AN ANALYSIS OF FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE MANUFACTURING SECTOR IN KENYA
(Case of selected firms in Thika Municipality).

BY

GATHOGO GEORGE MWANGI
REG NO: D53/OL/11050/07

A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF A MASTERS DEGREE IN BUSINESS ADMINISTRATION.

SCHOOL OF BUSINESS

DEPARTMENT OF BUSINESS ADMINISTRATION
KENYATTA UNIVERSITY

MAY 2011
DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

Name  Gathogo, George Mwangi

Signed .............................................................

Date .............................................................

Supervisors

This project has been submitted for examination with our approval as the University supervisors.

Name; Mr. Shadrack Bett

Signed .............................................................

Date .............................................................

Mrs. Phitomena Genga

Signed .............................................................

Date .............................................................

This research project report has been submitted for examination with my approval as the chairman of the department.

Chairman .............................................................

Date .............................................................

(Office of Business Administration)
ACKNOWLEDGEMENT

For this project to have gotten this far, it has taken the effort of many individuals, I thank my wife, Jane for supporting and encouraging me even when I felt exhausted; My two children Purity and Maryann for their patience and for whom I work tirelessly. I sincerely thank my two supervisors Mrs P. Genga and Mr. S. K. Bett for their positive criticisms and encouragement they gave me. Thanks a lot to my friends and classmates, Mulongo and Maina for creating time to offer me valuable advice on this particular project. May the good Lord in Heaven bless you.
DEDICATION

This work is dedicated to my parents Gathogo Macharia and Fraciah Wambui who took me to school and faithfully encouraged me to persistently work hard.
ABSTRACT

This study sought to examine the factors that affect the performance of small medium enterprises in manufacturing sector in Thika town. For the purposes of our discussion, the terms “firms”, “Businesses” and “enterprises” were used interchangeably. An enterprise was defined here as any income generating activity that is not in primary agriculture or mineral production. There was no generally accepted definition of a small business because classifying businesses as “large scale” is a subjective and qualitative judgment. In Kenya micro-enterprises are those with 10 or fewer workers, “small enterprises” have from 11 to 50 workers, and “medium enterprises” have from 51 to 100 workers. Census indicated that micro-enterprises comprise the lion’s share of enterprises while there a few medium enterprises (Parker and Torres 1994); small enterprises are almost non-existent.

Jua Kali sector, a Kiswahili term for hot sun, comprised low-scale artisans who mostly apply intermediate appropriate technology. This sector gives all conditions for growth that can bring about industrial revolution in Kenya. The study was conducted within Thika Municipality in Kiambu County of the republic of Kenya. This municipality has many large-scale agricultural activities and several industries. Above all, it boasts of having many small and medium-scale manufacturing and non-manufacturing family owned industries.

According to the business register maintained by Thika Municipality Council, there are a total of 1,897 registered small-scale businesses at the time of the study. Textile work, including tailoring, knitting and sewing of textile products are the largest activity groups; Woodworks is the second largest group composed of carpentry; Jua kali artisans follow in that order. The study is prompted by the fact that a large number of SMEs in the manufacturing sector have not been performing well while others have closed shop yet they are expected to enable the government to achieve its 2030 vision.

The study particularly sought to find out those key factors that contribute to the failure of small businesses in order to enlighten the entrepreneurs about them, to enable them identify, deal and possibly, avoid those pitfalls. The study was carried out in the year 2010 using a descriptive research design. The sample under study was collected through stratified random sampling.
technique in selecting the respondents. The data was then collected through interviews and questionnaires. The respondents were the owners and/or those who are seemingly actively involved in management of these firms. It was then analyzed and presented using descriptive statistics like pie charts, bar graphs and tables. It was finally processed using statistical packages for social sciences (SPSS) for Windows and Microsoft Excel.

Based on the actual findings, the researcher has made some conclusions and recommendations on the factors that directly or indirectly affect performance of manufacturing SMEs. It is hoped that the outcome of the study will provide information which will help the key players avoid certain pitfalls and thereby transform their SMEs into big enterprises. Further, it is hoped that researchers will find this work to be of essence in their quest for further knowledge.
DEFINITION OF ABBREVIATIONS

SMEs – Small and medium enterprises

ANOVA – Analysis of Variances

SPSS – Statistical Packages for Social Sciences

KNBS – Kenya National Bureau of Statistics

KIPPRA – Kenya Institute for Public Policy Research And Analysis

OPERATIONAL DEFINITION OF TERMS

**Performance** – This has been defined as a result of activities of an organization over a given period of time. According to the business dictionary it defined it as an accomplishment of a task measured against present standards of accuracy.

**Capital** – This was taken as cash or goods used to generate income either by investing in a business or a different income property. It was also defined as money, property and other valuables which collectively represent the wealth of a business. This was in accordance with investorword.com. It also defined capital as one’s own or borrowed money invested in business to generate income.

**Management** – It was defined by business dictionary as organization and coordination of the activities of an enterprise. It comprises of interlocking functions of formulating corporate policy and organizing planning controlling and directing the firms’ resources to achieve the policy objectives. Management, according to Wikipedia, is basically what managers do.

**Technology** – This was defined as the usage and knowledge of tools, techniques, crafts, systems or methods of organizations. Wikipedia also defined it as the complete set of knowledge about how to produce in economy at a point in time including techniques of production that are available although not economically viable.

**Innovation** – This was defined as a change in the thought process for doing something or the useful application of new invention or discovery. In other words an idea applied successfully in practice; This was captured in Wikipedia.org.

**Marketing** was defined as a management process through which goods and services move from a concept to a consumer. This was according to business dictionary.com.

**Product diversification** – was defined as a strategy that involves creating a new and bigger customer base, which by definition, expands the market potential of the original product.

**Government policy** – This refered to rules and regulations set by the government. In others words it implied a plan of action adopted or pursued by the government.

**Franchising** –was defined as the practice of using another firm’s business model. This is according to wekipedia.
# TABLE OF CONTENTS

DECLARATION ................................................................. ii

ACKNOWLEDGEMENTS ....................................................... iii

DEDICATION ................................................................. iv

ABSTRACT ................................................................. v

LIST OF ABBREVIATIONS ................................................ vi

OPERATIONAL DEFINITION OF TERMS ................................. vii

TABLE OF CONTENTS ..................................................... ix

LIST OF TABLES .......................................................... xiii

CHAPTER ONE ............................................................. 1

1.0 Introduction ......................................................... 1

1.1 Background of the Study ........................................... 1

1.2 Problem Statement ................................................ 2

1.3 Research objectives ............................................... 3

1.4 Research Questions ................................................ 4

1.5 Significance of the Study ......................................... 4

1.6 Scope of the Study ................................................ 5

1.7 Limitations of the Study ......................................... 5

1.8 Expected Output .................................................. 5

CHAPTER TWO ............................................................ 6

2.0 LITERATURE REVIEW ................................................ 6
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0 Introduction</td>
<td>19</td>
</tr>
<tr>
<td>4.1 Response rate</td>
<td>19</td>
</tr>
<tr>
<td>4.2 Descriptive statistics</td>
<td>19</td>
</tr>
<tr>
<td>4.2.1 Gender of the respondent</td>
<td>20</td>
</tr>
<tr>
<td>4.2.2 Type of ownership</td>
<td>21</td>
</tr>
<tr>
<td>4.2.3 Size of the enterprise and number of employees</td>
<td>21</td>
</tr>
<tr>
<td>4.2.4 Level of education</td>
<td>22</td>
</tr>
<tr>
<td>4.2.5 Years in operation</td>
<td>24</td>
</tr>
<tr>
<td>4.2.6 Performance of SMEs</td>
<td>24</td>
</tr>
<tr>
<td>4.2.7 Sources of capital</td>
<td>25</td>
</tr>
<tr>
<td>4.2.8 Financial institutions approached by entrepreneurs</td>
<td>26</td>
</tr>
<tr>
<td>4.2.9 Extent to which capital affects performances of businesses</td>
<td>27</td>
</tr>
<tr>
<td>4.2.10 Technology used</td>
<td>27</td>
</tr>
<tr>
<td>4.2.11 Extent to which technology affects performance</td>
<td>28</td>
</tr>
<tr>
<td>4.2.12 Product diversification on performance</td>
<td>29</td>
</tr>
<tr>
<td>4.2.13 Effects of franchising on performance</td>
<td>29</td>
</tr>
<tr>
<td>4.2.14 Extent to which franchising affects performance</td>
<td>30</td>
</tr>
<tr>
<td>4.2.15 Effects of government policy on the performance of SMEs</td>
<td>30</td>
</tr>
<tr>
<td>4.2.16 Reasons for leaving their jobs</td>
<td>31</td>
</tr>
<tr>
<td>4.2.17 Product diversification on performance</td>
<td>31</td>
</tr>
<tr>
<td>4.2.18 Effects of franchising on the performance of SMEs</td>
<td>33</td>
</tr>
</tbody>
</table>
LIST OF TABLES

1. Table 4.1 ................................................................. 19
2. Table 4.2 ................................................................. 20
3. Table 4.3 ................................................................. 21
4. Table 4.4 ................................................................. 22
5. Table 4.5 ................................................................. 23
6. Table 4.6 ................................................................. 24
7. Table 4.7 ................................................................. 24
8. Table 4.8 ................................................................. 25
9. Table 4.9 ................................................................. 26
10. Table 4.10 ............................................................. 27
11. Table 4.11 ............................................................. 28
12. Table 4.12 ............................................................. 28
13. Table 4.13 ............................................................. 29
14. Table 4.14 ............................................................. 30
15. Table 4.15 ............................................................. 31
16. Table 4.16 ............................................................. 31
17. Table 4.17 ............................................................. 31
18. Table 4.18 ............................................................. 31
19. Table 4.19 ............................................................. 33
20. Table 4.20 ............................................................. 34
CHAPTER ONE

1.0 INTRODUCTION.

The study examined the key factors that appeared to have led to the failure of small and medium businesses in Thika Municipality. This chapter sketched the background of the research study. This included the historical, the theoretical, and the conceptual and contextual dimensions. The chapter then highlighted the purposes, objectives and research questions of the study. The chapter concluded by noting the rationale of the study highlighting some of the limitations that would arise in the process of conducting the research.

