FACTORS INFLUENCING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF ENTERPRISES SUPPORTED BY CHASE BANK IN NAIROBI COUNTY

BY

EDWIN OTEYA NYANUMBA

A **Research Report Submitted in Partial Fulfilment for Requirements of the Award of the Degree of**
Master of Arts in Project Planning and Management of
The University of Nairobi
Nairobi, Kenya

July 2017

DECLARATION

This research project report is my original work and has not been submitted to any other academic award in any other University.

Name: Edwin Oteya Nyanumba
Registration Number: L50/76817/2014

Signed …………………… Date …………………………….

The research project report has been submitted for examination with my approval as the University supervisor

Mr. Peter Makokha,

Lecturer,

School of Continuing and Distance Education

Department of Extra-Mural Studies

University of Nairobi

Signed …………………… Date …………………………….

DEDICATION

This research is dedicated to my parents Alfred Obiero Nyanumba and Nyoriana Nyaboke Nyanumba, my sisters Lilian Kerubo Nyanumba and Sharon Nyarinda Nyanumba, and brother Philip Marube Nyanumba who have always stood with me through tough times. To my friends whose support has been invaluable.

ACKNOWLEDGEMENTS

I thank my supervisor, Mr. Peter Makokha for his professional guidance in this research project. He has been committed and always found time to offer wise counsel on the direction and shape of this project despite his busy schedule. His advice enabled me to widen my understanding and appreciate the importance of research in identifying and addressing issues affecting the society.

My profound gratitude is extended to my lecturers at the prestigious University of Nairobi particularly Prof. Harriet Kidombo, Prof. Christopher Gakuu, Prof. Charles Rambo, Prof. Ganesh Porkhariyal and Dr. Anne Assay. Their foresight offered me an opportunity to the challenging academic life. I sincerely cannot thank them enough.

ABSTRACT

SMEs play an important role in the economy of many countries across the globe, be they developed or developing Nations. However, SMEs have been said to report high rate of failures with many enterprises dying at an infant stage. Very few of the SMEs grow to become big enterprises. The reason to this failure is pegged on the various factors that continue to inflict stagnation of the industry in terms of performance. This study was to evaluate the factors influencing the performance of SMEs supported by Chase Bank in Nairobi County. The objectives of the study were to determine the influence of access to credit on the performance of Small and Medium Enterprises in Nairobi County, to examine the influence of owner's experience on the performance of Small and Medium Enterprises in Nairobi County, to establish the influence of level of education on the performance of Small and Medium Enterprises in Nairobi County and to establish the influence of management skill of the entrepreneur on the performance of Small and Medium Enterprises in Nairobi County. The empirical literature works of widely published scholars were reviewed. Descriptive survey design with target population of 100 respondents among this 73 was sampled for this study. The study adopted proportionate sampling applying Krejcie and Morgan table 1970 to collect data from the business owners'. The questionnaires consisted of both open and close-ended questions. The close-ended questions were provided more structured responses to facilitate tangible recommendations. Both qualitative and quantitative methods were used to collect data, tabulated and analyzed for purpose of clarity, with the aid of SPSS version 20 software and the data were presented using tables. It also hoped this study generated vital information and added a pool of knowledge for banks and entrepreneurs and finally the information helped the Scholars who undertook research in the University. The study found out that they are different variables to measure the performance of SMEs in Nairobi County. The findings indicate that the four factors (access to credit, owners' experience, educational level of the entrepreneur and management skill) have a positive (F=19.55) and significant ($P<0.05$) relationship to financial inclusion. The findings also indicate that only access to credit ($p<0.05$) is the only statistically significant factor influencing performance of SMEs in Nairobi County. The multiple R shows the relationship multiple linear relationships between the Dependent variables and independent variables. R-Square is the square of the sample correlation coefficient between outcomes and the predicted values. Substituting the coefficients in the study model was: $Y = 2.659 + 0.126 AC + 0.005AF + 0.088EL + 0.084MS + 0.2$. The study concluded that there was a good number of policies and strategies to benefits SMEs. It also recommended the various measures to put in place in order to improve SMEs in Kenya with the specific focus on Nairobi County.

LIST OF ABBREVIATIONS AND ACRONYMS

CBD:	Central Business District
CBK:	Central Bank of Kenya
CBS:	Central Bureau of Statistics
GDP:	Gross Domestic Product
HRM:	Human Resource Management
ICTs:	Information and Communication Technologies
IEA:	Institute of Economic Affairs
IT:	Information Technology
KDI:	Korea Development Institute
MSMEs:	Micro, Small and Medium Enterprises
NBAN:	National Business Angel Network
NBSSI:	National Board for Small scale Industries
OECD:	Organization for Economic Co-operation and Development
OLS:	Ordinary Least Squares
PLM:	Passive Learning Model
SMEs:	Small and Medium Scale Enterprises
SPSS:	Statistical Package for Social Sciences
WPSMEE:	Working Party on SMEs and Entrepreneurship

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

Small and Medium Enterprises (SMEs) are lifeblood of most economies. SMEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine (Abor & Quartey, 2010). The most frequent argument for small firms is that they are a source job creation (Storey, 2000). On the average SMEs represent over 90% of the enterprises and account for 50 to 60% of employment in most African countries. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization.

By largely producing intermediate products for use in large-scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration. A vibrant, efficient and effective SMEs sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy's benefits. SMEs can broadly be defined as businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers (Republic of Kenya, 2005). It has an important role to play in the growth and development of countries through job creation and distribution of the benefits of economic development (CBS *et al*, 1999). Even more importantly the sector can help boost productivity by increasing competitive pressure within the economy.

It is estimated that there are 7.5 million1 SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country. The sector's contribution to the Gross Domestic Product (GDP) has increased from 13.8 per cent in 1993 to about 40 per cent in 2008. The Small Enterprise Sector or Informal Sector provided approximately 80% of total employment and contributed over 92% of the new jobs created in 2008 according to the Economic Survey of 2009. The sector therefore plays a key role in employment creation, income generation and is the bedrock for industrializing the Country in the near future. Due to their characteristics, SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors.

Small and medium enterprises (SMEs) play a key role around the world. In Europe's economies, for example, SMEs employ as much as 66% of the total employed personnel in the private sector and account for 55% of total revenues in the EU (Barney, 2001). According to Burke and Farrat (2004), SMEs are herald as the engine for economic growth, the incubator of innovation, and the solution to decades of persistent unemployment. SMEs should there look at their strengths and opportunities in order to exploit their strategic abilities to overcome their weakness and threat in order to improve their performance (Papulova and Papulova, 2006). In Kenya, SMEs are important. Gakure and Amurule (2013) stated that the SMEs sector employs 44% of the labour force and contributes over 18% the country's Gross Domestic Product (GDP).

SMEs play major roles in economies by creating jobs and increasing income levels of a majority of the people (Government of Kenya, 2007). It has been noted that SMEs play an important economic role in any economy globally (Philip, 2010). They have been identified as key engines spurring growth in many developing economies through encouragement of innovation as well as creation of employment opportunities (Prasad, 2004, Stokes, 2003). Within the European Union over 75 million jobs have been created by Small and Medium Enterprises (EU, 2003). In Sri-Lanka SMEs accounts for 80 percent of the entire local enterprises with over 75 percent of the private sector employment (ADB Report, 2007).

Storehouse and Pemberton (2002), noted that 98% of the industrial fabric is composed by SMEs in Portugal. SMEs have increasingly become key drivers of wealth creation and innovation worldwide (Neiman, 2003). This study will seek to evaluate the factors influencing performance of small and medium enterprises in Nairobi Kenya.

According to Waweru (2007), SMEs in Kenya are characterized by: the ease of entry and exit; the small scale nature of activities; self-employment with a high proportion of family workers and apprentices; the little amount of capital and equipment. Waweru further noted that SMEs are also characterized by unregulated and competitive markets, their limited access to formal credit, the existent low levels of education and training and the limited access to services and amenities.

SMEs in Kenya operate in all sectors of the economy, that is, manufacturing, trade and service subsectors. 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 Kenyan shillings to about 5 million Kenyan shillings (MESPT, 2014).

Almost two-thirds of all SMEs in Kenya are located in the rural areas with only one-third found in the urban areas. About 17% are located in Nairobi and Mombasa (Central Bureau of Statistics, 1999). Close to 70% of the SMEs are in the trade sector i.e. in the buying and selling goods and commodities to generate income. SMEs in the manufacturing sub-sector accounted for 13%, SMEs in the services subsector accounted for 15% the collective group of other service providers, such as bars, hotels and restaurants accounted for 6%. Enterprises in the construction industry accounted for less than 2% of the total SMEs in the country (Central Bureau of Statistics, 1999).

However, globally SMEs have faced so many challenges thus slowing down their growth and development. These include inadequate working capital, inaccessibility to market information, obsolete technology, lack of business management skills and inadequate industrial infrastructure (Antonio & Gregorio, 2005). Therefore, the necessity and the importance of planning emerge.

Wijetunge & Pushpakumari (2011) noted that there are different variables to measure the performance of SMEs with regard to financial and overall performance. Financial performance of SMEs was evaluated in different industries. Furthermore, it is highlighted that the application of inappropriate financial performance measures hinders the assessment of firm performance. Financial performance was measured based on three criteria: Revenue growth, entrepreneurial compensation growth and labor expense/revenue ratio growth (Bracker & Pearson, 2000). Another set of financial measures that may be employed to measure the performance consist of employment growth, return on sales, sales growth and after tax profits (Glen & Weerawardena, 1996).

1.2 Statement of the Problem

The role of SMEs has been identified in both developed and developing economies. It has been found that it is not only the big businesses that provide the foundations of the nations' economies, but Small and Medium Enterprises also play significant role in developing the economies of nations. In view of their crucial role, Chase Bank has initiated strategic, financial and counseling programmes to support them. SMEs have been found to contribute to employment generation, gross domestic product, entrepreneurial skill development and innovation to many developing countries (Cook & Nixson, 2000; Agyapong, 2011).

But inadequate research in the sector poses policy constraint in that area in the developing countries. This continues to be the situation in Kenya where research interest in the critical role of SMEs in economic growth still remains very low despite SMEs widespread. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment. Support for these entities has been ad hoc, irregular and uncoordinated.

Despite their contribution to the development of the country, they are confronted with the problem of raising adequate funding. Besides funding, there is scarcity of literature on other factors that influence performance of the SMEs, especially those supported by SME focused Banks in Kenya, in which most of the SMEs are situated. This research is aimed to address this gap. The study therefore sought to examine the factors that influence the performance of SMEs in Kenya and more specifically supported by Chase Bank.

1.3 Purpose of the Study

The purpose of this study was to examine factors influencing performance of small and medium enterprises. The study focused on enterprises supported by Chase Bank in Nairobi County.

1.4 Objectives of the Study

The study examined the following specific objectives:

1) To establish how access to credit influences performance of small and medium enterprises supported by Chase Bank in Nairobi County.
2) To examine influence of owner's experience on performance of small and medium enterprises supported by Chase Bank in Nairobi County.
3) To assess influence of level of education of the entrepreneur on performance of small and medium enterprises supported by Chase Bank in Nairobi County.
4) To determine influence of management skills of the entrepreneur on performance of small and medium enterprises supported by Chase Bank in Nairobi County.

1.5 Research Questions

The research questions this paper centralized around were:

1) To what extent does access to credit influence the performance of small and medium enterprises in Nairobi County?
2) How does owner's experience influence performance of small and medium enterprises in Nairobi County?
3) To what extent does level of education of the entrepreneur influence the performance of Small and Medium enterprises in Nairobi County?
4) How does management skill of the entrepreneur influence the performance of small and medium enterprises in Nairobi County?

1.6 Research Hypothesis

The research tested the following hypothesis:

1) H_1: There is a significant relationship between access to credit and performance of small and medium enterprises in Nairobi County.
2) H_1: There is a significant relationship between owner's experience and performance of small and medium enterprises in Nairobi County.
3) H_1: There is a significant relationship between level of education of the entrepreneur and performance of small and medium enterprises in Nairobi County.
4) H_1: There is a significant relationship between management skills of the entrepreneur and performance of small and medium enterprises in Nairobi County.

1.7 Significance of the Study

It is hoped that the project will be beneficial to the banking policy and entrepreneurs since the information generated vital information and add a pool of knowledge that will be required by the entrepreneurs to put in place strategies that will enhance management and financial discipline aimed at having SMEs improving their overall performance.

This study provides relevant information for lending policy institutions and policy formulation regarding SMEs. The findings also provided banks with information that could facilitate their ability to put in place appropriate regulations for SMEs to enable them operate efficiently and achieve the desired project goals.

