.5 Innovation Benefits

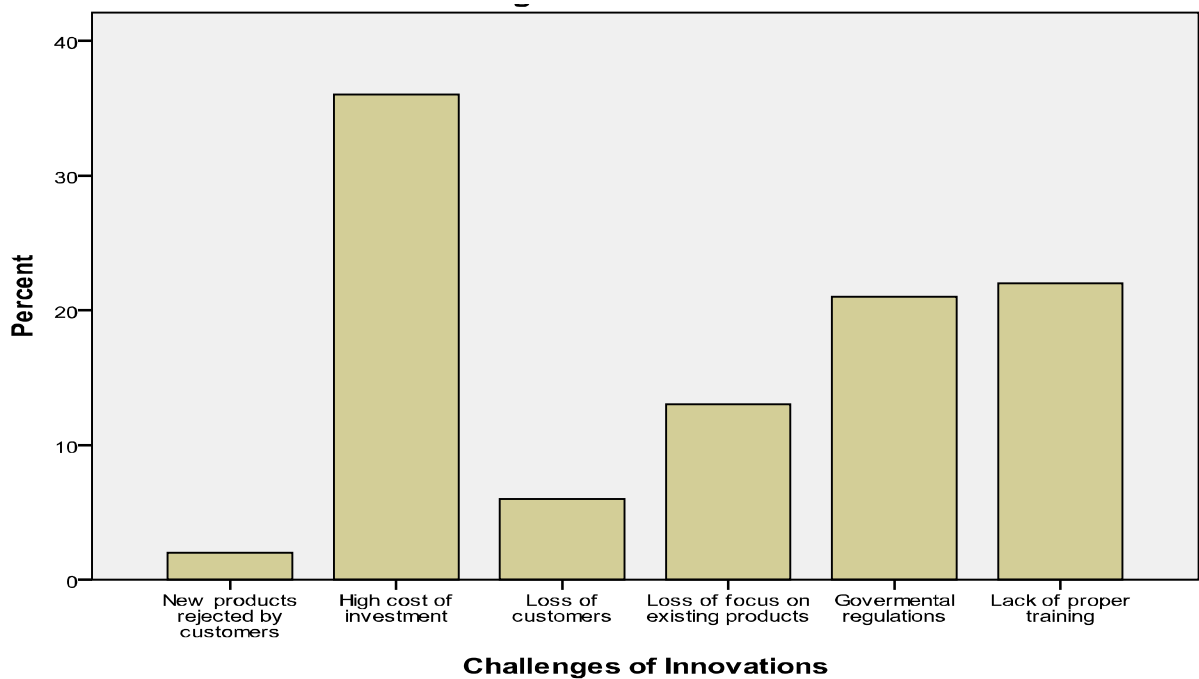


Author (2014)

4.8 Challenges to Innovation

The study found some challenges to innovation with less than 50%. They include high cost of investment, lack of proper training, government regulations, loss of focus on existing products, loss of customers and rejection of products by the market. Their specific percentages are illustrated in Figure 4.7.

Figure 4.6 Challenges to Innovation



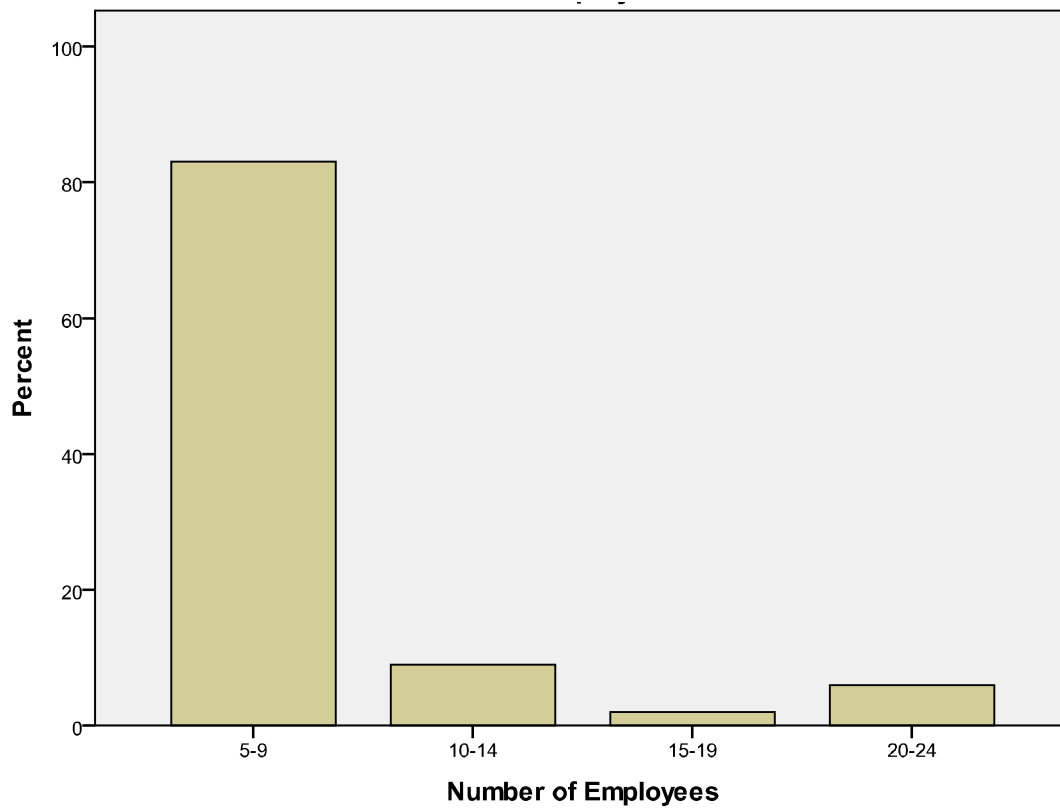
Author (2014)

