

**DETERMINANTS OF PERFORMANCE OF SMALL AND MICRO  
ENTERPRISES IN KAKAMEGA CENTRAL DISTRICT, KENYA**

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**BY**

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

**2012.**

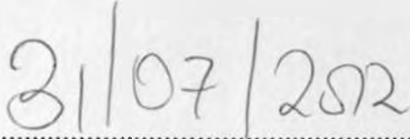
## DECLARATION

This research project is my original work and has not been presented for an award in any other university.

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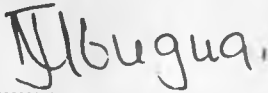
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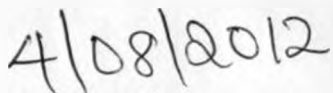
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This research project has been submitted for examination with my approval as the University of Nairobi supervisor(s).

Signed.....

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.....

Date

## DEDICATION

This work is dedicated to my parents, Mr. Nelson Nakhone and Mrs. Lona Nakhone.

## ACKNOWLEDGEMENT

I would like to express my sincere gratitude to all who contributed generously towards the success of this research proposal. I am profoundly grateful to my supervisors Dr. Luketero, Mr. Mbugua John and Wanyama Kadian Wanyonyi who spent a lot of their precious time out of their busy schedule to guide, mentor and teach me. Their tireless and steadfast support enabled me successfully complete this research proposal. My further gratitude goes to other lecturers in the project planning and management course.

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>DFID</b>	United Kingdom Department For International Development
<b>EC</b>	Entrepreneurial Culture
<b>EIB</b>	European Investment Bank
<b>IFC</b>	International Finance Corporation
<b>OCP</b>	entrepreneurial culture profile
<b>SMEs</b>	Small and Medium Enterprises (SMEs)
<b>SMEs</b>	Small and medium women based enterprises
<b>SBP</b>	Single Business Permit
<b>UNIDO</b>	United Nations Industrial Development Organisation

## ABSTRACT

Small and Medium Enterprises (SMEs) in Kenya have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Kenya. This situation has been of great concern to the government, citizenry, operators, practitioners and the organised private sector groups. Often, the governments at various levels through budgetary allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the SME sub-sector of the economy and hence made policies for energizing the same. The purpose of this study was to establish the determinants of performance of small and micro enterprises in Kakamega Central District, Kenya. The study had the following objectives: to examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District; to establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District; to determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District and to establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District. The study employed descriptive survey research design whose purpose was to determine the determinants of performance of small and micro enterprises in Kakamega Central District, Kenya. The sample size consisted of 100 SMEs obtained from a total population of 1,500 registered SMEs under Single Business Permit. The respondents were selected through simple random sampling techniques and the businesses were categorised through stratified random sampling. The research instruments used were the questionnaire and the interview schedules. The questionnaire contained open ended questions that required respondents to give descriptive answers and closed ended questions that required a definite answer. On validity of the instruments, the researcher used content validity while through pilot testing process was used to test reliability of the questionnaires using Cronbach's alpha coefficient which yielded  $\alpha = 0.79$ . The study findings indicated that the performance of a business is largely influenced by its financial base and correlation results proved that inadequate financial base negatively and significantly influenced the performance of SMEs in Kakamega Central District; social-cultural factors though positively influenced the performance of SMEs, their influences were low; personality factors had positive insignificant correlations on the performance of SMEs, an implication of low influence of personality factors on the performance of SMEs and results on the environmental factors significantly and negatively influenced the performance of SMEs. The following recommendations were made: the government should tackle accelerated development and upgrade of rural/urban road and rail network, insecurity, water and air transport system and other infrastructural facilities head on and review tariff in favour of local manufacturers; the government should reduce the tax rate for SMEs to zero percent (0%) within their first three years of life and then to 20% from the fourth year and beyond. SMEs located in rural areas should enjoy 10% tax rate from their fourth year of operation. The researcher then analysed the data and presented the results in form of frequency tables. The government should through its business development services provide support in the areas of capacity building and skills upgrade and identification of sources of funds with attractive interest rates. The findings of this study may be useful to the Ministries of Gender and Social Services officials, Trade, academicians and researchers in their improvement of policies and practices on SMEs.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

The small and micro enterprises (SMEs) are being considered as engines of economic growth worldwide. One of the most important roles of SMEs in this context includes poverty alleviation through job creation. The developed as well as developing countries are taking extreme benefits from SMEs and that are capable to accelerate the economy of any country. It plays considerable responsibility in providing further employment and conversion of economy. It is also implicit that sectors conquered by SMEs are better able to develop dynamic economies of scale. The roles of SMEs in the creation of productive employment are concerned with its position in the center of the range of sizes and resources intensities in a rising economy. Developing economies have started to focus on the crucial role that SMEs can play in their development (Maad, 2008).

Firms are the engines of growth in any economy. A majority of firms in developing countries consist of small and medium-sized firms (SMEs). Understanding what affects small firms' decisions to expand is important because small firms are important for economic growth, employment generation and poverty alleviation (Berkowitz and DeJong, 2002; McMillan and Woodruff, 2002). In fact, Beck *et al* (2005) show that countries with larger share of SMEs in the manufacturing sector grow faster. The only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation. In developing countries, SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment (UNIDO Report, 2003).

It is generally accepted that one of the government's major role in promoting economic growth is the creation of an appropriate business environment. This includes the government's trade regime, its macroeconomic policies, infrastructure investments and the regulatory environment (Kounowewa and Chao, 2011). Governments therefore need to provide conducive business environment, both internal and external. In order to do so it is important for both policymakers and firm managers to understand what factors drive performance of firms. By putting emphasis on factors that drive the growth of firms, firms will be able to grow much faster, contribute more to output thus growth of the economy in general and the creation of more jobs.

Ayyagari *et al* (2006) show that SMEs are more constrained in their operation and growth than large enterprises and access to financial services is an important constraint. Financial institutions in most countries are reluctant to reach out to these enterprises because they are considered risky. Chavis *et al* (2010) find that there are systematic differences in the use of different financing sources for new and young firms. Using data for several countries around the world over the 2006-2009 period, they find that in all countries, younger firms rely less on bank financing and more on informal financing. In countries where younger firms do have access to bank finance, it is mainly due to strong rule of law and better credit information.

The literature has proposed that smaller firms are at a disadvantage compared to larger firms (Schiffer and Weber, 2001). We capture for firm size through two measures. First we look at the age of the firm by using a similar methodology as Chavis, Klapper and Love (2010) by looking at the year in which a particular firm registered or began operations. Next, we use the number of

employees as a measure of size. Prior research has found that company age and firm performance to be negatively related (Begley and Boyd, 1985; Dunne and Hughes, 1994). The expected coefficient on the firm size variable is expected to be positive. The larger a firm is and the higher the number of employees, the better the expected performance of the firm.

Chandler (1996) finds that there is a general recognition of the fact that firm performance is influenced by the expertise and behaviour of the founder. Chandler (1996) finds that there is a curvilinear relationship between sales/earnings and growth. He restricts the age of the CEO to a four point scale indicating whether the CEO is less than or 35 years, between 36 and 50 years, between 51 and 60 or more than 61 years. Begley and Boyd (1985) define managerial experience as the length of time the CEO had already been with the company. However, they find a negative relationship between CEO age and the growth of the firm. Stuart and Arbeti (1990) find that age of the CEO Proxying for an experience indicator does not affect performance. Laveren et al (2010) examines 511 small family firms in Belgium over the 1998-2000 period and the depth of the CEO experience at the beginning of the period of growth. Roper (1999) finds a positive effect of the owner-managers experience on profitability but no effect on growth.

Studies have indicated that the sustenance of interest in SMEs in the developed economies is due to technological as well as social reasons more so as those economies are currently driven by knowledge, skill and technology as opposed to material and energy-intensiveness. This is also as a result of a paradigm shift to new processes of manufacturing that are based on flexible systems and processes of production driven by sophisticated software on robust hardware platforms. The

social reasons include the need for generation of more employment and poverty reduction through self-employment ventures and decentralised work centres (Onugu, 2005).

In a seminar titled “Career Crisis and Financial Distress- The Way Out”, the General Manager of Enterprise and Financial Support Company Limited, Oluboba (2002), identified in his paper the following as the main problems of SMEs, which are however not insurmountable: low level of entrepreneurial skills, poor management practices, constrained access to money and capital markets, low equity participation from the promoters because of insufficient personal savings due to their level of poverty and low return on investment, inadequate equity capital, poor infrastructural facilities, high rate of enterprise mortality, shortages of skilled manpower, multiplicity of regulatory agencies and overbearing operating environment, societal and attitudinal problems, integrity and transparency problems, restricted market access, lack of skills in international trade; bureaucracy, lack of access to information given that it is costly, time consuming and complicated at times.

## **1.2 Statement of the Problem**

SMEs have played and continue to play significant roles in the growth, development and industrialization of many economies the world over (Onugu, 2005). Research done by Onugu (2005) on the performance of SMEs indicate that performance of SMEs depends mainly on access to finance and firm size, environmental factors such as infrastructure, business legal status and legal registration. Access to finance is inferred by examining whether firms have overdraft facilities and line of credit facilities and also captured through self-reported measures of access to finance. The results showed that the most SMEs do not have access to credit facilities and are constraint by huge payments made to income tax (Ayyagari *et al.*, 2008).

Further findings from the study of firm performance and financial constraints indicated that firm performance depends on financial constraints, firm age and socio-cultural factors such as rules and shared values of the business, beliefs and religion, norms and business code of conduct (Beck *et al.*, 2006). Research carried out on the financial institutions of firms indicated performance is negatively related to financial constraints. The coefficient is highly significant; implying that the presence of financial constraints significantly reduces firm's performance. The positive and highly significant coefficient of 0.728 indicates that as firms get older they are able to increase their sales (Beck *et al.*, 2006).

The factors affecting SMEs in Africa in decreasing order of intensity include: management, access to finance, infrastructure, government policy inconsistencies and bureaucracy, environmental factors, multiple taxes and levies, access to modern technology, unfair competition, marketing problems and non-availability of raw materials locally (Onugu, 2005). Therefore this study sought to find out the influence of determinants of performance of SMEs in Kakamega Central District, Kenya.

### **1.3 Purpose of the Study**

The purpose of this study was to examine the determinants of performance of small and micro enterprises in Kakamega Central District, Kenya.



## **1.4 Research Objectives**

The following research objectives guided the study;

1. To examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District.
2. To establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District.
3. To determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District.
4. To establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District.

## **1.5 Research Questions**

- i. How do financial factors influence the performance of small and micro enterprises in Kakamega Central District?
- ii. How do socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District?
- iii. How do personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District?
- iv. What is the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District?

## **1.6 Significance of the Study**

The problems and challenges that SMEs contend with are enormous no doubt but it is curious to know that some SMEs are able to overcome them. This gives hope and should provide a basis for optimism that there is a way out. There must be some survival strategies, which are not known to many SME promoters. This research was intended to explore and unravel some of the key determinants which have influenced the thriving of SMEs.

It was expected that the outcome of this research will go a long way in ensuring a turnaround of Kenya's SME sub-sector. The research would come up with a set of recommendations for various stakeholders for implementations. With the concerted efforts of all and sundry including governments at all levels, SME promoters, agencies and Departments of Governments involved in the SME sub-sector, Non-Governmental Organisations (NGOs), multilateral agencies, banks, financiers, Investors, academicians and future researchers. It is hoped that the fortunes of SMEs in Kakamega Central District would dramatically improve.

