

BUSINESS MANAGEMENT AND ENTREPRENEURIAL PERFORMANCE

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D53/10477/06

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS STUDIES IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION), KENYATTA
UNIVERSITY**

JULY, 2008

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*Business management
and entrepreneurial*



2009/338498

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DECLARATION

This research project is my original work and has not been presented for a degree in any of university

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This research project has been submitted with my approval as the University Supervisor.

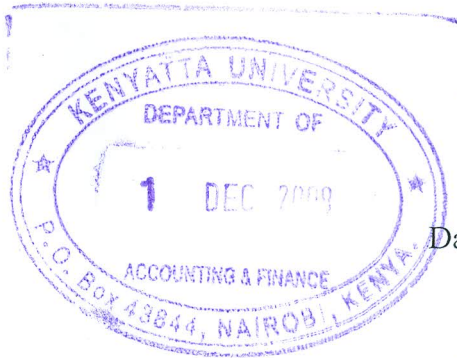
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DEDICATION

To my father Felix Kioko and Beatrice

My friend Lawrence Muema.

My brother Shadrack Kioko, Alex Kioko. My sister grace Kioko and Valentine Kioko.

ACKNOWLEDGEMENTS

I wish to thank Kenyatta University for according me an opportunity to study masters degree programme, acknowledge my Supervisor Mr. Maganjo for making sure that I understood all that I was taught during my further academic pursuit.

Many thanks to my friend Laurence and Felix and Beatrice for their moral and spiritual support. Divas Technology collage deserves appreciation for setting and correcting my work. Mr. A.D. Bojana deserves special gratitude for his editorial assistance. The effort support of my parents both financially and materially enhanced my advancement. May the Almighty God bless you all.

ABSTRACT

The importance of the SSE sector as a source of income and employment for poor households in Kenya has been widely acknowledged since the publication of the ILO report of 1972. The performance of a firm depends on the management of the firm. In addition, the financing of a firm will also depend upon the structure and quality of its management. Small businesses lead the way in creating jobs. Small businesses are also the leaders in offering training and advancement opportunities to workers. They offer more general skills instructions and training than large ones, and their employees receive more benefits from the training than do those in larger firms. The performance of a firm is usually affected by various factors which entirely lies under the management of the firm itself. If a firm lacks sound management, its performance is affected negatively compared to a firm that is well-managed. The study analyzed the factors that affect the performance of small-scale enterprises.

Data were analyzed using Statistical Package for Social Sciences (SPSS) computer software to generate frequency distribution tables; chi-square tests were used to compute the significance of the relationship between the independent variables. Data were then analyzed qualitatively to address research objectives. Chapter four presents data analysis and interpretation.

The findings of the study indicate that majority of the respondents 17 (60.7%) indicated that they do not prepare a personal budget, 10 (35.7%) said they do while 1 (3.6%) did not comment. The preparation of a personal budget in planning isolates income and expenses not related to the business to expand on that which has been earned. The frequencies of a participants that prepared and those that did not prepare a personal budget at 2 df differed significantly ($\chi^2 = 13.786$, $p < 0.05$). The study further revealed that the majority of respondents prefer taking chances in business affairs. Training in business management was one of the factors the researcher was interested in investigating. Most of the respondents were trained in business management and the results were significant at df compared to those who had no training ($\chi^2 = 34, 786$, $p < 0.05$). It was found that half of the respondents are guided by credit policy and the notion that visual inspection provides effective inventory control was agreed by most of the respondents. Lack of uncontrolled business growth is to them a serious problem.

The study concludes that : Preparation of personal budget is necessary if a business is to thrive; most of the MSEs do not keep records ; the micro small-scale entrepreneurs prefers income security and taking chances in business affairs; the slow credit customers are a serious problem due to lack of credit policy.

The following recommendations emerged: The study recommends that micro-scale entrepreneurs need more training, credit policy, keep personal records and should be given income security. Since the study focused on micro-small enterprises in Nairobi, a similar study should be replicated in other provinces not covered by this study.

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LIST OF ABBREVIATIONS

SSEs: Small Scale Enterprises

ILO: International Labour Organization.

GOK: Government of Kenya.

CBK: Central Bank of Kenya.

MSEs: Micro and small enterprises

Definition of Terms

Small business: Is one that does not dominate its industry and has less than 10 million in annual sale.