Hopefully, the study will be of importance to the Lending Institutions and the management of Small and Medium Enterprises, thus resulting in improved performance and reduction of administrative and operating costs incurred by SMEs. This study was also to enable the banks to better oversee business owners. Potential entrepreneurs interested in investing or partnering with existing businesses was also used the findings of this study and turned around the SMEs into efficient, effective and profitable businesses.

Finally, it is hoped that the study had a significant influence on the scholars and academicians as it contributed to theory, reference and information to scholars interested in research in the same field or fields related to SMEs and performance.

1.8 Assumptions of the Study

The study was based on several assumptions. First, it was assumed that the respondents chosen for the study will answer the questions as asked correctly and truthfully. Second, it was assumed that the respondents will co-operate in providing both secondary and primary data pertaining to the Performance of Small and Medium Enterprises that the researcher will need for the study. The third assumption was that the social and political conditions in Nairobi County will be favorable for data collection within the specified research period.

1.9 Delimitations of the Study

The study was delimited by the geographical span of Nairobi County and therefore information was generated from relevant enterprises in Nairobi County. Employees of the various enterprises who do not interact or act upon any information regarding performance of the enterprise did not take part in the study. The study was also delimited by its dependent and independent variable.

1.10 Limitations of the Study

The study was limited by the vastness of the area to be covered and the number of enterprises to be targeted. It was also limited by the amount of information obtained from Chase Bank database and the business owners' since most of them did not provide detailed information to the researcher hence holding back some of the key information required by the researcher.

Some respondents also had inadequate information regarding the performance of Small and Medium Enterprises and this was a challenge during the collection of both primary and secondary data.

1.11 Definitions of Significant Terms

Access to Credit: Is the ability of individuals or enterprises to obtain financial services, including finance, deposit, payment, insurance, and other risk management services.

Owner's Experience: Is any experience that a person gains while working in a specific field or occupation.

Level of Education: Refers to the highest level of schooling that a person has reached. At the primary and secondary school level, educational attainment refers to the number of grades completed. At the postsecondary level, it refers to institutions attended and certificates, degrees or diplomas obtained.

Management Skill: The ability to make business decisions and lead subordinates within a company. It includes human skills, technical skills and conceptual.

Small and Medium Enterprises: Businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers.

Performance of SMEs: The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed.

1.12 Organizational of the Study

This study is organized in five chapters; chapter one focuses on background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, research hypothesis, significance of the study, assumptions, delimitations, limitations of the study and definitions of significant terms.

Chapter two focuses on literature review, which is discussed as follows; Access to Credit and performance of Small and Medium Enterprises, owner's experience, level of education and management skills. The chapter will also present the theoretical framework, conceptual framework and summary of literature review.

Chapter three describes the research methodology that shall be used in the study, it is divided into the following topics: Research design, target population, research instruments, validity of research instruments, reliability of research instruments, data collection procedure and data analysis. Chapter four focuses on data analysis and interpretation while chapter five discusses the summary of research findings, conclusions, recommendations and suggestions for further research in the area of study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter contains an empirical review of pertinent literature on performance and small and medium enterprises. This review anchored the study on the theoretical framework and identified gaps in empirical studies from which the conceptual framework was formulated.

2.2 Access to Credit and Performance of SMEs

Limited access to finance faced by SMEs has drawn considerable attention from both academics and practitioners for many decades. Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008; Levine 2005; Rajan and Zingales 2002; Townsend and Ueda, 2003). At the firm level, lowering financial constraints can enhance entrepreneurial activity, contributing to jobs, innovation and income (Beck *et al.*, 2005; Paulson and Townsend 2004). A recent survey has suggested that limited access to finance still remains one of the key constraints for Thai small business (NESDB 2004; Bank of Thailand 2009; Wesaratchakit *et. al.,* 2010) and worldwide (Schiffer and Weder, 2001).

Small enterprises and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 per cent of the population has access to the banking sector (Basu, Blavy & Yulek, 2004). According to HFC Bank (2004), SMEs in Ghana tend to be marginalized or have limited access to credit. Coupled with the fact that few informal supports exist by way of business angels and personal savings, this tends to affect their ability to adopt modern technology (UNIDO, 2002).

It has been found that only few of these businesses are financed from commercial bank loans, government assistant programs or other informal sources (Osei, Baah-Nuakoh, Tutu & Sowa, 2002; Bani, 2003). Similarly, Abor and Biekpe (2006) pointed out that, access to finance is a dominant constraint facing SMEs in Sub-Saharan Africa. It must be noted that access to funding is not the only constraint to SME development (Liedholm, MacPherson & Chuta, 20044), finance and access to funding are often the major challenge for SMEs development (se Bigsten *et al.*, 2000; Buatsi, 2002.). It should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources.

With low level of technological support (because they are unable to finance technological resources) they cannot get adequate amount of production and subsequently sales and profits. This obviously leaves small business in a vicious cycle of financial constraint. In view of this, it is often imperative that external capital injections are necessary to help boost small business performance. Besides, several empirical studies have recognized the issue of financial constraint as the main problem thwarting the speedy growth of small businesses in developing economies including Kenya (Arthur, 2003; Mensah, 2004; Deakins, North, Baldock, & Whittam, 2008). Other studies have in developing economies have found funding as the major problem of SMEs. These studies have made varying recommendations, but SMEs continue to be constrained by funding as suggested by the empirical studies cited earlier on. Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants and develop a list of business angels to assist small businesses.

Gaps in access to finance: The financing gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Some argue that the fundamental reasons behind SMEs' lack of access to funds can be found in their peculiar characteristics, while others argue that SMEs suffer from financing gaps because of market imperfections on the supply side (Park *et al*., 2008). Park *et al*. (2008) further argued that SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of SMEs who require financing from financial institutions and other providers of finance. The financing gap for SMEs is most prominent in capital market financing. Most countries, including the developed ones, have problems in SME financing through capital markets (Park *et al*., 2008: 1).

Park *et al*. (2008) also reviewed that substantial financial gaps exists in a large numbers for both Organisation for Economic Co-operation and Development (OECD, 2006) and non-OECD countries. The results of their studies indicated an 80% financial gap in OECD countries and a 90% financial gap in non-OECD countries. Furthermore, a break-down of debt and equity also indicate significant gaps except for debt in OECD countries. Several authors and researchers have alluded to the financial gap, but a few of them attempt to find solutions to closing that gap.

Constrained access to finance derived from financial institutions' credit rationing behavior might not be efficient because managers work under conditions of asymmetric information. This may result in less profitable investments getting financed while more profitable investments are being left out and thus resulting in adverse selection and moral hazard risks. Therefore, asymmetric information can explain asymmetric distribution of credit among firms with identical characteristics, the lenders not being aware of the exact bankruptcy likelihood for the firms, know only that this likelihood is positive and therefore choose to increase debts' cost. The firm accepts to invest only in riskier projects which can produce higher income levels, which are needed to cover debts. The result is that the lender cannot avoid selecting the riskier project and therefore must accept the risk of the firm. In the presence of excess demand, the lender has different maxima corresponding to the rates with the lower adverse selection likelihood for credit rationing (Stiglitz and Weiss, 2007).

Furthermore, rationing conditions reduce access to financial resources not only for new investment, but also for employment creation and poverty alleviation. Another facet of credit rationing is that financial institutions personnel/ managers may have to bear personal responsibilities for nonperforming loans if the loans are given to SMEs without government guarantees, hence agency problems exist. Managers have the responsibility to protect the depositors' interest hence will operate under credit rationing conditions. Start-up SMEs are more likely to be affected by information asymmetry problems. Deakins *et al*. (2008) argued that information asymmetries are more acute in new and technology-based propositions. They argued that at an early stage, information is limited and not always transparent and assets are often knowledge based exclusively associated with the founding entrepreneur.

Especially with manufacturing or technology based firms, entrepreneurs may be reluctant to provide full information about the opportunity because of concerns that disclosure may make it easier for others to exploit. There are also some categories of owners of SMEs that will face additional problems due to lack of security, such as young entrepreneurs or those from deprived areas. In addition, there may be asymmetries arising from location as well as sector. For example, owners of SMEs in rural environments may face difficulties with access to bank finance. From Stiglitz and Weiss (2004)'s credit rationing theory discussed herein, two most important gaps emerged as the major reasons why SMEs experience constrained access to financial resources. These are information asymmetry gap and agency problems. Furthermore, from an analysis of the financial markets' behavior we can review the following bases for credit rationing behaviors which restrict access to finance for SMEs.

Bases for credit rationing behaviors: Quite a substantial number of authors attempted to draw conclusions on various issues relating to credit rationing behaviors of financial institutions. One of the notable contributions is by Green (2003). In his study, Green (2003) argued that limited access of small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of the financial system, the lack of liquidity, and inexperience in small-scale lending in many of these countries. Bank branches outside the capital cities frequently provide only cash and do not have the authority to make loans, leaving small enterprises in rural areas disproportionally disadvantaged. If commercial banks do extend credit to small firms, it may take up to several months to process applications.

Banks advance four main reasons for their reluctance to extend credit to small enterprises viz, high administrative costs of small-scale lending, asymmetric information, high risk perception and lack of collateral. Although the reasons apply to industrial as well as developing and emerging economies, they tend to be more significant in the latter. SMEs typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and banks often find that processing small SME loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs (Malhotra *et al.*, 2007). Since most of the administrative costs of lending are fixed, that is, they are independent of the size of the administered loan, economies of scale arise; the larger the loan, the lower the per unit costs of extending credit.

Furthermore, administrative costs also include information gathering costs, for example visiting borrowers, analyzing their applications and monitoring their loans. For a number of reasons, these costs tend to be higher for small than for large firms. Small enterprises are often located away from the main urban centres, their accounting skills and standards are usually lower, and banks lack experience in servicing them. In the case of developing and emerging economies, these difficulties, and therefore the costs involved, are multiplied (Green, 2003). However in a study by Cziraky *et al*. (2005) it was concluded that, among all SME loan requests, banks preferred smaller firms that requested smaller loans. The results suggest that individual banks differ in their criteria and in their loan-size preferences and that there is no positive correlation between the bank's size and its loan size preference.

Another basis for credit rationing is asymmetric information. A prerequisite for the efficient allocation of resources by market forces is that all participants share the same relevant information. This is not the case in financial markets. Borrowers will always know more about the viability of their projects and their ability and willingness to repay than lenders. The lenders are thus faced with uncertainty both with respect to the expected rates of return of the project they are financing and with respect to the integrity of the borrower. This uncertainty increases with the length of the loan. Borrowers face difficulties in transmitting information about their projects to lenders, as lenders will suspect them of underestimating the risks of failure. The problem of asymmetric information will be more acute for small businesses than for larger ones because of lower information standards and the greater variability of risk; small, privately owned firms face no legal reporting requirements and are more vulnerable than large firms (Green, 2003).

Bridging gaps in access to finance: Malhotra *et al*. (2007) contends that, experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include; according to Holtmann *et al*. (2000) the following: a Loan analysis that focuses on the prospective client's ability to pay (cash flow). Less emphasis should be placed on collateral. The analysis should be highly standardized, and loan processing times kept to minimal; entitle repeat borrowers to increasingly larger loans; loan officers should bear full responsibility throughout the entire life of the loan and should be paid performance based salaries. If payment problems occur, there should be a powerful incentive structure in place for immediate follow-up; appropriate decision-making and control mechanisms should be in place and supported by a strong Management Information System (MIS) and information technology (IT) to assist in the management and administration of the loan portfolio (Holtmann *et al*., 2000).

In another study, Park *et al*. (2008) argued that many banks have developed tools, such as credit scoring models and other sophisticated techniques, to discriminate between high-risk and low risk borrowers, thus reducing the risk of lending to SMEs. Despite, the potential for the above mentioned methodologies of being effective in addressing the access to finance challenge for SMEs, applying these approaches fail to provide a clear path to closing the information asymmetry gap, a major reason why SMEs cannot adequately access financial resources. Therefore, there is a need to find effective ways to ensure that the information gap between financial institutions and SMEs is closed.

It is also paramount to ascertain whether an actual gap really exists or not. According to Brierley (2001) it is essential to distinguish between actual gaps or imperfections, and perceptions of gaps. The issue of gaps in the financial markets is therefore complicated because in financial markets it is an accepted industry practice for suppliers of capital to refuse to sell to some potential buyers. Furthermore, a potential buyer of a loan must not only be willing to pay the going price of the loan (for example, interest rates), but must also satisfy the bank that the principal (capital loaned) will be returned (Brierley, 2001). For example, one can think of suppliers of capital as the purchasers of risky promises to pay. This argument suggests that some firms will be, and should be, denied financing based on their failure to furnish sufficient information or if the information supplied is evident that they are a risky investment.