## **1.7 Delimitation of the Study**

This study was limited to Kakamega Central District in scope. Questionnaires were issued to a total of 150 SMEs who were randomly selected from a cross section of a population of 1,500 SMEs spread in Kakamega Central District and covering virtually all forms (Sole Proprietorship, Partnership, Private and Public Limited Companies) and kinds (Services, Manufacturing, Processing, Petrol Stations and Educational) of business took part in the study. Even banks were also selected for the study.

### **1.8 Limitations of the Study**

This study was based on the following limitations: the respondents were very much spread within the study area making it difficult to locate and the researcher therefore, employed patience and used quite a number of research assistants facing financial constraints, though financial solutions were sought. The interviews used in the data collection although had many advantages, consumed more time and were costly and the researcher overcame this by setting timeframes within which the interviews were to be conducted to save time and reduce costs. Finally, there were difficulties in tracing some important relevant information from libraries or from primary sources and problems of finding respondents particularly, therefore, the internet was used as the source of information on the research topic.

### **1.9 Assumptions of the Study**

This study was carried out against the following assumptions: The target respondents were cooperative and gave voluntarily, accurate information; All respondents were honest and therefore, found appropriate time to respond to questionnaires. Lastly, target groups were not affected by any disasters during the study like, unrests and lightening.

### **1.10 Definitions of Significant Terms**

**Culture:** This refers to beliefs, values, customs, arts, social institutions. The specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization.

**Entrepreneurs:** Person who sets up a business or a business are taking on greater than normal financial risks.

**Institutional Factors:** These are conditions in various public institutions that influence or direct a particular behaviour outcome like poor services offered to men, lack of confidentiality, non-men friendly and skewed towards women.

**Organizational culture** is defined as a pattern of shared basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration.

**SMEs:** refer to business enterprises whose total costs excluding land is not more than two hundred million naira (Kshs. 200, 000.00) only and employee less than 250 employees.

### **1.11 Organization of the Study**

This study was organized in five chapters. Chapter one describes the background to the study, statement of the problem, purpose of the study, the objectives, research questions, significance of the study, delimitation of the study, the limitations of the study, assumptions of the study, definition of significant terms used in the study and the organisation of the study. This chapter comprises literature review that is relevant to the research topic, and includes to examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District; to establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District; to determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central

District and to establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District. This chapter consists of the research methods to be used in carrying out the study. It includes research design, location of study, target population, sampling procedures and sample size, research instruments, validity and reliability of research instruments, data collection procedures and data analysis techniques. Chapter four provides data analysis and discussions while chapter five contains summary of study findings, conclusions and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter comprises literature review that is relevant to the research topic, and includes to examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District; to establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District; to determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District and to establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District. This forms the basis of the study whose purpose is to fill these research gaps.

#### **2.2 Small and Medium Enterprises**

In Malaysia, Small and Medium Enterprises (SMEs) consists of three different category of enterprise: micro, small and medium enterprise. The definition of each category is based on its size, turnover and activities (Sin, 2010; Chong 2010). Micro -enterprise is defined by the sales turnover of less than RM250, 000 or fewer than five full-time employees. Like in any developing countries, micro enterprises have developed as a means to respond to growing poverty particularly in generating income to supplement household income. These micro -enterprises who are mostly run by women are more likely to be home-based, given that they are responsible for domestic labour (Thompson, 2009) According to him, these micro -enterprise provides flexibility for women in terms of balancing their home and work responsibilities. In this case,

these women entrepreneurs are mostly involved in small-scale food processing. In Asia, rural-based food processing industry constitutes almost 70 per cent of the companies in the rural areas (Hicks, 2001).

Small and Medium Enterprises (SMEs) as defined by the National Council of Industries of Nigeria refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200, 000,000.00) only. A lot has been said and written about SMEs the world over. It has also formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and Federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives. International agencies and organisations (World Bank, United Nations Industrial Development Organisation (UNIDO), International Finance Corporation (IFC), United Kingdom Department For International Development (DFID), European Investment Bank (EIB), are not only keenly interested in making SMEs robust and vibrant in developing countries but have also heavily invested in them (Ajagu, 2005).

Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state. Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as “the engine of growth” and “catalysts for socio-economic transformation of any country.” SMEs represent a veritable vehicle for the

achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology. Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them (Iornem, 2000).

A major characteristic of SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of SMEs include the following among others: labour-intensive production processes, concentration of management on the key man, limited access to long term funds, high cost of funds as a result of high interest rates and bank charges, high mortality rate especially within their first two years, over-dependence on imported raw materials and spare parts, poor inter and intra-sectorial linkages-hence they hardly enjoy economies of scale benefits, poor managerial skills due to their inability to pay for skilled labour (Onugu, 2005).

Furthermore, the product quality output is poor, absence of Research and Development, little or no training and development for their staff, poor documentations of policy, strategy, financials, plans and information systems; low entrepreneurial skills, inadequate educational or technical



background, lack of adequate financial record keeping, poor Capital structure, that is, low capitalization, poor management of financial resources and inability to distinguish between personal and business finance, high production costs due to inadequate infrastructure and wastages, use of rather outdated and inefficient technology especially as it relates to processing, preservation and storage, lack of access to international market lack of succession plan and poor access to vital information (Onugu, 2005 and Akwaja, 2004) .

Small and Medium Enterprises (SMEs) in Nigeria have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Nigeria. This situation has been of great concern to the government, citizenry, operators, practitioners and the organised private sector groups. Year in year out, the governments at federal, state and even local levels through budgetary allocations, policies and pronouncements have signified interest and acknowledgement of the crucial role of the SME sub-sector of the economy and hence made policies for energizing the same. There have also been fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutions all geared towards making the SME sub-sector vibrant (Onugu, 2005).

Just as it has been a great concern to all and sundry to promote the welfare of SMEs, it has also been a great cause of concern to all, the fact that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their SMEs. It has been shown that there is a high correlation between the degree of poverty hunger, unemployment, economic well-being (standard of living) of the citizens of countries and the degree of vibrancy

of the respective country's SMEs (Mordi, 2005). If Nigeria were to achieve an appreciable success towards attaining the Millennium Declaration Goals for 2015, one of the sure ways would be to vigorously pursue the development of its SMEs. Some of the key Millennium Declaration Goals like halving the proportion of people living in extreme poverty, suffering from hunger, without access to safe water, reducing maternal and infant mortality by three-quarters and two thirds respectively and enrolment of all children in primary school by 2015 may indeed be a mirage unless there is a turnaround of our SMEs' fortunes sooner than later. The time is now to do something surgical to the situation of our SMEs given the aggravating level of poverty in Nigeria and the need to meet up with the Millennium Declaration Goals (Alawode, 2005).

### **2.3 Determinants of SME Performance**

From the literature, various determinants of micro enterprise performance have been proposed and identified. Okurut (2008) proposed that the returns in micro -enterprises are positively and significantly influenced by education level, experience and business assets but negatively influenced by being female-owned and rural-based. He argues that other than improving the level of education, the improvement of rural infrastructure is very crucial in enhancing the performance of rural-based micro enterprises. In Nigeria, Ajibefun and Daramola (2003) contended that the level of education of enterprise owners is highly significant in affecting the level of efficiency of the micro enterprises. This implies that education is an important policy variable to improve both technical and allocative efficiency. However, he also reveals that that rising age of enterprise owners has led to the decline in the mean efficiency, suggesting that more young entrepreneurs should be encouraged to put more efforts and therefore later would raise the level of efficiency.

A later study by Kirubi (2006) suggests that modern energy (such as access to electricity, markets roads, communication and school has contributed to the growth of micro enterprises in rural Kenya). Adekunle (2011) provides a different perspective by examining the business performance of those micro entrepreneurs who became a member of Cooperative Thrift and Credit Societies (CTCS). He suggests personal agency belief is a significant predictor of business performance. The member's entrepreneurial ability is also improved by being the member of the group.

In Malaysia, Che Rose, Kumar and Lim (2006) contended that personal initiative as the major key to success in SMEs industry. They argue that entrepreneurs with high personal initiative will naturally overcome the disadvantages or weaknesses in them with their self-starting and proactive attitude. They also provided similar evidence to that of previous studies that level of education has also contributed to the business growth. Nurbaini *et al* (2010) argues that micro entrepreneurs in Malaysia are generally having financial difficulties particularly during the start up. Even access to financial credit scheme does not normally guarantee the success of these micro businesses.

### **2.3.1 Influence of Financial Factors on Performance of SMEs**

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.*, 2006). Lack of credit has also been identified as one of the most

serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko and Dondo, 1992; Kiiru, 1991).

Financing mechanism is important for investment and stimulating business productivity which is the main objectives for any businesses. This item is used to examine the challenges faced by respondents in getting access to micro -credit financing schemes and the reason they avoided these schemes. Various studies have documented the difficulties faced by micro entrepreneurs to get financial assistance from local micro credit schemes which include the lack of knowledge in loan application and high legal documentation (Nurbani *et al.*, 2010).

Further, some researchers introduced the distinction between the entrepreneurship as content and process that is they differentiate between entrepreneurship and entrepreneurial orientation as follows: entrepreneurship is defined by Dess, Lumpkin, and McGee (1999:94) as “the content of Strategy, which we define as the new entry that is the act of undertaking a new venture.” Entrepreneurial orientation is defined by Lumpkin and Dess (1996:136) as “The processes, practices, and decision-making activities that lead to new entry.” It is therefore, clear that the entrepreneurship concept is the action of creation new business (Certo, Moss, & Short, 2009).

One of the challenges of analyzing this item is that majority of the respondents is very open in discussing topic related to income and financing. It is not so much about hiding information but they could not give an exact number because of no proper documentation of product sold or the amount of capital used for the monthly transactions. A few respondents were willingly produced their business log book, documenting the daily orders made but most of the months were left

empty. So, data gained is mostly by observing the size of production and the amount sold. Majority of respondents interviewed are mainly from low-income families. This indicates that many of them do not much capital, mostly used own saving to start the business and utilizing the equipment they have for the production. After operating for several months, some of them would apply assistance from local government agencies, either directly or through their Chief Villages. For example, Siti who produces salted fish started the business by using her skills and her fisherman's husband will supply the fresh fish. Since she does not have money to buy freezer to storage the product, Siti's mother decided to give her old and rusty refrigerator for that purpose. This finding has supported Gani's (1995) suggestion that majority of small scale food processing enterprises use traditional methods of processing such as pickling because of financial constraints and therefore could not afford sophisticated machinery and lack of technical information.

Financing mechanism is important for investment and stimulating business productivity which is the main objectives for any businesses which has led to the setting up of various funds by the Malaysian government for startup and business expansion such as TEKUN and *Amanah Ikhtiar Malaysia (AIM)*. Although the efficiency of these micro finances has been proven in empowering Malaysia women entrepreneurs to be more confident in connecting with other entrepreneurs and suppliers (UNDP, 2008) but micro entrepreneurs interviews are reluctant to apply due to lack of knowledge, fear of debt in case if business cannot be sustained and lack of confidence to apply.

### 2.3.2 Influence of Socio-cultural Factors on Performance of SMEs

This item refers to rules, shared values, beliefs, norms and code of conduct that is culturally rooted. The difficulty in changing these values and its significant impact on the socio-cultural environment can influence the level of success of entrepreneurs (Schiebold, 2011). In Malaysian context, it has been debated how Malay culture which is translated under the concept of *Adat* is very much intertwined with Islam, the official religion of Malaysia (Wazir Jahan, 1992). Study by Wan Nurhasniah (2011) on the concept of *Budi* and Muhammad (2009) have shown how Malay traditional culture, belief and practices of Islamic cultures were practiced by Malay women businessperson in Kelantan, Malaysia. This item is used to examine whether or not these values are adapted in the respondent's business activities and its influence on the business growth.

