# FACTORS INFLUENCING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE TEA FIRMS IN MOMBASA COUNTY, KENYA

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

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# DECLARATION

I declare that this project is my original work and has not been presented in any other university or any higher learning for examination.

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**L50/71836 /2008**

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

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# DEDICATION

This project is dedicated to my loving husband Henry and sons Aiden and Remy for their endless support while I pursued this course.

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# ABSTRACT

The SME sector contributes greatly to the economic growth and thus currently recognized and therefore there are high expectations of the SME sector. The purpose of this study was to establish factors influencing the performance of small and medium enterprises (SME) Tea firms in Mombasa County, Kenya. To achieve this, the study was guided by four objectives which included: to examine how access to finance influence the performance of SMEs Tea firms in Mombasa County, Kenya; to establish how availability to business information services influencing the performance of SMEs Tea firms in Mombasa County, Kenya; to determine the extent of the association between entrepreneurs attributes and performance of SMEs Tea firms in Mombasa County, Kenya and to establish the influence of government policies and regulations on the performance of SMEs Tea firms in Mombasa County, Kenya. The study adopted a descriptive research design. The study population was 120 SME Tea Firms owners in Mombasa County. This study used simple random sampling to sample 93 respondents. The study used a questionnaire in order to collect data. The questionnaire had both open and close ended questions. The completed questionnaires were checked for completeness to ensure consistency. The data was then coded to enable the responses to be grouped into various categories. The findings were presented by use of tables. From the findings the study concluded that that regulatory and administrative environment cause major obstacles for SME Tea Firms to access financing. The study also concluded that credit and collateral policies did not allow SMEs to use certain assets as collateral. The study concluded that access to information had been not given the same attention as other constraints to improve the performance of SME and those SMEs that made good use of structured marketing information services experienced higher business performance. The study concludes that the government provides training and development for SMEs on marketing of tea outside Kenya. The study made the following recommendations: the Government of Kenya should adopt ways on how to finance SMEs; business information services need to be made accessible to all business people in the market and government policy and regulations that affect the business should be adjusted so that to ensure they do not affect the performance of the business in a negative way.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

In the current global economy, small and medium enterprises (SMEs) are progressively being regarded as powerful engines for economic empowerment and development for most economies in the world (Islam, Khan, Obaidullah & Alam, 2011). Muraguri (2010) argues that small and medium enterprises have been known to contribute greatly in economic growth of both developed and developing countries. SMEs share of overall employment for instance tends to be higher in developing countries which are typically more focused on small scale production (Tybout, 2000). Survey of 3 over 28,000 small and medium enterprises in Africa and Latin America reveal that less than 3% of SMEs expand by 4 or more employees after start-up (Mahmoud, 2011), likewise the baseline survey of 1999 estimated that 80% of the SMEs failed within their first three years after starting up (GOK, 2001). Swerczek & Ha (2003) further point out that industrial development policy authorities in most developing countries globally have realised the substantial contribution made by SMEs towards attainment of sustainable local economic development and poverty reduction through creation of job opportunities.

Study by Abor & Quartey (2010) revealed that approximately 91 percent of formal business entities in South Africa's economy are SMEs contributing 57% to the gross domestic product. According to the National Credit Regulator (2011), SMEs in South Africa contribute nearly 61 percent to the country's total employment. In light of the view that research on performance of SMEs has dominated policy discussions on the theme of industrial development, the importance of SMEs performance cannot be under-estimated; especially in face of the recent global business dynamics and industrialization (Akhtar, 2007). While the contributions of small and medium businesses to development are generally acknowledged, entrepreneurs face many obstacles that limit their long-term survival and development. Research on SMEs growth and sustainability has revealed that the rate of failure in developing countries is higher than in the developed world (Ihua, 2008). Scholars have indicated that starting a business is a risky venture and warn that the chances of SMEs owners making it past the five-year mark are very slim. The owners

should therefore develop both long-term and short-term strategies to guard against failure (Sauser, 2005).

Studies have shown a positive relationship between SMEs and economic growth in developed countries (Harris and Gibson, 2008; Monk, 2000; Sauser, 2005). However, far less research has been conducted on this relationship in developing countries. Studies in small and medium business development and performance are necessary in countries like Kenya because of the dissimilarities in the process between developed and developing countries (Ihua, 2009). It is also essential to understand the factors influencing small and medium business performance in African countries because they are significantly different from those facing developed countries. These Factors include: access to business information services, availability of managerial experience, government policies and regulations, technological input in payment system and access to finance.

### 1.2 Statement of Problem

Small businesses increasingly face competition and probable extinction not only from their peers but also from large corporations participating in niche markets once regarded the preserve of smaller businesses. Reliance on domestic markets for business growth is proving to be unreliable for many SMEs. Consequently, SMEs need to identify, prioritize and effectively tackle these challenges in order to improve their performance and relevant in the business world. The Government of Kenya has placed a lot of emphasis on development of SMEs as a means of encouraging self-employment, poverty reduction and accelerating economic growth. Despite their significance, recent studies show that SMEs fail within the first few months of operation. Studies also show that it is hard for the SMEs to access finances from the financial institutions since they lack proper financial records as a requirement.

Zindiye (2008) did an empirical investigation into the factors affecting the performance of small and medium enterprises in the manufacturing sector of Harare, Zimbabwe. The findings indicated that high rate of inflation and other economic factors such as foreign currency shortage, interest rate and exchange rate negatively affected the performance SMEs. Nabintu (2013) carried out a study to establish the factors influencing the performance of small and micro enterprises (SMEs) traders at city park hawkers market

in Nairobi County, Kenya. The study established that access to finance influence performance of SMEs; that access to business information services affected the performance of the business to a great extent; technology affected the businesses to a very great extent by facilitating communication with both the supplier and customers, by easing the transportation of goods and by easing the marketing of our products. The study however focussed on (SMEs) traders at city park hawkers market in Nairobi County while the researcher seeks to establish factors influencing the performance of small and medium enterprises (SMEs) Tea firms in Mombasa County, Kenya.

The above discussion reveals that many studies have been done on the factors influencing the performance of SMEs. However, the studies conducted are in different context and may not apply wholesomely to the Kenyan context and more specifically to Tea firms in Mombasa County. From these literature evidences, this study seeks to establish factors influencing the performance of small and medium enterprises (SMEs) Tea firms in Mombasa County, Kenya.

### 1.3 Purpose of the Study

The study sought to establish factors influencing the performance of small and medium enterprises (SME) Tea firms in Mombasa County, Kenya.

### 1.4 Objectives of the Study

The study sought to achieve the following objectives:

1. To examine how access to finance influence the performance of SMEs Tea firms in Mombasa County, Kenya.
2. To establish how availability to business information services influence the performance of SMEs Tea firms in Mombasa County, Kenya.
3. To determine the extent of the association between entrepreneurs attributes and performance of SMEs Tea firms in Mombasa County, Kenya.
4. To establish the influence of government policies and regulations on the performance of SMEs Tea firms in Mombasa County, Kenya.

## 1.5 Research Questions

The study sought to answer the following research questions:

1. How does access to finance influence the performance of SMEs Tea firms in Mombasa County, Kenya?
2. To what the extent does availability of business information services influence the performance of SMEs Tea firms in Mombasa County, Kenya?
3. To what extent does the association between entrepreneur's attributes and performance of SMEs Tea firms in Mombasa County, Kenya?
4. How do government policies and regulations influence performance of SMEs Tea firms in Mombasa County, Kenya?

## 1.6 Significance of the Study

The study research finding would be important to SMEs owners in Mombasa County and beyond as the findings would help them identify and deal with factors that influence the performance of SMEs.

This study would help policy makers and development partners to formulate policies to better performance of SMEs. The government can utilize the results to promote its development agenda and Vision 2030. Development partners would also find this research useful in developing programs for funding of activities aimed at improving the performance of SMEs in Kenya.

This study would provide a contribution to the scholarly discourse concerning SMEs in Kenya. This would be important to future researchers who may want to use the findings of this research as a basis for advancing their arguments.

## 1.7 Delimitation of the Study

The scope of this study was registered SMEs firms in Mombasa County. A representative sample of SMEs in Mombasa County were be selected and this saved on time and money.

### 1.8 Limitation of the Study

The respondents may decline to answer the questions for the fear of victimizations especially where such information may be viewed as leaking company secrets. The researcher assured the respondents of confidentiality in all the responses they give.

The respondents might give the situations as it should be instead of giving the situation as it is. The researcher used both closed and open ended questions in the data collection instruments; this would curb this situation of untruthful answer. The researcher also used both primary and secondary data to reduce the occurrence of such a situation.

### 1.9 Assumptions of the Study

The study assumed that all respondents in the sample could read and write in English would give an honest account of events. The study also assumed that respondents would cooperate willingly and there would be a more than 76% response rate in order to validate the results of the study. The study further assumed that questionnaires would be returned in time and duly completed.

### 1.10 Definition of Terms used in the Study

**SMEs:** A business that has sales of between Ksh 500, 000 – Ksh 1 million a year and 10–50 employees.

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

**Government policy and Regulation:** A plan or course of action, as of a government, political party, or business, intended to influence and determine decisions, actions, and other matters.

**Entrepreneur attributes:** Are character traits or personality traits.

**Finance:** The science that describes the management, creation and study of money, banking, credit, investments, assets and liabilities.

**Business information:** Deals with the provision and management of information, content and knowledge in organisations.

### 1.11 Organisation of the Study

Chapter one captured the background of the study, the statement of the problem, purpose of the study, objectives and significance of the study. It also covered the research questions, assumptions made in the study, limitations and delimitations. The chapter further covered definitions of key terms used in the study. Chapter two discussed the literature review literature, theories related to factors affecting the performance of SMEs Tea firms SMEs in the tea sector and an overview of SMEs. Chapter three covered the research methodology used to conduct the study. Also, it is structured into research design, target population, sample size and sampling procedure, pilot testing, data collection procedure, data analysis techniques and methods and operational definition of variable. Chapter four presented the result of the study findings. Chapter five presented the summary, discussions, conclusions and recommendation on specific factors affecting the performance of SMEs.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the literature and theories related to performance in business sectors and factors affecting it, factors influencing the performance of SMEs, SMEs in the Tea sector, an overview of SMEs and the conceptual framework.

