CHAPTER ONE

INTRODUCTION

1.1Background of the study

According to Grasmuck (2000), a small enterprise is a type of small business, often registered, having five or fewer employees and requiring seed capital of not more than $35,000. The term is often used to refer to a business with a single owner-operator, and having up to 20 employees. The European Union defines micro-enterprises as those that meet 2 of the following 3 criteria of fewer than 10 employees, balance sheet total below EUR 2 million and turnover below EUR 2 million. The term small enterprise connotes different entities and sectors depending on the country. In developed countries, microenterprises comprise the smallest end (by size) of the small business sector, whereas in developing countries, microenterprises comprise the vast majority of the small business sector result of the relative lack of formal sector jobs available for the poor. These micro entrepreneurs operate microenterprises not by choice, but out of necessity (Munoz, 2010).

Micro and Small Enterprises (MSE's) are important for raising the economic efficiency of a country. They are breeding grounds for entrepreneurship, innovations and inventions hence a reservoir for employment. Sustainable jobs, creates income which in turn reduces the level of poverty, (Bokea, 2005). The challenges faced by SMEs in Kenya are; inadequate knowledge and skills, most managers of SMEs in Kenya lack adequate education, they are not well informed in terms of managerial knowledge and skills. Lack of managerial training, More often than not small and medium enterprises establish managerial strategies through trial and error mechanism. Their managerial techniques only focus on operational plans rather than strategic plans of their organization. In addition, these managerial techniques are not standard with those of other global managers. Consequently, managers of small and medium enterprises are not able to adequately handle challenges facing enterprises. Rapid technology changes, Technology change poses a big challenge to the growth of small and medium enterprises. Most of

these enterprises are not able to adopt new technology due to its high initial and installation costs. In addition, this new technology, more often than not, does not suit the needs of these enterprises. For example, a small enterprise located in a rural area cannot reap the full benefits of internet connection due to lack of rural electrification. Adopting to new technology has also been hampered by the slow rate of economic growth in Kenya. Lack of adequate finance, many small and medium enterprises do not have access to finance and credit especially from financial institutions such as commercial banks. This is because of the lending conditions given to them such as collateral for the loan. These enterprises may not be able to provide collateral such as immovable assets due to their small asset base. Consequently, most of these enterprises resort to borrowing from friends and relatives. However, this type of finance is inadequate to cater for all the needs of the medium and small enterprises. As a result, lack of credit forces the management to use cheap and local technology which most times is inappropriate. And new laws and regulations, Everyday, the government and other stakeholders continue to introduce new regulations for industries and enterprises in Kenya. New laws are being enacted in a bid to regulate the operations of enterprises. These laws are also meant to spearhead sustainable economic growth in the country. However, such regulations sometimes pose tremendous threat to the growth of small and medium enterprises in Kenya. This is because some of these laws are too tough. (Viona, 2012).

Several factors are identified as limiting market access to SMEs in Kenya and include; lack of market information, poor access to physical markets, market premises and spaces, poor linkages with export markets, weak advertising and promotional capacities, poor quality products and services that restrict entry in some markets, limited market research and analysis, narrow product diversity, weak capacity for e-commerce and imperfect markets. Stiff competition due to globalization, high transaction costs due to inefficiency, distance to markets, poor systems and concentration of activities in a few sectors making them vulnerable to risks and competition (GOK, 2005, KIPPRA, 2006). Many SMEs lack the necessary information on market opportunities limiting them to narrow local markets; on customers and market demand due to lack of market research leading to saturated markets with goods whose demand is low. Many SMEs produce goods and services without considering the market and customer needs and consequently

they are not able to penetrate the market. Lack of physical market structures to sell is another challenge for Kenyan SMEs resulting in illegal hawking of their goods at the road side and in town streets leading to running battles with the authorities. Transaction costs remain a major problem affecting market access in SMEs. According to the Transactional cost theory, reduced transactional costs are important in marketing and in enhancing market access. The high costs arise due to market inefficiencies, poor infrastructure and information asymmetry. Stiff competition due to globalization and liberalization bar SMEs from accessing most of the local and international markets. SMEs are not able to compete effectively due to poor quality products, skewed customer preference, unconducive pricing and limited product diversity. Most SMEs in Kenya exhibit weak linkages with customers contrary to the relationship marketing theory that argues that good customer's relationships are essential for successful marketing. (KIPPRA, 2006).

In view of the above challenges, this research is sought to investigate the influence of SMEs if when looked into and implemented accordingly on improvement of service delivery in the CBD Bungoma county.

1.2 Statement of Problem

SMES are the major agents of economic growth and employment, and they lead to increased participation of indigenous people in the economy in the economy, use mainly local resources, promote the creation and use of local technologies and provide skills training at low cost to society (ILO 1989). In kenya over 60% of small businesses are estimated to fail each year (Kenya National Bureau of statistics, 2007). Mead (1998) observes that the Heath of the economy as a whole has strong relationship with the health and nature of SMEs. However, despite government efforts in Kenya to promote SMEs service delivery, not much progress seems to have been achieved, judging by the performance of the informal sector. When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited. Not many small enterprises grow into medium-scale and large scale enterprises to significantly contribute to employment creation and economic growth. This study sought to investigate the factors influencing the performance of SMEs that may have on service delivery improvement in the Central Business District (CBD) Bungoma County.

1.3 Purpose of the study

The purpose of the study was to investigate the factors influencing the performance of Small and Medium Enterprises in the Central Business District Bungoma County.

1.4 Objectives of the study

The objectives of the study were:

1. To determine how entrepreneur characteristics influence the performance of Small and Medium Enterprises in the Central Business District Bungoma County.
2. To establish how business characteristics influence the performance of Small and Medium Enterprises in the Central Business District Bungoma County.
3. To determine how the adoption of Information Communication Technology influence the performance of Small and Medium Enterprises in the Central Business District Bungoma County.
4. To assess how the availability of finance influence the performance of Small Medium Enterprises in the Central Business District Bungoma County.

1.5 Research Questions

1. In what ways do entrepreneur characteristics influence the performance of Small and Medium Enterprises in the CBD Bungoma County?
2. How do business characteristics influence the performance of Small and Medium Enterprises in the CBD Bungoma County?
3. How does the adoption of Information Communication Technology influence the performance of Small and Medium Enterprises in the CBD Bungoma County?
4. To what extent does the availability of finance influence the performance of Small and Medium Enterprises in the CBD Bungoma County?

1.6 Assumptions of the study

Assumptions are conditions or events that the researcher takes for granted although they might affect the outcome of the research. These could be beliefs or ideas that one holds to be true without any evidence and therefore, the study assumed that:
The selected sample represented the population of interest who cooperated and adhered to the rules stipulated on the questionnaire forms and interview schedule that gave optimum time to obtain responses from the research tools.

1.7 Significance of the study

The SME sector plays a critical role in the social-economic development of Kenya and as such, the government expects it to deliver on its several development strategies in terms of employment creation, poverty eradication and industrialization. This requires that the sector remains competitive to deliver. It is imperative that the various constraints to the sector's competitiveness especially market access are effectively addressed if the sector is to remain relevant to economic development as envisioned. ICT is taking centre stage in the growth and competitiveness of all sectors globally and there is need to apply ICT to improve SMEs competitiveness and finance related challenges. Financial and banking that advance credit facilities to SMEs will be in a better position to review their lending policies and adjust them to the needs of the SMEs where possible. By exploring the opportunities offered by ICT to improve market access in SMEs, this study provides the necessary knowledge required for improving the sector's competitiveness to enable it deliver to the country's expectations. The knowledge is important for policy makers, SMEs as well as researchers/ academicians. Research has shown that small and medium enterprises in Kenya either collapsed prematurely or grew at a very low rate due to finance related challenges. A study that looks into the influence of Small and Medium Enterprises on the improvement of service delivery was key to improving business at individual/proprietor level. On completion of this document, the study may be used as a point of reference by future researchers who have an interest in the line of SMEs. Any person reading this document gains the present status on performance of Small and Medium Enterprises in Bungoma County. Because both the central government and the County government depend on Small and Medium

Enterprises to spur economic growth and accelerate economic development, an understanding the factors influencing performance of Small and Medium Enterprises in the Central Business District Bungoma County was important.

1.8 Limitations of the study

Due to the fear of not keeping the information confidential the researcher had difficulties in accessing the respondents due to the rules and regulations of their SMEs. The perception of the respondents also made the research reliability and validity to be jeopardized because of their attitude towards researchers from outside. The data collection process faced a certain level of resistance, suspicion and hostility especially from respondents who were skeptical about the motive behind the study. Respondents' skepticism divulging vital information due to suspicion was expected to be an obstacle but the researcher reassured the respondents that the research was purely academic and was confidential which mitigated the problem.

1.9 Delimitation of the study

The researcher administered questionnaires that were collected after sometime. Respondents were not required to indicate their names on the questionnaires. The researcher presented a letter from her learning institution to prove that she was actually a student collecting data for research. The researcher also endeavored to lay the foundation from the onset of the project that the researcher was just a student doing research for the purpose of completion of a course and little research had been done on factors influencing the performance of SMEs in the CBD Bungoma County.

1.10 Definition of terms

Small and Medium enterprises: Enterprises, business organizations employing between one and fifty workers. They include all the self-employment endeavors and dynamic enterprises operating a vast array of activities in both rural and urban areas

Entrepreneur characteristics: Involving the observable features of the business owner such as gender, age, education level, initiative among others

Business characteristics: Involving the observable features of business such as size, number of staff, nature of business, and location among others

Information Communication Technology: It is a term that stresses the role of unified communications and the integration of telecommunications, computers as well as necessary software, middleware, storage and audiovisual systems, which enables users to access, store, transmit and manipulate information

Finance: Involving the sources of money to start, run and expand the business and the ease of accessing money from the sources.

1.11 Organization of the study

This study investigated the factors influencing performance of Small and Medium Enterprises in the Central Business District Bungoma County. Chapter one presents introduction of the study, the statement of the problem, the purpose of the study, the research objectives, and research questions, significance of the study, limitation and Delimitation of the study and definition of terms.

Chapter two described literature review which helped the researcher to understand the existing body of knowledge well and adopted theory that suit the study. It includes overview of small and medium enterprises in Kenya, Improvement of service delivery, The theory of Resource based of competitive advantage, business characteristics, entrepreneur characteristics, Integration of ICT, availability of finance by SMEs, conceptual framework summary and knowledge gap.

Chapter three discussed the research methodology. It includes research design, the target population, sample size and sampling procedures, data collection instruments, data collection procedure, validity of instruments, data analysis techniques, ethical considerations and operational definition of variables.

Chapter four discussed the research findings. It includes introduction, presentation and interpretation of results as per specific objectives.

Chapter five presented summary of the research findings, conclusion, recommendations and suggestion for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks into previous works that have been done relating to various characteristics influencing performance of Small and Medium Enterprises, they include; Entrepreneur characteristics such as demographic characteristics, personal traits, formal education, entrepreneurial orientation and readiness, and previous experience. Business characteristics such as Size of the enterprise form of business, business activity, length of time. The use of Information Communication Technology (ICT) such as computers, networking and IT training in market identification and access, promotion of goods and services and Accounting Information Systems (AIS). There is also the issue of finance which includes the sources of finance, access to finance and capital requirements, summary of literature review, knowledge gap, theoretical frame work and conceptual framework

2.2 Overview of Small and Medium Enterprise

According to Wikipedia the free encyclopedia, SMEs are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sectors.

A business enterprise that employs people between 1-9, 10-49, and 50-99 is considered as micro, small, and medium; respectively. The sector is characterized by small scale level of activity, self employment, with high proportion of family workers and apprentices; little capital and equipment; labour intensive technologies; low skills and low level of access to organized markets. It has evolved rapidly in terms of activities. Participation in informal sector has not only been associated with junior public and private sector employees, but also with corporate executives. Hence, the sector has developed as a means of extension of formal businesses (Rosenberg, 2004).

In Europe, there are three broad parameters which define SMEs; Micro enterprises have up to 10 employees, small enterprises have up to 50 employees and medium sized enterprises have up to 250 employees (European Commission, 2003). The European definition of SME follows: “The category of micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or annual balance sheet total not exceeding 43 million euro” (2003, Enterprise and Industry Publications: The new SME definition, user guide and model declaration).

The SMEs sector in Poland generates almost 50% of the GDP, and out of that, for instance, in 2011 micro companies generated 29.6%, small companies 7.7%, and medium companies 10.4% (big companies 24.0%; other entities 16.5%, and revenues from customs duties and taxes generated 11.9%). In 2011 out of the total of 1,784,603 entities operating in Poland, merely 3,189 were classified as "large", so 1,781,414 were micro, small or medium. Companies of the SMEs sector employed 6.3 million people out of the total of 9.0 million of labour employed in the private sector. In Poland in 2011 was 36.2 SMEs per 1,000 of inhabitants. (D.Walzcak, G.Voss). Within the United States (US) economy, SMEs account for the vast majority of firms and approximately half of the gross domestic product (GDP) generated by non agricultural sectors(2010,United States International Commission).

In Ghana the most commonly used criterion in describing SMEs is based on the number of employees (2002, Kayanula and Quartey). In its Industrial statistics, the Ghana statistical service (GSS) considers firms with fewer than 10 employees as small scale, and their counterparts with more than 10 employees as medium and large sized enterprises. SMEs represent 92% of business, contributing 70% of Ghana’s GDP and over 80% employment. The SMEs can be categorized into urban and rural, Urban are categorized into “organized” and “unorganized” enterprises. The organized ones have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures or at home, and employ few or in some cases no salaried workers (2002, Kayanula and Quartey). Majority of SMEs in Ghana are female-owned, mostly based at home, being sole-proprietorship business the

lack the necessary collateral to qualify for loans. (1994, Aryeetey et al 2006, Abor and Biekpe).

According to the International Research Journal of Finance and Economics-issue 39 of 2010 " The mostly widely used framework in South Africa is the definition of National Small Business Act 102 of 1996, which defines five categories of businesses. The definition uses the number of employees per enterprise, size category combined with the annual turnover, the gross assets excluding fixed property. The definitions for various enterprises are: Survivalist enterprise; income generated is less than the minimum income standard; this category is considered pre-entrepreneurial and includes hawkers, vendors and subsistence farmers. Micro enterprise; the turnover is less than the VAT registration limit, they lack the formality in terms of registration examples include spaza shops, minibus taxis they employ less than 5 people. Very small enterprises; they employ fewer than 10 paid employees except in mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. Small enterprises; upper limit is 50 employees; they are more established than very small enterprises and exhibit more complex business practices. Medium enterprises; maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. They are characterized by decentralization of power to an additional management layer." In South Africa SMEs account for about 91% of formal businesses, contributing between 52% and 57% of the GDP and providing about 61% employment.(1998, CSS; 1999, Ntsika; 2000, Gumede; 2002,Berry et al.)

The Government of Uganda classifies SMEs as businesses employing between 5and 50 people as small scale, and those employing between 51 and 500 people as medium scale.(2003, Kasekende and Opondo; 2001,Schiffer and wedder; 2003,Uganda Bureau of Statistics; 2008 Okello-Obura et al.) In Uganda the economy is supported mainly by MSMEs contributing about 90% of the private sector. SMEs are the prime source of jobs and play a crucial role in income generation. SMEs by sheer limitation of their size and resources are highly dependent on the Business Development Services (BDS) to provide capacity building and support business growth in areas such as training, advice, information, business planning, marketing technology, communications and other services. BDS complement credit and microfinance program, and assist small enterprises

with growth potential to become medium sized. SMEs faces challenges in Uganda which include Limited access to finance, lack of entrepreneurial skills, management skills, marketing and financial planning.(2008, Uganda Investment Authority, *small and medium enterprises business guide*).

In Rwanda SMEs comprise 98% of all the establishments; micro establishments are those employing 3 people and account for 92.6% of all establishments, while establishments with 1 worker account for 72% of all establishments. Though the sector is largely un-enumerated estimates show that SMEs account for roughly 60% of the workforce and 25% of industrial output in value terms in Rwanda.(2000, Neureldin). Rwanda is among the poorest countries and this attributed to rapid population of 8,162,715 people, and it's landlocked. SMEs contribute 20.5% to the GDP. No institution is fully dedicated to SMEs. Currently the key players are MINICOM (Minister for Commerce and Industry), RDB (Rwanda Development Board), (REIC) Rwanda Investment Company, and (PSF) Private Sector Federation. MINICOM remains in charge of policy oversight, (2010, MINICOM, *SME policy*).

In Kenya SMEs are categorized based on the number of employees and the company's annual turnover. (2012, MSMES Act); Micro enterprises have less than 10 workers, have an annual turnover of less than ksh.500,000 and capital formation of less than ksh.5million for services or less than 10million for enterprises doing manufacturing. Small enterprises employ 10 to 50 workers with an annual turnover of between ksh.500, 000 and 5 million. Capital formation is between ksh.5million and ksh.20million for services or between ksh.5million and 50million for enterprises doing manufacturing. Medium enterprises employ between 50 and 99 workers.

