FACTORS AFFECTING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA

A CASE STUDY OF SMEs IN THIKA MUNICIPALITY

BY

MWANIKI MOFFAT KARO

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DECLARATION
This project is my original work and has not been presented for any award or degree in any other University.

NAME: MWANIKI MOFFAT KARO
Signed .................. Date 09.05.2012
Reg. D53/OL/4104/04

This project has been presented with our approval as University supervisors.

NAME: JULIUS MURUNGI
Supervisor: Department of Business Administration
Signed .................. Date 09.08.2012

NAME: JAMES KILIKA
Supervisor: Department of Business Administration
Signature ------------------------------ Date -----------------------------------------

NAME: MUATHE S.M
Chairman: Department of Business Administration
Signature ------------------------------ Date -----------------------------------------
DEDICATION

This research project is dedicated to my entire family my wife Janet, my son Leon, my daughters Marion, Delia and Kelley. You have always been at my side during times of need and your constant encouragements have made me achieve this far.
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ABSTRACT

Literature review indicates that SMEs play an important role in the economy of many countries across the globe, be they developed or developing Nations. However, SMEs have been said to report high rate of failures with many enterprises dying at an infant stage. Very few of the SMEs grow to become big enterprises. The reason to this failure is pegged on the various factors that continue to inflict stagnation of the industry in terms of performance. They include: lack of access to credit, regulatory framework, management issues, market barriers and education and training. Therefore this study is aimed at investigating the factors affecting the performance of SMEs enterprises within Thika Municipality in Kenya. This research employed the descriptive research design where by data collected was presented without the researcher influencing the findings in anyway. The research targeted SMEs enterprises in Thika and the unit of analysis comprised owners-managers of manufacturing businesses, training, supermarkets, agriculture, estate agents and hospitals. Target population was 330 and a sample size of 66 was taken. The researcher used simple random sampling techniques to sample its respondents. Questionnaires were used for the data collection. The research utilized descriptive analysis of each of the questions asked in the questionnaires presenting their reliability, mean and standard deviation. Inferential analysis was also applied to establish the correlations of the factors and performance. Research findings will enable all the stakeholders involved in the SME industry to identify the challenges facing the industry so that they can be able to figure out how to counteract the same. Academia will also benefit from the study. The study concludes that most SMEs in Thika Municipality finance their businesses from bank loans, personal savings, loans from family and relatives, through government institutions, and through Non-Governmental Organizations; that respondents accessed finance for their businesses from commercial banks, from NGOs, from microfinance institutions, from government institutions, and from SACCOs; that high interest rates, lack of collateral, dislike to borrow from banks, and fear of losing property prevented them from borrowing money from then banks; Further, the study concludes that marketing is a barrier to enterprise performance; that respondents market their products locally through media print, through dropping of leaflets, through word of mouth, and through television; that Bureaucracy in registration hinders enterprise’s growth, that corruption diverting support programs from original beneficiaries, Cumbersome laws and regulations, Political instability, High compliance costs and High cost of tax/complexity of the custom system hinder enterprise’s growth, that lack of government support programs for SMEs hinders enterprise’s growth and that illegal permits and licenses hinder enterprise’s growth and that the Government through its policies did not have a good will for the growth of SMEs. NGOs and government institutions should grant SMEs some capital to help the fund their businesses. SMEs owners should organize themselves in SACCOs to save for capital to finance and boost their businesses. The Central Bank should liaise with Commercial banks to lower interest rates to encourage more SMEs to borrow money from the banks. Further, the banks should review their security to pledge criteria so as to encourage more SMEs to borrow money from the banks.
OPERATIONAL DEFINITION OF TERMS

Regulatory Framework

Laws and regulations established by government to regulate specific activity.

Access to Finance

Access to finance refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services.

Education and training

Education is the process of training by a prescribed or customary course of study or discipline; as an education for the bar or the pulpit. Training is a learning process that involves the acquisition of knowledge, sharpening of skills, concepts, rules, or changing of attitudes and behaviours to enhance the performance of employees.

Management

Is the organizational process that includes strategic planning, setting objectives, managing resources, deploying the human and financial assets needed to achieve objectives set, and measuring results.

Small and Mediums Enterprises

In Kenya, the SMEs are defined as business with six to fifty employees or with annual turnover revenue below Kshs 50 million.

Performance

Is the process of measuring if the intended objectives have been achieved. It is measured in terms of rate of change in sales, profitability, level of stock and growth rate.

Efficiency

It refers to optimum use of human and material resources to produce desired results.

Resources

These are the physical, financial and human efforts available for use by the SMEs operators.
ABREVIATIONS AND ACRONYMS

SME - Small Medium Enterprise
CBD - Central Business District
MNCs - Multi Nationals Corporations
ICT - Information and Communication Technology
UPS - United Parcel Services
GOK - Government of Kenya
EEs - Emerging Economies
EIU - Economist Intelligence Unit
ECA - Economic commission for Africa
OECD - Organization for Economic Cooperation and Development
SACCO - Saving and Credit Co-operative Societies
ROSCAs - Rotating and accumulating Savings and Credit Associations
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CHAPTER ONE
INTRODUCTION

1.1 Background of the study

An SME is a formal enterprise with an annual turnover in US Dollar terms of between 10 and 1000 times the mean per capita gross national income at purchasing power parity of the country in which it operates. (Tom Gibson and H.J. Van Vaartindeed). According to the European Commission an Enterprise is considered Small if it employ 50 or less employees and has a turnover of 10m Euros or less and medium if they employ 250 or less employees and a turnover of 50m Euros. (Recommendation 2003/36/EC of 2003).

Some of the benefits of SME’s includes; attempt to reduce income distribution inequalities, plays an important role of supply chain for large multi nationals corporations (MNC’s) (Luetkenhorst, 2004), transitioning of agricultural dependent to industrial and services oriented economy and are excellent ’ Beta Sites’ for innovation and sustainable initiatives due to their inherent flexibility and risk-taking (Rayhard and Forster, 2002). SME’s are generally distinguished by the nature of their production and managements, trading relations, financial practice and internal competence. Typically the following features in varying degree characterizes them; Small units, rural based, family owned, small independent enterprises, well defined market, specialized, rely on low cost law materials, low labour cost, low division of labour, small production lines, low capital formation and largely labour intensive units with low level technologies.

SME’s development is still slow despite wide ranging economic reforms that has been instituted. SME’s faces a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to small firms. In Africa because of small markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal system, inadequate financial systems and unattractive tax regimes, many firms stay small and informal and use simple technology that does not require great use of national infrastructure (African Economic Outlook 2004/2005).
Banks have provided incentives to support enterprise development. They provide direct loans to private enterprises and have developed programs which promote macro-economic stability and appropriate micro-economic incentives which are yielding benefits to private sector growth. Already the liberalization of trade and reduced role of the state in productive activities have created opportunities and challenges for SME’s by reducing state control and expanding access to foreign exchange and imported inputs, while increasing import competition.

A 2004 survey of OECD countries revealed that SMEs accounted for over 90% of total number of enterprises in EEs (Emerging Economies). Further, 60% of all companies in emerging economies are SMEs (The Economist, 13 November 2004). SMEs are responsible for 70% of foreign trade in China (Newberry, 2006). According to a recent report of Citigroup and Economist Intelligence Unit (EIU), SMEs in EEs are becoming more competitive and increasingly crucial for economic growth (Newberry, 2006). The report based on 670 Asian organizations, revealed that almost one half of the SMEs entrepreneurs expect to grow significantly in the future as they think they can react and innovate more quickly and have closer customer relationships than their large corporate competitors (Newberry, 2006). OECD (2009) in their study on European SMEs under pressure noted that one of the major problems facing the SMEs in Europe, especially during economic crisis was access to finance. The study indicated that in the second half of 2009 access to finance was the most pressing problem for 19% of SMEs in the euro area. Due to the financial and economic crisis banks became more risk averse, asked higher risk margins and required more collateral. In the United States decreased access to finance for SMEs also materialized shortly after the financial crisis begun in September 2008. For SMEs that need bank loans to finance new investments, the situation was problematic as banks became very reluctant to provide loans.

Despite their potential to contribute to the world economy, SMEs face many challenges. The Citigroup/ EIU report cited inadequate access to financial resources and investment capital as significant barriers to growth for SMEs (Newberry, 2006). These challenges might have accounted for the high rates of failure among SMEs, ranging from a high of 80% in the first 3 years of operation in the U.S. to over 50% in Australia, France and New Zealand (Mason, 2007; Switzer, 2007;).
In Malaysia, Ting (2004) argued that key challenges facing Malaysian SMEs also include: human resource constraints; lack of access to finance; inability to adopt technology; and lack of information on potential markets. The author also argued that Malaysian SMEs could be wiped out if they did not improve their competitiveness in the near future. UPS (2005) conducted a pilot study of 100 Malaysian SMEs and found that high labour cost, a lack of innovation and access to funding and working capital are the main challenges that they face. In addition, Saleh and Ndubisi (2006) identified a number of key challenges facing Malaysian SMEs: High levels of bureaucracy in government agencies hindering efficient business development; difficulty in obtaining funds from financial institutions as well as from the government; and lack, and cost, of professional and skilled workers.

One study carried out by ECA (2001) on enhancing the competitiveness of small and medium enterprise in Africa, they found that the regulatory and policy environment in Africa continues to present obstacles for SMEs. Laws and regulations are often complex, increasing the transaction costs of SMEs, and the lack of transparency in implementation diverts the benefits from the ultimate beneficiaries. The mission report observed that if policy support for infrastructure development seems to unify public opinion, polices to improve the regulatory environment are often more contentious and controversial. They argue that it is not just a matter of what is to be done but also how to achieve policy harmonization and gradual implementation of such initiatives. Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management.
SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

Research shows that the ever changing environment requires firms to adapt quickly to associate new challenges and competition. This presents particular problems for small business given their size and limited resources. Small business increasingly face competition not only from their peers but also from large corporations participating in niche markets once regarded the preserve of smaller businesses. (Caputi 2006) suggested that small businesses need to identify, prioritize and effectively tackle these challenges in order to be more competitive and relevant in the business world.