The cultural uniqueness of an organization constitutes an inimitable organizational capability to create its competitive advantage over its rivals (Barney, 1986; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984). Therefore, in the current turbulent and constantly changing global business environment, the preeminent leaders know how to shape the organizational culture of their organizations to achieve short as well as long-term objectives (Kuratko and Welsch, 2004). Moreover, in the effective cultures, leaders understand that the competitive advantage does not last forever, thus they encourage constant changes and establish never-ending innovation environment (Kuratko & Welsch, 2004).

It has been widely known from the organizational behavior literature that there have been many definitions for entrepreneurial culture construct. However, in the literature of organizational

studies, there is no universal definition of entrepreneurial culture (Lewis, 2002). For example, Uttal (1983) defined it as the system of shared values and beliefs that interact with the people, structures, and control system of an organization producing behavior norms. Similarly, Kilmann *et al.* (1985) defined the corporate culture as the philosophies, assumptions, beliefs, attitudes, and norms that bind the organization together.

Looking at its outcomes, Deal (1986) defined entrepreneurial culture as the human-created philosophy that enhance the solidarity among individuals and inspire them to enhance their productivity through high commitment. Moreover, Deshpande and Webster (1989) and Schein (1990) defined entrepreneurial culture as the pattern of shared values and beliefs that help individuals to understand the functions of an organization through providing them with behavior norms. Related to that is the definition provided by Simircich (1983) for the entrepreneurial culture as a set of values, assumptions, and norms that is common among senior employees in an organization and to be taught to junior ones. However, he also argued that entrepreneurial culture is the key organizational factor that can be used by managers to direct their organizations.

It can be noticed that although the concept of entrepreneurial culture has been defined in various ways in the literature and there is consensus about one definition (Barney, 1986). However, there are many researchers who have defined the entrepreneurial culture as a system of shared values, norms, beliefs, way of thinking and attitudes among all the members of an organization (Mckinnon *et al.*, 2003; O'Reilly & Chatman, 1996). In other words, entrepreneurial culture is manifested as the basic assumptions, values, attitudes, and behaviors among all the members of organization (Yilmaz & Ergun, 2008).

Entrepreneurial culture is one of the critical variables that have received an increasing attention in organizational behavior literature (Kilman, Saxton, & Serpa 1985; Ouchi, 1981; Owens, 1987; Schein, 1990). This attention is because of the key role played by entrepreneurial culture in determining the organizational performance. Moreover, entrepreneurial culture is expected according to many theorists to shape organizational procedures (Deal & Kennedy, 1982; Jamagin & Slocum, 2007), provide solutions for many problems that face the organization (Schein, 1984), coordinate and direct various organizational capabilities and activities into a cohesive whole (Day, 1994), and, however, hinder or facilitate the organization's achievement of its goals (Denison, 1990). Since the entrepreneurial cultural driven capabilities are usually inimitable due to their social complexity, it is considered a valuable source of sustainable competitive advantage (Barney, 1986; Hall, 1993; Peteraf, 1993).

Studies have shown how traditional Malay and Islamic values are playing important role in constructing the identity of the Malay people (Karim, 1992; Wan Norhasniah, 2011) and its impact on the Malay's character, traits and behaviours during their interactions within and outside their community. The values of *budi*, tolerance, forgiveness and patience are very much observed by the respondents. According to the respondents who are all Malay Muslim women have to negotiate their cultural expectations and business cultural expectations because their involvement in business requires them to meet various people from different walks of life, travelling and dealing with the male counterparts. One respondent said that "*...no matter how aggressive we are, as expected in business industry, we must always remember our responsibility as wife and a mother to our children*". However, based on the study, we found that majority of their husbands are very supportive towards his wives' businesses. One respondent argued that



cultural and Islamic values should not be wrongly used. For example, she said that many Malay entrepreneurs are having a low level of confidence because they are “shy” (*malu*) (See Peletz, 1996; Phillipson, 2007). She argues, as a Malay Muslim woman, “shy” should be used as a prevention mechanism in making any wrongdoings. However, in business industry, she said “...we cannot be shy; we should not be shy in selling our product, in asking “direction” [for business expansion purposes]. Other cultural issue that has identified is the responsibility in taking care of grandchildren.

In Malay community, the culture of babysitting grandchildren is quite common especially those in low-income families where sending children to nursery is beyond their means. Therefore, it is common for the married daughter or son who usually live and work in urban area, leaving their mothers in the village as they could not afford to send their children to nursery or babysitter. One respondent expressed her disappointment for having to take care of her granddaughter and two unemployed sons who are newly married. She argues that: *it's not that I don't love my granddaughter, but I have been working in my entire life, I am exhausted and now I want to focus on my business, after all, I am the one paying the house expenditure*”. The commitment has indeed affected her productivity but she cannot stop as the income earned from the business are used for the? Even though she earned much higher than other micro entrepreneurs but the responsibility has put her in the survivalist group.

### **2.3.3 Influence of Personality Factors on Performance of SMEs**

This item refers specifically to the characteristics of an entrepreneur and their implications to the business success. An entrepreneur is defined as an individual who develops and owns his own

enterprise, risk taker, innovative, motivated, persistent and creative in converting a situation into opportunity (Adekunle, 2011). Successful entrepreneurs should have a unique set of personal characteristics, including: inspiration, creativity, direct action, courage and fortitude as these characteristics are fundamental to the process of innovation (Martin and Osberg, 2007). They should also have a certain set of capacities, mindset, (Schiebold, 2011), cognitive ability, motivation, competitive attitude (De Mel, Mckenzie and Woodruff, 2010). Entrepreneurial characteristics have a significant indicator in determining the success of micro entrepreneurs. Cognitive ability can be influenced by the level of education. It is argued that entrepreneurs with an elementary school education tend to be less receptive to new technologies compared those who have a college education (Ghani, 1995). This situation is difficult to apply new technology and improve productivity.

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, 1998). 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, 1999).

Based on a bigger study that has been conducted in Balik Pulau recently, involving 12 villages, 41 micro entrepreneurs have been identified and all of them are Malay women. Therefore, it can be argued that this number indicates that the Malay women of Balik Pulau are very entrepreneurial in nature. However, the study revealed that this characteristic does not indicate

the level of motivation and creativity in bringing their businesses into a higher level. The finding also shows that there are differences of characteristic between micro entrepreneurs in informal business and their counterpart in the formal business. Generally, those in informal business do not seem to possess a burning desire or “competitive attitude”, considered as one of the important characteristics in generating inspiration and motivation for business expansion. This phenomenon can be explained by several factors (Selamat *et al.*, 2005).

The low level of motivation is due to the age factor. Based on the earlier discussion, majority of respondents are in the range between 46 to 55 years old and only in the business for less than five years. They argued that they are not that young anymore and business expansion needs a lot of physical and mental energy of which they no longer possess. Furthermore, with little experience they have in the business and the fear of no one taking over the business has made them realized that they should just maintain what they are doing now as long as the income can sustain their lives. As one respondent narrates, “little is better than nothing, for me, that is okay...not that rich but [I] can live comfortably” (Selamat *et al.*, 2005 and Sin, 2010).

The fear of venturing into a bigger operation due to lack of confidence and technological knowledge has also implicated on their business production. In this case, level of education is important. In the earlier section, majority of respondents were only attending primary school which indicates the low level of technology, communication skill and confidence particularly in dealing with people in the business industry. Previous study has shown that entrepreneurs with an elementary school education tend to be less receptive to new technologies and therefore made it difficult to transfer new technology and improve productivity (Ghani, 1995).

Interestingly, the entrepreneurs interviewed in formal enterprise are much more motivated, have a clear vision in business expansion and more knowledgeable. Although, all of the respondents do not deny the tough challenges that they faced, but “*we need to „get out” and sell our products*”. One respondent who is in the business of making nutmeg juice for 11 years and has been travelling throughout the country to promote her products emphasized that “*...we have no choice, [in order] to succeed, we must be brave, hardworking and to compete...otherwise, we will be left behind*”. These different attitudes towards business performance between formal and informal entrepreneurs can be put in two different categories. The informal group prefers to “wait and see” or would rather taking the position of just “staying as it is” whereas the formal group is having an aggressive attitude to ensure that they could compete in an industry that is considered as competitive in the Malaysian SMEs (Selamat *et al.*, 2005 and Sin, 2010).

#### **2.3.4 Influence of Environmental Factors on Performance of SMEs**

Infrastructure refers to both physical and non-physical. Physical infrastructure consists of roads, modern energy and non-physical item such as market structure. Location, according to Shaw (2002), which includes reliable power, communication, water and transport service, will facilitate technological innovation and better access to inputs, markets and information. Furthermore, sound infrastructure will provide rural entrepreneurs to have access to urban markets.

In terms of business structures, most of respondents interviewed do receives various aspects of assistance from local agencies such as business premises, equipment including machine, packaging and product label/sticker. In this case, the significant role of government agencies

such as the State Agricultural Department, Penang Development Corporation (PDC) and Local Farmer's Organization in assisting these entrepreneurs is undeniable. Agricultural Department for example has provided business premises/workshop to a few respondents so that they can have a spacious and comfortable space for the operation. However, the fund is for the material and construction cost whereas the business owners need to provide the land. Therefore, most of the workshops built are in the compound of owner's house (mostly inherited land) or attached to their houses, often refer as "backyard industries" (Selamat *et al.*, 2005).

Informality referred to the legal status of business owners' enterprise. In many cases, micro enterprise operated without legal registration and mostly just referred to as "informal sector". According to Schiebold (2011), unregistered business has an implication on the business success in a number of ways. Due to its informal status or non-registered, they are unable to conduct business with official institutions or large formal businesses. Furthermore, they are excluded from exporting their products and therefore this could give them problem in raising money through official channels. They have no access to judicial system, limited access to financing mechanism. Institutional environment refers to the official and unofficial rules and constraints that surround an entrepreneur and which shape the business operated (Schiebold, 2011). This institution consists of both written and formal constraints where the former may relate to legal matter while the informal constraints are being associated with norms, conventions and self-imposed codes of conduct (Shirley, 2008).

Institution factors consists of both written and formal constraints where the former may relate to legal matter while the informal constraints are being associated with norms, conventions and

self-imposed codes of conduct (Shirley, 2008) and this constraints will definitely shape the business operation (Schiebold, 2011). Due to its informal status, majority of micro -enterprise operators resort to the simplest type of marketing strategy compared to those formal enterprise which is employing a more aggressive approach. Based on the interviews, in terms of marketing, respondents from informal enterprises preferred the market to “coming to them” rather than those respondents from formal enterprises who emphasized that “we need to get out and sell”. The former strategy is highly dependent on customer to “come to them” either making orders through the phone or home visit. Therefore, majority of customers are mainly from the local villagers, schools and a number of government agencies nearby. Connections of friends and relatives are utilized, acting as middle person, to sell their products particularly at local factories. According to respondents, those in informal enterprises admitted that the informal status has created various legal constraints including the limitation of connections and networking and this has significantly impacted on the marketing strategy. That would explain that those who have limited connections and networking will mainly involve in food enterprises because the business require a low capital investment and a low level of technology (Ghani, 1995).

#### **2.4 Challenges of SMEs in Kenya**

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 per cent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to

provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone.