Informal sector accounts for more than 74% of the total persons engaged in employment per year and contributing more than 18.4% of the country's GDP. 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 large companies are selected and given business for their clout in the industry and name recognition alone.

Lack of planning, improper financing and poor management have been posted as the main causes of failure of small entrepreneurs, (2006, Longenecker et al.). Lack of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development. (2000, Oketch; 1992, Tomecko and Dondo; 1991, Kiiru)

2.3 Performance of Small and Medium Enterprises

The economic pillar aims at providing prosperity to all Kenyans through an economic development programme aimed at achieving an average Gross Domestic Product (GDP) growth rate of 10 % per annum the next 25 years (GoK, 2009). The social pillar seeks to build a just and cohesive society with social equity. The political pillar aims at realizing a democratic political system founded on issue-based politics that respects the rule of law, and protects the rights and freedoms of every individual in the Kenyan society (NESC, 2009). There is a huge expectation that devolution will result into more equitable development, with more marginalized areas greatly benefiting from the transfer of resources. There are disparities in access to services such as water and sanitation, roads, education and health services across counties. However, whether expectations about improved service delivery will translate into reality greatly depends on whether counties will have adequate resources and capacity to meet the much-needed services. Governments have historically financed development projects through budgetary allocations. However, as the demand and scale of projects grow and access to resources becomes limited, the public sector has increasingly looked to the private sector to provide financial resources, innovation and technical expertise.

The Micro and Small Enterprise (MSE) sector in Kenya is an important and fast growing sector employing 42 per cent of the working population, and accounting for 75 per cent of all modern establishments in Kenya as at 2011. MSEs dominate in majority of the sectors, including wholesale and retail trade, restaurants, hotels, community and social services, insurance, real estate, business services, manufacturing, agriculture, transport and communication and construction. Interestingly, while the number of employees in MSEs increased between 2010 and 2011, there was a decline with respect to employees in medium and large enterprises. The manufacturing value added contribution made by MSEs also increased, though the contribution is still low,

accounting for 14.2 per cent yet two thirds (67%) of manufacturing firms are MSEs. The statistics on tax performance reveal that Pay as You Earn (PAYE) and income tax payments have been increasing over the years. Value Added Tax (VAT) contributions; however, experienced a decline in 2008/09 and 2010/11, which is attributable to the introduction of Turnover tax (TOT), which has been increasing steadily since its implementation.

Informality within the sector is a huge challenge, with statistics revealing that the number of persons operating informally has been increasing over the years, in spite of the licensing reforms that include the introduction of a Single Business Permit. While licensing reforms have ensued, including the introduction of an E-registry to electronically host the licences, multiplicity of licences issued by different regulatory agencies is a key concern. This is further exacerbated by the decentralization of the regulators, who are scattered in different Ministries and different locations. While the E-registry was expected to lower transaction costs associated with obtaining licences, there seems to be limited awareness of this service. It is approximated that 30 per cent of businesses are not aware of the service; majority of those who are aware of it have not used the service.

Youth unemployment is a growing problem, as it constitutes 70 per cent of total unemployment in Kenya. The population of youths in Africa is estimated at 200 million with an approximately 30 per cent of the population (age between 18-35 years) in Kenya (World Bank, 2009). The youths are faced with insufficient vocational skills, social capital and limited understanding of market dynamics. An estimated 67 per cent of Kenyan youths lack vocational skills after dropping out of secondary school education, and this has led to high youth unemployment that is posing a serious threat to Kenya's social and political fabric. This has jeopardized equitable economic growth and social cohesion by denying the country a chance to reap from the potential benefits of her growing youth population. Micro, Small and Medium Enterprises (MSMEs), defined as firms employing less than 100 employees, form a large part of private sector enterprises in Kenya. It was estimated in the last national survey of the sector carried out in 1999 that Kenya had a total of 1.3 million MSMEs employing 2.3 million people. It was further estimated that Small and Medium Enterprises (SMEs), defined as firms employing 10-99

employees, accounted for 75 per cent of total employment in Kenya but contributed only 18 per cent of GDP (Government of Kenya, 2007). The Constitution of Kenya assigns county governments trade development and regulation functions, including markets, trade licenses, fair trading practices, local tourism and cooperative societies. In conjunction with other devolved functions such as agriculture, county public works and planning, county governments will play critical roles in MSME sector growth.

Due to the large share of enterprises, MSMEs form the base for private-sector-led growth, and deliberate policy efforts have often targeted the sector in developing countries as an engine of employment and growth. MSMEs act as a catalyst for entrepreneurial seedbed for industrial transformation (McPherson, 1996). Kenya Vision 2030 recognizes the sector and envisages MSMEs' improved productivity and innovation by enhancing the investment climate, including access to finance. Policy efforts targeted at the MSME sector are anchored on the premises that MSMEs are the engine of growth, but market imperfections and institutional weaknesses impede their growth (Beck and Demirguc-Kunt, 2006). Under the devolved governance structure, MSMEs are not only significant in employment creation but also in revenue generation for the county governments in form of service fees. Single business permit fees will form a significant source of own revenues for county governments, which will be used for delivery of county services. During the 2009/10 fiscal year, single business permit fees amounted to Ksh 2.9 billion, accounting for 17 per cent of local government own revenues (Government of Kenya, 2010).

The role of MSMEs can only be maximized by mitigating growth constraints resulting mainly from adverse investment climate, poor infrastructure, credit constraints, insecurity and regulatory burden. Various empirical studies have established that an adverse investment climate, including weak property rights protection, stringent regulatory frameworks, poor infrastructure and lack or limited access to credit, constrains MSME investment and growth. For example, using cross-country data of 80 countries, Ayyagari et al. (2005) found that crime incidences and political instability negatively affect firm investment and growth.

A study by KIPPRA (KIPPRA and Ernst and Young, 2008) established that being in an industrial location, access to electricity, lower incidences of insecurity, access to

bank loans and positive perceptions of the entrepreneur regarding the courts in terms of affordability and fairness positively affect firm growth. The study used the MSME Competitive Project Baseline Survey 2008 data collected by KIPPRA. The data set comprised of 2,590 MSMEs in 19 counties.

Theoretically, economic efficiency is achieved when consumers pay prices that ensure value for money. The fewer the transactions a consumer has to go through, the higher the level of efficiency. Wholesale and retail supermarkets improve efficiency in distribution by encouraging competition, lower prices, market information and stocking of many goods compared to ordinary shops. Their role reduces per unit marketing costs, promotes stable markets for local produce, and encourages increased output and productivity. Supermarkets basically have to perform the following three functions cost-effectively: physical exchange of products; standardization of products in terms of weights, measures and quality; and exchange of information between suppliers and buyers.

Infrastructural development is key to attracting investment in the counties. As pointed out in Vision 2030, the trade sector in Kenya is characterized by inefficiencies along the supply chain from producer to consumer and from importer to the final buyer. This is largely due to the poor state of roads, drainage and water supply, inadequate power supply, poor transportation and communication system, handling and storage facilities and wastage and waste disposal systems. In addition, there are limited and poorly-designed markets and lack of housing facilities with enough loading bays and parking spaces. In addressing some of these challenges in order to facilitate commerce, trade and rural enterprise development, the Ministry of Finance in the 2009/10 budget launched the Economic Stimulus Programme (ESP). Under this programme, the government through the Ministry of Local Governments was to support the construction of markets in the country's 210 constituencies. The success of this project is crucial because it opens the opportunity to link producers and consumers in every constituency within a county. Good infrastructure will also go a long way in linking the counties with surplus production with those with scarcity.

The Ministry of Trade is responsible for the promotion of retail and wholesale trade according to the Presidential Circular No.1/2008. The ministry is responsible for

promotion of business through the Kenya National Trading Corporation (KNTC), Assistance to Micro and Small Enterprises Programme (ASMEP) and Joint Loans Board (JLB) among other institutions. The KNTC's major objectives are to develop small and micro enterprises (SMEs) markets, expand and diversify trade, and improve and strengthen the supply chain and distribution systems. On the other hand, the JLB seeks to promote small-scale enterprises through provision of affordable credit of between Ksh 20,000 and Ksh 100,000.

2.4 The Theory of Resource - Based of Competitive advantage

A theory defines a system that explains phenomena using constructs, laws and generalizations and organizes knowledge and isolated findings from different research studies into powerful explanatory frameworks. The theory of Resource-Based is defined as 'the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment.' The proponent of the theory was Grant, R, M, (1980) which looked at the principal developments in strategy analysis which focussed upon the link between strategy and the external environment. Prominent examples of this focus are Michael Porters analysis of industry structure and competitive positioning and the empirical studies undertaken by the PIMS project. By contrast, the link between strategy and the firm's resources and skills has suffered comparative neglect. Most research into the strategic implications of the firm's internal environment has been concerned with issues of strategy implementation and analysis of the organizational process through which strategies emerge.

Recently there has been a resurgence of interest in the role of the firm's resources (in this case SMEs) as the foundation of the firm's strategy. This interest reflects dissatisfaction with the static, equilibrium framework of industrial organization economics that has dominated much contemporary thinking about business strategy and has renewed interest in older theories of profit and competition associated with the writings of David Ricardo, Joseph Schumpeter, and Edith Penrose. Advances have occurred at several fronts. At the corporate strategy level, theoretical interests in economies of scope and transaction costs have focussed attention on the role of corporate

resources in determining the industrial and geographical boundaries of the firm's activities. At the business strategy level, explorations of the relationships between resources, competition and profitability include the analysis of competitive limitation, the appropriability of returns to innovations, the role of imperfect information in creating profitability differences between competing firms, and the means by which the process of resource accumulation can sustain competitive advantage. Together, these contributions amount to what is termed, 'the resource based view of the firm.' Borrowing from the theory, the study sought to determine how the adoption Information Communication Technology (ICT) influence performance of SMEs and the extent of availability of finance influence performance of Small and Medium Enterprises in the CBD Bungoma County.

The resource-based view (RBV) argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to superior long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution. In general, empirical studies using the theory have strongly supported the resource-based view.

A resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses. Relevant in this perspective is that the transaction costs associated with the investment in the resource cannot be higher than the discounted future rents that flow out of the value-creating strategy. To be of value, a resource must be rare by definition. In a perfectly competitive strategic factor market for a resource, the price of the resource will be a reflection of the expected discounted future above-average returns (Barney, 2006) If a valuable resource is controlled by only one firm it could be a source of a competitive advantage This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly

imitable nor substitutable without great effort If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

2.5 Entrepreneur characteristics and the Performance of Small and Medium Enterprises

Characteristics of an entrepreneur play an important role ensuring the business success in SMEs. Characteristics of an entrepreneur are categorized as demographic characteristics, personal traits, formal education, entrepreneurial orientation and readiness, and previous experience. Demographic characteristics like age, gender, and individual background.

Available theoretical discussion explaining the influence of the age of the owner/manager advocates for the younger owner/manager; the argument here rests on the fact that the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks (1994,Storey; 2003Watkins et al.). The logic is that the older owner/manager is likely to have reached his/her initial aspiration, (2000, Reynolds et al.) found that individuals ranging from 25 to 44 years were the most entrepreneurially active. Finding from another study in India by (1996, Sinha) disclosed that successful entrepreneur were relatively younger in age. In their study on Internet café entrepreneurs in Indonesia, (2003, Kristiansen, Furuholt, & Wahid) found a significant correlation between age of the entrepreneur and business success.

Much of the research conducted in the 1980s identified business challenges specific to women entrepreneurs. Some of the difficulties reported included obtaining start-up funds, financial management and development of effective marketing and advertising (Hisrich et al., 2008). The root causes of limited financial success were often attributed to early management practices of the women entrepreneurs. Female owners tended to prefer internal to external sources of financing. In addition, women used smaller amount of capital at the start-up phase and that they are less likely to use financial instruments such as overdrafts, bank loans, and supplier credit. Women were more likely to use their banks for a source of advice, but men were more likely to respond to that advice (Republic of Kenya, 2005). Specifically, women-led businesses that used bank loans as a primary source of start-up capital outperformed those that used alternative

funding sources. Therefore Namusonge (2006) stressed the importance of having a relationship with a bank in place at the time of the business launch. This is because having access to financial resources and emphasizing the financial aspects of the business had stronger effects on performance than did intention or choice. However, it was reported that one of the biggest obstacles facing women entrepreneurs is the discrimination they suffer from the banking and finance communities (Mutuku, et al., 2006) Thus, they prefer to rely on their own personal funds. Many women entrepreneurs feel that there is a huge barrier for them to obtain debt capital at banks and lending agencies. It is therefore crucial for the government agencies, banks and lending agencies and women associations especially Women Enterprise Fund to assist the women entrepreneurs in terms of financial problems. Mazzarol et al. 1999; found that female were generally less likely to be founders of new business than male. Similarly, (1996, Kolvereid) found that males had significantly higher entrepreneurial intentions than females. The proportion of firms owned by men exceeds those owned by women (2001, Kentor, 2001, Chell, 2001), with most studies reporting that failure rates for female owned firms are higher than those for male. Reasons for this include limited access to finance, stringent collateral requirements, Women's double duties (1990, Riding and Swift; 2000, Carter and Jones-Evans, 2000). Some studies show that women-owned businesses are more likely to fail than men-owned (Langowitz, N. & Minniti, M. 2007). Namusonge (2006) however, reported that women perform less well on quantitative measures such as job creation, sales turnover and profitability since women do not enter business for financial gain but to pursue intrinsic goals (for example, independence, and the flexibility to run business and domestic lives)

As relates to personal traits, some attempts have been made to explain business success or failure in terms of personality traits of the entrepreneur. (1998, Glancey, Greig & Pettigrew; 1998, Stewart Jr., Watson, Carland & Carland 1998). Nooteboom (1994) highlighted that one of the most important characteristics of the small business is its diversity. The sources that produce diversity lie in the variance of the backgrounds, motives and goals of the entrepreneurs. According to Yusuf (1995) personal qualities and traits, such as self-confidence and perseverance, have been suggested to affect firm success. In their study of new small firms, Duchesneau and Gartner (1990) found that

lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, to have had a broader business experience and more prior startup experience, and to believe that they had less control of their success in business, than unsuccessful entrepreneurs. They also found that lead entrepreneurs in successful firms worked long hours, had a personal investment in the firm, and were good communicators. Moreover, successful firms were those initiated with ambitious goals, and lead entrepreneurs had a clear and broad business idea (1990, Duchesneau and Gartner).

As relates to the education level (2003, Greve and Salaff) argue that an SME owner with a better education background will also be more likely to network more than an SME owner with less education background. (2004, MacGregor) finds that the education level of an SME owner is positively associated with the networking of the SME and the types of networks an SME is engaged in. Education and prior experience in business have been seen as critical success factors for small firms (1995, Yusuf; 1996, Wijewardena & Cooray).

Studies have generally found that SME owner/managers with more managerial, sector experience or prior SME experience as owner/manager tend to correlate with greater growth (Storey et al., 1989). A study carried out by Hall (2000) found that SME owner/managers in the UK with little experience at the start-up phase could have problems remaining solvent with an increase in expenditure in relation to their earnings.

When it comes to Entrepreneurial orientation and readiness, some researchers have argued that success is driven by entrepreneurial orientation (1991, Covin and Slevin; 1996 Lumpkin and Dess; 2004, Wilkund and Sheperd). According to Lumpkin and Dess (2001), the concept of entrepreneurial orientation consists of five dimensions: autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. Autonomy is defined as an independent action by an individual aimed at bringing forth a business concept or a vision, and carrying it to completion. Innovativeness refers to the willingness to support creativity and experimentation. Risk taking means a tendency to take bold actions. Proactiveness is an opportunity-seeking or forward-looking perspective, and Aggressiveness reflects to the intensity of a firm's effort to outperform the industry rivals (2001, Lumpkin and Dess). According to Koning and Brown (2001), entrepreneurial orientation is positively associated with opportunity alertness.

Entrepreneurial readiness refers to self-efficacy; the term self-efficacy derived from Banduras (1977) social learning theory, refers to person's belief in his/ her capability to perform a given task. According to Ryan (1970), self perception plays an important role in the development of intention. Intentions and their underlying are perception- based, which should mean that they are learned and can be continuously influenced, and not fixed by personality traits formed since childhood. Cromie (2000), states that self-efficacy affects a person's beliefs regarding whether or certain goals may be attained. The attitude provides the foundation for human motivation (2002, Pajares) and personal accomplishment; unless people believe that their actions can produce the outcomes they desire, they have little incentive to act or persevere in the face of adversities (2002, Pajares). Kriatinsen and Indarti (2004) found a significant correlation between self-efficacy and entrepreneurial intention.