One of the greatest challenges facing Kenya is the creation of productive employment opportunities for its rapidly growing work force (SME Banking report, 2007). The scale of the problem demands that all resources and means are utilized to create jobs, enhance incomes and livelihoods. Gok (2007) indicated that recent years have demonstrated the dynamism of small scale and medium enterprises in creating employment and providing attractively-priced products. Literature shows that despite the Kenyan Government efforts to promote informal sector activities, not much progress seems to have been achieved, judging by performance of the informal sectors. According to Mr Kenneth Onyango, the general manager Grofin Kenya, promulgation of the new laws in the year 2010 has created an enabling business environment in which SME’s can thrive. He projected that SME’s will get good returns as a result of the country’s positive economic outlook and the new constitution (Daily Nation, March 10, 2011). Currently the economy is expected to grow by about 5% with the key sectors poised to record impressive returns. Implantation of the new laws is expected to spur growth in sectors such as construction, trade and information and communication technology, a development that could benefit SME’s because they are key players in these sectors (Daily Nation, March 10, 2011).

Thika is a market Town in Central Province Kenya located about 40km north of Nairobi at 13 degrees south and 37.55 degree East. The elevation of Thika is 1420 metres to 1550 metres above sea level. (Thika strategic plan, 2008-2012). It has an average temperature of maximum 25 degrees centigrade and rainfall average of 1020mm per annum. Thika District has an
estimated population of about 850,000 with Thika Municipality and Gatanga being the densely populated. Thika Municipality has an estimated population of about 140,000 (strategic plan 2005-2008). Thika is externally serviced by a dual carriage to Nairobi (currently being upgraded to dual super highway) highway to Garissa and a railway line. Internally, the town has a well-maintained road network. The Economic activities of the town include, Agriculture mainly horticulture and coffee industry, other include textile, mining (building stones), tannery, motor vehicle assemblies and cigarette manufacturing. Thousand of micro enterprises, a hundred of small scale industries and about twenty major factories exist in and around the town. (Thika strategic plan 2008 – 2012)

1.2 Statement of the Problem

According to the economic survey (2006), SME’s contributed over 50% of new jobs created in the year 2005. Despite their potential to contribute to the world economy, SMEs face many challenges. The Citigroup/ EIU report cited inadequate access to financial resources and investment capital as significant barriers to growth for SMEs (Newberry, 2006). These challenges might have accounted for the high rates of failure among SMEs, ranging from a high of 80% in the first 3 years of operation in the U.S. to over 50% in Australia, France and New Zealand (Mason, 2007; Switzer, 2007). Several studies in the informal sector in Kenya (Abuodha, 1996; Kinyanjui, 2000), found out that, although many SMEs continue to be established, most of them are unable to grow and are barely surviving. Past statistics indicate that three out of five businesses fail within the first few months of operations (Kenya National Bureau of Statistics, 2009).

Literature review shows that, factors, such as, lack of accessibility to finance, lack of managerial skills, lack of Education and training, Scanty market information, Government policies and regulations and also market competitiveness by SMEs in developed countries are some of the major challenges that leads to failure in growth of most SMEs. Given the importance of SMEs businesses to the Kenyan economy and the evidence that they are often exposed to failure, there is need to conduct empirical enquiry to investigate the factors affecting the performance of SME’s in Kenya and how to manage those factors. The study will target SMEs Enterprises within Thika Municipality.
1.3 Research Objectives

1.3.1 General Objective
To find out factors that affect performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya).

1.3.2 Specific Objectives
The study was based on the following specific objectives:

1. To assess the relationship between finance accessibility and the performance of small and medium enterprises.

2. To determine the relationship between managerial ability and the performance of small and medium enterprises.

3. To assess the correlation between education, training and the performance of small and medium enterprises.

4. To measure the relationship between informatics and the performance of small and medium enterprises.

5. To determine the relationship between regulatory framework and the performance of small and medium enterprises.

1.4 Research Questions
The study was guided by the following research questions:

i) How does finance accessibility affect the performance of small and medium enterprises?

ii) How does Management style affect the performance of small and medium enterprises?

iii) How does education and training affect performance of small and medium enterprises?

iv) How does Informatics affect the performance of small and medium enterprises?
v) How does regulatory frame work affect the performance of small and medium enterprises?

1.5 Significance of the Study

The study would facilitate the availability of information for SMES businesses on factors that can affect the performance of their businesses and what they can do to overcome them as well as protect them from failure. The knowledge they will acquire from the outcome of the research, will not only improve the performance of their businesses, but also survival. The findings from the research will also assist the relevant ministry in formulating policies which will enhance the performance and survival of SMEs. The study will contribute to the body of knowledge on the effect of factors affecting performance of small medium enterprises in Kenya. It will be useful to the young scholars as a source of knowledge for further research on SMEs. Scholars will also find the outcome of the research useful, as a source of literature review when carrying out research on other areas related to SMEs. It will also be used by owner-managers of SMEs in planning for the training programs of their staff as it will highlight some of available programs and their benefits.

1.6 Scope of the Study

The study was confined to the SMEs within Thika municipality, Kenya. For the purpose of this study, a target of population of 330 owner-managers and a sample size of 66 are deemed sufficient by the researcher.

1.7 Limitations of the Study

The researcher anticipated the reluctance of some respondents to complete the questionnaires promptly and or fill them at all. The researcher intended to overcome this by explaining the importance of the study and the potential benefit to them. Time, manpower and financial constraints contributed to the smaller sample taken for the purpose of this study. The researcher nature of work involved a lot of travelling and this was anticipated to hinder the completion of the research on time. The researcher intended to utilize all free available time to carry out the research. The researcher also anticipated challenges in determining which enterprises to choose
as correspondents to the research questionnaires, especially medium firms as they fall somewhere between large corporations and small firms. The researcher will use number of employees and/or annual returns as a basis of distinguishing between Micro, Small, Medium and large enterprises.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter looks at the related literature involving factors affecting the SME industry globally, regionally and in Kenya; the challenges include education and training, informatics, regulatory framework, management and access to funds. The study also reviews previous studies carried out by other authors on the subject of factors affecting SME industry. The study also looks at the research gaps. The literature on SMEs (Small and Medium Enterprises) shows that they face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development (King and McGrath, 2002). Some of the major challenges include the following: Lack of credit accessibility, Lack of Managerial Training and Experience, Inadequate Education and Skills, National Policy and Regulatory Environment, Technological Changes, Poor Infrastructure and Scanty Markets information, (Wanjohi and Mugure, 2008).

2.1.1 Education and Training

In a study carried out by Saleh et al (2006) on perceptions of business challenges facing Malaysian SMEs, findings indicated that factors related to human capital were observed to be the greatest challenge facing SMEs. The factors were indicated by dominance of unskilled workforce in the industry and lack of motivation among the workforce, there was also lack of managerial skills and labour productivity. The study sought to determine if there was a relationship between business performance and level of training in the line of business. The results showed that 49.5 percent of those who had received training in their areas of business reported that their businesses were doing well. Given that 51 percent received training and nearly all of them (49.5 percent) said their businesses were doing well, the researchers concluded that relevant training could produce positive results in the running of businesses. They therefore inferred that there was a negative relationship between lack of training and business performance.
Onugu (2005) in his study on challenges facing SMEs in Nigeria found out that lack of suitable training and leadership development was a major barrier to SMEs success. This was the case despite training institutions being many in Nigeria as it was found that they rarely addressed the relevant needs of SMEs especially in the areas of accounting, marketing, information technology, technological processes and development, international trade, administration and management of SMEs. Essentially, he observed that SMEs were left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate SME business. Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector (King and McGrath 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

2.1.2 Access to finance

Holland (2004) in his analysis of Chinese SMEs and their access to credit facilities found that as much as 56% of the companies funds were from personal savings/sources while 20% came from the banks and a mere 1% from equity. State banks in China traditionally preferred lending to large state owned enterprises, however, with the economic restructuring in place, private SMEs are finding their access to credit increasingly limited as a result of new credit restrictions. Analysts in China estimate that a majority of small businesses owners in China are now forced to resort to the underground market in order to gain access to much needed finances. A shortage of capital affects SMEs in particular, as they do not have the ability to absorb the risk of experimenting in new markets (Etemad, 2004)
In a study carried out by ECA (2001) on enhancing the competitiveness of small and medium enterprises in Africa, the mission found out that shortage and inadequacy of financial institutions for SME support was a major obstacle for SME development. For example, the Senegalese private sector was found to remain handicapped by the fact that most financial institutions were ill equipped to serve the SME sector. Such institutions appeared to have serious internal managerial weaknesses and unqualified staff, which explained poor quality of the service provided. The mission further reported that commercial banks often discriminated against SMEs because they were considered high risk clients with little or no resources to provide collateral. They quoted Gabon and Cameroon where they found out that interest rates could go up to 25%, and although development banks exist, they operate like commercial banks with the same loan conditions. In countries like Nigeria, it was observed that SMEs access to capital in the form of short-term loans and overdraft facilities were highly limited. Banks and other financial institutions had no confidence in SMEs as they are perceived as high-risk ventures with high rate of failure. They also establish prohibitive collateral conditions that most SMEs cannot afford (ECA, 2001).

Ibrahim (2008) in his study on an analysis of strategic factors affecting performance of small and medium sized industrialists need funds for expansion and working capital. To obtain the necessary funds for expansion and working capital, SMEs would have to compete in the financial market with large and more reputable companies for funds. From the records, the study established that SMEs were denied required funds/loans because of their doubtful ability to repay the loans in time, and where they could obtain the funds/loans it was usually at a very high cost. The peculiar problems of these industries have made them unattractive to banks which rather than meet the statutory minimum investment/lending to the sub-sector, prefer to pay the penalty for non compliance enforced by the Central bank. Besides, the study found that the banks demanded for collateral on any advance which sometimes the SMEs could not provide (Ibrahim, 2008).

A study carried out by Kapila (2006) on challenges facing SMEs in Kenya established that limited access to financing was a problem that was experienced across the board. In spite of Kenya’s relatively large financial services sector, only about 10 per cent of the population is
estimated to have access to banking services. The bulk of the poor, who mostly live in the rural areas, have no access to formal financial services. Consequently, small entrepreneurs’ start their business by investing their own savings and/or using funds obtained from relatives or friends and supplemented by loans from informal lenders or by credit from suppliers. The report indicated that the main reason why commercial banks are reluctant to lend to the SMEs is that this type of business seldom has any credit history or marketable assets to use as collateral.

