THE INFLUENCE OF INTELLECTUAL CAPITAL ON THE PERFOMANCE OF SMALL AND MEDIUM ENTERPRISES A CASE OF MOMBASA COUNTY KENYA

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DECLARATION

This research project is my original work and has not been presented for any award of degree or diploma in any other university.

Signed.....

Date.....

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D61/ 69130/2013

This management research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This study is dedicated to my grandmother Margaret Adinda for instilling values of hard work and constant assurance that I was able. Vincent Otor my dad the value of education to all his children, his constant support, encouragement and patience throughout my academic struggle, is being realized in this long cherished dream and many more henceforth.

ABSTRACT

Small and medium enterprises in Kenya represent a vital part of the economy, being the source of various economic contributions through; the generation of income via exporting, providing new job opportunities, introducing innovations, stimulating competition, and engine for employment. Intellectual capital appears as the most important and vital component of a knowledge-based economy. Moreover, in the present economy, small and medium enterprises are facing tremendous challenges and threats to survive in a competitive environment. The impact of intellectual capital on the general performance of the Small and medium enterprises has become a very important issue now than ever, this is due to the level of globalization of whose outcomes are privatization and deregulation of markets, aggressive competition and the ever-rising expectations of customers. As a result of this, there is need for businesses to be at their best in order to be relevant in the environment.

The paper therefore examines the influence of intellectual capital and performance of small and medium enterprise in Mombasa County-Kenya. Most of the studies conducted on the role of intellectual capital have focused on the developed countries outside Africa. It is therefore imperative to explore the role of intellectual capital on this important sector of the economy. From the findings, management's technical skills influenced the performance of small and medium enterprise, mostly followed by managerial experience. Further, the drive/impetus to entrepreneurship influenced the growth of small and medium enterprise mostly followed by risk taking propensity among all the entrepreneurial skills factors.

Table of Contents

LIST OF ABBREVIATIONS

GDP:	Gross Domestic Product
IC:	Intellectual Capital
MSMES:	Micro Small And Medium Enterprise
RBT:	Resource Based Theory
ROA:	Return On Asset
ROE:	Return On Equity
RoK:	Republic Of Kenya
SME:	Small And Medium Enterprise
TMT:	Top Management Team
VAIC:	Value Added Intellectual Capital

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

Knowledge being the new engine of corporate development has become one of the great clichés of recent years, but there is no doubt that successful companies tend to be those that continually innovate, relying on new technologies and the skills and knowledge of their employees rather than assets such as plants or machinery. Value can be generated by intangibles not always reflected in financial statements and forward-looking companies have realised that these are an integral part of fully understanding the performance of their business. There is need to raise awareness of the need for companies of all sizes to manage and communicate the value of their business beyond that captured by numbers alone (Youndt, Subramaniam, & Snell, 2004).

The study seeks to explore the influence of intellectual capital on the perfomance of Small and Medium Enterprises (SMEs) in Kenya. The world is moving rapidly from a Production-based economy to a knowledge-based economy (Huang, Yi-Chun &Wu 2010) and knowledge storage and application are the basis of economic growth and accumulated capital (Hsu& Fang, 2010). In the globalized and knowledge-based economy, SMEs need to develop, manage and monitor their soft assets or intellectual capital (IC) to enhance their growth and competitiveness.

The impact of intellectual capital on the general performance of the SMEs has become a very important issue now than ever, as this is due to the level of globalization whose outcomes are privatization and deregulation of markets, aggressive competition and the ever-rising expectations of customers. As a result of this, there is need for businesses to be at their best in order to be relevant in the environment (Edvinsson & Malone, 1996).

1.1.1 Intellectual Capital

According to Business Dictionary, 2013 Intellectual capital is the combination of collective knowledge of individuals and structures in an organization or society. Intellectual capital encompasses the models, strategies, unique approaches and mental methodologies organizations use to create, compete, understand, problem-solve and replicate. The most widely used definition of intellectual capital is "knowledge that is of value to an organization." Its main elements are human capital, structural capital, and customer capital. That definition suggests that the management of knowledge creates intellectual capital. (Nahapiet & Ghoshal, 1998)

Several studies designating an organization's knowledge resources as its intellectual capital have underscored the notion that knowledge is utilized through different approaches in an organization. The authors of these studies consider intellectual capital to be the sum of all knowledge firms utilize for competitive advantage (Youndt, Subramaniam, & Snell, 2004). According to Marr and Schiuma (2001) 'Intellectual capital is the group of knowledge assets that are attributed to an organisation and most significantly contribute to an improved competitive position of this organisation by adding value to defined key stakeholders.

Intellectual capital is a broad concept which is often split into different categories – most commonly human, relational and structural capital. According to guidelines produced by researchers from universities across Europe, collectively known as the Meritum Project, human capital is defined as the knowledge, skills and experience that employees take with them when they leave (Schultz, 1961). Some of this knowledge is unique to the individual; some may be generic. Examples are innovation capacity, creativity, knowhow and previous experience, teamwork capacity, employee flexibility, tolerance for ambiguity, motivation, satisfaction, learning capacity, loyalty, formal training and education.

Relational capital is defined as all resources linked to the external relationships of the firm – with customers, suppliers or partners in research and development. It comprises that part of human and structural capital involved with the company's relations with stakeholders (investors, creditors, customers, suppliers), plus the perceptions that they hold about the company. Examples of this are image, customer loyalty, customer satisfaction, links with suppliers, commercial power, negotiating capacity with financial entities and environmental activities (Nahapiet & Ghoshal, 1998).

Structural capital is defined as the knowledge that stays within the firm. It comprises organisational routines, procedures, systems, cultures and databases (Youndt et al., 2004). Examples are organisational flexibility, a documentation service, the existence of a knowledge centre, the general use of information technologies and organisational learning capacity. Some of them may be legally protected and become intellectual property rights, legally owned by the firm under separate title. Intangible assets are

only those that financial standards would recognise as assets and allow on balance sheets. Intellectual property can be defined as intangible assets, such as patents, trademarks and copyrights that can be included in traditional financial statements.

As an intangible organizational asset, intellectual capital includes the knowledge of individual employees or groups of employees who are deemed critical to a company's continued success, and organizational structures that contain information about processes, customers or other information that contributes to improved business performance or profits (Dumay, 2012; Sullivan, 1998). Intellectual capital management is the process of effectively using these knowledge resources to gain a competitive advantage for the organization (Edvinsson & Malone, 1996; Youndt, Subramanian, & Snell, 2004).

Intellectual capital encompasses much more than patents, copyrights and other forms of intellectual property. It is the sum and synergy of a company's knowledge, experience, relationships, processes, discoveries, innovations, market presence and community influence. This briefing will follow the approach adopted by the Meritum guidelines for managing and reporting on intangibles and will use intangibles and intellectual capital interchangeably.

1.1.2 Performance of Small and Medium Size Enterprises

Each businesses measures growth in a way that is relevant to the type of business. For example: Financial Services measures debts factored and growth in sales while Distribution measures profit and turnover. At a Group level, the growth is measured in terms of its shareholder funds. It's worth noting that growth is underscored in

relation to other similar businesses in the same industry or even using past years results. According to Kemp et al. (2003) the firms growth can be measured in many different ways the most common are turnover (profit) and the number of employees. This can be misleading however as you can be consider a big business by turnover but only have 4 employees, Capital employed, the total value of all long term finance invested in the business.

Growth is judged using financial and non-financial or behavioural parameters. Johnson Scholes and Whittington (2005) describe firm growth based on key success factors: financial sector include state of the firm equipment or facilities, return on capital employed, production and operation costs, prices or rates of produce released to the market, volume of operations or sales i.e. market share, financial cash flow, technology profitability, research and development. Behavioral parameters include management styles, human resources, product quality, service quality, customer care, firms' image or reputation, marketing effectiveness, technological status, location and processes or systems.

There are reasons for and against business growth, some people want to remain in control, or don't want to take too many risks. While others would prefer to see their business grows. Common reasons include. Increased profits – expand business more sales more profit. Increased market share – higher market profile and greater bargaining power. Increased power and status of owners – can influence the community. Reduced risk of being taken over and increased economies of scale (Van de Ven et al.1984)

1.1.3 Intellectual Capital and Performance of Firms

The impact of intellectual capital on the general performance of firms has become a very important issue now than ever, as this is due to the level of globalization whose outcomes are privatization and deregulation of markets, aggressive competition and the ever-rising expectations of customers. As a result of this, there is need for businesses to be at their best in order to be relevant in the environment. Generally, in the first stages of a new firm's development, the identification and acquisition of resources will be of vital importance to achieving good performance in the long term (Katz and Gartner 1988; Brush and Greene 1996; Lichtenstein and Brush2001).

Literature available shows that intellectual capital is a key ingredient of SMEs growth for the production of innovation and creativity. Setting up an SME is not a complex process it basically involves the combination of a few assets to start and initiate the different tasks but, despite this, these ventures has limited means, whether physical, financial or intangible resources, hence placing them in a position of high vulnerability (Van de Ven et al.1984). High utilization of IC yields to performance of SMEs. Bontis, (2000) show that low utilization leads to poor quality of products and technology. Huang and Wu, (2010) informs that IC is known to contribute to the performance of SMEs. IC has been identified as having capability to innovate, an important effect on the enterprise growth and gives to enterprises a better competitive advantage (Subramanian & Youndt, 2005; Wu, Chang, Chen, 2008; Zerenler, Hasiloglu, and Mete, 2008).

Strategic management literature has emphasized the crucial role of intangible factors or the intellectual capital as determinants of business competitiveness (Teece 2000). On that line, authors such as Lichtenstein and Brush (2001) find that intangible assets are more important and critical than tangible assets in such a decisive period of the life of a business. Thornhill and Gellatly (2005) found that the investment in intangible assets is associated with a track record of growth.

The Economics Institute of Washington, D.C., in its recent study on human intellectual capital, concluded that, "The economic value of the nation's productivity depends more upon employee skills and knowledge and business problem solving aptitude than it does upon the market value of the firm's commercial output." Most experts agree. While past economies depended on use of land, natural resources, equipment and capital for the creation of value, our information economy will depend on application of knowledge. Knowledge is very important source for people, firms and countries. Managing knowledge and intellectual capital create new source of competitive advantage. The fortunes and values of firms can increase or decrease depending on how well they create, capture, and leverage their knowledge.

1.1.4 Small and Medium Enterprises in Mombasa County

SMEs operate in all sectors of the economy, that is, manufacturing, trade and service sectors. The SMEs range from those unregistered, known as Jua Kali enterprises, to those formally registered small-scale businesses, such as supermarkets, wholesale shops and transport companies. The capital invested in SMEs varies from as little as ten thousand Kenya shillings to about five million Kenya shillings. Almost two-thirds

of all SMEs in Mombasa County are located in the Central Business District with only one-third found in the Peri-urban areas. (Central Bureau of Statistics, 1999).

Close to 70 per cent of the SMEs are in the trade sector, that is, in the buying and selling goods and commodities to generate income. SMEs in the manufacturing sub-sector accounted for 13 per cent, SMEs in the services sub-sector accounted for 15 per cent, the collective group of other service providers, such as bars, hotels and restaurants (Hospitality industry) accounted for 6 per cent. Enterprises in the construction industry accounted for less than two per cent of the total SMEs in the country (Central Bureau of Statistics, 1999).

Numerous efforts have been explored to define the concept of SMEs in different economies these have resulted in various different approaches in understanding the concept of SMEs which varies from one country to another depending on the indicators used (Visser, 1997). The first criteria, based on the number of employees, defines SMEs as those enterprises below a certain number of workers (i.e. can range from less than 10 to less than 50 employees). The second criterion defines the SMEs as the degree of legal formality, and has been used to distinguish between the formal and informal sectors. Here, Micro, Small and Medium Enterprises (MSMEs) are considered as enterprises which are not registered and do not comply with the legal obligations concerning safety, taxes and labour laws.

The third criterion defines SMEs as based on the limited amounts of capital and skills per worker. Regulatory and institutional framework for Kenya has been based on the number of employees and the company's annual turnover (MSMEs Act, 2012). For

instance, the micro enterprises have been defined as those employing less than 10 workers with annual turnovers of less than KES500, 000 and capital formation of less than KES5mn for services or less than KES10mn for enterprises doing manufacturing. Small enterprises are defined as those that employ between 10 and 50 workers with annual turnovers between KES500,000 and KES5mn and capital formation between KES5mn and KES20mn for services or between KES5mn and KES50mn for enterprises doing manufacturing.

Definitive characteristics of these SMEs are management by their owners who are more centralized in their management, being set up by persons seeking to venture out into self-employment or being family run. Having substantially weaker delegation and departmentalization. Being more focused on short-term needs and medium-term survival than on long term profitability or market share. Requiring little capital and equipment for operations, in some cases, having employees with low-level skills and training. Being numerous and therefore making it difficult to keep track of and regulate.

In Kenya, despite having SMEs start up on a very high note, there is a high rate of collapse and most enterprises are short lived and barely survive third anniversary (ROK, 2011). They eventually stagnate and lack continuity (Tera, 2011). Sessional paper No. 2 of 2005 shows that despite the significant role by the SMEs, they have continued to experience many constraints like poor access to market and financial services and unfavorable polices.

1.2 Research Problem

According to RoK, SMEs contributed to seventy per cent of the Gross Domestic Product (GDP) 2011, in Kenya. In the United States, 99.7 per cent Henman et al, China, 99 per cent, Europe, 99 per cent, Holland, 95 per cent, Philippines, 95 per cent and Taiwan, 96.5 per cent as well as Malaysia, 99.2 per cent; National SME Development Council. According to World Bank, countries with over 90% performance of GDP achieved the rate from high utilization of intellectual capital by SME owners. SME's in Mombasa County are evidence of a "missing middle": a shortage of middle - sized growth - oriented SMEs that could make an important contribution to development (Khalique, Shaari, Bin M Isa & Agee 2011).

Most of the studies conducted on the role of Intellectual capital have focused on the developed countries outside Africa; Kenyan SMEs contribute heavily to the GDP. Yet, there is little or no empirical evidence available to this study on role of intellectual capital on this important sector of the economy. It is therefore imperative to explore the actual situation on this important sector. Mwangi (2012) in his study about Social Capital and Access to Credit in Kenya, indicated that no detailed study has addressed the relationship between social capital and the performance of SMEs and their impact of social network on the overall performance of small enterprises. A study by Musimba (2012) on the Role of Human and Social Capital in Internationalization of ICT SME's in Mombasa County concludes that the survival and performance of a firm are influenced by the firm's ability to utilize the social capital to the fullest.

The information on the background of the study reveals that SMEs have a very low survival rate. Sessional Paper No. of 2005 and Ministry of Economic planning report

on SMEs show that three out of five SMEs fail within their first three years of operation. Would the lack of utilization of intellectual capital be the contributor of this high SME mortality rate in Mombasa? All these studies are essential to the understanding of the contribution of Intellectual capital to the performance of SMEs. However, the studies do not fully elaborate on how the intellectual capital initiate, develop and maintain network relationships, and how these impacts on performance of SME‟s. This study therefore sought to answer the following question: Is intellectual capital a contributor to the performance of small and medium enterprises in Kenya?

1.3 Research Objective

The study seeks to investigate influence of intellectual capital on the performance of small and medium enterprises in Mombasa County.