2.6 Business Characteristics and the Performance of Small and Medium Enterprises

SME characteristics that influence its improvement on service delivery include; Age of the firm, size of the business, the form of the business or its legal status, and the capital source. The age of the firm is an important factor influencing the growth of the firm (1994, Storey; 1996, Barkham et al.) length of time in operation (age of the business) may be associated with the learning curve. Old players most probably have learnt much from their experiences than have done by new comers. Kristiansen, Furuholt and Wahid (2003) found that the length of time in operation was significantly linked to business success. Moussavi (1988) in his unpublished PhD thesis stated that experience on the part of the owner/ manager factor contributing to the survival of the business.

Size of the SME reflects how large an enterprise is in employment terms. McMahon (2001) found that enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success. Audretsch and Klepper (2000), Sutton (1997), Caves (1998), all note that a small firm has a lower likelihood of survival. This is supported by Westhead (1995) in his study of high technology firms in England, who found that larger firms have more propensities for growth than their smaller counterparts.

As relates to the form of business or legal form of the SME, a firm constituted such that the owner/ manager enjoy limited liability has been said to have greater incentive to pursue risky projects and therefore expects higher profits and growth rates than other firms (1981, Stiglitz and Weiss). Harhoff et al. (1998) in their study of German firms found that firms with limited liability have above average growth rates. Freedman and Godwin (1994) in their study of small businesses in the United Kingdom found that the prime benefit of corporate status is the limited liability. Also studies carried out by Kalleberg and Leicht (1991) on small firms in the United States came to the same conclusions. The other factors were: interference from local authorities, insecurity, lack of physical facilities to put up their premises, and lack of access to clean water.

According to the World Bank Doing Business Report 2013, simple business regulatory reforms have had positive outcomes in terms of increasing business and job creation. As much as majority of the MSEs in Kenya operate informally, there are over 35,000 formal MSEs that employ over 40 per cent of the working population. Data on formal (modern) establishments as obtained from the Kenya National Bureau of Statistics (KNBS) Statistical Abstracts does not include data on small non-agricultural rural establishments and smallholdings that are outside 'Scheduled Areas'. It is, therefore, important to note, at the onset, that the statistics available may not provide a clear picture of the performance of the sector. Majority of enterprises in Kenya have less than 50 employees, especially in trade. The figure also indicates that majority of formal MSEs in Kenya operate in the service sector, including trade, construction, finance, real estate and insurance. The number of employees in the MSE sector increased between 2010 and 2011, while that of medium and large enterprises declined during the same period. As indicated earlier, MSEs in Kenya operate largely informally. This is evidenced by two studies: The 1999 MSE National Baseline Survey and the 2008 KIPPRA Study on MSEs in Kenya. According to the 1999 MSE Survey, 88.6 per cent of MSEs operate informally.

The 2008 KIPPRA Study established that 72 per cent of the over 2,500 firms sampled were not registered; of those that were registered, only 8 per cent of sampled firms were formally registered as limited companies with the Registrar of Companies. The study also established that the low level of business registration is due to the many

registration requirements, the long period it takes, and the long distance to be covered to register. It is also important to note that a number of MSEs confused licensing for registration, thus revealing that they considered licensing as sufficient requirement for operating the business. A review of available statistics reveals that the number of persons operating informally has been increasing over the years. Youth unemployment is a growing problem, as it constitutes 70 per cent of total unemployment in Kenya. The population of youths in Africa is estimated at 200 million with an approximately 30 per cent of the population (age between 18-35 years) in Kenya (World Bank, 2009). The youths are faced with insufficient vocational skills, social capital and limited understanding of market dynamics. An estimated 67 per cent of Kenyan youths lack vocational skills after dropping out of secondary school education, and this has led to high youth unemployment that is posing a serious threat to Kenya's social and political fabric. This has jeopardized equitable economic growth and social cohesion by denying the country a chance to reap from the potential benefits of her growing youth population.

Various empirical studies have established that an adverse investment climate, including weak property rights protection, stringent regulatory frameworks, poor infrastructure and lack or limited access to credit, constrains MSME investment and growth. For example, using cross-country data of 80 countries, Ayyagari et al. (2005) found that crime incidences and political instability negatively affect firm investment and growth. Concerning the capital source, in a study in Australia, Mcmahon (2001) discovered that greater dependence upon external finance associated with better business growth. In a more recent study by Furuholt and Wahid (2003) found that financial flexibility was significantly correlated to business success. The SMEs that took advantage of family and third party investment experienced higher levels of success.

2.7 ICT adoption and the Performance of Small and Medium Enterprises

ICT is defined as an array of primarily digital technologies designed to collect, organize, analyze, store, process and communicate information, (Ritchie & Bridley, 2005). As a broad concept ICT includes; Information systems, information technology and digitization. ICT can be categorized into old that include telephones, radio, television, films, audio and video cassettes and new ICT that include, computers, mobile

phones, faxes, point of sale systems, global positioning systems, Informational geographical systems, satellites, networked environments and Internet (Lashgarara et al., 2011).

The role of ICT in marketing

ICT offers enterprises a wide range of possibilities for improving competitiveness and market access that include; providing mechanisms for accessing new market opportunities, facilitating product innovations, accelerating market transactions and intensifying the use of information, knowledge and communication in processes, (Fulantelli & Allegra, 2003). ICT is also closely linked to knowledge, communication and human intelligence enabling new types of innovation in management, organization and business models. Enterprises can benefit from ICT in terms of reduced transaction costs, inventory controls, quality controls, access to wider market space and global networking (Fulantelli & Allegra, 2003). ICT provides information channels that facilitate the decoupling of information from its physical repository to permit access and transmission (KIPPRA, 2006). Application of ICT can be a catalyst for enterprise competitiveness by improving access to information, increasing trade in commodities and services and in achieving efficiency gains in resource allocation, Fulantelli & Allegra, (2003). In Kenya where transaction costs are very high as a result of logistics, ICT can contribute to market efficiency as well as in the reduction of transaction and coordination costs within and across organizations.

ICT transforms traditional firm transactions and creates new market places by altering the process by which transactions take place, creating new products and services and by creating new markets in time, space and information that did not previously exist (Hanna, 2010). The power of ICT enables business networking within and between enterprises and geographical regions to grow. This in turn provides a platform for the exchange of experiences, options and opportunities for mutual cooperation and technology transfer (GOK, 2006). Firm's marketing networks also helps organizations to access disseminate, and incorporate best practices). Investment in ICT in the business sector makes firms more productive, more competitive, network ready and able to exploit new trading opportunities such as E-commerce.

ICT and SME market access

Marketing is important success function for SMEs that is facilitated by market access. Information plays a key role in market access and is the main core of any marketing system. Market access in developing countries is a major challenge to small businesses due to market imperfections that can be attributed to lack of market information, lack of linkages between the actors in the supply chain, distortions or absence of input and output markets, high transaction cost and high presence of trade intermediaries. Different strategies exist for improving market access of which the use of ICT is one. Strategies that enhance market access greatly impacts on the performance of small enterprises (Shepherd, 2007).

Potential benefits of ICT to SMEs include enhancing efficiency, reducing costs and broadening the market both locally and globally, empowering SMEs to participate in the knowledge economy by facilitating connectivity; helping to create and deliver products and services on a global scale and providing access to new markets (Chyau, 2005). ICT can significantly impact the market –oriented dimensions of products and services (Ritchie & Bridley, 2005). Market –oriented ICT include websites which display the goods, services and information of a firm on the world wide-web (WWW). It can also integrate the e-commerce functionality, such as offering the ability to place orders. The www is a powerful platform for expanding and reaching new markets for SMEs while the Internet is critical in enhancing a firm's market reach and operational efficiency. ICT offers SMEs flexibility in trading by enabling 24 hours of trading, borderless market space and leverage SMEs to compete against larger enterprises on the same platform. In addition, ICT facilitates remote access to knowledge, suppliers and a borderless environment, offering SMEs the ability to deliver products and services on a different platform that is easily accessible. ICT can be used to reduce barriers of entry into different market segments exposing SMEs to a wider customer base (Lloyd & Kroeze, 2008).

Mutula & Van Brakel (2006) noted that ICTs, especially the internet, have a significant impact on the operations of SMEs by facilitating their access to global markets, enabling them to sell to international customers, and to compete favourably with

large corporations. Strategic use of ICTs is viewed as near solutions to firm's problems e.g. ICT has the potential to reduce the impacts of distance, reduce transaction costs, be used in information gathering and dissemination, inventory control, and quality control. ICT can enable SMEs to participate in the regional and international markets which are strategic for competitiveness, growth and further development (Ramsey et. al., 2003). Access to global markets offers a host of business opportunities, such as new niche markets; possibilities to exploit economies of scale, the upgrading of technological capability; and ways of spreading risks (OECD, 2000). Internet based technologies provide small firms the Opportunity to effectively overcome the limitations of size and compete and/or in larger markets with bigger sized establishments. There is some evidence to suggest that the Internet has increased international opportunities for SMEs (Hanna, 2010).

ICT also has the ability to transform global and local markets to become more efficient. Electronically mediated markets greatly impacts on the cost, speed and transparency of market-based transactions. As a result lower transaction cost and increased reach result in up to 15% lower costs to consumers, and up to 20% lower costs in business procurement .Business-to-business (B2B) net-based transactions are transforming supply chains across the globe, leading to the rise of new channels or net-based intermediaries, and enabling SMEs to pool resources and auction or collectively supply large multinationals. Net-based business-to-consumer (B2C) transactions and point-of-sale scanners provide producers, with detailed and instant information on local and distant buyers and markets. For consumers, C2B transactions cut consumer search costs, reduce lead time wait, and broaden choices. Increased information on both sides helps align supply and demand ever more tightly (Hanna, 2010). At a more basic level, ICTs are the lifeblood of efficient markets and have the potential to develop markets and alleviate poverty.

Market prices act as coordinating signals for producers and consumers, where sources of information are limited basic ICT could play a major role in creating efficient markets, improving producer practices and speeding innovation, through the provision of information on market prices (Hanna, 2010). ICT causes fast accessibility to the market,

increases selection power, improves communication, facilitates identification of markets, improves marketing and reduces business transaction costs. From a Survey conducted in Kenya and Tanzania (Matambalya & Wolf, 2007); SMEs that used different forms of ICT rated their effects mostly positive. On top were telephone and computer applications that are assumed by 88% and 76% of users to considerably increase management efficiency and competitiveness respectively. Mobile phones are considered to contribute significantly to regional market expansion by most enterprises followed by fixed phones and faxes. ICT has a proven role in enabling SMEs to increase their productivity and access information and markets, but remain unaffordable, (Minges, 2003; OECD, 2000).

The mobile phone is the most used ICT tool in that is rated most significantly in terms of desirability, accessibility and affordability. Mobile phones emerge as the preferred ICT tool to SMEs due to affordability, ease of use, and a reliable network. More than 95% of SMEs in Kenya own mobile phones with subscription reaching 30.7 million in April, 2013 and mobile penetration at 78%. (CCK, 2012) This offer SMEs a great opportunity to employ the services of this preferred tool to enhance market access. Mobile phones offer various functionalities that can enhance market access and include communication, enabling market transactions, product promotion, customer relationship, market research and other internet enabled services. Mobile phones offer a quick, efficient and affordable way of communication to SMEs which is essential for initiating and maintaining customer relationship, facilitating market transactions, acquisition of market information and for communicating product information to customers. Communication can be achieved through voicemail or the short message service that is relatively cheap. SMEs can also benefit from the use of Interactive Voice response which uses voicemail for information delivery on the user dialing given numbers to access information through simple menu steps. This will give SMEs the opportunity to obtain market information necessary to achieve market access. (Mukhebi et al, 2007) Mobile phones can also be used to facilitate market transactions to improve efficiency and reduce high transaction costs. Such transactions include m-banking, m-payments and mobile money transfer. SMEs can take advantage of services that already exist e.g. pay-bill service, “Lipa na M-Pesa”, “M-Pesa banking and money transfer from Safaricom service providers. M-internet is a fast growing technology that can be used for mobile commerce

to facilitate online marketing, communication, networking, and market research. SMS-marketing can used to market their products at low costs while Social-networking can be used for communication, promotion and in the actual selling through the phone.

Another promising ICT tool for enhanced market access in SMEs is the computer with all the computer related applications. Statistics indicate computer usage in Kenya has increased over the years, 77% SMEs indicating they own a computer (Kiveu, 2008). However, majority use computers for basic applications like automation and communication. In a study on ICT adoption and use by SMEs, only 28% of interviewed SMEs had Websites and 24% indicated they used ICT for product marketing and e-commerce (Kiveu, 2008). The computer has the advantage of having much functionality that can be used to for communication, e-commerce, promotion, design and development of superior products, market research, customer-relationships, networking and the creation of linkages, acquisition of important market information. A significant application for market access in computers is the internet whose users in Kenya stand at 16.2 million currently, with an internet penetration of 41.1%. Internet offers SMEs an opportunity to create their websites for promotion, communication and for efficient market transactions. According to Chacko and Harris (2006) the use of e-commerce has emerged as an efficient gateway for SMEs to take greater advantage of opportunities in the global markets. Internet can be to identify markets and for market research, for social networks to promote products, for communication and networking to increase market access. However a great impediment to the use of computer by SMEs is the high cost of computer hardware and connectivity, unreliable network, lack of awareness and limited computer knowledge and skills (Minges, 2003; Kiveu, 2008).

Radio and television can be used by SMEs to improve market access as they are widely used in Kenya and have the advantage of reaching a larger audience. They can be used for product promotion, acquisition of market information disseminated by various actors and for interaction with potential customers. Through radio and TV media, SMEs have the opportunity to develop and use virtual markets to promote and sell their products through interactive programmes. Such will require the integration of several ICT tools

like e-payments or M-payments and an information system to facilitate, transactions. (Mukhebi et al, 2007)

According to world development report (1999), for leading countries in the world economy, the balance between knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living more than land, tools, and labor. Today's most technologically advanced economies are truly knowledge based. Countries in the world are moving from an industrial economy to a knowledge economy in which economic growth is dependent on a country's ability to create, accumulate and disseminate knowledge. Wolf, S. (2001) found that in most African countries, small and medium enterprise (SME) account for a significant share of production and employment and is therefore directly connected to poverty alleviation. Especially in developing countries SMEs are challenged by the globalization of production and the shift in the importance of various determinants of competiveness. ICTs can improve efficiency and increase productivity by different ways including, improving efficiency in resource allocation, reducing transaction costs, and technical improvement, leading to the outward shifting of the production function. There are very few studies about ICT adoption in developing countries (2003, Temtime et al), (2006, Mutula et al.), (2007, Yeh et al.), (2007, Ssewanyana et al.), (2006, Kapurubandara et al.). (2007, Lal) investigating adoption of ICT in Nigerian SMEs found that, one of the major factors inhibiting ICT diffusion and intensive utilization is poor physical infrastructure. In developing countries some of the ICT adoption challenges include legal and regulatory issues, weak ICT strategies, lack of Research and Development, excessive reliance on foreign technology and ongoing weaknesses in ICT implementation (2003, Dutta et al).

Despite the importance of ICT and emphasis by various governments to encourage SMEs to adopt ICT, it has been reported that SMEs have been slow in adopting ICT for various reasons (2004, Houghton and Winklhofer), (2001, Smallbone et al.), (2002, Dawn et al.) and (2003, Lawson et al.). SMEs have limited financial and human resources to adopt ICT, (2002, Duan et al.) Identified lack of ICT skills and knowledge in SMEs as one of the major challenges faced by all European countries,

particularly in the UK, Poland and Portugal, in their study. (2004, Houghton and Winklhofer) have reported a slow response of SMEs relating to adoption of ICT, (2003, Shiels et al.) found that characteristics of the firm and industry sector are contributory factors to the adoption and exploitation of ICTs by SMEs, (2006, Kapurubandara et al.) have categorized internal and external barriers that impede adoption of ICT by SMEs in a developing country. The internal barriers include owner manager characteristics, firm characteristics, cost and return on investment, and external barriers include: infrastructure, social, cultural, political, legal and regulatory.

In their studies of the effect of information technology on productivity, Brynjolfsson and Hitt (1995) observed that alongside firm effects, ICT capital contributes positively and significantly to output and productivity for large US firms. Similar results are also found when examining the effects the use of various ICTs has on productivity. These results were consolidated even further in a more recent study (2000, Brynjolfsson and Hitt), which underscores the importance of complementary factors such as restructuring the enterprise and improving the skills level of the personnel to get productivity growth as a result of investment in ICT. Müller-Falke (2001) found out for Indian manufacturing SMEs that enterprises that use more advanced forms of ICT have on average a higher labour productivity and a higher growth rate. In a survey of 59 electric and electronic manufacturing Indian SMEs mainly employing less than 50 people, Lal (1996) observed higher profit margins, skill intensity and export and import intensities for firms using IT. There is also some evidence that export performance of SMEs is related to ICT adoption (1999, Lal; 2001 Nassimbeni). However it is not the investment in the technology alone but the combination with other technologies and especially relevant skills that make ICT work. Most organizations have continued to increase spending on information system and their budgets continue to rise. Moreover, economic conditions and competition create pressures about costs of information.