1.1 Background of the study.

The global concern about the persistent stagnation and even decline in economic growth accompanied by chronic unemployment, poverty and its resultant problems has led to increased search for strategies which could stimulate economic activity in many economies. Small business development has been at the centre stage of these efforts based on the notion that small businesses form the context within which entrepreneurial activity takes place. SMEs have been found to have a higher potential for job generation because of a lower cost per job created. Most previous studies in Africa treat informal sector as essentially homogeneous in their characteristics. However they are heterogeneous in nature cutting across all sectors of the economy. Majority are characterized by small activities, limited capital and Equipment, limited access to information, limited markets and employ labour intensive technology (KIPPA 2002).

Developed and developing countries, small and medium enterprises play important roles in the process of industrialization and economic growth. Until the early 1960s, many economists attributed the relatively small size of many industries in less developed countries to the scarcity and Administrative experience. It was often argued that with economic growth, the small, traditional enterprises would in one sector after another, be superseded by modern forms of large-scale production. In order to ensure an orderly transition, small industries were seen to deserve support but mainly in those sectors where modern production methods could not be applied (Gray K.R. et at 1997). He argues that performance helps organization to achieve the intended goals of growth and profit making. Further studies indicate that performance helps to indicate those firms that are at survivalist stage and those that are about to close shop. The major measures of performance are market shares and profit.
These SMEs play an important role in the Kenyan Economy. According to the Economic survey (2006), the sector contributed over 50 per cent of the new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (KNBS, 2007). According to Amyx (2006) one of the most significant challenges is a negative perception towards SMEs.

The theoretical basis for this study is derived from the systems theory of organizations. The systems theory cuts across all the four paradigms of management thought, for every organization that produce output is a system of some sort (Katz & Kahn, 1996). And an organization including an SME, regardless of its size and purpose, and the management perspective adopted notwithstanding, is basically concerned with relationships, structures and interdependence rather than just attributes. This study will be modeled on the postulates of the systems theory because SMEs, like other organizations, are always in constant exchange with the larger society.

Conceptually, the factors that affect the SMEs refer to those that bring about their failure to perform or to grow up to big enterprises in line with vision 2030. Manufacturing firms are those that deal with the conversion of raw materials into new products. These include the furniture makers, dress makers and sweater makers, soap making and jua kali artisans.

1.2 Problem Statement

Manufacturing SMEs are very important vehicles toward the realization of vision 2030. Those few firms that have succeeded to grow in to large companies have in a way managed to address, although not adequately, the major factors affecting the manufacturing SMEs. These factors that affect the manufacturing firms are many and varied. If they are addressed properly the firms would perform well, survive and even grow into bigger companies. In addition, they would create more jobs to the jobless and improve the general welfare of the communities they serve.

This ideal situation is basically theoretical and universal. Any government and firm wishing to achieve good performance and achieve the Vision 2030 must focus on the stated factors among others. Performance of the manufacturing SMEs in Kenya has not been satisfactory since independence due to financial and other factors. Jua kali sector, a Kiswahili term for hot sun, is composed of low scale artisans who mostly apply appropriate intermediate technology.

In view of this discrepancy, there is need to determine the factors that affect the performance of the manufacturing SMEs. The factors need to be addressed urgently if the vision 2030 is to be
realized through this strategy. If this is not addressed in time these factor will continue to be a major stumbling block in the growth and survival of the SMEs firms. At the same time the number of unemployed people will continue to increase together with other social evils like crimes, insecurity just to mention but a few. This is a dangerous precedent for the future of the whole country.

In Thika Municipality, the situation is no exception. There are a big number of unemployed people due to redundancies, illiteracy and retrenchments among other factors. Some of the unemployed residents started their own small businesses in the hope of earning some kind of income. This led to the creation of more than 60 companies and over 2000 registered micro and small enterprises mainly drawn from the informal and jua kali sectors (GOK 2006). However, these businesses are not flourishing as they were originally intended. In the light of this scenario, the question addressed in this study was therefore “what are the factors that affect the performance of small and medium manufacturing businesses in Thika Municipality”.

1.3 Research Objectives

General objective

The General Objective of the study was to investigate those factors affecting the performance of SMEs in the manufacturing sector in Kenya with particular reference to Thika Municipality.

Specific Objectives.

The specific objectives of this study were;

i) To determine how capital affects performance of manufacturing SMEs in Thika Municipality.

ii) To determine the extent to which Technology affects performance of SMEs in the manufacturing Sector.

iii) To determine how management affects performance of manufacturing SMEs in Thika Municipality.

iv) To determine the effect of product diversification on the performance of the Manufacturing SMEs in Thika Municipality.

v) To determine the extent of franchising on the performance of manufacturing SMEs.

1.4 Research questions.

This study was seeking answers to the following questions;

1. How does capital affect the performance of the manufacturing SMEs in Thika Municipality?
2. How does technology affect the performance of the manufacturing SMEs in Thika Municipality?
3. How does management affect the performance of the manufacturing SMEs in Thika Municipality?
4. How does diversification of the SMEs products affect the performance of the SMEs in the manufacturing sector?
5. How does franchising affect the performance of the manufacturing SMEs?
6. How does the government policy affect the performance of the manufacturing SMEs in Thika Municipality?

1.5 Significance of the Study.

This study should contribute valuable knowledge to the field of manufacturing SMEs in general. It is the only study that has focused on factors that affect the performance of manufacturing SMEs in Thika Municipality and in Kenya as a whole. As such, it is expected to produce unavailable knowledge on this subject. In particular, the research findings will be important to the;

a) Current SMEs practitioners; once they realize the major factors that affect the performances of their SMEs, they will be able to rectify their mistakes accordingly.

b) Prospective SMEs practitioners will be able to avoid the past mistakes that have led to the failure of the SMEs.

c) The government and its Tax agency will benefit from the firms through taxes they pay to it. When there is improved financial performance in these SMEs, the taxes paid to the government will increase. The government will also find the findings of the research
important in its policy formulation towards the SMEs especially on business strategies functioning.

Counterfeiting of the original products will be minimized as security by Kenya bureau of standards will be ensured.

d) Employment opportunities will be increased which would generally improve the standards of living and reduce crimes.

e) Academic; the research findings will bridge a gap in knowledge in the area of study. The study will also inspire a series of other researches to build upon the recommendations given after the research. This is important since not much study has been carried out in the area.

1.6 Scope of the study

The researcher limited the scope of his study specifically to SMEs in the manufacturing industry in Thika Municipality. The researcher classified these SMEs into furniture making, soap making, dress making, knitting, metal work among others in the SMEs sector between September 2001 up to October 2010. Thika municipality is considered to be an ideal industrial area with all types of SMEs that when studied would give a better impression of the whole scenario and in fact the outcome of the study was as expected.

1.7 Limitations of the study.

The researcher was limited by financial resources. Substantial amounts of money were required to cater for the travel expenses, telephone calls, stationery and preparation of the final reports among others. Moreover, the validity of the data highly depended on the willingness of the owners to volunteer even the so called “classified” information.

1.8 Expected output.

The researcher expected to identify and analyze the major factors that affect the performance of SMEs in the manufacturing sector in Thika Municipality. The researcher expected to develop guidelines on how to improve the performances of SMEs while at the same time inspire other researchers to build up on the recommendations made thereof.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
In this chapter, the researcher reviewed the Literature related to factors that affect the performance of manufacturing SMEs. The review was conceptualized under the objectives of the study and focused mainly on capital, Technology, management, product diversification, franchising and government policy; and their effects on the performance of the manufacturing SMEs. These were the main issues in the study. Thereafter a conceptual framework was suggested to bring out a better understanding of the relationship between the independent variables and the dependent variable while keeping the intervening variables under control,

2.2. Past studies on manufacturing SMEs.
A number of studies have investigated the performance of manufacturing SMEs globally, in Africa and particularly in Kenya. In Kenya where small businesses constitute more than 80% of the business sector, they contribute about 40% of all economic activities in the country. According to (Bowler, Dawood and page1996) more than 70% of all Kenyans are employed in the small business sector. This chapter highlighted some of the studies so far done in respect to the performance of the SMEs. The researcher attempted to address the effect of various factors that influence the performance of manufacturing SMEs in relation to these past studies.