The observation that some firms cannot obtain capital is therefore not prima facie evidence of a gap. A gap or imperfection may however be implied if particular categories of firms that ought to receive financing are systematically unable to obtain it. Therefore, it should be borne in mind whether an actual gap or a perceived gap is in question to ensure that policy makers do not channel resources towards addressing a perceived gap which might not be of any relevance. Public sector initiatives to support the financing of small firms are best justified if market imperfections result in the private sector not providing finance to deserving firms adequately (Brierley, 2001).

Conversely, in the absence of market failure, such initiatives may themselves cause distortions. Nonviable firms may be subsidized, at public expense, and may compete with other viable firms. It is therefore essential to determine the extent to which, if any, particular categories of small firms are systematically disadvantaged, rationed, with respect to access to capital. For policy issues on this matter to be most effective, it is necessary to develop a widely accepted and empirically supported framework around the notion of capital market imperfections.

Otherwise, unfounded perceptions of specific types of financial market "gaps" may inappropriately drive public policy (Equinox Management Consultants Ltd., 2002). For instance, in South Africa, policy debates for the past have failed to close the financial gap between SMEs and providers of financial resources. This is evident in a widespread outcry by SMEs because of their lack of access to finance and unacceptably low levels of entrepreneurial activities in the country. Various authors have revealed that access to finance challenges is the main reasons for low entrepreneurial growth and SME survival in the country (Herrington *et al*., 2008). Quiet substantial factors are a major reason why SMEs are denied access to finance. Although these factors centre much on the asymmetric information problem, it is paramount to discuss them separately at this juncture in order to gain a clear picture of the access to finance challenges facing SMEs.

2.3 Owners Experience and Performance of SMEs

Sutton (2007), Caves (2008), and Audretsch and Klepper (2010) have recently summarized the existing theoretical and empirical insights about firm dynamics. They note that a small firm has a lower likelihood of survival and at the same time firm size is found to be negatively related to growth. This evidence (mostly concerned with developed countries) amounts in the words of Geroski (2005) to a stylized fact, which contradicts the often cited Gibrat's Law. The empirically observed positive relationship between firm size and the likelihood of survival can be interpreted theoretically within the framework of noisy selection introduced by Jovanovic (2002). This contribution can be characterized as a passive learning model in which information is gathered at no cost. Entrants do not know their own cost structure and assuming that firms differ with regard to efficiency, they incur different costs when producing the same levels of output. Since entrants do not know their exact abilities their performance is unknown, so each participant has to go through a learning process, accumulating information from actual market experience.

Entrepreneurs gradually discover whether their abilities are good enough to meet prior expectations, and if not they will typically exit the industry. Consequently, in the model of Jovanovic (2002) efficient firms survive and experience growth, whereas overoptimistic firms eventually close down. The longer a firm has been in the market the more knowledge it has about its own abilities, so in this model the probability of survival is positively related to firm age. In sum, Jovanovic predicts that firm survival increases with size and age.

A critique of the Jovanovic approach is that he assumes no technological progress. Ericson and Pakes (2005) therefore propose to extend the analytical framework to a model of active learning where technological advances are allowed for. Firms are aware of the distribution of their profits, but they are uncertain about the profitability of a given innovation. This is due to the random outcomes of innovations and actions of other actors in the market. Firms explore the market actively and invest in order to enhance productivity. The firm survives and grows if successful firms grow and otherwise they will eventually exit the industry. Pakes and Ericson (2008) have subsequently shown that the passive learning model fits the description of the retail sector, while the active learning model turns out to be more appropriate for the manufacturing sector.

However, as Caves (2008) argues, the passive and active learning models need not be mutually exclusive. Besides firm age and size, it has also been suggested that firm level innovations should be considered a driving force behind firm dynamics. In Jovanovic and MacDonald (2004) experienced firms are more capable of pursuing innovations, and during the process of technological change technological laggards exit because successful innovators force down prices. Moreover, Klepper (2006) argues that firm size and the ability to appropriate returns from innovations may be related. He highlights the importance of firm size in appropriating returns from innovations and, in his analytical framework, price declines eventually limit further entry so older firms with the best innovative capabilities get larger shares of the industry output.

Jovanovic (2003) focuses specifically on the issue of diversification and discusses how this can improve the probability of survival. Gaining market power, avoiding risk, having access to funds, making products compatible and reaping efficiency gains are in his view some of the potential benefits from diversification. He develops a general equilibrium model of the degree of diversification by firms, and it turns out that it is more efficient to make two products rather than one at a larger scale. Liedholm and Mead (2009) point out that the above theoretical models are somewhat limited in their choice of explanatory variables. There are other important variables, which may affect firm dynamics, and the key determinants of managerial ability are also left out. Consequently, in generating more comprehensive hypotheses about the determinants of firm dynamics the analyst must ultimately move beyond variables identified in the theoretical literature, seeking inspiration from empirical sources.

2.4 Level of Education and Performance of SMEs

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2008). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 2009).

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 2009 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (2008) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favourable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large.

Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the challenges SMEs in Nairobi face and how they manage those challenges. Given that SME managers are more able to create and manage viable firms with increased human capital, it is reasonable to include human capital indicators in the following analysis.

The human capital is seen in the light of a stock of individual knowledge, capability, and skills that are economically usable and all those skills acquired through education and talents, (OECD, 2001). Human capital is an important input for organizations, especially for the owners' continuous improvement mainly concerning knowledge, skills, and abilities. Furthermore, the Owner - manager relationship is one of the most common characteristics of SMEs, and to elaborate on this, the majority of SMEs are in most cases owned and managed by the same individuals. On the other hand, large firms are normally managed by a team of professionals appointed by the shareholders of the firms.

Therefore, the characteristics of owner – managers such as the level of education and experience do have impacts on the access that they have (or otherwise) to the external finance. Following this, Storey, (2004) mentions that the better the human capital, the greater the firm viability of the start-up; consequentially, access to debt capital should be greater for these firms. Besides, Coleman (2000) who has examined education, gender and years of experience and access to external finance has found some evidence of education being positively related to external loan access.

In the same context, Irwin and Scott (2010) have explored into some of the barriers to the aspect of raised bank finance faced by SMEs, the barriers of which specifically include the impact of personal characteristics. They have found that the educational level has made little difference to sources of finance, except for those educated with A-level who has been found to have frequently turned to friends and family for financial assistance and remortgaged their homes as another method of financial resource.

2.5 Management Skills and Performance of SMEs

The empirical evidence from developed countries about firm dynamics is substantial. However until the papers by Hall (2007), Evans (2007a, 2007b) and Dunne *et al.* (2008, 2009) econometric problems regarding heteroscedasticity, specification and sample censoring were not properly addressed. Controlling for these problems, it emerges that larger firms have lower growth, but a larger probability of survival, consistent with the predictions of the Jovanovic (2002) model. Doms, Dunne and Roberts (2005) also support this result by showing that older and larger firms in the US manufacturing sector have higher survival rates and lower growth rates. Controlling for capital intensity, productivity, and technology usage does not change the results. Studies covering other countries (Mata *et al.*, 2004 and Baldwin, 2005) confirm that the length of survival is a function of entrant and industry characteristics.

Regarding innovative firms Gort and Klepper (2002) show that technological and knowledge conditions determine the relative ease with which new firms are able to innovate and therefore survive. Complementing this study, Audretsch (2001, 2005) suggests that technological opportunities are very important in the long run for new firm competitiveness. More specifically, considering the US manufacturing sector he finds that in industries where small firms have a relatively higher innovation rate as compared to larger firms the survival rate of small firms is higher. Agarwal and Audretsch (2001) also suggest that the relationship between the likelihood of survival and firm size is dependent on technology and on the stage of the industry life cycle. Moreover, as documented by Audretsch and Mahmood (2005) exit hazard is greater in more innovative industries and evidence suggests that the probability of exiting is higher when industry unemployment is high. Yet, this is more so for new establishments than among diversifying entrants.

Although evidence from developed countries is substantial it is not clear whether the above conclusions concerning firm dynamics carry over to developing countries. First of all, Tybout (2000) documents, in an excellent survey of the empirical literature concerning manufacturing firms in developing countries, that there is no serious scale inefficiency problem in developing countries. Survey based evidence suggests that the potential efficiency gains from increasing plant size are probably much smaller than one might think. Moreover, Söderbom and Teal (2004) show for firms in Ghana's manufacturing sector that human capital does not appear to be quantitatively important in determining productivity. Liedholm and Mead (2008, 2009) have made great efforts to uncover the characteristics of the African region. Using data from eight countries they confirm that firm age and firm size are important variables in analyzing the enterprise life cycle. Location, composition of activities, labor force characteristics and gender of the entrepreneur also turn out as important determinants of firm survival and growth.

McPherson (2006) looks at five African countries, and his findings confirm that the level of human capital, location, sector, and gender are important determinants of growth. Consistent with the results obtained from analyzing developed countries he also finds an inverse relationship between enterprise growth and firm age and size, respectively. In a related paper, McPherson (2005) finds that the Jovanovic (2002) theory of firm evolution does not hold in his sample of four African countries. Size and the probability of exiting the industry are not negatively related. Moreover, Daniels and Mead (2008) show somewhat surprisingly that location and access to credit do not seem to influence the levels of profit significantly in Kenya.

In addition, they document that higher education and being a male entrepreneur are associated with higher profit levels. Hence, in the African regional context standard theories of firm dynamics may be inadequate. Liedholm (2002) investigates the determinants of survival and growth of SMEs in Africa and Latin America. Firms located in urban and commercial areas are more likely to survive and human capital also plays a crucial role. Again size and growth are central features in describing firm dynamics. Sector, location and gender also play a significant role in determining enterprise growth. In particular, it is shown, that enterprises run by male entrepreneurs grow more rapidly than those run by females.

2.6 Theoretical Framework

This research is grounded on two theories namely: Passive learning theory and Stochastic and deterministic theory.

2.6.1 Passive Learning Theory

In the Passive Learning Model (PLM) (Jovanic 2002 cited in Agaje 2004), a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract, or to exit. This learning model states that firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that smaller and younger firms should have higher and more viable growth rates (Stranova, 2001, Cunningham and Maloney 2001 and Goedhuys, 2002).

2.6.2 Stochastic and Deterministic Theory

The other set of growth theories of firms include the Stochastic and Deterministic Approaches The stochastic model, which is also known as the Gibrat's Law, argues that all changes in size are due to chance. Thus, the size and age of firms has no effect on the growth of SMEs. According to Becchetti and Trovato (undated) empirical of the law has indicated that it only considers size and age as potential variables which may significantly affect firm growth by neglecting other explanatory variables which may significantly affect firm growth. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics (Becchetti and Trovato, undated and Pier Giovanni et al., 2002).

2.7 Conceptual Framework

The conceptual framework for the study is depicted in figure 1 below.

CONCEPTUAL FRAMEWORK

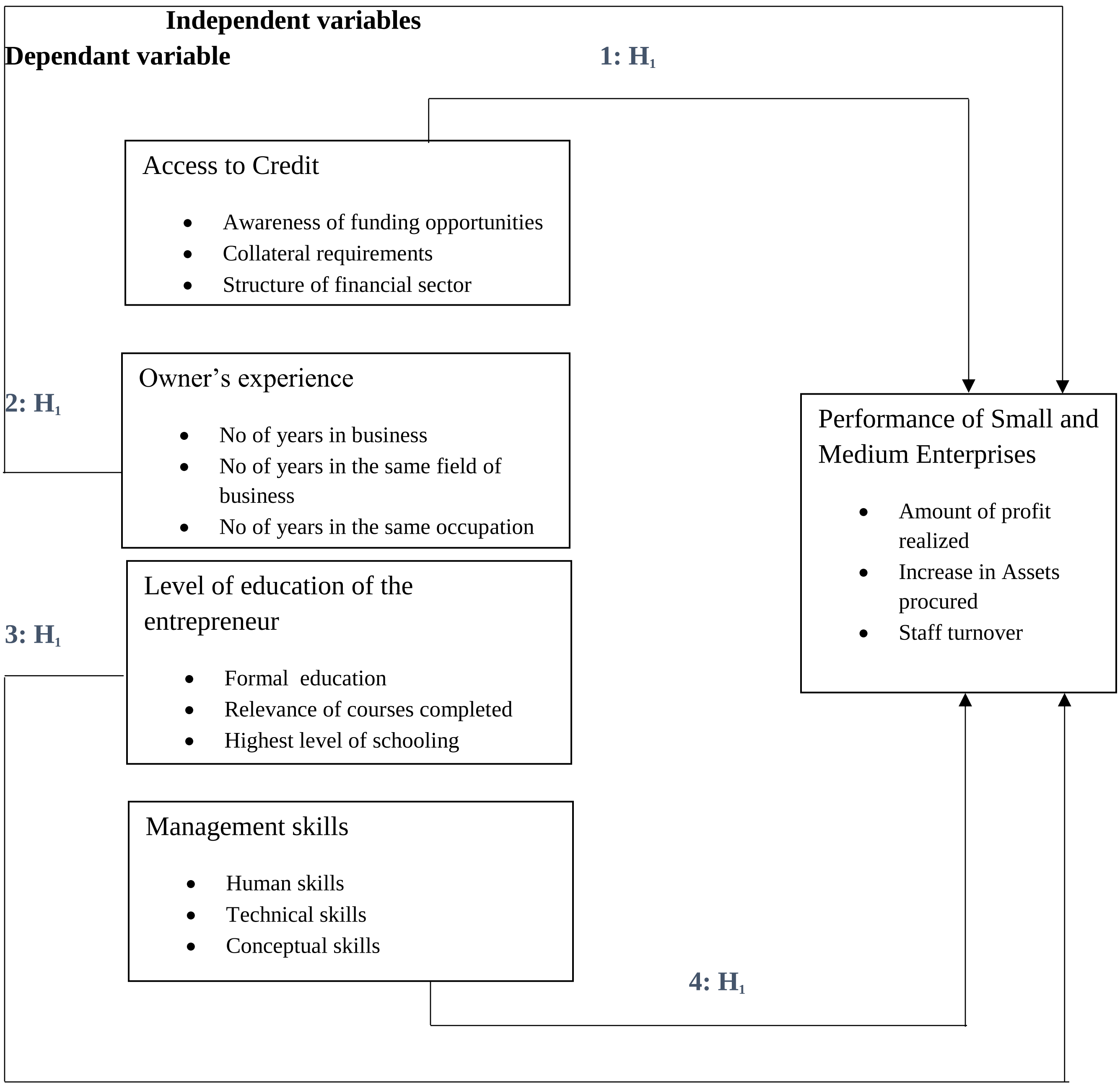

Figure 1 Conceptual framework

In this conceptual framework, the independent variable is performance. The relationship between the dependent and independent variables will be assumed to be influenced by factors such as access to credit, owner's experience, level of education and management skills.