Generally, information system is developed using information technology to aid individuals in performing their jobs. Therefore, most organizations focus on developing information systems in order to support decision making, communication, knowledge management, as well as many others. The key part of information system needed for

decision making in organization is accounting information system. Accounting information systems (AIS) is one of information systems that produce many amounts of data for use by decision makers both within and outside organizations. Since accounting information is able to measure and present economic events to users of financial statements for judgment and decision making. American Accounting Association (AAA) address accounting information system (AIS) as one part of management information system (MIS) that gather, classify, and compile data for internal and external decision making. Therefore, job success must be obtaining reliable, relevant and timely accounting information for decision making (Kharuddin et al., 2010).

Learning organization is organization's ability to continually expand capacity to create the future (Senge, 1990). In other words, learning organization is good at creating, acquiring, and transferring knowledge, and modifies behavior to reflect new knowledge (Garvin, 1993. There is need of becoming learning organizations by focusing on continuous learning and use of AIS to increase knowledge and improve performance. This is considered a vital key for organization's success. More recent studies show that the need to become learning organizations is an integral component to innovation, effectiveness, and success (Buckler, 1998; Buhler, 2002). This has stressed the importance of the learning organization as a strategy to improve effectiveness, and as the only sustainable competitive advantage for organizations (Buhler, 2002; Davis and Daley, 2008; Korth, 2007). Therefore, the learning organization's ability is to focus on understanding and satisfying the needs of financial statements users through effective accounting information system. With regard to the organizational support, the top management will create the atmosphere to offer the capital, manpower, infrastructure, knowledge training, trust, and hope to achieve the effectiveness of accounting information system (AIS) on the accounting information quality production (Masquefa, 2008; Young and Jordan, 2008). The top management is supposed to understand the effectiveness of accounting information system (AIS) which impacts on their function enhancement.

Every organization is located within a particular configuration of contingencies. It is dependent on the market and technological environment in which it operates its scale

and diversity of operations, the technology applied to its work, and the type of personnel it employs. To achieve congruence, an appropriate design is the one which best suits it's contextual and operational contingencies. According to Moores and Yuen (2001), the management of organizations faces a challenge to reinforce the management accounting system, strategies and structures together in order to achieve competitive advantage and enhance performance. Thus, research needs to be carried out to help management make appropriate decisions in order to achieve this congruence. As the firm strives to achieve a better fit with its environment, and to be more successful; sustaining and improving current performance will become critical. However, very limited research has taken place into how the usage of AIS has led to the successful financial management in public organisations in kenya. Most empirical evidence in this area originates from research in developed countries (Baines & Langfield-Smith, 2003; Burns, Ezzamel, & Scapens, 1999; Chenhall & Euske, 2007;

Automatic generation of a stream of accounting reports is of momentous importance to any organisation if it is to achieve sound financial success. Chang (2001) asserts that accounting information plays a significant role in enhancing organizational effectiveness in a global competitive environment. Doms, Jarmin and Klimek (2004) say that financial statements still remain the most important source of externally feasible information on companies. In spite of their widespread use and continuing advance, there is some concern that accounting practice has not kept pace with rapid economic and high technology changes which invariably affects the value relevance of accounting information. Information technologies have been paramount in recent decades and have been leading developments in the globalization and societies. Information technology plays a vital role in the accounting profession. It can be a strategic weapon to support the objective and strategy of the organization. Most organizations get competitive advantage by use of new information system. In the view of this fact, the key to organization's survival is the continuous improvement of its performance. The need to integrate these often diverse systems led to the accountant's appreciation of shared databases that provide a picture of the organization's data, eliminating duplications and reducing data conflicts (Moscove et al., 1999).

2.8 Availability of Finance and the Performance of Small and Medium Enterprises

Finance refers to activities involved in managing cash flows in a business environment. Companies everywhere must choose an organizational structure to make the best use of capital at their disposal; while balancing the objectives of corporate shareholders, managers and other stakeholders. Finance involves five basic related functions which include: raising capital to support company operations and investment, selecting best projects to invest in, managing the firm's internal cash flows and its mix of debt and equity financing, developing corporate governance structures and managing the firms exposure to risk to maintain optimum risk-return trade off and therefore maximize shareholder value (Ledgerwood, and Victoria, 2006). Business raise money either externally from investors or creditors or internally by retaining operating cash flows. Most businesses raise the bulk of funding they need yearly by internal means. Access to external financing influences the form of business. Sole proprietors and partnerships for instance face limited external funding opportunities as compared to companies which have access. Some companies decide to form corporations to enhance their capital base. Corporations can raise capital either by selling an ownership interest or by borrowing from creditors. In business terms, an ownership interest of for example security such as stocks is called equity and money borrowed from creditors is termed as debt. When corporations sell securities to investors the raise capital in a primary market transaction. In such a transaction, money flows from investors to firms and firms then invest the money to exploit investment opportunities. Investors who hold a firm's securities can trade them with other investors. Such secondary market trade transactions (trade between investors) generate no cash for the firm but the existence of an active secondary market makes the firm's securities more attractive to investors (Jonathan, 2005). To avoid bankruptcy which may expose firms to compulsory winding up or liquidation, the businesses should analyse the various funding sources and go for those that are suitable for their needs.

According to the good financial management guide (2003) the finance function encompasses everything involved in managing the enterprise's financial resources. It involves activities such as: Budgeting and forecasting; planning how the enterprise wants

things to happen, Cash and treasury management; ensuring the enterprise has money when it's needed, Accounts payable and receivable; ensuring the enterprise receives what it's owed and pays what it owes, Tax planning/filing and reporting; meeting obligations to the government, Risk management; ensuring the enterprise doesn't get surprised by something unfavorable, External and internal (management) reporting; providing visibility into the enterprise for those who need it. The finance function is broad in scope. Through proper leadership, the finance function provides the information that the executive team requires to run the enterprise. The financial function has analytic needs. Given the broad scope of the finance function and the wide variety of business strategies enterprises use today. The two most common views of the enterprise in the financial world are the balance sheet and the income statement. A balance sheet is a snapshot of an enterprise's financial condition at a specific moment in time, usually at the close of an accounting period. A balance sheet comprises assets, liabilities, and owners' or stockholders' equity. An income statement, otherwise known as a profit and loss (P&L) statement, is a summary of a company's profit or loss during any given period of time, such as a month, three months, or a single year. The income statement reflects all revenues and operating expenses during the period. (Helms, 2006).

Lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered. Many SME's 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 inKenya 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,' that 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 SME's in Kenya (Wanjohi and Mugure, 2008)

Alongside Government led efforts of change, there has also been international support towards the SME sub-sector. For instance the International Finance Corporation (IFC) along with the Central Bank and the ministry of Finance have been working hand in hand to establish a credit reference bureau that should benefit SME entrepreneurs (mostly women). This reform could enable Non-land Assets to be acceptable as collateral. According to a 2007 Kenya Women Finance Trust (KWFT) report 'Improving Access to Finance for SME: International Good Experiences,' removing the obstacles to financial access for SMEs requires that commercial banks, micro-credit institutions, community groups and Business Development Service (BDS) institutions work closely together. Pushing for agreements between financial bodies and BDS suppliers can help make up for lack of capacity and reduce costs by more efficient division of labor. The BDS supplier makes the initial choice of projects on a purely technical basis and the credit institution looks at financial viability. Making loans to intermediaries (NGOs and federations of SMEs) with the job of allotting funds to members can also help cut administration costs.

The Intelligent enterprise journal (2002) indicates that most enterprises will want to examine how their balance sheets and P&Ls have changed over time. This is the most obvious type of analysis. This time-series analysis will typically have a monthly grain. For P&Ls, much analysis will be based around finding the origins of revenue and expenses: Which parts of the enterprise are producing and consuming financial resources? How do different subcomponent organizations within the enterprise compare with one another in the production and consumption of financial resources? How does reality stack up against what was planned (budgeted/forecasted)? As you can see, the analytic needs are wide and significant to the leadership of the enterprises. Historically many finance teams have focused 80% of their time on the processing and only 20%

focus on the strategic information requirement. When thinking about finance, many people instinctively associate it with book-keeping and tiresome bureaucratic controls, and only peripherally with forward planning, so the finance team can be seen as blockers rather than enablers for change and development. To ensure that the finance function - whether that is a team or an individual - can add value to both planning and management it should see it as having the following key roles: Providers of information for decision-making and Business management.

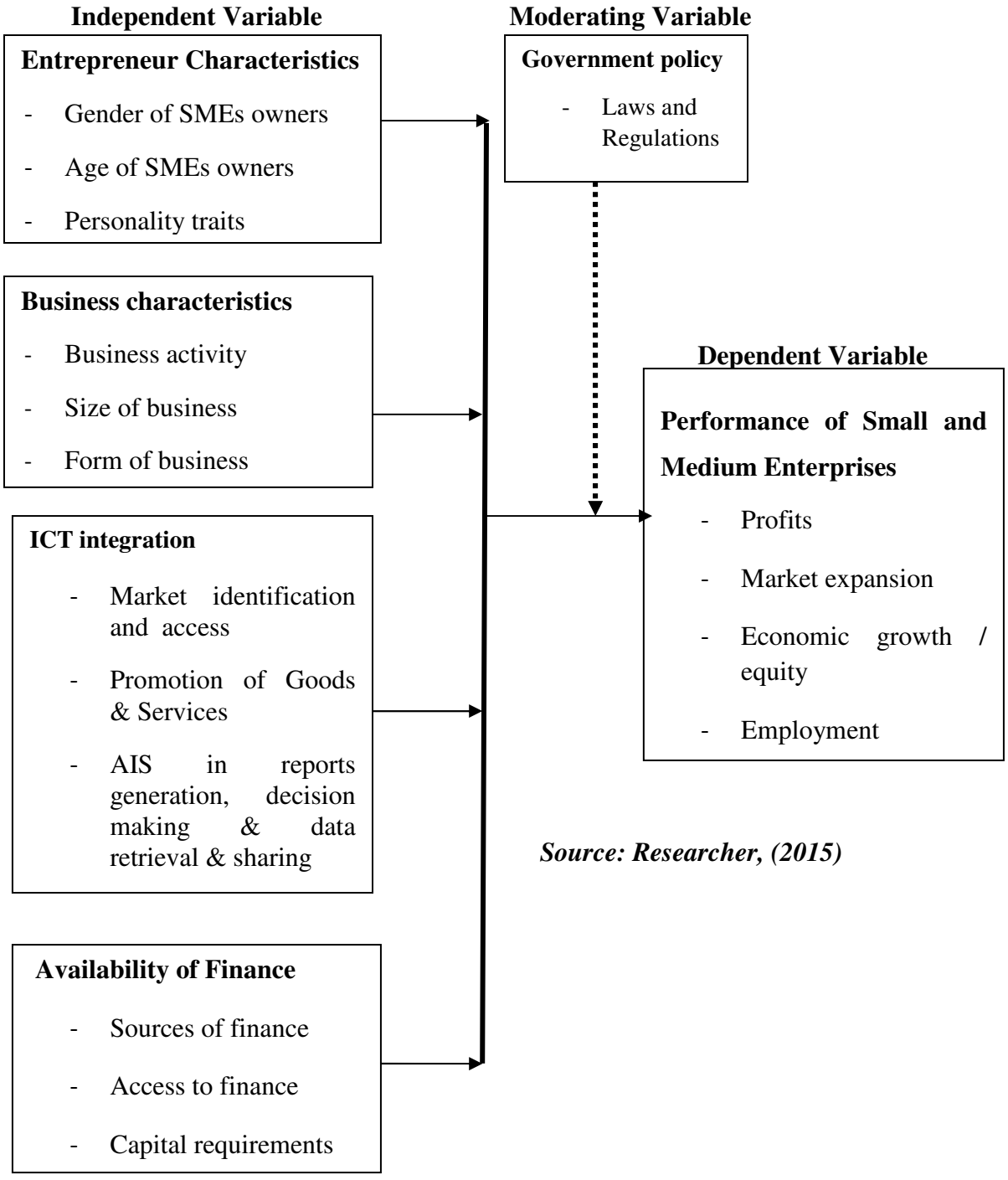
In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default - that is, any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral - and the lender then becomes the owner of the collateral. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral. Should the buyer fail to pay the loan under the mortgage loan agreement, the ownership of the real estate is transferred to the bank. The bank uses a legal process called foreclosure to obtain real estate from a borrower who defaults on a mortgage loan obligation (Hirschland, 2005).

2.9 Conceptual Framework

Indicators are shown by the main variables under the study to ensure that they are measurable. Reiche and Ramey (1991) define a conceptual framework as “a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation”.

Figure 2.1 Conceptual Framework

Determinants



Source: Researcher, (2015)

Figure 2.1 of conceptual framework shows relationships between variables

It is evident that the concepts or variables can be observed, described and measured and therefore can be conceptualized as a framework comprising different components that are inter-related as shown in the figure 2.1. This conceptional framework is founded on the existing theory of Resource based as postulated by Grant, R.M. and the literature review of the study. The graphical representation of the conceptional framework depicts the major variables and categories connected by lines and arrows to show the relationships and interactions where performance of Small and Medium Enterprises in central CBD Bungoma County is dependent on independent variables like entrepreneur characteristics, Business characteristics, ICT adoption and how availability of Finance influence the performance of Small and Medium Enterprises in Central CBD Bungoma County. Although Independent variables have a direct influence on performance of Small and Medium Enterprises in Central CBD Bungoma County, however, there are intervening and moderating variables which indirectly affect the set parameters of standards and time frame hence impacting on the performance of SMEs, for instance, an independent variable like finance may influence the same owing to the amount of money to be used. Moreover, moderating variables which include business registration and licensing form the government policy may impact either positively or negatively.

2.10 Knowledge Gap

This chapter has reviewed literature in relation to the influence of SMEs on the improvement of service delivery. The researcher notes that while there are various studies most of them cover growth of micro and small enterprises and have not been conducted in the context of Bungoma County and Bungoma CBD in particular since introduction of devolved government system in Kenya. Previous studies have also adopted different research designs mostly case studies of individual entities and not survey of different small and medium enterprises. This study therefore endeavors to assess the factors influencing performance of SMEs in Bungoma County by carrying out a survey on selected small and medium enterprises in Bungoma County CBD.

2.11 Summary of Literature

This chapter has reviewed literature on the factors influencing Performance of SMEs in Bungoma County. These factors relate to entrepreneur characteristics, business characteristics, ICT, and finance. Most micro-entrepreneurs lack the knowledge and skills required to keep proper business records or prepare business plans, which are required by most financial institutions for proper lending purposes. Without such records, it is very difficult to determine the credibility of the micro-entrepreneur or the viability of his business venture.

Business profits are used to meet domestic needs instead of ploughing them back to the business for growth and most do not bank their sales. Thus financial institutions are unable to establish repayment ability. Most SMEs are unbanked because they consider banks to be for more established businesses and cannot accommodate small businesses and their meager profits. The development of a sound infrastructure is of paramount importance to the rapid development and eventual realization of set goals like the vision 2030. Information and Communication Technology as such has been embraced as a major highway to development and so the registration meant to bring order in e commerce is indeed viewed as a necessity

Finance involves five basic related functions which include: raising capital to support company operations and investment, selecting best projects to invest in, managing the firm's internal cash flows and its mix of debt and equity financing, developing corporate governance structures and managing the firm's exposure to risk to maintain optimum risk-return trade off and therefore maximize shareholder value.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains entire process of planning and carrying out research activities undertaken by the study. It discussed the research design, target population, sampling method, sample size, data collection and data analysis.

3.2 Research Design

The study applied a descriptive research design. Descriptive research design is a systematic, empirical inquiry into which the researcher does not have direct control of independent variables as their manifestation has already occurred or because they are reflecting the state of happenings and qualify the obtained findings through the use of quantitative analysis (Mugenda and Mugenda 2003). Descriptive research is concerned with how, what is or what exists is related to some preceding event that has influenced or affected a present condition or event (Best, 1970). This is in line with the purpose of the study as it sought to investigate the influence of Small and Medium Enterprises on improvement of service delivery in the Central Business District Bungoma County. The researcher prefered descriptive research design because the variables under study have already occurred and beyond control. Also this design gives this study the advantage of collecting original data for the purpose of describing a population which is too large to observe directly hence good for the purpose of generalization (Cohen, Manion and Morrison, 2000). Descriptive survey gathers data on a one-shot basis and hence is economical and efficient (Morrison, (1993). Descriptive survey is also compatible with questionnaire and interview schedule which the research employed in collecting data (Mugenda and Mugenda, 1999).