The study also established that there are a large number of micro-finance institutions involved in providing financial services to people with low incomes, as well as to SMEs. There exist about 4000 Saving and Credit Co-operative Societies (SACCOs). SACCOs are member-based institutions found both in the rural and urban areas of Kenya: members have to save a fixed amount in order to qualify for SACCO credit which can be used for starting up or promoting an existing business. While SACCOs are an important provider of financial services for rural SMEs, one major weakness has been their limited outreach capacity in areas without a major cash crop (Kapila, 2006). This includes the greater part of marginal areas in Kenya where the bulk of the poor live. SACCOs can also guarantee loans from the Co-operative Bank of Kenya for one or several of their members operating as an SME. In addition to the SACCOs, there are about 1 million rotating and accumulating savings and credit associations (ROSCAs and ASCRAs), which are a form of “merry-go-round”. They mostly provide goods or capital to their members for starting or enhancing businesses. Finally, there are about 130 other micro-finance organizations recorded by the Central Bureau of Statistics. Micro-finance institutions face major obstacles in their operations, including the lack of a mechanism to track and recover loans, a lack of co-ordination, a lack of commitment from the borrowers, and the use of counterfeit documents as collateral. Furthermore, they suffer - as do the commercial banks - from the lack of a supportive judicial system and effective administration of property rights. Thus they are not in a capacity to fund the SMEs fully (Kapila, 2006).

2.1.3 Regulatory Framework

The small and medium sized enterprises (SME) sector has attracted significant and increasing attention from policy makers in many jurisdictions. In the developed economies, this attention has focused on business birth rates, entrepreneurship and SME’s development. In developing
economies the SME's sector is seen as the source of indigenous economic development to match the development achieved by inward investment activity. Hart et al (2000) report on the impact of the Local Enterprises Development Unit in Northern Ireland reveals that a change of policy in that organization resulted in different approach to the provision of financial assistance to small firms (John F Dalrymple, 2004). Punyasavatsut (2009) in his study on integrating SMEs into east Asia production networks found that government support, which included support from non governmental organizations was not well distributed and access to services offered were too costly for many SMEs. Further, the researcher noted that the government offered assistance though programs focusing on helping firms to enhance technology development and transfer to SMEs, and programs were providing information on marketing.

Despite the Thai government having put in place a variety of programs to help SMEs upgrade their technologies; the extent of support in this area seemed to be quite limited. The respondents argued that assistance in this area was not yet effective and was less accessible by many SMEs. As for market information, programs focusing on improving more reliable market data and information for business partners were recommended, and perceived as the most effective and accessible ones. The researcher concluded that more government efforts and resources were needed to improve technological capabilities of SMEs.

A study carried in Pakistan on challenges faced by SMEs (Badrinath, 1994) found that an additional barrier faced by SMEs from emerging markets was inadequate government’s support. The researcher argued that close cooperation between the government, promotional institutions and the business community is essential in providing an impetus for SMEs to internalization. Further, it was found that very few SMEs actively seek to contact chambers of commerce, and other trade organizations about information such as potential markets to enter. However, government and trade organizations was identified as essential to SMEs in order to help them keep up and be aware of the latest marketing trends, consumer preferences and technologies and make contact with potential buyers or agents. Yet Zafawillah et al (1998) also found that the assistance provided by the government of Pakistan was often limited to the lists of potential importers as set out by export promotion bureau of Pakistan, and in a collective culture such as
that of Pakistan, face-to-face contact with potential importers and wholesalers was crucial in order to build trust and respect.

In a study carried out by ECA (2001) on enhancing the competitiveness of small and medium enterprises in Africa, the mission found that many African countries do not have a legal and regulatory framework that supports the growth of the SME sector. In the case of Uganda, an extensive number of outdated and cumbersome laws and regulations had increased the transaction costs of SMEs, thereby hampering their economic performance and growth. In Ethiopia, the complexity of the customs system and the many forms and declarations required had a negative impact on the general business climate, diverting entrepreneurs' efforts from more productive tasks. Evident showed that custom duties and tariffs discriminated against local producers.

The commission observed that in other African countries, the problem has often been the governments' inconsistency and lack of transparency in implementing policies. In some countries like Nigeria for example, in recognition of the key role played by SMEs, the government formulated special policy measures and programmes to encourage their development. It included favourable laws and regulations on contracts, leasing, and corporate tax, as well as fiscal and export incentives for SMEs. However, the political will for proper implementation was never there. Corruption diverted the support programmes from the original beneficiaries. Illegal permits and licenses were given at all levels to family members and friends operating informal micro enterprises that did not qualify for tax relief and other incentives. Consequently, there was little or no impact on the original group (ECA, 2001).

Mitullah (2003) in her study on street trade in Kenya found that most urban authorities in Kenya were operating on colonial by-laws that had yet to be reviewed. The policies were deficient and the urban authorities had not only failed to enforce them, but in reality given their form and coverage, they were not possible to enforce. The research further revealed that, while the basic idea is that licensing which originally intended to enable entrepreneurs to conduct their businesses productively and profitably, had become a stumbling block. In spite of the number of people who can be licensed being limited, once the license is given, it is shrouded with many
other outdated restrictive requirements relating to public health, building requirements, and other regulations outlined in the Local Government Act. This had resulted in most traders evading licenses, and therefore flouting most regulations laid down by authorities. The study concluded that there was need for Local Authorities to put in place relevant policy frameworks and reviews of the existing by-laws if they have to conform with government policy of enhancing the performance of SMEs.

2.1.4. Management

Chung (2008) in an analysis of deficiencies of financial management of SMEs in China and countermeasures found that there was poor financial control, supervision and management. Poor management of cash resulted in idle or insufficient funds. Staff were reported to be unaware of capital gains, business activities, there was emphasis of cash transactions, early withdrawal, delayed settlement which resulted in idle and waste of funds, loss of interest income and investment income. Further, it was found that in order to win customers and maintain their competitive advantage, SMEs resulted in credit approach, but the collection measures were inadequate, resulting in increased risk of bad debt. It was also noted that inventory control was weak, resulting in slow capital turn over. This was aggravated by lack of supervision of the stock of SMEs as there was no standard stock place and this resulted to ineffective productivity, assets loss, damage and waste of funds.

Onugu (2005) in his study on challenges facing SMEs in Nigeria observed that poor management/inadequate competent personnel were one of the major challenges facing SMEs. The researcher argued that in order to view and assess the issue of poor management in its true perspective, it is imperative to outline the circumstances leading to it and its implication for business survival and growth. A small or medium sized company, because of its size and scope of operation, cannot attract nor could it afford the “A-Class” type of management that, for example, that enjoyed by large organizations. The top class Managers needed to man this type of industry usually prefers to take appointment in large companies or the public sector which could give them room for advancement. Those that are left to take up appointment with medium sized industries are those unable to secure lucrative appointment, or those with inadequate educational/professional qualification and training or the inexperienced. The implication of
having the wrong management in the right places is that wrong decisions are made because there are no enough professionals to give necessary advice. An investment company, in its Appraisal Report on one company, felt that inefficient management have led to rising debts, falling assets, incurrence of high overhead cost, mismanagement of funds and high labour turnover. Because of lack of adequate knowledge, training or experience on the part of the top management, there was the problem of records-keeping, inadequate costing system and the lack of information for decision making (Onugu, 2005).

The study also established that weaknesses in organizations in information technology, administration, finance and human resources management and accounting arise from the dearth of personnel with adequate educational and technical background among the SME promoters and their staff. Inadequate managerial, scientific and technological competence among the SME, result in: Importation of equipment which would, in addition to its cost, require expatriate skill to install at high costs; Payment of royalties, technology transfer fees due to inadequate capacity on process technology, design and patents; poor and substandard product that cannot compete locally nor internationally; poor and substandard product that cannot compete locally nor internationally; and poor managerial ability also manifests in and is reinforced by lack of appropriate training and leadership development in various aspects of SME management (Onugu, 2005).

2.1.5 Informatics

The emergence of the internet has allowed small- and Medium size enterprises to compete effectively and efficiently in both domestic and international markets (UNDP, 2004). Information and Communication Technologies (ICT) play a prominent role in the field of commerce and trade nowadays. While the developed world forges ahead with e-transformation of businesses, the developing world struggles to keep pace with emerging technologies. In a challenging global society, effective use of ICT is critical for the success of businesses especially SMEs. Despite advances in IT and the acceptance by large organizations of such technologies, the same level of adoption is not evident among SMEs. This also suggests that SMEs face significant and unique challenges in adopting ICT and e-commerce.
Another study of ecommerce China found that there are many significant barriers to e-commerce adoption. Limited diffusion of computers, high cost of Internet access, and a lack of online payment processes were found to directly inhibit e-commerce. Inadequate transportation and delivery networks, limited availability of banking services, and uncertain taxation rules indirectly inhibit e-commerce (Cooray, 2003). Cloete et al (2002) in their study of SME adoption of e-commerce in South Africa found that adoption is heavily influenced by factors within the organization. Lack of access to computers, software, other hardware, and telecommunications at a reasonable cost; low e-commerce use by competitors and supply chain partners; concerns with security and legal issues; low knowledge level of management and employees; and unclear benefits from e-commerce were found to be the major factors that inhibit adoption.

Thomola (2008) in his study on perception of SMEs regarding to factors contributing to failure in South Africa found out that it is an apparent issue that when businesses are not properly marketing their products, it is likely for such business to perform poorly. He therefore argued that it was imperative for SMEs to improve the way they market their products as reflected in the responses where most of the respondents (65.8%) agreed that many businesses collapse because of poor product marketing. He observed that the findings confirmed what Gbadamosi (2006:4)(q.t.) found on SMEs’ limited marketing capacity that the economic power of many of these SMEs is small, hence they mostly serve their localities - local markets and environment, and that there is a need for marketing orientations and market expansion.

Ibrahim (2008) in his study on an analysis of strategic factors affecting performance of small and medium industries in Borne State of Nigeria found that SME faced serious market constraints, including inability to sell their products, and lack of access to appropriate and relevant information and advice. Because most SMEs lack adequate staff with managerial skills, proper marketing planning and strategies are absent. Increase globalization and trade liberalization in Nigerian has encouraged the dumping of cheap, fake and substandard products on Nigeria markets. This has dampened the demand for Nigeria made products. Further, the state of infrastructure in Nigeria has forced industrialist to provide many of the infrastructural facilities themselves. The additional cost of providing these facilities leads to increase in cost of
production with resultant effect on prices of local products. Consequently, local products were rendered uncompetitive relative to imported equivalents. Marketing of products manufactured by SME is very pertinent to performance of SME sector in Nigeria. Unfortunately the SME are bedeviled with a lot of constraints in market services. Some of the constraints involved include poor packaging, inadequate market information, high cost of advertisement, poor infrastructure, poor quality products, weaknesses in market identification and development, weak access to market, weak product competitiveness and weak demand (Ibrahim, 2008).

Small and Medium Enterprises are important in the East Africa economies especially with respect to employment. The increasing competition through globalization puts them under considerable pressure. Through the rapid spread of information and communication technologies (ICT) and ever decreasing prices for communication, markets in different parts of the world become more integrated. Therefore one basic question is whether the use of ICT (as a production technology, information processing technology or as information communication technology) can help them to cope with these new challenges (Matambalya, Francis, Wolf, Susanna, 2001).