2.2.1 Past studies on performance
According to Needles E (2007-724) organizations are evaluated on the basis of the performance excellence criteria, which is a set of standard that is agreeable to all players. According to Ladzani and Van Vuuren 2002, up to 50% of new small businesses fail within the first 3-5 years. Murray A et al (2000 – 224) addressed the issue on high performance in managing organizations. He argues that the results of training will be to increase the sales among other efficiencies. The researcher would wish that the issue of performance of manufacturing SMEs country wide is taken seriously by those directly and indirectly related to their functions.
2.2.2 Capital and its effect on the performance of manufacturing SMEs.

It is known from economic development that, until a certain stage of maturity is reached, economic growth is driven largely by industrialization. But industrial development is not simply a matter of production process; it is a matter of a well-functioning financial sector (Isaksson 2001;1). In both developing and developed countries, small and medium scale enterprises play important roles in the process of industrialization and economic growth (Ogujiuba and luche 2004:1). However, the long term growth and competitiveness are compromised by the constraints on their access to alternative forms of finance among other systematic and institutional problems in developing countries. Limited access of SMEs to credit and financial services has been identified as one of the most important constraints confronting the sector in Kenya (Soderbom 2001). This has often led to poor maintenance or replacement of machinery, inability to purchase required materials and services or to expand (Levitsky and Oyen 1999;10). According to Evans and Carter (2000;338) and Whincop (2001:152), large firms benefit from established capital markets where small firms cannot raise funds. Owing to lack of well-developed finances information systems, the financial sector is the main sources for SMEs external funds (Darson, 1995). SMEs cannot therefore raise funds from other alternative sources. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan SMEs rely more on self-financing in terms of retained earnings. The implication, thus, is that SMEs don’t have adequate credit to meet the needs at their different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand. Moreover the researcher would wish that both banks and financial providing institutions look into the issue of financing the manufacturing SMEs in a manner that is friendly to these small but promising SMEs. This would promote their functions and also increase job opportunities and by extension enable the government to achieve its vision 2030.

2.2.3 Technology and its effect on the manufacturing SMEs.

Technology does not assure SMEs success or competitiveness, however, SMEs that make effective use of technology tend to be more competitive than those that do not (SME survey, 2007). Mr. sander, quoted in the SME survey 2007, indicates that technology is a real business enabler and that companies today optimize efficiency by utilizing technology opportunities. He
goes on to say that if competent levels of IT maturity have been reached, successful delivery of the company strategies will be enabled. To continue to be competitive and ensure future growth, IT infrastructure has to interface with the needs of the business and have the flexibility to adapt to changing markets (SME survey, 2007). In his study on SMEs, (Rogerson, 2001, 117) strongly advocate that manufacturing SMEs need access to appropriate technology if they are to have a competitive edge, otherwise their inability to secure technology especially at start-up level impact negatively on the entrepreneurship development process in today’s world of globalization. In support of this, (Tlhomola S. 2002) argues that the challenges in the political climate, some countries had out of necessity to steal ideas from the competitors in order to upgrade their technology to enable them meet the challenges of the ever changing environment. Successful entrepreneurs had to be technology oriented and willing to adapt to a changing environment, whereby innovation is the key to survival. (Rwigema et al 2004) argues that initiative is essential as the business depends on entrepreneurs’ action. Managing the complexity, reliability, variety of products, integration into existing systems, ever-changing developments in technologies and the costs related to all of these issues, are some of the challenges facing SMEs. Innovation is explicitly included in definitions describing the entrepreneur as a person who introduces new or improved products, new production techniques, new processes, new markets, new marketing or sales methods, new channels of distribution and promotion, new inputs and raw materials, new or improved services, new methods of financing, new technology and many others. (Rwigema & Venter 2004: 59) there appears to be a strong empirical evidence that successful entrepreneurs are more innovative than non entrepreneurs (Mueller & Thomas 2001:58). On innovation, Williams (2007; 9) notes that the goal today is to embrace the innovation culture into each and every area of the company. Further, he argues that this is achieved by providing organizations behaviors, characteristics and systems of a growing innovative organization. (Beaver and Prince2002) argues that small business that strategically plan are also more likely to be those that are innovative, those that achieve internal growth and are unlikely to fail. In the (R & D Strategy 2002;9) innovation is defined as the introduction into a market of a new or improved products and / or service. The objective of innovation is acceleration of economic growth and the creation of wealth on a sustainable basis and improvement of quality life and reduction of poverty R & D strategy (2002:31-32). From the above stated studies the researcher hopes that the manufacturing SMEs would embrace the
concepts of technology and innovations in order to survive and possibly compete not only locally but also internationally.

2.2.4 Management and its effects on the manufacturing SMEs.

(Wartick & Mahon 1994:293) describes management as a process by which a business can identify, evaluate and respond to social, economic and political issues which may impact significantly upon it. Manufacturing SMEs owners are often more concerned with operational objectives at the expenses of developing and adhering to a strategic plan (SME survey 2007). The survey goes on to identify the result of prioritizing operational objectives over business strategy as being focused on cash-flow issues, so small owners often go to their accountants for advice when they should be seeking the advice of specialist, mentors to enhance their business expertise. In the absence of strong leadership from management, according to Bell (2006,127) the purpose, vision and values of the organization are not well defined. (Dutton & Jackson 1987:76) state that the assumption underlying most organizational theory, research and practice is that the short term effectiveness and long term survival of organizations are determined by the actions the firms take in response to their changes in the external environment. According to (Pearce & Robinson 1997:128) small businesses face issues of strategic importance to their future survival and growth. (Bigelow & Mahon 1993:18) point out that the strategic management of issues is prominent in the discussion of organization response to environment turbulence. Alignment of systems and structures become flawed or disjointed and execution of the business will be haphazard, due to non intentional application of leadership. Development of the workforce, in terms of training and skills upliftment ,falls under the responsibility of management and leadership. In the absence of these factors, these firms will be badly affected. The researcher hopes that the owners cum managers of these manufacturing SMEs adopt the latest managerial techniques in order to manage their firms professionally and economically

2.2.5 Franchising and its effects on the performance of SMEs.

Franchising is also an important factor to consider. According to Jim (2007) it refers to an arrangement whereby a party, who develops a way of running a business system successfully, licenses to another the rights to operate that system using his or her trade mark or name or other rights. The rationale behind franchising lies in acquiring support in the area of training e.g
building personnel, management and overall opening up of new horizons in the market place. Franchising in the Philippines has gone along way since the practice started 20 years ago and the industry is showing no signs of slowing down; instead it is just speeding up. This is according to (Jip 2002) who also points out that the industry is the fastest growing sector in the country and will continue to be a major sector even in the near future. Small business owners build up solid companies, provide dependable employment and are the foundation of good communities; this is done in India by involving SMEs in franchising industry (India report). Kazakhstan is a leader in central Asia in franchising markets (Kissikov 2007). The government has supported the franchising programme by funding the SMEs through SMEs development fund. At the same time the government protects the intellectual property, enhances awareness of franchising as lucrative formal business relations. In the Kenya perspective, the business environment (though not all that conducive due to heavy cost of investment and production, partly because of heavy taxation and energy issues) has enabled a number of micro enterprises to rise. Micro and small enterprises have a potentiality of boosting a country’s economy if they link up with multinational companies, among other strategies. These strategies can certainly turn round the future of the firms especially in developing countries including Kenya. From these studies the researcher hopes that the firm managers would embrace relationship with bigger companies and especially the international ones that are experienced, in order to get the latest manufacturing techniques which are easier to manager with fewer costs while at the same time not compromising on their products.

2.2.6 Product Diversification and its effect on manufacturing SMEs.

Diversification of market and market products is another factor to be seriously considered if manufacturing firms are to develop. Diversification inherently constitutes networking, reaching out in terms of services and products, and / or having variations. One such strategy is for a company to diversify its range of products. A firm may even become its own supplier of its raw materials or services. Diversification may also include a firm moving into unrelated new markets with new products. It gives a company more financial security than it would have if it produced only one kind of product. A progress in one industry offsets a decline in another. This is a feature that lacks in the majority of manufacturing SMEs in Kenya. (Qian 2002) carried out an empirical study on SMEs and found that product diversification produce curvilinear relationship;
that is positively related up to a point, after which a further increase in product diversification was associated with declining performance. This implies that firms should consider optimal levels of product diversification when they expand product offerings and geographical markets. Access to markets contributes significantly to the survival of an enterprise. It is a critical component of competitive economy. This is according to (Tlhomola S. 2002) who reasons that choosing a market segment with potential market growth is a factor influencing the success of SMEs (Shane & Venkataraman 2000). A poor market selection, for instance, one with many market imperfections, too much market heterogeneity and or a limited market size with poor growth prospects, can negatively affect entrepreneurship process. This is according to (Viviers et al 2001:4). Sustainable competitive advantage is a factor in the survival, success and growth of enterprises and is achieved by competitive strategies like products differentiation (Pretorius et al 2005). From these studies the researcher hopes that the manufacturing SMEs in Thika Municipality will not only improve on the quality of their main products but will at the same time learn from the results of this study to diversify their products and market them aggressively.