3.3 Target Population

In the context of this study the target population can be defined as the totality of objects or individuals under consideration of which the statistical attributes may be

estimated by the study of a sample or samples draw from it (Mugenda and Mugenda, 2003). The target population was 427 employees and SMEs managers of selected small and medium enterprises (SMEs) in Bungoma CBD.

3.4 Sample Size and Sampling Procedure

The research used a descriptive research design. 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 SMEs categories. According to Chandran (2004) sampling is the selection of a portion of population such that the selected portion represents the population adequately.

3.4.1 Sample Size

A sample is finite part of a statistical population where properties are studied to gain information about the whole (Webster, 1985). Subjects included in this research study were selected to meet specific criteria. Elaborate formulae have been developed to help the researchers estimate the most realistic sample sizes for their studies (Cochran, 1977; Fink, 2002). A sample size of 50% was adopted noting the sample sizes were below 10,000. Since this was a descriptive research, the study was limited to Small and Medium Enterprises in the Central Business District Bungoma County. The researcher used purposive sampling to select the Small and Medium Enterprises by virtue of their location and status. It was hoped that the diverse population characteristic were a true representative of the entire population of the Small and Medium Enterprises sector.

Kerlinger, (1986) recommends a sample size of not less than ten percent of population as a suitable one to be used in social science research. The researcher sample 219 SMEs out of an accessible population of 427 SMEs using 50% of the type categories selected. This sample size was deemed appropriate for the study because of its ability to establish facts which resulted in formulation of important principles of knowledge about populations that are too large to be observed directly (Mugenda & Mugenda, 1999; Kathuri & Pals, 1993; Lomax & Li, undated).

3.4.2 Sampling Procedure

This involves how respondents were chosen. The study used stratified proportionate random sampling to get Small and Medium Enterprises . This is method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes such as general retail, hotels and workshops among others. A random sample from each stratum was taken in a number proportional to the stratum's size when compared to the population. Stratified sampling also allows the use of disproportionate sampling that gives unequal weight (Kothari, 2004). The advantage with stratified proportionate random sampling is that it ensures inclusion in the sample of every sub group (Kothari, 2004).

3.5 Data Collection Methods

The researcher employed two data collecting instruments in the study. These were:

i. Researcher developed questionnaires, and

ii. Interview schedule.

In researching human beings, no single source of information can be trusted to provide a comprehensive perspective in any study program. As a result it is imperative to use several methods of data collection to improve on the reliability and validity of the data collected (Smith, 1975; Kitainge, 2005). Schofield and Anderson (1984) reports that using a combination of data sources and collection methods are a validating aspect which cross-checks the data. This use of combined data collection methods and sources such as interviews and questionnaires increases the validity and reliability of the information since the strength of one approach compensates for the weakness of another approach (Cohen, Manion and Morrison, 2000).

3.5.1 Questionnaire

The main technique applied by the study was of the questionnaires which were issued to the respondents and given enough time to answer the questionnaires. Mugenda

and Mugenda (2003) points out that questionnaire are easier to administer as compared to interview. They also promote confidentiality as the respondent identity is not indicated. Questionnaire technique was preferred because it covers a wide range of area and also it reaches many respondents at a cheaper cost. It also saves a lot of time (Kothari, 2004).

3.5.2 Interview Schedule.

The researcher used structured interview to interview the Small and Medium Enterprises. Structured interviews are easier to analyze, economical and provide a basis for generalization (Kothari, 2004).

3.5.3 Pilot Testing

Piloting is trying out of research instruments on the respondents who will not be used in the main study. It is important for a pilot study to be carried out before any research is done as stated by Peter (1994). In this study, 15 small and medium enterprises outside Bungoma CBD were used in testing the questionnaires. Groll (1986) notes that a pilot study is necessary because" a researcher embarking on classroom research for the first time found it valuable to spend some time in 15 small and medium enterprises outside Bungoma CBD to establish systems and looking at the kind of issues which arose in turning her own research questions into a set of criteria and definition for use in small and medium enterprises." Peter (1994), states" even the most carefully constructed instrument cannot guarantee to obtain a hundred percent reliable data". Therefore it was necessary to pretest the instruments of the research on a small sample of respondents in a preparatory exercise to find out if there is any weakness so that it can be corrected for the main study.

3.5.4 Validity of the Instruments

The need to test the content and construct validity of the research instruments was inevitable; this serves to ascertain whether what was produced was relevant. Cohen et al, (1998) stress that experts of research should identify the validity and the reliability of research instruments. Validity is the extent to which the instrument measures what it appears to measure according to the researcher's subjective assessment (Nachmias:

1958). Validity deals with the adequacy of the instruments for example, the researcher needs to have adequate questions in the written task in order to collect the required data for analysis that can be used to draw conclusion. In this study, the researcher sought help from the supervisors, lecturers and colleagues in the Department of Extra-mural studies to judge the validity of the questionnaire and the questions in the written task. Their suggestions and clarifications were used to improve representation or sampling adequacy of the content that was to be investigated and improvements on the instruments. A high reliability for the data collection instruments is necessary but not sufficient criterion for the adequacy of an instrument, it must be valid too. For a data collection instrument to be considered valid the content selected and included in the instruments must be relevant to the need or gap establishment (Koul, 1992).

3.5.5 Reliability of the Instruments

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda: 2003). It also refers to consistency (Koul, 1993, Bryman and Cramer, 1997). The concept of reliability has two aspects to it; internal and external reliability. Internal reliability is the ability of a scale to measure a single idea and whether it is internally consistent; its reliability can be computed. External reliability refers to consistency of measure over time. To ensure reliability of the research instruments, the researcher conducted a pilot study. Test-retest method was employed to assess the reliability of the research instruments. The results were used to compute the correlation coefficient.

3.6 Data Collection Procedures

Formal authority to conduct research was sought from the National Council for Science Technology and Innovations using an online mechanism. Data collection was achieved through the administration of questionnaires. After administration of questionnaires, an interview schedule was conducted by the researcher to Small and Medium Enterprises. After data collection, the questionnaires were coded and data tabulated for analysis.

3.7 Data Analysis and Presentation

The gathered data were analyzed through the use of quantitative and qualitative techniques. Quantitative analysis was for closed ended questions while qualitative analysis for open ended questions. Descriptive statistics was used to analyze data presenting it in the form of frequencies and APA tables through Statistical Package for social sciences (SPSS).

3.8 Ethical Consideration

Ethics was an integral part of this research study right from planning stage to the actual conduction of the study. The respondent's information was not passed to the third party. The researcher strived to keep confidentiality of the information by safeguarding the respondents' names. In case of a respondent desiring to be bribed before divulging information, the researcher tried to explain the reason for research and strived to remain incorruptible. She obtained permission from the County Education Office before collecting data, respecting and valuing and people's culture, keeping time, respecting respondent's decision as well using a method that was friendly to the respondents.

3.9 Operational definition of variables

Objective	Type of variable	Indicators	Source	Scale of measurement	Statistical Test	Significance Level
To determine how entrepreneur characteristics influence the performance of SMEs in the CBD Bungoma county	**Independent:** Entrepreneur characteristics	Gender of SMEs owners Age of SMEs owners Personality traits	Central Business District Bungoma County	Nominal	Frequencies, cross tabulation	0.05
	Dependent: Performance of SM Es	Profits optimization Market Expansion Employment Economic growth	Central Business District Bungoma County	Ordinal Nominal		
To establish how business characteristics influence the performance of SMEs in the Central Business District Bungoma County	**Independent**: business characteristics	Business activity Size of business Form of business	Central Business District Bungoma County	Ordinal Nominal	Frequencies, cross tabulation	0.05
	Dependent: Performance of SM Es	Profits optimization Market Expansion Employment Economic growth	Central Business District Bungoma County	Ordinal Nominal		
To determine how the adoption of Information Communication Technology influence the performance of SMEs in the Central Business District Bungoma County	**Independent:** ICT integration	Market identification & access Promotion of goods & services AIS in reports generation, data retrieval and decision -making	Central Business District Bungoma County	Ordinal	Frequencies, cross tabulation	0.05
	Dependent: Performance of SM Es	Profits optimization Market Expansion Employment Economic growth	Central Business District Bungoma County			
To assess how the availability of finance influence the performance of SMEs in the Central Business District Bungoma County	**Independent:** Extent of availability of finance by SMEs	Sources of finance Access to finance Capital requirements	Central Business District Bungoma County	Ordinal	Frequencies, cross tabulation	0.05
	Dependent: Performance of SM Es	Profits optimization Market Expansion Employment Economic growth	Central Business District Bungoma County			

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter dealt with data analysis, presentation and interpretation and discussion of the research findings. In the first section, descriptive statistics was used to provide data for the study. The second section presents the analysis of the responses to the specific objectives of the study as provided by the respondents in the questionnaires and interview schedule. The purpose of the study was to investigate the factors influencing the performance of SMEs in Central Business District Bungoma County.

The findings are presented as follows; response rate and also presents and interprets data analysis on entrepreneur characteristics which captured gender of SMEs members such as age, academic qualification, work experience and training of SMEs members, business characteristics, and the adoption of Information Communication Technology by SMEs and availability of finance by Small and Medium Enterprises on performance of SMEs in the Central Business District Bungoma County.

4.2 Response return rate

A total of 219 questionnaires dispatched to SMEs Managers and employees of the selected Small and Medium Enterprises out of which 200 were duly filled and returned giving a response rate of 89.0%. Table 4.1 shows the response return rate.

Table 4.1 Response return rate

Type of firm	Issued questionnaires	Returned	Return Rate (%)
Workshops	18	16	88.9
Cyber cafe	24	20	83.3
Boutique and Hair salon	43	40	93.0
General retail & hardware	62	60	76.8
Hotels & Restaurants	35	32	91.4
Agri-business/Agro-vets	9	9	100.0
Construction and Research	6	5	83.3
Supermarkets	6	5	83.3
Pharmaceuticals	16	13	81.3
Total	**219**	**200**	**89.0**

From the Table 4.1, the percentage return rate was 200 (89.0%). According to Nachimias and Nachimais (1958) 80% to 90% return rate is enough for a descriptive research study. This return rate was appropriate for data analysis and discussion for a descriptive study. Therefore the return rate boosted the reliability of the study. According to Mugenda and Mugenda (1999), a 70% response rate is very good. Although the results may be interpreted to indicate a good response rate, a failure of 11.0% to report may be explained by lack of knowledge in SMEs and time constraints due to detailed returns of the data collection tools.

4.3 Influence of Entrepreneur characteristics on Performance of SMEs in the CBD Bungoma County

The study sought to determine how entrepreneur characteristics influence the Performance of Small and Medium Enterprises in the Central Business District Bungoma County. The respondents were asked to state their opinion that best described their responses on Gender and its influence on Performance of SMEs and the results are as shown in table 4.2.

Table 4.2 Gender of Respondents

Gender	Frequency	Percentage (%)
Male	149	74.5
Female	51	25.5
Total	**200**	**100.0**

As portrayed in table 4.2 above, 149 (74.5%) of the respondents were male and 51 (25.5%) were female. The result shows that men were more involved in Small and Medium Enterprises in the Central Business District Bungoma County. These research findings are similar to other studies by Mazzarol et al. 1999; who found out that female were generally less likely to be founders of new business than male. Similarly, (1996, Kolvereid) found that males had significantly higher entrepreneurial intentions than females. The proportion of firms owned by men exceeds those owned by women (2001, Kentor, 2001, Chell, 2001), with most studies reporting that failure rates for female owned firms are higher than those for male. Reasons for this include limited access to finance, stringent collateral requirements, Women's double duties (1990), Riding and Swift; 2000, Carter and Jones-Evans, 2000). Much of the research conducted in the 1980s identified business challenges specific to women entrepreneurs. Some of the difficulties reported included obtaining start-up funds, financial management and development of effective marketing and advertising (Hisrich et al., 2008). The root causes of limited

financial success were often attributed to early management practices of the women entrepreneurs. Female owners tended to prefer internal to external sources of financing. In addition, women used smaller amount of capital at the start-up phase and that they are less likely to use financial instruments such as overdrafts, bank loans, and supplier credit. Women were more likely to use their banks for a source of advice, but men were more likely to respond to that advice (Republic of Kenya, 2005). Some studies show that women-owned businesses are more likely to fail than men-owned (Langowitz, N. & Minniti, M. (2007). Namusonge (2006), however, reported that women perform less well on quantitative measures such as job creation, sales turnover and profitability since women do not enter business for financial gain but to pursue intrinsic goals (for example, independence, and the flexibility to run business and domestic lives)

Concerning the age of the firm owners and its influence on Performance of SMEs in the CBD Bungoma County findings are presented in table 4.3.

Table 4.3 Ages of Respondents

Age	Frequency	Percentage (%)
<20 Yrs	27	13.5
21-30 Yrs	53	26.5
31-40 Yrs	89	44.5
40-50 Yrs	22	11.0
>50 Yrs	9	4.5
Total	**200**	**100.0**

The age of the respondents was sought to determine the influence of the age of the SMEs owner/manager and 27 (13.5%) of the respondents were below 20 years, 53 (26.5%) were aged between 21-30 years, 89 (44.5%) were aged 31-40, 22 (11.0%) were aged between 40-50 years and 9 (4.5%) were above 50 years. From Table 4.3, the findings show that most of the respondents were between 31-40 years of age by 89

(44.5%) responses. Clearly, most micro and small enterprises are owned and mainly run by people in their late 20s and early 30s which comprise of the youthful population. These findings concur with other findings by Storey, 1994, Watkins et al. 2003) that asserts available theoretical discussion explaining the influence of age of the owner/manager advocates for the younger owner/manager; the argument here rests on the fact that the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks. The logic is that the older owner/manager is likely to have reached his/her initial aspiration, (Reynolds et al. 2000) found that individuals ranging from 25 to 44 years were the most entrepreneurially active.

Finding from another study in India by (Sinha, 1996) disclosed that successful entrepreneur were relatively younger in age. In their study on Internet café entrepreneurs in Indonesia, (Kristiansen, Furuholt, & Wahid, 2003) found a significant correlation between age of the entrepreneur and business success. The population of youths in Africa is estimated at 200 million with an approximately 30 per cent of the population (age between 18-35 years) in Kenya (World Bank, 2009).

The study also sought to establish the Personality traits of the Respondents to examine the entrepreneur characteristics of Small and Medium Enterprises influence the Performance of SMEs in the CBD Bungoma County and the study results are as shown in Table 4.4

Table 4.4 Personality traits of the Respondents

Description			F	%
Highest level of Education	SMEs Members	O-Level	99	49.5
		Diploma	59	29.5
		Degree	25	12.5
		Masters	15	7.5
		PhD	2	1.0
Working Experience	SMEs Members	< 1Year	40	20.0
		1-3 Years	35	17.5
		3-5 Years	95	47.5
		5-7 Year	25	12.5
Entrepreneurial orientation and readiness	SMEs Members	Autonomy	56	28.0
		Innovativeness	61	30.5
		Risk taking	101	50.5
		Proactiveness	79	39.5
		Competitive aggressiveness	57	28.5

Findings shows 99 (49.5%) of the respondents had O-Level qualification, 59 (29.5%) had diplomas (25 (12.5%) had qualified with degrees, 15 (7.5%) possessed Masters while only 2 (1.0%) of SMEs managers had PhDs as their highest level of training. Education level of an SME owner is positively associated with the networking of the SME and the types of networks an SME is engaged in. From the theory of Resource Based of competitive advantage by Grant, R M, citing prominent examples of the focus on Michael Porters analysis of industry structure and competitive positioning and the empirical studies undertaken by the PIMS project, by contrast, the link between strategy and the firm's resources and skills has suffered comparative neglect.

Concerning the duration of time business has been in operation, 40 (20.0%) of the respondents said they had operated their businesses for a period < one year, 35 (17.5%) of the respondents had only operated between 1-3 years. Between 3 and 5 years constituted 95 (47.5%) of the respondents, while those who had been in operation for more than 5 years were only 25 (12.5%) of the respondents. This is fair representation of SME owner/managers in the business with experience to counter the increase of globalization and technological advancements so that they face fewer problems in order to remain solvent with an increase in expenditure in relation to their earnings.

The respondents were also asked about their personality traits that motivate them to gain competitive advantage against their competitors and the responses were given towards entrepreneurial orientation and readiness, 56 (28.0%) of the respondents operated autonomously, 61 (30.5%) of the respondents were innovative in their line of business, half 101 (50.5%) of the respondents only knew that their business is about risk taking venture while 57 (28.5%) of the respondents cited to be competitively aggressive in performance of their small and medium enterprises

As presented in Table 4.4 majority of the respondents 99 (49.5%) had O-Level training as their highest level of education. Greve and Salaff, 2003, argue that an SME owner with a better education background will also be more likely to network more than an SME owner with less education background. (2004, MacGregor) finds that the education level of an SME owner is positively associated with the networking of the SME and the types of networks an SME is engaged in. Education and prior experience in business have been seen as critical success factors for small firms (1995, Yusuf; 1996, Wijewardena & Cooray). The youths are faced with insufficient vocational skills, social capital and limited understanding of market dynamics. An estimated 67 per cent of Kenyan youths lack vocational skills after dropping out of secondary school education, and this has led to high youth unemployment that is posing a serious threat to Kenya's social and political fabric. This has jeopardized equitable economic growth and social cohesion by denying the country a chance to reap from the potential benefits of her growing youth population.