1.4 Value of the Study

The performance of SMEs is below expectations. This study provides insight and a model that should enable SMEs to be more profitable and achieve sustainable goals and graduation to large enterprises by identifying and employing critical drivers of growth such as intellectual capital (Gathenya, 2012). Management : The study findings will be of great importance to the management since it will address the most critical factors pertaining to intellectual capital that influence performance of SME's in Mombasa County, this will contribute to greater understanding on various challenges SME's in Mombasa County go through in trying to attain sustainable

growth. The investors: The study will be important to investors who increasingly rely on services provided by SMEs.

Policy makers: The study findings will be of value to the government as it will bring into light various policies which are detrimental to the performance of SME's in Mombasa County and address these factors according to the research recommendations. Researchers and Scholars: The study will be of great importance to the researcher as he will gain both theoretical and practical experience on factors that hinder the performance of SME's in Mombasa County. The development partners who are usually interested at helping the SMEs grow will have an understanding of a wide variety of factors that affect SMEs and the extent to which the identified factors affect SMEs. The findings of these studies will develop a base from which researchers and scholars will formulate theses statements and proposals and carry out more studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section provides a review of the major theory guiding the study on Intellectual capital. This is followed by literature review of key variables on intellectual capital and their respective relationship leading to formulation of hypotheses.

2.2 Theoretical Framework.

Growing interest in research about intellectual capital helped to broaden its. Several definitions of intellectual capital categorized it as similar to intangible assets. According to Stewart (1997), intellectual capital is the collection of knowledge, experience, information and intellectual property that can be used by the company to generate future benefits (as cited in Bontis, Keow & Richardson, 2000). Thus, this research assumes that intellectual capital could be defined as all non-physical resources that firms utilize to generate profit and value. Roos, Pike & Fernstrom (2005) went further and stated that intellectual capital could be divided into three categories: human capital, organizational/structural capital, and relational/customer capital.

2.2.1 Resource Based View of the Firm

It was Penrose who established the foundations of the resourced-based view as a theory (Roos & Roos, 1997). Penrose explains growth rate of the firm by clarifying the causal relationships among firm resources, production capability and performance.

Her concern is mainly on efficient and innovative use of resources. She claimed that bundles of productive resources controlled by firms could vary significantly by firm, that firms in this sense are fundamentally heterogeneous even if they are in the same industry (Barney & Clark, 2007). RBV aspires to explain the internal sources of a firm's sustained competitive advantage (Kraaijenbrink, Spender, & Groen, 2010). Central to the proposition of RBV is that a firm represents a collection of unique resources and capabilities that provide basis for sustained competitive advantage so long as they are valuable, rare, non-substitutable and difficult to imitate (Barney, 1991). The theory presumes that firms are a bundle of heterogeneous and capabilities that are imperfectly immobile across firms.

According to this view, firm performance can be attributed to unique resources rather than industry structure, a proposition supported by strategy literature (Guthrie, et al. 2004). Hall (1992) and Grant (1996) classified resources into tangible assets, intangible assets and human resources, with human being characterized as the most productive asset. According to RBT, sustainable competitive advantage results from resources that are inimitable, not substitutable, tacit in nature, and synergistic (Barney, 1991). Therefore, managers need to be able to identify the key resources and drivers of performance and value in their organizations.

Wernerfelt (1984) took on a resource perspective to analyze antecedents of products and ultimately organizational performance and believed that "resources and products are two sides of the same coin" and firms diversify based on available resources and continue to accumulate through acquisition behaviors. The RBT also states that a company's competitive advantage is derived from the company's ability to assemble

and exploit an appropriate combination of resources. Such resources can be tangible or intangible, and represent the inputs into a firm's production process; such as capital, equipment, the skills of individual employees, patents, financing, and talented managers.

2.2.2 Human Capital Theory

Human Capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Schultz (1961) in an article entitled “Investment in Human Capital” argues that both knowledge and skill area form of capital, and that this capital is a product of deliberate enterprise growth. The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. The difference in earnings between people relates to the differences in access to education and health. Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence of performance of businesses.

Human capital theory regards people as assets and stresses that investment by organizations in people will generate worthwhile returns. It proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals (Fombrun and Shanley, 1990). The concept views workers as key resource managers used to achieve competitive advantage for their companies (Fombrun and Shanley 1990). Beer et al. (1984) added that there should be a long term perspective in managing people and urged that people should be considered assets rather than merely variable costs.

Drawing from the aforementioned streams of research, this study operationalize human capital as skills, experience and educational levels possessed by an individual that have economic benefit to the firm. Drawing inference from human capital theory, Schultz (1961) and Becker (1964) submitted that an increase in workers skills, knowledge and ability has an effect on organizational growth. Bontis (1999) demonstrated that stock prices reacted to change in management, affirming that investors attach value to skills and expertise of their Chief Executive Officers (CEOs) and other top management. Bontis (1998; 1999) argued that higher levels of education reflect investments in human capital. They observed that investors and financial markets attach value to skills and expertise of CEOs and other top management.

Their findings are consistent with the human capital theory that proposes that additional investment in education has returns on investment for the individual and the organization.

Nahapiet and Ghoshal (1998) found that partners with education from the best institution and with higher levels of experience represented substantial human capital to firms. They argued that the human capital produced highest quality of service to clients, thereby contributing significantly to firm performance. Previous empirical research have emphasized that human capital is one of the key factor in explaining enterprise growth. Brüderl et al. (1992) argues that greater entrepreneurial human capital enhances the productivity of the founder, which results in higher profits and, therefore, lower probability of early exit. Moreover highly educated entrepreneurs may also leverage their knowledge and the social contacts

generated through the education system to acquire resources required to create their venture (Shane, 2003)

In contrast to most previous studies, Mutuku (2012) findings on Top Management Team (TMT) diversity in Commercial Banks in Kenya indicated a negative association between academic qualification, diversity in tenure and performance. Despite this counter finding, the prevailing pattern of results suggests that more educated employees are more receptive to competition. Based on the above findings, this study concludes that education level is an important determinant of human capital in organization. While it is undisputable that human capital is the most important construct of intellectual capital, Teece, et al. (1997) noted that human capital represents the highest mobility since it is a private good owned by the individual.

2.2.3 Stakeholder Theory

The stakeholder theory maintains that firms have stakeholders rather than just shareholders to account for (Donaldson and Preston, 1995). The gospel of corporation having obligations only to stockholders, holders of the firm's equity, as espoused by the shareholder view is replaced by the notion that there are other groups to whom the firm is responsible in addition to the stockholders as espoused by the stakeholder group. The groups that have a "stake" in the firm include shareholders, employees, customers, suppliers, lenders, the government and society.

A wide sense of stakeholder would include any group that can affect the achievement of the firm's objectives, or that is affected by the achievement of a firm's objectives (such as public interest groups) (Freeman and Reed, 1983). Whatever the choice of the type of definition of stakeholder, a consensus arising from the stakeholder view is that the accounting profit is only a measure of the return to the shareholder, and that value added is a more accurate measure created by the stakeholders and then distributed to the same stakeholders (Meek and Gray, 1988).

Basically, value added is the increase in wealth generated by the productive use of the firm's resources prior to its allocation among shareholders, bondholders, workers and the government. To evaluate firm performance created and accrued to all stakeholders, a stakeholder view of the firm calls for the use of the value added (gross or net) as a measure of the total wealth created (Riahi-Belkaoui, 2002).

2.2.4 Agency Theory

The agency relationship is defined as 'one in which one or more persons (principals) engage others (agents) to perform some service on their behalf which involves delegating some decision-making authority to the agent' (Jensen and Meckling, 1976). Agency theory is a general model of social relations involving some delegation of authority and generally resulting in problems of control' (Kiser 1999). Agency theory extends the analysis of the firm to include separation of ownership and control, and managerial motivation. Jensen and Meckling (1976) outlined a number of potentially costly principal agent relationships in publicly quoted corporations that

may arise because the agent does not always conduct business in a way that is consistent with the best interest of the principals.

Agency Theory is based on the idea that in a modern corporation, there is a separation of ownership and management, resulting in agency costs associated with resolving the conflict between the owners and the agents (Berle& Means, 1932; Jensen and Meckling, 1976). This implies that management cannot be trusted, thereby calling for strict monitoring by the Board in order to protect shareholders' interest. Whilst a number of these relationships are relevant for SMEs, the primary agency conflict in small firms is generally not between owners and managers, but between inside and outside contributors of capital (Hand et al., 1982: 27).

Potential agency problems in SMEs are exacerbated by information asymmetries resulting from the lack of uniform, publicly available detailed accounting information. The primary concern for outside contributors of capital arises from moral hazard, or the possibility of the SME owner changing his behavior to the detriment of the capital provider after credit has been granted. This is because the firm owner has an incentive to alter his behavior ex post to favor projects with higher returns and greater risk. Potential agency problems are not constant over the life cycle of the firm. Firms at the start-up stage typically experience the greatest informational opacity problems, and may not have access to debt financing. As a firm becomes established and develops a trading and credit history, reputation effects alleviate the problem of moral hazard, facilitating borrowing capacity (Diamond, 1991).

Additionally, as the firm grows it will have accumulated assets as debt collateral in the form of inventory, accounts receivable and equipment (Berger and Udell, 1998). The firm may also have increased fixed assets in the form of land and buildings on which it may secure mortgage finance. Agency theory is pertinent due to the potential for moral hazard that arises between 'outside' suppliers of capital and the owners of the firm. The potential for agency problems is exacerbated by the increased information asymmetries in the SME sector. Information asymmetries are the basis for the pecking order of financing (Myers, 1984, Myers and Majluf, 1984) whereby firms seek to use sources of finance that are least subject to the information asymmetry problem.

2.4 Determinants of Firms Performance

The literature on firm performance has shown that it is influenced by a number of factors. These include firm size, capital structure, and ownership structure, age of the firm, workers experience and educational level among other factors. In this section, these factors are reviewed on how they influence firm performance.

2.4.1 Education level

Nahapiet and Ghoshal (1998) found that partners with education from the best institution and with higher levels of experience represented substantial human capital to firms. They argued that the human capital produced highest quality of service to clients, thereby contributing significantly to firm performance. In a study on professional service firms, Hitt et al. (2001) confirmed that highly educated individuals are more knowledgeable and productive than their less

educated counterparts. The authors found that the educated individuals have more opportunities for career advancement.

Subsequently, the organizations with more educated individual will outperform those firms with less levels of education. This notion was supported by Lin and Huang (2005) who affirmed that more educated workforce increases workers' productivity, innovative behavior and facilitate the adoption and use of new technology. Cabrita and Bontis (2008) study on Portuguese banking industry that revealed that the quality of banking relationship with clients depends on caliber of employees and their ability to satisfy client needs.

2.4.2 Employees experience

Work experience is a dimension of human capital that refers to number of years an employee has worked in a certain organization. Hitt et al. (2001) and Lin and Huang (2005) observed that it is easier to get reliable measures on experience than skills, thus, several studies have looked into how experience influences productivity. In their study, Hitt et al. (2001) found that more experienced partners contributed more return to firms than new partners. Their finding is consistent with Wright and MacMahan (2011) who contended that individuals with a particular industry experience tend to have a historical perspective that cannot be easily replicated. The authors acknowledge the importance of experience during recruitment and selection.

2.4.3 Capital Structure

Jensen (1986) considers that the debt should require executives to retain only profitable projects to avoid bankruptcy of the company. Indeed, debt financing would encourage leaders to be more efficient and effective in the positions occupied. However, most studies that have examined the relationship debt, ownership structure and performance, were based on U.S. and French data. This limits their general geographic (McGahan and Porter, 1997).In addition, in connection with this, Driffield et al. (2007) explores a possible interaction between debt and firm performance using a system of simultaneous equations. They propose two alternative hypotheses for this inverse relationship. The first hypothesis focuses on the most successful companies. In the latter case the most successful companies reduce their debt levels to protect shareholder wealth in the risk of bankruptcy (Latrous, 2007).

2.4.3 Ownership Structure

Since Demsetz's (1983) work, numerous empirical studies investigating ownership structure and firm growth have been published. In a seminal study, Morck et al. (1988) proposed a non-linear relationship between insider ownership and firm growth. By examining Future 500 firms for the year 1980 and using piecewise linear regression, they find a positive relationship between growth and ownership structure for the 0 per cent to 5 per cent board ownership range, a negative relationship in the 5 per cent to 25 per cent range and a positive relationship for board ownership exceeding 25 per cent.

More recently, Villalonga and Amit (2004) examine the impact of family ownership, control and management on firm growth. They conclude that family ownership creates value only when it is combined with certain forms of control and management. Finally, in a study of Taiwan's electronics industry, Sheu and Yang (2005) find that insider ownership (executives, board members and large shareholders) has no influence on total factor productivity.

2.4.4 Age of the Firm

The relationship between firm age and growth has also been investigated by many researchers (Mata and Portugal, 2004; Bartelsman et al., 2005), but the results have not been clear-cut. An early contribution coined the term liability of newness to describe how young organizations face higher risks of failure (Stinchcombe, 1965). Authors have referred to the liability of adolescence (Fichman and Levinthal, 1991) to explain why firms face an initial `honeymoon' period in which they are buffered from sudden exit by their initial stock of resources. Still others have identified liabilities of senescence and obsolescence (Barron et al., 2002) according to which older firms are expected to face higher exit hazards once other influences (such as firm size) are controlled for.

More recently, researchers have begun to take more interest in the role age plays in the performance of surviving firms. Some authors have investigated age effects by focusing specifically on samples of young firms (Stam and Wennberg, 2009). Some researchers have focused on the functional form of the aggregate age distribution, showing that the empirical density is well approximated by an exponential

distribution (Coad, 2010), while others have tracked the evolution of the FSD over time, for cohorts of ageing firms (Cirillo, 2010).

For instance, it has been suggested that the age of a firm is positively related to its productivity levels (Haltiwanger et al., 1999). Bellone et al. (2008) examine how pressures related to market selection (i.e. firm survival) change as firms age. Others have investigated how probability of innovation and productivity growth change across the firm age distribution (Huergo and Jaumandreu, 2004). Autio et al.,(2000) observe that young international firms – born global firms – experience faster growth in international sales than their older counterparts. They interpret this finding as evidence that younger firms are better able to develop export capabilities because they are better able to learn how to succeed in uncertain environments.

2.5 Empirical Studies

A longitudinal study of Subramaniam and Youndt (2005), examined how aspects of intellectual capital, human capital, organizational capital and social capital influenced various innovative capabilities (incremental and radical) in companies. In a longitudinal study of 93 companies in various industries, they found that human capital, organizational capital and social capital and their inter relationships selectively influence incremental and radical innovative capabilities. Tung et al. aimed to explore the influences of innovative activities, intellectual capital towards corporate development in Taiwanese publicly listed IT corporations. They found that, there is a mutually positive correlation between innovative activities and intellectual capital and that the accumulation of intellectual capital of

Taiwanese IT corporations has positive influences on their operation and development. This suggests that the more the intellectual capital, the more the added value contributed.

Ngah, Rohana and Ibrahim, Abdul Razak (2009) used questionnaire to survey Malaysian small and medium enterprises in order to determine the relationship of intellectual capital, innovation and organizational performance. In the preliminary study, they found that human capital, contributes more to innovation and organizational performance than structural and relational capital. Each part of intellectual capital's coefficient of efficiency has positive and significant impact on the rate of return of shareholder's equity. The higher intellectual capital the companies have the better financial performance they do. (Abbasi and Sedghi, 2010) Young et al. (2009) studied a sample of Asian banks for eight countries; they found that physical capital and human capital are the main factors that create value for the banks. A similar study was done by Ting and Lean (2009) on Malaysian firms and for 9 years (1999-2007), they found empirically that the indicator VAIC and some indicators of profitability were positively related to the financial sector of the Malaysia.