2.3 Research Gaps

Sha (2004) carried out a survey to investigation into problems facing small-to-medium sized enterprises in achieving growth in the Eastern Cape and found that access to finance, stringent government policy, lack of government support of SME programs and poor management were the major challenges affecting the SMEs in that region, however, the researcher observed that the scope of the study did not allow delving into reasons why the above are a hindrance to growth/performance, rather it dwelt on identifying whether they were challenges, the researcher therefore recommended a comprehensive study on the factors and why they cause stagnation.

this study therefore seeks to fill in this gap by going further to find out why they are major challenges facing SMEs.

Lawson & Kapurubandara (2006) in their exploratory study of barriers to adopting ICT and e-commerce with SMEs in developing countries using a case study of Sri Lanka observed that information and communication technology play a prominent role in the field of commerce and
trade nowadays. While the developed world forges ahead with e-transformation of businesses, the developing world struggles to keep pace with emerging technologies. In a challenging global society, effective use of ICT is critical for the success of businesses especially SMEs. Despite advances in IT and the acceptance by large organizations of such technologies, the same level of adoption is not evident among SMEs. This also suggests that SMEs face significant and unique challenges in adopting ICT and e-commerce. The researchers therefore suggested that studies be carried out in developing countries to establish whether they have adopted e-commerce and if not, the reasons why. This study intends to fill in this gap by looking into whether Jua kali enterprises in Thika have embraced e-commerce as a marketing strategy and if not, the reasons why they have not.

ILO (2008) in their study of women entrepreneurs in Kenya through desk reviews found out that there are several barriers that hinder women from developing their enterprises. It was established that cultural factors, inadequate education and training, lack of technology and access to finance are major challenges faced by women entrepreneurs. The study focused on women entrepreneurs operating small enterprises in Kenya like selling clothes and food stuffs. They observed that it would be interesting to find out if the SMEs across the country, whether women run or otherwise face the same challenges. This study seeks to fill in the gap by investigating the factors affecting SMEs enterprises in Thika.
2.4 Conceptual Framework

The study was guided by the following conceptual framework.

Figure 1.1 Conceptual framework

Accessibility to finance
Management
Education and training
(Informatics) Market information’s
Regulatory framework

SMEs Performance
- Market share
- No of employees
- Returns/profits
- Growth

Independent variables
Dependent variable

Source: Moffat Mwaniki

The above conceptual framework shows that the dependent variable: SMEs performance is influenced by five independent variables which include; accessibility to finance, managerial
ability, education and training, informatics and regulatory framework. The parameters which are going to be used to measure SME performance include: sales, profitability, market share and growth.
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
The chapter gives an explanation of the research designs and methodology and justification for having used this research design. It also describes the characteristic of the population which was used in the study, detailed description of sampling methods used and procedures, data collection instruments and the procedure of data collection, finally it describes the appropriate data analysis method which will generate the data.

3.2 Research Design
As stated by Bryman and Bell (2007), research design refers to the structure that guides the execution of a research method, and the subsequent analysis of acquired data. It provides a framework for the generation of evidence that is suited both to a certain set of criteria and to the research question in which the investigator is interested. The study adopted the descriptive research design. Creswell (2002) observes that a descriptive research design is used when data are collected to describe persons, organizations, settings, or phenomena. The study aimed at observing and describing the behaviour of the subjects under study without influencing it in any way and therefore considered the descriptive research design to be the most appropriate for this study.

3.3 Target Population
Neuman (2000) observed that nothing comes out at the end of a long and involved study that is any better than the care and the careful selection of the population. The population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular study. The target population of this study comprised of 330 owner-managers drawn from SME’s within Thika. This is shown on the table below.
### Table 3.1 Target population

<table>
<thead>
<tr>
<th>SMEs Types/ Strata</th>
<th>Target population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>142</td>
</tr>
<tr>
<td>Training</td>
<td>72</td>
</tr>
<tr>
<td>Agriculture supplies</td>
<td>34</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>11</td>
</tr>
<tr>
<td>Estate Agents</td>
<td>43</td>
</tr>
<tr>
<td>Hospitals</td>
<td>28</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>330</strong></td>
</tr>
</tbody>
</table>

*Source: Business List Directory (Kenya), BusinessList.co.ke*

#### 3.4 Sampling Procedures

Sampling is a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The researcher made use of stratified random and simple random sampling. Stratified random sampling is the process of selecting a sample in such a way that identified subgroups in the population are represented in the sample in the same proportion as they exist in the population (Patton, 2002), while a simple random sample is one in which each and every member of the population has an equal and independent chance of being selected as respondents (Mugenda and Mugenda, 1999). From the 330 owners of SMEs, a sample size of 66 respondents within Thika Municipality was chosen from each of the strata whereby the target population was divided into strata and sample of 20% of each stratum was selected. This ensured that all the strata within the study area are included in the study and thus taking into consideration the socio-economic dynamics of the area by spreading the sample in the whole Thika Municipality.
Table 3.2 Sample size of respondents

<table>
<thead>
<tr>
<th>SMEs Types/ Strata</th>
<th>Target population</th>
<th>Ratio %</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>142</td>
<td>20/100</td>
<td>28</td>
</tr>
<tr>
<td>Training</td>
<td>72</td>
<td>20/100</td>
<td>14</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>34</td>
<td>20/100</td>
<td>7</td>
</tr>
<tr>
<td>Agriculture Supplies</td>
<td>11</td>
<td>20/100</td>
<td>2</td>
</tr>
<tr>
<td>Estate Agents</td>
<td>43</td>
<td>20/100</td>
<td>9</td>
</tr>
<tr>
<td>Hospitals</td>
<td>28</td>
<td>20/100</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>330</td>
<td></td>
<td>66</td>
</tr>
</tbody>
</table>

3.5 Data Collection Procedures

The researcher collected data by use of questionnaires. The researcher prepared questionnaire that has open and close ended questions. The questionnaire was typed and taken to each respondent. The main reasons for using a questionnaire are that they focus directly on the issues of the research and can be used to collect more data. It can also be send by mail to respondents with return stamps or use research assistants to take them to respondents, have them filled and collect them later or immediately as per the convenience of the respondent. Questionnaires are brief and comprehensive. To ensure the reliability and validity of the questionnaires, a pre-test was undertaken. According to Mugenda and Mugenda (1999), the number of cases in the pre-test should be 10% for small samples and 1% for large samples. Seven questionnaires that is 10% of the sample size was administered to the respondents for the pre-test.
3.6 Data Analysis Techniques

Data was analyzed using descriptive statistics; this included mean, median and standard
deviation. Inferential statistics analysis method was applied; this included factor analysis and
correlation analysis. Modes of data presentation included tables, bar charts and pie charts.
Microsoft Excel and SPSS packages were used as tools for assisting in analyzing and
presentation of data.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the factors that affect performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya). The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.1.1 Response Rate
The study targeted 66 respondents in collecting data with regard to the factors that affect performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya). From the study, 50 out of the 66 sample respondents filled-in and returned the questionnaires making a response rate of 75.7%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.2 Background information
Duration of time the Respondent’s business has been in existence

![Bar Chart]

Figure 4.1: Duration of time the Respondent’s business has been in existence
The study sought to find out the duration of time the respondent’s business has been in existence. From the findings, 34% of the respondents indicated that their businesses had been in existence for more than 5 years, 28% of the respondents indicated that their businesses had been in existence for 1-3 years, 26% of the respondents indicated that their businesses had been in existence for 4-5 years while only 12% of the respondents indicated that their business had been in operation for less than 1 year.

**The main business activities of the Respondent’s Business**

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>hospitals</td>
<td>12.0</td>
</tr>
<tr>
<td>estate agent</td>
<td>10.0</td>
</tr>
<tr>
<td>agriculture</td>
<td>4.0</td>
</tr>
<tr>
<td>supermarkets</td>
<td>10.0</td>
</tr>
<tr>
<td>training</td>
<td>14.0</td>
</tr>
<tr>
<td>manufacturing</td>
<td>50.0</td>
</tr>
</tbody>
</table>

Figure 4.2: **The main business activities of the Respondent’s Business**

The study sought to find out the main business activities of the Respondent’s Business. From the findings, 50% of the respondents indicated that they were in the manufacturing industry, 14% of the respondents indicated that they were in the training industry, 12% of the respondents indicated that they were in the health industry, 10% of the respondents indicated that they were in the real estate and supermarkets industries, respectively, while only 4% of the respondents indicated that they were in the agriculture industry.
The study sought to find out the number of permanent employees in the Respondent’s Business. From the findings, 42% of the respondents indicated that they had between 11 and 50 permanent employees in their businesses, 36% of the respondents indicated that they had 10 and below permanent employees in their businesses, 20% of the respondents indicated that they had between 51 and 200 permanent employees in their businesses while only 2% of the respondents indicated that they had between above 200 permanent employees in their businesses.
Number of casual employees in the Respondent’s Business

![Bar chart showing the distribution of casual employees by number of employees.]

Figure 4.4: Number of casual employees in the Respondent’s Business

The study sought to find out the number of casual employees in the Respondent’s Businesses. From the findings, 56% of the respondents indicated that they had 10 and below casual employees in their businesses, 30% of the respondents indicated that they had between 11 and 50 casual employees in their businesses, 10% of the respondents indicated that they had between 51 and 200 casual employees in their businesses while only 4% of the respondents indicated that they had between above 200 casual employees in their businesses.

Whether respondent’s business has grown since they were started

![Pie chart showing the distribution of responses to whether the business has grown.]

Figure 4.5: Whether respondent’s business has grown since they were started
The study sought to find out whether respondent’s business has grown since they were started. From the findings, 68% of the respondents indicated that their businesses had grown since they were started, 18% of the respondents indicated that their businesses had not grown since they were started while only 14% of the respondents were not sure whether their businesses had grown since they were started.

Indicators of growth in the Respondent’s business

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business has seen growth in market shares in the industry</td>
<td>4.0</td>
</tr>
<tr>
<td>Business have expanded</td>
<td>40.0</td>
</tr>
<tr>
<td>Profit have increased</td>
<td>32.0</td>
</tr>
<tr>
<td>Number of employees have increased</td>
<td>24.0</td>
</tr>
</tbody>
</table>

Figure 4. 6: Indicators of growth in the Respondent’s business

The study sought to find out the indicators of growth in the Respondent’s businesses. From the findings, 40% of the respondents indicated that the indicator for their businesses growth was business expansion, 32% of the respondents indicated that the indicator for their businesses growth was increase in profits, 24% of the respondents indicated that the indicator for their businesses growth was increase in the number of employees, while 4% of the respondents indicated that the indicator for their businesses growth was growth in market shares in the industry.