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, *et al.*, 2006). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991).

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, 1998). 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, 1999).

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 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 (1998) 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 is need to conduct an empirical enquiry to investigate the challenges SMEs in Kakamega Central District face.

A study carried out by Bowen, Morara and Mureithi (2009) on the management of business challenges among small and micro enterprises in Nairobi-Kenya revealed that the main challenges SMEs face include, competition, insecurity, debt collection, lack of working capital and power interruptions which were reported as the top five challenges. 89.4 percent of respondents mentioned competition while 68.2 percent mentioned insecurity as a challenge. 54.5 percent, 53 percent and 44.9 percent of the respondents mentioned debt collection, lack of working capital and power outages respectively. Political uncertainty cost of materials, hawkers, low demand and restrictive by-laws completed the list of ten main challenges facing these businesses. The other factors reported include business networking, competitive pricing or low cost, selling variety of products and services and availability of capital as well as credit from the banks as some of the key reasons. The results reveal that there is no magic bullet and that all factors mentioned are important in contributing to good performance of businesses.



As much as Kenyan SMEs may cite lack of credit or competition as the most pressing factors to business operations and contributing to a huge number of business closures. These factors can be considered secondary rather than primary problem. This survey shows that the solutions lie within the business structures. Disciplined finance management, differentiating products and services to satisfy customer needs, having your business located within the reach of your customers and good networking can make a difference between succeeding and failing (National Baseline Survey, 1999).

Existing literature on SMEs indicate that lack of capital is a strong constraint to growth (National Baseline Surveys, 1993; 1995; 1999; Stone, Levy and Paredes, 1992). According to these studies, most SMEs rely mainly on own savings and reinvested profits to finance their business. Comparison of results of the three baseline studies of 1993, 1995 and 1999 show minor improvements in the situation-from 9 percent of SMEs accessing credit in 1993 to 10.8 percent in 1999. This research suggests that availability of credit is no longer as bad as it used to be judging from the previous findings on credit and small scale businesses.

Different SMEs manage these mentioned challenges in different ways. Strategies used included fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service delivery. Clearly there is no magic bullet in achieving success. Business success is a consequence of embracing the whole package of strategies in order to succeed. Selling a variety of products or offering a variety of services is just as important as embracing prudent financial management systems. Lack of innovation and search for changing customer needs reduces the survival of businesses. It is

therefore imperative that businesses proactively innovate to meet customer demands. Alternatively, this result may be interpreted using the product life cycle. This could be especially true if the business deals only with one product. As the product reaches the decline stage, the business may decline and the business is likely to fail (Bowen *et al.*, 2009).

It is generally recognized that SMEs (Small and Medium Enterprises) face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. In this article, the following challenges are briefly discussed: Lack of Managerial Training and Experience, Inadequate Education and Skills, Lack of Credit, National Policy and Regulatory Environment, Technological Change, Poor Infrastructure and Scanty Markets information (Wanjohi, 2012).

### **2.5.1 Lack of Managerial Training and Experience**

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill, 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational

background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises (King and McGrath, 2002).

### **2.5.2 Inadequate Education and Skills**

Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath, 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

### **2.5.3 Lack of Credit**

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

There are various other financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2008).

#### **2.5.4 National Policy and Regulatory Environment**

The national policy and regulatory environment has an important impact on technology decisions at the enterprise level. The structural adjustment programs (SAPs) implemented in many African countries are aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. SAPs tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries (USAID 1991).

The findings in the study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of MSEs. Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of SMEs but also to the Kenyan economy that was gaining momentum after decades of wastage during KANU era.

### **2.5.5 Technological Change**

Change of technology has posed a great challenge to small businesses. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned, they are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies.

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

### **2.5.6 Poor Infrastructure**

Poor infrastructures pose a major challenge to small enterprises in Kenya. In Kenya, the provision of better infrastructures has lagged behind over years. There are poor roads, inadequate electricity supply. According to the proceedings of the National Investment Conference, November 2003, Kenya still stands in need of better infrastructures. It has been the pledge

NARC government (when it took over from KANU in 2002) to improve the infrastructures, but there is yet much to be done.

### **2.5.7 Scanty Markets Information**

Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (Muteti, 2005) and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small enterprises entrepreneurs need to be supported. With connectivity being enhanced (by connecting Kenya globally through Fiber Optic Cable project) there is renewed hope for the SMEs.

## **2.6 Conceptual Framework**

The conceptual framework for this study is based on previous studies on determinants of micro enterprise performance (Shaw, 2002; Okurut, 2008; Adekunle, 2011; Schiebold, 2011). For the purpose of analysis, the researcher adapted Adekunle (2011) and Schiebold's (2011) framework to analyse the success determinants for micro entrepreneurs. Within this framework, several determinants are identified to categorize success enterprise based on informality, institutional environment, entrepreneurial characteristics, socio-cultural environment, financing, petty corruption and infrastructure.

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This framework will be developed by Schiebold (2011) as a tool for development projects in finding the suitable setting for micro entrepreneurs that can maximize their chances of succeeding. However, for the purpose of this study, slight modification has been made to accommodate the local context. Only 4 determinants are selected for this study that is financial factors, socio-cultural environment, personality characteristics and environmental factors as shown in Figure 1.



# Conceptual Framework

## Independent Variables

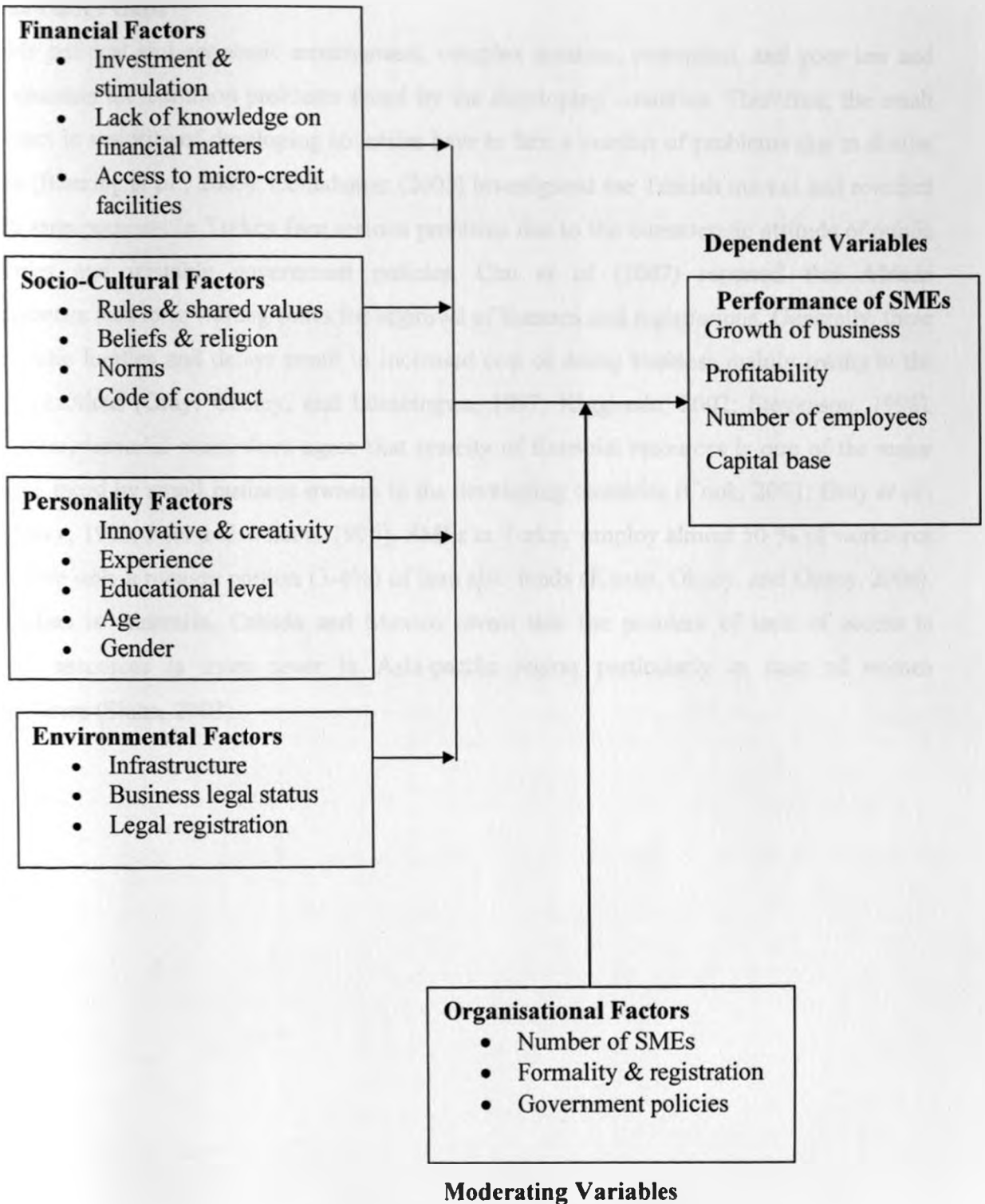


Figure 1: Conceptual Framework showing Interrelationships between Key Variables of the Study  
Source: Researcher (2002)



## 2.7 Knowledge Gaps

Unstable political and economic environment, complex taxation, corruption, and poor law and order situation are common problems faced by the developing countries. Therefore, the small businesses in majority of developing countries have to face a number of problems due to similar reasons (Benzing *et al.*, 2009). Cetindamar (2005) investigated the Turkish market and revealed that the entrepreneurs in Turkey face serious problems due to the bureaucratic attitude of public authorities and unstable government policies. Chu *et al* (2007) reported that African entrepreneurs face long waiting times for approval of licenses and registrations. Generally, these bureaucratic hurdles and delays result in increased cost of doing business mainly owing to the corrupt practices (Gray, Cooley, and Lutabingwa, 1997; Kiggundu, 2002; Stevenson, 1998). Many entrepreneurial researchers agree that scarcity of financial resources is one of the major problems faced by small business owners in the developing countries (Cook, 2001; Gray *et al.*, 1997; Levy, 1993; Peel and Wilson, 1996). SMEs in Turkey employ almost 50 % of workforce and receive only a meager portion (3-4%) of loan able funds (Kozan, Oksoy, and Ozsoy, 2006). The studies in Australia, Canada and Mexico reveal that the problem of lack of access to financial resources is more sever in Asia-pacific region particularly in case of women entrepreneurs (Sinha, 2003).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter consists of the research methods to be used in carrying out the study. It includes research design, location of study, target population, sampling procedures and sample size, research instruments, validity and reliability of research instruments, data collection procedures and data analysis techniques.

#### **3.2 Research Design**

This study adopted a descriptive survey design to establish the determinants of performance of small and micro enterprises in Kakamega Central District, Kenya. Yin (1984) argues in favour of the use of surveys in fact-finding because they provide a great deal of accurate information. The intention of survey research is to gather data at a particular point in time and to use it to describe existing conditions. According to Sekaran (2004), a survey study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. Quite frequently, descriptive studies are undertaken in organizations to learn about and describe the characteristics of a group of employees, as for example, the age, educational level, job status, and length of service of respondents.

#### **3.3 Location of the Study**

Kakamega Central District is one of the 32 districts making up Western province. The district covers a total area of four hundred and seventeen point four kilometers squared (117.4km<sup>2</sup>). The study area covers three administrative units of municipality, Lurambi and Navakholo divisions.

The District borders Butere and Mumias districts to the west, Kakamega East district to the east, Kakamega South district to the south and Kakamega North district to the North (Government Printers, 2009). The Appendices 4 and 5 show the location of Kakamega Central District in Kenya and the map of Kakamega Central District (Government Printers, 2009).