## 2.2 An Overview of SMEs

SMEs in any country do contribute to economic growth. However, there are challenges and opportunities that they face. SMEs are majorly defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location and the market share (Kasekende & Opondo, 2003). Small and medium-sized enterprises (SMEs) are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees (Achanga, Shehab, Roy & Nelder, 2006). The European Union (2011) defines SMEs as any entity engaged in an economic activity, irrespective of its legal form. Enterprises qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the recommendation of the European Union. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

The Micro, Small and Medium Enterprise (SME) Act 2012 has combined employment with other measures of size and defined a Small Enterprise as a business that has sales of between Ksh 500, 000 – Ksh 1 million a year, or has 10–50 people working it (SME Act 2012), therefore based on the above varied definitions, this research categorized the Small Enterprises as firms size with workers between 10 and 49 while the medium Enterprises are firms with workers between 50 and 150. In the United States, the upper limit size for SMEs is set at 500 employees for most manufacturing and mining industries (US Small Business Administration, 2009). In the European Union, a medium enterprise is one that employs up to 250 people (Commission Recommendation, 2003). In China,

SMEs can include relatively large firms like an industrial SME can have up to 2,000 employees, while a medium-sized business has between 301 and 2,000 employees and a small business has less than 300 workers (Benzing and Chu, 2009).

In Kenya, "micro-enterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers. Censuses indicate that micro and small enterprises comprise the major portion of enterprises in Kenya, while there are a few medium enterprises (Parker and Torres, 2004). The small and medium enterprises (SMEs) play an important role in the Kenyan Economy.

According to the KNBS (2007) the SMEs in Kenya contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation Negative perception towards SMEs is one of the most significant challenges facing the performance of 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 whereas larger companies are opted for their clout in the industry and name recognition (Egbetokun, Adeniyi & Siyanbola, 2010).

There are about 1.3 million micro and small enterprises in Kenya employing about 2.4 million people. About two-thirds of all SMEs are located in the rural areas. About 17% are found in Nairobi and Mombasa. Nairobi and Mombasa account for 9.7% of the national population. Out of the total 1,289,012 SMEs in the country, Nairobi and Mombasa account for 204,280 of them; this is 15.8%. Compared to their population, Nairobi and Mombasa have a relatively high number of SMEs. Thus, compared with the other strata, the major urban areas have a higher density of SMEs per given population. The average number of people working in each enterprise is 1.8. In Nairobi and Mombasa, the average is 2.0, and in the rural towns, it is 1.6 (SME Act, 2012).

According to data from the Local Authority Integrated Financial Operation Management Systems Business activity code summary 2013, the county of Mombasa have registered 34,245 Small and Medium Enterprises. The main activities of business registered are

identified by codes. This study focused on SMEs operating within Mombasa County. The SMEs operate within the area cuts across all lines of business including General Trade, wholesale and Retail, Manufacturing, Education, Agriculture, Hospitality, Building and Construction, Clearing and Forwarding among others.

### 2.3 SMEs in the Tea Sector

Most SMEs in Kenya are in the agricultural sector. Majority of the people practice subsistence farming while a very small number practice large-scale farming. Some people work as wage labourers in coffee farms or tea plantations. They depend on the small wages and life becomes rather unbearable at times. For those who practice small-scale farming, their primary source of income is from the sale of farm produce. Some are in small businesses like the selling of agricultural goods in market places, while others trade in livestock and the selling of milk. There are a wide range of small businesses operating within the agricultural sector (Aris, 2007).

According to Günterberg and Kayser (2004), forging linkages between enterprises and foreign multinational corporations can hasten SME development in developing countries like Kenya. Linkages can be classified as either forward or backward. For instance, multinationals may forge forward linkages with local firms. One such linkage would be marketing outlets where multinationals outsource the distribution of brand new products. Although Mombasa County does not have the appropriate climate for growing tea, Mombasa-based firms do obtain raw materials for processing and resale into domestic and export markets. Tea manufactured for retail and foodservice markets has been an important component of food and beverage processing in the county for many years. SMEs in the tea sector are experiencing growth because consumers enjoy the taste and versatility of its products and also because consumers are aware of health benefits associated with drinking tea. While traditional black tea is still the preferred type, a wide variety of specialty teas and iced teas are now being consumed.

Availability ready market from locals and the tourists and infrastructure in Mombasa County in addition to the changing lifestyles and relaxation in policies has given a considerable push to the growth of SMEs Tea firms. The Tea sector is among the few that serves as a vital link between the agriculture and industrial segments of the economy.

Strengthening this link is of critical importance to improve the value of agricultural produce; ensure remunerative prices to farmers and at the same time create favourable demand for Kenya agricultural products in the world market. A thrust to the food processing sector implies significant development of the agriculture sector and ensures value addition to it (Sanne, 2008).

Many small and medium-sized enterprises (SMEs) in Mombasa have rationalized and focussed their operations to remain competitive against the strong multinational enterprises. These strategies involve the development of specialty products for market niches, such as organic or fairly traded products. In some cases SMEs also co-pack brand name products for MNEs, produce private-label products or make products for use by foodservice operations such as tea houses and restaurants. Profitability of the SME Tea firms is affected by the prices firms have to pay for inputs to production. For the tea industry, fluctuating prices for tea leaves affect production costs and in order to maintain profits, SMEs are under increased pressure to improve productivity and cut costs. Recent higher prices for tea due to droughts and shortages in tea producing regions have been a challenge to tea companies, thus SMEs (manufacturers) pass the costs on to consumers for them to obtain profits and for sustainability (Otieno, 2012).

### 2.4 Access to Finances and performance of SMEs

The major universally indicated key problem for SMEs is lack of access to credit/ finance. 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, is not enough to enable SMEs undertake their business activities optimally. Insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high cost short term finances. The various financial challenges that SMEs face include: high cost of credit, high bank charges and fees and lack of proper infrastructure (Kauffmann, 2005).

Wanjohi and Mugure (2008) in their study revealed the extent entrepreneurs' need for credit among the common and low earning businesses as 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 reason for opting

for these schemes among a good number of entrepreneurs was majorly to seek finances and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya.

Finding the starting capital for most business is one of the major hurdles that many entrepreneurs go through and even after obtaining the starting capital, acquiring sufficient finance to sustain business growth is yet another challenge (Carter, Greene & Hart, 2003). Study by Kinyanjui (2006) has established how SMEs are constrained by finance. Other studies by Kiiru, Mirero and Masaviro (1988) for Kenya Rural Enterprise Programme (K-Rep) confirmed further that the chief constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (2013) established that finance was rated among the biggest problem.

Eeden (2004) carried out a study on challenges facing SMEs in South Africa. The study found that finance was one of the most prominent constrains. The study further revealed that the problem related to finance included: lack of information on where to source for finance; restrictive lending offered by commercial banks; lack of access to finance; insufficient financing; lack of track record required by the banks; limited access to collateral and inappropriate structure of financial institutions when dealing with SMEs.

Access to finance is paramount for the growth of SMEs' competitiveness, as SMEs have to invest in new technologies, skills and innovation (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative like mobilizing joint advocacy and recommendations based on sound analyses through their membership organizations. Eeden (2004) suggests further that SMEs must adopt and implement sensible business practices and continuously invest in good internal management systems in accounting, planning, financial, operations and human resource management.

Ihyembe (2000) reported that SMEs claim that financing, particularly long-term financing is the greatest obstacle to growth and investment. The challenges come at two

levels. In least developed economies and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment cause major obstacles for SMEs to access financing (Chu, Cynthia and McGee, 2007).

In some economies, there is inadequate capital, property rights may be a hindrance to ownership of land, underdeveloped markets don't favour the transfer of immovable assets, credit and collateral policies may not allow SMEs to access certain assets to be used as collateral (e.g. future acquired property), absence of registries increases risks to lenders for mortgages and pledges, weaknesses in legislation and in the judiciary may hamper contract enforcement and asset liquidation (Kinyanjui, 2006).

Most of these obstacles may be due to poor organizational capacity. For instance in developing economies, underdeveloped marketing, accounting, auditing, financial management and legal counsel services and other essential services that SMEs may need when they approach banks and other types of lenders may result in SMEs not being able to access or afford such services (Cassar and Holmes, 2003).

In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For example, even though SMEs are the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be limited (Nyambura, 2013).

Majority of the formal financial institutions consider SMEs as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most SMEs are located (Hamisi, 2012). The present legal and policy framework for financial services is less supportive of smaller borrowers and needs to be addressed. The banking act prohibits MFI's from taking deposits from customers for re-investments; this act should be reviewed so that MFI's can build strength to finance

SMEs. Furthermore, post office act prohibits post bank from lending and the co-operatives act does not offer effective supervision among savings and credit co-operative societies (SACCOs). Despite the increasing number of MFI's, the rural SMEs are starved as MFI's are not in the rural areas because of limited resource base and lack of institutional capacity to provide wide range of financial services (Hatten, 2012).

Lack of access to credit/ finance is almost universally indicated as a major constraint for SMEs. This further affects the choice of technology by limiting the number of alternatives that can be considered (Amyx, 2005). In some cases, despite the available finances, the SMEs lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan (Nyan'au, 2013). Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces SMEs 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.

### 2.5 Availability of Business Information Services and Performance of SMEs

For the SMEs sector in developing countries, Kenya included to observe sustainable levels of growth and development, availability of business information services has been identified as one area that needs attention from governments and business services providers. Many SMEs firms in Africa and Kenya specifically, operate in an information insufficient environment due to lack of adequate business support services and the poor information technological infrastructures (Oshikoya and Hussain, 2007). Access to information has however been not given the same attention as other constraints to improve the performance of SMEs like access to finance, markets, technology or training (Kauffmann, 2005).

Availability of business information services for SMEs over the years has been enhanced with the emergence of various information and communication technologies. In developed countries, SMEs enjoy easy access to business information services due to well developed information and communication technologies (ICT) infrastructure and easy access to computer hardware and software while in developing economies there are many challenges regarding ICT infrastructure and the cost of IT hardware and software.

This has brought many challenges in the area of business information services for the SMEs sector. Despite the effort of governments and business service providers try to address the many challenges facing the SME sector, it is also necessary to note that SMEs identify and adopt the present use of ICT in accessing business information services in order to provide more development support in this area (Levy, 2000).

A research study conducted by Cacciolatti, Fearne and McNeil (2011) indicated that SMEs that make good use of structured marketing information services experienced higher probability of performance growth. Mahmoud (2011) concluded that the higher the level of market information resulted in greater the level of performance in Ghanaian SMEs. The study of Keh, Nguyen and Ng (2007) showed that there was a positive relationship between availability and utilization of business information and the performance of the firm.

**2.6 Entrepreneurs' Characteristics and Performance of SMEs**

Many empirical studies have focussed on the relationship between the characteristics of the entrepreneur and the performance of a firm. Within the broad category of owner-manager characteristics Storey (2006) suggests five elements which are likely to influence the performance of a firm. These are: age, gender, education, motivation, previous work experience of the owner/manager. On gender of entrepreneur, Kentor (2001) and Chell (2001) reported that most SMEs firms owned by men were bound to perform better than those owned by women. This could be attributed to the following factors: limited access to finance; stringent collateral requirements and women's double duties (Jones-Evans, 2000).