4.3 Study Variables

4.3.1 Access to Finance as a Factor Affecting SMEs Performance

The study sought to find out the influence of access to finance on SMEs Performance. Particularly, the study focused on how respondents finance their businesses and what prevents Respondents from borrowing money from banks.
How Respondents finance their businesses

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loans</td>
<td>40.0</td>
</tr>
<tr>
<td>Personal savings</td>
<td>38.0</td>
</tr>
<tr>
<td>Loans from family and relatives</td>
<td>12.0</td>
</tr>
<tr>
<td>Government institutions</td>
<td>6.0</td>
</tr>
<tr>
<td>Non-governmental organizations(NGOs)</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Figure 4.7: How Respondents finance their businesses

The study sought to find out how respondents financed their businesses. From the findings, 40% of the respondents indicated that they financed their businesses from bank loans, 38% of the respondents indicated that they financed their businesses from personal savings, 12% of the respondents indicated that they financed their businesses from loans from family and relatives, 6% of the respondents indicated that they financed their businesses through government institutions, while only 4% of the respondents indicated that they financed their businesses through Non-Governmental Organizations.

How respondent’s Access Finance for Their Businesses

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>46.0</td>
</tr>
<tr>
<td>NGOs</td>
<td>26.0</td>
</tr>
<tr>
<td>Microfinance</td>
<td>16.0</td>
</tr>
<tr>
<td>Governments</td>
<td>8.0</td>
</tr>
<tr>
<td>Sacco</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Figure 4.8: How Respondent’s Accessed Finance for Their Businesses
The study sought to find out how respondents accessed finance for their businesses. From the findings, 46% of the respondents indicated that they accessed finance for their businesses from commercial banks, 26% of the respondents indicated that they accessed finance for their businesses from NGOs, 16% of the respondents indicated that they accessed finance for their businesses from microfinance institutions, 8% of the respondents indicated that they accessed finance for their businesses from government institutions, while only 4% of the respondents indicated that they accessed finance for their businesses from SACCOs.

**What prevents Respondents from borrowing money from banks**

![Bar chart showing reasons for not borrowing money from banks]

**Figure 4.9: What prevents Respondents from borrowing money from banks**

The study sought to find out what prevented respondents from borrowing money from banks. From the findings, 52% of the respondents indicated that high interest rates prevented them from borrowing money from banks, 20% of the respondents indicated that lack of collateral to use as security prevented them from borrowing money from banks, 16% of the respondents indicated that they did not like to borrow credit from commercial banks, 6% of the respondents indicated that they thought that loans were for big companies and therefore did not see the need to borrow money from banks while the rest of the respondents, (6%) indicated that fear of losing property prevented them from borrowing money from banks.
The study sought to find out what made respondents who had ever applied for a loan, be denied the loan. From the findings, 40% of the respondents indicated that they were denied the loan because they had a too small equity base, 26% of the respondents indicated that they were denied the loan because they had a no security to pledge, 18% of the respondents indicated that they were denied the loan because they lacked guarantors, 10% of the respondents indicated that they were denied the loan because they lacked managerial experience while 6% of the respondents indicated that they were denied the loan because they lacked bank statements due to non-banking.
The study sought to find out the highest amounts that respondent’s enterprises borrowed successfully from a bank. From the findings, 48% of the respondents indicated that the highest amounts they had borrowed successfully from a bank was above Kshs 500,000, 20% of the respondents indicated that the highest amounts they had borrowed successfully from a bank was between Kshs 51,000 and Kshs 300,000, 18% of the respondents indicated that the highest amounts they had borrowed successfully from a bank was Kshs 50,000 and below while 14% of the respondents indicated that the highest amounts they had borrowed successfully from a bank was between Kshs 301,000 and Kshs 500,000.
Collateral or security Respondent’s pledge for the highest amount of loan they borrowed successfully

<table>
<thead>
<tr>
<th>None</th>
<th>8.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business machinery/properties</td>
<td>14.0</td>
</tr>
<tr>
<td>Guarantors</td>
<td>16.0</td>
</tr>
<tr>
<td>Car logbook</td>
<td>38.0</td>
</tr>
<tr>
<td>Land title deed</td>
<td>24.0</td>
</tr>
</tbody>
</table>

Figure 4.12: Collateral or security Respondent’s pledge for the highest amount of loan they borrowed successfully

The study sought to find out the Collateral or security Respondent’s pledge for the highest amount of loan they borrowed successfully. From the findings, 48% of the respondents indicated that they pledged car logbooks as security for the loan, 24% of the respondents indicated that they pledged land title deeds as security for the loan, 16% of the respondents indicated that they pledged guarantors as security for the loan, 14% of the respondents indicated that they pledged business machinery or properties as security for the loan, while only 8% of the respondents indicated that they pledged nothing as security for the loan.
Respondent’s opinion as to whether financing is a setback to the growth of their businesses

Figure 4.13: Respondent’s opinion as to whether financing is a setback to the growth of their businesses

The study sought to find out the respondent’s opinion as to whether financing is a setback to the growth of their businesses. From the findings, 48% of the respondents agreed that financing is a setback to the growth of their businesses, 38% of the respondents strongly agreed that financing is a setback to the growth of their businesses, 12% of the respondents indicated neutrality on whether financing is a setback to the growth of their businesses, 6% of the respondents disagreed that financing is a setback to the growth of their businesses, while only 2% of the respondents strongly disagreed that financing is a setback to the growth of their businesses.
Table 4.1: Respondent’s level of agreement about the role of various institutions in financing and growth of SMEs

<table>
<thead>
<tr>
<th>Institution</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Mean</th>
<th>Stdev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance</td>
<td>52.0</td>
<td>28.0</td>
<td>12.0</td>
<td>8.0</td>
<td>0</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Government</td>
<td>44.0</td>
<td>26.0</td>
<td>10.0</td>
<td>12.0</td>
<td>8.0</td>
<td>2.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>46.0</td>
<td>30.0</td>
<td>16.0</td>
<td>6.0</td>
<td>2.0</td>
<td>1.8</td>
<td>1.0</td>
</tr>
<tr>
<td>SACCOs</td>
<td>44.0</td>
<td>26.0</td>
<td>10.0</td>
<td>12.0</td>
<td>8.0</td>
<td>2.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Shy lockers</td>
<td>46.0</td>
<td>30.0</td>
<td>16.0</td>
<td>6.0</td>
<td>2.0</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Chama’s</td>
<td>36.0</td>
<td>28.0</td>
<td>22.0</td>
<td>12.0</td>
<td>2.0</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>NGOs</td>
<td>40.0</td>
<td>20.0</td>
<td>30.0</td>
<td>8.0</td>
<td>2.0</td>
<td>2.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Family savings</td>
<td>34.0</td>
<td>28.0</td>
<td>18.0</td>
<td>14.0</td>
<td>6.0</td>
<td>2.4</td>
<td>1.7</td>
</tr>
</tbody>
</table>

The study sought to find out the respondent’s level of agreement about the role of various institutions in financing and growth of SMEs. According to the findings, respondents agreed that Microfinance Institutions play a role in financing the growth of SMEs as shown by a mean of 1.6, that Commercial banks play a role in financing the growth of SMEs as shown by a mean of 1.8 that Shy lockers play a role in financing the growth of SMEs as shown by a mean of 1.9, that the Government plays a role in financing the growth of SMEs as shown by a mean of 2.0, that SACCOs play a role in financing the growth of SMEs as shown by a mean of 2.1, that NGOs play a role in financing the growth of SMEs as shown by a mean of 2.1, that Chama’s play a role in financing the growth of SMEs as shown by a mean of 2.2, and that Family savings play a role in financing the growth of SMEs as shown by a mean of 2.4.
Respondent’s opinion as to whether marketing is a barrier to enterprise performance

![Bar Chart](image)

**Figure 4.14: Respondent’s opinion as to whether marketing is a barrier to enterprise performance**

The study sought to find out the respondent’s opinion as to whether marketing is a barrier to enterprise performance. From the findings, 54% of the respondents agreed that marketing is a barrier to enterprise performance, 22% of the respondents strongly agreed that marketing is a barrier to enterprise performance, 12% of the respondents indicated neutrality on whether marketing is a barrier to enterprise performance, 6% of the respondents disagreed that marketing is a barrier to enterprise performance, while only 6% of the respondents strongly disagreed that marketing is a barrier to enterprise performance.
The study sought to find out how respondents market their products. From the findings, 54% of the respondents indicated that they market their products through media print, 16% of the respondents indicated that they market their products through dropping of leaflets, 14% of the respondents indicated that they market their products through word of mouth, 10% of the respondents indicated that they did not at all market their products, while only 6% of the respondents indicated that they market their products through television.
How respondents market their goods abroad

Fig. 4. 16: How respondents market their goods abroad

The study sought to find out how respondents market their products abroad. From the findings, 32% of the respondents indicated that they did not export their products, 20% of the respondents indicated that they market their products abroad through the internet, 16% of the respondents indicated that they market their products abroad through trade agents, 14% of the respondents indicated that they had a base abroad for advertising their products, 10% of the respondents indicated that they market their products abroad through print media while only 8% of the respondents indicated that they market their products through facebook.
Respondent's level of agreement on whether availability of Information and marketing tools are vital for growth of SMEs

![Diagram showing respondent's level of agreement](image)

Figure 4. 17: Respondent's level of agreement on whether availability of Information and marketing tools is vital for growth of SMEs

The study sought to find out the respondent's level of agreement as to whether availability of Information and marketing tools is vital for growth of SMEs. From the findings, 42% of the respondents agreed that availability of Information and marketing tools is vital for growth of SMEs, 26% of the respondents strongly agreed that availability of Information and marketing tools is vital for growth of SMEs, 12% of the respondents indicated neutrality on whether availability of Information and marketing tools is vital for growth of SMEs, 12% of the respondents disagreed that availability of Information and marketing tools is vital for growth of SMEs, while only 8% of the respondents strongly disagreed that availability of Information and marketing tools is vital for growth of SMEs.
The study sought to find out the respondent’s level of agreement on the constraints likely to be encountered by other enterprises. According to the findings, respondents indicated neutrality on whether inadequate market information was a constraint likely to be encountered by other enterprises as shown by a mean of 3.4, on whether weakness in market identification was a constraint likely to be encountered by other enterprises as shown by a mean of 3.3, on whether high cost of advertisement was a constraint likely to be encountered by other enterprises as shown by a mean of 3.2, on whether the Poor infrastructure was a constraint likely to be encountered by other enterprises as shown by a mean of 3.2, on whether Poor packaging was a constraint likely to be encountered by other enterprises as shown by a mean of 3.1, on whether Weak product competitiveness was a constraint likely to be encountered by other enterprises as shown by a mean of 3.1 and on whether weak demand of products was a constraint likely to be encountered by other enterprises as shown by a mean of 3.0.
Respondent’s level of agreement on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs

The study sought to find out the respondent’s level of agreement on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs. From the findings, 38% of the respondents agreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 32% of the respondents strongly agreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 14% of the respondents indicated neutrality on whether Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs, 8% of the respondents disagreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs while only 8% of the respondents strongly disagreed that Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs.
Whether respondents have come across various ICT terms in the course of their business transactions

<table>
<thead>
<tr>
<th>Term</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>e-commerce</td>
<td>14.0</td>
</tr>
<tr>
<td>e-banking</td>
<td>30.0</td>
</tr>
<tr>
<td>e-shopping</td>
<td>24.0</td>
</tr>
<tr>
<td>e-learning</td>
<td>16.0</td>
</tr>
<tr>
<td>mobile banking</td>
<td>16.0</td>
</tr>
</tbody>
</table>

Figure 4.19: Whether respondents have come across various ICT terms in the course of their business transactions

The study sought to find out whether respondents had come across various ICT terms in the course of their business transactions. From the findings, 30% of the respondents indicated that had come across the word E-banking in the course of their business transactions, 24% of the respondents indicated that had come across the word E-shopping in the course of their business transactions, 16% of the respondents indicated that had come across the words E-learning and mobile banking, respectively in the course of their business transactions, while only 14% of the respondents indicated that had come across the word E-commerce in the course of their business transactions.
4.3.3 Regulatory Framework as a Factor affecting SMEs Performance

Respondent's level of agreement on whether Government policies have a great impact on performance of SMEs

The study sought to find out the respondent's level of agreement on whether Government policies have a great impact on performance of SMEs. From the findings, 42% of the respondents agreed that Government policies have a great impact on performance of SMEs, 24% of the respondents strongly agreed that Government policies have a great impact on performance of SMEs, 16% of the respondents disagreed that Government policies have a great impact on performance of SMEs, 10% of the respondents strongly disagreed that Government policies have a great impact on performance of SMEs, while only 8% of the respondents indicated neutrality on whether Government policies have a great impact on performance of SMEs.
Table 4.3: Respondent’s level of agreement on whether challenges related to regulations hinder their enterprise’s growth

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of government support programs for SMEs</td>
<td>16.0</td>
<td>16.0</td>
<td>2.0</td>
<td>42.0</td>
<td>24.0</td>
<td>3.4</td>
<td>1.4</td>
</tr>
<tr>
<td>High compliance costs</td>
<td>10.0</td>
<td>20.0</td>
<td>8.0</td>
<td>36.0</td>
<td>26.0</td>
<td>3.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Bureaucracy in registration</td>
<td>10.0</td>
<td>10.0</td>
<td>14.0</td>
<td>40.0</td>
<td>26.0</td>
<td>3.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Political instability</td>
<td>6.0</td>
<td>12.0</td>
<td>26.0</td>
<td>36.0</td>
<td>20.0</td>
<td>3.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Lack of support from the judiciary</td>
<td>4.0</td>
<td>22.0</td>
<td>6.0</td>
<td>36.0</td>
<td>32.0</td>
<td>3.7</td>
<td>1.2</td>
</tr>
<tr>
<td>High cost of tax/complexity of the customs system</td>
<td>10.0</td>
<td>12.0</td>
<td>14.0</td>
<td>44.0</td>
<td>20.0</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Cumbersome laws and regulations</td>
<td>12.0</td>
<td>16.0</td>
<td>8.0</td>
<td>40.0</td>
<td>24.0</td>
<td>3.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Government inconsistency and lack of transparency in implementing policies</td>
<td>10.0</td>
<td>8.0</td>
<td>14.0</td>
<td>38.0</td>
<td>30.0</td>
<td>3.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Corruption diverting support programs from original beneficiaries</td>
<td>10.0</td>
<td>18.0</td>
<td>6.0</td>
<td>40.0</td>
<td>26.0</td>
<td>3.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Illegal permits and licenses</td>
<td>22.0</td>
<td>8.0</td>
<td>10.0</td>
<td>38.0</td>
<td>22.0</td>
<td>3.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

The study sought to find out the respondent’s level of agreement on whether challenges related to regulations hinder their enterprise’s growth. According to the findings, respondents agreed that lack of support from the judiciary and Government inconsistency and lack of transparency in implementing policies hinders their enterprise’s growth, respectively as shown by a mean of 3.7, that Bureaucracy in registration hinders their enterprise’s growth as shown by a mean of 3.6, that corruption diverting support programs from original beneficiaries, Cumbersome laws and regulations, Political instability, High compliance costs and High cost of tax/complexity of the customs system hinder their enterprise’s growth as shown by a mean of 3.5, that lack of government support programs for SMEs hinders their enterprise’s growth as shown by a mean of 3.4 and that Illegal permits and licenses hinder their enterprise’s growth as shown by a mean of 3.3.
Respondent’s opinion on whether the Government through its policies has a good will for the growth of SMEs

Figure 4.21: Respondent’s opinion on whether the Government through its policies has a good will for the growth of SMEs

The study sought to find out the respondent’s level of agreement on whether the Government through its policies has a good will for the growth of SMEs. From the findings, 30% of the respondents disagreed that the Government through its policies has a good will for the growth of SMEs, 22% of the respondents agreed that the Government through its policies has a good will for the growth of SMEs, 22% of the respondents indicated neutrality on whether the Government through its policies has a good will for the growth of SMEs, 16% of the respondents strongly agreed that the Government through its policies has a good will for the growth of SMEs while only 10% of the respondents strongly disagreed that the Government through its policies has a good will for the growth of SMEs.
4.3.4 Education and Training as a Factor Affecting SMEs Performance

How often respondent’s enterprises send staff for refresher courses or training programs

![Pie chart showing the distribution of how often enterprises send staff for refresher courses or training programs]

Figure 4.22: How often respondent’s enterprises send staff for refresher courses or training programs.

The study sought to find out how often respondent’s enterprises sent staff for refresher courses or training programs. From the findings, 48% of the respondents indicated that their enterprises rarely send staff for refresher courses or training programs, 30% of the respondents indicated that their enterprises often send staff for refresher courses or training programs while 22% of them indicated that their enterprises never sends staff for refresher courses or training programs.
The study sought to find out the programs respondents apply to develop skill for their staff. From the findings, 36% of the respondents indicated that they arrange for in-house training by external trainers to develop skill for their staff, 34% of the respondents indicated that they send their staff to seminars and conferences to develop their skills, 16% of the respondents indicated that they arrange for in-house training by own trainers to develop skill for their staff, 10% of the respondents indicated that they arrange for in-house brainstorming to develop skill for their staff, while 4% of the respondents indicated that they send their staff for training at Kenya Industrial Training to develop skill for their staff.

**Table 4.4: Respondents level of agreement on whether trained professionals handling various areas will lead to improvement in the enterprises performance**
The study sought to find out the respondent’s level of agreement on whether trained professionals handling various areas will lead to improvement in the enterprises performance. According to the findings, respondents disagreed that; trained professionals handling marketing department will lead to improvement in the enterprises performance as shown by a mean of 2.1; that trained professionals handling Production department will lead to improvement in the enterprises performance as shown by a mean of 1.9; that trained professionals handling Administration and Finance departments will lead to improvement in the enterprises performance as shown by a mean of 1.7 respectively.
Respondents level of agreement on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs

The study sought to find out the respondent’s level of agreement on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs. From the findings, 34% of the respondents disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 26% of the respondents strongly agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 22% of the respondents agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 14% of the respondents strongly disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, while only 4% of the respondents indicated neutrality on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs.

Figure 4.24: Respondents level of agreement on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs

The study sought to find out the respondent’s level of agreement on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs. From the findings, 34% of the respondents disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 26% of the respondents strongly agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 22% of the respondents agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 14% of the respondents strongly disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, while only 4% of the respondents indicated neutrality on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs.
Whether lack of education and training affects the performance of respondent’s enterprises

![Bar Chart](chart.png)

Figure 4. 25: Whether lack of education and training affects the performance of respondent’s enterprises

The study sought to find out whether lack of education and training affects the performance of respondent’s enterprises. From the findings, 34% of the respondents disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 26% of the respondents strongly agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 22% of the respondents agreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs, 14% of the respondents strongly disagreed that the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs while only 4% of the respondents indicated neutrality on whether the use of modern technology without good training programs leads to performance improvement in their enterprises and SMEs.
4.3.5 Management as a Factor Affecting SMEs Performance

Whether having a mission and vision is critical for the success of the business

The study sought to find out whether having a mission and vision is critical for the success of the business. From the findings, 46% of the respondents agreed that having a mission and vision is critical for the success of the business, 28% of the respondents strongly agreed that having a mission and vision is critical for the success of the business, 14% of the respondents indicated neutrality on whether having a mission and vision is critical for the success of the business, 8% of the respondents strongly disagreed that having a mission and vision is critical for the success of the business while only 4% of the respondents disagreed that having a mission and vision is critical for the success of the business.
The study sought to find out the organizational structure that is applicable to the respondent. From the findings, 24% of the respondents indicated that they used a functional organizational structure, 22% of the respondents indicated that they used a divisional organizational structure, 22% of the respondents indicated that they used a bureaucratic organizational structure, 14% of the respondents indicated that they used a post-bureaucratic organizational structure, 12% of the respondents indicated that they used a pre-bureaucratic organizational structure, while 6% of the respondents indicated that they did not use any of the organizational structures given.
Whether developing a business plan leads to improvement in respondent’s management style

The study sought to find out whether developing a business plan leads to improvement in respondent’s management style. From the findings, 40% of the respondents agreed that developing a business plan leads to improvement in their management style, 18% of the respondents strongly agreed that developing a business plan leads to improvement in their management style, 16% of the respondents disagreed that developing a business plan leads to improvement in their management style, 14% of the respondents indicated neutrality on whether developing a business plan leads to improvement in their management style, while only 12% of the respondents strongly disagreed that developing a business plan leads to improvement in their management style.
**Records maintained by respondent’s enterprises**

The study sought to find out the records maintained by respondent’s enterprises. From the findings, 34% of the respondents kept employee records, 24% of the respondents kept accounting records, 22% of the respondents kept sales records, 12% of the respondents kept production records, while only 8% of the respondents kept costs records.