2.8 Knowledge Gap

The knowledge gap identified after reviewing relevant literature is shown table 1

Table 2.0 Knowledge Gap

Variable	Author (Year)	Findings	Gap	Focus of the study
Access to credit	Di Mento (1986) and Parker (2002)	Access to credit is vital for enterprise growth	No Access to credit-specific studies on the relationship between access to credit and enterprise performance, performance not well described in the available studies	The exact nature and extent of the relationship between access to credit and performance of small and medium enterprises
Owner's experience	Crawford (1997), PMCD, (2007) and Brill et al. 2006.	Owner's experience translates into organizational capabilities, improves turnover and success	Owner's experience is not well evaluated in the local studies.	The exact nature and extent of the relationship between owner's experience and performance of small and medium enterprises
Level of education	Twebaze (2010) and Briscoe and De Ferranti (1998)	Level of education results in poor performance, failure to plan and strategize accordingly	At the local scene, there are no studies conducted on the specific elements of performance that level of education affects	The exact nature and extent of the relationship between level of education and performance of small and medium enterprises
Management skills	Hutter (1997), Associated Press, (2007)	Management skills guarantee for efficiency, effectiveness and success of a company	Lack of recent and current literature on the influence of management skills on performance, especially for small and medium enterprises	The exact nature and extent of the relationship between management skills and performance of small and medium enterprises

2.9 Summary in Literature Review

This chapter looked into the various literatures in line with the topic of study and what other authors have had to say about the topic in question. This chapter examined issues related to the topical issue from a broader perspective. It discussed the various theories relating to the topic of study which comprised of passive learning theory, stochastic and deterministic theory. The conceptual framework was also discussed and the independent, dependent and intervening variables were clearly stated.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on research design, target population, sampling procedure, data collection methods, validity, reliability, methods of data analysis, operational definition of variables and ethical issues.

3.2 Research Design

This study adopted a descriptive survey, Kothari, (2006) describes descriptive research as including survey and facts finding enquiries adding that the major purpose of descriptive research is description of affairs as it exists at present. A descriptive research determines and reports the way things are and attempts to describe such things as possible behavior, attitudes, values and characteristics, Mugenda & Mugenda, (2003). The primary use of descriptive statistics is to describe information or data through the use of numbers (create number of pictures of the information). The characteristics of groups of numbers representing information or data are called descriptive statistics (Cooper & Schindler, 2008).

3.3 Target Population

Oso and Onen (2008) explained population as a larger group of items or objects from which samples are taken. It comprises the entire group of persons or elements that have at least one thing in common (Kombo & Trump, 2006). A population is defined as a complete set of individuals, cases or objects with some common observable characteristics, (Mugenda & Mugenda, 2003). The population for this study was the entrepreneurs supported by the bank. Chase Bank has 10 branches in Nairobi County. The study therefore had a target population of 100 respondents.

3.4 Sample Size and Sampling Procedure

The sample size and sampling procedures for this study was determined by the following statistical procedures.

3.4.1 Sample Size

The sample size for the respondents was calculated based on Yamane's formula. Yamane (1997). It is referred to the number of items to be selected for observations in order to obtain accurate information on the universe (Oso & Onen, 2008). A good and reliable sample size is one which is selected at 10% to 30% of the entire population (Mugenda and Mugenda, 2003).

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = \frac{100}{1.375}$$

$$n = 109$$

Where n is the sample size,

- 95% confidence level

- P = .5;

N-is the population size,

e-is the level of precision

The study therefore sampled 73 respondents from the target population.

3.4.2 Sampling Procedure

The sample indicates the total number of respondents to be selected from the target population. Sampling is done because it is not plausible to obtain information from the whole universe to accurately accomplish study objectives. According to Sekaran (1992) and Kothari (2004), sampling methodologies are deemed appropriate to represent the target population and to provide the same results at the lowest possible cost and time therefore simple random sampling will be used for this study.

3.4.3 Sampling Frame

The sampling frame for this research is depicted on the table 3.0 the exact sample size for each targeted stratum was determined using proportions

Table 3.0 Sampling Frame

Sampled group	Target population	sample size
Small and Medium Enterprises (Branches: Wabera Street, Kimathi Street, Eastleigh, Mbagathi way, Riverside, Ngara, Donholm, Westlands, Madaraka, Hurlingham)	100	73
Total	100	73

The sampling will be derived from: Krejcie, R. V., & Morgan, D. W. (1970).

3.5 Research Instruments

This study utilized a questionnaire as a primary tool for data collection. The questionnaire contained two sections containing structured and unstructured questions. The questions were systematic, pre-determined and presented with exactly the same wording and in the same order to all respondents. Section I captured questions on background of information of the business; Section II had questions on factors influencing performance of SMEs.

For closed-ended questions, a five-point like scale was used with meanings as shown: (1) To a very great extent, (2) To a great extent, (3) To a moderate extent (4) To a low extent and (5) To no extent at all. To a very great extent responses were scored at 5 for direct positive responses while those of to no extent at all responses were scored at 1.

3.5.1 Pilot Testing of the Research Instrument

A pilot study on the questionnaire was carried out one week prior to the main study. Pilot testing entailed picking 5 respondents and administering the questionnaire to them so as to help determine its mechanics and point out any problems with test instructions, instances where items were not clear, help format the questionnaire and remove any noted typographical errors or inconsistencies (Mugenda 2003).

The primary purpose of pilot-testing of the research instrument was to construct an initial picture of test validity and reliability, help elicit appropriate responses and determine the relevance and appropriateness test questions. Pilot testing also helped to check on the clarity and suitability of the wording. Information from the pilot study was cross-checked to establish deficiencies. Corrections and modifications was therefore undertaken to correct any anomalies noted on the instrument before it was administered.

3.5.2 Validity of the Research Instrument

Instrument's validity as the appropriateness, meaningfulness and usefulness of inferences a researcher makes based on data collected. This study utilized both content and construct validity. Content related validity was ideal for this study since it is consistent with the objectives of the study.

Construct validity was appropriate to the research paradigm since it sought to unearth the finer details embedded in program performance through construction of new knowledge paradigms. This assertion was in consonance with Kothari (2002) who argues that constructs are abstractions that are deliberately created by researchers in order to conceptualize the latent variable, which was the cause of scores on a given measure.

3.5.3 Reliability of the Research Instrument

To measure the reliability coefficient of the research instrument, Cronbach's Alpha reliability coefficient was obtained for all the variables in the study. Cronbach's alpha coefficient is like probability and therefore ranges between zero and one. A coefficient of zero implies that the instrument has no internal consistency while that of one implies a complete internal consistence. Donald and Delno (2006), Creswell (2005) indicates that a reliable research instrument should have a composite Cronbach Alpha Reliability coefficient of at least 0.7 for all items under study. If the composite reliability coefficient is less than 0.7, then the instrument will have to be revised before administration.

Larry (2013) in advanced statistics observes that Cronbach coefficient is used to test internal consistencies of samples of a given population with research instruments having like scales with multiple responses. Cronbach Alpha coefficient has been viewed by scholars as an improvement of Kuder-Richardson Formula 20 (KR-20) which is an equivalent measure of dichotomous test items.

3.6 Data Collection Procedures

The study used primary data. Primary data refers to that which was originally collected for the first time. The use of primary data is supported by (Saunders et al, 2007). The type of data to be collected was informed by the objectives of the study as supported by Teddlie (2010).

After successfully defending the proposal, the researcher obtained a research permit from NACOSTI. He then enlisted all respondent enterprises by obtaining their email addresses or telephone contacts. The researcher did undertake data collection by using three fronts. In the first instance, the researcher physically visited the SMEs place of business and hand delivered questionnaires. This approach accorded the researcher an opportunity to meet the respondents. In physical delivery approach questionnaires were hand delivered and collected later after an agreed period of time. The entire data collection exercise took 2 Weeks. After the data was collected, checking for errors and inconsistencies was undertaken.

3.7 Data Analysis Techniques

Data analysis was done in the following four phases normally used in research, these include: data clean up, reduction, differentiation and explanation. Data clean up involved editing, coding and tabulation in order to detect anomalies. Data was then keyed using (SPSS) version 20.0 with appropriate codes and variable specifications and counter-checked for possible erroneous entries.

Data was then analyzed based on the themes of research objectives. The specific effect of independent variables vis-à-vis dependent variable was tested through multivariate analysis. The test of hypotheses to determine the level of significance of an independent variable against the dependent variable was tested through multiple regression and correlation. The significance level will be set at probability $p < 0.05$ for every statistical set. For the parametric data, Pearson's product Moment Correlation Coefficient (r) and stepwise regression R^2 analysis will be used. Pearson Product Moment Correlation is a measure of correlation between two variables (Huber, 2004).

The influence of moderating variable on the relationship between the independent and dependent variables shall be derived by using Stepwise Regression R^2. This regression model involves mathematical modeling, as postulated by Larry (2013) that such models are used where variables are deliberately chosen without necessarily being backed by theory. Since the influence on the moderating variable was deliberate for this study, then the requirement for the use of Stepwise Regression R^2 to analyze parametric data is justified.

3.8 Operational Definition of Variables

Operational definition of independent, dependent and moderating variables is as shown on table 3.1:

Table 3.1 Operationalization of Variables

Variable	Indicators	Measurement Scale	Analysis Tool
Independent Variables Access to credit.	Awareness of funding opportunities, Collateral requirements, Structure of financial sector	Interval	Correlation
Owner's experience.	No of years in business, No of years in the same field of business, No of years in the same occupation	Interval	Correlation
Level of education.	Formal education, Relevance of courses completed, Highest level of schooling	Interval	Correlation
Management skills.	Human skills, Technical skills, Conceptual skills	Interval	Correlation
Dependent Variable Performance of Small and Medium Enterprises.	Amount of profit realized, Increase in Assets procured, Staff turnover	Interval	Correlation

3.9 Ethical Considerations

Ethics in research requires personal integrity from the researcher. Cooper and Schindler (2003) gave the goals of ethics in research as to ensure that no one is harmed or suffer adverse consequences from research activities. In this research, ethical considerations were made on the basis of the basic concepts identified as important components of social science research (Oliver, 2008)

First and foremost, the researcher obtained a research permit from the National Commission of Science, Technology and Innovation at the Ministry of Education, Science and Technology. Secondly, the researcher wrote a letter of transmittal of data collection instruments to inform respondents in the research process that the research was purely for academic purposes only. The respondents were further assured that information gathered through this research shall be treated with utmost confidentiality. The researcher accordingly upheld high ethical standards.

Respondents were requested not to indicate their names anywhere on the questionnaire and were also implored to provide the requested information truthfully and honestly. Finally, the findings from this study shall be communicated to concerned parties including interested stakeholders upon request.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the findings of the study, the analysis of the data obtained and presentation. The findings were analyzed using simple percentages and presents in form of Tables, graphs and pie charts. To facilitate the analysis of data, a number of questions were posed to the respondents by use of questionnaires which indicated more realistic results regarding the respondent's selection of alternatives. The study targeted 100 questionnaires, however 73 questionnaires were successfully filled and returned (73%) response rate.