Chan (2009) conducted a study on a sample of all companies of the Hang Seng stock exchange for the period 2001 to 2005. He examined the relationship between the efficiency of the IC of these companies and its components (human and structural) with measures of firm performance: market valuation, return on assets, and return on equity and productivity measurement. The results of the analysis showed that only structural capital has a significant and positive relationship with profitability measures

(ROA and ROE). Muhammad and Ismail (2009) attempted to investigate the effectiveness of the IC and its performance in the financial sectors of Malaysia. They used a database of 18 companies for the year 2007.They found that the banking sector was the most relaxed on the IC, followed by companies in the insurance industry and brokerage. They have also found that the IC has a positive relationship with firm performance (measured by profitability ROA).

Wagiciengo and Belal (2012) investigated about Intellectual capital disclosures by South African companies. The main purpose of their study was to examine the extent and nature of intellectual capital disclosures in 'Top 20' South African companies over a 5 years period (2002–2006). The results show that intellectual capital disclosures in South Africa have increased over the 5 years study period with certain firms reporting considerably more than others. Out of the three broad categories of intellectual capital disclosures human capital appears to be the most popular category. This finding stands in sharp contrast to the previous studies in this area where external capital was found to be most popular category.

Abeysekera (2011) examine the effect of current-period intellectual capital disclosure on earnings and current annual stock return during a civil-war period. This study finds that firms do not include the current period intellectual capital disclosure in the current stock return and the increase in the current-period intellectual capital disclosure activity have no influence on earnings included in the current stock return. Future accounting-based earnings, if stated in the current period, by contrast are included in the current stock return. The findings provide insights into the intellectual capital disclosure practice and its influence on stock return in a civil-war

environment. Ngari et al., (2013) examined the relationship between intellectual capital accounting and business performance. The study focused on pharmaceutical firms in Kenya. Primary data was therefore collected from 31 pharmaceutical companies. The results showed that intellectual capital accounting had positive relationship with business performance.

2.6 Summary of Literature Review

Five theories have been reviewed that explain intellectual capital in relation to organizations growth. These are human capital theory, resource based view, agency theory, stewardship theory and stakeholder theory. The empirical review has shown a number of recent studies on intellectual capital relationship with firms growth. From these it is evident that research in the area of intellectual capital has been done but not in a comprehensive approach. Studies that have been done have focused on the intellectual capital on performance other than perfomance of the firms for instance Do Rosario and Landeiro-Vaz, (2006).

Most of these studies also were done in other countries other than Kenya. The two studies on Kenya reviewed above did not focus on growth and neither did any of them focus on intellectual capital as a whole but focused more on the individual aspects leaving out its other elements. This offers a gap that will be addressed in the present study.Of these, only the human capital theory has been studied by Ngugi et al(2012) and social capital by Kipkirui (2014), in Kenya while the rest of the theories have been neglected. This offers a gap that can be addressed by the present study. This study therefore intends to fill theses pertinent gaps in literature by studying the selected independent variables on the relationship between the intellectual capital and

performance of SME's in Mombasa County. This study will add value to existing literature by providing empirical evidence on the influence of intellectual capital on the performance of SME's in Mombasa County and fill the existing contextual and conceptual gaps.

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

3.1 Introduction

This chapter describes the methodology that was used in undertaking the study. It starts by explaining the research design that was adopted; according to Sekaran (2010) a central part of research is to develop an efficient research strategy. Based on the model and variables developed in Chapter two, this chapter covers the research design and research methodology used to test the variables. In particular, issues related to research design, the population, the type of data collected, sampling frame, sample and sampling techniques, data collection instrument, data collection procedure, validity and reliability of the instrument, and the data analysis and presentation are discussed. Lastly, the analytic techniques used to test the hypotheses are also presented.

3.2 Research Design

This study adopted a descriptive study design. Descriptive research design is a design that is used when the researcher wants to describe specific behaviour as it occurs in the environment (Greene, 2008).The aim of the study was to evaluate the effects intellectual capital on the performance of SME'S in Mombasa County-Kenya. According to Mugenda and Mugenda (2003) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. Borg et al. (1996) note that descriptive survey research is intended to produce statistical information about aspects of a study that is of interest to policy makers.

3.3 Population

Population refers to the entire group of people or things of interest that the researcher wishes to investigate, Sekaran (2010). Mugenda & Mugenda, (2003) defines population as an entire group of individual or objects having common observable characteristic. Data available from the Mombasa County schedule of licensed firms categories SMEs as: General Trade, Wholesale, and Retail Stores 1015, Informal Sector (Jua Kali) 352, Transport, Storage and Communication 141, Agriculture, Forestry and Natural Resources 170, Accommodation and Catering 78, Professional and Technical Services 54, Education, Health and Entertainment 83, Industrial Plants, Factories and Workshops 169: Therefore the study targeted 2062 SMEs in Mombasa County. Source: Municipal Council of Mombasa.

3.4 Sampling Frame

To achieve the objectives of the study a stratified-random sampling was used to allow the researchers to obtain higher degree of representativeness of the SMEs thus reducing the probable sampling error (Ghauri and Gronhaug, 2005; Welman et al., 2005; Saunders et al., 2007). This process is preferred because no element of the population is left out. Mugenda and Mugenda (1999) posit that a sample of at least 30 from a population can be used to reasonably infer characteristics of the population so long as it allows for reliable data analysis and testing of significance of differences between estimates.

The sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what was useful, what had credibility and what can be done with available time and resources (Paton, 2002). Orodho (2003) states that stratified sampling are

applicable if a population from which a sample is to be drawn does not constitute a homogeneous group.

In the sampling procedure, SMEs were stratified in three sections. These included the service sector, the manufacturing sector and the trade sector. In the population, the service sector comprised transport storage and communication; education health and entertainment; professional and technical services and accommodation and catering with a total of 510, the manufacturing sector had 493 comprising of industrial plants factories and workshops together with informal sector. The trade sector had 274 SMEs. Simple random sampling was then be carried out in each sector. Mugenda (2003) recommends that a sample representing 10% of the population is adequate for representation. 10 % of the population from each stratum will thus be picked. Therefore, a proportionate sample size of approximate 129 respondents which is 10% of the population was selected using a stratified random sampling technique from the identified sample as shown in Table 3.1 below

Industry	**Target population**	**Frequency**	**percent**
Manufacturing	493	49.3	10%
Trade	274	27.4	10%
Service	510	51.0	10%
total	1287	128.7	10%

3.5 Data Analysis

This section discusses the techniques that were used to analyze data and test the variables. Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. Data

collected was analyzed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Data analysis was done with the help of software programme SPSS version 21 which is the most current version in the market and Microsoft excel to generate quantitative reports.

Inferential statistics that measure the reliability or differences between the variable like analysis of variance will also be used. Data analysis tools in terms computer application packages (Excel, SPSS) will be used to code and enter the data. Qualitative data will be summarized and categorized according to common areas and presented by use of tables. The dependent variable in this research is the performance of SME's. Subjective indicators will be used to measure that variable by means of the perceptions of the founders: a method that has been widely used in previous research works (Van Gelderenet al.2000; Zahra and Bogner 2000; Rhodes and Butler 2004).

3.6 Multiple Regression Analysis.

Growth was to be regressed against five variables of intellectual capital namely (Managerial Skills, Entrepreneurial skills, Innovativeness, Structural capital and Customers capital). The research model was derived from the theoretical framework of theory of intellectual capital. This hypothesized there is a direct and positive association between intellectual capital and organizational performance (Stewart, 1997). The relationship among the variable are depicted below. The equation for business growth will be expressed in the following equation:

$Ys = \beta 0 + B1X1 + B2X2 + B3X3 + B4X4 + B5X5$, Where,

Ys = Performance of SMES

$\beta 0$ = constant (coefficient of intercept)

X1 = Managerial Skills

X2 = Entrepreneurial skills

X3 = Innovativeness

X4 = Structural capital

X5 = Customer capital

B1… B4 = regression coefficient of four variables.

Inferential statistics such non parametric test which include analysis of variance (ANOVA) were used to test the significance of the overall model at 95% level of significance. According to Mugenda (2008) analysis of variance is used because it makes use of the F – test in terms of sums of squares residual. The chi square was used to measure association between Managerial Skills, Customer capital, Innovativeness, Structural capital and Entrepreneurial skills and the performance of SMEs. The mean of the five measures was used to evaluate the performance of SMEs.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

The chapter represents the empirical findings and results of the application of the variables using techniques mentioned in chapter three. Specifically, the data analysis was in line with specific objectives where patterns were investigated, interpreted and implications drawn on them.

4.2 Response Rate

From the data collected, out of the 129 questionnaires administered, 91 were filled and returned, which represents 70% response rate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% good and above, while 70% rated very well. This collaborates with Bailey (2000) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertion, the response rate in this case of 70% is therefore very good. The recorded high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants (business owners/managers/directors or business partner) of the intended survey, utilized a self-administered questionnaire where the respondents completed and these were picked shortly after and made follow up calls to clarify queries as well as prompt the respondents to fill the questionnaires.

4.3 Reliability Analysis

In this study to ensure the reliability of the instrument Cronbach's Alpha was used to test the reliability of the proposed constructs. The findings indicated that Managerial skills had a coefficient of 0.904; entrepreneurial skills had a coefficient of 0.903, Innovativeness of 0.898, Structural capital of 0.869 and Customer capital of 0.829. All constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.5 thus the study was reliable (Nunnally & Bernstein, 1994; Nunnally, 1974). On the basis of reliability test it was supposed that the scales used in this study is reliable to capture the constructs. Reliability of the constructs is shown below in table 4.1.

Intellectual Capita	**Reliability Cronbach's Alpha**	**Comments**
Managerial Skills	0.904	Accepted
Entrepreneurial Skills	0.903	Accepted
Innovativeness	0.898	Accepted
Structural Capital	0.869	Accepted
Customer Capital	0.821	Accepted

Table 4.1: Reliability Test of Constructs

4.4 Demographic Data

The study sought to establish the demographic data of the respondents. The researcher begun by a general analysis on the demographic data got from the respondents which included; - the gender, age, marital status, nature of business, duration of business

existence, position held by respondents, academic qualification of the respondents, number of competitors and the type of business ownership. This research targeted 1287 participants in regard to establishing the influence of intellectual capital on performance of SMEs and 129 questionnaires were generated.

4.4.1 Age bracket of the respondents

In the survey, the respondents were asked to state the age category they were in. Out of the targeted 129 business owners/ managers/ directors or business partners, 55 (46.6%) of the respondents were between 26-36 years of age, 26 (22.5%) of the respondents were between 36-45 years of age, 19 (19.4%) of the respondents were between 18-25 years of age, 11 (8.9%) of them were between 46-55 years of age, while only 5 (2.6%) were over 50 years old. This result illustrates that SME owners are generally active between the ages of 18- 50. It is also in agreement with the findings by Price (2006) who maintained that there are two natural age peaks correlated to entrepreneurship, namely the late twenties and mid-forties. The study findings are almost similar to a study done in America by Muijanack, Vroonhof and Zoetmer (2003) who determined that the optimum age for entrepreneurs was 25-35. The age of 25-35 is therefore the age at which entrepreneurial capacity of the respondents was active as shown in Table 4.2

Age bracket	frequency	Percent
18-25	37	19.4
26-36	89	46.6
36-45	43	22.5
46-55	17	8.9
Over 56	5	2.4
Total	191	100

Table 4.2: Age Bracket of the Respondents

4.4.2 Marital status of the respondents of the respondents

The study also revealed that 59.2% of the entrepreneurs were married, 30% single, 10% divorced and only 0.8% was a widower. Marriage or parental obligations may have an effect on an entrepreneur's decision to spend all his/her time in the business. Especially, marriage can be a possible limitation for women to become economically active, because of the gender-based thought in the society. And also married women or women with children face more problems balancing their work and family. On the other hand, having a partner with an income makes it easier for women to take risks in venture creation than women whose family depends on only them (Aldrich & Cliff, 2003).

4.4.3 Nature of business

The study investigated the nature of the business that the respondents were running. The descriptive statistics also show that majority 96 (50.3%) of the target enterprises were general trade enterprises, followed by service sector enterprises at 28.8%

(20.9%), and manufacturing at 20.9% as shown in figure 4.1 below. This could be attributed to the fact that trade accommodates diverse generalized skills and a relatively lower initial investment capital as compared to manufacturing and service departments thereby reducing barriers to entry (Moore *et al*., 2008).

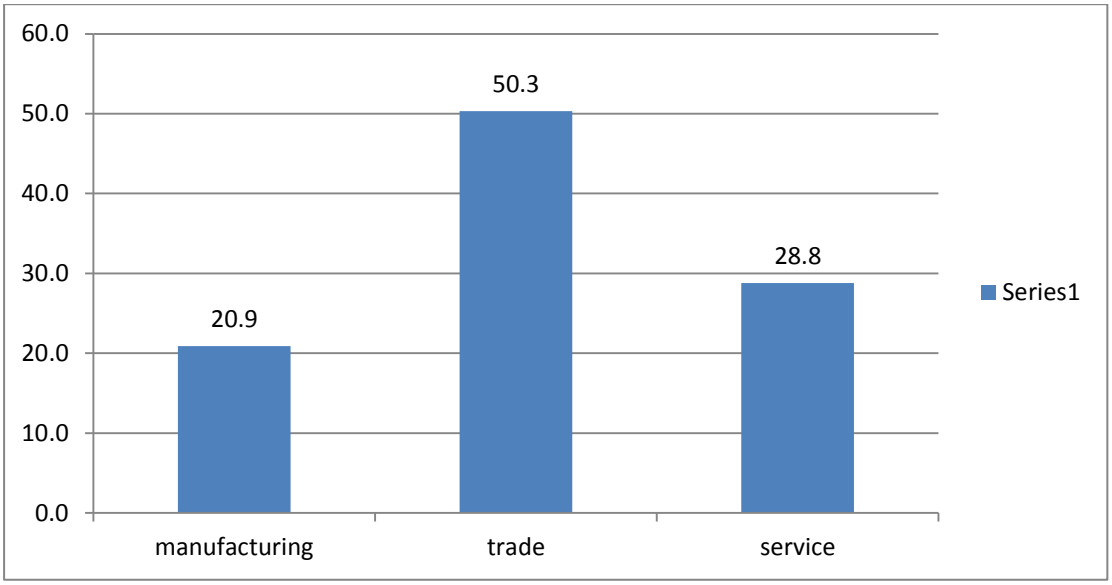

Figure 4.1 Nature of Business

4.4.4 Duration of Time Business has Been In Operation

Eighty seven 55 (45.55%) of the respondents have been in operation for between 5 and 8 years, 36 (30.37%) have been in operation for between 2 and 4 years, 15 (13.09%) have been in operation for less than 2 years, 10 (10.99%) have been in operation for between 8 and 10 years as shown figure 4.2. This result indicates that the majority of SMEs in the manufacturing and trade industries in Kenya (45.55%) have operated for less than ten years. This result is consistent with previous empirical studies on the age of SMEs in South Africa by Rwigema and Karungu (1999), in a study of SMEs in Johannesburg, stipulate that forty seven percent (47%) of enterprises surveyed had operated between one and ten years.