The Kakamega Central District has 1,500 registered SMEs which have been poorly performing. The district's climatic conditions and fertile soils are suitable for both crop and livestock production. The municipality division is within Kakamega town. The main economic activity carried out in this area is subsistence farming. However, some residents have adopted tea growing and sugarcane; hence form of cash crops that earn substantial income. The socio-economic status of most residents is low which is depicted by semi-permanent houses and high unemployment due to high school dropout rates. Most people are Christians of the Catholic faith. The study targeted all 1,500 registered SMEs in the district. The study used the following: General Trade, Wholesale, Retail, Stores, Shops, Personal Services and Hawkers.

### **3.4 Target Population**

The study was carried out in a total of 1,500 registered SMEs under Single Business Permit Registration in Municipal and County Council of Kakamega Central District in Western Province, which was equivalent to a target population of 1500 business owners.

### **3.5 Sampling Procedures**

The research employed stratified random sampling in selecting respondents. The population was segregated into several mutually exclusive subpopulations or strata herein referred to as business

categories. The research then applied proportionate stratification that was based on the stratum's share of the total population to come up with the sample in each stratum. The actual businesses interviewed were arrived at by using simple random procedures to draw the sample from each stratum so that each and every one in the target population had an equal chance of inclusion. Kakamega Central District has a total of 1,500 SMEs. The sample size of 100 SMEs was obtained using coefficient of variation. Nassiuma (2000) asserts that in most surveys or experiments, a coefficient of variation in the range of  $21\% \leq C \leq 30\%$  and a standard error in the range  $2\% \leq e \leq 5\%$  is usually acceptable. The researcher therefore, used a coefficient variation of 21% and a standard error of 2%. The lower limit for coefficient of variation and standard error was selected so as to ensure low variability in the sample and minimize the degree or error.

$$S = \frac{N (Cv^2)}{Cv^2 + (N-1) e^2}$$

Where S = the sample size

N = the population size (1,500)

Cv = the Coefficient of Variation

e = standard error

Therefore, the selected sample size will be:

$$S = \frac{1,500 (0.21^2)}{0.21^2 + (1,500-1) 0.02^2} = 99.904 = 100 \text{ SMEs} = 100 \text{ respondents}$$

### **3.6 Methods of Data Collection**

The research instruments that were used in conducting this research were questionnaire and interview schedules. The questionnaire as a tool was used because it was familiar to most people (Berdie, Anderson, and Niebuhr, 1986). Nearly everyone has had some experience completing questionnaires and it generally does not make people apprehensive. When respondents receive a questionnaire in the mail, they are free to complete it on their own time-table. The questionnaire is a convenient tool especially where there are large numbers of respondents to be handled because it facilitates easy and quick derivation of information within a short time (Kerlinger, 2004).

The structured (closed-ended) and unstructured (open-ended) were used so as to get the responses from respondents (contractors, engineers and procurement officers). The closed-ended questions provide a greater uniformity and more easily processed (China and Oteng'i, 2007). The structured questionnaires were accompanied by a list of all possible alternatives from which respondents selected the suitable answer that described their situation by simply ticking (Mugenda and Mugenda, 2003). The questionnaires were administered by the researcher with help of the research assistants to avoid misinterpretation of questions by 'drop and pick' technique. The responses were gathered in a standardised way, so questionnaires were more objective. Generally it was relatively quick to collect information using a questionnaire.

The researcher used interview schedules since it provides face-to-face interaction with respondents and enabled the researcher to adapt the questions as necessary, clarify doubts and ensure that the responses are properly understood, by repeating or rephrasing the questions. The

researcher can also pick up nonverbal cues from the respondent. This tool also gives the researcher an opportunity to get a chance to probe the key informants on issues that may not be captured in the questionnaire. Prior to taking part in the interviews, the researcher intends to give respondents an opportunity to adequately prepare themselves for the interview. It is anticipated that this will enable the interviewees to give accurate and relevant information.

The researcher sought for a research permit and a research authorization letter from the Ministry of Higher Education, National Council for Science and Technology in Nairobi before embarking on data collection process as dictated by ethics. The instruments were administered through personal visits on appointment with Women Trust Fund and Ministry of Gender and Social Services officials. The questionnaire were then administered in the presence of the researcher after agreeing on the dates and then collected personally. The researcher took time to explain any issues arising from the questionnaires.

### **3.7 Validity**

Content validity refers to the degree to which the content of the items reflects the content domain of interest (Miller, 2003). "Validity refers to the degree to which evidence and theory support the interpretations of test scores entailed by proposed uses of tests (AERA/APA/NCME, 2000). Best and Khan (2005) suggested that the validity of the instrument is asking the right questions framed from the least ambiguous way and based on study objectives. The instruments were amended according to the experts' comments and recommendations before being administered. For the validation of the instrument, the researcher consulted supervisors and experts in the field

of study, who assessed the validity of study instruments. The aim was to determine whether the items were adequate in content and logically arranged.

### **3.8 Reliability**

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda, 2003). The reliability of this research instruments were established by pilot testing. Ursula (2010) defines a pilot study as a small-scale trial, intended to assess the adequacy of the research design and of instruments to be used for data collection. Before beginning such a full research project, researchers need to know that their study was valid and the study's design would be able to capture the data they were looking for. To determine the reliability of the research instruments, the researcher, with the help of the supervisors assessed its clarity to improve the quality of the research instruments by increasing its reliability. This was done through a pilot study. For this study to be effective, the pilot sample must be representative of the variety of individuals that the main study was intended to cover.

The questionnaires were piloted in SMEs in Kakamega North District which is outside the study area and were not included in the final analysis. The data was collected then analyzed and the results correlated to determine their Cronbach's Alpha Coefficients values which range in value from 0 to 1 were used to describe the reliability of factors extracted from dichotomous (that was, questions with two possible answers) and/or multi-point formatted questionnaires or scales (rating scale: 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree 5 = strongly agree). The reliability coefficients were found significantly above  $\alpha = 0.7$ , with  $\alpha = 0.79$ , (Nunnaly, 1998).

### 3.9 Operational Definition of Variables

This section looks at the operational definition of variables as shown in Table 1.

**Table 1: Operational Definition of Variables**

<b>Research Objectives</b>	<b>Independent Variables</b>	<b>Dependable Variable</b>	<b>Statistical Tool</b>
To examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District.	Financial factors	Performance of SMEs	Descriptive and Pearson correlation Coefficient
To establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District.	Socio-cultural factors	Performance of SMEs	Descriptive and Pearson correlation Coefficient
To determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District.	Personality factors of entrepreneur	Performance of SMEs	Descriptive and Pearson correlation Coefficient
To establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District.	Environmental factors	Performance of SMEs	Descriptive and Pearson correlation Coefficient



### **3.10 Methods of Data Analysis**

Data processing was carried out through various steps that included; data editing, coding, classification, tabulation and finally presentation of data in various forms to ensure that it is meaningful. Data analysis involved computation of descriptive statistics. Data was analyzed with the help of the Statistical Package for Social Sciences (SPSS) computer program. The percentages were used to express the degree of response to a given opinion. Cross tabulation were used to understand two different survey items and how they relate. Inferential statistics like Pearson correlation coefficient was used to show association between determinants influencing the performance of small and micro enterprises in Kakamega Central District, Kenya.

### **3.11 Summary**

This chapter covers the research methods to be used in carrying out the study. It includes research design, target population, sampling procedure which looks at the various sampling techniques, data collection instruments contains questionnaires, interview schedules, validity and reliability of research instruments included pilot testing, and data analysis techniques.

## **CHAPTER FOUR**

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

#### **4.1 Introduction**

This chapter presents the results obtained from the study analyzed as per the four objectives of the study. These objectives were: to examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District; to establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District; to determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District and to establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District.

#### **4.2 Socio-Demographic Characteristics of the Respondents**

##### **4.2.1 Age**

The study sought to find out the age brackets of the respondents in small and micro enterprises in Kakamega Central District by asking them to state their age ranges. This was to help determine the age distribution for the respondents. Their responses are shown in Table 2. Results in Table 2 showed that most respondents were in the age brackets of 20-39 years had a score of 80%, 40-49 years had 14% and those above 50 years had 6%. From this statistics it is clear that majority of the respondents were in the age bracket above 20-30 years. This meant that majority of the respondents were mature middle age people and as people advance in years they participate less in small and micro enterprises in Kakamega Central District.

**Table 2: Age Distribution of Respondents in Small and Micro Enterprises in Kakamega Central District**

<b>Age distribution in years</b>	<b>Frequency</b>	<b>%</b>
20-29 years	45	45.0
30-39 years	35	35.0
40-49 years	14	14.0
Above 50 years	6	6.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

*$\chi^2$  value is highly significant if p-value is  $\leq 0.01$   
 $\chi^2$  value is significant if p-value is less than 0.05*

According to Selamat *et al* (2005) and Sin (2010) the low level of motivation is due to the age factor. Majority of respondents were in the age range of between 46 to 55 years old and had experience in the business for less than five years. They argued that they were not that young anymore and business expansion needed a lot of physical and mental energy of which they no longer possessed. Furthermore, with little experience they had in the business and the fear of no one taking over the business made them realized that they should just maintain what they were doing now as long as the income could sustain their lives. Therefore both Selamat *et al* (2005) and Sin (2010) tend to suggest that age is a key factor determining the performance of small and micro enterprises in Kakamega Central District, Kenya.

#### 4.2.2 Gender

The study sought to find out the gender distribution among the respondents in small and micro enterprises in Kakamega Central District. The respondents were asked to indicate their gender and the results were recorded in Table 3.

**Table 3: Gender of Respondents in Small and Micro Enterprises in Kakamega Central District**

<b>Gender</b>	<b>Frequency</b>	<b>%</b>
Male	70	70.0
Female	30	30.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

According to the results in Table 3, majority of the respondents were males (70%) while the rest were females (30%). It was an indication that more males participated in small and micro enterprises in Kakamega Central District. This could be as a result of little or no interest in or commitment to business activities and the entrepreneurial career. Women also said to have limited motivation for developing their activities to more sustainable and profitable levels. It has been noted that women prefer to develop several microenterprises, rather than develop existing businesses into small and medium sized enterprises. Moreover, the cultural environment of small and micro enterprises makes it more difficult for women to start and run enterprises due to the expectations and demands of their traditional reproductive roles. Women's traditional reproductive roles have to be combined with business activities, leaving little energy and time for the latter (UDEEC, 2002).

### 4.2.3 Working Experience

The study sought to find out the experience of the respondents this was aimed at determining the number of working years and in turn know how much experience the respondents had been exposed to. The results are shown in Table 4. The results illustrated that 57% of the respondents had been working for less than 5 years, 35% had been working for 5-10 years, 5% had been working for 11-16 years and 3% for above 16 years. This indicated that most respondents had acquired some experience, knowledge and skills to understand the challenges faced by small and micro enterprises in Kakamega Central District. The results seemed to indicate that experience, knowledge, competencies and skills increase with increase in years of performing the job. Competencies can be thought of as the state or quality of being well qualified to perform a task. A person gains competency through education, training, experience, or natural abilities. Klemp (1980, p. 21) defined competence as “an underlying characteristic of a person which results in effective and/or superior performance on the job.” While a more detailed definition is “a cluster or related knowledge, skills, and attitudes that reflects a major portion of one's job (a role or responsibility), that correlates with performance on the job, that can be measured with well-accepted standards, and that can be improved with training and development (Parry, 1996, p50).”