2.2.7 Government Policy and its effects on Manufacturing SMEs.

An enabling environment is an opportunity that should be utilized by micro and small enterprises in Kenya. The legal and economic framework in which enterprises operate is conducive to their performance. An enabling environment in theory constitutes structural adjustment and trade liberizations that are supposed to bring benefits to SMEs especially the manufacturing ones. It can be said that these firms with skilled workers and knowledgeable ones, and located in strong market niches, have benefited. According to Ngahu 2000), SMEs are obviously incapable of sourcing, evaluating and adapting to technologies effectively. The government policy should therefore aim to develop their capabilities in SMEs through supportive institutions. Policy can encourage the development of assistance programmes to facilitate the SMEs access to resources, information, training and technology. Further, policy should promote the development of technologies appropriate for SMEs. In other words, to develop polices that support the development of technologies compatible with the SMEs circumstances.

Local Policies, say Ngahu (2000), should encourage and promote development of local technologies. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports, SMEs are said to face a ‘Liability of smallness”, because of their size and resource
limitations, they are unable to develop new technologies or to make vital changes in existing ones. Still there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for the SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided. Further, research and development institutions that are publicly funded should be encouraged to target the technology needs of SMEs. The above mentioned associations have never been empirically measured, yet the levels of performance among many manufacturing SMEs have been relatively low. Some firms are the level of survivalist while others have gone under which is against the objective of vision 2030. The scenario described above point to the need to determine the status of performance vis-à-vis the factors that adversely affect it. It raises the question of capital, management, innovativeness, franchising, product diversification and government policy among others should be seriously addressed in order to enable the manufacturing SMEs perform their due roles effectively. From these studies the researcher hopes that the Government would relax those policies that are not friendly to the manufacturing SMEs and at the same time create new policies that promote the development and growth of SMEs in Thika Municipality and in Kenya at large.

2.3 Critical Review.

This study is purposed to analyze the factors that affect the performance of SMEs in the manufacturing sector. This is because SMEs are taken to be one of the vehicles through which the Government will achieve its vision 2030. According to a World Bank report, SMEs provide the largest opportunity for employment and government revenue. The National baseline survey of 2003 shows that the sector employs more than 4.6 million and accounts for 18.4% of the country’s G.D.P. The sector comprises 98% of all the business in the country and contributes 30% of the total employment. Therefore this study is not only relevant to the key players in the manufacturing sector but also to the Kenyan government which should provide policies that should create a friendly environment for their growth and development; More importantly, to the researchers of these field to build up on what I have already presented. The researcher has highlighted a few factors that appear to affect the performance of the manufacturing firm. These include sources of capital, management of the firms, technology, product diversification, franchising and government policies. These are just but a few of the many internal and external
factors that influence the performance of these firms. Furthermore, there are other intervening variables like family influence, politics and environment which the researcher hoped to be within control and indeed the research proved the same. The research design was mainly qualitative in character since it focused on the situation as it was. The researcher assumed that the independent variable acted independently of each other; that each independent variable influenced or affected the Dependent variable only without affecting any independent variable at the same time. This is not the case, for instance, the government policy can easily affect the availability (or lack) of capital through its agency, the central Bank. Capital can also influence the capacity of the firms to adopt modern techniques of manufacturing. Technology can also influence innovators and franchising. On data collection it was assumed that the managers/ owners had all the information at hand and that they were readily and willingly going to give that information including the “classified one”. The questionnaire and interview techniques of data collection may not have been necessarily adequate for the purpose. Other variables like attitudes, views and feels were hard to quantify and even combine with the qualitative data collected. Thus the quality of data analysis highly depended on the quality of data given and the responsiveness, frankness of the respondents. In spite of the above mentioned critical issues, quality work of the researcher, its validity, its soundness and its importance was maintained.

2.4 Summary and gaps to be filled by the study.
From the literature reviewed, it was clear that the role of the manufacturing SMEs in the attainment of vision 2030 is vitally important. This is an area that requires a lot of studies since much attention has not been given to it going by the critical review that has already been highlighted in the above case. It is particularly important to note that despite the fact that manufacturing SMEs play a critical role in the employment; the issue of sourcing capital has always been a big challenge to them as compared to their counterparts in the industry. Large manufacturing companies are able to source their capital in stock markets. Management is an important factor in any institution. Good management is a big asset to the company / firm. On the contrary weak management, ruins are otherwise promising institution. Thus a management gap which arises from owners being managers of the firms was addressed and possible recommendations suggested. On technology, many firms seem not to have embraced new technological methods that would quicken and improve their production processes. This is quite
Unlike their counterparts in the big companies. Hence the firms are unable to compete on equal footing with the counterparts in companies. Their products become less favoured by consumers except on those occasions when their customers lack alternative products. In the case of innovations and franchising, manufacturing SMEs have been disadvantaged because of lack of capacity to be innovative, and franchising with other foreign companies. This is yet another big gap that requires serious consideration. Equally, there is another serious gap in the case of technology and government policy respectively, since the firms hardly embrace new technology and the government does not grant the same or similar benefits like their counterparts in large companies.

The research findings would possibly bridge a gap in knowledge in this area of study. The study will also hopefully inspire other researchers to build up on the recommendations given after the research. This is important since not many studies have been carried out in this area.

2.5 Conceptual framework

![Conceptual framework diagram]

(Independent variables)
(Source Researcher 2011)
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter contained research methodology and covered research design, the population sample and sampling strategy, data collection tools and data analysis techniques.

3.2 Research Design.
This study was conducted through a descriptive research design. This is a research design where a researcher provides numeric descriptions of some part of the population (OSO and Onen 2009). The survey is ideally suitable for studies where the Independent variables are described as they are. Sample survey was to enable the researcher to investigate populations by selecting sample and analyze and discover occurrence and still predict and explain the factors that affect manufacturing SMEs in Thika Municipality.

3.3 Target population.
The target population consisted of all the 404 manufacturing SMEs in Thika Municipality (Municipal of Thika 2010). These small enterprises were taken to be the major vehicles for the achievement of vision 2030 and at the same time a great employer of the working people. The success or failure of these firms would be carried over to other levels of non-manufacturing firms and the country at large. An analysis of those factors that bring about the poor performance or downfall of these firms needed to be addressed as a matter of great urgency. The researcher therefore felt that an analysis of these factors would provide an insight into the issue of management control and support of these firms in the whole of manufacturing sector in Kenya.

3.4 Sample and sampling design.
The sample consisted of respondents selected from population since the population was heterogeneous, the sample reflected that scenario. The respondents were classified as follows.
### Firm Population Sample ratio

<table>
<thead>
<tr>
<th>Firm</th>
<th>Population</th>
<th>Sample ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Proportion</td>
</tr>
<tr>
<td>a) Textile work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Tailoring</td>
<td>121</td>
<td>0.3</td>
</tr>
<tr>
<td>2. Knitting</td>
<td>113</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24.2</td>
</tr>
<tr>
<td>b) Woodwork</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Carpentry</td>
<td>71</td>
<td>0.13</td>
</tr>
<tr>
<td>2. Upholsteries makers</td>
<td>17</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14.2</td>
</tr>
<tr>
<td>c) Metal work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Jua Kali</td>
<td>67</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13.4</td>
</tr>
<tr>
<td>d) Animal feeds manufactures</td>
<td>5</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>e) Soap making</td>
<td>10</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>404</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
</tr>
</tbody>
</table>

Source: Researcher (2011)

The sample size was determined using non-statistical or convenience methods where the sample was determined at the discretion of the researcher. In this case the researcher used 20% of the population owing to time and cost involved while at the same time maintaining results that were representative of the population (Adams et al 2009). A stratified sampling technique was used to select the sample. This technique was used to select the manufacturing SMEs since it would identify five (5) sub-groups in the population and their proportions selected from each sub-groups to form a sample (Sekaran 2003; Gray 1987). It grouped a population into separate homogeneous subsets that shared similar characteristics and then selected from each subgroup items so as to ensure equitable representation of the population in the sample. It aimed at proportionate representation with a view of accounting for the differences in sub-group characteristics (Gay 1987). The researcher was convinced that the target population was not uniform. This is because textile work and wood work would not necessarily have similar characteristics; even different managers in the same subgroup of the same SMEs may not always think similarly over a given issue. As such the target population could not be regarded as homogeneous.
3.5 Data collection Tools and Procedures.

Questionnaires, interviews and document analysis were used as the main tools for collecting data. The selection of these tools was guided by the nature of the data collected, the time available as well as by the objectives of the study. The overall aim of the study was to analyze those factors that affect the performance of the manufacturing SMEs in Kenya and, in particular Thika municipality. The researcher was mainly concerned with views, opinions, perceptions, feelings and attitudes of the managers of the manufacturing SMEs regarding those factors; such information could be collected through the use of questionnaire and interview techniques (Bell 1993). Document analysis technique was used to obtain data on the registration and ownership of the business.