Questionnaire Response Rate

The study therefore had a target population of 100 respondents. Out of the 100 questionnaires distributed, 73 were successfully filled and returned to the researcher giving a response rate of 73%. According to Mugenda & Mugenda (2010), a 50%-60% response rate is considered sufficient, 61-70% good and above 70% excellent, given that the response rate for the research was 73% the response was sufficient to undertake analysis.

Table 4.0: Response Rate

Response Rate	Frequency (f)	Percentage (%)
Response	73	73
Invalid/Rejected questionnaires	17	17
Total Valid questionnaires	73	73

4.2. Background information of the firms that participated in the study

Registration status of SMEs: The respondents were asked to state whether their respective businesses were registered. The responses are summarized and presented in Table 4.1 below.

Table 4.1 Registration status of firms

Response Rate	Frequency	Percentage
Response	46	67%
No Response	27	33%
Total	**73**	**100%**

The findings show that majority of the respondent SMEs (67%) were registered as compared to 33% that were not registered.

Number of full time employees: The respondents were then asked to state the number of full time employees in their respective organizations. The researcher sought to determine the size of operations of the various businesses.

The findings show that majority the respondents (98%) have less than 25 full time employees, (16%) of the respondents have 26 to 50 employees and (0.3%) of the respondents have between 51 to 75 employees. None of the respondent SMEs had over 76 full time employees.

4.2.2 Background information of the respondents

Gender distribution of respondents: Respondents were asked to indicate their gender, with a view to determining the gender distribution of the owners/managers of SMEs supported by Chase Bank in Nairobi County. It is enshrined in the reviewed Kenya Constitution that all positions of employment should adhere to the one third rules, where no single gender should constitute more than two thirds of the employees. This was an important indicator of the gender parity of the staff of the SMEs in Nairobi County.

The findings show that majority of the respondents (64.8%) are male and (35.2%) of the respondents are female. The findings indicate that ownership/management positions of the respondent SMEs in Nairobi County are male dominated.

Age distribution of respondents: Respondents were asked to indicate their age by ticking as appropriate against given age brackets.

The findings show that majority of the respondents (44%) are aged between 18-27 years, (37.5%) of the respondents are aged between 28-37 years, (14.3%) of the respondents are aged between 38-45 years, (3.9%) of the respondents are aged between 46-55 years and (0.3%) of the respondents are aged over 55 years.

Highest academic qualification: The respondents were asked to state the highest level of education they had attained. It is assumed that the higher the level of education of a respondent, the more objective the responses that the respondent is able to provide.

Table 4.2 Highest academic qualification

Academic qualification	Percent	Mean score
Primary school	3.6	3
Secondary school	29.7	21
College education	59.9	44
University education	6.8	5
Total	100.0	73

The findings in Table 4.3.3 above shows that majority of the respondents (59.9%) are college graduates, (29.7%) of the respondents qualified for secondary education, (6.8%) of the respondents are University graduates and (3.6%) of the respondents qualified up to primary school. The findings show that majority of the respondents, (66.7%) had at least attained a tertiary college education certificate. The responses provided were thus expected to be objective.

Period of time respondent has managed the business: Respondents were asked to indicate the period of time they had managed the business, with a view to determining their ability to articulate issues pertaining to their respective businesses. It is expected that the longer one serves in an organization the more one understands operations of the organization, and hence the higher the ability to articulate issues related to the organization.
The responses are summarized and presented in Table 4.3 below.

Table 4.3 Time period respondent manage the business

Period of management	Frequency	Valid Percent
Less than 1 year	13	18.2
1 and 5 years	41	55.7
6 and 10 years	15	20.2
11 and 15 years	1	1.6
16 years and above	3	4.2
Total	73	100.0

The findings in Table 4.3.4 above shows that majority of the respondents (55.7%) have managed their businesses for a period of between 1 and 5 years, (20.2%) of the respondents have managed their businesses for a period of between 6 and 10 years, (18.2%) of the respondents have managed their businesses for less than a year, (4.2%) of the respondents have managed their businesses for more than 16 years and 1.6% of the respondents have managed their businesses for a period of between 11 and 15 years.

Whether the SMEs have ever accessed credit: The respondents were asked to indicate if they had ever accessed credit to start or expand their SMEs. The responses are summarized and presented in Table 4.5 below.

Table 4.4: SMEs access to credit

Access to credit	Frequency	Percentage
Yes	13	18.2
No	41	55.7
No response	19	26.1
Total	73	100

Findings show that majority of the respondents (55.7%) had never accessed credit to facilitate start-up or expansion of their SMEs. Further, the respondents who had never accessed credit were asked to list and briefly explain the reasons for their inability to access credit. The responses are summarized and presented follows: the main obstacles from the SME's point of view are (a) lack of information and advice from financial institutions; (b) complexity and inconvenience related to the loan application process. Many documents are required by banks and the average loan application process takes longer than 30 days; (c) inadequate qualification of SMEs; (d) Expenses/fees and interest rate charged; (e) lack of collateral.

4.3 Descriptive statistics

In order to meet the three specific objectives of the study, (i) to examine the extent to which access to credit influences performance of SMEs in Nairobi County; (ii) to determine how owners' experience influences performance of SMEs in Nairobi County; (iii) to explore the extent to which level of education of the entrepreneur influences performance of SMEs in Nairobi County; and (iv) to determine how management skill influences performance of SMEs in Nairobi County, the respondents were provided with a listing of some of the factors that influence the performance of SMEs. With respect to your enterprise, please indicate the extent to which each of the factors has influenced performance of your enterprise by ticking as appropriate against given alternatives. Where 5 = to a very great extent; 4 = to a great extent; 3 = to a moderate extent; 2 = to a low extent; and 1 = to no extent at all. The responses are summarized and presented in Table 4.5 below.

Table 4.5. Factors influencing performance of SMEs in Nairobi County

		5	**4**	**3**	**2**	**1**
No	**1. Access to credit**					
1	Are there conditions attached to credit approval increase?	47%	32%	12%	6%	3%
2	Have the decline rates improved with increase in overall approval rates?	52%	30%	10	4%	4%
3	Have banks ensured better access to credit?	45%	25%	15	7%	8%

4	Does provision of proper financial statement improve loans to SMEs?	55%	35%	5	2.5%	2.5%
5	Has easy access to credit improved your business?	56%	24%	7	10%	3%
	2. Owners' experience					
6	My business experience has helped me generate new ideas in the business activity.	**39%**	**36%**	**11%**	**7%**	**7%**
7	Prior experience has played a major role in business growth.	60%	12%	8%	15%	5%
8	Prior experience not has been an important factor in achieving my business goals.	5%	10%	5%	45%	35%
9	I undertake similar functions as those I have the past.	36%	40%	15%	5%	4%
10	Experience of the same industry helped me to cover the weaknesses that were present in previous industry.	54%	26%	12%	5%	3%
11	Experience in the same industry has not been an important factor in achieving my business goals.	6%	14%	20%	45%	15%
12	My prior experience helps me in decision-making during business issues or deals.	52%	20%	15%	10%	3%
	3. Level of education of the entrepreneur					
13	My formal education has contributed greatly to the growth of business.	**37%**	**35%**	**15%**	**8%**	**4%**
14	My business education has a great impact on the growth of business.	45%	10%	15%	20%	10%

15	Business education has not assisted me in the improvement of my business.	5%	10%	20%	35%	30%
16	Formal education helped me in the expansion of my business in the right direction.	30%	35%	15%	10%	10%
17	Formal education helps me to understand the market trends.	45%	15%	10%	20%	10%
	4. Management skills					
18	Former management opportunities have helped in improving current business ideas	**36%**	**34%**	**13%**	**10%**	**7%**
19	Previously managerial skills acquired have not helped in the current management strategy	34%	30%	15%	6%	15%
20	Great management skills have assisted in creating more and better business networks.	40%	30%	5%	10%	5%
21	Management skills through training programs have helped to enlighten on newer and effective management skills.	35%	34%	11%	12%	8%
22	Management skills have assisted you implement better and effective strategies.	26%	44%	6%	14%	10%

Rankings of the factors influencing growth of SMEs in Nairobi CBD: The factors were then ranked in terms of extent of influence of each factor on performance of SMEs, where only responses related to (5) a very great extent; (4) to a great extent; and (3) to a moderate extent were considered. The responses are summarized and presented in Table 4.6 below.

Access of credit was reported to be among factors influencing SMES performance in Nairobi were reported as follows. Conditions attached to credit approval increase were reported as follows: to a very great extent were 47%, 32% to a great extent,12% moderate extent, 6% low extent while3 % reported that there was no conditions attached to license approval at all. This implies that there are conditions attached to credit approvals.

Secondly, decline rates improve with increase in overall approval rates was reported as follows: 82% alleged that it influenced performance greatly, 10% were neutral, and while 8% reported that it had low influence.

Better access of credit facilities is deemed as the third aspect under access of credit. A total of 70% ensured better access to credit, 15% were neutral while 15% alleged it affected them to a low extent. It can be concluded that banks ensured better access to credit facilities.

Provision of proper financial statements is reported as the fourth aspect in improving loans to SMES. A total of 90% report that this affected access of credit greatly, 5% were neutral, 5% reported that proper financial statement did not influence proper financial statement provision.

In conclusion, access of credit is said to be influenced performance of SMEs in Nairobi County.

Ownership experience was deemed as the second aspect affecting SMEs performance. Business experience has facilitated new ideas in business activity. 75% reported that experience has influenced performance greatly, 11% were neutral, 14% reported that it did not influence SMSs performance.

Prior experience was reported as follows on influence on performance. 72% reported that it affected greatly, 8% were neutral, 20% perceived it to affect business growth to a low extent. This suggests that prior business experience has a role in business growth.

Prior experience being irrelevant in achieving business goals was reported as follows: 15% agreed with the statement, 5% were neutral while 80% reported that this was different and therefore did not facilitate performance of SMEs. It can be concluded that SMEs are influenced by experience.

I undertake similar functions as those I have in the past. A total of 76% reported that it affected business performance to a large extent, 15% were neutral while 9% did not perceive this as a chance for business to grow.

Experience enables individuals to cover up challenges in the previous business. Was reported as follows: 80% reported that it played a role in performance 5% were neutral while 12% alleged that it enhanced performance. This implies that experienced facilitated evasion of challenges. This is contrary to the respondents who alleged that experience is not a key factor in achieving business goals.

Prior experience in decision making facilitates ideal business issues or deals. A total of 72% reported that prior experience in decision making facilitated ideal business, 15% were neutral while 13% disagreed. It can be concluded that prior experience is key to making ideal decisions.

The researcher was also interested in finding out how the level of education affected the small enterprises. From the finding it was established that there were 37% and 35% respondents who agree to very great extent and great extent that the formal education contributed greatly to the growth of the business. However there were 15% and 8% of the respondents who were reported to have a moderate and low extent agreement to this option. 4% of the population were reported to totally disagree with this statement.

If the business education has any impact on the growth of business. The study found out that most of the respondent agreed that business education was of great importance to the business at rate of 45% who stated that it was most important. 10% and 15% agree that business education influenced to a great extent and moderately. Lastly there were 20% of the respondents who stated that business education had very low extent and 10% who stated that having studied business education had no impact at all on growth of the SMEs.

The researcher was also interested in finding out if business education had assisted the owners to improve the business. From the finding it was established that 5% and 10% disagreed with this statement to a great extent while 20% of the enterprises were moderate and 35%, 30% stated that it had really influenced the growth of the business.

In establishing if formal education had helped the expansion of the business I the right direction 30% and 35% and greatly agreed that formal education was very necessary for stratifying the business to the right direction while 15% of the respondents were moderate. The finding established that there were 10% rate for those started that formal education had not really helped the business to the right direction respectively.

The study was also looking if formal education helped the SMEs owners to understand the markets trends. The majority of the respondents agreed to agreed very great extent that and grated extent that they were able to understand the markets trends if they had some formal education with a rate of 45% and 15% respectively. It was established that 10% of the respondents were neutral while 20% and 10% didn’t agree with this statement. This implied that that there were other ways of understanding the market trends.

The study was also interested in finding out how the management skills had influenced the SMEs. The discussions below relate to the findings of the study.

The study looked in to the former management opportunities and if it helped in improving the current business ideas. The majority of the respondents 36% and 34% greatly agreed that the former management had a great influence on the current business operation while 13% of the respondents were neutral/moderate and the lowest rate of 10% and 7% be of those who disagreed.

For the current management, the researcher was interested in finding out if the previously managerial skills acquired had helped in the current management strategy. It was evident that most of the SMEs agreed that to this statement with a rate of 34% and 30% of the respondents who agreed to great extent while there were low rating of 15% an 6% of those who were natural and those who stated that it was evident that the previous management skills had a low impact on the current strategy respectively.