On the influence of the age of the entrepreneur, the younger entrepreneur have the necessary motivation, energy and commitment to work and is more inclined to take risks as the older entrepreneurs are likely to have reached their initial aspiration. Basic education enhances the overall quality of the business owner by providing the basic numeric and literacy skills, thus increasing the chance of survival (Carter and Jones-Evans, 2000). Some studies state that the fact that a business owner has a higher level of education seems to stimulate the growth and better performance of the firm, thus having an impact on survival, growth and performance (Hall, 2001).

The converse argument is that SMEs entrepreneurs who have higher level of education generally achieved lower performance rates than those less well educated (Kenneth, 2006). Majority of those who run SMEs in Africa are ordinary lot whose educational background is lacking. Hence they may not well be equipped to carry out managerial routines for their enterprises (King & McGrath, 2002). Management skills relate to the owner/manager and the enterprise. Desouza and Awazu (2006) reported that management is concerned with the deployment of material, human and finance resources with the design of organization structure. Hayton (2003) looks at management as a process of getting tasks accomplished with and through people by guiding and motivating their efforts.

Studies have generally found that SME owners with more managerial, sector experience or prior SME experience as owners tend to correlate with greater performance (Storey et al., 1989). A study carried out by Hall (2001) 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. Sigh, Reynolds & Muhammad (2001) in their study found no relationship between prior SME experience and firm performance. Storey (2006) found reasonable evidence indicating a negative relationship between being unemployed before starting a business and subsequent business performance.

Cant and Lightelm (2003) in a survey of small business failure maintain that entrepreneurs often have good ideas and are competent but they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals. Professional experience has been cited as an important factor affecting many aspects of entrepreneurial firms. Experience takes many guises and breadth of experience is shown to be an important factor driving the performance of firms, with the number of previous jobs positively related to new firm performance (Lumpkin and Marvel 2007). Thapa (2007) reported that the likelihood of SMEs failure was also found to be associated with the owner/manager's work experience prior to business launch and education.

The ability of the SMEs entrepreneur to motivate affects the performance of a firm. Beaver (2003) makes a distinction between positive and negative motivation. Positive motivation includes the perception of market opportunities for a product or service and

the desire to make money while negative motivation encompasses dissatisfaction with an existing employer and threat of actual unemployment. Blackman (2004) showed that the characteristics of the entrepreneur would influence the following: market opportunity, ways of handling business challenges, personal achievement, employment creation, independence, improvement of social status, profit, growth target thereby having effect on the performance of the firm.

### 2.7 Government Regulations and Performance of SMEs

The Kenya government's policy for industrialization and commerce soon after independence in 1963 was geared towards expansion of overall output focusing on large scale enterprises (Aleke, 2003). According to this policy, the assumption was that only such enterprises should contribute towards growth. It was however much later in the 1970's that it was realized that the large enterprises were not growing fast enough to solve unemployment problems. Attention was thereafter focused on small enterprises. The government policy before and thereafter has not been very favourable to the small enterprises. The Kenyan government passed a micro-finance bill aimed at encouraging more resources to be channelled to SMEs in early 2007. SMEs have typically had very little recourse to traditional sources of capital. The 2006/2007 budget raised the VAT registration threshold from KSH 3 million to KSH 5 million to exclude SMEs from collecting VAT, which can be a tedious bureaucratic and costly process.

Matovu (2012) observes that governments that are concerned with the promotion of small enterprises should examine the impact of its policies and programmes on the small businesses. Owino et al (2013) make similar observation that government regulation about wages; taxation, licensing and others are among the important reasons why informal sector business develops. Without careful attention, government policies could crush the small business sector of any economy. While many countries have acknowledged that small enterprises have an important role in their economies, not much effort has been done to facilitate their growth. They have to compete for finance, markets, personnel, and utilities like any other business unit (Nabintu, 2013). In a few countries especially India, there has been affirmative action to promote small enterprises over a long period.

In Uganda, the government has little concern on SMEs as the Uganda Investment Authority (UIA) which was set up to promote investments in Uganda has no considerations for small entrepreneurs (Gibb, 2000). The UIA would only support proposals from companies with more than US$50,000 to invest. The development banks in the country did not have programmes for small enterprises. It is only the non-governmental organizations and specialized financial institutions that have come in to assist small enterprises (Balunywa and Sejjaaka, 2012). It is easier for a large enterprise to get land for industrial development and a license to operate the business than the small operator. Large enterprises get easy access to utilities than small enterprises. Consequently there is no enabling environment to promote small operators.

## 2. 8 Theoretical Foundation

This study is based on four theories: resource based view theory, signalling theory, the balanced scorecard and the pecking order theory. These theories are explained in details below:

### 2.8.1 Resource Based View Theory (RBV)

Wernefelt (1984) came up with the Resource based view theory to advance the idea that strategy of a firm as a function of the complement of the resources held. The core of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors. Firms have different collections of resources (tangible and intangible assets) and no two firms are similar in terms of the resources they hold, moreover, the resources a firm holds determine how well that firm would carry out its operations. A company would be posited to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy and therefore Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the firm to perform its activities better than competitors thereby improving its performance. RBV describes a firm in terms of the integrated resources and that resources are limited to those attributes that enhance efficiency, effectiveness and performance of the firm

(Wernerfelt, 1984). Miller and Shamsie (1996) refer that resources should have some capability to generate profits or to avoid losses.

### 2.8.2 Signalling Theory

Signalling theory is based on the transfer and interpretation of information at hand about a business enterprise to the capital market and the requisition of the resulting perceptions into the terms on which finances made available to the enterprise. In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them (Beck, Demirgüç-Kunt and Martinez Peria, 2008). Watson, Keasey and Baker (2000) assert that of the ability of small enterprises to signal their value to potential investors, only the signal of the disclosure of an earnings forecast were found to be positively and significantly related to enterprise value amongst the following: percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue (presuming that a more reputable accountant, banker or auditor may cause greater faith to be placed in the prospectus for the float) and the level of under pricing of an issue.

### 2.8.3 The Balanced Scorecard

The balanced scorecard (BSC) suggests that managers should consider the organization's performance from four dimensions, financial perspective, customer perspective, innovation & learning perspective, internal perspective (Kaplan and Norton 1996). BSC integrates financial and non-financial measures into one measurement system. The objectives and standards of BSC are obtained from the organization's vision and strategy. The Balanced Scorecard provides managers with a comprehensive framework that translates a company's vision and strategy into a coherent set of performance measures. Kaplan & Norton (1996) showed that the balanced scorecard not only allows the monitoring of present performance, but also tries to incorporate information about how well the organization is positioned to perform in the future. In addition, the Balanced Scorecard has evolved to become a core management tool, in that it helps the management of firms to clarify, communicate and manage strategy. In practice, companies use the BSC approach to accomplish four critical management processes, clarify and translate vision and strategy, communicate and link strategic objectives and

measures, plan, set targets, and align strategic initiatives and enhance strategic feedback and learning.

### 2.8.4 The Pecking Order Theory

This is another financial theory, which is to be considered in relation to SMEs financial performance and management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy (Norton, 1991). A research study by Zoppa and McMahon (2002) revealed that 75% of the small enterprises used seemed to make financial structure decisions within hierarchical or pecking order framework. According to Cassar and Holmes (2003), the Pecking Order Theory is consistent with small business sectors because they are owner managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

## 2.9 Conceptual Framework

According to Mugenda and Mugenda (2003) conceptual framework is a diagrammatic presentation of the relationship between dependent and independent variables. In this study, the dependent variable is performance of SMEs while independent variables are availability of business information services, access to finance, entrepreneurs' characteristics and government policy and regulations as presented in figure 1.

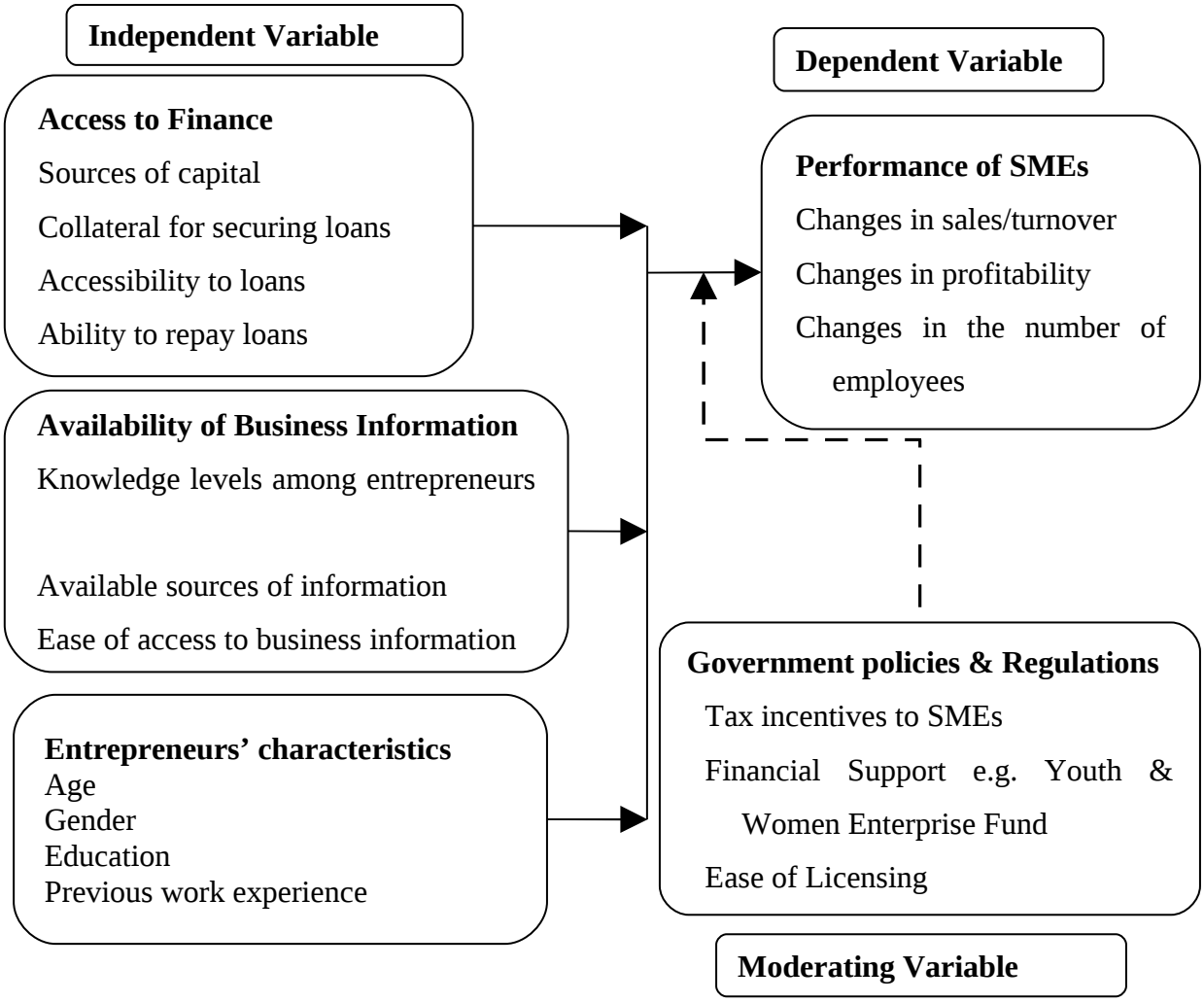


**Figure 1: Conceptual Framework**

### 2.10 Summary of the Literature and Research Gap

Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well be equipped to carry out managerial routines for their enterprises (King & McGrath, 2002). Management skills relate to the owner/manager and the enterprise. Desouza and Awazu (2006) argue that management is concerned with the deployment of material, human and finance resources with the design of organization structure. Hayton (2003) observes that the growth of many enterprises of all sizes, suggest that the scarcity of competent managers is a more serious constraint on economic

development. As the enterprise becomes larger, the more need for managers to plan, coordinate and control the activities of the enterprise.