The researcher also used semi-structured instruments. These enabled the researcher to balance between the quantity and quality of the data collected. This balance between the quality and quantity of information was useful for a fuller explanation of the phenomena under investigation. Questionnaire was used since the study was concerned also with variables that could not be directly observed such as views, opinions, perceptions and feelings of the respondents. Such information was best collected through questionnaire (Touliatos and Compton 1988). It was also easier to leave the copies of the questionnaire with the respondents but since a number of them are semi-literate and less concerned with new ideas caution was taken by the researcher not to be overly dependent on questionnaire as an ideal tool for collecting data.

3.6 Data Analysis Technique.

Data collected was analyzed with descriptive statistics using SPSS which included percentages, mean scores and frequency tables. Factor analysis which is widely used in business research to reflect hidden variables that cannot be directly measured but tend to be indirectly measured by other measures such as series of questions was used by the researcher. In order to reduce the data to manageable levels, factor analysis was used to reduce a given set of data to fewer variables. The objective was to form new variables by finding a linear combination of variables which are highly correlated. That meant that besides making the data more manageable by reducing the number of variables, it was also a means to overcoming the problems of multicollinearity. Where the degree of association between variables was required, the researcher applied the Pearson’s product correlation coefficient (r) which tends to vary between -1 and +1. The data was first
edited to ensure it was accurate, and as complete as possible. Coding was done to facilitate effective analysis. A measure of central tendency was used to determine the mean score from a group of scores and thereafter derive conclusions. A measure of dispersion, standard deviation was used to show variance within the sample variables. The analyzed data was presented using tables, graphs and charts.
CHAPTER FOUR

SUMMARY, PRESENTATION AND INTERPRETATION OF RESULTS

4.0 Introduction

The following chapter gives the presentation and interpretation of results of the data collected from the field.

The next section presents a summary of the results.

4.1 Response rate

Table 4.1; copies of Questionnaires distributed v/s return rate;

<table>
<thead>
<tr>
<th>No. of questionnaires distributed</th>
<th>No. returned completed</th>
<th>Incomplete copies</th>
<th>Blank copies returned</th>
<th>Copies returned</th>
<th>Not returned</th>
</tr>
</thead>
<tbody>
<tr>
<td>81</td>
<td>70</td>
<td>08</td>
<td>01</td>
<td>02</td>
<td>02</td>
</tr>
<tr>
<td>100%</td>
<td>86.4%</td>
<td>9.9%</td>
<td>1.2%</td>
<td>2.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2011

Out of 81 questionnaires issued out 79 were returned out of which 70, representing an 86.40% were returned complete, 08(9.9%) were incomplete while 1(1.2%) were returned blank. 2.5% of the questionnaires were not returned. Therefore, the researcher analyzed 70 copies of the questionnaire.

4.2 Descriptive Statistics

The next section presented a descriptive analysis of the data collected. Data was presented in form of tables and charts.
4.2.1 Gender of the respondent

The question sought to establish the gender of the respondent. This was important to determine whether there existed significant differences with regard to the impact of gender on performance. The results are presented in the table below.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Subgroup</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>Tailoring</td>
<td>14</td>
<td>16</td>
<td>30</td>
<td>42.9%</td>
</tr>
<tr>
<td></td>
<td>Knitting</td>
<td>0</td>
<td>20</td>
<td>20</td>
<td>28.6%</td>
</tr>
<tr>
<td>woodwork</td>
<td>carpentry</td>
<td>14</td>
<td>0</td>
<td>14</td>
<td>20%</td>
</tr>
<tr>
<td>Upholsteries</td>
<td></td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>4.3%</td>
</tr>
<tr>
<td>Animal feed</td>
<td>-</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1.4%</td>
</tr>
<tr>
<td>Soap making</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>32</td>
<td>388</td>
<td>70</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

The largest economic sub sector was textile work with 71.5% of the respondents indicating their businesses belonged to this sector. Interestingly, there were as many male as female involved in tailoring. However, knitting was predominantly a female affair. Woodwork was a male dominated venture with only one female out of the seventeen respondents engaged in this industry. Generally, there more female managed enterprises as indicated by the results, though this could be explained by the significantly higher number of females in textile industry.
4.2.2 Type of ownership

The question sought to establish who held the control of resources and decision making and in case of the dissolution how the resources would be distributed. This would be determined by the ownership. The responses are summarized in the table below.

Table 4.3; Type of ownership

<table>
<thead>
<tr>
<th>Type of ownership</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Ownership</td>
<td>54</td>
<td>77.5%</td>
<td>77.5%</td>
<td>77.5%</td>
</tr>
<tr>
<td>Partnership</td>
<td>12</td>
<td>17.5%</td>
<td>17.5%</td>
<td>95.0%</td>
</tr>
<tr>
<td>Company</td>
<td>4</td>
<td>5.0%</td>
<td>5.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

From the results, it is evident that majority of the manufacturing SMEs were solely owned as indicated by 77.5% of the respondents. Only a handful, 5% of the SME’s was limited liability companies while partnerships accounted for 17.5% of the sampled SME’s.

4.2.3 Size of the enterprise and the number of employees

The respondents had been asked to indicate the number of employees in their respective firms. Clusters were given that defined the size of the business. Their responses are summarized as per the table below.
Table 4.4; Number of Employees in the Firms

<table>
<thead>
<tr>
<th>Type</th>
<th>No. of employees</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt;5 people</td>
<td>15</td>
<td>21.1%</td>
</tr>
<tr>
<td>A very Small Business</td>
<td>6-20 people</td>
<td>45</td>
<td>64.8%</td>
</tr>
<tr>
<td>A small enterprise</td>
<td>21-50 people</td>
<td>08</td>
<td>11.6%</td>
</tr>
<tr>
<td>A medium enterprise</td>
<td>51-200</td>
<td>02</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>70</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Author, 2011

It was observed that most businesses were very small with work force of between 6-20 people as indicated by 64.8% of the respondents. Significantly however, 11.6% of the enterprises employed between 21-50 people while 2.5% were in the medium enterprise category, employing between 51-200 staff.

4.2.4 Level of Education

The question sought to establish the SMEs operators’ level of education. This was considered an important aspect in creating awareness of the factors that affected the performance of manufacturing SMEs. Their responses are summarized in the table below.
TABLE 4.5: Level of formal Education

<table>
<thead>
<tr>
<th>Gender</th>
<th>Non-formal education</th>
<th>Pry Edu.</th>
<th>Sec. Edu.</th>
<th>Village Polytech</th>
<th>National Polytechnic</th>
<th>Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>2</td>
<td>18</td>
<td>8</td>
<td>10</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>8</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>26</td>
<td>18</td>
<td>12</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>%</td>
<td>14.3%</td>
<td>37.1%</td>
<td>25.7%</td>
<td>17.1%</td>
<td>4.3%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

The information on education was collected on the assumption that such achievement would influence access to information, knowledge and use of different sources of finance. On the level of education, majority of the respondents 37.1% had primary level education followed by those who had completed secondary level education (25.7%). In terms of skills, results indicate that a significant 17.1% of the respondents had been trained at village polytechnics while 4.3% had obtained training from National polytechnics. A further 1.4% had university level education. Therefore it can be concluded that the small and micro business are dominated by people with relatively low level of education. An analysis to determine if there was any relationship between business performance and level of education did not provide conclusive results. Overall, more (75.4%) of those respondents who had received technical education or vocational training said their business performance was deteriorating. This may imply that formal education is not a critical factor in business success. 21.4% of the respondent said they had received some specific training in the area of their business as compared to 78.6% who had not received business specific training.
4.2.5 Years in operation

The question sought to establish how long the businesses had been in operation. This information is summarized in the table below.

**TABLE 4.6; Number of Years in Operation**

<table>
<thead>
<tr>
<th>Yrs in Operation</th>
<th>0-2 years</th>
<th>3-5years</th>
<th>6-10years</th>
<th>10+years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>09</td>
<td>19</td>
<td>31</td>
<td>12</td>
<td>70</td>
</tr>
<tr>
<td>%</td>
<td>12.6%</td>
<td>27.1%</td>
<td>42.7%</td>
<td>17.6%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Author, 2011*

Results indicated that majority of the businesses had been in operation for a period between 6-10 years which accounted for 42.7% of the respondents. A significant 17.6% had been in operation longer than this; that is beyond ten years. Businesses within the start up age of between 0-2 years accounted for 12.6% while those that had been in operation were 27.1% of the respondents.

4.2.6 Performance of SME’s

Performance was a term that was used frequently in relation to the factors that affect it as far as SMEs in Thika Municipality were concerned. Respondents were asked to state their feelings about the performances of their businesses.

**TABLE 4.7; Performance of SMEs**

<table>
<thead>
<tr>
<th>performance</th>
<th>Successful</th>
<th>Not successful</th>
<th>Deteriorating</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequencies</td>
<td>35</td>
<td>30</td>
<td>5</td>
<td>70</td>
</tr>
<tr>
<td>Percentages</td>
<td>49.2%</td>
<td>42.3%</td>
<td>8.5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

From their responses, 49.2% considered their business to be deteriorating while 42.3% considered their business successful with only 8.5% of the respondent saying their businesses were very successful. Further probe revealed that businesses that were starting faced serious
challenges that made owners consider their business as doing poorly within the first year of start up. This finding is supported by the literature. It also seems that most micro and small business hit their peak at the fifth Year. After the fifth year, most entrepreneurs seem to suffer from what may be described as entrepreneurial burnout as the excitement declines. This may partly explain why most business as they are more than 5 years and above consider their businesses as being in the process of failing. This finding seems to confirm the observation made by Longnecker et. al. 2006 that burn out may lead to entrepreneurs losing interest in one business venture and instead look out for other opportunities.