4.9 Performance Indicators

4.9.1 Growth of employee's number

The study found that most enterprises (83%) had grown within a range of 5-9 employees from when they started operating while 9% of the businesses had grown within a range of 10-14 employees, 6% of the businesses represented in the range of 15-19 and the rest were in the range of 20-24 employees. This is illustrated below in Figure 4.8.

Figure 4.7 Employees Growth

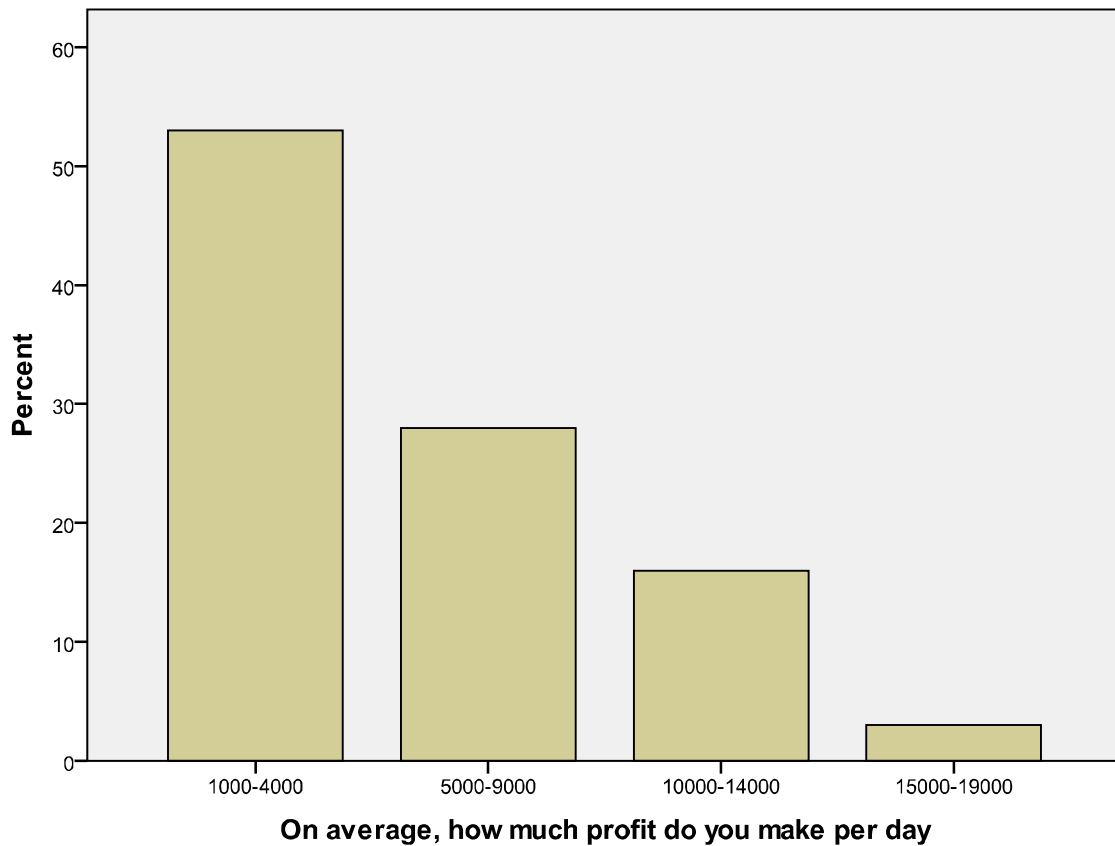


Author (2014)

4.9.2 Average Profit per Day

The study found out that businesses that made daily profit of between KShs. 1000 ó 4000 were 53% while those that made between 5000-9000 were 28%. The study further established that some businesses, 16% made between 10,000- 14000 profit .The rest that took up this study made between 15000-19000 more since they started been innovative. This is illustrated in Figure 4.9.