Small businesspersons: Are individuals who simply substitute income by leaving jobs to operate local stores or independent service businesses.

Inventory: Means tied-up money.

Inventory turnover: Means the rate at which materials are used up and replaced.

A Family business: Is a company, which is owned and managed mainly by members of the same family.

Experience: Having technical skills or management acumen.

Management: Is defined as getting things done through people.

Entrepreneur: Is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalize on them.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The importance of the MSE sector as a source of income and employment for poor households in Kenya has been widely acknowledged since the publication of the ILO report of 1972. Out of the 21 million businesses in the United States today, approximately 20.5 million, or 98 percent can be considered small. They thrive in virtually every industry, although the majority of small companies are concentrated in the retail and service industries. Their contribution to the economy is as numerous as the businesses themselves. For example, small companies employ more than 50 percent of the nation's private sector workforce, even though they possess less than one fourth of total business assets. And because they are primarily labour intensive, small business actually create more jobs than do big business.

During the 1980s for instance, companies with less than 500 employees created more than two thirds of the nation's 19-3 million new jobs. Companies with less than 20 workers created more than half of those new jobs. This trend has continued in the 1990s - small companies have accounted for virtually all of the jobs growth in this decade as large businesses continue to lose jobs.

Not only the small companies lead the way in creating jobs but they bear the brunt of training workers for them. Small businesses are the leaders in offering training and

advancement opportunities to workers. Small companies offer more general skills instructions and training than larger ones and their employees receive more benefits from the training than those in larger fields. Although their training programmes tend to be informal, in-house and on-the-job, small companies teach employees valuable skills from written communication to computer literacy.

Small businesses also provide 48 percent of the country's group and account for 42 percent of business sales. Overall, small firms provide directly or indirectly the livelihoods of over 100 million Americans. Research conducted for the national science foundation concludes that small firms create four times more innovations per research and developments (R +D) dollar than medium sized firms and twenty-four times as many as larger companies. Many important inventions trace their roots to an entrepreneur. For example, the Zipper, FM Radio, Air conditioning, the escalator, the light bulb and automatic transmissions.

1.2 Statement of the Problem

The main goal of every small business is to operate profitably in order to maintain its stability and improve its growth and expansion. Small businesses face various challenges that include lack of capital, experience and know-how on how to run businesses. Most of the small businesses start but eventually fail because of lack of know-how on how to run the business.

The government of Kenya places a lot of emphasis on the support of the low-income people. The government also encourages the young people to start the business. This is

because it owns the whole problem of an employment. The management of small business has a lot of significance to the performance of small business in Kenya.

This study therefore, looked at to what extent experience, planning, business philosophy, management of working capital and uncontrolled growths affect the performance of small businesses.

1.3 The Purpose of the Study

The purpose of this study was to find out the extent to which sound business management contributes to entrepreneurial performance.

1.4 Research Questions

- a) To what extent does the experience of small businessperson contribute to sales?
- b) To what extent does management of working capital contribute to sale?
- c) To what extent does planning contribute to sales?
- d) To what extent does business philosophy contribute to sales?
- e) To what extent does control growth contribute to sales?

1.5 Objectives of the Study

1. To establish the relationship between sales and experience.
2. To establish the relationship between sales and sound management of working capital.

3. To establish the relationship between sales and planning.
4. To establish the relationship between sales and business philosophy.
5. To establish the relationship between sales and uncontrolled growth.

1.6 Justification and Significance of the Study

This study will be of importance and great assistance to:

1. The government in formulating and enhancing policies aimed at empowering the small business sector
2. The small business sector in empowering their management in an effort to improving their performance.

1.7 Scope of the study

This study embarked on the small businesses in Co-operative Bank branches in Nairobi. This is because small businesses are popular and the government places much emphasis on helping the small businesses. The study looked at the management of small businesses, which determines their performance. The researcher solicited information from the small business bank customers in the various branches of the Co-operative Bank of Kenya.

1.8 Limitation of the Study

This study was limited to small businesses most of which do not keep records making it difficult to cross check the source of information. The next chapter reviews literature related to the study.

1.9 Ethical Considerations

The expected findings would be that sound business management influences performance. It would be expected that there is a direct relationship between sound business management and performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines the concept of SSEs, their nature, their importance, their management and the factors that affect their performance.