4.2.7 Sources of Capital

The question sought to establish the entrepreneurs’ sources of capital. Various sources had been identified and listed as per the literature review. The table below summarizes the responses

<table>
<thead>
<tr>
<th>Sources of capital</th>
<th>Microfinance Firms</th>
<th>Commercial Banks</th>
<th>Family Relations</th>
<th>Personal Savings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>9</td>
<td>10</td>
<td>18</td>
<td>33</td>
<td>70</td>
</tr>
<tr>
<td>%</td>
<td>12.9%</td>
<td>14.3%</td>
<td>25.7%</td>
<td>47.1%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

From the empirical data given above, 47.5% made use of their personal savings, 46.5% obtained their capital from friends and family while 15% had accessed their capital from commercial banks. The remaining 12% of the respondents obtained their capital from microfinance institutions. More importantly, most respondents indicated more than one source of capital with 23% indicating their sources as “own savings” and family & friends. A further 17% of the respondents indicated that they had obtained further capital from commercial banks. Microfinance institutions also played a big role with regard to provision of additional capital. 60% of the respondents had from time to time been involved with the MFI’s in provision of additional
funds. Most of these entrepreneurs would be in groups “Chama’s”, through which funds were channeled.

4.2.8 Financial institutions approached by entrepreneurs

Respondents had been asked to indicate the financial institutions they had approached for funding. Their responses are summarized as per the table below.

**TABLE 4.9 Financial institutions Approached.**

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Frequency</th>
<th>Success Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Bank</td>
<td>42</td>
<td>48%</td>
</tr>
<tr>
<td>Family Finance</td>
<td>40</td>
<td>30%</td>
</tr>
<tr>
<td>Micro-Finance</td>
<td>30</td>
<td>93%</td>
</tr>
<tr>
<td>KCB</td>
<td>10</td>
<td>43%</td>
</tr>
<tr>
<td>Barclays</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>Consolidated Bank</td>
<td>4</td>
<td>20%</td>
</tr>
<tr>
<td>Post Bank</td>
<td>3</td>
<td>4.7%</td>
</tr>
<tr>
<td>Others</td>
<td>20</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

Respondents were more likely to approach one of the four major banks in Kenya as opposed to trying alternative lending institutions. This was explained by the number of applications for loans made to these institutions. From the field, it was apparent that these were the most frequented banks and had the highest number of customers in Thika Municipality. Furthermore, they had the best representation in terms of branch network within Thika municipality and its environs.
The success rate was calculated as follows:

\[
\text{Number awarded} \times 100 \over \text{Number applied}
\]

Success rate was highest amongst entrepreneurs who had applied for funding from micro finance institutions. While amongst the banking institutions, Equity bank had the highest success rate with 48% of borrowers getting awarded with loans. Among the micro finance institutions approached by the respondents were K-rep, Faulu Kenya, Kenya Women Finance Trust and these had a great presence in the municipality.

4.2.9 Extent capital affects performance of businesses

The question sought the respondents view on the extent to which lack of capital affected their business performances. These results are summarized as per the table below.

**TABLE 4.10: Effects of capital on business performance.**

<table>
<thead>
<tr>
<th>Extent of Effect</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great</td>
<td>54</td>
<td>77.1%</td>
<td>77.1%</td>
<td>77.1%</td>
</tr>
<tr>
<td>Great</td>
<td>14</td>
<td>20.0%</td>
<td>20.0%</td>
<td>97.1%</td>
</tr>
<tr>
<td>Fairly great</td>
<td>2</td>
<td>2.9%</td>
<td>2.9%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2011

The importance of capital on business performance and survival was stressed by an overwhelming 97.1% of the respondents who indicted that lack of funds/capital affected their performance greatly. A further 2.9% indicated that capital affected their business to fairly great extent.

4.2.10 Technology used

The respondents had been asked to indicate the type of technology used in their firms. The table below gives a summary of their responses.
### TABLE 4.11; Type of technology in use

<table>
<thead>
<tr>
<th>Technology in use</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual</td>
<td>59</td>
<td>84.3%</td>
<td>84.3%</td>
<td>84.3%</td>
</tr>
<tr>
<td>I.A. technology</td>
<td>7</td>
<td>10.0%</td>
<td>10.0%</td>
<td>94.3%</td>
</tr>
<tr>
<td>Computer assisted</td>
<td>4</td>
<td>5.7%</td>
<td>5.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

I.A represents Intermediate Appropriate

**Source:** Author, 2011

Results indicated that majority of the respondents (84.3%) used manual technology, while a further 10% of the respondents used intermediate technology. Only 5.7% of the respondents had employed computerized technology. The technology in use determined the speed and efficiency of a firm's operation. SME's in Thika seem to be lagging behind in embracing technology. This in effect affects performance and competitiveness of firms in the municipality.

### 4.2.11 Extent to which technology used affected performance

The question sought the respondents' view on the extent of the level of technology in use affected the performance of their business. These results are summarized as per the table below.

### TABLE 4.12; Effects of Technology on performance

<table>
<thead>
<tr>
<th>Effects</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high extent</td>
<td>39</td>
<td>55.7%</td>
<td>55.7%</td>
<td>55.7%</td>
</tr>
<tr>
<td>Great extent</td>
<td>19</td>
<td>27.2%</td>
<td>27.2%</td>
<td>82.9%</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>12</td>
<td>17.1%</td>
<td>17.1%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.0%</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Author, 2011
SMEs require technology not only for faster quality processing of products, but also for cost saving purposes. Respondents indicated that they were generally not satisfied with the level of technology employed by their firms as this affected their performance to a varied degree. Majority, accounting for 55.7% indicated that technology used affected their performances to a very great extent while 27.2% indicated that this was to a great extent. 17.1% of the respondents on the other hand indicated that the technology in use only affected their performance moderately.

### 4.2.12 Extent to which management affected performance

The question sought from the respondents view on who manages their business.

**TABLE 4.13; The managers of business firms.**

<table>
<thead>
<tr>
<th>Managers</th>
<th>yourself</th>
<th>Family members</th>
<th>Professionals</th>
<th>Supervisors Supervised</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>53</td>
<td>10</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>100%</td>
<td>76.3%</td>
<td>13.5%</td>
<td>4.1%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Source; Author, 2011

From the above empirical data it can be concluded that 76.3% of the respondents were owners cum managers 13.5% indicated that business were managed by family members while 4.1% and 6.1% were managed by professionals and supervisors under close supervision.

### 4.2.13 Basis of decision

Making Respondents were asked to state the basis on which they make their decisions. The following were their responses;
TABLE 4.14 Basis of decision making

<table>
<thead>
<tr>
<th>Basis</th>
<th>Need based</th>
<th>Competitors Based</th>
<th>Advice from Consultants</th>
<th>Self-Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>2</td>
<td>59</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>100%</td>
<td>2.2%</td>
<td>84.9%</td>
<td>1%</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

Source: Author 2011

The researchers wanted to know from the respondents about the basis of decision making.

Based on the above empirical data it can be observed that 84.9% of the respondents based their decision what others competitors were doing. 11.9% of respondents indicated that they based their decisions on their own opinions of feelings. 2.2% made their decisions based on the needs or requirements of their firms. Mere 1% of the responds based their needs on the advice from the consultants.

4.2.14 Type of Leadership

The researcher sought to know from the respondents the type of leadership styles they apply in running their business. The following are the results of the study.

TABLE 4.15; Type of Leadership

<table>
<thead>
<tr>
<th>Leadership Style</th>
<th>Autocratic</th>
<th>People Driven</th>
<th>Do it yourself</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>49</td>
<td>08</td>
<td>13</td>
</tr>
<tr>
<td>100%</td>
<td>69.4%</td>
<td>11.9%</td>
<td>18.7%</td>
</tr>
</tbody>
</table>

Source: Author 2011
From the above empirical data it can be concluded that 69.4% apply consciously or unconsciously autocratic style of leadership those who advocate the Laizzers-fair were 18.7% while those who showed or responded to the concern of others were 11.9%

4.2.15 Labor Turnover

Under these questions, the researcher was curious to know the number of workers that were either joining or leaving their business for the last five years. The findings were as follows;

TABLE 4.16; Labour Turnover

<table>
<thead>
<tr>
<th>No. of Workers</th>
<th>0-5</th>
<th>6-10</th>
<th>11-15</th>
<th>16-20</th>
<th>Over 20 Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>02</td>
<td>03</td>
<td>04</td>
<td>06</td>
<td>55</td>
</tr>
<tr>
<td>100%</td>
<td>2.5%</td>
<td>4.2%</td>
<td>5.6%</td>
<td>8.6%</td>
<td>79.1%</td>
</tr>
</tbody>
</table>

Source: Author 2011

From the above data it can be observed that 79.1% of the respondents indicated that over 20 workers had left their business, 8.6% reported that workers believe 16-20 had left, 5.6% reported 11-15 workers while 2.5% and 4.2% of the respondents reported that 0-5 and 6-10 respectively had left their jobs.