Figure 4.8 Average Profit per Day



Author (2014)

4.10: Discussion of the Findings

The challenges experienced in this industry included high cost of investment and government regulations. However, the profits, number of employees and branches had grown tremendously on embracing innovation with over 50%, 60% and 40% respectively. This means that performance was influenced positively by Innovation. These findings concur with those of Kantor (2001) and Bwisa (2013) who found that process and positioning types of innovation impact positively on performance of micro and small businesses. From these findings, the relationship between service, product and

paradigm innovation and performance of the enterprises was high which concurs with the results from a study by Ongwae, Muluku, & Odhiambo (2013) who also found that business performance and some types of innovation as this positively relate.

Industrial Plants, Factories, workshops businesses in Kiambu innovated more around paradigm and their products. This resulted to benefits such as new markets, business opportunities, cutting production costs and reducing environmental damage. The challenges that the study showed they experienced were high investment costs, time for product to be accepted, rejection of new products and government regulations. This however indicated that innovation and performance did not have an entire positive relationship with the businesses performance. This indication is similar to that found in a study within this industry on the Impact of Different Kinds of Market Orientation on product innovation by Zhang & Duan (2010) and another by Freeman (1997) which showed there was no relationship between product, and paradigm innovation and the manufacturer industry performance. The findings indicated a strong significance between process innovation and business performance. They also show correspondence with an empirical study by Hafeez, M. H. (2013). "Does Innovation and Relational Learning Influence SME Performance" where he found a positive relationship between the two in the Professional and technical services industry.

The study findings of the informal sector showed that they were not innovative due to challenges such as lack of training, not are of new technology or methods; want to remain authentic and high cost of investment. A survey by Authority(KRA), K. R. (2007) on challenges faced my MSEs in Kenya also observed the lack of innovativeness by the informal sector with the same challenges. The challenges that came with innovation

included new products rejected by customers, loss of customers, constant change due to technology change, loss of focus on existing products and governmental regulations. The results showed a fairly positive relationship between process, product and positioning types of innovation and the businesses performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter comprises of summary, conclusions and recommendations. The suggestions for future research are also presented in this chapter.

5.2 Summary of the Key Findings

This study investigated the relationship between innovation and performance of micro and small enterprises in Kiambu town. As discussed in the introductory section of this paper, MSEs have been recognized worldwide for their role in wealth generation, employment creation, and poverty reduction. According to the Kenya's economic recovery strategy for wealth and employment creation, MSEs contribute 18% GDP, plays a critical role in easing foreign exchange constraint, penetrating new markets, stimulating growth and development particularly in the rural areas. The sector also acts as the seed bed for entrepreneurial pursuits therefore the need to stay relevant and grow which comes through innovation. Innovation is a dynamic measure that not only sparks growth but also enables businesses to break status quos and leapfrog to superior performance. Consequently, this paper sheds some light on the Innovation importance through reviewing past and current relevant literature discussing the relationship between innovation and performance of MSEs.

5.3 Conclusion

Most of the businesses in the general Trade, Retail, and Wholesale Stores type of business were seen to be more innovative in Process and Position types of innovation. The ones that were indeed innovative recorded to a very great extent benefits such as Sales of new products, Business opportunities, Creation of new markets, Improve profits, Create brand and bringing in new customers. The micro and small enterprises in the Accommodation and Catering industry in Kiambu town leaned more on Service, product and paradigm types of innovation where with that came benefits such as improvement of the quality of products and services offered, Create a brand, Business opportunities, Creation of new markets, Improvement profits, Maintaining and bringing in new customers. Here, the challenges experienced according to the study were high investment costs, loss of focus on existing old products and services and government regulations. The study found that Professional and technical services innovated more on process innovation with benefits such as repeat clients, new clients, and more business opportunities and as a result they performed better due to the increase in daily profits, new branches and more employees. The challenges that they faced were government regulations and lack of proper training.