Keyser, De Kruif and Frese (2000) found that in Zambia that lack of starting capital was a common problem for entrepreneurs, as only 24% received a loan to start their business. Another study by Koop, de Reu, and Frese (2000) established that the amount of starting capital was positively related to business success. Other negative factors that have been identified include corruption, poor infrastructure, poor location, failure to conduct market research and the economy (Kiggundu, 2002). The study therefore seeks to establish factors that influence the performance of SMEs Tea firms in Mombasa County.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter presents the research methodology that was adopted in conducting the study in order to achieve the study's objective which is to establish the factors that influence the performance of SMEs Tea firms Mombasa County, Kenya. The chapter is thus structured into research design, target population and sample, data collection and data analysis.

## 3.2 Research Design

Research design is a plan outlining techniques and strategies on how information is to be gathered for an assessment or evaluation that includes identifying the data gathering method, the instruments to be used, how the instruments would be administrating and how the information would be organized and analysed (Chandran, 2004). This study adopted a descriptive survey design. Mugenda (2008) reported that descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Robson, (2002) revealed that descriptive research portrays an accurate profile of persons, events, or situations. Kothari (2004) also pointed out that descriptive research design describes the characteristics of particular individual or group and is concerned with specific predictions and narration of facts. Mugenda and Mugenda (2003) describe descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. Inferences about relationships between variables are made from concomitant variables.

## 3.3 Target Population

Ngechu (2004) refers target population as a well defined or set of people, services, elements, events, group of things or households that are being investigated. The target population of this research study was 120 registered Small and Medium Enterprises Tea firms' owners within Mombasa. These populations was chosen for study because of their long term experience in the SMEs sector and their involvement in this study generated valuable information that would be of help in understanding the sector.

### 3.4 Sample Size and Sampling Procedure

The section discusses the sampling procedure and how the sample size was obtained. The sampling design refers to the sampling method used to arrive at the sample size. For the purpose of this study, all the 120 Tea MSEs target population because they can easily be accessed from tea auction market besides the population being small. Therefore there was no sampling.

### 3.5 Data Collection Instrument

The study used questionnaires to collect primary data through interviews as research tools (Kothari, 2004). Questionnaires were suitable for this study as they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals (Gall and Borg, 1996). The questionnaire was semi-structured and was administered through drop and pick-later method to the sampled population.

Secondary data was obtained from literature in books, journals, magazines among other sources. Self-administered questionnaires allowed the participants to respond to the questions by themselves and at their own pace. They ease the respondents' burden by giving them the time to think through their responses (Monsen and Horn, 2007).

### 3.6 Pilot Study

A pilot study was conducted to test the reliability and validity of the research. According to Orodho (2003), a pilot test helps to test the reliability and validity of data collection instruments. If a measurement is valid, it is also reliable (Joppe, 2000). The pilot test comprised 10 SMEs firms in Mombasa County. However, to ensure that the study findings are not compromised, the respondents who took part in the pilot study were not included in the final study. According to Mugenda and Mugenda (2003) a pilot study can comprise of between 4-10 members of the target population.

### 3.7 Validity and Reliability of Research

This section presents a discussion on the validity and reliability tests carried out by the researcher in order to achieve the study's objective which is to establish the factors that influence the performance of SMEs Tea firms Mombasa County, Kenya

### 3.7.1 Validity of the Instruments

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are (Joppe, 2000). Validity is high if the study contains what one wants to study and nothing else. Validity takes three forms: construct, internal and external. Construct validity refers to data collection, internal validity is a link between theory and empirical research and external validity refers to the domain to which the findings can be generalized. Construct validity was addressed by administering the questionnaires to the SMEs which was studied. Internal validity was addressed by considering existing theories and external validity was addressed by studying all the firms in the research area.

### 3.7.2 Reliability Analysis

A pilot study was carried out to determine reliability of the instrument used in the collection of data. This was to ensure that the instrument collect reliable and valid data. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Reliability refers to the extent to which a measuring instrument contains variable errors that appear inconsistent from observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Construct validity is established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions they are employing (Nachmias & Nachmias, 2008). Easy Reg International a statistical programme was used as the tool of analysis to test the relationship between the dependent variable and the four independent variables as indicated in the table below. Cronbach's alpha of well above 0.7 implies that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, the construct validity of the instruments was considered reasonable (Brown, 2000).

**Table 3.1: Reliability and Validity**

| Variable/Construct description | Item Means | Coefficient Alpha Reliability |
|---|---|---|
| Access to finance | 9 | 0.738 |
| Business Information Services | 3 | 0.912 |
| Entrepreneurs' Characteristics | 6 | 0.824 |
| Government Regulations | 6 | 0.832 |

### 3.8 Data Collection Procedure

The researcher administered the questionnaires to the relevant respondents with the aim of obtaining the necessary information. Research assistants were used to assist the researcher in gathering the information. The assistants were trained so that they understand the research study, what was expected of them and ethical considerations that they should observe. The questionnaire was divided into four parts. The first section was on demographic and operational characteristics. The second section handled finance and performance of SMEs firms, second part was on business information services and performance of SMEs firms, the third part was on the entrepreneurs' characteristics and performance of SMEs firms while the fourth part was on government policies and regulations and performance.

### 3.9 Data Analysis Techniques and Methods

The questionnaire was checked for completion and reliability of the data. The quantitative data was then coded and analyzed using descriptive statistics such as percentages and mean and standard deviation. Descriptive statistics was used mainly to summarize the data. This included percentages and frequencies. A Likert scale and the use of Statistical Package for Social Sciences (SPSS version 20.0) was employed to aid in the coding, entry and analysis of the data obtained through the questionnaires. Tables were used to present the data collected for ease of understanding and analysis. Measures of central tendency was applied (mean, median, mode and percentages) for quantitative variables. Pearson's correlations analysis was conducted at 95% confidence interval and 5% confidence level 2-tailed to determine the relationship between the access to finance, availability of business information services entrepreneur's characteristics, government regulations and the performance of SMEs. If the relationship established is found to be

positive, then this would indicate that there is a correlation between the factors and the performance of SMEs firms in Mombasa County.

### 3.10 Ethical Considerations

A researcher must confirm to the principle of voluntary consent where the respondents willingly participate in research. Informed consent should be based on the information regarding: the purpose of the research study, identification of the researcher, any benefits that may be received Mugenda and Mugenda, 2003). Mugenda (2008) notes that participation in research is voluntary and subjects are at liberty to withdraw from the study at any time without any consequences. The researcher communicated this to the respondents before the start of the study. The researcher through the trained assistants ensured that all respondents fully understand all the details pertaining to the study. No respondent was forced to take part in the study but was done voluntarily. According to Bryman and Bell (2007) plagiarism refers to passing off another person's work as if it were your own, by claiming credit for something that was done by someone else. It is taking and using another person's thoughts as if they were your own. Care was taken to ensure that all work borrowed from other scholars is acknowledged.

### 3.11 Operationalization of definition of Variable

**Table 3.2: Operationalization of definition of Variables**

| Objectives | Variables | Indicators | Measurement Scale | Data Analysis method | Tools of Analysis |
|---|---|---|---|---|---|
| To examine how access to finance affects the performance of SMEs Tea firms | Independent | Sources of capital; collateral; accessibility to loans; ability to pay loans | Interval Nominal | Descriptive | Central tendency dispersion, correlation analysis |
| To establish how availability to business information services affects the performance of SMEs Tea firms | Independent | Knowledge level; sources of information; ease of access to information | Interval Nominal | Descriptive | Central tendency dispersion, correlation analysis |
| To determine the extent of the association between entrepreneurs characteristics and performance of SMEs Tea firms | Independent | Age, Gender, Education, Previous work experience, family entrepreneurial | Interval Nominal | Descriptive | Central tendency dispersion, correlation analysis |
| To establish the influence of government policies and regulations on the performance of SMEs Tea firms | Independent | Tax incentives Financial Support Ease of Licensing | Interval Nominal | Descriptive | Central tendency dispersion, correlation analysis |

# CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

## 4.1 Introduction

This chapter presents the data collected from the field, analysis and interpretation. The study sought to establish factors influencing the performance of small and medium enterprises (SME) Tea firms in Mombasa County, Kenya. To achieve this, the study was guided by four objectives: To examine how access to finance influence the performance of SMEs Tea firms, to establish how availability to business information services influence the performance of SMEs Tea firms, to determine the extent of the association between entrepreneurs attributes and performance of SMEs Tea firms and to establish the influence of government policies and regulations on the performance of SMEs Tea firms Data was collected using questionnaires as the data collection instruments whose presentation and interpretation is given below through the use of a frequency distribution tables, mean and standard deviation; and correlation analysis.

## 4.2 Response Rate

The study targeted 120 respondents from Mombasa County who operated small and medium enterprise Tea firms. Out of the 120 questionnaires distributed only 93 questionnaires were filled and returned. This gave a response rate of 78%. According to Mugenda and Mugenda (2003) a statistically significant response rate should be at least 50%. The results are shown below in Table 4.1:

**Table 4.1: Response Rate**

| Response Rate | Frequency | Percentage |
|---|---|---|
| Response | 93 | 78 |
| Non response | 27 | 23 |
| **Total** | **120** | **100** |

### 4.4 Demographic Characteristics of the Respondents

The analysis in this section relates to the number of employees, business ownership type, number of years in operation, annual turnover of SME firms and where they sell their tea.