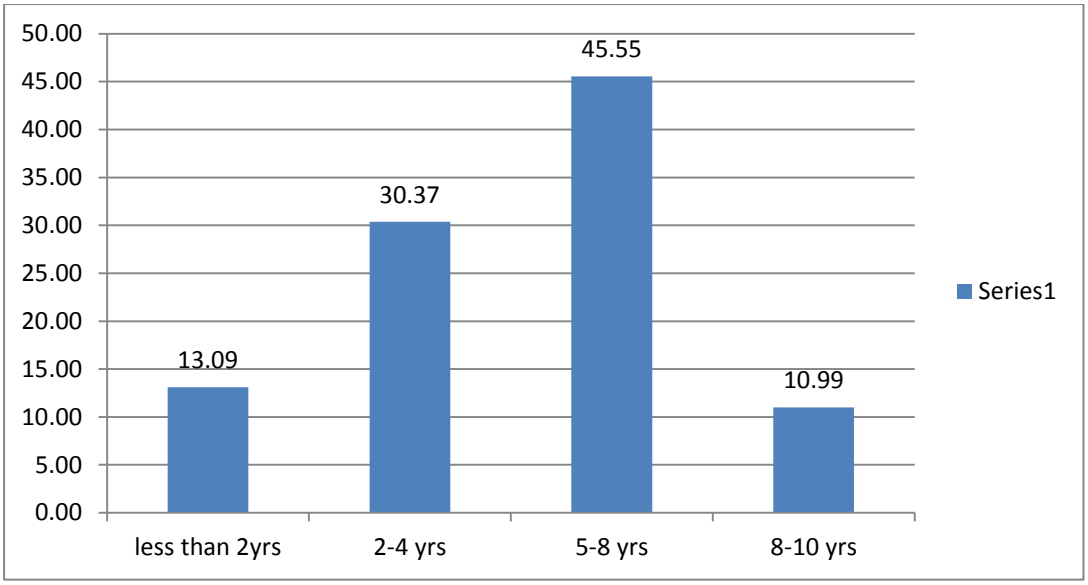

Figure 4.2: Duration of Time the Respondents' Businesses Has Been in Existence

4.4.5 Current Position of the Respondents in the Business

Forty nine (39.8%) of the respondents indicated that they owned their SMEs. However, 25 (19.9%) of the respondents were partners, 23 (19.4%) were managers, 15 (11.5%) were Co-owners, 7 (6.3%) were executives and only 4 (3.1%) were directors. This result is in agreement to a study that was conducted in Cyprus by Bruce et al. (1998) which showed that more than eighty percent (80%) of small manufacturing enterprises are family operated or managed. This result is also consistent with the National Small Business Act of South Africa of 1996 as amended in 2003 which expects small businesses to be managed by their owners. The study findings are presented on table 4.3 below.

	Frequency	Percent
Owner	**49**	**39.8**
Co-owner	**15**	**11.5**
Partner	**23**	**19.9**
Manager	**15**	**19.4**
Executive	**7**	**6.3**
Director	**4**	**3.1**
Total	**112**	**100.0**

Table 4.3 Ownership distribution

4.4.6 Academic qualifications of the respondents

From the descriptive statistics shown in figure 4.1, 44 (36.13%) of the respondents were reported to be diploma holders, 43 (35.60%) of them were holders of a first degree, 18 (14.66%) of them had reached secondary school, 12(10.99%) had a master's degree, 2 (1.57%) were PhD holders, 1 (0.52%) respondent had reached class eight, while the remaining 3 (0.52%) respondent had dropped at class one.

Previous empirical studies appear to be in agreement with this result Marten (2005) in a study on the success of small businesses in Canada, found that the education of the owner is positively related to the success of the business. As per this studies' findings, majority of the respondents were well above diploma level, which supports studies by King and McGrath (2002) who indicated that in today's constantly fluctuating business environment, education is one of the factors that impact positively on

performance of firms and 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 such unexpected fluctuations. This shows that the academic qualification affects the performance of Small and medium enterprises in Kenya.

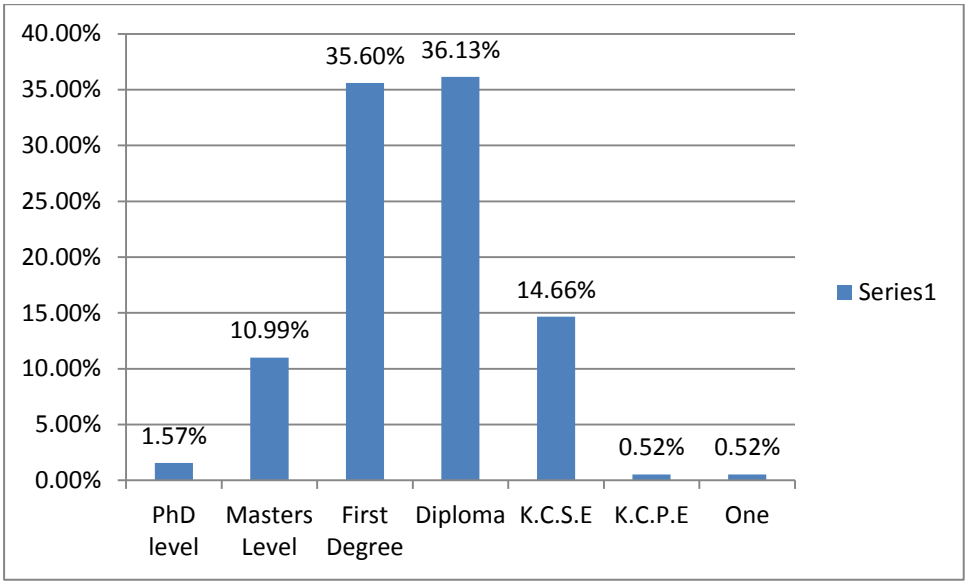

Figure 4.3 respondent academic levels

4.5 Study variables

4.5.1 Managerial Skills

The study sought to investigate the influence of managerial skills on performance of small and medium enterprises. Specifically, the study focused on technical skills, interpersonal skills and the employee's level of education.

Technical Skills

The study sought to find out whether technical Skills influence the performance of SMEs. From figure 4.4, 29.3% of the respondents indicated that technical skills influence the performance of SMEs to a very great extent, 17.3% indicated that

technical skills influences the growths of SMEs to a great extent, 29.3 % indicated that technical skills influence the performance of SMEs to a moderate extent, 18.8 % indicated that technical skills influence the performance of SMEs to a low extent while 5.8 % indicated that technical skills influence the performance of SMEs to a very low extent.

In addition to possessing technical and market knowledge, a key to entrepreneurial effectiveness is the extent to which the entrepreneur is known by many others throughout the firm and who is trusted, respected, and influential. In other words, someone who has built a degree of social capital that can be successfully used to build a network of support around the new innovation (Kanter, 1983, 1985; Nahapiet & Ghoshal, 1998). The findings collaborate with those of Papulova & Mokros (2007) who observed that technical skills are important in businesses that relate to engineering and other technical orientations. Rue & Byers (1992) in their theory of management competencies view technical skills as very important to lower level managers. The study findings show that technical skills contribute to a moderate and to a very great extent on the performance of SME's in Mombasa County.

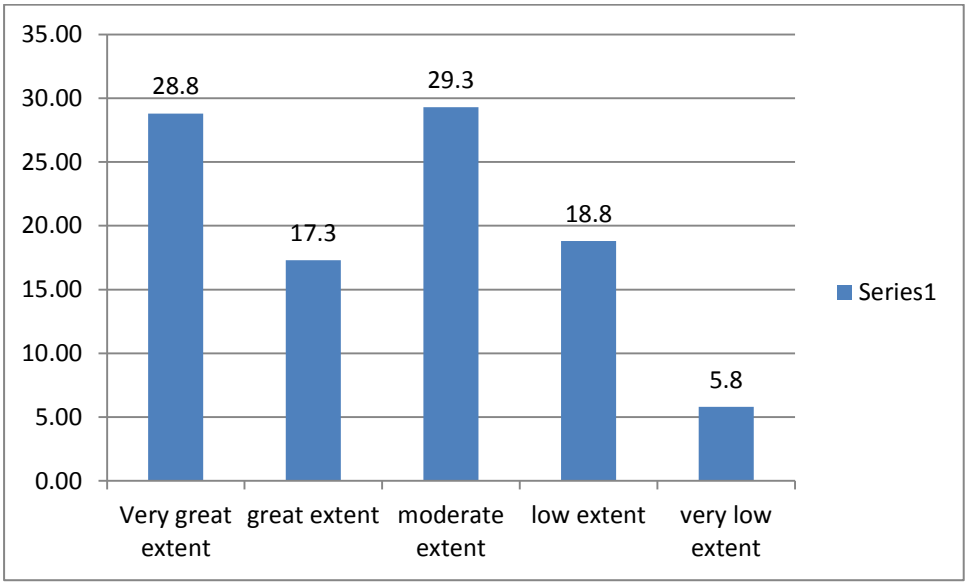

Figure 4.4: Extent Technical Skills Influence the Perfomance of SMES

Interpersonal Skills

The study sought to evaluate the extent Interpersonal Skills influence the performance of SMEs. Figure 4.5 indicates that 27.7% of the respondents indicated that Interpersonal Skills influence the performance of SMEs to a very great extent. 26.2% of the respondents indicated that Interpersonal Skills influences the growths of SMEs to a great extent. 30.4 % of the respondents indicated that Interpersonal Skills influence the performance of SMEs to a moderate extent, 12.6 % of the respondents indicated that Interpersonal Skills influence the performance of SMEs to a low extent while 3.1 % of the respondents indicated that Interpersonal Skills influence the performance of SMEs to a very low extent.

The findings relate with the findings of Edvinsson (2000), Stewart (1997), Brooking, (1996) who postulates that interpersonal skills are the foundation of intellectual capital as everything in the current market environment relies on the individual's ideas, knowledge and skills. It is asserted that the interpersonal skills in an organisation are the most important intangible asset, especially in terms of innovation. According to the findings interpersonal skills are of great essence towards the performance of SMES.

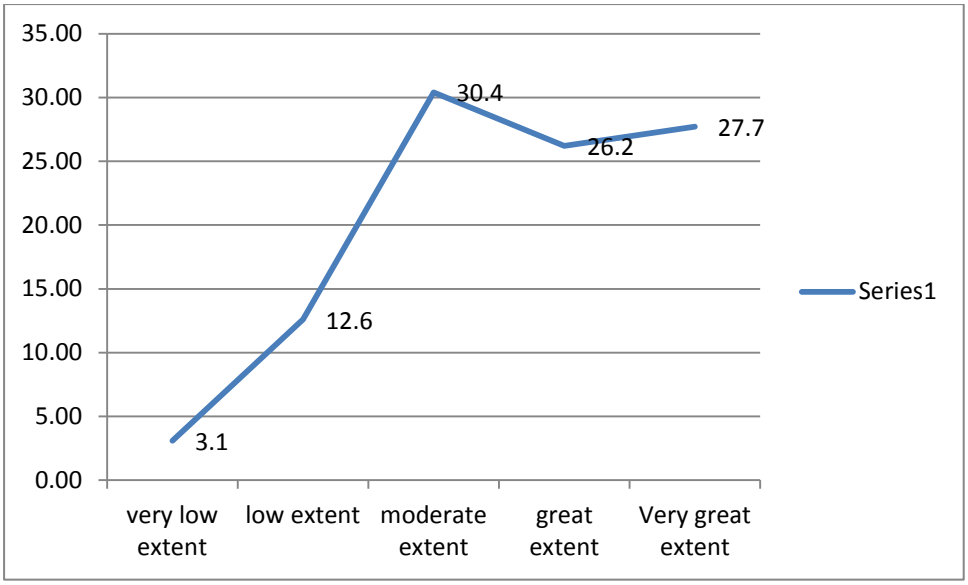

Figure 4.5: Extent Interpersonal Skills Influence the Performance of SMEs

Employees Level of Education

The study sought to establish the extent employee's level of education influence the performance of SMEs. 32.5 % of the respondents indicated that employees level of education influence the performance of SMEs to a moderate extent, 27.7% of the respondents indicated that employees level of education influence the performance of SMEs to a very great extent, 19.4% of the respondents indicated that employees level of education influences the growths of SMEs to a great extent, 16.8 % of the respondents indicated that Employees level of education influence the growths of SMEs to a low extent. While 3.7% of the respondents indicated that Employees level of education influence the performance of SMEs to a very low extent.

The findings collaborate with the findings of Svendsen (2006) who found that entrepreneurship education is about developing people with increased probability to succeed when creating and developing a business. Entrepreneurship education seeks to provide business owners with the knowledge, skills and motivation to encourage

entrepreneurial success in a variety of settings. These finding are consistent with Nunes et al. (2006) who report that informal systems are developed to aid the SMEs' knowledge management activities. Desouza & Awazu (2006) also state that unlike large companies, human capital in SMEs tends to behave quite differently. The findings show that the level of education is an important factor in the performance of SME`s.

4.5.2 Entrepreneurial Skills

The study sought to investigate the influences of entrepreneurial skills on performance of Small and Medium Enterprises. Specifically, the study focused on risk –taking propensity, careful budgeting skills to ensure that financial records, human relation skills, clear goals and objective setting skills, business operating skills, skills to detect changes in the market, skills to act quickly, skills to provide attractive range of products and skills to obtain market share that suits the size and capability.

Risk –Taking Propensity

The study sought to find out whether risk taking propensity influences the performance of SMEs. As shown in Figure 4.6, 26.2% of the respondents indicated that risk propensity influences the performance of SMEs to a very great extent, 12% of the respondents indicated that risk propensity influences the performance of SMEs to a great extent, majority 27.7% of the respondents indicated that risk propensity influences the performance of SMEs to a moderate extent, 23% of the respondents indicated that risk propensity influences the performance of SMEs to a low extent, While 11% of the respondents indicated that risk propensity influences the performance of SMEs to a very low extent. Therefore, risk taking propensity is one of

the factors that influence the performance of firms which should be taken into consideration by the SME owners. Risk taking propensity is the willingness to undertake calculated risk with the opportunity of gaining an increased benefit (Wiklund & Shepherd, 2003).

The study concludes that risk taking propensity influences the performance of SME's in Mombasa County as depicted by the statistics above. Therefore such risks are important when making hard decisions regarding firm's growth and sustainability.