Concerning the duration of time business has been in operation, most of the respondents cited to have a working experience between 3 and 5 years by 95 (47.5%)

responses. These findings are similar with other studies by Storey et al., 1989 who generally found that SME owner/managers with more managerial, sector experience or prior SME experience as owner/manager tend to correlate with greater growth. A study carried out by Hall (2000), found that SME owner/managers in the UK with little experience at the start-up phase could have problems remaining solvent with an increase in expenditure in relation to their earnings.

When it comes to Entrepreneurial orientation and readiness, the respondents averagely cited at 35.4% responses that success is driven by entrepreneurial orientation and readiness. According to Lumpkin and Dess (2001), the concept of entrepreneurial orientation consists of five dimensions: autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness.

4.4 Influence of business characteristics on Performance of SMEs in the CBD Bungoma County

The study sought to establish how business characteristics influence performance of SMEs in the CBD Bungoma County. On a scale of Great extent (GE), some extent (SE), little extent (LE) and virtually nothing (VN), the respondents were asked to state their opinion that best described their responses and on whether business activity contributes to Performance of SMEs in the CBD Bungoma County and Table 4.5 shows the study findings.

Table 4.5 Business activity of SMEs

Business activity	**GE**		**SE**		**LE**		**VN**		**TOTAL**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Diverse Business activity improve Performance of SMEs	41	20.5	67	33.5	39	19.5	53	26.5	200	100
Employee level of training and skills	129	64.5	31	15.5	21	10.5	19	9.5	200	100

41 (20.5%) of the respondents agreed to great extent that diverse business activity improved performance of SMEs, 67 (33.5%) to some extent, and 39 (19.5%) to little extent while only 53 (26.5%) of SMEs managers indicated virtually nothing to the statement. They also indicated that the employee level of training and skills upgrading as a business activity had an influence on service delivery whereby 129 (64.5%) of the respondents agreed to great extent, 31 (15.5%) to some extent, and 21 (10.5%) to little extent while 19 (9.5%) of SMEs managers indicated virtually nothing to the statement.

From Table 4.5, Business Characteristics of SMEs had an influence on Performance of SMEs where most of the respondents indicated to some extent by 67 (33.5%) responses that firm's diverse business activity improved performance of SMEs and strongly cited that employee level of training and skills upgrading indicated to great extent by 129 (64.5%) of the respondents. This is clearly supported by other studies by (1994, Storey; 1996, Barkham et al.) length of time in operation (age of the business) may be associated with the learning curve. Old players most probably have learnt much from their experiences than have done by new comers. Kristiansen, Furuholt and Wahid (2003) found that the length of time in operation was significantly linked to business success. Moussavi (1988) in his unpublished PhD thesis stated that experience on the part of the owner/ manager factor contributing to the survival of the business.

The study also determined whether the size of business is positively related to Performance of SMEs as a Business Characteristics of SMEs and Table 4.6 shows the study findings.

Table 4.6 Size of business of SMEs

Size of business	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
Size of business is affects Performance	30	15.0	96	48.0	42	21.0	32	16.0	200	100
Number of business	79	39.5	61	30.5	43	21.5	17	8.5	200	100

Finding shows that 30 (15.0%) of the respondents agreed to great extent, 96 (48.0%) to some extent, 42 (21.0%) said little extent whereas 32 (16.0%) reported virtually nothing to the statement. It was further indicated that the Number of business establishments influenced performance of SMEs by 79 (39.5%) of the respondents agreed to great extent, 61 (30.5%) to some extent, and 43 (21.5%) said little extent while 17 (8.5%) reported virtually nothing. The size if the business enterprises in CBD Bungoma influenced performance of SMEs.

From Table 4.6, size of business is positively related to performance of SMEs as a Business Characteristics of SMEs enhanced performance of SMEs, 96 (48.0%) of the respondents agreed to some extent. It was further indicated that the Number of business establishments and its influence performance of SMEs, 79 (39.5%) of the respondents agreed to great extent. These findings concur with other findings outlined in the literature review by McMahon, (2001), who asserts that size of the SME reflects how large an enterprise is in employment terms and therefore the enterprise size significantly linked to better business performance. Larger enterprises were found to have a higher level of success. Audretsch and Klepper (2000), Sutton (1997), Caves (1998), all note that a small firm has a lower likelihood of survival. This is supported by Westhead (1995) in his study of high technology firms in England, who found that larger firms have more propensities for growth than their smaller counterparts.

The respondents were asked to indicate their opinions concerning form of business to establish if it contributes to Performance of SMEs in the CBD Bungoma County and the study findings revealed in Table 4.7.

Table 4.7 Form of business of SMEs

Form of business	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
Business location and security	39	19.5	71	35.5	49	24.5	41	20.5	200	100
Simple business regulatory reforms	119	59.5	51	25.5	13	6.5	17	8.5	200	100

Findings shows that 39 (19.5%) of the respondents agreed to great extent that business location and security had an influence on Performance of SMEs, 71 (35.5%) to some extent, (49 (24.5%) said little extent while 41 (20.5%) reported virtually nothing. The extent of security in an area is directly related to service delivery of SMEs. It was also noted that simple business regulatory reforms have a positive outcomes in terms of increasing business in performance of SMEs and 119 (59.5%) of the respondents asserted to great extent, 51 (25.5%) to some extent, 13 (6.5%) said little extent while 17 (8.5%) reported virtually nothing.

From Table 4.7, Business location and security had a bearing on performance of SMEs and the study findings revealed that 71 (35.5%) of the respondents agreed to some extent. These results are in agreement with other findings by Ayyagari et al. (2005) who found that crime incidences and political instability negatively affect firm investment and growth. The extent of security in an area is directly related to performance of SMEs. It was also noted that simple business regulatory reforms have a positive outcomes in terms of increasing performance of SMEs and 119 (59.5%) of the respondents asserted to great extent. Various empirical studies have established that an adverse investment climate,

including weak property rights protection, stringent regulatory frameworks, poor infrastructure and lack or limited access to credit, constrains MSME investment and growth. A study by KIPPRA (KIPPRA and Ernst and Young, 2008) established that being in an industrial location, access to electricity, lower incidences of insecurity, access to bank loans and positive perceptions of the entrepreneur regarding the courts in terms of affordability and fairness positively affect firm growth. The study used the MSME Competitive Project Baseline Survey 2008 data collected by KIPPRA. The data set comprised of 2,590 MSMEs in 19 counties, there is a positive correlation between sales growth and access to electricity, bank loans and piped water. Insecurity and increase in negative perception of the fairness, cost and efficiency of courts adversely affect MSME growth. These findings suggest that policy efforts aimed at promoting a conducive investment climate at county level are vital for MSME growth.

4.5 Information Communication Technology (ICT) adoption and its influence on Performance of SMEs in the CBD Bungoma County

The study sought to determine how the adoption of Information Communication Technology (ICT) influences the performance of SMEs in the CBD Bungoma County under the following themes. On a scale of Great extent (GE), some extent (SE), little extent (LE) and virtually nothing (VN), the respondents were asked to state their opinion that best described their responses. Concerning the Extent and use of ICT in market identification and access and its influence on Performance of SMEs in the CBD Bungoma County, Table 4.8 depicts the study findings.

Table 4.8 Extent and use of ICT in market identification and access

Extent and use of ICT in market identification & access	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
what extent does your enterprise possesses ICT	25	12.5	80	40.0	75	37.5	20	10.0	200	100
Searching markets has been easy using ICT	4	2.0	82	41.0	113	56.6	1	0.5	200	100
business integrated use of ICT on market identification, access	30	15.0	56	28.0	76	38.0	38	19.0	200	100

The respondents reported the extent of firm's possession with ICT on market identification and access which improved Performance of SMEs in the CBD Bungoma County and the findings showed that 25 (12.5%) of the respondents asserted to great extent the enterprise possessed Computer, Telephone Computer and networks, 80 (40.0%) to some extent, 75 (37.5%) to little extent while 20 (10.0%) of the respondents said virtually nothing to the statement. This was highly noted with cybercafés, supermarkets, and some Pharmaceuticals and a few restaurants.

Concerning searching markets has been easy using ICT by the SMEs, 4 (2.0%) of the respondents indicated to great extent, 82 (41.0%) to some extent, and 113 (56.5%) to little extent while 1 (0.5%) said virtually nothing to the statement. On whether the business enterprise integrated the use of ICT in market identification and market access; 25 (15.0%) of the respondents indicated to great extent, 56 (28.0%) to some extent, and 76 (38.0%) to little extent while 38 (19.0%) said virtually nothing to the statement. This could be attributed to Kenyan youths lack vocational skills after dropping out of secondary school education as most of the SMEs were owned by O-Level graduates.

From Table 4.8, 80 (40.0%) respondents indicated to some extent that firms possessed ICT such as Computer, Telephone Computer and networks followed by 75 (37.5%) to little extent. This is clearly supported by other studies by Houghton and

Winklhofer, (2004), Dawn et al. (2002) and Lawson et al. (2003). Despite the importance of ICT and emphasis by various governments to encourage SMEs to adopt ICT, it has been reported that SMEs have been slow in adopting ICT for various reasons. SMEs have limited financial and human resources to adopt ICT, (Duan et al. 2002) Identified lack of ICT skills and knowledge in SMEs as one of the major challenges faced by all European countries, particularly in the UK, Poland and Portugal, in their study. (Houghton and Winklhofer, 2004) have reported a slow response of SMEs relating to adoption of ICT, (Shiels et al. 2003) found that characteristics of the firm and industry sector are contributory factors to the adoption and exploitation of ICTs by SMEs, Kapurubandara et al. (2006) have categorized internal and external barriers that impede adoption of ICT by SMEs in a developing country. Statistics indicate computer usage in Kenya has increased over the years, 77% SMEs indicating they own a computer (Kiveu, 2008). However, majority use computers for basic applications like automation and communication.

Concerning searching markets being easy using ICT by the SMEs, more than half 113 (56.5%) of the of the respondents indicated to little extent while 76 (38.0%) of the respondents asserted to little extent that their business enterprise integrated the use of ICT in market identification and market access. This is supported from other studies by Kiveu, 2008, in a study on ICT adoption and use by SMEs, only 28% of interviewed SMEs had Websites and 24% indicated they used ICT for product marketing and e-commerce. The Government of Kenya in the Private Sector Development Strategy (PSDS) report which cited lack of access to markets and finance as the major constraints facing MSMEs. Market access in developing countries is a major challenge to small businesses due to market imperfections that can be attributed to lack of market information, lack of linkages between the actors in the supply chain, distortions or absence of input and output markets, high transaction cost and high presence of trade intermediaries. Different strategies exist for improving market access of which the use of ICT is one. Strategies that enhance market access greatly impacts on the performance of small enterprises (Shepherd, 2007) and the resource-based view (RBV) theory argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to superior long-term performance.

The respondents were asked to state whether ICT was integrated in promotion of Goods and Services of the firm for improved Performance of SMEs in the CBD Bungoma County and Table 4.9 demonstrates the study findings.

Table 4.9 Adoption of ICT in promotion of Goods and Services

Use of ICT in promotion of Goods and Services	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
Products are advertised online using ICT	36	18.0	49	24.5	100	50.0	15	7.5	200	100
ICT has reduced transaction cost	124	62.0	51	25.5	25	12.5	0	0.0	200	100

Findings showed that 36 (18.0%) of the respondents asserted to great extent that the Enterprise products were advertised online using ICT i.e. use of Radio/TV, Mobile phone Sms, websites, 49 (24.5%) to some extent, 100 (50.0%) to little extent while 15 (7.5%) of the respondents said virtually nothing to the statement. This is low in far as ICT integration in sales promotion. They further indicated that integration of ICT has reduced transaction cost i.e. online registration and obtaining licenses where 124 (62.0%) of the respondents indicated to great extent, 51 (25.5%) to some extent, and 25 (12.5%) to little extent while no respondent said virtually nothing to the statement. This is a relative increase in the number of firms that have been operating informally to being formally registered as a requirement of the Companies Act.

As presented in Table 4.9, the study established that there is low ICT integration in sales promotion whereby half 100 (50.0%) of the respondents asserted to little extent that the Enterprise products were advertised online using ICT i.e. use of Radio/TV, Mobile phone Sms, websites. From the theory of Resource based of competitive advantage, at the business strategy level, explorations of the relationships between resources, competition and profitability include the analysis of competitive limitation, the

appropriability of returns to innovations, the role of imperfect information in creating profitability differences between competing firms, and the means by which the process of resource accumulation can sustain competitive advantage. ICT can significantly impact the market –oriented dimensions of products and services (Ritchie & Bridley, 2005). Market –oriented ICT include websites which display the goods, services and information of a firm on the world wide-web (WWW). It can also integrate the e-commerce functionality, such as offering the ability to place orders. The www is a powerful platform for expanding and reaching new markets for SMEs while the Internet is critical in enhancing a firm's market reach and operational efficiency. In addition, ICT facilitates remote access to knowledge, suppliers and a borderless environment, offering SMEs the ability to deliver products and services on a different platform that is easily accessible. ICT can be used to reduce barriers of entry into different market segments exposing SMEs to a wider customer base (Lloyd & Kroeze, 2008). Mutula & Van Brakel (2006) noted that ICTs, especially the internet, have a significant impact on the operations of SMEs by facilitating their access to global markets, enabling them to sell to international customers, and to compete favourably with large corporations. ICT can enable SMEs to participate in the regional and international markets which are strategic for competitiveness, growth and further development (Ramsey et. al., 2003).

However, the use of ICT in registration has significantly reduced the transaction costs where majority of the respondents asserted to great extent by 124 (62.0%) responses. Registration of business has improved using ICT when compared to study by KIPPRA, 2008 which established that 72 per cent of the over 2,500 firms sampled were not registered; of those that were registered, only 8 per cent of sampled firms were formally registered as limited companies with the Registrar of Companies. Strategic use of ICTs is viewed as near solutions to firm’s problems e.g. ICT has the potential to reduce the impacts of distance, reduce transaction costs, be used in information gathering and dissemination, inventory control, and quality control. The study also established that the low level of business registration is due to the many registration requirements, the long period it takes, and the long distance to be covered to register hence ICT integration has reduced the costs.

The study sought to determine the adoption of ICT in Accounting Information Systems (AIS) in order to generate the firm's reports, data retrieval and sharing and decision making on Performance of SMEs in the CBD Bungoma County. Table 4.10 presents the study findings.

Table 4.10 Adoption of ICT in Accounting Information Systems (AIS) by SMEs

Adoption of ICT in Accounting Information Systems (AIS)	**GE**		**SE**		**LE**		**VN**		**TOTAL**	
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**
Information system members are keen to gather information that recognizes the external environment and competitors	40	20.0	66	33.0	52	26.0	42	21.0	200	100
ICT provide data in the system that is available and quickly retrievable	95	47.5	70	35.0	30	15.0	5	2.5	200	100
Enterprise customers are able to access the different types of reports generated by AIS on time	35	17.5	58	29.0	72	36.0	35	17.5	200	100
Reports produced communicates many nonfinancial measures of performance i.e. operational data such as units produced and sold by product type	91	45.5	47	23.5	40	20.0	12	6.0	200	100
ICT use automated AIS that contribute to make the information outputs more suitable for Decision-makers	116	58.0	64	32.0	16	8.0	4	2.0	200	100

Findings showed that 40 (20.0%) of the respondents asserted to great extent that the Enterprise Information system members are keen to gather the information that recognizes the external environment and competitors, 66 (33.0%) to some extent, 52 (26.0%) to little extent while 42 (21.0%) of the respondents said virtually nothing to the statement. This indicates low level of ICT integration in Accounting Information Systems (AIS) to generate reports for the SMEs in CBD Bungoma County.

Concerning AIS in data retrieval, 95 (47.5%) of the respondents asserted to great extent that ICT provide data in the system that is available and quickly retrievable, 70 (35.0%) to some extent and 30 (15.0%) to little extent while 5 (2.5%) of the respondents said virtually nothing to the statement. This is fair in terms of AIS in data retrieval by SMEs. On whether the Enterprise customers were able to access the different types of reports generated by AIS on time, 35 (17.5%) agreed to great extent, 58 (29.0%) to some extent and 72 (36.0%) indicated little extent while 35 (17.5%) said virtually nothing to the statement. There is low use of AIS in data sharing between the firms and their customers.