In finding out if the level of management skills had assisted in creating more and better business networks, the majority of the respondents agreed that for better business networks, a great deal of level of management was required. This was reflected by 40% and 30% rate respectively. Only 10% and 5% of the respondents were natural and stated that a greater level of managerial skills was not essential.

The study was also interested in finding out if managerial skills though training programs had helped to enlighten on new and effective skills. It was found out that 35% and 34% of the respondents agreed while there was a decreasing rate of 12%, 11% and 8% of those stated the effectiveness of the training programs.

Table 4.6 Rankings of the factors influencing performance of SMEs in Nairobi County

Factors influencing performance of SMEs		**Percentages**			
	to a very great extent	**to a great extent**	**to a moderate extent**	**Total**	**Ranking**
Access to credit	47	32	12	91	1
Owners' experience	39	36	11	86	3
Level of education of the entrepreneur	37	35	15	87	2
Management skills	36	34	13	83	4

The rankings show that whereas access to credit was considered as having the highest positive influence on performance of SMEs (91%), educational level of the entrepreneur was ranked second (87%), owners' experience (86%) was ranked third and management skills (83%) was ranked fourth.

4.4 Regression Analysis

Multiple regression analysis was employed to evaluate constraints to customer satisfaction by determining the magnitude and or direction of the relationship between the study variables. The analysis was carried out at a 95% confidence level. Table 4.7 below presents the findings from the regression analysis. Thus we have; the multiple regression model of the form:

$y=BO + ax_1 + ax_2 + ac_3 + ax_4 + e_i$

Where:

y = Firms Performance

Ax1 = Access to Credit

Ax2 = Owners' Experience

Ax3 = Educational Level

Ax4 = Management Skill

e = the error term

i = 1…..n, where n is the number of firms

The determinants of performance of SMES include; access to credit, owners' experience, educational level, management skill, number of employees, total investment, total income, sales output, startup capital, asset base etc.

Table 4.7: Regression analysis

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.659	.178		14.930	.001
	Access to Credit	.126	.041	.583	3.078	.004
	Owners' experience	.005	.037	.351	.128	.049
	Educational level of the entrepreneur	.088	.061	.317	1.442	.035
	Management skills	.084	.058	.1	1.448	.012

a. Dependent Variable: Financial inclusion

Model Summary

Model	F	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	19.55	.801	.641	.693	.20123

Table 4.7 presents regression analysis, with financial inclusion being the dependent variable. Against this were the independent variables access of credit, owner's experience, and education level and management skills.

The research is performed at 95% confidence interval. This gives only 5% chance to error. The p values of the dependent variable were give as follows: access to credit 0.004, owner's experience 0.049, education level of the entrepreneur 0.035 and management skills 0.012. They all have a p value less than 0.05 therefore they are statistically significant and have influence on the financial inclusion.

The financial inclusion regression equation is given by: Y=2.659 + 0.126 access of credit_0.005 owners experience+0.088 education level + 0.084 management skills.

The Adjusted R Squared is given by 0.693, this implies that the independent variable explain the change in financial inclusion by 69.3%.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study sought to examine the factors influencing performance of Small and Medium Enterprises in Nairobi, Kenya. This chapter discusses the summary of the findings, conclusions, recommendation and the recommendations for further research.

5.2 Summary of Findings

The study sought to examine the factors influencing performance of Small and Medium Scale Enterprises in Nairobi County in Kenya. The study was guided by the following specific objectives: to examine the extent to which access to credit influences performance of SMEs in Nairobi County; to determine how owners' experience influences performance of SMEs in Nairobi County; to explore the extent to which level of education of the entrepreneur influences performance of SMEs in Nairobi County; to determine how management skill influences performance of SMEs in Nairobi County. The survey targeted 100 Small and Medium Enterprises supported by Chase Bank from Nairobi County. However, 73 questionnaires were successfully filled and returned (73%) response rate.

5.3 Conclusions of the study

In view of the findings of the study, the following conclusions are drawn:

5.3.1 Access to Credit on Performance of SMEs

Literature on this subject suggests that better financial access for SMEs contributes to economic growth, reduced income inequality and reduced poverty (World Bank, 2008; Levine 2005; Rajan and Zingales 2002; Townsend and Ueda, 2003). Small enterprises and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 per cent of the population has access to the banking sector (Basu, Blavy & Yulek, 2004)**.** According to HFC Bank (2004), SMEs in Ghana tend to be marginalized or have limited access to credit. Coupled with the fact that few informal supports exist by way of business angels and personal savings, this tends to affect their ability to adopt modern technology (UNIDO, 2002).

It has been found that only few of these businesses are financed from commercial bank loans, government assistant programs or other informal sources (Osei, Baah-Nuakoh, Tutu & Sowa, 2002; Bani, 2003). Similarly, Abor and Biekpe (2006) pointed out that, access to finance is a dominant constraint facing SMEs in Sub-Saharan Africa. It must be noted that access to funding is not the only constraint to SME development (Liedholm, MacPherson & Chuta, 20044), finance and access to funding are often the major challenge for SMEs development (se Bigsten *et al.*, 2000; Buatsi, 2002.). It should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources.

With respect to accessibility to credit, findings show that majority of the respondents (81.8%) had never accessed credit to facilitate start-up or expansion of their SMEs. Further, the respondents who had never accessed credit were asked to list and briefly explain the reasons for their inability to access credit. The responses are summarized and presented as follows: the main obstacles from the SME's point of view are: Lack of information and advice from financial institutions, complexity and inconvenience related to the loan application process, many documents are required by banks and the average loan application process takes longer than 30 days, inadequate qualification of SMEs, expenses/fees and interest rate charged, and lack of collateral.

In order to meet the four specific objectives of the study, the respondents were provided with a listing of some of the factors that influence the performance of SMEs.

The factors were then ranked in terms of extent of influence of each factor on performance of SMEs. The rankings show that access to credit was considered as having the highest positive influence on growth of SMEs with (91%), educational level of the entrepreneur was ranked second with (87%), owners' experience with (86%) was ranked third and management skills (83%) was ranked fourth.

5.3.2 Owner's experience on performance of SMEs

This study sought to assess the influence of owners' experience on performance of SMEs by using the number of years in the same field of business as an indicator of performance. The majority of the respondents (55.7%) have managed their businesses for a period of between 1 and 5 years, (20.2%) of the respondents have managed their businesses for a period of between 6 and 10 years, (18.2%) of the respondents have managed their businesses for less than a year, (4.2%) of the respondents have managed their businesses for more than 16 years and 1.6% of the respondents have managed their businesses for a period of between 11 and 15 years.

The majority of respondents held view is that the number of years in the same field of business has a significant effect on the growth and performance of SMEs, since more years of experience results to maturity of firms and a superior financial position to execute their business activities than their less mature counterparts who have less years of experience. Moreover, they are also more likely to enjoy economies of scale and be in a better position to leverage their resources. Findings of this study show that indeed owners' experience indeed has a significant effect on business size in terms of number of years in a firm.

The results suggest that owners operating for more than 10 years have a higher number of employees than those operating for fewer years, i.e. owners' experience influences small-firm performance in terms of number of employees. This is certainly consistent with the findings of other studies, which suggest that owners' experience is an important factor in determining business performance. In addition to the impact of size and experience, the study confirmed the findings of previous empirical studies.

5.3.3 Level of education of entrepreneur on performance of SMEs

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2008).

With respect to academic qualifications, the findings in table 4.3 above shows that majority of the respondents (59.9%) are college graduates, (29.6%) of the respondents qualified for secondary education, (6.8%) of the respondents are University graduates and (3.6%) of the respondents qualified up to primary school. The findings show that majority of the respondents, (66.7%) had at least attained a tertiary college education certificate. The responses provided were thus expected to be objective.

Therefore, the characteristics of owner – managers such as the level of education and experience do have impacts on the access that they have (or otherwise) to the external finance. Following this, Storey (2004) mentions that the better the human capital, the greater the firm viability of the start-up; consequentially, access to debt capital should be greater for these firms. Besides, Coleman (2000) who has examined education, gender and years of experience and access to external finance has found some evidence of education being positively related to external loan access.

Based on findings of the study, it is expected that the stakeholders, who include the Government, the SME owners and the agencies offering various support mechanisms to the SMEs will gain a better understanding of the impact of human capacity building on performance of Small and Medium Enterprises. The following measures are recommended in order to enhance capacity building of SMEs in Kenya: This study identifies that the research, management, and policy development of training in the SME sector needs to be more open and flexible in order to address the idiosyncratic nature of SME requirements (OECD, 2001).

The study findings reveal that level of education positively influence the performance of SMEs. It is therefore recommended that the Government plays a leading role in supporting formal education for the owners and managers of SMEs. This should include development and maintaining a series of clear and relevant core messages covering what an apprenticeship is and replacing unfounded prejudice with the message that an apprenticeship is both positive for SMEs and the economy at large, and a valid career path alongside the option of going into Higher Education (Bokea, Dondo & Mutiso, 2009).

It should also form the core of more inspirational, inspiring and accessible content on the Government website. Considering that there are many opportunities and entry levels to open for anybody wishing to pursue higher education in Kenya, and the various flexible modes of learning, the entrepreneurs should be encouraged to seek higher education. Clear benefits are recognized for the firm, such as improvement of skills and education level. The extent to which SMEs are active in terms of training largely depends on whether the business manager sets value on employee development. If employee development is embedded in the company ethos, generally all employees participate in training activities (Storey, 2004).

5.3.4 Influence of management skill on performance of SMEs

Regarding innovative firms Gort and Klepper (2002) show that technological and knowledge conditions determine the relative ease with which new firms are able to innovate and therefore survive. Complementing this study, Audretsch (2001, 2005) suggests that technological opportunities are very important in the long run for new firm competitiveness. More specifically, considering the US manufacturing sector he finds that in industries where small firms have a relatively higher innovation rate as compared to larger firms the survival rate of small firms is higher.

Government should intervene to provide training centers that will give managerial training to the SME owners. This should be done in such a way that the attendance period to be designed by the government representatives in collaboration with SME owners' and financial institutions, and a valid and recognized certificate should accompany the training. This will make attendance convenient for SME owners, also at local level should through the Government offices be sending their qualified staff to be interacting with SME owners at their places of business to identify their areas of weakness and give them support as appropriate. NGOs should in collaboration with SME owners' and financial institutions organize workshops for the business men and women that will enhance their managerial capability.

The findings indicate that the four factors (access to credit, owners' experience, educational level of the entrepreneur and management skill) have a positive ($F=19.55$) and significant ($P<0.05$) relationship to financial inclusion. The findings also indicate that only access to credit ($p<0.05$) is the only statistically significant factor influencing performance of SMEs in Nairobi County. The multiple R shows the relationship multiple linear relationships between the Dependent variables and independent variables. R-Square is the square of the sample correlation coefficient between outcomes and the predicted values. Substituting the coefficients in the study model was: $Y = 2.659 + 0.126 AC + 0.005AF + 0.088EL + 0.084MS + 0.2$.

5.4 Conclusions

In view of the findings of the study, the following conclusions are drawn:

SMEs are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies. SMEs contribute significantly to the economic development of the country in the area of employment, creativity and entrepreneurship. In the course of setting up and operating, they face financial and non-financial challenges. Although both challenges have the tendency to slow down the performance of these businesses, the one that is often highlighted is that of access to credit.

From the above, the study concludes as follows:

There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments; There is a need to harmonize those policies and strategies as well as the instruments for implementing them; The legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector; In Kenya, banks do not pay sufficient attention to the development of SMEs. The role of Governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful SME development; there is a great need for improving different aspects of financial services for SMEs such as seed money, leasing, venture capital, and investment funding. There is a lack of long-term loans; interest rates are still high, etc.

All these limit the development of SMEs; Diversification of financial support for start-ups, growing and successfully operating SMEs will significantly contribute to the creation and development of SMEs; It is necessary to take into account in all support programmes the different needs of micro, small and medium-sized enterprises; There is a need for the elaboration of a set of instruments for the monitoring, evaluation and follow up of different aspects of SME support programmes and activities; and The creation of a system of education and training on different aspects of SME activities for entrepreneurs is crucial to the development of the sector.

The number of years in the same field of business as an indicator of performance. The generally held view is that the number of years in the same field of business has a significant effect on the growth and performance of SMEs, since mature firms have more experience and a superior financial position to execute their business activities than their less mature counterparts. Moreover, they are also more likely to enjoy economies of scale and be in a better position to leverage their resources. Findings of this study show that indeed owners' experience indeed has a significant effect on business size in terms of number of employees in a firm.

The results suggest that firms operating for more than 10 years have a higher number of employees than those operating for fewer years, i.e. that maturity influences small-firm performance in terms of number of employees.