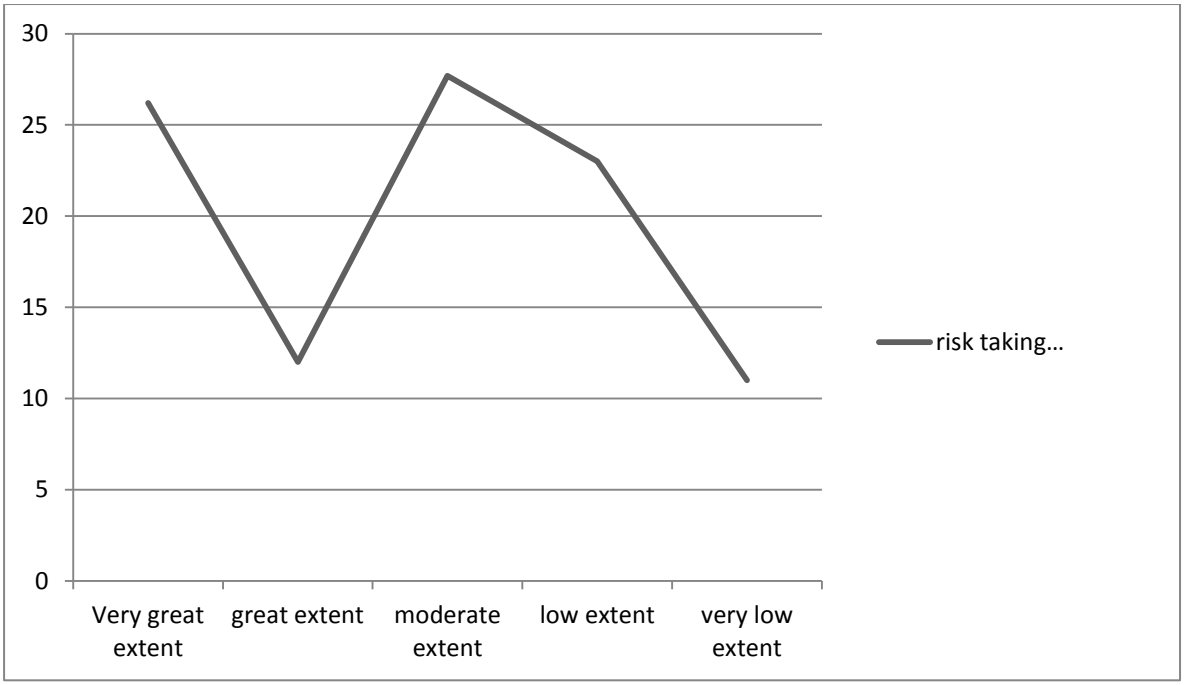

Figure 4.6: Risk –Taking Propensity

Planning Skills

The study sought to find out the extent to which planning skills influences the performance of SME's in Mombasa County. According to Figure 4.7 below 26.2% of the respondents indicated that planning skills influences the performance of SMEs to a very great extent, 20.9% of the respondents indicated that planning skills influences the performance of SMEs to a great extent, 28.8% of the respondents indicated that

planning skills influences the performance of SMEs to a moderate extent 16.8% of the respondents indicated that planning skills influences the performance of SMEs to a low extent. While 7.3% of the respondents indicated that planning skills influences the performance of SMEs to a very low extent.

According to Lumpkin & Dess (1996), planning skills involves firm's strategic direction which determines competitiveness and performance of SMEs. According to Wiklund and Shepherd (2003), planning skills clarifies how a firm organizes knowledge resources in order to discover and exploit market opportunities and product innovations which increase SMEs growth and competitiveness. Therefore, the inference shows that planning skills is a critical element in the performance of SMEs. This is evident that planning helps the firm in aligning its mission to the vision of the enterprise.

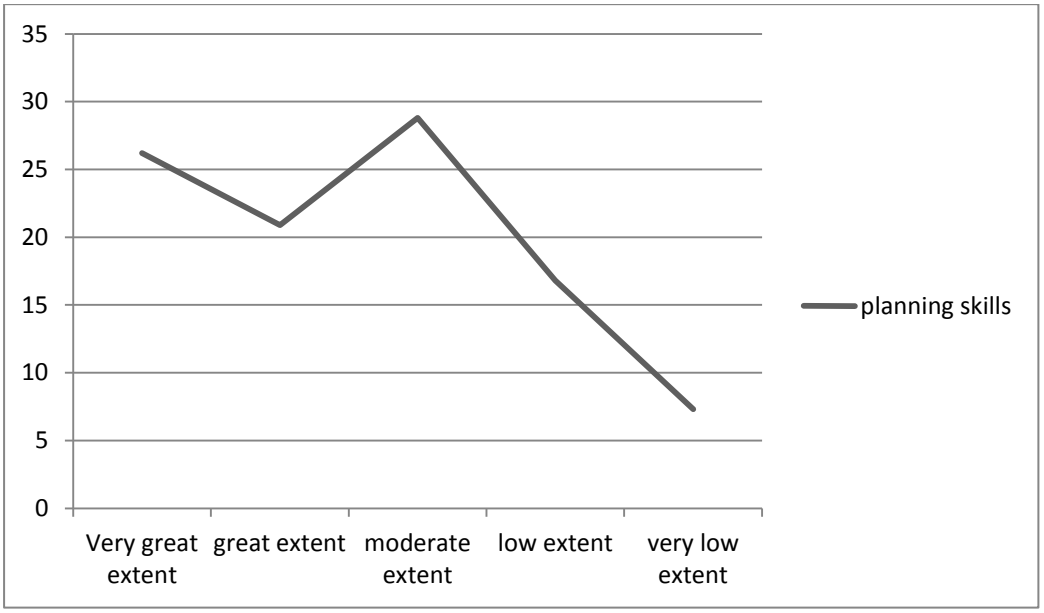

Figure 4.7: Planning Skills

Budgeting skills

The study sought to find out the extent to which budgeting skills as a component of planning skills influence the performance of SMEs. Figure 4.8 below, depicts that 27.7% of the respondents indicated that budgeting skills influences the performance of SMEs to a very great extent, 30.9% of the respondents indicated that budgeting skills influences the performance of SMEs to a great extent, 17.3% of the respondents indicated that budgeting skills influences the performance of SMEs to a moderate extent, 12.6% of the respondents indicated that budgeting skills influences the performance of SMEs to a very low extent. While 11.5% of the respondents indicated that budgeting skills influences the performance of SMEs to a low extent.

The findings of this study concurs with those of Drury, (2000) and Joshi, (2003) who found that budgeting skills is an important element in financial decision-making and internal operation of organization which help entrepreneurs to achieve success in business operations. It can be inferred that the performance of SMEs is characterized by entrepreneurs planning skills such as budgeting skills which helps the SME owners to make economic decision which in turn increases SME competitiveness.

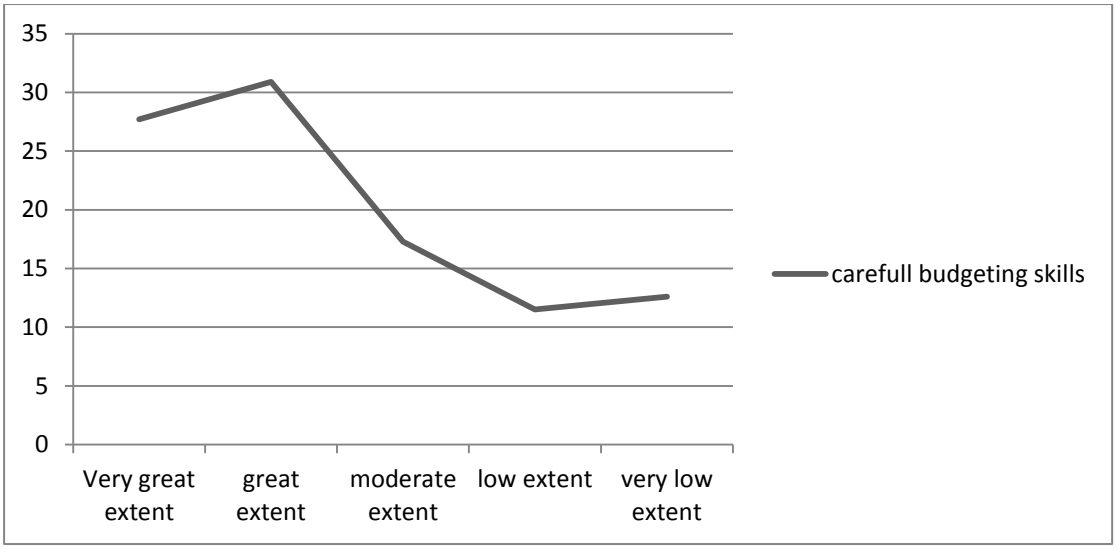

Figure 4.8: Careful Budgeting Skills

Financial Records

The study sought to find out the extent to which maintenance of financial records influences the performance of SMEs. findings, depicts that 24% of the respondents indicated that maintenance of financial records influences the performance of SMEs to a very great extent, 27% of the respondents indicated that the maintenance of financial records influences the performance of SMEs to a great extent, 26% of the respondents indicated that maintenance of financial records influences the performance of SMEs to a moderate extent, 13% of the respondents indicated that it influences the performance of SMEs to a low extent. While 10% of the respondents indicated it influences the performance of SMEs to a very low extent. The findings concur with Hughes and Morgan (2007) who found that SMEs growth is influenced by the level of entrepreneur maintaining accurate and complete records. Drury (2000) reveal that proper financial records help the SMEs to be in a position of meeting short term obligations.

4.5.3 Innovativeness

The study sought to investigate the influences of innovativeness on performance of small and medium enterprises in Kenya. Specifically, the study focused on entrepreneurs support on employees' innovation, number of patents within the enterprise and level of new product sales to total sales.

Provision of Incentives for Innovative Employee

The study sought to find out the extent to which incentives for innovative employee influence the performance of SME's in Mombasa County. From the data, 15.7% of the respondents indicated that incentives for innovative employee influence the performance of SMEs to a very great extent, 24.6% of the respondents indicated that incentives for innovative employee influence the performance of SMEs to a great extent, 28.3% of the respondents indicated that incentives for innovative employee influence the performance of SMEs to a moderate extent,21.5% of the respondents indicated that incentives for innovative employee influence the performance of SMEs to a low extent, while 9.4% of the respondents indicated that incentives for innovative employee influence the performance of SMEs to a very low extent.

These findings correspond with those by Hyrsky and Tuunanen (2006) who found that a creative and innovative employee who is motivated to develop new products and new markets has strong association to the performance of SMEs. Gans & Scott (2000) observed that recognition through incentives to the employees is a crucial component to building a sustained and thriving innovation in the enterprise which is a prerequisite for SMEs growth where compensation is pegged on employees creativity associated with emergence of new markets and new products. The study infers that an

incentive for innovative employee influences the performance of SME's in Mombasa County as depicted by the comparison of the findings of the study and available literature. This reveals that entrepreneurs who provide incentives to innovative employees is likely to encourage the employees to be creative and thus lead to emergence of new products and new markets and hence influence the performance of SMEs.

Number of patents within the enterprise

The study sought to find out the extent to which number of patents within the enterprise influence the performance of SMEs, 12% of the respondents indicated that number of patents within the enterprise influence the performance of SMEs to a very great extent, 19% of the respondents indicated that number of patents within the enterprise influence the performance of SMEs to a great extent, 43% of the respondents indicated that number of patents within the enterprise influence the performance of SMEs to a moderate extent, 18% of the respondents indicated that number of patents within the enterprise influence the performance of SMEs to a low extent, while 8% of the respondents indicated that number of patents within the enterprise influence the performance of SMEs to a very low extent as shown in the figure 4.9 below.

Inference shows that SMEs reliance on patents as a source of competitive advantage has a relationship to the SMEs growth therefore entrepreneurs should encourage the use of patents in order to protect their innovation which is associated with long term sustainability and SMEs growth.

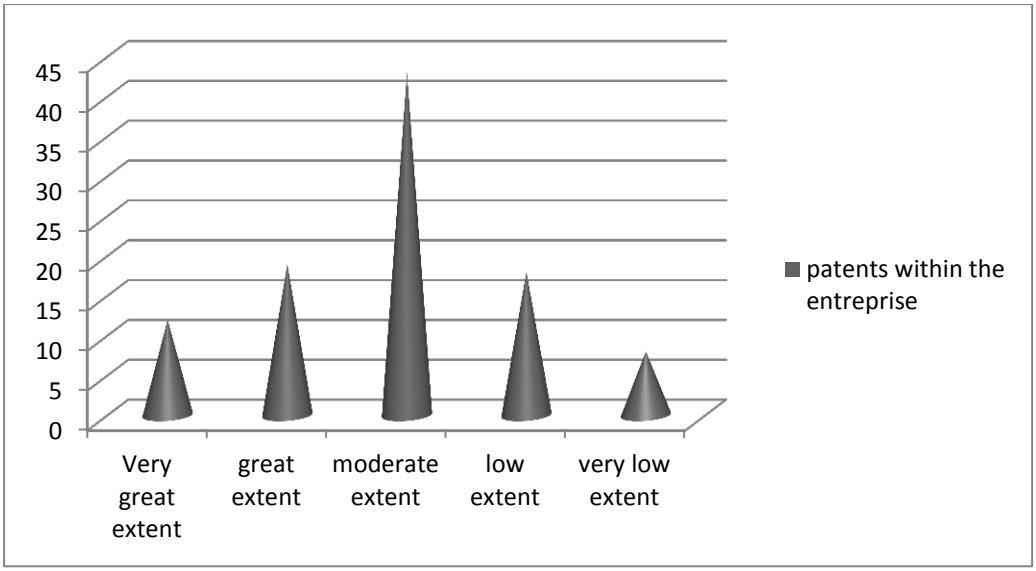

Figure 4.9: Number of patents within the enterprise

Level of new product to total sales

The study sought to find out the extent to which the level of new product sales to total sales influence the performance of SMEs, 17% of the respondents indicated that the level of new product sales to total sales influence the performance of SMEs to a very great extent, 25% of the respondents indicated that percentage of the level of new product sales to total sales influence the performance of SMEs to a great extent, 32% of the respondents indicated that the level of new product sales to total sales the performance of SMEs to a moderate extent,20% of the respondents indicated that the level of new product sales to total sales influence the performance of SMEs to a low extent, while 6% of the respondents indicated that the level of new product sales to total sales influence the performance of SMEs to a very low extent as shown in the figure 4.15 below.

These findings concur with the findings of Varis and Littunen (2010) who found that introduction of new products in comparison to the revenues of enterprise is a major

significance to SMEs growth and competitiveness. The findings are in line with those by Kusar (2004) who found that SMEs can successfully enter, grow and remain in the global market through investment in research and development which leads to new products and hence competitiveness of the enterprise. Therefore inferences can be made that entrepreneurs should invest in research and development such as advertisement and getting feedback from customers in order to bring products that are needed in the market.

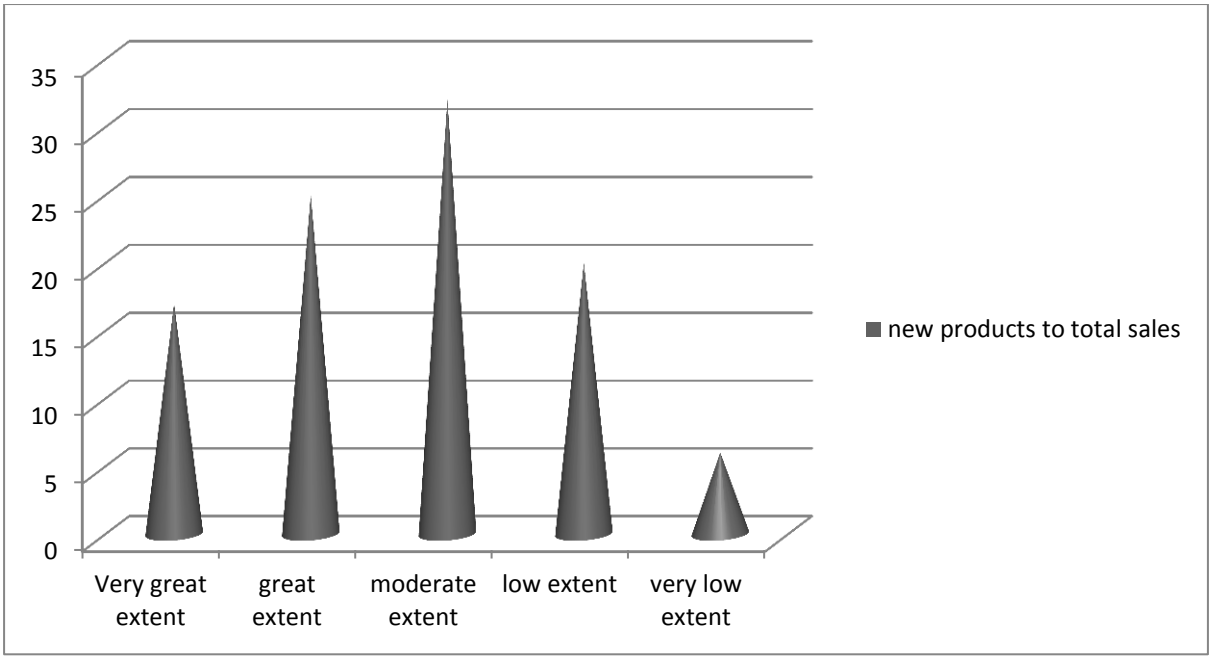

Figure 4.10: The level of new product to total sales

4.5.4 Structural Capital

The study sought to investigate the influence of structural capital on performance of small and medium enterprises in Kenya. Specifically, the study focused on trademark and proprietary databases, transaction time, and revenue per employee, transaction cost and data systems making it easy to access relevant information.