2.1.1. Definition of SSEs

According to small business administration, a small business is one that does not dominate its industry, has less than one million in annual sales, and has fewer than 1000 employees. According to David (2004), a small business is distinguished by the nature of the enterprise or the intention of its owner. Watts (1991) defines a small firm indicated by turnover, the number of employees and balance sheet totals. The company Act 1981 defines small and medium-sized companies in the following ways:

Table 2.1: Definition of small and medium size companies

	Small company	Medium sized company
a. Turnover not exceeding	1.4M	700,000
b. Balance sheet total not exceeding	5.75M	2.8M
c. Average number of employees not		
d. Exceeding	50M	250M

Source: Watts (1991) Business and Financial Management.

2.1.2 Nature and Concept of SSEs in Kenya

Engel Mann (1991) points out that most small companies are family businesses. This is true in Kenya as it is in other countries. A family business is a company, which is owned and managed mainly by members of the same family.

David (2004) explains that many businesses are small by their nature. These include 'personal service firms'; such as beauty salons, medical practices, interior designers and freelance writers. Others are small by choice, such as family businesses in which family members actively engaged in operating the enterprise retain ownership. The small businessperson is likely to start a venture that serves a local market with products or services without growth potential (or without the intention of growing).

Many restaurants, contractors, small manufacturers, and local services enterprises are family owned and operated. Small businesses may often be created through legal contracts, such as franchises that limit the size and scope of commercial activity. These include fast-food outlets, print shops, car dealers, distributors, retailers, convenience stores, and hundreds more. Small business is a vital sector of the American economy, and a majority of new and existing jobs exist in small businesses.

Given the significant role played by the rapidly growing MSEs; it is surprising that theoretical and empirical understanding of characteristics of these firms remain somewhat

sketchy. In part, this is because the transition from small to large firms fundamentally changes in character. In reference to Gibb (1988), the differences in administrative structures of very small and very large firms are so great in many ways. It is hard to see that the two specials are of the same genius. We cannot define a caterpillar and then use the same definition for a butterfly. However, the small-scale and the jua kali enterprises comprising up to 10 employees and up to Ksh 10 million in annual turnover, are characterized by easy entry into the operation (start-up) and exit, dependence on local resources and recycled waste, family ownership, employment of simple technologies that are easy to understand and adapt, labour-intensive production techniques, low-cost skills acquired mainly outside the formal school system and ability to operate under highly competitive market conditions (GoK, 1989).

2.1.3 Importance of SSEs

Bolton report, 1971 in the UK, a watershed in the perception of the small firm was highly influential. This was the outcome of the committee of inquiry on small firms, under the chairmanship of J.E. Borton, set up in 1969 by the labour government and reporting to the conservative government in 1971. During its two years of research, it commissioned many reports, which have formed the basis for the large body of work carried out since. It represented the first significant attempt to assess the importance and function of the small firms sector in the UK.

The report recognized that small business made a special contribution to the health of the economy identifying eight important roles:

- a) A productive outlet for enterprising and independent individuals.
- b) The most efficient form of business organization in some industries or markets where the optimum size of production unit or sale outlet is small
- c) Specialist suppliers or sub-contractors to large companies.
- d) Competition to the monopolistic tendencies of large companies.
- e) Innovators of new products, services and processes.
- f) The breeding ground for new industries.
- g) Contributors to the variety of products and services made available to customers in specialized markets, too small for large companies to consider worthwhile.
- h) The seedbed from which tomorrow larger companies will grow, provident entry points for entrepreneurial talent that will become the industrial captains of the future.

According to Kevin and Robert (1993), small firms have, had the dramatic rises in the average level of unemployment after the late 1970s. They have also featured prominently in the economic policy-making and rhetoric of the main political parties in the UK. By 1982, over 100 policy measures designed to help existing small firms and or encourage the creation of new firms were in operation in the UK. At a time of increasing economic difficulties, therefore, the small firm sector has been viewed in some policy-making circles as the main engine of the economic recovery.

2.2 Factors Affecting the Performance of SSEs

Small business owners are particularly vulnerable to risk and failure because they are usually preoccupied with the immediate needs of survival. External conditions such as inflation threaten small businesses. According to previous studies and research, the following have been identified as the factors affecting the performance of SSEs.