#### 4.4.1 Number of employees

The study sought to establish the number of employees the SME Tea Firms had. The finding was as shown on Table 4.2:

**Table 4.2: Number of employees**

| Number of employees | Frequency | Percentage |
|---|---|---|
| Less than 10 | 5 | 5.4 |
| Between 11 and 50 | 53 | 57.0 |
| Between 51 and 100 | 25 | 26.9 |
| More than 100 | 10 | 10.8 |
| **Total** | **93** | **100.0** |

From the finding in table 4.2, the study found that 5.4% of the respondents indicated that they had less than 10 employees, 10.8% of the respondents had more than 100 employees, 26.95 of the respondents indicated between 51 and 100 employees whereas majority of the respondents 57% said between 11 and 50 employees.

#### 4.4.2 Business Ownership Type

The study sought to establish the business ownership type. The finding was as shown on Table 4.3

**Table 4.3: Business Ownership Type**

| Business Ownership Type | Frequency | Percentage |
|---|---|---|
| Self owned and self run | 48 | 52 |
| Self owned and employees run | 18 | 19 |
| Self owned and family run | 23 | 25 |
| Third party owned and employees run | 4 | 4 |
| **Total** | **93** | **100** |

From the finding, the study found that majority of the respondents 52% showed self owned and self run, those who indicated self owned and family run were 25% ,19% of the respondents said self owned and employees run while least indicated third party

owned and employees run were only 4%. Therefore, the study involved businesses that had different kind of ownership thus bringing the different factors that influenced the Tea firms from the different type of ownership.

### 4.4.3 Number of years in Operation

The study further sought to establish the number of years the business had been in operation. The finding was as shown on Table 4.4:

**Table 4.4: Number of years in Operation**

| Number of years in Operation | Frequency | Percentage |
|---|---|---|
| Less than 5 years | 12 | 13 |
| 6-20 years | 63 | 68 |
| More than 20 years | 18 | 19 |
| **Total** | **93** | **100** |

From the findings, 13% of the respondents said they had been in operation for less than 5 years, 19% indicated more than 20 years while majority of the respondents 68% said they had been in operation for 6-20 years. This means that the study involved respondents who had sufficient experience in the SME Tea firm sector to give valid responses on the factors that influenced the performance of the firms.

### 4.4.4 Annual Turnover of SME Tea Firms in Mombasa County

The study sought to establish the annual turnover of the SME tea firms in Mombasa County. The finding was as indicated on Table 4.5:

**Table 4.5: Annual Turnover (Kenya Shillings)**

| Annual Turnover (Kenya Shillings) | Frequency | Percentage |
|---|---|---|
| Less than 1 Million | 8 | 8.6 |
| 1-4 Million | 25 | 26.9 |
| 5- 8 Million | 38 | 40.9 |
| More than 8 Million | 22 | 23.7 |
| **Total** | **93** | **100.0** |

From the responses, the study found that majority 40.9% indicated that their annual turnover was between 5- 8 million, 26.9% said between 1-4 million whereas those who

indicated more than 8 million were 23.7% and only 8.6% of the respondents said less than 1 million.

### 4.4.5 Where they sell their Tea

The study also sought to establish where the respondents sold their tea. The finding was as shown on Table 4.6:

**Table 4.6: Where they sell their Tea**

| Where they sell their Tea | Frequency | Percentage |
|---|---|---|
| Locally – Kenya | 53 | 57 |
| Regionally – East Africa | 28 | 30 |
| Internationally – Other regions apart from EAC | 12 | 13 |
| **Total** | **93** | **100** |

From the finding in table 4.6, the study established that majority of the respondents 57% sold their tea locally- Kenya, 30% indicated that they sold their tea regionally – East Africa while those who said they sold their tea internationally- other regions apart from EAC were 13%.

## 4.5 Influence of Access to Finance and the Performance of SME Tea Firms

The study sought to establish the extent to which the respondents agreed with the following statements on the influence of access of finance on the performance of SME tea firms. The findings were as shown on Table 4.7:

**Table 4.7: Access to Finance and Performance of SME Tea Firms**

| | Mean | Std Dev |
|---|---|---|
| Insufficient access to long-term finance for SMEs has forced me to rely on high cost short term finances | 3.63 | 0.75 |
| High bank charges and fees has hindered my accessibility to finances | 4.12 | 1.05 |
| Finding the starting capital for my business was a major hurdle | 3.94 | 0.88 |
| I have a good accounting procedure for my business finances | 3.38 | 0.79 |
| I do advance planning for my business | 3.71 | 0.96 |
| Regulatory and administrative environment cause major obstacles for SMEs to access financing | 3.78 | 0.59 |
| Lack of access to credit/ finance affects the choice of technology by limiting the number of alternatives that can be considered | 3.47 | 0.99 |
| Credit and collateral policies may not allow SMEs to use certain assets as collateral | 4.21 | 0.83 |
| SMEs are capable of paying loans on time | 3.82 | 0.78 |

On whether insufficient access to long-term finance for SMEs had forced the respondents to rely on high cost short term finances, the respondents agreed with a mean of 3.63 and a standard deviation of 0.75. The finding agrees with Kauffmann (2005) who reported that insufficient access to long-term finance for SMEs has forced most SMEs in Kenya to rely on high cost short term finances. The respondents also agreed with a mean of 4.12 and a standard deviation of 1.05 that high bank charges and fees had hindered their accessibility to finances. The finding also agreed Kauffmann (2005) who showed that the various financial challenges that SMEs face include: high cost of credit, high bank charges and fees and lack of proper infrastructure.

Whether finding the starting capital for the business was a major hurdle, the respondents agreed with a mean of 3.94 and a standard deviation of 0.88 that finding the starting capital for the business was a major hurdle. The finding coincides with Carter, Greene & Hart (2003) who argued that finding the starting capital for most business is one of the major hurdles that many entrepreneurs go through and even after obtaining the starting capital, acquiring sufficient finance to sustain business growth is yet another challenge.

Whether the respondents have good accounting procedure for their business finances, the respondents were neutral with a mean of 3.38 and a standard deviation of 0.79. The finding is impartial to Cassar and Holmes (2003) who highlighted that developing economies, underdeveloped marketing, accounting, auditing, financial management and legal counsel services and other essential services that SMEs may need when they approach banks and other types of lenders may result in SMEs not being able to access or afford such services. The respondents further agreed with a mean of 3.71 and a standard deviation of 0.96 that they had advance planning for their businesses.

On regulatory and administrative environment cause major obstacles for SMEs to access financing, the respondents agreed with a mean of 3.78 and a standard deviation of 0.59 that regulatory and administrative environment caused major obstacles for SMEs to access financing. The finding agrees with Chu, Cynthia and McGee (2007) who established that in least developed economies and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments

pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment cause major obstacles for SMEs to access financing

Whether lack of access to credit/ finance affects the choice of technology by limiting the number of alternatives that can be considered, the respondents were neutral with a mean of 3.47 and a standard deviation of 0.99 that lack of access to credit/ finance affected the choice of technology by limiting the number of alternatives that can be considered. The finding is neutral to Amyx (2005) who established that lack of access to credit/ finance is almost universally indicated as a major constraint for SMEs. This further affects the choice of technology by limiting the number of alternatives that can be considered. The respondents agreed with a mean of 4.21 and a standard deviation of 0.83 that credit and collateral policies may not allow SMEs to use certain assets as collateral. The finding also agrees with Nyan'au (2013) who found out that in some cases, despite the available finances, the SMEs lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. In addition, the respondents agreed with a mean of 3.82 and a standard deviation of 0.78 that SMEs were capable of paying loans on time. The finding contradicts with Hamisi (2012) who concluded that majority of the formal financial institutions consider SMEs as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where most SMEs are located.

The respondents were further asked to indicate the source of finance for their businesses; the study established that Savings, Bank Loans, Microfinance Institutions, Donations from family and friends and Sacco Loan were the main source of finance for the businesses. The respondents also indicated financial support from the government through the youth and women trust fund was the source of finance for the business. In addition, the respondents said that Nongovernmental organisations (NGOs) were also a source of finance for the business

The study further sought to establish how sufficient this source was for your business. The finding was as indicated on Table 4.8:

**Table 4.8: Extent of Finance Source Sufficiency**

| | Frequency | % |
|---|---|---|
| Very sufficient | 2 | 2.2 |
| Sufficient | 16 | 17.2 |
| Moderately sufficient | 28 | 30.1 |
| Less sufficient | 35 | 37.6 |
| Not sufficient at all | 12 | 12.9 |
| **Total** | **93** | **100.0** |

From the responses, the study found out that 2.2% of the respondents said the finance source was very sufficient, 17.2% said sufficient, 30.1% said the source of finance was moderately sufficient while majority of the respondents 37.6% reported that the finance source was less sufficient and only 12.9% of the respondents indicated that the source of finance for the business was not sufficient at all.

On the extent to which accessibility of finance affected the performance of SMEs Tea firms; the finding was as shown on Table 4.9:

**Table 4.9: Extent Accessibility to Finance and Performance of SMEs Tea Firms**

| | Frequency | % |
|---|---|---|
| Very great extent | 67 | 72.0 |
| Great extent | 24 | 25.8 |
| Moderate extent | 2 | 2.2 |
| **Total** | **93** | **100.0** |

The responses revealed that 72% of the respondents indicated that accessibility to finance affected the performance of SMEs Tea firms to a very great extent, 25.8% said it affected to a great extent, 2.2% of the respondents indicated that that accessibility to finance affected the performance of SMEs Tea firms to a moderate extent while none of the respondents 0% said that accessibility to finance affected the performance of SMEs Tea firms to a small extent or not at all. This means that accessibility to finance affected the performance of SMEs Tea firms to a very great extent. The finding concurs with Basil (2005) who pointed out that Access to finance is paramount for the growth of SMEs' competitiveness, as SMEs have to invest in new technologies, skills and innovation.

### 4.6 Effects of Availability of Business Information Services on the Performance

The study sought to establish the extent to which the respondents agreed with the following statements on the effects of availability of business information services on the performance of SMEs tea firms. The finding was as shown on Table 4.10:

**Table 4.10: Availability of Business Information Services and Performance**

| | Mean | Std dev |
|---|---|---|
| Many SME firms operate in a business information insufficient environment | 3.35 | 0.73 |
| Access to information has been not given the same attention as other constraints to improve the performance of SMEs | 3.81 | 0.8 |
| SME that make good use of structured marketing information services experience higher business performance | 4.04 | 1.13 |
| Business information is readily available and accessible for SMEs | 3.64 | 0.83 |

On whether many SME firms operate in a business information insufficient environment, the respondents were neutral with a mean of 3.35 and a standard deviation of 0.73 that many SME firms operated in a business information insufficient environment. The finding was neutral to Oshikoya and Hussain (2007) who revealed that many SMEs firms in Africa and Kenya specifically, operate in an information insufficient environment due to lack of adequate business support services and the poor information technological infrastructures.