The SMEs managers were also asked to indicate whether reports produced AIS communicates many nonfinancial measures of performance i.e. operational data such as units produced and sold by product type and 91 (45.5%) agreed to great extent, 47 (23.5%) to some extent and 40 (20.0%) indicated little extent while 12 (6.0%) said virtually nothing to the statement. They were also asked whether firm's ICT use automated AIS that contribute to make the information outputs more suitable for Decision-makers and 116 (58.0%) agreed to great extent, 64 (32.0%) to some extent and 16 (8.0%) indicated little extent while 4 (2.0%) said virtually nothing to the statement. AIS generate reports on the performance of the business for decision making.

From Table 4.10, Findings showed that 66 (33.0%) of the respondents asserted to some extent that the Enterprise Information system members are keen to gather the information that recognizes the external environment and competitors. This is clearly supported by other studies by Chang (2001) asserts that accounting information plays a significant role in enhancing organizational effectiveness in a global competitive

environment. Doms, Jarmin and Klimek (2004) say that financial statements still remain the most important source of externally feasible information on companies.

Concerning AIS in data retrieval, 95 (47.5%) of the respondents asserted to great extent that ICT provide data in the system that is available and quickly retrievable. Information technologies have been paramount in recent decades and have been leading developments in the globalization and societies. Information technology plays a vital role in the accounting profession. It can be a strategic weapon to support the objective and strategy of the organization. This empirical evidence is highly supported by the Theory of Resource based of competitive advantage by Grant R, M.

The Enterprise customers were able to access the different types of reports generated by AIS on time, 72 (36.0%) of the respondents indicated little extent. According to world development report (1999), for leading countries in the world economy, the balance between knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living more than land, tools, and labor. Today's most technologically advanced economies are truly knowledge based. Countries in the world are moving from an industrial economy to a knowledge economy in which economic growth is dependent on a country's ability to create, accumulate and disseminate knowledge. Wolf, S. (2001) found that in most African countries, small and medium enterprise (SME) account for a significant share of production and employment and is therefore directly connected to poverty alleviation. Especially in developing countries SMEs are challenged by the globalization of production and the shift in the importance of various determinants of competiveness. In spite of their widespread use and continuing advance, there is some concern that accounting practice has not kept pace with rapid economic and high technology changes which invariably affects the value relevance of accounting information.

The SMEs managers indicated that reports produced AIS communicates many nonfinancial measures of performance i.e. operational data such as units produced and sold by product type by 91 (45.5%) of the respondents agreed to great extent so that most organizations get competitive advantage by use of new information system. In the view

of this fact, the key to organization's survival is the continuous improvement of its performance. The need to integrate these often diverse systems led to the accountant's appreciation of shared databases that provide a picture of the organization's data, eliminating duplications and reducing data conflicts (Moscove et al., 1999). The study further affirms by 116 (58.0%) to great extent that firm's ICT use automated AIS that contribute in making the information outputs more suitable for Decision-makers.

Automatic generation of a stream of accounting reports is of momentous importance to any organisation if it is to achieve sound financial success. Therefore, most organizations focus on developing information systems in order to support decision making, communication, knowledge management, as well as many others. The key part of information system needed for decision making in organization is accounting information system. Accounting information systems (AIS) is one of information systems that produce many amounts of data for use by decision makers both within and outside organizations.

Generally, the adoption of ICT in Accounting information systems (AIS) has been low by the SMEs in the CBD Bungoma County. This is heavily supported by Houghton and Winklhofer, 2004, Smallbone et al. 2001, Dawn et al. 2002) and Lawson et al. 2003 that despite the importance of ICT and emphasis by various governments to encourage SMEs to adopt ICT, it has been reported that SMEs have been slow in adopting ICT for various reasons. SMEs have limited financial and human resources to adopt ICT, (2002, Duan et al.) Identified lack of ICT skills and knowledge in SMEs as one of the major challenges faced by all European countries, particularly in the UK, Poland and Portugal, in their study. (2004, Houghton and Winklhofer) have reported a slow response of SMEs relating to adoption of ICT, (2003, Shiels et al.) found that characteristics of the firm and industry sector are contributory factors to the adoption and exploitation of ICTs by SMEs, (2006, Kapurubandara et al.) have categorized internal and external barriers that impede adoption of ICT by SMEs in a developing country. The internal barriers include owner manager characteristics, firm characteristics, cost and return on investment, and external barriers include: infrastructure, social, cultural, political, legal and regulatory. However it is not the investment in the technology alone but the combination with other

technologies and especially relevant skills that make ICT work. Most organizations have continued to increase spending on information system and their budgets continue to rise. Moreover, economic conditions and competition create pressures about costs of information. Generally, information system is developed using information technology to aid individuals in performing their jobs.

4.6 Availability of finance and the Performance of SMEs in the CBD Bungoma County

The study sought to assess how the availability of finance by Small Medium Enterprises influences the improvement of service delivery in the Central Business District Bungoma County under the following themes. On a scale of Great extent (GE), some extent (SE), little extent (LE) and virtually nothing (VN), the respondents were asked to state their opinion that best described their responses the availability of finance and its influence on Performance of SMEs in the CBD Bungoma County and Table 4.11 depicts the study findings.

Table 4.11 Availability of finance by SMEs

Sources of finance	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
Bulk of funds raised yearly by internal means	147	73.5	49	24.5	4	2.0	0	0.0	200	100
There limited external funding opportunities	133	66.5	31	15.5	21	10.5	15	7.5	200	100

Findings showed that 147 (73.5%) of the respondents agreed to great extent to which Businesses raise bulk of funding they need yearly by internal means as a source of finance by SMEs limits performance of SMEs, 49 (24.5%) to some extent, and 4 (2.0%) to little extent while no manager indicated virtually nothing to the statement. They also

indicated that there was limited external funding opportunities had an influence on Performance of SMEs whereby 133 (66.5%) of the respondents agreed to great extent, 31 (15.5%) to some extent, and 21 (10.5%) to little extent while 15 (7.5%) of SMEs managers indicated virtually nothing to the statement.

From Table 4.11, the findings showed that most of the respondents 147 (73.5%) agreed to great extent to which Businesses raise bulk of funding they need yearly by internal means as a source of finance by SMEs limit performance of SMEs. They also indicated that there were limited external funding opportunities which had an influence on Performance of SMEs by 133 (66.5%) of the respondents agreed to great extent. Business raise money either externally from investors or creditors or internally by retaining operating cash flows and therefore from study, most businesses raise the bulk of funding they need yearly by internal means.

Access to external financing influences the form of business. Sole proprietors and partnerships for instance face limited external funding opportunities as compared to companies which have access. Some companies decide to form corporations to enhance their capital base. Corporations can raise capital either by selling an ownership interest or by borrowing from creditors. In business terms, an ownership interest of for example security such as stocks is called equity and money borrowed from creditors is termed as debt and when corporations sell securities to investors the raise capital in a primary market transaction. In such a transaction, money flows from investors to firms and firms then invest the money to exploit investment opportunities. Investors who hold a firm's securities can trade them with other investors. Such secondary market trade transactions (trade between investors) generate no cash for the firm but the existence of an active secondary market makes the firm's securities more attractive to investors (Jonathan, 2005). To avoid bankruptcy which may expose firms to compulsory winding up or liquidation, the businesses should analyze the various funding sources and go for those that are suitable for their needs and finance availability by SMEs was inclined towards improved Performance of SMEs in the CBD Bungoma County.

Concerning the influence of access to finance by SMEs and how it inclined towards improved Performance of SMEs in the CBD Bungoma County, study findings are illustrated in 4.12.

Table 4.12 Access to finance by SMEs

Access to finance	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
Lack of access to credit hamper growth of business	151	75.5	41	20.5	5	2.5	3	1.5	200	100
High cost of credit, high bank charges and fees limit credit access	179	89.5	11	5.5	10	5.0	0	0.0	200	100

Findings showed that 151 (75.5%) of the respondents agreed to great extent that lack of access to credit hamper growth of business, 41 (20.5%) to some extent, and 5 (2.5%) said little extent whereas 3 (1.5%) reported virtually nothing to the statement. It was further indicated that high cost of credit, high bank charges and fees limit credit access and influenced Performance of SMEs by 179 (89.5%) of the respondents unanimously agreed to great extent, 11 (5.5%) to some extent, and 10 (5.0%) said little extent while no one reported virtually nothing.

From Table 4.12, access to finance had a bearing on Performance of SMEs whereby 151 (75.5%) of the respondents agreed to great extent that lack of access to credit hamper growth of business. There is every indication that high cost of credit, high bank charges and fees limit credit access and influenced Performance of SMEs by 179 (89.5%) of the respondents unanimously agreed to great extent. These findings are clearly supported by other studies by Wanjohi and Mugure, 2008). Lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered. Many SME's 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 SME's in Kenya. Investment climate indicators, including access to bank credit, piped water, electricity, crime incidences and negative perception of the courts in dealing with business disputes vary across counties and positively affect MSME growth. These results are consistent with the larger literature on the importance of access to bank credit, quality institutions and infrastructure for firm investment and growth.

Finally the respondents were asked to state their opinion on capital requirements by SMEs to examine its influence on improved Performance of SMEs in the CBD Bungoma County and Table 4.12 illustrates the study findings.

Table 4.13 Capital requirements by SMEs

Capital requirements	GE		SE		LE		VN		TOTAL	
	F	%	F	%	F	%	F	%	F	%
The issue of collateral is required	129	64.5	71	35.5	0	0.0	0	0.0	200	100
Low capital to support SMEs operations	119	59.5	51	25.5	13	6.5	17	8.5	200	100

Findings showed that 129 (64.5%) of the respondents agreed to great extent that the issue of collateral is required in raising capital, 71 (35.5%) to some extent while no SMEs respondent reported little extent and virtually nothing. It was also noted that low capital to support SMEs operations and investment limit their Performance and 119 (59.5%) of the respondents asserted to great extent, 51 (25.5%) to some extent, 13 (6.5%) said little extent while 17 (8.5%) reported virtually nothing.

Table 4.13 indicate that Capital requirements had an influence on Performance of SMEs whereby 129 (64.5%) of the respondents agreed to great extent that the issue of collateral is required in raising capital. It was also noted that low capital to support SMEs operations and investment limit their performance and 119 (59.5%) of the respondents asserted to great extent. These results are in agreement with other findings by Hirschland, (2005) who found that In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default - that is, any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral - and the lender then becomes the owner of the collateral. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter dealt with summary of findings of the study, conclusions and recommendations for further research. In the, descriptive statistics were used to discuss the responses from each set of the independent variables of the study. The section presents summary analysis of the percentage of responses of the specific objectives of the study as provided by the respondents in the questionnaires and interview schedule.

5.2 Summary of findings

The purpose of the study was to investigate the factors influencing Performance of SMEs in the CBD Bungoma County. In this sub section the research outlines summary of findings based on objectives of the study.

The study sought to determine how entrepreneur characteristics influence the Performance of Small and Medium Enterprises in the Central Business District Bungoma County. The findings from Table 4.2 portrayed that 74.5% of the respondents were male and 25.5% were female. The result shows that men were more involved in Small and Medium Enterprises in the Central Business District Bungoma County. These research findings are similar to other studies by Mazzarol et al. 1999; who found out that female were generally less likely to be founders of new business than male. Similarly, (1996, Kolvereid) found that males had significantly higher entrepreneurial intentions than females.

The age of the respondents was sought since its findings would assist the study categorize respondents based on age whereby 13.5% of the respondents were below 20 years, 26.5% were aged between 21-30 years, 44.5% were aged 31-40, 11.0% were aged between 40-50 years and 4.5% were above 50 years.

On establishment of Personality traits of the Respondents to examine the entrepreneur characteristics influence the improvement Performance of SMEs in the CBD Bungoma County and the study findings shows 49.5% of the respondents had O-Level

qualification, 29.5% had diplomas 12.5% had qualified with degrees, 7.5% possessed Masters while only 1.0% of SMEs managers had PhDs as their highest level of training. Education level of an SME owner is positively associated with the networking of the SME and the types of networks an SME is engaged in.

Concerning the duration of time business has been in operation, 20.0% of the respondents said they had operated their businesses for a period < one year, 17.5% of the respondents had only operated between 1-3 years. Between 3 and 5 years constituted 47.5% of the respondents, while those who had been in operation for more than 5 years were only 12.5% of the respondents. This is fair representation of SME owner/managers in the business with experience to counter the increase of globalization and technological advancements so that they face fewer problems in order to remain solvent with an increase in expenditure in relation to their earnings.

The respondents were also asked about their personality traits that motivate them to gain competitive advantage against their competitors and the responses were given towards entrepreneurial orientation and readiness, 28.0% of the respondents operated autonomously, 30.5% of the respondents were innovative in their line of business, half 50.5% of the respondents only knew that their business is about risk taking venture while 28.5% of the respondents cited to be competitively aggressive Performance of SMEs.

The study sought to establish how business characteristics influence performance of SMEs in the CBD Bungoma County. The findings showed that 20.5% of the respondents agreed to great extent that diverse business activity improved Performance of SMEs, 33.5% to some extent, and 19.5% to little extent while only 26.5% of SMEs managers indicated virtually nothing to the statement. They also indicated that the employee level of training and skills upgrading as a business activity had an influence on Performance of SMEs whereby 64.5% of the respondents agreed to great extent, 15.5% to some extent, and 10.5% to little extent while 9.5% of SMEs managers indicated virtually nothing to the statement.

On whether the size of business is positively related to Performance of SMEs as a Business Characteristics, 15.0% of the respondents agreed to great extent, 48.0% to some

extent, 21.0% said little extent whereas 16.0% reported virtually nothing to the statement. It was further indicated that the Number of business establishments influenced Performance of SMEs by 39.5% of the respondents agreed to great extent, 30.5% to some extent, and 21.5% said little extent while 8.5% reported virtually nothing. The size if the business enterprises in CBD Bungoma influenced their performance.

The study also determined whether Business location and security had an influence on Performance of SMEs and the study findings revealed that 19.5% of the respondents agreed to great extent, 35.5% to some extent, 24.5% said little extent while 20.5% reported virtually nothing. The extent of security in an area is directly related to service delivery of SMEs. It was also noted that simple business regulatory reforms have a positive outcomes in terms of increasing business Performance of SMEs and 59.5% of the respondents asserted to great extent, 25.5% to some extent, 6.5% said little extent while 8.5% reported virtually nothing.

The study sought to determine how the adoption of Information Communication Technology (ICT) influences the Performance of SMEs in the CBD Bungoma County under the following themes. The findings showed that 12.5% of the respondents asserted to great extent the enterprise possessed Computer, Telephone Computer and networks, 40.0% to some extent, 37.5% to little extent while 10.0% of the respondents said virtually nothing to the statement. This was highly noted with cybercafés, supermarkets, and some chemists and a few restaurants.

Concerning searching markets has been easy using ICT by the SMEs, 2.0% of the respondents indicated to great extent, 41.0% to some extent, and 56.5% to little extent while 0.5% said virtually nothing to the statement. On whether the business enterprise integrated the use of ICT in market identification and market access; 15.0% of the respondents indicated to great extent, 28.0% to some extent, and 38.0% to little extent while 19.0% said virtually nothing to the statement. This could be attributed to Kenyan youths lack vocational skills after dropping out of secondary school education as most of the SMEs were owned by O-Level graduates.

The respondents were asked to state whether ICT was integrated in promotion of Goods and Services of the firm for improved performance of SMEs in the CBD Bungoma County and the findings showed that 18.0% of the respondents asserted to great extent that the Enterprise products were advertised online using ICT i.e. use of Radio/TV, Mobile phone Sms, websites, 24.5% to some extent, 50.0% to little extent while 7.5% of the respondents said virtually nothing to the statement. This is low in far as ICT integration in sales promotion. They further indicated that integration of ICT has reduced transaction cost i.e. online registration and obtaining licenses where 62.0% of the respondents indicated to great extent, 25.5% to some extent, and 12.5% to little extent while no respondent said virtually nothing. This is a relative increase in the number of firms that have been operating informally to being formally registered as a requirement of the Companies Act.

The study sought to determine the use of ICT in Accounting Information Systems (AIS) in order to generate the firm's reports, data retrieval and sharing and decision making. Findings showed that 20.0% of the respondents asserted to great extent that the Enterprise Information system members are keen to gather the information that recognizes the external environment and competitors, 33.0% to some extent, 26.0% to little extent while 21.0% of the respondents said virtually nothing to the statement. This indicates low level of ICT integration in Accounting Information Systems (AIS) to generate reports for the SMEs in CBD Bungoma County.

Concerning AIS in data retrieval, 47.5% of the respondents asserted to great extent that ICT provide data in the system that is available and quickly retrievable, 35.0% to some extent and 15.0% to little extent while 2.5% of the respondents said virtually nothing to the statement. This is fair in terms of AIS in data retrieval by SMEs. On whether the Enterprise customers were able to access the different types of reports generated by AIS on time, 17.5% agreed to great extent, 29.0% to some extent and 36.0% indicated little extent while 17.5% said virtually nothing to the statement. There is low use of AIS in data sharing between the firms and their customers.