Sessional Paper No.2 of 2002 on Small Enterprise and "Jua Kali" Development in Kenya, published in 2002 outlined the contributions of the small enterprise sector to the national economy, the key ones being the following: employment creation; enhancing the participation of indigenous Kenyans in the economy; promotion of local savings and investments; promoting the development of entrepreneurship and managerial skills among local Kenyans; and engendering the acquisition of skills among workers.

The study concluded that policies for improving the performance of the SMEs sector included measures geared towards the promotion of research, inter-firm linkages, technical training and technology extension. As most respondents in this survey named appropriate business training as very important contributing factors to growth.

Again the study concluded that the lack of business management training facilities was also perceived as a major barrier to performance. One of the reasons for this could be the fact that the majority of respondents had not been formally trained in the skills needed to operate an enterprise professionally.

As for example, very little specialization originates from the lack of education and training opportunity and these issues must be resolved by the policy of the government through its institutions (because the private interest are reluctant to invest in theses sartorial issues). The entrepreneurs generally come from the rural areas and lack formal and non-formal education, and very often lack industrial or business experience and skills. In short, they lack the dynamism to embark on changes. On the other hand, the institutional and policy regimes of the country also fail to create a conducive environment to use appropriate/progressive technology.

Based on the finding of the study it is concluded that, lack of management skills in the areas of establishing goals, allocating resources, managing conflict, communication, measuring performance, taking action and self-control is the main factor behind poor performance of SMEs in the areas of sales performance and profit as a result of lack management skills.

5.5 Recommendations

The study recommends the following:

This study recommended therefore, measures to be put in place by all stake holders such as governments, NGOs, SME owners' and financial institutions to tackle the problems of lack of management skills, Kenya cannot reap the benefit of SMEs.

In view of the constraints identified in accessing credit by the SMEs, there is need to look for an alternative model to funding SMEs; and the study has identified an alternative model to financing SMEs, which are presented below:

The central government must work hand in hand with the private sector financial services providers to curb the problems facing SME sector in terms of access to financing. The effectiveness of government subsidies in addressing access to finance challenges facing

SMEs is controversial issues that need to be empirically investigated. It is therefore paramount to assess the effectiveness of the policy recommendations in the Kenyan literature as well as monitor progress in as far as improving access to finance by SMEs is concerned.

Also, it is recommended that there is the need for SMEs to network or form partnership; pool financial resources and sometimes have joint projects. Such a fund can help these businesses to take such a step. This is because as they interact they could identify common areas of strategic partnership and collaborations. Secondly, such a Fund would SMEs have access to funds with less or no strings attached to it and possible at no or less costs of capital.

It has been recommended to SMEs would relatively have lesser pressure to pay back without interest compared with loans from banks or other lenders.

Also the study recommended that SMEs would access funds without any collateral. There is the possibility of donor support (from international and domestic agencies) if there is the evidence that the fund is being managed well. Again not only members have access to cheap capital, they could also benefit from investment of their fund in a pool.

SMEs could benefit from additional group training and counseling. The peer-to-peer check would self as a monitoring system for businesses. Members would have a say in how the fund is managed. It is proposed that the government establishes a central data bank on national business activities, including those of SMEs. The system should maintain comprehensive and objective data sets relating to the financing of SMEs, particularly on demand for and supply of financing. To operationalize the system, cluster groups could be established to facilitate provision of cluster specific finance advice and support. Data must also be available in the ethnic languages to ensure that all groups in Kenya have maximum exposure to finance options. It will also be important that the database and general financial information are available in both electronic and non-electronic format, due to variations in computer usage among SMEs.

It is also recommended that Management Information System (MIS) and information technology (IT) should assist in the management and administration SMEs the loan portfolios. Information on sources of finance needs to be more readily available to SMEs and their advisors. Reliable information is a foundation of effective markets. Government and its agencies should make information provision a core part of their strategy for SME access to the much needed sources of finance.

It is therefore suggested that the government should establish a business portal to not only harmonize, but also facilitate provision of online support services to the maximum number of financial and other services.

The study recommended that the government should develop a subsidized training package for SME registered operators through tertiary level institutions and other credible advisory service providers such as accounting and computer training organizations.

It is further suggested that computer knowledge should be available to SMEs operators concerning sources of finance and/or bank products. SME operators should be educated through awareness programmes on the existence, access and use of alternative sources of finance such as non-bank credits from suppliers, customer advances, leasing, hire purchase, venture capital, factoring and angel finance.

Lastly, it is proposed that a national business angel network (NBAN) be established under an investment promotion centre to promote and coordinate angel investment in Kenya. The network could be useful for providing an analysis of regional investors and potential investment opportunities. This can also be used as a first point of call by SMEs to obtain financing information on private investors' money.

5.6 Recommendations for Further Research

This study majorly focused on performance of SME’s in Nairobi County, an urban setting, and hence future research should consider the performance of SME’s in rural settings; Therefore, future research opportunities can be exploited by conducting the same study in other business districts; and in the study, the independent variables were: access to credit, owner’s experience, education level of entrepreneurs and management skills. Further research could be explored of the other factors influencing performance of SMEs, which include start-up capital, initial capital invested and annual turnover.

REFERENCES

Abor, J., & Biekpe, N. (2006). *Small business financing initiatives in Ghana*. Problems and Perspectives in Management, 4(3), 69-77.

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. International Research. *Journal of Finance and Economics*, (39), 218-228.

ADB Report. (2007). Democratic socialist republic of Sri Lanka: *Small and medium enterprise regional development project*. Retrieved from http: //www.ABD-report-Sri-Lanka/archive/2007/.

Acs, Z.J. and D. Audretsch (2010), The Economics of Small-Firms: A European Challenge, Kluwer Academic Publishers, Dordrecht.

Agarwal, R. and Audretsch, D.B. (2001). "Does Entry Size Matter? The Impact of the Life Cycle and Technology on Firm Survival", *Journal of Industrial Economics*, 49, 21-43

Anheier H.K and Seibel H.D (2007), `Small Scale Industries and Economic Development in Ghana', Business Behaviour and Strategies in Informal Sector Economies, Verlag Breitenbech, Saarbruckh, Germany.

Arthur, P. (2003) .The implications of state policy for micro-enterprise development. In: Tettey, Wisdom;Puplampu, Korbla;

Aryeetey E, Baah-Nuakoh A, Duggleby T, Hettige H & Steel W.F (2004), `Supply and Demand for Finance of Small Scale Enterprises in Ghana', *World Bank Discussion Paper* No. 251.

Aryeetey E, Hettige H, Nissanke M & Steel W (2007), `Financial Market Fragmentation and Reforms in Ghana, Malawi, Nigeria, & Tanzania', *The World Bank Economic Review*, Vol. 11 No. 2 PP 195-218.

Aryeetey, E. (2001). On-lending to savings collectors in Ghana. The World Bank, Washington, DC, *Studies in Rural and Micro Finance*, 12, Africa Region.

Aryeetey, E., & Ahene A. A. (2005). Changing regulatory environment for small-medium size enterprises and their performance in Ghana. *Centre on regulation and competition working paper series*, paper no.103

Astebro, T. & Irwin B. (2003). Start-up financing, owner characteristics, and survival. *Journal of Economics and Business*. 55: 303-319.

Åstebro, T., M. Johannsen and A. MacKay, (2000). The Impact of Intangibe Assets and Financial Distress on Acquisition Probability and Price, Proceedings, Entrepreneurial Finance Workshop, *Jönköping International Business School*, Sweden, pp: 9-30. Asian J. Bus. Manage, 4(1): 58-67, 2012

Audretsch, D.B. (2001). "New Firm Survival and the Technological Regime", *Review of Economics and Statistics*, 68, 520-526.

Audretsch, D.B. (2005). "Innovation and Industry Evolution". MIT Press, Cambridge, Massachusetts.

Audretsch, D.B. and Klepper, S. (2000). "Innovation, Evolution of Industry and Economic Growth", Elgar Reference Collection. *International Library of Critical Writings in Economics*, Cheltenham, U.K. and Northampton, Mass.

Audretsch, D.B. and Mahmood, T. (2005). "New Firm Survival: New Results Using a Hazard Function", *Review of Economics and Statistics*, 77, 97-103.

Ayyagari, M., Beck, T. and Demirgic-Kunt, A. (2003). Small and medium enterprises across the globe: a new database. *Documento de trabajo de Políticas de Estudio* No. 3127. Banco Mundial, Washington, DC.

Baldwin, J.R: (2005). "The Dynamics of Industrial Competition". Cambridge University Press, Cambridge.

Bani, R. J. (2003). Micro enterprise development in Ghana. Accra.

Basu, A., Blavy, R., & Yulek, M. (2004). Microfinance in Africa: Experience and lessons from selected African countries. *IMF Working Paper* WP/04/174. International Monetary Fund.

Beck, Thorsten & Asli Demirguc-Kunt (2006. *Small and medium –size enterprises: Access to finance as a growth constraint*. *Journal of Banking & finance*. 30: 2931-2943.

Brierley, N. (2010). The financing of technology-based small firms: *A review of the literature Bank* England Quarterly Bull., London, spring, 41(1): 64-78.

Buatsi, S. N. (2002). Financing non-traditional exporters in Ghana. *The Journal of Business and Industrial Marketing*, 17(6), 501-522.

Cassar, G. (2004). The financing of business start-ups". *Journal of Business Venturing*. 19: 261-283.

Caves, R.E. (2008). "Industrial Organization and New Findings on the Turnover and Mobility of Firms". *Journal of Economic Literature* 36(4), 1947-1982.

Central Bureau of Statistics [CBS] African Centre for Economic Growth [ACEG] and KREP Central Institute of Economic Management (2004). *Vietnam's Economy in 2003*. CIEM, Hanoi, Vietnam.

Coleman, S. (2000). Small firms' use of financial leverage: evidence from the 1993 national survey of small business finances. *Journal Business Entrepreneurship*. 3: 81-98.

Cook, P., & Nixson, F. (2000). Finance and small and medium-sized enterprise development.

Cooper, D. R., & Schindler P. S. (2008). Business Research Methods. International edition. (8th ed.). New Delhi; MacGraw-Hill.

Finance and Development Research Programme Working Paper Series, (14). *Institute for Development Policy and Management*, University of Manchester.

Cziraky, D., Tisma, S. and Pasoravoc, D. (2005). Determinants of Low SME Loan Approval rate in Croatia. *Small Bus*. Econ., 25: 347-372.

Deakins, D., North, D., Baldock, R., & Whittam, G. (2008). SMEs' Access to finance: Is there still a debt finance gap? *Institute for Small Business & Entrepreneurship*. 5-7 November 2008 - Belfast, N. Ireland, 1-19

Doms, M., Dunne, D. and Roberts, M.J. (2005). “The Role of Technology Use in the Survival and Growth of Manufacturing Plants”, *International Journal of Industrial Organization*, 13, 523-545.

Dunne, D., Roberts, M.J. and Samuelson, L. (2008). “Patterns of Firm Entry and Exit in U.S. Manufacturing Industries, RAND *Journal of Economics*, 19, 495-515.

Dunne, D., Roberts, M.J. and Samuelson, L. (2009). “The Growth and Failure of U.S. Manufacturing Plants”, *Quarterly Journal of Economics,* 104, 671-698.

Dyar, Harduar, Koenig, and Reyes (2006) Ed Vos, Andy Jia- Yuh Yeh, Sara Carter & Stephen Tagg, 2007. The happy story of small business financing. *Journal of Banking & finance*. 31: 2648-2672.

Equinox Management Consultants Ltd. (2002). Gaps in SME Financing: An Analytical Frame Work: Public Works and Government Services Canada, Ottawa.

Ericson, R. and Pakes, A. (2005). “Markov-Perfect Industry Dynamics: A Framework for Empirical Work”. *Review of Economic Studies* 62(1), 53-82.

Evans, D.S. (2007a). “The Relationship between Firm Growth, Size, and Age: Estimates for Manufacturing Industries”, *Journal of Industrial Economics*, 35, 567-581.

Evans, D.S. (2007b). “Tests of Alternative Theories of Firm Growth”, *Journal of Political Economy*, 95, 657-674.

Gakure, R., & Amurle, G. (2013). Strategic Planning Practices in ICT SMEs in Kenya: What other SMEs can learn. *Prime Journal of Social Science*, 2(6), 10-15.

Geroski, P.A. (2005). “What Do We Know About Entry”. I*nternational Journal of Industrial Organization* 13(4), 421-440.

Gort, M. and Klepper, S. (2002). “Time Paths in the Diffusion of Product Innovations”, *Economic Journal*, 92, 630-653.

Green, A. (2003). Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth? *SME Technical Working Paper* No. 10. Vienna: UNIDO.