Asked whether access to information has been not given the same attention as other constraints to improve the performance of SME, the respondents agreed with a mean of 3.81 and a standard deviation of 0.80 that access to information had been not given the same attention as other constraints to improve the performance of SME. The finding agrees with Kauffmann (2005) asserted that access to information has however been not given the same attention as other constraints to improve the performance of SMEs like access to finance, markets, technology or training.

The respondents also agreed with a mean of 4.04 and a standard deviation of 1.13 that SMEs that made good use of structured marketing information services experienced higher business performance. The finding coincides with Cacciolatti, Fearne, and McNeil

(2011) who indicated that SMEs that make good use of structured marketing information services experienced higher probability of performance growth. The finding further agrees with Mahmoud (2011) who concluded that the higher the level of market information resulted in greater the level of performance in Ghanaian SMEs. The respondents further agreed with a mean of 3.64 and a standard deviation of 0.83 that business information was readily available and accessible for SMEs. The finding concurs with Levy (2000) who showed that SMEs enjoy easy access to business information services due to well developed information and communication technologies (ICT) infrastructure and easy access to computer hardware and software.

The respondents further indicated that the source of business information they used in the business were internet, suppliers, customers, Newspapers and magazines and seminars. The respondents showed that other sources of business information were TVs, Radio, friends and family and business colleagues.

Asked to what extent availability of business information services affected the performance of SME Tea firms; the finding was as shown on Table 4.11:

**Table 4.11: Extent of availability of business information services and performance**

| | **Frequency** | **%** |
|---|---|---|
| Very great extent | 50 | 53.8 |
| Great extent | 33 | 35.5 |
| Moderate extent | 10 | 10.8 |
| **Total** | **93** | **100.0** |

From the finding, the study established that 53.8% of the respondents said availability of business information services affected the performance of SME Tea firms to a very great extent, 35.5% of the respondents said to a great extent while 10.8% indicated to a moderate extent. The finding agrees with Keh, Nguyen, and Ng (2007) who found that there is a positive relationship between availability and utilization of business information and the performance of the firm.

### 4.7 Influence of Entrepreneurs' Characteristics on the Performance

The study sought to establish the extent to which the respondents agreed with the following statements on the influence of Entrepreneurs' Characteristics on the Performance of SME Tea Firms. The finding was as shown on Table 4.12:

**Table 4.12: Entrepreneurs' Characteristics and the Performance**

| | Mean | Std dev |
|---|---|---|
| SME Tea firms owned by men are bound to perform better | 3.47 | 0.71 |
| Younger entrepreneur have the necessary motivation, energy and commitment to work | 3.76 | 0.84 |
| Basic education enhances the overall quality of the business owner | 3.94 | 0.86 |
| Business owners with higher level of education seem to stimulate the growth and better performance of the firm | 3.89 | 0.77 |
| SME owners with prior SME experience as owners tend to correlate with greater performance | 3.69 | 0.83 |
| SMEs entrepreneur motivates the employees to attain the firm's goals | 3.98 | 0.73 |

On whether SME Tea firms owned by men are bound to perform better than those owned by women, the respondents were neutral with a mean of 3.47 and a standard deviation of 0.71. The finding is nonaligned with Kentor (2001) and Chell (2001) who reported that most SMEs firms owned by men were bound to perform better than those owned by women. Jones-Evans (2000) agreed and suggested that this could be attributed to: limited access to finance; stringent collateral requirements and women's double duties.

Whether younger entrepreneur have the necessary motivation, energy and commitment to work and is more inclined to take risks than older entrepreneurs, the respondents agreed with a mean of 3.76 and a standard deviation of 0.86 that younger entrepreneur had the necessary motivation, energy and commitment to work and was more inclined to take risks than older entrepreneurs. The finding agrees with Carter and Jones-Evans (2000) who showed that younger entrepreneurs have the necessary motivation, energy and commitment to work and are more inclined to take risks as the older entrepreneurs are likely to have reached their initial aspiration.

The respondents agreed with a mean of 3.94 and a standard deviation of 0.86 that basic education enhanced the overall quality of the business owner in tea business. The finding

concurs with Hall (2001) who stated that a business owner with a higher level of education seems to stimulate the growth and better performance of the firm, thus having an impact on survival, growth and performance. The finding contradicts with Kenneth (2006) who argued that SME entrepreneurs who have higher level of education generally achieved lower performance rates than those less well educated. The respondents further agreed with a mean of 3.89 and a standard deviation of 0.77 that business owners with higher level of education seemed to stimulate the growth and better performance of the firm.

On whether SME owners with prior SME experience as owners tend to correlate with greater performance, the respondents agreed with a mean of 3.69 and a standard deviation of 0.83 that SME owners with prior SME experience as owners tend to correlate with greater performance. The finding concurs with Storey et al., (1989) who revealed that SME owners with more managerial, sector experience or prior SME experience as owners tend to correlate with greater performance. The finding however disagrees with Sigh, Reynolds & Muhammad (2001) who found that there is no relationship between prior SME experience and firm performance. The respondents also agreed with a mean of 3.98 and a standard deviation of 0.73 that SME entrepreneur motivated the employees to attain the firm's goals. The finding coincides with Beaver (2003) who showed that ability of the SMEs entrepreneur to motivate affects the performance of a firm.

Asked to what extent the entrepreneurs' characteristics affected the performance of SMEs Tea firms. The finding was as shown on Table 4.13:

**Table 4.13: Extent of Entrepreneurs' Characteristics and Performance**

| | **Frequency** | **%** |
|---|---|---|
| Very great extent | 30 | 32.3 |
| Great extent | 50 | 53.8 |
| Moderate extent | 10 | 10.8 |
| Small extent | 3 | 3.2 |
| **Total** | **93** | **100.0** |

From the responses, the study found out that majority of the respondents 53.8% indicated that the entrepreneurs' characteristics affected the performance of SMEs Tea firms to a great extent, 32.3% said to a very great extent while 10.8% of the respondents indicated

to a moderate extent. 3.2% said that the entrepreneurs' characteristics affected the performance of SMEs Tea firms to a small extent. The finding concurs with Blackman (2004) who showed that the characteristics of the entrepreneur would influence the following: market opportunity, ways of handling business challenges, personal achievement, employment creation, independence, improvement of social status, profit, growth target thereby having effect on the performance of the firm.

### 4.8 Government Regulations and Performance of SMEs Tea Firms

The study sought to establish the extent to which the respondents agreed with the following statements on the influence of government regulations on the Performance of SME Tea Firms. The finding was as shown on Table 4.14:

**Table 4.14: Government Regulations and Performance of SMEs Tea Firms**

| | Mean | Std Dev |
|---|---|---|
| The government provides financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others | 3.94 | 0.85 |
| The government has policies and regulations that promote the growth of SMEs | 3.42 | 0.68 |
| I have received tax incentive for my tea business from the Government | 2.43 | 0.92 |
| The Government has reserved some tea market proportion for Small scale tea traders | 3.21 | 0.81 |
| It is easy to access business licenses from the Government | 2.28 | 0.73 |
| The government provides training and development for SMEs on marketing of tea outside Kenya | 3.51 | 0.96 |

On whether the government provides financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others, the respondents agreed with a mean of 3.94 and a standard deviation of 0.85 that government provides financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others. Asked whether the government has policies and regulations that promote the growth of SMEs, the respondents were neutral with a mean of 3.42 and a standard deviation of 0.68 that the government had policies and regulations that promote the growth of SMEs. The finding was neutral with Aleke (2003) who

reported that the Kenyan government passed a micro-finance bill aimed at encouraging more resources to be channelled to SMEs in early 2007. SMEs have typically had very little recourse to traditional sources of capital. The 2006/2007 budget raised the VAT registration threshold from Ksh 3 million to Ksh 5 million to exclude SMEs from collecting VAT, which can be a tedious bureaucratic and costly process.

The respondents disagreed with a mean of 2.43 and a standard deviation of 0.92 that they had received tax incentive for the tea business from the Government. The finding agrees with Nabintu (2013) who reported that even though many countries have acknowledged that small enterprises have an important role in their economies, not much effort has been done to facilitate their growth since they have to compete for finance, markets, personnel, and utilities like any other business unit. The respondents were neutral with a mean of 3.21 and a standard deviation of 0.81 on whether the Government had reserved some tea market proportion for Small scale tea traders.

The respondents also disagreed with a mean of 2.28 and a standard deviation of 0.73 that it was easy to access business licenses from the Government. The finding agrees with Gibb (2000) who reported that the UIA would only support proposals and give licences to companies with more than US$50,000 to invest and the development banks in the country did not have programmes for small enterprises. On whether the government provides training and development for SMEs on marketing of tea outside Kenya, the respondents agreed with a mean of 3.51 and a standard deviation of 0.96 that the government provided training and development for SMEs on marketing of tea outside Kenya.

The respondents were further asked to indicate the extent to which government regulations affected the performance of SME Tea Firms. The finding was as shown on Table 4.15:

**Table 4.15: Extent of influence of Government Regulation on Performance**

| | **Frequency** | **%** |
|---|---|---|
| Very great extent | 25 | 26.9 |
| Great extent | 53 | 57.0 |
| Moderate extent | 13 | 14.0 |
| Small extent | 2 | 2.2 |
| **Total** | **93** | **100.0** |

From the finding in table 4.16 above, the study established that majority of the respondents 57% said that government regulations affected the performance of SME Tea Firms to a great extent, 26.9% indicated to a very great extent, those who said to a moderate extent were 14% while 2.2% of the respondents said to a small extent

The study further sought to establish how the respondents measured the performance of the business; the study found out that the respondents measures the performance of their businesses using sales, the number of customers, using the amount of profit made and also using the number of employees.

The study sought to find out the effectiveness of the measure of performance in measuring the business; the finding was as shown on Table 4.16:

**Table 4.16: Effectiveness of the Measure of Performance**

| | **Frequency** | **%** |
|---|---|---|
| Very effective | 50 | 53.8 |
| Effective | 33 | 35.5 |
| Moderately effective | 10 | 10.8 |
| **Total** | **93** | **100.0** |

From the finding in table 4.17, the study established that majority of the respondents 53.8% stated that the measure of performance in measuring the business was very effective, 35.5% said the measure was effective while 10.8% indicated that the measure was moderately effective.

The respondents were also asked to comment on the other factors that influence the performance of SMEs Tea Firms in Mombasa County; the respondents said that the performance of the SME was also influenced by demand factors where the basis of demand factors are clients: both legal and physical entities, who create demand for the production manufactured by the enterprise or services provided by the latter. The respondents further commented that availability of resources, supply factors and market ability affected the performance of SMEs.