The SMEs managers were also asked to indicate whether reports produced AIS communicates many nonfinancial measures of performance i.e. operational data such as

units produced and sold by product type and 45.5% agreed to great extent, 23.5% to some extent and 20.0% indicated little extent while 6.0% said virtually nothing to the statement. They were also asked whether firm's ICT use automated AIS that contribute to make the information outputs more suitable for Decision-makers and 58.0% agreed to great extent, 32.0% to some extent and 8.0% indicated little extent while 2.0% said virtually nothing to the statement. AIS generate reports on the performance of the business for decision making.

Finally the study sought to assess how the availability of finance influenced the Performance of SMEs in the Central Business District Bungoma County under the following themes. The findings showed that 73.5% of the respondents agreed to great extent to which Businesses raise bulk of funding they need yearly by internal means as a source of finance by SMEs limit Performance, 24.5% to some extent, and 2.0% to little extent while no manager indicated virtually nothing to the statement. They also indicated that there was limited external funding opportunities had an influence on Performance of SMEs whereby 66.5% of the respondents agreed to great extent, 15.5% to some extent, and 10.5% to little extent while 7.5% of SMEs managers indicated virtually nothing.

On whether access to finance had a bearing on Performance of SMEs and 75.5% of the respondents agreed to great extent that lack of access to credit hamper growth of business, 20.5% to some extent, and 2.5% said little extent whereas 1.5% reported virtually nothing to the statement. It was further indicated that high cost of credit, high bank charges and fees limit credit access and therefore influenced Performance of SMEs by 89.5% of the respondents unanimously agreed to great extent, 5.5% to some extent, and 5.0% said little extent while no one reported virtually nothing.

The study also determined whether Capital requirements had an influence on Performance of SMEs and the study findings revealed that 64.5% of the respondents agreed to great extent that the issue of collateral is required in raising capital, 35.5% to some extent while no SMEs respondent reported little extent and virtually nothing. It was also noted that low capital to support SMEs operations and investment limit their Performance and 59.5% of the respondents asserted to great extent, 25.5% to some extent, 6.5% said little extent while 8.5% reported virtually nothing.

5.3 Conclusion

The purpose of the study was to investigate the factors influencing Performance of SMEs in the CBD Bungoma County and the conclusion of the study is analyzed as per objectives in subsections highlighted as follows:

Result shows that men were more involved in Small and Medium Enterprises in the Central Business District Bungoma County. Female were generally less likely to be founders of new business than male. Therefore males had significantly higher entrepreneurial intentions than females. Reasons for these gender disparities in SMEs include limited access to finance, stringent collateral requirements, Women's double duties. The root causes of limited financial success were often attributed to early management practices of the women entrepreneurs. Female owners tended to prefer internal to external sources of financing. In addition, women used smaller amount of capital at the start-up phase and that they are less likely to use financial instruments such as overdrafts, bank loans, and supplier credit.

The findings show that most of the respondents were between 31-40 years of age which clearly indicate that most micro and small enterprises are owned and mainly run by people in their late 20s and early 30s which comprise of the youthful population. The influence of the age of the owner/manager advocates for the younger owner/manager; the argument here rests on the fact that the younger owner/manager has the necessary motivation, energy and commitment to work and is more inclined to take risks and more entrepreneurially active hence improved Performance of SMEs. The logic is that the older owner/manager is likely to have reached his/her initial aspiration. Therefore there is a significant correlation between age of the entrepreneur and business success.

Majority of the respondents had O-Level training as their highest level of education. The low education background SME owners' limited networking hence the education level of an SME owner is positively associated with the networking of the SME and the types of networks an SME is engaged in. The youths are faced with insufficient vocational skills, social capital and limited understanding of market dynamics. An estimated 67 per cent of Kenyan youths lack vocational skills after

dropping out of secondary school education, and this has led to low service delivery in the CBD Bungoma County. Most of the SMEs had duration of time business in operation between 3 and 5 years working experience. Sector experience or prior SME experience as owner/manager tends to correlate with greater growth.

When it comes to Entrepreneurial orientation and readiness, the respondents averagely cited at 35.4% responses that success is driven by entrepreneurial orientation and readiness. This has jeopardized equitable economic growth and social cohesion by denying the country a chance to reap from the potential benefits of her growing youth population because of low Entrepreneurial orientation and readiness.

Business Characteristics of SMEs had an influence on Performance of SMEs where most of the respondents indicated to some extent that firm's diverse business activity improved service delivery and strongly cited that employee level of training and skills upgrading in operation of SMEs influenced performance of SMEs in the CBD Bungoma County. The experience on the part of the owner/ manager is a factor contributing to the survival of the business. Size of business is positively related to Performance as a Business Characteristics of SMEs enhanced Performance of SMEs

It was further indicated that the Number of business establishments inclined towards performance of SMEs. Business location and security had a bearing on performance of SMEs and the study findings revealed that most of the respondents agreed to some extent. Crime incidences and political instability negatively affect firm investment and growth. The extent of security in an area is directly related to Performance of SMEs. It was also noted that simple business regulatory reforms have a positive outcomes in terms of increasing business performance of SMEs.

A few firms to some extent that possessed ICT equipments such as Computer, Telephone Computer and networks and this is, however, low adoption rate of ICT by SMEs despite the importance of ICT and emphasis by various governments to encourage SMEs to adopt ICT. SMEs have limited financial and human resources to adopt ICT. Lack of ICT skills and knowledge in SMEs is one of the major challenges. Moreover, those firms such as cybercafés, supermarkets, Pharmaceuticals that adopted Technology

employed ICT for product marketing and e-commerce. This is supported by Government of Kenya in the Private Sector Development Strategy (PSDS) report which cited lack of access to markets and finance as the major constraints facing MSMEs. Findings also showed that there is some extent in integration of ICT in Accounting Information Systems (AIS) in reports generation, data retrieval and sharing and decision making for those that possessed ICT.

However, very few Enterprise customers were able to access the different types of reports generated by AIS on time. In spite of their widespread use and continuing advance, there is some concern that accounting practice has not kept pace with rapid economic and high technology changes which invariably affects the value relevance of accounting information. Moreover, economic conditions and competition create pressures about costs of information. Generally, information system is developed using information technology to aid individuals in performing their jobs.

The findings showed that most businesses raise bulk of funding they need yearly by internal means as a source of finance by SMEs which were limited. The external funding opportunities had an influence on Performance of SMEs. Access to external financing influences the form of business. Access to finance had a bearing on Performance of SMEs where by majority of the respondents agreed to great extent that lack of access to credit hamper growth of business. There is every indication that high cost of credit, high bank charges and fees limit credit access and influenced Performance of SMEs. Lack of access to credit is almost universally indicated as a key problem for SME's. This affects technology choice by limiting the number of alternatives that can be considered.

Many SME's 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. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. Finally the study also determined whether Capital requirements had an influence on Performance of SMEs where the issue of collateral is required in raising capital. It was

also noted that low capital to support SMEs operations and investment limit their Performance.

5.4 Recommendations

On the basis of the findings and conclusions above, this section presents the recommendations of the study as follows:

1. Increase programmes for SMEs empowerment especially female gender and also enhances adequate business skills mainly attributed to low levels of education.

2. The County Government to facilitate training and skills upgrading in operation of SMEs to achieve service delivery in the CBD Bungoma County. Improve security and simple business regulatory reforms that have positive outcomes in terms of increasing business service delivery.

3. Increased rates of ICT adoption for accounting practice in market identification and access, promotion of goods and services and Accounting Information Systems (AIS) which has not kept pace with rapid economic and high technology changes which invariably affects the value relevance of accounting information.

4. Increased access to finance for youth in improving the SMEs sector.

5.5 Recommendation for future research

Due to limited time, we recommend other studies to be carried on the following areas:

1. Other similar studies to be carried out in other counties to compare and generalize the study findings.

2. Influence of Accounting Information Systems (AIS) on Performance of SMEs.

3. Perception of ICT adoption by SMEs and its Performance.

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APPENDICES

APPENDIX I: Transmittal Letter

The Respondents

Dear Respondent,

RE: FILLING OF THE QUESTIONNAIRE

I am a postgraduate student at University of Nairobi carrying out a Research Project on the *FACTORS INFLUENCING PERFORMANCE OF SMEs IN CENTRAL BUSINESS DISTRICT BUNGOMA COUNTY, KENYA*. Your business has been sampled for the study and therefore I humbly request you to kindly respond to the questions asked as sincerely and accurately. The ultimate goal of the study is to provide insights into the aspect of SMEs on service delivery. I am assuring you that the information you will give will be treated with utmost confidentiality and will only be used for the purpose of this study. To assist in concealing your identity I request you do not write your name or anything that can lead to the revelation of your identity.

I will be very grateful for your co-operation and thank you in advance.

Yours Faithfully,

Jacqueline Nabutola

APPENDIX I: QUESTIONNAIRE AND INTERVIEW SCHEDULE

APPENDIX I: QUESTIONNAIRE FOR MICRO-ENTREPRENEURS

Dear Respondent,

I am a student from the University of Nairobi. Kindly take some time to fill this questionnaire. The questionnaire is to facilitate a research on *"Factors influencing performance of SMEs in Central Business District Bungoma County, Kenya"* The research findings will be used for informing policy makers, educationists and stakeholders on impact of SMEs on economic development of Kenya

Please respond by ticking in the brackets provided and fill in the blank spaces where necessary

SECTION A: In what ways do entrepreneur characteristics influence the Performance of SMEs in the CBD Bungoma County?

1. Name of institution ……...…
2. Designation…… Gender……
3. Please indicate the highest level of your academic qualification.

O- Level [ ] Diploma [ ] Degree [ ] Masters Degree [ ] Doctorate [ ] Other-specify[……..]

4. Please indicate your age bracket

< 20 Yrs [ ] 21-30 Yrs [ ] 31-40 Yrs [ ] 41-50 Yrs [ ] 51-60 Yrs [ ] > 60 Yrs [ ]

5. Please indicate the Number of years in business

< 5 years [ ] 5-10 years [ ] 10-15 years [ ] >15 years [ ]

Indicate the extent to which you believe the following entrepreneur factors affect performance of the enterprise. Please, put a tick in the appropriate cell that most adequately reflects your view in relation to the given statement. Each statement is rated on a 4 point scale as shown below. **GE:** To a great extent, **SE:** To some extent, **LE:** little, **VN:** Virtually nothing

Entrepreneur characteristics and its influence on Performance of SMEs in the CBD Bungoma County		**To a great extent**	**To some extent**	**Little extent**	**Virtually nothing**
6.	Gender				

7.	Education Level				
8.	Personality				

SECTION B: How do business characteristics influence the Performance of SMEs in the CBD Bungoma County?

9. Name of Business……

10. Location/Stall No……

11. Type of Economic Activity

Retail [ ] Boutique and Hair salon [ ] Hotel & Restaurant [ ] Cyber cafe [ ]

Chemists [ ] Workshops [ ] Supermarkets [ ] Agri-business/Agro-vets [ ]

Construction & Research [ ] Others [ ]

12. Number of employees excluding owner

None [ ] 1-10 [ ] 10-50 [ ] Above 50 [ ]

13. For how long has the current business been operating?

Under 6 months [ ] Under 1 year [ ] 2 years [ ] Over 2 years [ ]

Indicate the extent to which you believe the following business factors affect on the Performance of SMEs. Please, put a tick in the appropriate cell that most adequately reflects your view in relation to the given statement. Each statement is rated on a 4 point scale as shown below. **GE:** To a great extent, **SE:** To some extent, **L:** little, **VN:** Virtually nothing

Business characteristics and its influence on Performance of SMEs in the CBD Bungoma County		**To a great extent**	**To some extent**	**Little extent**	**Virtually nothing**
14.	Diverse Business activity improve SMEs Performance				
15	Size of business is positively related to Performance				
16.	Number of establishments improves SMEs Performance				
17.	Business location and security affects growth of SMEs				
18.	Simple business regulatory reforms				

SECTION C: How does the adoption of Information Communication Technology influence Performance of SMEs in the CBD Bungoma County?

This section seeks to find out the extent to which the adoption of Information Communication Technology (ICT) influences the Performance of SMEs in the CBD Bungoma County?

19. Have you heard about electronic commerce?

YES [ ] NO [ ]

20. Where did you get information about electronic commerce?

Radio, TV [ ] Newspapers [ ] other traders [ ] Sales representatives [ ]

21. What is your level of awareness on the type of services provided by electronic commerce?

Very Low [ ] Low [ ] Medium [ ] Very High [ ]

22. Do you think electronic commerce applications are assisting small- scale traders?

YES [ ] NO [ ]

23. Has your enterprise incorporated the use of ICT in service delivery?

YES [ ] NO [ ]

If YES, Kindly respond to the following statements each rated on a 4 point scale as shown below. **GE:** To a great extent, **SE:** To some extent, **LE:** little, **VN:** Virtually nothing

Integration of ICT on Performance of SMEs in the CBD Bungoma County		**To a great extent**	**To some extent**	**Little extent**	**Virtually nothing**
24.	To what extent does your enterprise possesses Computer, Telephone Computer networks				
25.	Has the business integrated the use of ICT on market identification, market access and promotion of Goods and Services?				
26.	The use of ICT has lead to reduction in transaction cost such as online registration, and obtaining of licenses				
27.	Searching markets has been easy using ICT				
28.	The enterprise products and services are advertised online using ICT i.e. use of Radio/TV, Mobile phone				

	Sms, websites				
29.	Information system members are keen to gather the information that recognizes the external environment and competitors				
30.	The enterprise customers are able to access the different types of reports generated by AIS on time				
31.	Reports produced communicates many nonfinancial measures of performance particularly operational data such as units produced and sold by product type				
32.	ICT provide data in the system that is available and quickly retrievable				
33.	ICT use automated accounting information systems that contribute in make the information outputs more suitable for Decision-makers.				

SECTION D: To what extent does the availability of finance influence the Performance of SMEs in the CBD Bungoma County?

This section seeks to find out the extent to which the availability of finance influence the Performance of SMEs in the CBD Bungoma County. Please, put a tick in the appropriate cell that most adequately reflects your view in relation to the given statement and some statements are rated on a 5 point scale as shown below. **SA:** Strongly Agree, **A:** Agree **N:** Neutral, **D:** Disagree, **SD:** Strongly Disagree

34. Have you ever tried to obtain credit from microfinance or financial institutions?

Yes [ ] No [ ]

35. Did you encounter any obstacles while trying to obtain credit from them?

Yes [ ] No [ ]

36. If the answer above is yes, give details of the problem encountered

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Indicate with a tick the extent to which you agree to each of the following statements on financing small and medium enterprises

S/NO.	Objectives of finance on Performance of SMEs in the CBD Bungoma County	SA	A	N	D	SD
37.	Loans should only be given to individuals who are members of a recognized group of at least 5 persons					
38.	One must have saved some money within the group for a period of time to qualify for a loan					
39.	Lenders to review collateral requirements for loans					
40.	Have the balance sheets and Profit and Loss have changed over time					

Thank you for your time and input

INTERVIEW SCHEDULE

1) Bio data information
    - Gender
    - Designation
    - Qualification

Research Questions

2) In what ways do entrepreneur characteristics of Small and Medium Enterprises influence the improvement of service delivery in the CBD Bungoma County?
3) How do business characteristics of SMEs influence the improvement of service delivery in the CBD Bungoma County?
4) How does the use of Information Communication Technology (ICT) by SMEs influence the improvement of service delivery in the CBD Bungoma County?
5) To what extent does the availability of finance to Small and Medium Enterprises influence the improvement of service delivery in the CBD Bungoma County?
6) To what extent does your enterprise possesses Computer, Telephone and Computer networks
7) Has the business integrated the use of ICT on market identification, market access and promotion of Goods and Services?
8) What aspect of ICT that has lead to reduction in transaction costs?
9) Has the business integrated ICT inform of Accounting Information System (AIS) for reports generation, decision making and data retrieval and sharing for competitive advantage?
10) How does the enterprise raise capital to support business operations and investment?
11) To what extent does the balance sheets and Profit and Loss have changed over time?
12) On a scale of 1-5 [1-Very good, 2-Good, 3-Fair, 4-Poor, 5-Very poor] how would you

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28th April, 2014

TO WHOM IT MAY CONCERN

REF: JACQUELINE NABUTOLA – L50/73050/2014

This is to confirm that the above named is a student at the University of Nairobi, College of Education and External Studies, School of Continuing and Distance Education, Department of Extra-Mural Studies, Kakamega Extra-Mural Centre taking a Course in Master of Arts (Project Planning and Management). She has completed her course work for Semester 1, 2 and 3 and she is working on her Project Paper.

She is undertaking a Research Project entitled, "Influence of Small and Medium Micro-Enterprises on Improvement of Service Delivery in Central Business District Bungoma County".

Any assistance accorded to her will be highly appreciated.

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