4.2.16 Reasons for leaving their jobs

Under this, the researcher sought to know the resins for the transfer or quitting their jobs.

TABLE 4.17 Reasons for leaving their jobs

<table>
<thead>
<tr>
<th>Possible Reasons</th>
<th>Poor Pay</th>
<th>Job dissatisfaction</th>
<th>Harassment</th>
<th>Ailments</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>70</td>
<td>42</td>
<td>13</td>
<td>7</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>100%</td>
<td>59.8%</td>
<td>18.9%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>8%</td>
</tr>
</tbody>
</table>

31
From the above data, it is clear that 59.8% of the respondents indicated poor pay, 18.9% indicated job dissatisfaction while harassment in the workplace and ailments took 10.3% and 3% respectively. 8% of the respondents cited other reasons for leaving the jobs. 58.9% indicates a high proportion that poor pay is one of the reasons why many workers quit their job possibly in search of greener pasture.

4.2.17 Effects of Product Diversification on Performance

The question sought to establish how different entrepreneurs' products were from others. The table below summarizes their responses

**TABLE 4.18 Product Diversification on Performance**

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Packaging</th>
<th>Method of Production</th>
<th>Size of the Product</th>
<th>Customer Care Service</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>27</td>
<td>18</td>
<td>10</td>
<td>13</td>
<td>70</td>
</tr>
<tr>
<td>Valid percent</td>
<td>41.7%</td>
<td>25%</td>
<td>14.3%</td>
<td>18%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

Results indicated that products varied on the basis of packaging, method of production and the product size. For other entrepreneurs, differentiation was on the level of customer service offered by the firms both to their existing as well as to potential customers. Slightly more than half of the respondents (50.5%) said having good communications skills is necessary in any business. This is mainly because of the personalized services that most customers anticipate when dealing with small business owners or managers. Business success is a consequence of embracing the whole package of strategy in order to succeed. The strategy used included fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service delivery. Selling variety of products or offering a variety of services is just as important as embracing prudent financial management systems. With regard to diversification respondents were further asked to indicate how many other items
their firms specialized in. This aimed at establishing the extent of diversification. The results were presented in the table below.

**TABLE 4.19; Number of products**

<table>
<thead>
<tr>
<th>No. of Products</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>&gt;Three</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>18</td>
<td>20</td>
<td>18</td>
<td>14</td>
<td>70</td>
</tr>
<tr>
<td>Valid percent</td>
<td>27%</td>
<td>28%</td>
<td>25%</td>
<td>20%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author, 2011

Results indicated that majority; accounting for 73% had more than one product with 20% indicating they produced more than three products. 27% of the respondents however had only one product in their production line.

Further probe revealed that respondents embraced diversification as it ensured survival and growth in their firms.

**4.2.18 Effects of Franchising on the Performance of SMEs**

On this the respondents were asked whether they were working on behalf of international companies. The purpose was to find out whether respondents knew anything about working on behalf of other companies. According to the empirical data collected, 98.9% worked on their own behalf and that they had nothing to do with outsiders.

**4.2.19 Extent to which franchising affects performance**

Respondents had been asked to indicate whether in their view franchising had any effect on business performance and the extent of that effect. The table below gives a summary of the findings.
Franchising injects new blood and brings forth current management systems. It further widens the market space. This view is further confirmed by the field data with 60% indicating that franchising indeed affected performance to a very high extent, with a further 30% indicating that franchising affected performance to a great extent. The remaining 10% indicated that though there was an effect, this was only moderate.

4.2.20 Effect of Government policy on the performance of manufacturing SMEs

Under this the respondents were asked to state how the government policy affects the performance of their firms. From the table, 47% of respondents were of the opinion that the labor legislation of the country has an effect on their business. Legislative compliances which involves the compliances with a myriad of legislation, such as income tax act, Labor Relations Act, conditions of employment Act and other acts specific to certain types of business. The view was supported by a number of studies who included Salgado (2007:7). According to one of the most comprehensive studies undertaken, one of the government policies cited was on the cost of red tape. Further, in Thornton’s 2006 international survey, 45% of respondents cited regulation and red tape as the greeter constraint to the expansive of money business in South Africa.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The purpose of this chapter was to summarize the results of the research undertaken. In the first section a summary of the results of chapter four is given. Conclusions as well as the recommendations of the study are then made.

5.1 Summary of the findings

From the data gathered, the following is a summary of the researcher’s findings:

On whether capital affects performance, it was observed that 77.1% of capital greatly affected both the performance of the business and also their survival. In fact, 20.0% of the respondents said that capital affects greatly both of them.

About 84.3% of the manufacturing SMEs use manual technology. This is very high proportion which indicates that only a handful number of respondents use intermediate, advanced or computer assisted technologies in order produce economically quality products at a faster rate. 60.9% those who use manual technology were willing to change to other technologies if they were assisted financially.

Regarding management, 76.3% of the respondents were owners cum managers thus there was no separation of powers, duties and responsibility. In fact 84.6% were also acting as supervisors because of the nature and sizes of their firms. On decision making 84.9% of the respondents were the ones making decision mainly based on what other competitors were doing. Leadership was about 69.4% dictatorial and labors turn over was 79.1%. This is a very high rate.

41.7% of the respondents, had diversified their products through packaging in form of cartons, polythene papers, use of bottles both plastic and glassware. 73% of the respondents indicated to be producing 2 or more products. However, majority 28.0% had exactly 2 products. 39.5% of those producing. Products were easy to increase to more than 2 if they were financially assisted to expand their business.
60% of the respondents confirmed that franchise indeed affects manufacturing performance to a
greater extent. 78.4% of the respondents indicated that they would be willing to either partner
with experienced companied or work on their behalf, but on how to get approval from the like-
minded established companies was a big issue.

47% of the respondents bitterly complained about labour legislation laws, employment act were
not in favor of them. In particular, 84.9% of the respondent complained of the VAT on the raw
materials that it was high. They were of the opinion, that they should be exempted from the
particular tax to enable them to produce goods cheaply and sell them at affordable prices.
Moreover, 89.6% requested for tax ‘Holidays’ for about 5 years just like the Export processing
zones (EPZ) in order to enable them to stand on their feet especially at initial stages of their
production.

5.2 Conclusions

Capital plays a pivotal role in the success of the business and this means that if these
entrepreneurs are provided with the necessary education in capital it is most likely that they will
succeed in their endeavors. Lack of collateral security is hampering the success of the
manufacturing SMEs sector in the sense that the banks are not interested in providing funding to
applicants without collateral security, then how would this informal sector expand their
operations?

Management is a factor that seriously affects the performance of businesses. Best management
practices bring about improved performance. Separation of ownership, duties, powers and
responsibilities are essential factors for better performance in any working place. It can also be
concluded that Supervision of workers and supervisors themselves are crucial if good results are
expected to be realized. Decisions made should be based on needs and more so seeking advice
both from the workers and consulting firms, and not just doing what the competitors are doing.

Technology is another factor since it determines the speed and efficiency of the manufacturing
firms. However from the data collected it can be concluded that majority of the firms are still
using the old slow method of manufacturing goods. Consequently, these firms will always lag
behind and even perform, below par due to their inability to embrace the latest technology.
Further, the quality of their products cannot match that of the rivals advanced companies in the
same field.
From the empirical data collected it can be concluded that product diversification is another factor that affects greatly the performance of the manufacturing SMEs. Many respondents indicated that they were able to broaden their customer base and hence their sales. It can therefore be concluded that product diversification should not be ignored when considering the factors that affect the performance of the manufacturing SMEs.

Franchising is equally very important factor as regards the successful performance of the manufacturing SMEs. Many of the respondents acknowledged this fact but for reasons best known to them, they were working on their own behalf. This has locked them from acquiring the latest techniques of manufacturing their goods.

On government policy, it has been observed from the empirical data collected that this is and very important factor to reckon with as far as performance of the manufacturing is concerned. In particular, the labor Legislation Laws, income taxes employment acts among others have negatively affected the productivity of the manufacturing SMEs. It has been indicated that there is a lot of red-tape and regulations which are a great impediments to the good performance of the SMEs in the manufacturing sector.