Green, C., Kimunyu, P.; Manos, R and Murinde, V. (2002). How Do Small Firms in Developing. Countries raise capital? Evidence from a large-scale survey of Kenyan Micro and small scale Enterprises (MSEs). IDPM, Manchester

Gupta, M. C. (2009), «The effects of size, growth and industry on the financial structure of manufacturing companies», *Journal of Finance*, 24, 517-529.

Hall, B.H. (2007). "The Relationship between Firm Size and Firm Growth in the US Manufacturing Sector", *Journal of Industrial Economics*, 35, 583-600.

Herrington, M., Kew, J. and Kew, P. (2008). South Africa 2008 Report-Tracking Entrepreneurship in South Africa.

HFC Bank. (2004). World investment news - pre-report Ghana. World Investment News. *International Journal of Arts and Commerce* Vol. 1 No. 5 October 2012

Holtmann, M., I. Rühle, I. and Winkler, A. (2000). SME Financing: Lessons from Microfinance. SME Issues, 1(1): 8-25.

Irwin, D. & M. Scott, M. (2010). Barriers to rising bank finance faced by SMEs. International *Journal of Entrepreneurial Behaviour & Research*, 16: 245-259.

Jovanovic, B. (2002). "Selection and the Evolution of Industry". Econometrica 50(3), 649-670.

Jovanovic, B. (2003). "The Diversification of Production", *Brookings Papers on Economic Activity*, Microeconomics, 1, 197-247.

Jovanovic, B. and MacDonald, G.W. (2004). "The Life Cycle of a Competitive Industry", *Journal of Political Economy*, 102, 322-347.

Kayanula, D., & Quartey, P. (2000). *The policy environment for promoting small and medium-sized enterprises in Ghana.*

King, K. & McGrath S. (2002) Globalization, Enterprise and Knowledge: Educational Training and Development, *International Review of Education*, Vol. 50(1), 74-76(3)

Klepper, S. (2006). "Entry, Exit, Growth, and Innovation over the Product Life Cycle", *American Economic Review*, 86, 562-583.

Kombo, D., & Tromp, L. (2009). *Research Methods*. Nairobi: Kenyatta Universitty.

Kothari, C. R., (2009). *Research Methodology: Methods and Techniques* (2nd ed.). New Dehli. New Age International Limited Publishers.

Liedholm C and Mead D (2007), `Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications', *International Development Paper* No.9, Dept of Agricultural Economics, Michigan State University, East Lansing, MI, USA.

Liedholm, C. (2002). "Small Firm Dynamics: Evidence from Africa and Latin America", *Small Business Economics*, 18: 227-242.

Liedholm, C. and Mead, D.C. (2009). "Small Enterprise and Economic Development. The Role of Micro and Small Enterprises" Routledge Studies in Development Economics.

Liedholm, C., MacPherson, M., & Chuta, E. (2004). Small enterprise employment growth in rural Africa. *American Journal of Agricultural Economics*, 76, 1177-1182.

Malhotra, M., Y. Chen, A. Criscuolo, Q., Hamel, F.I. and Savchenko, Y. (2007). *Expanding Access to Finance*: Good Practices and Policies for Micro, Small and Medium Enterprises. Washington DC, World Bank.

Mata, J. and Portugal, P. (2004). "Life Duration of New Firms", *Journal of Industrial Economics*, 42, 227-245.

McPherson, M.A. (2005). "The Hazards of Small Firms in Southern Africa", *Journal of Development Studies*, 32, 31-54.

McPherson, M.A. (2006). "Growth of Micro and Small Enterprises in Southern Africa", *Journal of Development Economics*, 48, 253-277

Mead, D. C. (2008). Micro and Small Businesses tackle poverty and growth (but in different proportions). *Paper presented at the conference on Enterprises in Africa*: between poverty and growth. Centre for African Studies, University of Edinburgh, 26-27 May

Mead, D.C. and Liedholm, C. (2008). "The Dynamics of Micro and Small Enterprises in Developing Countries", World Development, 26, 61-74.

Mensah, S. (2004, March). *A review of SME financing schemes in Ghana*. UNIDO Regional Workshop of Financing SMEs, Accra.

Mugenda, O. M.,& Mugenda, A. G. (2003). *Research method: Quantitative & qualitative approaches*: Nairobi Kenya: Acts Press.

National Baseline Survey. (2003, 2005). *National Micro and Small Enterprise Baseline Survey*. Nairobi: GEMINI Studies.

National Baseline Survey. (2009). *National Micro and Small Enterprise Baseline Survey*. Nairobi: ICEG and KREP.

OECD, (2001). *The Role of Human and Social Capital Education, and Skills*. Centre for Educational Research Innovation

OECD, (2006). *Organization for economic co- operation and development*. Financing SMEs and Entrepreneurs.

OECD, (2005), *Technology and Economy*. The Key Relationships, Paris, pp. 107 ft. OECD, (2006). The SMEs Financing Gap Volume 1: Theory and Evidence.

Organization for Economic Co-operation and Development (OECD, 2006) a Osei, B., Baah-Nuakoh, A., Tutu, K., & Sowa, N. (2003). *Impact of structural adjustment on small-scale enterprises in Ghana*. In A. Helmsing & T. Kolstee (eds), Small enterprise and changing policies: Structural adjustment, financial policy and assistance programmes in Africa. (pp. 53-70). London: IT Publications.

Pakes, A. and Ericson, R. (2008). "Empirical Implications of Alternative Models of Firm Dynamics". *Journal of Economic Theory* 79, 1-45.

Park, J., Lim, B. and Koo, J. (2008). D*eveloping the Capital Market to iden and Diversify SME Financing:* The Korean Experience. Korea Institute of Finance, Korea. Park, Ren, and Wang, (2004)

Parker R.L, Riopelle R, Steel W.F (2005), `Small Enterprises Adjusting to Liberalisation in Five African Countries', *World Bank Discussion Paper* No. 271, African Technical Department Series.

Philip, M. (2010). *Factors affecting business success of (SMEs)*. International Research & Educational Consortium, 1(2), 11-20.

Republic of Kenya. (2006). *Sessional Paper No. 1 of 1986 on economic management for renewed growth*. Nairobi: Government Printer.

Republic of Kenya. (2002). *Sessional Paper No. 2 of 1992 on small enterprises and Jua Kali Development*. Nairobi: Ministry of Planning and National Development.

Republic of Kenya. (2004). *Development Plan* (2004–2006). Nairobi: Kenya Government Printer.

Republic of Kenya. (2007). *Development Plan* (2007 to 2011). Nairobi: Kenya: Government Printer.

Schmitz, H. (2005). `Collective Efficiency: Growth Path for Small Scale Industry'. *The Journal of Development Studies*, Vol. 31 No. 4 PP 529-566.

Soderbom, M. (2001). *Constraints and opportunities in Kenyan manufacturing*: report on the Kenyan manufacturing enterprise survey 2000. Oxford: University of Oxford, Centre for the Study of African Economies.

Stiglitz, J. E. and Weiss, A (2001), "Credit Rationing in Markets with Imperfect Information", *American Economic Review*, 71, pp 393-410.

Stokes, D. (2003). *Small business management* (4^{th} ed.). London: Thomson.

Stonehouse, G. & Pemberton, J. (2002). Strategic planning in SMEs- Some empirical findings. *Management Decision*, 40(9), 853-861.

Storey, D. (2004). *Understanding the small business sector*. London: Rutledge.

Storey, D.J., (2004). *Understanding the small business sector*. London, USA and Canada: Routledge Wurfali, A.L., A.H. Toria, 2006. Small and medium enterprises in Libya: Present and hoping. Working paper 17, 18 April 2006.

Sutton, J. (2007). "Gibrat's Legacy". *Journal of Economic Literature*, 35(1), 40-59.

Tybout, J.R. (2000). "Manufacturing Firms in Developing Countries: How Well Do They Do, and Why?", *Journal of Economic Literature*, 38(1), 11-44.

United Nations Conference on Trade and Development. (2001). *World Investment Report*: Promoting Linkages. New York and Geneva.

United Nations Industrial Development Organization (UNIDO) (2002). Rural Enterprise Development Support Project. *Entrepreneurial Skills for group based SMEs*. Trainers Manual. Accra

Waweru, M. G. (2007). *Addressing the different tax policy and tax administrative challenges of micro, small and medium businesses*. A presentation at the International Tax Dialogue Global Conference, October 2007 At Buenos Aires, Argentina.

World Bank, (2008), `Malawi: Financial Sector Study', Washington D.C.

APPENDIX I

LETTER OF TRANSMITTAL OF DATA COLLECTION INSTRUMENTS

Edwin Oteya Nyanumba,
P.O Box 13905-00100
Nairobi,
10th October, 2016

Dear Respondent,

RE: <u>REQUEST FOR DATA</u>

I am a Master of Arts in Project Planning and Management student at the University of Nairobi currently conducting a research study entitled as above.

You have been selected as one of the respondents to assist in providing the requisite data and information for this research. I kindly request you to spare a few minutes and answer the attached questionnaire. The information you shall give will be used for academic purposes only, will be treated with utmost confidentiality and will not be shared with anyone whatsoever. Do not write your name anywhere on the questionnaire.

On this basis I request you to respond to all questions with utmost honesty.

Thanking you most sincerely.

Yours Sincerely,

Edwin Oteya
0724378050
edoteya@gmail.com

APPENDIX II

QUESTIONNAIRE

This questionnaire has been designed to collect information from the Small and Medium Enterprises supported by Chase Bank in Nairobi County. The information is meant for academic purposes only. The questionnaire is divided into two sections. Section I seeks to capture the profile of respondents while section II will capture issues pertaining to the area of study. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: BACKGROUND INFORMATION

INFORMATION ON THE BUSINESS

1. Name of business (optional) ____

2. Is your business registered?

(a) Yes

(b) No

3. How long has your business been in existence?

(a) Less than 1 year

(b) 1 – 5 years

(c) 6 – 10 years

(d) 11 – 15 years

(e) 16 years and above

4. How many full time employees does the SME have (Pleas tick as appropriate)?

(a) Less than 25 [ ]

(b) 26 to 50 [ ]

(c) 51 to 75 [ ]

(d) 76 to 100 [ ]

(e) 101 employees and above [ ]

INFORMATION ON THE RESPONDENT

5. Indicate your gender? (Please tick as appropriate)

(a) Male

(b) Female

6. Indicate your age group (Please tick as appropriate)

(a) 18 – 27 years

(b) 28 - 37 years

(c) 38 - 45 years

(d.) 46 – 55 years

(e) 56 years and above

7. Indicate your highest academic qualification?

(a) Primary education

(b) Secondary education

(c) College education

(d) University education

(e) Any other please specify………………………

8. For how long have you worked in the enterprise? (Please tick as appropriate)

(a) Less than 2 years

(b) 2 to 4 years

(c) 4 to 6 years

(d) 6 years and above

SECTION II: FACTORS INFLUENCING PERFORMANCE OF SMEs IN NAIROBI COUNTY

9. Have you ever accessed credit?

(a) Yes

(b) No

10. If your response is NO. to question 9 above, please list and briefly explain the constraints your business faces in accessing credit.

11. Listed below are of the factors that influence the growth of SMEs. With respect to your enterprise, please indicate the extent to which each of the factors has influenced growth of your enterprise by ticking as appropriate against given alternatives.

Key:

5 = to a very great extent

4 = to a great extent

3 = to a moderate extent

2 = to a low extent

1 = to no extent at all

No	**5. Access to credit**	1	2	3	4	5
1	Are there conditions attached to credit approval increase?					
2	Have the decline rates improved with increase in overall approval rates?					
3	Have banks ensured better access to credit					
4	Does provision of proper financial statement improve loans to SMEs?					
5	Has easy access to credit improved your business?					
	6. Owners' experience					
6	My business experience has helped me generate new ideas in the business activity.					
7	Prior experience has played a major role in business growth.					
8	Prior experience not has been an important factor in achieving my business goals.					
9	I undertake similar functions as those I have the past.					
10	Experience of the same industry helped me to cover the weaknesses that were present in previous industry.					

11	Experience in the same industry has not been an important factor in achieving my business goals.					
12	My prior experience helps me in decision-making during business issues or deals.					
	7. Level of education of the entrepreneur	.				
13	My formal education has contributed greatly to the growth of business.					
14	My business education has a great impact on the growth of business.					
15	Business education has not assisted me in the improvement of my business.					
16	Formal education helped me in the expansion of my business in the right direction.					
17	Formal education helps me to understand the market trends.					
	8. Management skills					
18	Former management opportunities have helped in improving current business ideas					
19	Previously managerial skills acquired have not helped in the current management strategy					
20	Great management skills have assisted in creating more and better business networks.					
21	Management skills through training programs have helped to enlighten on newer and effective management skills.					
22	Management skills have assisted you implement better and effective strategies.					