The Agricultural types of business in Kiambu were found to innovate more around process innovation. The benefits recorded include reducing environmental damage, creating new business opportunities, markets and reducing costs. The challenges faced by the agriculturalists were lack of proper training and not been aware of new products. The results from this study indicated no relationship whatsoever between process innovation and the businesses performance. In the private education, health and entertainment

industries, innovation was seen in service, positioning and paradigm where benefits achieved included, sales of new products, business opportunities, improvement quality of products and services, creation of new markets, improvement of profits, creating a brand, reduced environmental damage and bringing in new customers. Transport, storage and communications type of businesses were more innovative in the process, product and positioning. The benefits observed here included sales of new products, business opportunities, improvement quality of products and services, creation of new markets, improvement of profits, creating a brand, cutting production costs and reduced environmental damage and bringing in new customers.

5.4 Recommendations of the Study

The study hence recommends embracing innovation after research on which suits which Micro and Small enterprise best. This is because Innovation results in continued growth and therefore profitability of the enterprise. The study further proposes the following for consideration to stimulate innovation: 1. Have mechanisms to implement tax incentives to support high cost innovations. 2. Involve key stakeholders in the business types and academia in research and development for innovation. 3. Develop policies to encourage in sectors listed in this study such as informal sector that are not innovative and other policies to sustain innovation. 4. Identify and reward innovative MSEs to promote innovation. 5. Initiate programmes that tap innovators from when they are young regardless of education level. 6. Encourage Banks and other stakeholders to fund more innovative and viable ideas.

5.5 Limitations of the study

By virtue of their duties owners of MSEs firms are under obligation to treat information about issues, facts, and circumstances that they know as confidential. There are obligations and or legislation which include provisions that either prohibit the disclosure of information of certain nature this made it uneasy and not ready to open up for the interview. But the researcher tried to assure them that the information given was not in any way used in a manner that will jeopardize their business and that it is solely for study purposes. In addition, the issue of unreturned questionnaires and uncooperative responses sometimes may prove a challenge to most researchers. For that reason, the researcher made follow ups to facilitate the response rate.

5.6 Recommendation for Future Research

This paper proposes a significant framework which can be empirically tested in different Kenyan towns; and across different Counties in order to be able to generalize the findings. It would be very fascinating to study differences in entrepreneurial benefits of innovation, challenges of innovation, type and extent of innovations and consequently the connection between their impacts on performance of specific business types.

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

1. Type of business

General Trade, Retail, Wholesale Stores	<input type="text"/>
Accommodation and Catering	<input type="text"/>
Industrial Plants, Factories, workshops	<input type="text"/>
Professional and technical services	<input type="text"/>
Agriculture	<input type="text"/>
Private Education, Health and Entertainment	<input type="text"/>
Informal Sector	<input type="text"/>
Transport, Storage and Communications	<input type="text"/>

2. Gender

Male	<input type="text"/>
	<input type="text"/>
Female	<input type="text"/>

3. Educational background

Below high school	<input type="text"/>
-------------------	----------------------

High school

Diploma

Graduate

Post-graduate

4. Age in years

5. How long have you been operational

SECTION B: EXTENT OF INNOVATION

6. Are your products different from others in the market?

Yes

No

7. Are you using new methods/technology in processing your products or services?

Yes

No

8. Types of Innovation

a. Product

b. Process

c. Positioning

d. Paradigm

SECTION C: BENEFITS OF INNOVATIONS

9. What are some of the benefits of innovation in your business?

- a. Sales of new products
- b. Business opportunities
- c. Improve quality of products
- d. Creation of new markets
- e. Improve profits
- f. Create brand
- g. Reduce environment damage
- h. Lowering production costs
- i. Bring new customers

10. Others specify _____

SECTION D: CHALLENGES OF INNOVATION

- New products rejected by customers
- High cost of investment
- Loss of customers
-
-
-
-

Loss of focus on existing products

Governmental regulations

Not aware of the new methods

Lack of proper training

Others specify _____

SECTION E: PERFORMANCE MEASURES

On average, how much profit do you make per day?

Number of employees

Number of branches

Appendix II: MSEs Enterprise in the County Government of Kiambu

**KIAMBU COUNTY GOVERNMENT
KIAMBU SUB COUNTY**

Main Activity Code	Main Activity Description	No. of Business
100	General Trade, Wholesale, Retail, Stores	3725
200	Informal Sector	140
300	Transport, Storage, and Communications	98
400	Agriculture, Forestry, and Natural Resources	279
500	Accommodation and Catering	656
600	Professional & Technical Services	310
700	Private Education, Health and Entertainment	242
800	Industrial Plants, Factories, Workshops,	300
	Total No. of Businesses	5750



Appendix III: Counties in Kenya - Kiambu County