Kim (in Meng & Liang, 1996) found that 30% of successful entrepreneurs have no work experiences, compared to just 3% of unsuccessful entrepreneurs (significant at  $p= 001$ ) .This means that experience is important for business success.

**Table 4: Working Experience of Respondents in Small and micro enterprises in Kakamega Central District, Kenya**

<b>Years</b>	<b>Frequency</b>	<b>%</b>
Less than 5 years	57	57.0
5-10 years	35	35.0
11-16 years	5	5.0
Above 16 years	3	3.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

#### **4.2.4 Educational Level**

The study sought to find out formal educational levels of respondents in small and micro enterprises in Kakamega Central District. This was to determine whether educational levels of respondents had an influence on the performance of small and micro enterprises in Kakamega Central District. To help understand this, respondents were asked to state their formal educational level. The results are recorded in Table 5. Results in Table 5 illustrated that 40% of respondents had certificates, 29% had diploma education level, 28% had degree education level and 3% had masters' degrees. This showed that the majority of the respondents in small and micro enterprises in Kakamega Central District had acquired to some extent educational level to understand the performance of small and micro enterprises in Kakamega Central District.

**Table 5: Educational level of Respondents in Small and micro enterprises in Kakamega Central District, Kenya**

<b>Educational level</b>	<b>Frequency</b>	<b>%</b>
Others (Certificates)	40	40.0
Diploma	29	29.0
Bachelor's degree	28	28.0
Masters	3	3.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

With reference to results in Table 6, the respondents in small and micro enterprises in Kakamega Central District were asked to indicate whether their educational level determined the performance of small and micro enterprises in Kakamega Central District. The results indicated that the respondents who had acquired KCSE certificate had the following scores: strongly agree (9%), agree (2%), undecided (6%), disagree (2%) and strongly disagree (3%). Those respondents who had diploma certificates responded as follows: strongly agree (5%), agree (16%), undecided (4%), disagree (3%) and strongly disagree (1%); bachelor's degree certificate holders had the following scores: strongly agree (5%), agree (16%), undecided (4%), disagree (3%) and strongly disagree (0%) and master's degree had strongly agree (0%), agree (2%), disagree (1%) and strongly disagree (0%). This was a further prove that education levels of the respondents was spread across the respondents with highest number of them having diploma certificates (40%) and the least had master's degree (3%). Majority of respondents (73%) agreed that education levels of respondents determined the performance of small and micro enterprises in Kakamega Central District while 13% disagreed. This correlates with Gem

(2004) survey findings that dramatic improvements in the quality of education are needed and an appropriate entrepreneurship education needs to be offered at schools in all levels, therefore education plays a pivotal role in the survival of the business and as such SMEs owners and employees should be exposed to various educational programmes to enable them to acquire knowledge in their respective endeavours.

Entrepreneurship training and education acts as a facilitator for entrepreneurial activities, with the main focus on stimulating entrepreneurial activity and performance. The importance of entrepreneurship education and training is well established. From an economic perspective, education is seen as a critical factor in promoting long term employment and economic growth (Sweeney, 1998).

**Table 6: Cross Tabulation Results between Educational Level and Small and micro enterprises in Kakamega Central District**

Variables	Responses	Educational level of respondents				Total %
		Others Certificate %	Diploma %	Bachelor's Degree %	Masters	
Small and micro enterprises in Kakamega Central District	Strongly disagree	3.0	1.0	0.0	0.0	4.0
	Disagree	2.0	3.0	3.0	1.0	9.0
	Undecided	6.0	4.0	4.0	0.0	14.0
	Agree	20	16.0	16.0	2.0	54.0
	Strongly agree	9.0	5.0	5.0	0.0	19.0
<b>Total (%)</b>		<b>40.0</b>	<b>29.0</b>	<b>28.0</b>	<b>3.0</b>	<b>100.0</b>



### 4.3 Financial Factors and Performance of Small and Micro Enterprises

This section focuses on the financial factors such as investment stimulation, lack of knowledge on financial matters and access to micro-credit facilities and how these influence the performance of small and micro enterprises in Kakamega Central District which was the first objective of the study as shown in Table 7.

**Table 7: Influence of Financial Factors on Performance of Small and Micro Enterprises**

Variables	SA %	A %	U %	D %	SD %
Performance of the business is largely influenced by its financial base	68.0	28.0	2.0	2.0	0.0
The employees and owner of the business have good understanding of financial matters on running the business	35.0	42.0	17.0	6.0	0.0
Micro credit facilities are accessible but not attainable due to high interest rates	22.0	48.0	7.0	18.0	5.0
Income taxes and collection of revenues from the government agents hamper the running of the business	45.0	35.0	8.0	8.0	4.0

**Key: SA = strongly agree, A = agree, U = undecided, D = disagree and SD = strongly disagree**

From the results in Tables 7 and 8, it is evident that performance of the business is largely influenced by its financial base with an overwhelming 96% of respondents agreeing that performance of SMEs was influenced by the business financial base, 2% were undecided while 2% disagreed. On the question asked whether the employees and owner of the business had good understanding of financial matters on running the business, 35% of respondents strongly agreed, 42% disagreed, 17% undecided, 6% disagreed and this yielded a correlation coefficient,  $r =$

0.011<sup>\*\*</sup>,  $p \leq 0.05$ ). Majority of the respondents agreed (70%) that micro credit facilities were accessible but not attainable due to high interest rates charged on the loans, 7% were undecided and 23% disagreed and this had a negative correlation on the performance of SMEs ( $r = 0.109$ ), though not significant ( $p \geq 0.05$ ). Furthermore, 80% of respondents agreed that income taxes and collection of revenues from the government agents hampered, 8% were undecided and 12% disagreed, and this had negative correlation on performance of SMEs ( $r = -0.112^{**}$ ,  $p \leq 0.05$ ). Correlation results proved that inadequate financial base significantly negatively influenced the performance of SMEs ( $r = -0.094^*$ ,  $p \leq 0.05$ ). Therefore, financial factors on overall negatively influence the performance of SMEs in Kakamega Central District.

The findings were in congruent with what Longenecker *et al.*, (2006) noted that lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises. Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko and Dondo, 1992; Kiiru, 1991). Financing mechanism is important for investment and stimulating business productivity which is the main objectives for any businesses and various studies have documented the difficulties faced by micro entrepreneurs to get financial assistance from local micro credit schemes which include the lack of knowledge in loan application and high legal documentation (Nurbani *et al.*, 2010).

**Table 8: Financial Factors and Performance of Small and Micro Enterprises**

<b>Financial Factors' Variables</b>	<b>Pearson Correlation Coefficient, r</b>
Adequate financial base	-0.094*(0.020)
Investments in the business are adequate	0.070** (0.000)
The employees and owner of the business have good understanding of financial matters on running the business	0.011** (0.008)
Micro credit facilities are accessible but not attainable due to high interest rates	-0.109 (0.284)
Income taxes and collection of revenues from the government agents hamper the running of the business	-0.112** (0.000)

**Constant/predictor variable: Financial Factors**

**Dependent Variable: Performance of Small and Micro Enterprises**

N= 100

**\*\* Correlation is significant at the 0.01 level (2-tailed).**

**\* Correlation is significant at the 0.05 level (2-tailed). Levels of significance, p-value for correlation coefficients are in parentheses.**

#### **4.4 Social-Cultural Factors and Performance of Small and Micro Enterprises**

This section looks at the social cultural factors like rules and shared values, beliefs and religion, norms and code of conduct and how these factors influence the performance of small and micro enterprises in Kakamega Central District in terms of growth of the business, profitability, number of employees and capital base which was the second objective of the study as indicated in Table 9.

**Table 9: Social-Cultural Factors and Performance of Small and Micro Enterprises**

Variables	SA %	A %	U %	D %	SD %
Business has strong rules and shared values that make it unique	25.0	57.0	9.0	7.0	2.0
Business has a particular way of conducting its operations	40.0	56.0	2.0	2.0	0.0
Business beliefs and religion unite the business staff and guide the morals of its employees	32.0	38.0	15.0	7.0	7.0
Business has code of conduct that guide the operation of the business	32.0	60.0	5.0	2.0	1.0

**Key: SA = strongly agree, A = agree, U = undecided, D = disagree and SD = strongly disagree**

From the results in Table 9, 82% of respondents agreed that businesses had strong rules and shared values that made it unique, 9% of respondents were undecided, 7% disagreed and 2% strongly disagreed. Further the results indicated that businesses had particular ways of conducting their operations (96% respondents agreed) and concerning business beliefs and religion uniting the business staff and guiding the morals of their employees, 70% of respondents agreed while 14% of respondents disagreed. Moreover, the study findings showed that businesses had codes of conduct that guided the operations of the businesses, where 92% of respondents agreed and 3% disagreed. Correlation results in Table 10 pointed out that social-cultural factors though positively influenced the performance of SMEs, their influences were low, an indication of almost insignificant influence on performance of SMEs in Kakamega Central District: business had strong rules and shared values that made it unique ( $r = 0.089^*$ ,  $p < 0.05$ ); business has a particular way of conducting its operations ( $r = 0.149$ ,  $p \geq 0.05$ ); business beliefs and religion unite the business staff and guide the morals of its employees ( $r = 0.160^{**}$ ,

$p \leq 0.05$ ) and business has code of conduct that guide the operation of the business ( $r = 0.061$ ,  $p \geq 0.05$ ). The findings were in congruent with what Barney (1986); Hall (1993); Peteraf (1993); Wernerfelt (1984) noted that the cultural uniqueness of an organization constitutes an inimitable organizational capability to create its competitive advantage over its rivals. Therefore, in the current turbulent and constantly changing global business environment, the preeminent leaders know how to shape the organizational culture of their organizations to achieve short as well as long-term objectives (Kuratko and Welsch, 2004). Moreover, in the effective cultures, leaders understand that the competitive advantage does not last forever, thus they encourage constant changes and establish never-ending innovation environment (Kuratko & Welsch, 2004).

**Table 10: Social-Cultural Factors and Performance of Small and Micro Enterprises**

<b>Financial Factors' Variables</b>	<b>Pearson Correlation Coefficient, r</b>
Business has strong rules and shared values that make it unique	0.089* (0.020)
Business has a particular way of conducting its operations	0.149 (0.139)
Business beliefs and religion unite the business staff and guide the morals of its employees	0.160** (0.008)
Business has code of conduct that guide the operation of the business	0.061 (0.255)

**Constant/predictor variable: Social-Cultural Factors**

**Dependent Variable: Performance of Small and Micro Enterprises**

N= 100

**\*\* Correlation is significant at the 0.01 level (2-tailed).**

**\* Correlation is significant at the 0.05 level (2-tailed). Levels of significance, p-value for correlation coefficients are in parentheses.**

#### 4.5 Personality Factors and Performance of Small and Micro Enterprises

This section looks at the personality factors like innovation and creativity, experience, educational level, age, gender and analyses critically how these factors influence the performance of small and micro enterprises in Kakamega Central District in terms of growth of the business, profitability, number of employees and capital base which was the second objective of the study.