**Whether respondents have internal control systems in their businesses**

Figure 4.30: Whether respondents have internal control systems in their businesses
The study sought to find out whether respondents had internal control systems in their businesses. From the findings, 58% of the respondents indicated that they had no internal control systems in their businesses while 42% of the respondents indicated that they had internal control systems in their businesses.

**Respondent's opinion on whether accounting ratios are important in determining the performance of the business**

![Pie chart showing respondent's opinion on accounting ratios]

**Figure 4. 31: Respondent's opinion on whether accounting ratios are important in determining the performance of the business**

The study sought to find out respondent's opinion on whether accounting ratios are important in determining the performance of the business. From the findings, 52% of the respondents indicated that accounting ratios are important in determining the performance of the business while 48% of the respondents indicated that accounting ratios are important in determining the performance of the business.
Number of years of experience that management teams in respondent's enterprises must have in running the enterprise.

Figure 4.32: Number of years of experience that management teams in respondent's enterprises must have in running the enterprise.

The study sought to find out the number of years of experience that management teams in respondent's enterprises must have in running the enterprise. From the findings, 36% of the respondents indicated that management teams in their enterprises must have three (3) years' experience in running the enterprise, 26% of the respondents indicated that management teams in their enterprises must have two (2) years' experience in running the enterprise, 22% of the respondents indicated that management teams in their enterprises must have over five (5) years' experience in running the enterprise, while only 16% of the respondents indicated that management teams in their enterprises must have one (1) years' experience in running the enterprise.
CHAPTER FIVE
SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate into the factors affecting performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya).

5.2 Summary of the Findings

The study aimed to investigate into the factors affecting performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya).

5.2.1 Access to Finance as a Factor Affecting SMEs Performance

It was found out that respondents financed their businesses from bank loans, personal savings, loans from family and relatives, through government institutions, and through Non-Governmental Organizations; that respondents accessed finance for their businesses from commercial banks, from NGOs, from microfinance institutions, from government institutions, and from SACCOs; that high interest rates, lack of collateral, dislike to borrow from banks, and fear of losing property prevented them from borrowing money from then banks; that they were denied the loan because they had a too small equity base, lacked security to pledge, lacked guarantors, lacked managerial experience and bank statements due to non-banking. Further, the study found out that respondents pledged car logbooks, land title deeds, guarantors and business machinery as security for the loan; that financing is a setback to the growth of their businesses; that Microfinance Institutions play a role in financing the growth of SMEs as shown by a mean of 1.6, that Commercial banks play a role in financing the growth of SMEs as shown by a mean of 1.8 that Shy lockers play a role in financing the growth of SMEs as shown by a mean of 1.9, that the Government plays a role in financing the growth of SMEs as shown by a mean of 2.0, that SACCOs play a role in financing the growth of SMEs as shown by a mean of 2.1, that NGOs play a role in financing the growth of SMEs as shown by a mean of 2.1, that Chama’s
play a role in financing the growth of SMEs as shown by a mean of 2.2, and that Family savings play a role in financing the growth of SMEs as shown by a mean of 2.4.

5.2.2 Informatics As A Factor Affecting SMEs Performance
The study found out that marketing is a barrier to enterprise performance; that respondents market their products locally through media print, through dropping of leaflets, through word of mouth, and through television; that respondents market their products abroad through the internet, through trade agents, that they had a base abroad for advertising their products, that they market their products abroad through print media and through Facebook and that Information and marketing tools is vital for growth of SMEs. Further, that respondents had come across various ICT terms like E-banking, E-shopping, E-learning, mobile banking and E-commerce in the course of their business transactions.

5.2.3 Regulatory Framework as a Factor affecting SMEs Performance
The study also found out that Government policies have a great impact on performance of SMEs; that lack of support from the judiciary and Government inconsistency and lack of transparency in implementing policies hinders their enterprise’s growth, respectively as shown by a mean of 3.7, that Bureaucracy in registration hinders their enterprise’s growth as shown by a mean of 3.6, that corruption diverting support programs from original beneficiaries, Cumbersome laws and regulations, Political instability, High compliance costs and High cost of tax/complexity of the custom system hinder their enterprise’s growth as shown by a mean of 3.5, that lack of government support programs for SMEs hinders their enterprise’s growth as shown by a mean of 3.4 and that Illegal permits and licenses hinder their enterprise’s growth as shown by a mean of 3.3 and that the Government through its policies did not have a good will for the growth of SMEs.

5.2.4 Education and Training as a Factor Affecting SMEs Performance
The study found out that enterprises rarely send staff for refresher courses or training programs, that respondents arrange for in-house training by external trainers and own trainers, in-house brainstorming, send their staff for training at Kenya Industrial Training to develop skill for their staff, that trained professionals handling marketing department will lead to improvement in the
enterprises performance as shown by a mean of 2.1; that trained professionals handling Production department will lead to improvement in the enterprises performance as shown by a mean of 1.9; that trained professionals handling Administration and Finance departments will lead to improvement in the enterprises performance as shown by a mean of 1.7 respectively and that the use of modern technology without good training programs does not lead to performance improvement in their enterprises and SMEs.

5.2.5 Management as a Factor Affecting SMEs Performance

Further, the study found out that having a mission and vision is critical for the success of the business, that the enterprises used a functional organizational structure, divisional organizational structure, bureaucratic organizational structure, 14% of the respondents indicated that they used a post-bureaucratic organizational structure, and pre-bureaucratic organizational structure; and that developing a business plan leads to improvement in respondent’s management style. The study also found out that the enterprises kept employee records, accounting records, sales records, production records, and costs records; that respondents had no internal control systems in their businesses; that accounting ratios are important in determining the performance of the business that management teams in their enterprises must have at least two (2) years’ experience in running the enterprise.

5.3 Conclusion

The study concludes that most SMEs in Thika Municipality finance their businesses from bank loans, personal savings, loans from family and relatives, through government institutions, and through Non-Governmental Organizations; that respondents accessed finance for their businesses from commercial banks, from NGOs, from microfinance institutions, from government institutions, and from SACCOs; that high interest rates, lack of collateral, dislike to borrow from banks, and fear of losing property prevented them from borrowing money from then banks; that they were denied the loan because they had a too small equity base, lacked security to pledge, lacked guarantors, lacked managerial experience and bank statements due to non-banking. Further, the study concludes that car logbooks, land title deeds, guarantors and business machinery are usually the most pledged forms of security for the loan; that financing is a setback to the growth of their businesses; that Microfinance Institutions, Commercial, Shy
lockers, Government, SACCOs, Chama's and Family savings play a role in financing the growth of SMEs.

Further, the study concludes that marketing is a barrier to enterprise performance; that respondents market their products locally through media print, through dropping of leaflets, through word of mouth, and through television; that respondents market their products abroad through the internet, through trade agents, that they had a base abroad for advertising their products, that they market their products abroad through print media and through Facebook and that Information and marketing tools is vital for growth of SMEs. Further, that respondents had come across various ICT terms like E-banking, E-shopping, E-learning, mobile banking and E-commerce in the course of their business transactions.

The study also concludes that Government policies have a great impact on performance of SMEs; that lack of support from the judiciary and Government inconsistency and lack of transparency in implementing policies hinders enterprise's growth, respectively, that Bureaucracy in registration hinders enterprise's growth, that corruption diverting support programs from original beneficiaries, Cumbersome laws and regulations, Political instability, High compliance costs and High cost of tax/complexity of the custom system hinder enterprise's growth, that lack of government support programs for SMEs hinders enterprise's growth and that Illegal permits and licenses hinder enterprise's growth and that the Government through its policies did not have a good will for the growth of SMEs.

The study concludes that enterprises rarely send staff for refresher courses or training programs, that respondents arrange for in-house training by external trainers and own trainers, in-house brainstorming, send their staff for training at Kenya Industrial Training to develop skill for their staff, that trained professionals handling marketing department will lead to improvement in the enterprises performance; that trained professionals handling Production department will lead to improvement in the enterprises performance; and that trained professionals handling Administration and Finance departments will lead to improvement in the enterprises performance respectively and that the use of modern technology without good training programs does not lead to performance improvement in their enterprises and SMEs.
He study also concludes that having a mission and vision is critical for the success of the business, that the enterprises used a functional organizational structure, divisional organizational structure, bureaucratic organizational structure, 14% of the respondents indicated that they used a post-bureaucratic organizational structure, and pre-bureaucratic organizational structure; and that developing a business plan leads to improvement in respondent’s management style. The study also concludes that the enterprises kept employee records, accounting records, sales records, production records, and costs records; that respondents had no internal control systems in their businesses; that accounting ratios are important in determining the performance of the business that management teams in their enterprises must have at least two (2) years’ experience in running the enterprise.

5.4 Recommendations

Since most SMEs in Thika Municipality finance their businesses from bank loans, personal savings, loans from family and relatives, through government institutions, and through Non-Governmental Organizations as indicated above, the commercial banks should avail more credit facilities to the SMEs. Further, NGOs and government institutions should grant SMEs some capital to help the fund their businesses. SMEs owners should organize themselves in SACCOs to save for capital to finance and boost their businesses. The Central Bank should liaise with Commercial banks to lower interest rates to encourage more SMEs to borrow money from the banks. Further, the banks should review their security to pledge criteria so as to encourage more SMEs to borrow money from the banks.

Since marketing is a barrier to enterprise performance SMEs should market their products locally through media print, through dropping of leaflets, through word of mouth, and through television; and abroad through the internet, through trade agents, that they had a base abroad for advertising their products, that they market their products abroad through print media and through Facebook and the marketing departments should be more aggressive so as to reach more customers both locally and abroad. The fact that Information and marketing tools is vital for growth of SMEs, the enterprises should assign a substantial amount of their budgets to develop Information and marketing structures for their businesses.
The Government should develop policies that do not allow foreign businesses to suppress local SMEs; enhance support of SMEs from the judiciary and Government, and reduce inconsistency and be transparent in implementing policies to promote enterprise’s growth. Further, it should do away with strict Bureaucracy in registration as it hinders SMEs growth. In addition, the government should reduce compliance costs and cost of tax/complexity of the custom system to promote SMEs growth, operationalize government support programs for SMEs and handle Illegal permits and licenses for the growth of SMEs.

Enterprises should send staff for refresher courses or training programs to develop skill for their staff, This should be through in-house training by external trainers and own trainers, in-house brainstorming, sending staff for training at Kenya Industrial Training to develop their skill and make them trained professionals hence improvement in the enterprises performance.

He study also recommends organizations to have a mission and vision as they are critical for the success of the business, keep employee records, accounting records, sales records, production records, and costs records; that respondents had no internal control systems in their businesses; that accounting ratios are important in determining the performance of the business and ensure that management teams in their enterprises have at least two (2) years’ experience in running the enterprise to Improve their enterprises performance.