### 4.9 Correlation Analysis

**Table 4.17: Correlation Matrix**

| | | Performance of SMEs | Access to finance | Availability of business information services | Entrepreneurs' Characteristics |
|---|---|---|---|---|---|
| Performance of SMEs | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | . | | | |
| Access to finance | Pearson Correlation | .838 | 1 | | |
| | Sig. (2-tailed) | .029 | . | | |
| Availability of business information services | Pearson Correlation | .764 | .523 | 1 | |
| | Sig. (2-tailed) | .017 | .016 | . | |
| Entrepreneurs' Characteristics | Pearson Correlation | .692 | .743 | .597 | 1 |
| | Sig. (2-tailed) | .031 | .012 | .028 | . |

The data presented before on access to finance, availability of business information services, entrepreneurs' characteristics and government regulations were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors (access to finance, availability of business information services, entrepreneurs' characteristics and government regulations) and performance of SMEs. According to the table, there is a positive relationship between performance of SMEs and access to finance, availability of business information services, entrepreneurs' characteristics and government regulations 0.838, 0.764, 0.692 and 0.729 respectively. The positive relationship indicates that there is a correlation between the factors and the performance of SMEs. This infers that access to finance has the highest effect on immunization coverage, followed by availability of business information services, then government regulations while entrepreneurs' characteristics having the lowest effect on the performance of small and medium enterprise tea firms in Mombasa County, Kenya.

# CHAPTER FIVE: SUMMARY, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings and recommendations made. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to establish the factors influencing the performance of SME Tea Firms in Mombasa County. The study sought to answer the following research questions: Does access to finance affect the performance of SMEs Tea firms in Mombasa County; How does the availability to business information services affect the performance of SMEs Tea firms in Mombasa County; to what the extent does the entrepreneurs' attributes influence the performance of SMEs Tea firms in Mombasa County and How do government policies and regulations influence the performance of SMEs Tea firms in Mombasa County.

## 5.2 Summary of Findings

This section presents a summary of the findings as per the research objectives and the data presented in chapter four. The summary is arranged according to research objectives and questions.

### 5.2.1 Influence of Access to Finance and the Performance

The study established that the respondents agreed with a mean of 3.63 and a standard deviation of 0.75 that insufficient access to long-term finance for SMEs has forced me to rely on high cost short term finances. The study also found that majority of the respondents agreed with a mean of 4.12 and a standard deviation of 1.05 that high bank charges and fees had hindered their accessibility to finances; mean of 3.94 and a standard deviation of 0.88 that finding the starting capital for the business was a major hurdle, and the respondents were neutral with a mean of 3.38 and a standard deviation of 0.79 on whether they had good accounting procedure for the business finances. On whether regulatory and administrative environment cause major obstacles for SMEs to access financing, the respondents agreed with a mean of 3.78 and a standard deviation of 0.59. The respondents further agreed that they had advance planning for their businesses. Asked whether lack of access to credit/ finance affects the choice of technology by

limiting the number of alternatives that can be considered, the respondents were neutral with a mean of 3.47 and a standard deviation of 0.99 whereas the respondents agreed that credit and collateral policies may not allow SMEs to use certain assets as collateral with a mean of 4.21 and a standard deviation of 0.83. The study established that Savings, Bank Loans, Microfinance Institutions, Donations from family and friends and Sacco Loan were the main source of finance for the businesses. The respondents also indicated financial support from the government through the youth and women trust fund was the source of finance for the business. In addition, the respondents said that Nongovernmental organisations (NGOs) were also a source of finance for the business. Majority of the respondents 37.6% reported that the finance source was less sufficient and 72% of the respondents said that accessibility to finance affected the performance of SMEs Tea firms to a very great extent.

### 5.2.2 Effects of Availability of Business Information Services on the Performance

On whether many SME firms operate in a business information insufficient environment, the respondents were neutral with a mean of 3.35 and a standard deviation of 0.73. The respondents agreed with a mean of 3.81 and a standard deviation of 0.80 that access to information had been not given the same attention as other constraints to improve the performance of SME. The respondents also agreed with a mean of 4.04 and a standard deviation of 1.13 that SMEs that made good use of structured marketing information services experienced higher business performance and that business information was readily available and accessible for SMEs. The respondents further indicated that the source of business information they used in the business were internet, suppliers, customers, Newspapers and magazines, seminars TVs, Radio, friends and family and business colleagues. The study established that majority of the respondents 53.8% said that availability of business information services affected the performance of SME Tea firms to a very great extent.

### 5.2.3 Influence of Entrepreneurs' Characteristics on the Performance

The study found out that the respondents were neutral with a mean of 3.47 and a standard deviation of 0.71 on whether SME Tea firms owned by men are bound to perform better than those owned by women. Asked whether younger entrepreneur have the necessary

motivation, energy and commitment to work and is more inclined to take risks than older entrepreneurs, the respondents agreed with a mean of 3.76 and a standard deviation of 0.86. The study also revealed that the respondents agreed with a mean of 3.94 and a standard deviation of 0.86 that basic education enhanced the overall quality of the business owner in tea business. On whether SME owners with prior SME experience as owners tend to correlate with greater performance, the respondents agreed with a mean of 3.69 and a standard deviation of 0.83. The study established that majority of the respondents 53.8% said that the entrepreneurs' characteristics affected the performance of SMEs Tea firms to a great extent.

### 5.2.4 Influence of Government Regulations on the Performance

The study found out that the respondents agreed with a mean of 3.94 and a standard deviation of 0.85 that the government provides financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others. Asked whether the government has policies and regulations that promote the growth of SMEs, the respondents were neutral with a mean of 3.42 and a standard deviation of 0.68. The respondents disagreed with a mean of 2.43 and a standard deviation of 0.92 that they had received tax incentive for the tea business from the Government whereas the respondents were neutral with a mean of 3.21 and a standard deviation of 0.81 on whether the Government had reserved some tea market proportion for Small scale tea traders. On whether it was easy to access business licenses from the Government, the respondents disagreed with a mean of 2.28 and a standard deviation of 0.73.

## 5.3 Discussion of Key Findings

This section presents the discussion of the key findings as per the research objectives and the data presented in chapter four. The discussion is arranged according to research objectives and questions.

### 5.3.1 Influence of Access to Finance and the Performance

The study found out that finding the starting capital for business was a major hurdle. The finding coincides with Carter, Greene & Hart (2003) who argued that finding the starting

capital for most business is one of the major hurdles that many entrepreneurs go through and even after obtaining the starting capital, acquiring sufficient finance to sustain business growth is yet another challenge. On whether regulatory and administrative environment cause major obstacles for SMEs to access financing, the study showed that regulatory and administrative environment caused major obstacles for SMEs to access financing. The finding agrees with Chu, Cynthia and McGee (2007) who established that in least developed economies and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment cause major obstacles for SMEs to access financing.

The study also revealed the respondents were neutral on whether lack of access to credit/ finance affects the choice of technology by limiting the number of alternatives that can be considered. The finding is impartial to Amyx (2005) who established that lack of access to credit/ finance is almost universally indicated as a major constraint for SMEs. This further affects the choice of technology by limiting the number of alternatives that can be considered. The study confirmed that Savings, Bank Loans, Microfinance Institutions, Donations from family and friends and Sacco Loan were the main source of finance for the businesses. The study further found out that the finance source was less sufficient and that that accessibility to finance affected the performance of SMEs Tea firms to a very great extent. The finding concurs with Basil (2005) who pointed out that Access to finance is paramount for the growth of SMEs' competitiveness, as SMEs have to invest in new technologies, skills and innovation.

### 5.3.2 Effects of Availability of Business Information Services on the Performance

The study established that the respondents were not sure whether many SME firms operate in a business information insufficient environment. According to Oshikoya and Hussain (2007), many SMEs firms in Africa and Kenya specifically, operate in an information insufficient environment due to lack of adequate business support services and the poor information technological infrastructures. It was revealed that access to information had been not given the same attention as other constraints to improve the performance of SME. Kauffmann (2005) asserted that access to information has however

been not given the same attention as other constraints to improve the performance of SMEs like access to finance, markets, technology or training.

The study also revealed that SMEs that made good use of structured marketing information services experienced higher business performance. The finding agrees with Mahmoud (2011) who concluded that the higher the level of market information resulted in greater the level of performance in Ghanaian SMEs. The study also found out that business information was readily available and accessible for SMEs. According to Levy (2000), SMEs enjoy easy access to business information services due to well developed information and communication technologies (ICT) infrastructure and easy access to computer hardware and software. The study established that business information used in the business were internet, suppliers, customers, Newspapers and magazines, seminars, TVs, Radio, friends and family and business colleagues.

The study established that availability of business information services affected the performance of SME Tea firms to a very great extent. The finding agrees with Keh, Nguyen, and Ng (2007) who found that there is a positive relationship between availability and utilization of business information and the performance of the firm.

### 5.3.3 Influence of Entrepreneurs' Characteristics on the Performance

The study confirmed that the respondents were impartial on whether SME Tea firms owned by men are bound to perform better than those owned by women. The finding is nonaligned with Kentor (2001) and Chell (2001) who reported that most SMEs firms owned by men were bound to perform better than those owned by women. The study also found that younger entrepreneur had the necessary motivation, energy and commitment to work and is more inclined to take risks than older entrepreneurs. The finding agrees with Carter and Jones-Evans (2000) who showed that younger entrepreneurs have the necessary motivation, energy and commitment to work and are more inclined to take risks as the older entrepreneurs are likely to have reached their initial aspiration.

The study further revealed that SME entrepreneur motivated the employees to attain the firm's goals. The finding concurs with Beaver (2003) who showed that ability of the

SMEs entrepreneur to motivate affects the performance of a firm. In addition, the study found that the entrepreneurs' characteristics affected the performance of SMEs Tea firms to a great extent. Blackman (2004) showed that the characteristics of the entrepreneur would influence the following: market opportunity, ways of handling business challenges, personal achievement, employment creation, independence, improvement of social status, profit, growth target thereby having effect on the performance of the firm.

### 5.3.4 Influence of Government Regulations on the Performance

The study established that the government provided financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others. The finding was neutral with Aleke (2003) who reported that the Kenyan government passed a micro-finance bill aimed at encouraging more resources to be channelled to SMEs in early 2007. SMEs have typically had very little recourse to traditional sources of capital. The 2006/2007 budget raised the VAT registration threshold from KSH 3 million to KSH 5 million to exclude SMEs from collecting VAT, which can be a tedious bureaucratic and costly process.