**Table 11: Personality Factors and Performance of Small and Micro Enterprises**

Variables	SA %	A %	U %	D %	SD %
Innovation and technological advancements present new ways of doing things and new challenges	21.0	56.0	13.0	9.0	1.0
Education plays an important role in transferring cultural values from generation to another	19.0	54.0	14.0	9.0	4.0
Young people are usually very aggressive, impatient and unwilling to take risks in business than older people	21.0	32.0	17.0	19.0	11.0
Many people age 30 or less years do not have sufficient organizational experience to run business daily	20.0	33.0	21.0	18.0	8.0
Women are more involved in running small business than men	39.0	19.0	12.0	18.0	2.0
Older people are more experienced than young people in running of the business	19.0	43.0	21.0	11.0	6.0
People who are involved in daily running of the business are more experienced in business matters	60.0	31.0	6.0	2.0	1.0

**Key: SA = strongly agree, A = agree, U = undecided, D = disagree and SD = strongly disagree**

With reference to the results in Table 10, 77% of respondents agreed that innovation and technological advancements present new ways of doing things and new challenges, 13% of respondents were undecided and 10% disagreed. The results further revealed that 73% of respondents were of the opinion that education played an important role in transferring cultural values from generation to another, 14% were undecided while 13% of respondents disagreed. On the question asked on whether young people were usually very aggressive, impatient and unwilling to take risks in business than older people, 53% of respondents agreed, 17% were undecided while 30% of respondents disagreed. The study findings showed that 58% of women were more involved in running small business than men, 12% of respondents were undecided and 20% disagreed. When the respondents were asked whether older people were more experienced than young people in running of the business, 62% of respondents agreed, 21% were undecided while 6% of respondents disagreed. The results also illustrated that people who were involved in daily running of the business were more experienced in business matters (91% of respondents agreed while 1% disagreed).

The results on correlation analysis in Table 11 revealed that personality values like young people were usually very aggressive, impatient and unwilling to take risks in business than older people ( $r = 0.62^{**}$ ,  $p \leq 0.05$ ) and innovation and technological advancements presented new ways of doing things and new challenges ( $r = 0.279^{**}$ ,  $p \leq 0.05$ ) had positive significant correlations on the performance of SMEs, though their values were low, signifying low influence of personality factors on the performance of SMEs. Variables like older people were more experienced than young people in running of the business ( $r = 0.060$ ,  $p \geq 0.05$ ); many people age 30 or less years did not have sufficient organizational experience to run business daily ( $r = 0.061$ ,  $p \geq 0.05$ );

women were more involved in running small business than men ( $r = 0.130$ ,  $p \geq 0.05$ ) and education plays an important role in transferring cultural values from generation to another ( $r = 0.193$ ,  $p \geq 0.05$ ) had positive correlations but were not significant. The findings were supported by what (Ghani, 1995) found out that entrepreneurial characteristics have a significant indicator in determining the success of micro entrepreneurs. Cognitive ability can be influenced by the level of education. It is argued that entrepreneurs with an elementary school education tend to be less receptive to new technologies compared those who have a college education This situation is difficult to apply new technology and improve productivity. Successful entrepreneurs should have a unique set of personal characteristics, including: inspiration, creativity, direct action, courage and fortitude as these characteristics are fundamental to the process of innovation (Martin and Osberg, 2007). They should also have a certain set of capacities, mindset, (Schiebold, 2011), cognitive ability, motivation, competitive attitude (De Mel, Mckenzie and Woodruff, 2010).

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Given that the study findings indicated that respondents had relatively low educational levels, this negatively influenced the performance of SMEs. 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, 1998). 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, 1999).



**Table 12: Personality Factors and Performance of Small and Micro Enterprises**

Personality Factors' Variables	Pearson Correlation Coefficient, r
Innovation and technological advancements present new ways of doing things and new challenges	0.279** (0.005) s
Education plays an important role in transferring cultural values from generation to another	0.193 (0.008) ns
Young people are usually very aggressive, impatient and unwilling to take risks in business than older people	0.62** (0.000) s
Many people age 30 or less years do not have sufficient organizational experience to run business daily	0.061 (0.254) ns
Women are more involved in running small business than men	0.130 (0.197) ns
Older people are more experienced than young people in running of the business	0.060 (0.553) ns
People who are involved in daily running of the business are more experienced in business matters	0.160** (0.001) s

**Constant/predictor variable: Personality Factors**

**Dependent Variable: Performance of Small and Micro Enterprises**

N= 100

s-significant

ns-not significant

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed). Levels of significance, p-value for correlation coefficients are in parentheses.

#### 4.6 Environmental Factors and Performance of Small and Micro Enterprises

This section looks at the environmental factors like infrastructure, business legal, insecurity level, business legal status and gives analysis on how these factors influence the performance of small and micro enterprises in Kakamega Central District in terms of growth of the business, profitability, number of employees and capital base which was the fourth objective of the study.

**Table 13: Environmental Factors and Performance of Small and Micro Enterprises**

Variables	SA %	A %	U %	D %	SD %
Income taxes and collection of revenues from the government agents hamper the growth of the business	46.0	35.0	8.0	7.0	4.0
Insecurity affects the growth of the business	53.0	37.0	6.0	4.0	0.0
Poor road network affect business operations	30.0	47.0	4.0	10.0	9.0
Advancement in technology has helped business operations	43.0	43.0	6.0	6.0	2.0
Business legal registration are mandatory for running business	34.0	50.0	7.0	7.0	2.0
Municipal councils charges highly on daily business operations	22.0	33.0	9.0	31.0	5.0
Business formality and registration are very involving	32.0	39.0	13.0	14.0	2.0

**Key: SA = strongly agree, A = agree, U = undecided, D = disagree and SD = strongly disagree**

Results in Table 11 showed that 81% of respondents agreed that income taxes and collection of revenues from the government agents hampered the growth of the business, 8% of respondents were undecided and 11% disagreed. The results on the insecurity affecting the growth of the business illustrated that 90% of respondents were of the opinion that insecurity affected the growth of the businesses in Kakamega Central District and 10% were of respondents disagreed. Similarly, 77% of respondents said that poor road network affected business growth, 4% of respondents were undecided while 19% of respondents disagreed. The results further indicated that advancement in technology has helped business operations (86% of respondents were in agreement) and 84% of respondents were of the views that business legal registration was mandatory for running business though the results pointed out that 71% of respondents were of the opinion that business formality and registration were very involving and 16% of respondents

disagreed. The results on municipal councils charging highly on daily business operations and this slowing down business growth, showed that 55% of respondents were in agreement, 9% were undecided while 36% of respondents disagreed.

Correlation analysis results in Table 12 showed that environmental factors namely poor road network affect business operations ( $r = -0.062^*$ ,  $p \leq 0.05$ ) and insecurity affects the growth of the business ( $r = -0.006^{**}$ ,  $p \leq 0.05$ ) had negative significant correlations on the performance of SMEs, though their values were low, signifying low influence of environmental factors on the performance of SMEs. Other factors like income taxes and collection of revenues from the government agents hampered the growth of the business ( $r = 0.065$ ,  $p \geq 0.05$ ); advancement in technology has helped business operations ( $r = 0.135$ ,  $p \geq 0.05$ ); business legal registration were mandatory for running business ( $r = 0.099$ ,  $p \geq 0.05$ ); municipal councils charges highly on daily business operations ( $r = 0.154$ ,  $p \geq 0.05$ ) and business formality and registration were very involving ( $r = 0.004$ ,  $p \geq 0.05$ ) had positive insignificant correlations.

The findings were in line with what the following literature review: according to Schiebold (2011), unregistered business has an implication on the business success in a number of ways. Due to its informal status or non-registered, they are unable to conduct business with official institutions or large formal businesses. Furthermore, they are excluded from exporting their products and therefore this could give them problem in raising money through official channels. They have no access to judicial system, limited access to financing mechanism. Institutional environment refers to the official and unofficial rules and constraints that surround an entrepreneur and which shape the business operated (Schiebold, 2011). This institution consists

of both written and formal constraints where the former may relate to legal matter while the informal constraints are being associated with norms, conventions and self-imposed codes of conduct (Shirley, 2008). Location, according to Shaw (2002), which includes reliable power, communication, water and transport service, will facilitate technological innovation and better access to inputs, markets and information. Furthermore, sound infrastructure will provide rural entrepreneurs to have access to urban markets, thus providing opportunities for businesses to grow. Poor infrastructure and insecurity do affect growth of business enterprises.

**Table 14: Environmental Factors and Performance of Small and Micro Enterprises**

<b>Environmental Factors' Variables</b>	<b>Pearson Correlation Coefficient, r</b>
Income taxes and collection of revenues from the government agents hamper the growth of the business	0.065 (0.523) ns
Insecurity affects the growth of the business	-0.062 <sup>*</sup> (0.000) s
Poor road network affect business operations	-0.006 <sup>**</sup> (0.001) s
Advancement in technology has helped business operations	0.135 (0.182) ns
Business legal registration are mandatory for running business	0.099 (0.325) ns
Municipal councils charges highly on daily business operations	0.154 (0.127) ns
Business formality and registration are very involving	0.004 (0.972) ns

**Constant/predictor variable: Environmental Factors**

**Dependent Variable: Performance of Small and Micro Enterprises**

N= 100

s-significant

ns-not significant

**\*\* Correlation is significant at the 0.01 level (2-tailed).**

**\* Correlation is significant at the 0.05 level (2-tailed). Levels of significance, p-value for correlation coefficients are in parentheses.**

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents summary of study findings, conclusions drawn, recommendations based on the conclusions and suggestions for further research.

#### 5.2 Summary of the Findings

The study was based on the following objectives: to examine how financial factors influence the performance of small and micro enterprises in Kakamega Central District; to establish how socio-cultural factors influence the performance of small and micro enterprises in Kakamega Central District; to determine how personality factors of the entrepreneur influence the performance of small and micro enterprises in Kakamega Central District and to establish the influence of environmental factors on the performance of small and micro enterprises in Kakamega Central District.

From this statistics it was clear that majority of the respondents were in the age bracket above 20-30 years. This meant that majority of the respondents were mature middle age people and as people advance in years they participate less in small and micro enterprises in Kakamega Central District. It was an indication that more males participated in small and micro enterprises in Kakamega Central District. This could be as a result of little or no interest in or commitment to business activities and the entrepreneurial career.

The results illustrated that 57% of the respondents had been working for less than 5 years, 35% had been working for 5-10 years, 5% had been working for 11-16 years and 3% for above 16 years. This indicated that most respondents had acquired some experience, knowledge and skills to understand the challenges faced by small and micro enterprises in Kakamega Central District. The results on educational level showed that 40% of respondents had certificates, 29% had diploma education level, 28% had degree education level and 3% had masters' degrees. This showed that the majority of the respondents in small and micro enterprises in Kakamega Central District had acquired to some extent educational level to understand the performance of small and micro enterprises in Kakamega Central District.

Results on the influence of financial factors on performance of SMEs signposted that the performance of a business was largely influenced by its financial base and correlation results proved that inadequate financial base negatively and significantly influenced the performance of SMEs. Therefore, financial factors on overall negatively influence the performance of SMEs in Kakamega Central District.

Correlation results on the social-cultural factors though positively influenced the performance of SMEs, their influences were low, an indication of almost insignificant influence on performance of SMEs in Kakamega Central District.

The study findings showed that 58% of women were more involved in running small business than men, 12% of respondents were undecided and 20% disagreed. When the respondents were asked whether older people were more experienced than young people in running of the

business, 62% of respondents agreed, 21% were undecided while 6% of respondents disagreed. The results also illustrated that people who were involved in daily running of the business were more experienced in business matters (91% of respondents agreed while 1% disagreed). Correlation results revealed that though personality factors had a positive correlation on the performance of SMEs, they were insignificant, signifying low influence of personality factors on the performance of SMEs. Education was one of the factors that influenced positively on the growth of firms. The study findings indicated that respondents had relatively low educational levels, thus, negatively influencing the performance of SMEs.