Transaction Cost

The study sought to find out the extent to which transaction cost influences the performance of SME's in Mombasa County. From the findings, 25% of the respondents indicated that transaction cost influences the performance of SMEs to a very great extent, 32% of the respondents indicated that transaction cost influences the performance of SMEs to a great extent, 18% of the respondents indicated that transaction cost influences the performance of SMEs to a moderate extent, 11% of the respondents indicated that transaction cost influence the performance of SMEs to a low extent while 25% of the respondents indicated that transaction cost influence the performance of SMEs to a very low extent.

The study findings relate to those of Bontis (2000) who revealed that minimizing transaction cost per unit is associated with effectiveness and efficiency which as a result increases enterprise growth. Hsu (2006) in his study concluded that the main focus of structural capital is to embrace low transaction cost that has a sound foundation, with views from organizational capital, process capital, even innovation capital and the Knowledge Management model. He further argued that this can be achieved whereby the entrepreneur provides social ties with suppliers and customers at a low transaction cost.

Shelley (2004) revealed that transaction costs are important to investors because they are one of the key determinants of net returns of the enterprise. Therefore it can be inferred that entrepreneurs achieve higher growth rate by participating in the market at a lower or no transaction costs such as determining the required good available on the market, bargaining at a lower cost and engaging in agreement with the other party at a

low transaction cost. Therefore the discussions reveal that there is a strong association between transaction cost and performance of SME's in Mombasa County.

Transaction Time

From the findings, 8.9% of them agreed that having the transaction time influences the performance of respondents' enterprise to a very great extent, 20.9% of them agreed that having the transaction time influences the performance of respondents' enterprise to a great extent, 25.1% of the respondents agreed that having the transaction time influences the performance of respondents' enterprise to a moderate extent, 24.1% of them agreed that having the transaction time influences the performance of respondents' enterprise to a low extent while 20.9% of them agreed that having the transaction time influences the performance of respondents' enterprise to a very low extent.

The findings correlate with those of Peel and Wilson 1996 who found that long transaction time is hindrance to faster performance of SMEs and concluded that real-time view of inventory and just in time system influence the performance of enterprises. Edvinsson & Malone (2007) indicated that reduction of transaction time is associated with the development of organizational competence. Inferences from the findings and the available literature shows that entrepreneurs should adopt just in time system that reduces inventory cost and holding cost which are associated with minimization of cost and therefore maximization of the profit and hence the performance of the enterprise.

Trademark and Proprietary Databases

The study sought to find out the extent to which trademark and proprietary databases influences the performance of SMEs. From the findings, 10% of the respondents indicated that trademark and proprietary databases influence the performance of SMEs to a very great extent, 19% of the respondents indicated that trademark and proprietary databases influences the performance of SMEs to a great extent, 34% of the respondents indicated that trademark and proprietary databases influences the performance of SMEs to a moderate extent, 18% of the respondents indicated that trademark and proprietary databases influences the performance of SMEs to a low extent while 19% of the respondents indicated that trademark and proprietary databases influence the performance of SMEs to a very low extent.

These findings correspond with those of Nunes (2006) who found that trademark and proprietary databases are valuable intellectual assets that can be utilized as a strategic factor and a decisive competitive advantage of the enterprise. One can therefore infer that sustainability and performance of SMEs is dependent on entrepreneur having proprietary database that have customer contacts that may be used to disseminate information about new products in the market and also feedback from customer. Trademarks can be used by the entrepreneurs to build loyalties within the enterprise.

Data systems that facilitate access relevant information

From the findings, 8.9% of them agreed that data systems that facilitate access relevant information to a very great extent, 22.0% of them agreed that having the data systems that facilitate access relevant information influences the performance of respondents' enterprise to a great extent, 20.9% of them agreed that data systems that

facilitate access relevant information influences the performance of respondents' enterprise to a moderate extent, 23.6% of the respondents agreed that data systems that facilitate access relevant information to a low extent while 22.0% of them agreed that data systems that facilitate access relevant information to a very low extent.

The study relate to those of Maja (2001) who found that when an enterprise which has an flexible database systems usually facilitates access of relevant information and efficient inter organizational communication, transform the way that firms gather, produce and transmit products and services and hence increases the competitiveness of the enterprise. Inferences reveal that an entrepreneur should provide flexible database systems which provides easy access of information to its customers and hence increases SMEs growth.

4.5.5 Customer Capital

The study sought to investigate the influence of customer capital on performance of small and medium enterprises in Kenya. Specifically, the study focused on customer satisfaction, time to resolve problem, the longevity of relationships and understanding of the target markets

Customer Satisfaction

The study sought to find out the extent to which customer satisfaction influences the performance of SMEs. Figure 4.12, reveal that 37% of the respondents indicated that customer satisfaction influences the performance of SMEs to a very great extent, 7% indicated that customer satisfaction influences the growths of SMEs to a great extent, 18% indicated that customer satisfaction influences the performance of SMEs to a moderate extent, 28% indicated that customer satisfaction influences the performance

of SMEs to a low extent, while 9% indicated that customer satisfaction influences the performance of SMEs to a very low extent.

These findings concur with those of Bontis (2000) who found that customer satisfaction is associated with repeat business and hence increases the return of the business. In addition, Roos (1997) and Bontis, (1998) found that customer satisfaction is also one of the most important component of intellectual capital which is greatly associated with growth. Bontis, William and Richardson (2000) found that entrepreneurs should poses customer capital which is a key component of intellectual capital and a key driver for performance of the enterprise. Inferences made reveal that entrepreneur should develop strategies that lead to building a strong relationship between the enterprise and the customers. This indicates that customer capital is a critical component of intellectual capital which has a great influence on the performance of enterprise.

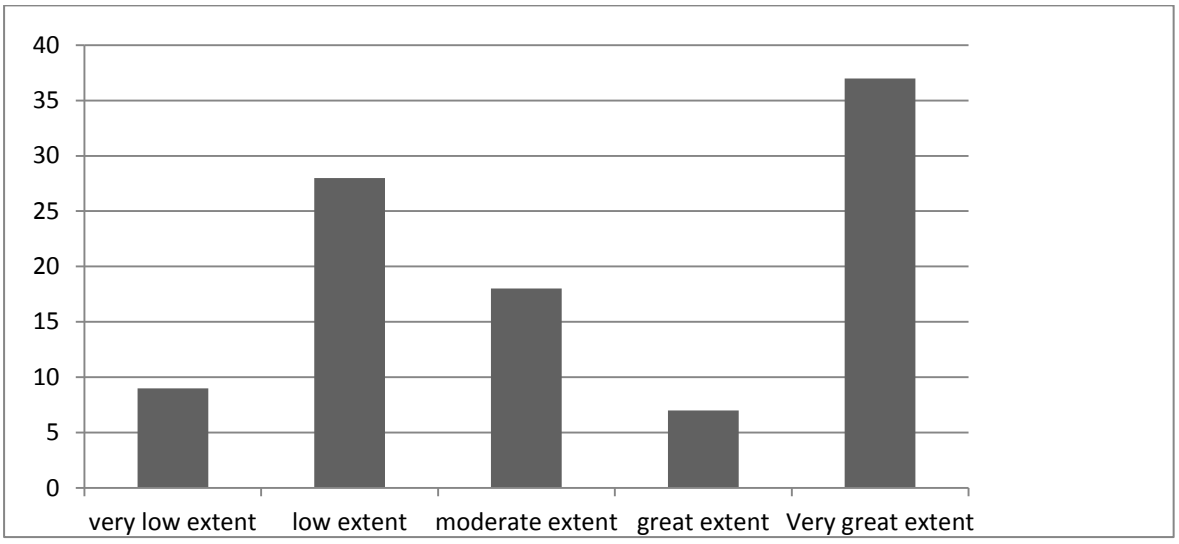

Figure 4.11: Customer Satisfaction

Time taken to Resolve Problem

The study sought to find out the extent time taken to resolve problem influence the performance of SMEs. 30% of the respondents indicated that time taken to resolve problem influence the growths of SMEs to a very great extent, 13% indicated that time taken to resolve problem influences the growths of SMEs to a great extent, 36 % indicated that time taken to resolve problem influence the growths of SMEs to a moderate extent, 15% indicated that time taken to resolve problem influence the performance of SMEs to a low extent while 6% indicated that time taken to resolve problem influence the performance of SMEs to a very low extent.

These study findings concur with the findings of Standifird (2001) who found that reduced time to resolve problem related to customer complains increases loyalty of customers to the business. Inferences can therefore be made that entrepreneurs should strive to resolve customer complains within the shortest time to increase efficiency hence the performance of the enterprise. This further indicates that customer capital influences the performance of SMEs.

Longevity of relationships

The study sought to find out the extent Longevity of relationships influences the performance of SMEs. Study reveal that 30% of the respondents indicated that longevity of relationships influences the growths of SMEs to a very great extent, 17% indicated that longevity of relationships influences the growths of SMEs to a great extent, 28 % indicated that longevity of relationships influences the growths of SMEs to a moderate extent, 17% indicated that longevity of relationships influences the

performance of SMEs to a low extent, while 7% indicated that longevity of relationships influence the performance of SMEs to a very low extent.

In view of the evidence provided, this study hypothesizes that longevity of relationships is positively associated with the performance of SMEs. Inferences can therefore be made that performance of SMEs is embedded in relationships external to the firm. Inferences reveal that entrepreneurs who have stronger knowledge of market channels could improve their ability to capture customer knowledge and consequently enhance the performance of the enterprise. It can further be inferred that creation of customer relationship leads to longevity of relationship with the customer.

Understand target markets

The study sought to find out the extent understanding of target markets influence the performance of SMEs. Figure 4.12, reveal that 31% of the respondents indicated that understanding of target markets influence the growths of SMEs to a very great extent, 17% indicated that understanding of target markets influences the growths of SMEs to a great extent, 29 % indicated that understanding of target markets influence the growths of SMEs to a moderate extent, 17% indicated that understand target markets influence the performance of SMEs to a low extent, while 6% indicated that understanding of target markets influence the performance of SMEs to a very low extent.

The findings concurs with those of Kohli and Jaworski (2000) who found that understanding what customers want in a product or a service better than anyone else is what makes someone a business leader as opposed to a follower and hence greater

customer satisfaction. It can therefore be inferred that entrepreneurs should have a clear understanding of the target market which can be created through social network between the enterprise and the customer. This shows that understanding the target market reveal an important knowledge channel that is crucial component of intellectual capital which has great significance on the performance of SMEs.

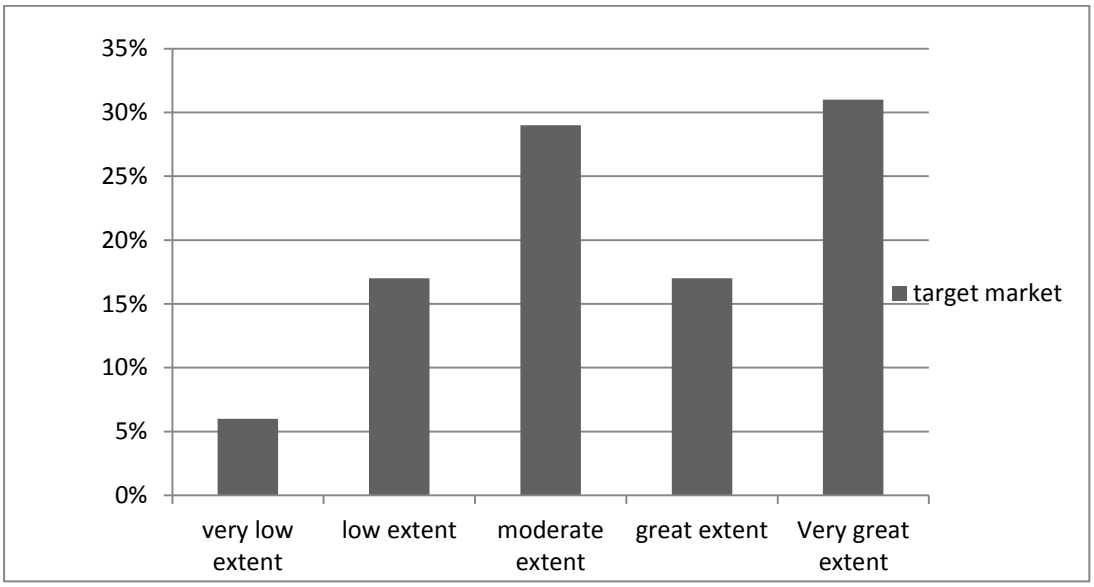

Figure 4.12: Understand target markets

4.6 Regression Analysis

4.6.1 Linear regression model of performance of SMES/Managerial skills

The linear regression analysis models the relationship between the dependent variable which is growth and independent variable which is managerial skills. The coefficient of determination (R2) and correlation coefficient (R) shows the degree of association between managerial competencies and performance of SMES in Mombasa-Kenya. The results of the linear regression indicate that R2=.789 and R= .888 this is an indication that there is a strong linear relationship between managerial skills and performance of SME's in Mombasa County. This implies that an increase in

managerial skills such as education and experience leads to an increase in performance of SMEs. Smallbone and Welter (2001) and Hisrich and Drnovsek (2002), found that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of SMEs.

Surviving on a small scale, SMEs tend to be creative, aggressive in exploiting the opportunity and produce more products compared to their competitors. Size gives SMEs an advantage to create a friendly atmosphere, be creative and have a close network to nurture cooperation of the employees. Desouza and Awazu (2006) reveals that SMEs are likely to be creative, aggressive in exploiting the opportunity and produce more products upon realization that intellectual capital is on important lever for the performance of businesses. It can be inferred that performance of SMEs is associated by the level; of experience and education of the entrepreneurs. Knowledge of the entrepreneurs regarding markets and products is a key factor for the performance of SMEs.

Model Summary

R	R Square
0.789	**0.888**

Table 4.4: Model of Performance of SMES/ Managerial Skills.

Table 4.5 below shows the results of ANOVA test which reveal that managerial skills have significant effect on performance of SMEs. Since the P value is actual 0.045

which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B1X1+E where X1 is the managerial skills the P value was 0.045 implying that the model Y=B0+B1X1+Ewas significant.