The study showed that the respondents had not received tax incentive for the tea business from the Government. The finding agrees with Nabintu (2013) who reported that even though many countries have acknowledged that small enterprises have an important role in their economies, not much effort has been done to facilitate their growth since they have to compete for finance, markets, personnel, and utilities like any other business unit. The study further established that it was not easy to access business licenses from the Government. The finding agrees with Gibb (2000) who reported that the UIA would only support proposals and give licences to companies with more than US$50,000 to invest and the development banks in the country did not have programmes for small enterprises.

The study established that government regulations affected the performance of SME Tea Firms to a great extent. The study further established that the respondents measured the performance of their businesses using sales, the number of customers, using the amount of profit made and also using the number of employees. In addition, the study established that the measure of performance in measuring the business was very effective. The study also found that the other factors that influence the performance of SMEs Tea Firms in

Mombasa County included; demand factors; availability of resources, supply factors and market ability affected the performance of SMEs.

### 5.4 Conclusion

The study concludes that starting capital for business is a major hurdle for SME Tea Firms in Mombasa County. The study further concludes that regulatory and administrative environment cause major obstacles for SME Tea Firms to access financing. The study also concludes that the respondents were not sure whether lack of access to credit/ finance affects the choice of technology by limiting the number of alternatives that can be considered. In addition, the study concludes that credit and collateral policies may not allow SMEs to use certain assets as collateral and that SMEs were capable of paying loans on time. The study also concludes that Savings, Bank Loans, Microfinance Institutions, Donations from family and friends and Sacco Loan were the main source of finance for the businesses. The study also concludes that there is a positive relationship between that accessibility to finance and the performance of SMEs Tea firms in Mombasa County.

The study concludes that access to information has been not given the same attention as other constraints to improve the performance of SME and those SMEs that made good use of structured marketing information services experienced higher business performance. The study further concludes that business information was readily available and accessible for SME Tea Firms in Mombasa County. The study also concludes that the source of business information SME Tea Firms used in the business were internet, suppliers, customers, Newspapers and magazines, seminars, TVs, Radio, friends and family and business colleagues. In addition, the study concludes that there is a positive relationship between availability of business information services and the performance of SME Tea Firms in Mombasa County.

The study also concludes that younger entrepreneur had the necessary motivation, energy and commitment to work and was more inclined to take risks than older entrepreneurs. The study further concludes that that basic education enhances the overall quality of the business owner in tea business. In addition, the study concludes that business owners with higher level of education seemed to stimulate the growth and better performance of

the firm. The study further concludes that SME owners with prior SME experience as owners tend to correlate with greater performance. The study concludes that there is a positive relationship between the entrepreneurs' characteristics and the performance of SMEs Tea firms in Mombasa County.

The study further concludes that the government provided financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others. The study also concludes that the respondents were not sure whether the government has policies and regulations that promote the growth of SMEs. The study concludes that the SME Tea Firms in Mombasa County had not received tax incentive for the tea business from the government. The study concludes that the government provides training and development for SMEs on marketing of tea outside Kenya. The study also concludes that government regulations affect the performance of SME Tea Firms in Mombasa County.

### 5.5 Recommendations

The study made the following recommendations.

1. On access to Finance, the study recommends that the Government of Kenya should adopt ways on how to finance SMEs. This has been promoted to some extent by the creation of several funds like the Youth Development Fund and Women Development Fund. This would promote accessibility to pre-requisite capital necessary for the growth and development of SMEs in Kenya.
2. On availability of business information services, the study recommends that business information services need to be made accessible to all business people in the market. Although the entrepreneurs accessed necessary business information, this information was limited and was only available to a limited number of entrepreneurs. This study therefore recommends that infrastructure be put in place to increase the sharing of information among entrepreneurs to promote the growth and performance of such enterprises.
3. On Entrepreneurs' characteristics, the study recommends that business owners should acquire necessary knowledge for better performance of their businesses.

The study also recommends that entrepreneurs should frequently motivate their employees to enhance performance.

4. On government regulations, the study recommends that the government policy and regulations that affect the business should be adjusted so that to ensure they do not affect the performance of the business in a negative way. The study also recommends that the government should ease the process of license application.

### 5.6 Recommendations for further studies

1. The purpose of this study was to establish the factors that influence the performance of SME Tea Firms in Mombasa County. This study concentrated on the SME Tea firms in Mombasa County alone and thus the study cannot be generalized across all SME Tea firms in the country. The study therefore recommends that a study be conducted across all SME Tea Firms in the country so as to generalize the findings.

2. Since the study was focused on SME Tea firms, the study recommends that a similar study be carried out among SMEs in other sectors locally and regionally to establish the factors that influence their performance.

3. This study also recommends that in the future a study be conducted on the effectiveness of management strategies adopted by SME Tea firms in business performance. This study would be of significant in identifying the management strategies used by SMEs and their effectiveness in improving the performance of the business.

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## APPENDICES

## APPENDIX I: RESEARCH STUDY QUESTIONNAIRE

Date……

Please take a few minutes to complete this questionnaire. Your honest option will be completely anonymous, but your views, in combination with those of others are extremely important in this research. This questionnaire will last approximately 20 minutes. All the information provided will be kept strictly confidential and will only be used for the purpose of this study. Your participation will be highly appreciated.

**Kindly tick the appropriate response. In case of open-ended questions, write in the space provided.**

**SECTION A: Demographic Information**

***(****Please tick one box for each of the questions)*

1. Number of employees

   Less than 10 [ ] Between 11 and 50 [ ]

   Between 51 and 100 [ ] More than 100 [ ]

2. Business ownership type

   Self owned and self run [ ] Self owned and family run [ ]

Self owned/employee run [ ] Third party owned and employees run [ ]

3. How many years have you been in operation?

   Less than 5 years [ ] 6-20 years [ ]

   More than 20 years [ ]

4. What is your annual turnover (Kenya Shillings)

   Less than 1 Million [ ] 1-4 Million [ ]

   5- 8 Million [ ] More than 8 Million **[ ]**

5. Where do you sell your tea?

Locally – Kenya [ ]

Regionally – East Africa [ ]

Internationally – Other regions apart from EAC [ ]

**SECTION B: INFLUENCE OF ACCESS TO FINANCE AND THE PERFORMANCE OF SMES TEA FIRMS IN MOMBASA COUNTY, KENYA**

6. The table below has statements on the influence of access to finance and the performance of SMEs tea firms. Rate the Extent to which you agree with the following statements on a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Insufficient access to long-term finance for SMEs has forced me to rely on high cost short term finances | | | | | |
| High bank charges and fees has hindered my accessibility to finances | | | | | |
| Finding the starting capital for my business was a major hurdle | | | | | |
| I have a good accounting procedure for my business finances | | | | | |
| I do advance planning for my business | | | | | |
| Regulatory and administrative environment cause major obstacles for SMEs to access financing | | | | | |
| Lack of access to credit/ finance affects the choice of technology by limiting the number of alternatives that can be considered | | | | | |
| Credit and collateral policies may not allow SMEs to use certain assets as collateral | | | | | |
| SMEs are capable of paying loans on time | | | | | |

7. What is the source of finance for your business? (Select all that apply)

   Savings [ ] Bank Loan [ ]

   Microfinance Institutions [ ] Donations from family and friends [ ]

   Sacco Loan [ ]

   Other (Specify) ……

8. How sufficient is this source for your business?

   Very sufficient [ ] Sufficient [ ]

Moderately sufficient [ ] Less sufficient [ ]

Not sufficient at all [ ]

9. To what extent does accessibility to finance affect the performance of SMEs Tea firms?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Small extent [ ]

No extent at all [ ]

**SECTION C: EFFECTS OF AVAILABILITY OF BUSINESS INFORMATION SERVICES ON THE PERFORMANCE OF SMEs TEA FIRMS**

10. The table below has statements on the effects of availability of business information services on the performance of SMEs tea firms. Rate the Extent to which you agree with the following statements on a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Many SMEs firms operate in a business information insufficient environment | | | | | |
| Access to information has been not given the same attention as other constraints to improve the performance of SMEs | | | | | |
| SMEs that make good use of structured marketing information services experience higher business performance | | | | | |
| Business information is readily available and accessible for SMEs | | | | | |

11. What source of business information do you use in your business? (Select all that apply)

Internet [ ] Suppliers [ ]

Customers [ ] Seminars [ ]

Newspapers & Magazines [ ]

Others (specify)

.....

12. To what extent does availability of business information services affect the performance of SMEs Tea firms?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Small extent [ ]

No extent at all [ ]

**SECTION D: INFLUENCE OF ENTREPRENEURS CHARACTERISTICS ON THE PERFORMANCE OF SMES TEA FIRMS**

13. The table below has statements on the influence of entrepreneurs' characteristics on the performance of SMEs tea firms. Rate the Extent to which you agree with the following statements on a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| SMEs Tea firms owned by men are bound to perform better than those owned by women | | | | | |
| Younger entrepreneur have the necessary motivation, energy and commitment to work and is more inclined to take risks than older entrepreneurs | | | | | |
| Basic education enhances the overall quality of the business owner in tea business | | | | | |
| Business owners with higher level of education seem to stimulate the growth and better performance of the firm | | | | | |
| SME owners with prior SME experience as owners tend to correlate with greater performance | | | | | |
| SMEs entrepreneur motivates the employees to attain the firm's goals | | | | | |

14. To what extent do the entrepreneurs' characteristics affect the performance of SMEs Tea firms?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Small extent [ ]

No extent at all [ ]

**SECTION E: INFLUENCE OF GOVERNMENT REGULATIONS ON THE PERFORMANCE OF SMES TEA FIRMS**

15. The table below has statements on the influence of government regulations on the performance of SMEs tea firms. Rate the Extent to which you agree with the following statements on a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The government provides financial support through creation of support funds like Youth Enterprise Fund, Women Enterprise Fund among others | | | | | |
| The government has policies and regulations that promote the growth of SMEs | | | | | |
| I have received tax incentive for my tea business from the Government | | | | | |
| The Government has reserved some tea market proportion for Small scale tea traders | | | | | |
| It is easy to access business licenses from the Government | | | | | |
| The government provides training and development for SMEs on marketing of tea outside Kenya | | | | | |

16. To what extent affect does government regulations on the performance of SMEs Tea firms?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Small extent [ ]

No extent at all [ ]

17. How do you measure the performance of your business? (please select all that apply)

Using Sales [ ]

Using Number of customers [ ]

Using Number of employees [ ]

Using Profits made [ ]

Other please explain

_____

_____

18. How effective is this measure of performance in measuring your business?

Very effective [ ] Effective [ ]

Moderately effective [ ] Less effective [ ]

Not effective [ ]

19. In your own opinion, what are the other factors that influence the performance of SMEs Tea Firms in Mombasa County?

……

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