Results on the influence of environmental factors on the performance of SMEs namely poor road network affect business operations and insecurity affects the growth of the business had negative significant correlations on the performance of SMEs, though their values were low, signifying low influence of environmental factors on the performance of SMEs. Other factors like income taxes and collection of revenues from the government agents hampered the growth of the business; advancement in technology has helped business operations; business legal registration were mandatory for running business; municipal councils charged highly on daily business operations and business formality and registration were very involving all had positive insignificant correlations.

### 5.3 Conclusions

The study had the following conclusions:

- i) The study findings indicated that the performance of a business is largely influenced by its financial base and correlation results proved that inadequate financial base negatively and significantly influenced the performance of SMEs in Kakamega Central District.
- ii) Social-cultural factors though positively influenced the performance of SMEs, their influences were low, an indication of almost insignificant influence on performance of SMEs in Kakamega Central District.
- iii) Personality factors had positive insignificant correlations on the performance of SMEs, an implication of low influence of personality factors on the performance of SMEs. Education was one of the factors that influenced positively on the growth of firms. The study findings indicated that respondents had relatively low educational levels, thus, negatively influencing the performance of SMEs.
- iv) Results on the influence of environmental factors on the performance of SMEs namely poor road network, insecurity, income taxes and collection of revenues from the government agents and municipal councils charges affected business operations thus, slowing down the growth of the business.



## 5.4 Recommendations

The following recommendations were made based on the findings and the conclusions of the study:

- i) The government should tackle accelerated development and upgrade of rural/urban road and rail network, insecurity, water and air transport system and other infrastructural facilities head on and review tariff in favour of local manufacturers especially the SMEs for efficient movement of products and human capital.
- ii) There should be a renewed emphasis on science and technical education and the introduction of entrepreneurial studies in all the universities. Entrepreneurial studies should be compulsory and taught to increase entrepreneurial knowledge and skills. SMEs should inculcate the habit of training and developing their management and staff in order to build capacity for meeting the challenges of the time and embrace and take advantage of developments in information and telecommunications technology and other technological areas.
- iii) There should be clear loaning policies to avoid misunderstanding on expectations on repayment period and the interest rate on the borrowed loan should be subsidized by the lending institutions. The government should reduce the tax rate for SMEs to zero percent (0%) within their first three years of life and then to 20% from the fourth year and beyond. SMEs located in rural areas should enjoy 10% tax rate from their fourth year of operation.
- iv) The government should through its business development services provide support in the areas of capacity building and skills upgrade, identification of sources of funds with

attractive interest rates, electronic and printed information on raw materials, markets equipment sources, regulatory, legal and tax matters, developing financial records.

### **5.5 Suggestions for Further Research**

The following suggestions were made for further research:

- (i) A study should be conducted in Kakamega County which is wider in scope to ascertain if similar results can be achieved.
- (ii) A similar study should be carried out on entrepreneurial characteristics on the performance of SMEs in Kakamega County.
- (iii) A study should be conducted to establish the influence of training and development on the performance of SMEs in Kakamega County.
- (iv) A study should be conducted to establish the influence of government role on on the performance of SMEs in Kakamega County.

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## APPENDICES

### APPENDIX 1: LETTER OF TRANSMITTAL FOR DATA COLLECTION

**April, 2012.**

**Dear respondent:**

I am a postgraduate student undertaking a Master of Arts in Project Planning and Management in the School of Continuing and Distance Education at the University of Nairobi. I am carrying out a study on **the Determinants of Performance of Small and Micro Enterprises in Kakamega Central District, Kenya**. I am using the attached questionnaire to collect information for the study. It is my kind request that you fill the questionnaire, providing the relevant information to facilitate the study. Please use the space provided to fill in the information required as objectively and honestly as possible. The information provided will be treated with strict confidentiality for the purpose of this study only.

Thank you.

Yours faithfully,

**Rabecca A. Nakhone.**

## APPENDIX 2A: QUESTIONNAIRE FOR SMEs

### SECTION A: BACKGROUND INFORMATION

1. Please indicate the **name, the type** and the **location** of your business

.....

2. Please indicate your age bracket?

20-29 years            [ ]

30-39 years            [ ]

40-49 years            [ ]

Above 49 years        [ ]

3. Please state the number of years you have been involved in the running of the business

Less than 5 years        [ ]

5-10 years              [ ]

11-16 years             [ ]

Above 16 years         [ ]

4. Please indicate your education level

Masters                [ ]

Bachelor's degree      [ ]

Diploma                [ ]

Certificate             [ ]

Others (specify).....

5. Please indicate education level of your employees if any

Masters [ ]

Bachelor's degree [ ]

Diploma [ ]

Certificate [ ]

Others (specify).....

6. How many employees are there in your business?.....

**SECTION B: DETERMINANTS OF SMEs AND PERFORMANCE**

In this section please tick (√) the most appropriate response for each of the questions in the table below with the scores in the bracket. **Strongly agreed (SA) = 5, Agree (A) = 4, undecided (U) = 3, Disagree (D) = 2 and strongly disagree (SD) = 1**

Q.		SA	A	U	D	SD
1.	Performance of the business is largely influenced by its financial base					
2.	Investments in the business are adequate					
3.	The employees and owner of the business have good understanding of financial matters on running the business					
4.	Micro credit facilities are accessible					
5.	Business has strong rules and shared values that make it unique					
6.	Business has a particular way of conducting its business operations					
7.	Business beliefs and religion unite the business staff					



	and guide the morals of its employees					
8.	Business has a code of conduct that guide the operation of the business					
9.	Innovation and technological advancements present new ways of doing things and new challenges that can strain culture in a business group					
10.	Education plays an important role in transferring cultural values from one generation to another.					
11.	Young people are usually very aggressive, impatient and unwilling to take risks in business than older people					
11.	Many people age 30 or less years do not have sufficient organizational experience to run business daily					
12.	Lack of emphasis on skills, commitment, knowledge and ability and an absence of total involvement negatively affect daily running of the business					
13.	Women are more involved in running small business than men					
14.	Older people are more experienced than young people in running of the business					
15.	People who are involved in daily running of the business are more experienced in business matters					
16.	Income taxes and collection of revenues from the government agents hamper the running of the					

	business					
17.	Insecurity affects the running of the business					
18.	Poor road network affect business operations					
19.	Advance in technology has helped business operations					
20.	Business legal registration are mandatory for running business					
21.	Municipal council charges highly for daily business operations					
22.	Business formality and registration are very involving					
23.	Capital base is good					
24.	Business profitability is good					
25.	Growth of the business has been steady					
26.	Business has enough employees					
27.	Number of business is high compromising product quality and prices					

28. What are some of the challenges you face when running business?

.....

.....

.....

.....

.....

.....  
.....

29. What do you think are some of the ways of dealing with the challenges listed in Q.28 when running the businesses in Kakamega Central District?

.....  
.....  
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.....  
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.....  
.....

### **APPENDIX 3: INTERVIEW SCHEDULE FOR KEY INFORMANTS**

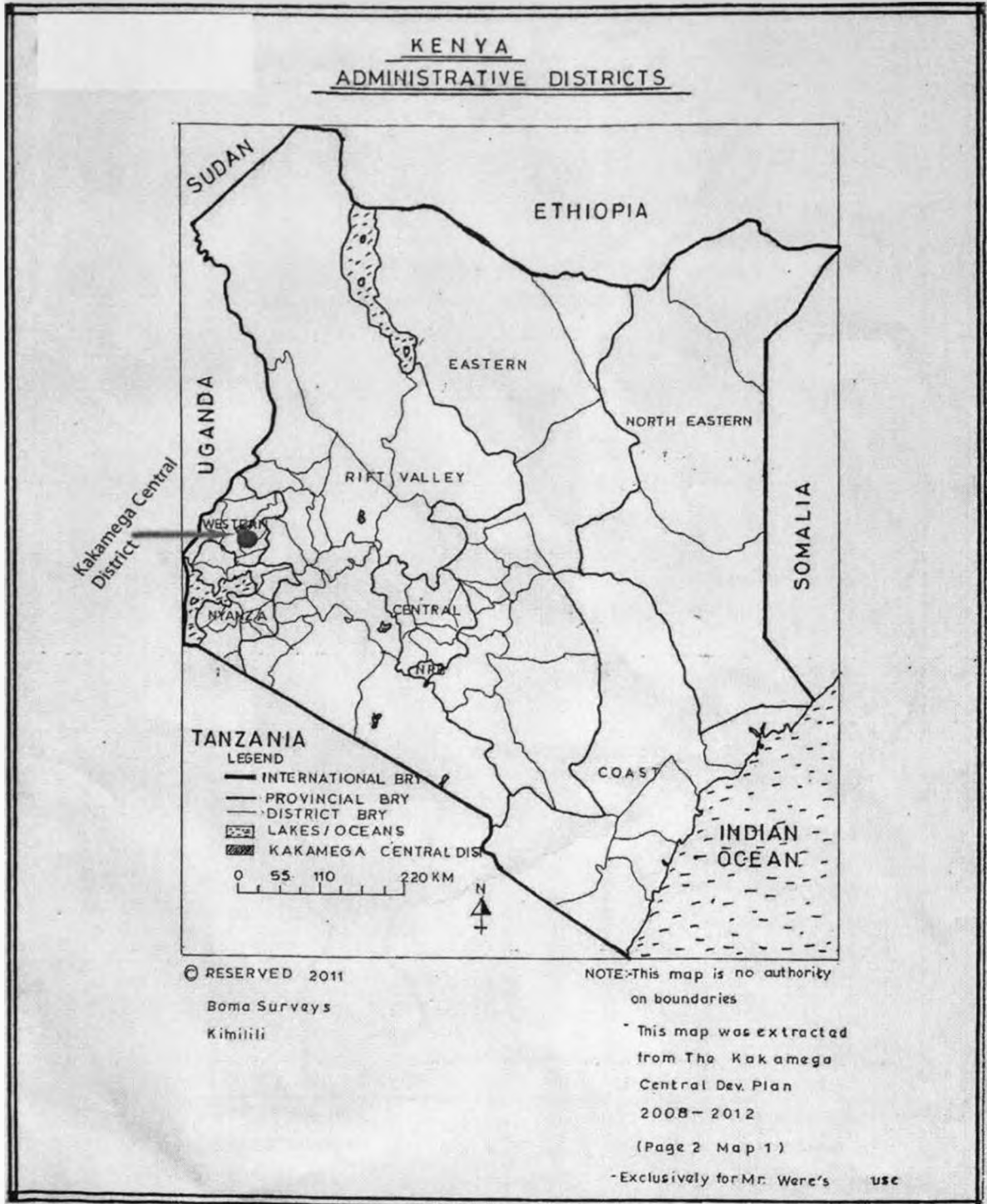
**Introduction:** Good morning or afternoon sir/madam. Thank you for having granted me permission to interview you. I would like to assure you that I will stick to all ethical codes of conduct with regard to conducting research as stated in my introduction letter.

**The Interview Questions:**

1. What are the factors that affect the performance of businesses in Kakamega Central District?
2. What are the challenges business owners' faces when running businesses in Kakamega Central District?
3. What are the main sources of income required to run businesses?

**Conclusion:** Thank you for your time, I hope your responses to the questions will contribute a lot to my research work.

**APPENDIX 4: MAP OF KENYA SHOWING ADMINISTRATIVE DISTRICTS**



**APPENDIX 5: MAP OF KAKAMEGA CENTRAL DISTRICT**