Model	Sum of square	Df	Mean square	F	Sig
Regression	6.131	1	6.131	4.063	0.045[b]
Residual	285.199	189			
Total	291.330	190			

a. Dependent Variable: Entreprise Growth b. Predictors: (Constant), Managerial Skills

Table 4.5: ANOVA[a] Performance of SMES/ Managerial Skills

The table 4.6 indicates there was positive gradient which reveals that an increase in managerial skills lead to increased performance of SMEs. Cabrita and Bontis, (2008) indicate that managerial skills includes aspects such as competence, intellectual agility, innovation and creativity, skills, values and experiences and individual's education. Inferences can be drawn from the findings and literature that entrepreneur should be innovative creative regarding the management of SMEs.

Model	Coefficients		sig
	B	Std. error	
Constant	3.332	0.165	.000
Managerial Skills	0.072	0.036	0.045

Table 4.6: Model Performance of SMES/ Managerial Skills

4.6.2 Linear regression Model of performance of SMES/Entrepreneurial Skills

Table 4.7 presents summary of regression model result. The value of R and R2 are 0.753 and 0.568 respectively. The R value of 0.753 represents the strong positive linear relationship between entrepreneurial skills and the growth since it is close to 1. The R2 indicates that explanatory power of the independent variables is 0.568. This means that about 56.8% of the variation in growth is explained by the model Y=β0+ β 2X2+E. The R2 value as revealed by the result which means that about 43.2% of the variation in the dependent variable is unexplained by the model, denoting a strong relationship between the entrepreneurial skills and performance of SME. These findings concur with Hisrich and Drnovsek (2002) who found that managerial skills such as conceptual skills, technical skills as a major factor on the performance of SMEs. It can be inferred that entrepreneurs should have technical and conceptual skills as important intellectual capital on the performance of SME's in Mombasa County.

Model	R	R square	Adjusted R Square
1	0.753	0.568	0.740

Table 4.7: Model performance of SMES/Entrepreneurial Skills

Table 4.8 shows the results of ANOVA test which reveal that Entrepreneurial Skills have significant effect on performance of SMEs. Since the P value is actual 0.003 which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B2X2+E where X2 is the Entrepreneurial Skills the P value was 0.003 implying that the model Y=B0+ B2X2+E was significant.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	13.041	1	13.041	8.856	0.003
Residual	278.289	189	1.472		
Total	291.330	190			

Table 4.8: ANOVA performance of SMES/Entrepreneurial Skills

4.6.3 Linear Regression model of performance of SMES/Innovativeness

The linear regression analysis shows a relationship between the dependent variable which is growth and independent variable which is innovativeness. The coefficient of determination R2 and correlation coefficient r shows the degree of association between managerial skills and performance of SME's in Mombasa County. The results of the linear regression Y=β0+β 3X3+E indicate that r2=.746 and R= .864 this is an indication that there is a strong linear relationship between innovativeness and performance of SMES in Mombasa-Kenya. The findings concur with those of Wu, Chang and Chen (2008) who found that effects of intellectual capital including human

capital, customer capital and structural capital, on innovation exist at significant levels, suggesting a perfect mediating effect of intellectual capital on innovation.

Inferences can therefore be made that tendency of a firm to engage in and support new ideas, novelty, experimentation and creative processes results in new products, services or technological processes. Product innovation requires the firm to have competences relating to technology and relating to customers.

Model	R	R Square	Adjusted R Square
1	**0.864**	**0.746**	**0.662**

Table 4.9: Model performance of SMES/Innovativeness

Table 4.10 below shows the results of ANOVA test which reveal that innovativeness have significant effect on performance of SMEs. Since the P value is actual 0.007 which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B3X3+E where X3 is the innovativeness the P value was 0.007 implying that the model Y=B0+B3X3+E was significant.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.067	1	2.067	1.351	0.007
Residual	289.263	189	1.530		
Total	**291.330**	**190**			

a. Dependent Variable: Enterprise Growth b. Predictors: (Constant), Innovativeness

Table 4.10: ANOVA[b] Table 4.9: Model performance of SMES/Innovativeness

4.6.4 Linear regression model of performance of SMES/Structural Capital

The linear regression analysis Y=β0+ β4X4+E shows a relationship between the dependent variable which is growth and independent variable which is structural capital. Where X4 is the Structural capital. The coefficient of determination (R2) and correlation coefficient (r) shows the degree of association between structural capital and performance of SME's in Mombasa County. The results of the linear regression indicate that R=.724 and R2=.524 this is an indication that there is a strong relationship between innovativeness and performance of SME's in Mombasa County. This findings concur with those of Hsu (2006) found that the main focus of structural capital is to embrace a sound foundation, with views from organizational capital and process capital. Therefore, structural capital is positively associated with the performance of SMEs. Inferences can therefore be made that the social characteristics interconnect each individual in an organization and thus enhancing enterprise growth

Model	R	R Square	Adjusted R Square
1	0.724	0.524	0.178

Table 4.11: Model performance of SMES/Structural Capital

Table 4.12 below shows the results of ANOVA test which reveal that structural capital have significant effect on performance of SMEs. Since the P value is actual 0.000 which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B4X4+E where X2 is the structural capital the P value was 0.000 implying that the model Y=B0+ B3X3+E was significant.

Model		Sum of Squares	Df	Mean Squares	F	Sig.
1	Regression	53.071	1	53.071	42.099	0.000
	Residual	238.259	189	1.261		
	Total	291.30	190			

a. Dependent Variable: Entreprise Growth b. Predictors: (Constant), Structural Capital

Table 4.12: ANOVA[b] performarnce of SMES/Structural Capital

Model		Unstandardized Coefficients		Sig.
1		**B**	**Std. Error**	
	Constant	**2.236**	**0.227**	**0.000**
	Structural	**0.421**	**0.065**	**0.000**

Table 4.13: Coefficients performance of SMES/Structural Capital

4.6.5 Linear regression model of performance of SMES/Customer Capital

The table 4.13 presents summary of regression model Y=β0+β5X5+ E result. The value of R and R2 are of 0.798 and 0.636 respectively. The R value of 0.798 represents the correlation between Customer Capital and the Growth. The R2 which indicates the explanatory power of the independent variables is .636. This means that about seventy six percent of the variation in growth is explained by the independent variable. The R2 value as revealed by the result is high which means about 36% of the variation in the dependent variable is unexplained by the model, denoting a strong relationship between the explanatory variable and Customer Capital. The standard error of the estimate is 1.213, which explains how representative the sample is likely to be of the population.

Model		Sum of squares	Df	Mean square	F	sig
1	Regression	30.655	1	30.655	22.227	.000[b]
	Residual	260.674	319	1.379		
	Total	291.330	320			

The findings concur with those of Chu, Lin, Hsiung,and Liu (2006) who found that relational capital includes relationships with customers and the government and refers to development and maintenance of important relationships such as those with customers and suppliers of goods and services, as well as the degree of partner satisfaction and customer loyalty. Inferences can therefore be made that customer orientation is very important in SMEs. Limited in financial and expertise, SMEs are very focused on their target market. Compared to large organizations, SMEs are closer to their customers, and, therefore, are able to capture information on customers and market as their source of expertise and know-how. Therefore SMEs are mostly customer focused and aware of their competitors' actions.

Table 4.14 shows the results of ANOVA test which reveal that customer capital have significant effect on performance of SMEs. Since the P value is actual 0.000 which is less than 5% level of significance. This is depicted by linear regression model Y=B0+B5X5+E where X2 is the customer capital the P value was 0.000 implying that the model Y=B0+B5X5+E was significant.

Model	**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Regression	30.655	1	30.655	22.227	0.000[b]
Residual	260.674	319	1.379		
Total	291.330	320			

a. Dependent Variable: Enterprise Growth b. Predictors: (Constant), Customer Capital

Table 4.14: ANOVA[a] performance of SMES/Customer Capital

4.7 Overall regression analysis

The linear regression analysis models the linear relationship between the dependent variable which is performance of SMEs and independent variables which are Managerial skills, Customer Capital, Innovation, Entrepreneurial Skills, and Structural Capital. The coefficient of determination R2 and correlation coefficient (r) shows the degree of association between Variables and performance of SME's in Mombasa County. The results of the linear regression indicate that R2=.704 and R= .839 this is an indication that there is a strong relationship between managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital and the performance of SME's in Mombasa County. The findings concur with those of Marr, (2008) who postulates that intellectual capital to be key factors for company success and important levers for value creation.

Model	R	R Square
1	**0.839**	**0.704**

Table 4.15: Model Summary

Table 4.16 indicates that R value = 0.000 which is less than 5%. This shows that the overall model is significant. It further implies that managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital have a significant effect on the performance of SME's in Mombasa County. According to Daud and Yusoff (2010) indicated that intellectual capital in a knowledge based economy are recognized as the most important source of competitive advantage particularly for SMEs.

Table 4.16: ANOVA Model Summary

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	sig
Regression	**1809.028**	**5**	**361.806**	**87.391**	**0.000**
Residual	**761.775**	**315**	**4.140**		
Total	**2570.803**	**320**			

a. Dependent Variable: Growth

b. Predictors: (Constant), Customer Capital, Innovation, Entrepreneurial Skills, Structural Capital, Managerial Skills

Model	**Unstandardized coefficients**	**T**	**p-value**
Constant	**0.119**		
Managerial skills	**0.413**	**6.855**	**0.018**
Entrepreneurial skills	**0.219**	**5.749**	**0.031**
Innovativeness	**0.319**	**6.610**	**0.019**
Structural capital	**0.111**	**4.114**	**0.045**
Customer capital	**0.301**	**6.414**	**0.021**

Table 4.17: Dependent variable; Growth

Interpretation

To what extent do managerial skills as component of Intellectual Capital influences on the performance of SMEs in Mombasa County- Kenya. The results shown in table 4.17 above indicate that managerial Skills have a significant positive influence on SMEs growth. This is shown by the regression analysis value of t – Calculated which is greater than 2 (i.e. 6.855) and P Value is 0.018 at 95% level of significance that is less than 5%.

How do Entrepreneurial skills an element of IC influence the performance of SME's in Mombasa County? The results indicate that entrepreneurial skills also positively influences the performance of SMEs, but less than managerial skills, customer capital and innovativeness as shown by the unstandardized beta coefficients. The above table of regression analysis shows that entrepreneurial skills have a positive and significant influence on performance of SMEs as shown by a t value of 5.749 (greater than 2) and a p value of 0.031 which is less than 0.05.

What is the influence of innovativeness constituent of IC on the performance of SME's in Mombasa County? The results also show that innovativeness has a significant positive association with the performance of SMEs as shown by a p value of 0.019 at 95% level of significance which is less than 0,05 and a t value of 6.610, which is greater than 2. It is therefore conclusive to indicate that innovativeness is positively correlated to performance of SMEs.

To what extent does structural capital as a module of IC influence the performance of SME's in Mombasa County? Regression analysis results for structural capital showed

that the t value was 4.114, which is more than 2. Structural capital as a module of intellectual capital therefore has a significant positive relationship with SMEs growth as shown by a p value of 0.045(less than 0.05) at 95% level of significance.

How does customer capital as a factor of IC influence the performance of SME's in Mombasa County? The results from the Stepwise regression showed that customer capital has a significant positive influence on the dependent variable (SMEs growth). This was revealed by a t value of 6.414 which is greater than 2 and a p value of 0.021 which is less than 0.05 at 95% level of significance. From the results, managerial skills as a component of intellectual capital contributes most to the performance of SMEs is managerial skills, which has the greatest t value of 6.855, while the contributes the least is structural capital which has the smallest t value of 0.414.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter summarizes the findings of the study done with specific to the objectives and research questions of the study were used as units of analysis. Data was interpreted and the results of the findings were correlated with both empirical and theoretical literature available. The conclusion relates directly to the specific objectives/research questions. The recommendations were deduced from conclusion and discussion of the findings.

5.2 Summary of the Findings

The study sought to investigate the influence of IC on the performance of SME's in Mombasa County. Specifically, the study investigated managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital. The empirical literature showed that IC is a key ingredient of SMEs growth for production of innovation and creativity in both developed and emerging economies all over the world. Other literature revealed that SMEs have very low survival rate whereby the collapse ratio of SMEs is alarming for developing countries as well as developed countries.

The finding of the study revealed that managerial skills of the owner/managers positively influence the performance of Small and Medium sized Enterprises in Kenya (SMEs) in Kenya. Results of the inferential statistics such as ANOVA show that managerial skill which is a component of IC has a major positive significance

contribution to the performance of SME's in Mombasa County. This further indicates that owner/manager utilization of high managerial skills as a component of IC has a significant effect on the performance of Small and Medium sized Enterprises in Kenya. In relation to entrepreneurial skills, the study found out that it has a great positive influence on the performance of SME's in Mombasa County. According to the findings of the study, an entrepreneurial skill which is an element of IC can be a key lever for the performance of SME's in Mombasa County. Entrepreneurship skills of the owner/manager has been revealed to be part of intellectual capital which include knowledge management that helps an entrepreneur in undertaking risk-taking propensity initiatives that is a crucial characteristics an entrepreneur should possess for the performance of SMEs.

The findings of the study indicate that innovativeness influences the performance of SME's in Mombasa County. According to the findings of the study, innovativeness which is constituent of IC on the growth revealed that it has a significant influence on the performance of SMEs. One can therefore, deduce that the tendency of owner/manager to engage in and support new ideas, novelty, experimentation and creative processes results in new products, services or technological processes which has a great influence on the performance of SMEs. Structural capital as module of IC influences the performance of SME's in Mombasa County. The findings are a pointer to the critical role that structural capital such as reduction in transaction cost has great influence on the performance of SME's in Mombasa County.

The study found out that customer capital as a factor of IC influences the performance of SME's in Mombasa County. According to the findings, customer capital as a factor

of IC influences significantly positively the performance of SME's in Mombasa County. This indicates that customer capital which entails a solid stock of connections, interactions, relationships, linkages, closeness, goodwill, and loyalty between a firm and its customers, downstream clients, strategic partners or other external stakeholders is an important element of intellectual capital that has a positive and significant influence on the performance of SME's in Mombasa County.

5.3 The overall effect of the variables

The study findings showed a great influence of all the five variables to the performance of SMEs. The study found out that there was 83.9% of corresponding change in the performance of SMEs for every change in all the five predictor variables jointly. Test of overall significance of all the five variables jointly, managerial skills, entrepreneurial skills, structural capital, customer capital, and innovativeness using ANOVA, at 0.05 level of significance found the model to be significant

5.4 Conclusions

The crux of this study was to explore the influence of IC on performance of SME's in Mombasa County. Based on previous studies, the components of IC were expected to have positive relation with performance of SME's in Mombasa County. The output given from the findings indicate that there is a significant positive relationship between the components of IC namely Managerial skills (MS), Entrepreneurial skills (ES), Innovativeness (IN), structural capital and Customer capital (CUS) with performance of SMEs.

The findings also indicated that managerial skills have been a major contributor towards the performance of SME's in Mombasa County. This is in line with Kamath (2008) who found that managerial skills appeared as the major contributor towards the performance of SME's in Mombasa County. The results also revealed that the entrepreneurial skills, innovativeness, structural capital and customer capital have positive relationship with performance of SME's in Mombasa County. The findings demonstrated that IC can be used to mobilize, assemble, and manage all intangible resources in order to enhance performance of SME's in Mombasa County and this concur with the findings of other studies (Bontis *et al*., 2000; Salina and Wan Fadzilah, 2008; Chen *etal*.,2005; Kamath, 2008;). Undoubtedly, IC has contribution towards the performance of SME's in Mombasa County.