5.4 Recommendations For Further studies

This study has investigated factors affecting performance of small and medium enterprises with specific reference to the SMES at Thika Municipality (Kenya). To this end therefore a further study should be carried on SMES at other Municipalities in Kenya to see whether the same results also hold by testing the variables in this study on SMES.

Moreover, a study should be carried out to investigate the challenges faced in accessing credit by SMES at Thika Municipality.
REFERENCES


Badrinath, R. (1994). Helping small and medium sized firms to enter export markets. *International trade Forum*, 2, 4-10


Appendix I: Questionnaire

This questionnaire is to collect data for purely academic purposes. The study seeks to investigate the challenges facing the SME industry in Kenya. All information will be treated with strict confidence. Do not put any name or identification on this questionnaire. Answer all questions as indicated by either filling in the blank or ticking the option that applies.

SECTION A: GENERAL INFORMATION

1. For how long has your business been in existence?
   - Less than 1 year
   - 1-3 years
   - 4-5 years
   - More than five years

2. What are the main business activities? (tick appropriately)
   i. Manufacturing
   ii. Training
   iii. Supermarkets
   iv. Agriculture
   v. Estate agent
   vi. Hospitals

3. How many employees do you have in each of categories below?
   - Permanent (tick appropriately)
     i. 10 and below
     ii. Between 11 and 50
     iii. Between 51 and 200
     iv. above 200
Casual (tick appropriately)

i. 10 and below  
ii. Between 11 and 50  
iii. Between 51 and 200  
iv. above 200  

4. Has your business grown since you started?
   i. Yes  
   ii. No  
   iii. Not sure  

5. Tick item(s) that indicates that your business has grown
   i. Number of employees have increased  
   ii. Profit have increased  
   iii. Business have expanded  
   iv. Business has seen growth in market shares in the industry.  

6. What is the annual estimate of your annual returns (sales) in kshs-----------------------------

SECTION B: ACCESS TO FINANCE AS A FACTOR AFFECTING SMEs PERFORMANCE

7. How do you finance your business? (tick appropriately)
   i. Bank loans  
   ii. Personal savings  
   iii. Loans from family and relatives  
   iv. Non Governmental organizations (NGOs)  
   v. Government institutions  
   vi. All of the above
8. In which of the institution(s) below does your enterprise find it easy to access finance?

   i. Commercial Banks
   ii. NGOs
   iii. Micro finance institutions
   iv. Government institutions
   v. SACCOs

9. Tick item(s) below that has prevented you from borrowing money from a bank

   i. You don’t like bank loans
   ii. Interest rates are too high
   iii. No collateral to use as security for the loan
   iv. Bank loans are meant for large organizations
   v. Fear of losing your properties

10. If you have ever applied for loan and denied by a financial institution, tick item(s) that led to that.

    i. No security to pledge
    ii. Too small equity base
    iii. Lack of managerial experience
    iv. Lack of guarantors
    v. Lack of bank statements due to non banking.

11. If you have ever applied for loan successfully, what is the highest amounts did your enterprise borrow from a bank?(tick appropriately)

    i. Ksh 50,000 and below
    ii. Between ksh 51,000 and ksh 300,000
    iii. Between ksh 301,000 and ksh 500,000
    iv. Above ksh 500,000
12. What collateral or security did you pledge if any for this loan? (tick appropriately)
   i. Land title deed
   ii. Car logbook
   iii. Guarantors
   iv. Business machinery or properties
   v. Non

13. Financing is a setback to the growth of your organization?
   i. Strongly agree
   ii. Agree
   iii. Neither
   iv. Disagree
   v. Strongly disagree

14. The following institutions below play major roles in financing and growth of SMEs?

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<tbody>
<tr>
<td>Microfinance</td>
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<td>Government</td>
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<td>Commercial banks</td>
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<td>SACCOs</td>
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<td>Shy lockers</td>
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<td>Chama's</td>
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<td>NGOs</td>
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<td>Family savings</td>
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15. What do you think needs to be done to improve the rate at which SMEs access finance? --

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SECTION C: INFORMATICS AS A FACTOR AFFECTING SMEs PERFORMANCE

16. Do you think marketing is a barrier to your enterprise performance?
   i. Strongly agree
   ii. Agree
   iii. Neither
   iv. Disagree
   v. Strongly disagree

17. How do you market your products?
   i. through word of mouth
   ii. through print media
   iii. through television
   iv. through dropping of leaflets
   v. we do not market in any way

18. How do you market your goods abroad?
   i. Through trade agents
   ii. have a base there
   iii. through print media
   iv. through website
   v. face book
   vi. I don’t export

19. Availability of Information and marketing tools are vital for growth of SMEs? (tick where applicable)
   i. Strongly agree
   ii. Agree
   iii. Neither
   iv. Disagree
   v. Strongly disagree
20. Below are some of the constraints that are likely to be encountered by enterprises such as yours, please tick the ones that applies to you

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>RATING</th>
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<tbody>
<tr>
<td></td>
<td>Strongly Disagree</td>
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<tr>
<td>Weak demand of products</td>
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<td>Weak product competitiveness</td>
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<td>Poor packaging</td>
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<td>Poor infrastructure</td>
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<td>Weakness in market identification</td>
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<tr>
<td>Inadequate market information</td>
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<td>High cost of advertisement</td>
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21. Knowledge of, Information and Communication Technology (ICT), is important for the good performance of SMEs (tick appropriately)

   i. Strongly agree [ ] ii. Agree [ ] iii. Neither [ ] iv. Disagree [ ] v. strongly disagree [ ]

22. Have you come across the following ICT terms in the course of your business transactions? (Tick item(s) you have come across.)

   i. e-commerce [ ]
   ii. e-banking [ ]
   iii. e-shopping [ ]
   iv. e-learning [ ]
   v. mobile banking [ ]

23. In your own opinion is information technology (IT) useful for SMEs? Explain your answer

   __________________________________________________________
   __________________________________________________________
SECTION D: REGULATORY FRAMEWORK AS A FACTOR SMEs PERFORMANCE

24. Government policies has a great impact on performance of SMEs. (Tick appropriately)
   i. Strongly agree □ ii. Agree □ iii. Neither □ iv. Disagree □ iv. Strongly disagree □

25. Below are some of the challenges related to regulations that hinder your enterprise’s growth, please tick the ones that apply to you.

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<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neither</th>
<th>Agree</th>
<th>Strongly Agree</th>
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<tbody>
<tr>
<td>Lack of government support programs for SMEs</td>
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<td>High compliance costs</td>
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<td>Bureaucracy in registration</td>
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<td>Political instability</td>
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<td>Lack of support from the judiciary</td>
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<td>High cost of tax/complexity of the custom system</td>
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<td>Cumbersome laws and regulations</td>
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<td>Government inconsistency and lack of transparency in implementing policies</td>
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<td>Corruption diverting support programs from original beneficiaries</td>
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<td>Illegal permits and licences</td>
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26. Do you think the Government through its policies; have a good will for the growth of SMEs in general?
   i. Strongly agree □ ii. Agree □ iii. Neither □ iv. Disagree □ v. strongly disagree □
27. What do you think the government need to do to improve performance of SMEs? 

SECTION E: EDUCATION AND TRAINING AS A FACTOR AFFECTING SMES PERFORMANCE

28. How often does your enterprise send staff for refresher course or other training programs


29. What programs do you apply to develop skill for you the staff? (Tick method(s) you use)

i. In house training by external trainers
ii. In house training by own staff
iii. Send staff to seminar and conferences
iv. In house brain storming
v. Send them for training at Kenya industrial training
vi. Sponsor them for further training

30. Do you believe that trained professionals handling the areas listed below will lead to improvement in your enterprise performance? (Tick appropriately)

<table>
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<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither</th>
<th>Disagree</th>
<th>Strongly disagree</th>
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<td>Administration</td>
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<td>Production department</td>
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<td>Marketing department</td>
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31. Will the use modern technology without good training programs lead to performance improvement in your enterprise and SMEs in general?

i. Strongly agree ii. Agree iii. Neither iv. Disagree v. strongly disagree
32. Do you think lack of education and training is challenge affecting the performance of your enterprise?

   Strongly agree □ Agree □ Neither □ Disagree □ Strongly Disagree □

33. Are you aware of any latest training courses for SMEs? If yes, list them -----------------------

SECTION F: MANAGEMENT AS A FACTOR AFFECTING SMEs PERFORMANCE

34. Is having a vision and mission critical for the success of business such as yours?


35. Below are types of organizational structures, which one is applicable to you?

   i. Pre-bureaucratic □
   ii. Bureaucratic □
   iii. Post bureaucratic □
   iv. Functional □
   v. Divisional □
   vi. None of the above □

36. Developing a Business plan will lead to improvement in your management style. Do you Agree?

   i. Strongly agree □ ii. Agree □ iii. Neither □ iv. Disagree □ v. strongly agree □

37. From the list of records below, tick that/ those which is/are maintained by your enterprise?

   i. Book-keeping and accounting records □
   ii. Employees/ personnel records □
   iii. Production records □
   iv. Sales records □
38. Do you have any internal control systems in your business?
   (i) Yes  
   (ii) No  
   If yes list some of them

39. Do you think accounting ratios are important in determining the performance of your business?
   (i) Yes  
   (ii) No  

40. How many years of practical experience do you or your management teams have in running the enterprise?
   (i). One year  
   (ii) Two year  
   (iii). Three years  
   (iv). Over Five years

41. What do you think can lead to a better management of SMEs in your line of business? ——

Dear Respondent,

I sincerely appreciate for your time you have taken to fill this questionnaire. The information you have given will be treated with utmost confidentiality and I hope that the outcome of the research
will be of great value to your business and other SMEs as well. Once again thank very much and God bless you.

Yours faithfully

Mwaniki Moffat Karo
TO WHOM IT MAY CONCERN:

RE: MWANIKI MOFFAT KARO – D53/OL/4104/04

This is to confirm that the above named is a Master of Business Administration MBA (Finance) student in the School of Business, Kenyatta University.

He is through with course work and has successfully defended his Masters Degree proposal (Factors Affecting Performance of Small and Medium Enterprises in Kenya: A Case Study of SMEs in Thika Municipality) and has done all the corrections that were pointed out by the examiners during the defense. He is now embarking on data collection.

Any assistance accorded to him will be much appreciated by this office.

Thank you.

ISAAC P. LOKERIS
FOR: DOCTORAL AND MBA PROGRAMME COORDINATOR

16 FEB 2012