5.3 Recommendations

In the light of the above conclusions the following recommendations are made:

Since capital is a very important factor that affects the performance of SMEs it is recommended the government and other financial providers provide training packages to cover such areas as book keeping and compilations of business plans. Lenders, it is has been noted, are prone to be favorably biased towards manufacturing SMEs who can demonstrated eloquence in areas such as financial management (including basic book keeping)marketing and technology upgrading. Banking systems require some security and collateral because banks do not see these entrepreneurs as investors. For someone without assets it is impossible to get a loan. Thus these issues should be revised and expanded significantly to facilitate greater access to finance for entrepreneurs. Additionally, collateral laws should be revised so as to facilitate the registration and realization of collateral. However, any intervention that improves the inability of financial provides accurately assess risk would increase their willingness to extend credit and other financial to manufacturing SMEs.
5.4 Suggestions for Further Research

This study endeavored primarily to create a platform from which further research can be conducted. It has evaluated the current position with respect to the factors that affect the performance of the manufacturing SMEs in Thika Municipality. The researcher in his work discovered that there are other internal and external factors that affect performance of SMEs besides those studied in the past. More studies should be carried out to determine them and their effects on these SMEs. Moreover, studies on manufacturing SMEs should be directed to manufacturing SMEs in other big and small towns to see if the same scenario would be replicated. Further research should be directed to service providing SMEs to determine the factors that affect their performances. It is recommended that more research should be directed towards the non-manufacturing SMEs both in rural and urban settings to determine whether the same factors affect them or not.
REFERENCES


Bell, J 1993. How to complete your research project successfully. New Delhi UBSPD.


C. NGAHU – Technology Policy and Practice in Africa.


En.wikipedia.org/wiki/management.

En.wikipedia.org/wiki/technology.

Franchising; Away to starting a business with low cost; 2006 http://www.51flya.blog.bokee.net/blogger module/blog view bog.do?id=37213


http://www.businessdictionary.com

International Development Research Centre (IDRC, Ohawa, Canada).


JIP; franchise Philippines; franchising news 2002

Joan Parker and Tanya Torres; Micro and Small Scale Enterprises in Kenya, K-Rep.

John Willy & Sons, Inc. A skill-building approach. New York;

Kissikov B; Franchising In Kazakhstan, Book in the East 2007


India small business report; www.franchiseindia.com/.../small business report.php


Pearce J A and Robison R B 1997; Strategic Management; Formulation, implementation and control. Burr Ridge; Irwin

Qian G; Multinationality, product diversification and profitability of SMEs; 2002; scopus(23) Hong Kong China


Robertson T; 1991; Planning Linkages To Successful Performance; New Castle

Rogerson C 2001; In Search Of The African Miracle; Debates On Successful Small Enterprise Development In Africa. Habitat international.
Rwigema H and Venter R 2004; Advanced Entrepreneurship In Cape Town; oxford university press.


Tlhomola S J; Perception of SMEs regarding factors contributing to failure. Tswane university of technology 2002.

Tulus Tahi Manonangan T; SMEs in Asian Developing Countries Palgrace Macmillan (Oct 2009).

Wartick S L and Mahon J F 1994; Towards a substantive definition of corporate issues construct; a review and synthesis of the literature; business and society. Vol 33.


www.businessdirectory.com/definition/html

www.investorword.com/3665/performance.html

APPENDIX I

SPECIMEN LETTER TO THE RESPONDENTS

Dear Respondents,

I am an MBA-Finance student in the department of Business Administration Kenyatta University. I am carrying out a research on the “factors that affect the performance of manufacturing SMEs in Thika municipality”. The purpose of this questionnaire is to gather data on these factors in order to suggest possible solutions that will help you to perform your Business better. You have been considered as an active player and hence selected as one of the respondents in this study. The information given will be treated confidentially and will be used strictly for academic purposes only.

Your cooperation will be highly appreciated.

Thank you in anticipation.

Yours researcher

Mr. Gathogo G.M.
APPENDIX II
RESEARCH QUESTIONNAIRE.
The objective of this study is to find out the major factors that affect the performance of manufacturing small and medium firms in Thika municipality. The questionnaire is designed to gather information from the key players in assessing these factors. Since you are an interested party, you are in a position to provide the researcher with the necessary data for this study. The information collected from this questionnaire will be treated with utmost confidence. This is purely for academic purposes only.

SECTION A
Enterprise Profile.
1a) Name of Enterprise.

b) Address of the Enterprise

2) Type of enterprise (Tick as appropriate)
   □ Tailoring  □ Dress making  □ Knitting  □ Metal work
   □ Soap making  □ Carpentry  □ Any other

3) Type of ownership (Tick as appropriate)
   □ Sole ownership  □ Partnership  □ Company

4) Number of permanent employees (Tick as appropriate)
   □ 1-4  □ 5-9  □ 10-49  □ 50-99

5) Average level of education of the employees (tick as appropriate)
   □ None  □ Primary  □ Secondary  □ Tertiary

6) You are required to indicate who manages the business (tick the appropriate)
   a) Yourself  □
   b) Family members  □
   c) Professionals  □
   d) Supervisors under close supervision  □

7) On what basis is a decision made regarding business management? (Tick the appropriate).
8(b). Indicate the type of leadership in your business? (Tick the appropriate).

- None but you
- Free to do things on your own
- Listening and sharing ideas with others

8(b). Tick the class which corresponds to the number of workers who have either joined or left your firm since January 1, 2005.

- (a) 0 - 5 workers
- (b) 6 - 10 workers
- (c) 11 - 15 workers
- (d) 16 - 20 workers
- (e) Above 20

9). State the possible reasons cited as to why workers leave your company. (Tick the appropriate)

- (a) Poor pay
- Job dissatisfaction
- Ailments
- Others

SECTION B

PERFORMANCE

10). What is the performance of your SME (tick as appropriate)
   A. V. harsh B. Harsh C. Fair D. Low E. V. Low

11). In general what enhances performance of SMEs within the manufacturing sector in Thika municipality?

SECTION C

CAPITAL

12). SMEs require capital either for addition expansion or for general operations and improvement. Which are major sources of capital?

   (A) Own Saving (B) Bank Loans (C) Friends & family sources (D) Trade credits (E) Others (tick as appropriate)

13). In the case of loans from financial Institution do you find it easy to access?

   A. Yes      B. No
14). To what extent do you think capital affects performance of your business
   A. Very great    B. Great    C. Fairly Great
   D. Low    E. V. Low

15). What are the major sources of information of the sources of capital?

16). What do you recommend on capital to improve performance of SMEs in Thika municipality?

SECTION D

TECHNOLOGY

17). State the type of technology that you use (Tick as appropriate)
   Manual ( ) Intermediate appropriate technology [ ] Computer assisted technology [ ]

18). SMEs require technology not only for faster and quality processing of products but also for cost saving purpose. In your own experience do you find it easy or difficult to acquire, install and/or maintain? (State Yes or No)
   18)(a) to what extent do you think technology affects performance of your business?

19). (b) What recommendations do you suggest that you think can improve performance of SMEs in Thika Municipality?

SECTION E

MANAGEMENT

20). (a) Management, in this case is interpreted as organizational and coordination of the enterprises: Indicate how your firm is managed.

   Family members’    [ ]    professionals    [ ]
   Supervisors supervised by others [ ]    Yourself [ ]

(b) In the case of management indicate the basis of decision making

   (i) Need Based (ii) Competitors Based (iii) Advise from consultants (iv) Self opinion

   (c) State the type of Leadership in your firm

   (i) manager centered (ii) people driven (iii) The do it yourself

   (d) To what extent do you think management affects performance of your business
What recommendation would you suggest on management that would help to improve performance of SMEs in Thika Municipality?

SECTION F
PRODUCT DIVERSIFICATION

22). How many items does your firm specialize in? (Tick as appropriate)
One □ Two □ Three □ More than Three □

23)(i) Are your products different from others? Yes/No

(ii) If yes in (i) above, how are they different from others? (Tick as appropriate)
Size of the product □ Packaging □ Customer care services □ Trade/cash discounts □ Method of products □ others □

24). In the case of product differentiation do you find it easy to win your own customers? Yes/No

25). To what extent do you think product differentiation affects the performance of your business? (Tick as appropriate)
To a harsh extent □ Great extent □ Fairly good extent □ Little extent □ Not at all □

26). What do you recommend on product diversification to improve performance of SMEs in Thika Municipality?

SECTION G
FRANCHISING

27). Do you work on behalf of bigger companies especially international companies Yes/No

   (i) If yes, what are the advantages of such an arrangement?

   (ii) If no, would you wish to work for another foreign company?
28). (i) Have you ever tried to get support be it financial, material, technical support from a foreign company Yes/No

(ii) If yes, how easy is it to get access such companies?

29). To what extent do you think working on behalf of another company would affect your business? (Tick as appropriate)

(i) To a large extent  (i) To a small extent  (iii) Not at all

30). What do you recommend on working for a foreign Company to improve performance in Thika Municipality?

SECTION H

GOVERNMENT POLICY

31). How does the government policy affect the performance of your firm? (Tick as appropriate)

(i) Favorable  (ii) Less favorable  (iii) Not at all

32). Do you find it easy or challenging to work in such an environment? Yes/No

33). To what extent do you think the government policy affects performance of your business (Tick as appropriate)

(i) Large extent  (ii) To some extent  (iii) None at all

34). What do you recommend on Government Policy to improve performance of the SMEs in Thika Municipality?

35). The following factors have been identified as some of the factors that affect the performance of the SMEs in Thika Municipality; (i) Capital  (ii) Technology  (iii) Management  (iv) Product Diversification,  (v) Franchising  (vi) Government policy.

You are kindly requested to list these factors, in a numerical order, from the most serious factor to the least serious factor.

Thank you for your patience and good response. If you wish to know the outcome of this research, do not hesitate to request for a copy.