5.4 Recommendations

The study is a justification of the fact that an entrepreneur with good managerial skills, excellent entrepreneurial skills, sufficient structural capital and is well innovative has a positive significant influence on the performance of small and medium enterprises in Kenya. Specifically, the study recommends: The owner/managers should realize that in the present knowledge economy, IC forms an important element of intangible assets of the SMEs which should be reconfigured to ensure that the enterprises seize opportunities, are proactive in the market place, make new product and process innovations. Entrepreneurial skills of the owner/manager are necessary to impart an entrepreneurial culture in the enterprise which drives the employees into creating new and more competitive products for increased performance of the enterprise. The owner/manager should therefore possess excellent

entrepreneurial skills to coordinate employees and guide them to discovering the mission of the enterprise which is growth.

Understanding of customer and structural capital is a key ingredient of IC to creating a solid relationship between an enterprise and its customers. The owner managers should therefore seek to understand their clients' background, discover their priorities, know their tastes and likes to ensure they serve them well thus creating a long term business relationship with them, culminating in the SMEs' growth. Owner/managers of small and medium sized enterprises should possess technical, interpersonal, and conceptual skills to effectively plan, lead, organize and control the enterprise effectively leading to increased performance and consequently growth.

Owner/manager should promote customer capital which is an important element of IC that entails establishing a solid stock of connections, interactions, relationships, linkages, closeness, goodwill, and loyalty between a firm and its customers, downstream clients, strategic partners or other external stakeholders as this has a positive and significant influence on the performance of SME's in Mombasa County. Owner/managers should therefore maintain a close and direct contact with their customers and may even know them socially and personally through developing a stronger knowledge channel to improve their ability to capture such customer knowledge and consequently enhance the performance of the enterprise.

More importantly, the owner/managers should guide their employees towards utilizing the SMEs structural capital which comprises the hardware, software, social capital databases, organizational structure, process manuals, strategies, routines and

anything that is valuable to the organization as properly developed structural capital helps develop knowledge among employees.

5.5 Recommendations for Further Research

This study is a millstone for future research in this area, particularly in Kenya. The findings emphasize the importance of the components of IC, which comprise of managerial skills, entrepreneurial skills, innovativeness, structural capital and customer capital in performance of SME's in Mombasa County. As such, in case of IC is expected to influence and enhance performance of SMEs. Available literature indicates that as a future avenue of research there is need to carry out similar research on IC in other industries and countries in order to establish whether the link between IC and performance can be generalized.

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APPENDICES

APPENDIX I: COVER LETTER

OTOR ERICK OCHIENG,

UNIVERSITY OF NAIROBI,

P.O BOX 30197,

NAIROBI.

JULY, 2015

Dear sir/madam,

RE: DATA COLLECTION

I am a postgraduate student in University of Nairobi undertaking Masters of Business Administration, majoring in strategic management. One of the academic requirements of the programme is a research project and for this I have chosen the research topic "The Influence of Intellectual Capital on the Perfomance of Small and Medium Enterprises a Case of Mombasa County Kenya". This is kindly to request you to assist me in data collection by responding to the questionnaire. The information you provide would be used strictly for academic purposes and will be treated with utmost confidence. A copy of final report would be available to you upon request. Your assistance would be highly appreciated.

Yours sincerely,

Otor Erick Ochieng.

APPENDIX 11: QUESTIONNAIRE/INTERVIEW GUIDE

This questionnaire is to collect data for purely academic purposes. The study seeks to investigate influence of intellectual capital on the perfomance of SMEs in Mombasa County-Kenya. All information will be treated with strict confidence.

Answer all questions as indicated by either filling in the blank or ticking the option that applies.

Please Indicate

SECTION A: GENERAL INFORMATION

1. GENDER

Male [ ] Female [ ]

2. Age Bracket

18-25 [ ] 26-36 [ ] 36-45 [ ] 46-55 [ ] Over 56 [ ]

3. Nature of business

Manufacturing [ ] Trade [ ] Service [ ]

4. How long has the business been in operation?

Less than 2 yrs [ ] 2–4 yrs [ ] 5-8 yrs [ ] 8-10 yrs [ ] More than 10 yrs [ ]

5. How long have you been in this company/business?.....

6. Which is your current position?

Owner [ ] Co-owner [ ] Partner [ ] Manager [ ]
Executive [ ]

Director [ ]

Other (specify).....

7. Academic Qualifications

PhD Level [ ] Masters Level [ ] First Degree [ ] Diploma [ ]

KCSE [ ] KCPE [ ] NONE [ ]

8. Number of employees

2-10 [ ] 11-20 [ ] 21-30 [ ] 31-40 [ ] 41-50 [ ] 51-100 [ ]

Over 100 [ ]

9. How many professional employees do you have?

10. How many new employees have you added/separated?

11. Business ownership

Limited company [ ] Sole proprietorship [ ] Partnership [ ]

Joint ventures [ ] Family owned [ ]

Others specify.....

12. How many new products have you introduced:

1-2 3-5 above 5

Last Year

This year

13. Tick the best option that gives true value of your assets:

	Last Year	This Year
Less than Kshs 100000		
Kshs 200000		
Kshs 400000		
Kshs 500000		
Above kshs 500000		

Annual Turnover

	Last Year	This Year
Less than Kshs 200000		
Kshs 200001-400000		
Kshs 400001-600000		
Kshs 600001-800000		
Kshs 800001-1000000		
Above kshs 1000000		

SECTION B

Please answer the following questions sincerely as regards where you are/ have been employed

Managerial Skills

Is the level of education important to business venture success? Yes [ ] No [ ]

If No, explain why?

……

……

……

……

……

If yes how?

……

……

……

Do business experience activities relevant to business ownership increase the firm's survival time? Yes [ ] No [ ]

To what extent do the following factors influence the perfomance of your business? Use a scale of 1-

5 where 5= Very great extent; 4 Great extent; 3= Moderate extent; 2= Low extent and 1=

Very low extent. Tick as appropriate.

Factors	**1**	**2**	**3**	**4**	**5**
Technical Skills					
Interpersonal skills					
Employees level of education					

Entrepreneurial skills

To what extent do the following entrepreneurship skills influence the perfomance of your
enterprise? Use a scale of 1-5 where 1= Very great extent; 2 Great extent; 3= Moderate
extent; 4= Low Extent and 5= Very Low Extent.

Factors	**1**	**2**	**3**	**4**	**5**
Risk-taking propensity					
Planning skills					
Careful budgeting skills					
Skills to ensure that financial records are maintained					

How often do you introduce new products to your customer?

.....

.....

Do you alone decide on the new products or who participates in the introduction of new
products?

.....

.....

.....

.....

How do you finance for the new products?

Personal saving [ ]

Bank loans [ ]

Others:

specify……

At what time do you report to your place of work?

.....

At what time do you retire from your place of work.

.....

Innovativeness

To what extent do the following factors of innovativeness influence the perfomance of your enterprise?

Use a scale of 1-5 where 1= Very great extent; 2 Great extent; 3=Moderate extent; 4= Low Extent and 5= Very Low Extent.

Factors	**1**	**2**	**3**	**4**	**5**
Management is supportive to innovation					
Average quantity of patents of employees					
Incentives for innovative employees					
Percentage of new developed product sales in total sales (the last three years)					

ORGANIZATIONAL CAPITAL

To what Extent do you agree with the following items as regards your organization?

(1=Strongly Disagree, 2-Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

	1	2	3	4	5
Knowledge artifacts (data, documents etc) in the organization are stored and indexed in databases.					

The company encourages free talks and discussions between colleagues.					
Company culture contains valuable ideas/ways of doing things					
The company has a brand identity that sets it apart from others					

HUMAN CAPITAL

To what Extent do you agree with the following items as regards your organization? (1=Strongly Disagree, 2-Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

	1	2	3	4	5
Employees are recruited placed and employed in the right jobs.					
Employees are very highly skilled in their jobs					
Employees are widely considered the best in the industry					
Our employees are confident in their ability to provide knowledge that others consider valuable.					
Our employees develop new ideas and knowledge.					

SOCIAL CAPITAL

To what Extent do you agree with the following items as regards to youand your organization?

(1=Strongly Disagree, 2-Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

	1	2	3	4	5
The company has developed a body to address the needs of customer					
The organization takes part in CSR activities to inculcate good relations					
The organization puts a lot of emphasis on good relations with customers suppliers etc.					
The company provides all the necessary resources to enable employees share knowledge and ideas with prospective clients					
The organization has cultivated a good relationship with community around					

FIRM PERFORMANCES

To what Extent do you agree with the following items as regards your organization?

(1=Strongly Disagree, 2-Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

	1	2	3	4	5
The firm has increased its profit margin					
The firm has added asset					
There has been an increase in the number of employees					
The firm has increased its sales growth					
The firm has increased its productivity					

APPENDIX 111 – SMEs List in Mombasa County

Appendix iii - SMEs List in Mombasa County

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEMS
BUSINESS ACTIVITY CODE SUMMARY

LA Name : - 516 / MUNICIPAL COUNCIL OF MOMBASA

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
100	GENERAL TRADE, WHOLESALE, RETAIL, STORES,	24,564	182,450,300.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Kshl :	Category Rev Potential (Kshl :
103	Mega Store, Hypermarket	25	51,000	1,275,000
105	Large Trader, Shop, Retail Store or Personal Service	2,584	17,000	43,928,000
110	Medium Trader, Shop or Retail Service	6,553	8,500	18,350,500
115	Small Trader, Shop or Retail Service	16,200	4,250	68,850,000
120	Kiosk	33	3,400	112,200
195	Other Wholesale Retail Traders, Stores, Shops and Services	69	3,400	234,600

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
200	INFORMAL SECTOR	388	844,900.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Kshl :	Category Rev Potential (Kshl :
205	Hawker with Motor Vehicle (1 Person)	7	4,250	29,750
210	Hawker without Motor Vehicle (1 Person)	29	5,400	98,600
215	Small Informal Sector Trader / Service Provider	126	1,700	214,200
220	Semi Permanent Informal Sector Trader	139	2,550	354,450
295	Other Informal Sector Operation	87	1,700	147,900

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
300	TRANSPORT, STORAGE, AND COMMUNICATIONS	1,992	35,876,800.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
305	Large Transportation Company	48	68,000	3,264,000
310	Medium Transport Company	126	25,500	3,187,500
315	Small Transport Company	557	8,500	4,734,500
320	Independent Transport Operator	14	4,250	59,500
325	Large Petrol Filling Station	66	17,000	1,122,000
330	Medium Petrol Filling Station	60	8,500	510,000
335	Small Petrol Filling Station	143	5,950	850,850
340	Large Cold Storage Facility	5	46,750	233,750
345	Medium Cold Storage Facility	11	21,250	233,750
350	Small Cold Storage Facility	7	10,200	71,400
355	Large Storage Facility	292	42,500	12,410,000
360	Medium Storage Facility	283	17,000	4,811,000
365	Small Storage Facility	209	8,500	1,776,500
370	Large Communications Co.	1	78,500	78,500
375	Medium Communications Co.	19	43,750	831,250
380	Small Communications Co.	38	25,500	969,000
395	Other Transport, Storage, and Communications	114	5,950	678,300

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEMS
BUSINESS ACTIVITY CODE SUMMARY

LA Name : - 516 / MUNICIPAL COUNCIL OF MOMBASA

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
100	GENERAL TRADE, WHOLESALE, RETAIL, STORES,	24,564	102,450,300.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
103	Mega Store, Hypermarket	25	51,000	1,275,000
105	Large Trader, Shop, Retail Store or Personal Service	2,584	17,000	43,928,000
110	Medium Trader, Shop or Retail Service	6,353	8,500	48,250,500
115	Small Trader, Shop or Retail Service	16,200	4,250	68,850,000
120	Kiosk	33	3,400	112,200
195	Other Wholesale Retail Traders, Stores, Shops and Services	69	3,400	234,600

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
200	INFORMAL SECTOR	388	844,900.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
205	Hawker with Motor Vehicle (1 Person)	7	4,250	29,750
210	Hawker without Motor Vehicle (1 Person)	39	5,400	98,600
215	Small Informal Sector Trader / Service Provider	126	1,700	214,200
220	Semi Permanent Informal Sector Trader	139	2,550	354,450
295	Other Informal Sector Operation	87	1,700	147,900

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
300	TRANSPORT, STORAGE, AND COMMUNICATIONS	1,992	35,876,900.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
305	Large Transportation Company	48	68,000	3,264,000
310	Medium Transport Company	126	25,500	3,187,500
315	Small Transport Company	557	8,500	4,734,500
320	Independent Transport Operator	14	4,250	59,500
325	Large Petrol Filling Station	66	17,000	1,122,000
330	Medium Petrol Filling Station	60	8,500	510,000
335	Small Petrol Filling Station	143	5,950	850,850
340	Large Cold Storage Facility	5	46,750	233,750
345	Medium Cold Storage Facility	11	21,250	233,750
350	Small Cold Storage Facility	7	10,200	71,400
355	Large Storage Facility	292	42,500	12,410,000
330	Medium Storage Facility	283	17,000	4,811,000
335	Small Storage Facility	209	8,500	1,776,500
370	Large Communications Co.	1	78,500	78,500
375	Medium Communications Co.	19	46,750	888,250
380	Small Communications Co.	36	25,500	918,000
395	Other Transport, Storage, and Communications	114	5,950	678,300

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEMS
BUSINESS ACTIVITY CODE SUMMARY

LA Name : - 516 / MUNICIPAL COUNCIL OF MOMBASA

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
100	GENERAL TRADE, WHOLESALE, RETAIL, STORES,	24,864	162,450,380.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
103	Mega Store, Hypermarket	25	51,000	1,275,000
105	Large Trader, Shop, Retail Store or Personal Service	2,584	17,000	43,928,000
110	Medium Trader, Shop or Retail Service	6,553	8,500	48,360,500
115	Small Trader, Shop or Retail Service	16,200	4,250	68,850,000
120	Kiosk	33	3,400	112,200
195	Other Wholesale Retail Traders, Stores, Shops and Services	69	3,400	234,600

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
200	INFORMAL SECTOR	388	844,900.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
205	Hawker with Motor Vehicle (1 Person)	7	4,250	29,750
210	Hawker without Motor Vehicle (1 Person)	29	3,400	98,600
215	Small Informal Sector Trader / Service Provider	126	1,700	214,200
220	Semi Permanent Informal Sector Trader	139	2,550	354,450
295	Other Informal Sector Operation	87	1,700	147,900

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
300	TRANSPORT, STORAGE, AND COMMUNICATIONS	1,992	35,876,900.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
305	Large Transportation Company	48	68,000	3,264,000
310	Medium Transport Company	125	25,500	3,187,500
315	Small Transport Company	557	8,500	4,734,500
320	Independent Transport Operator	14	4,250	59,500
325	Large Petrol Filling Station	66	17,000	1,122,000
330	Medium Petrol Filling Station	60	8,500	510,000
335	Small Petrol Filling Station	143	5,950	850,850
340	Large Cold Storage Facility	5	46,750	233,750
345	Medium Cold Storage Facility	11	21,250	233,750
350	Small Cold Storage Facility	7	10,200	71,400
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380	Small Communications Co.	36	25,500	918,000
395	Other Transport, Storage, and Communications	114	5,950	678,300