2.2.1 Experience of Small Business Persons

Fabricated failure, unfortunately, can usually be traced to an owner's arrogance and simple lack of management acumen. Dun and Bradstreet's (1988), statistics attribute about 52 percent of all business failures to management issues and as much as 90 percent of small business failures are due to incompetent managers. Dun and Bradstreet Corporation (1988), cites the inability of small business managers to control purchasing costs (inventory) to control capacity (production or operating costs), to generate customers (lack of marketing expertise), or manage financial assets (feeble cash control being the primary issue.

Norman and Thomas (1996) point out that small business manager need to have experience in the field they want to enter. For example, if a person wants to open a retail clothing business, she should first work in a retail-clothing store. This will provide practical experience as well as knowledge about the nature of the business. This type of experience can spell the difference between the failure and the success.

2.2.2 Planning

Research shows that less than half of small business owners had formal plans prior to going into business. Many engaged in formal planning soon after starting their businesses, but one third could not recall ever having a formal business plan. Little research exists to determine the extent of planning in failing businesses.

Drucker (1997) supports a strong case for well-developed plans with clear objectives prior to starting any venture. It is nearly impossible to acquire capital, obtain loans, or solidify vendor contracts without documented sales forecasts, financial statements, market analyses, and a clear statement of the business purpose. Plans are guidelines for action, and as businesses evolve, they must be continuously upgraded to reflect changes in the business environment. Too often planning stops after loans and investment capital are acquired.

Many fatal problems emerge from lack of appropriate planning. These include poor business locations, overextended capital requirements, unrealistic sales projections and nightmarish legal entanglements brought about through poorly conceived partnerships and business nature.

According to Banerjee (1963), sales planning is an important function that differentiates the order rule-of-thumb sales management from its modern, scientific form. Planning is necessary to manufacture a product which is marketable, to convey all relevant

information about it to possible customers, to set up an organization which is suitable for the selling work and so on.

2.2.3 Management of Working Capital

Kevin and Robert (1993) point out that the performance of a firm depends on the management of the firm. In addition, the financing of a firm will also depend upon the structure and quality of its management team. For example, if a firm's management team is largely restricted to family members it may find it more difficult to attract venture capital because of the potential difficulties faced by external shareholders in monitoring and controlling the activities of the owner-managers.

David (2004) observes that humble entrepreneurs steeped in experience can successfully manage resources unless they make bad decisions in capital situations. Given the competitive nature of most small businesses and the volatility of profits, business results are quite sensitive to small errors. Several categories of management mistakes are critical for small businesses to avoid.

2.2.4 Investment in Fixed Assets

When starting or expanding a business, it is tempting to buy facilities and equipment rather than lease or sub-contract. Everyone likes to own assets, but greater investment in fixed assets means less flexibility to adjust to adverse conditions.

2.2.5 Inventory Control

This threatens the success of nearly all retail enterprises; inventory is the critical cost factor for most stores. According to Banerjee (1963), inventory control is essential to effective production or financial control. While the best stock is no stock, still inventories are necessary to maintain continuity of production and to meet the demands of customers. Banerjee (1963) points out the following principles of inventory control: Never run out of any material, never have too much of any material in stock and purchase materials in economic lots, that is, in quantities, which are the most economical from the standpoints of both acquisition and possession. He further posits that inventory turnover is an important guide in inventory control. It is a bad policy to wait for ordering replenishments or new purchases till the last pound of material is withdrawn from stock.

David (2004) points out that purchasing too much inventory increases the risk of low turnover and obsolescence. Having too little inventory undermines customer selection and sales. Buying the wrong inventory or buying at the wrong time, evaporates cash. In each scenario, the business ties up high-powered cash in non-earning assets and inventory items can rarely be disposed for more than a fraction of their costs in an emergency. The result is that a business purchase itself falls into insolvency. Purchasing errors and lack of good inventory management are critical problems for any business.

2.2.6 Financial Control

This is a fatal flow for most businesses. Even for those firms with excellent inventory management, good leadership, solid markets and a reasonable capital structure, cash flow problems persist. According to David (2004), many entrepreneurs simply fail to realize that income does not mean 'cash flow', most businesses extend substantial credit to customers and some accounts remain unpaid for months. Assuming no "bad credit" and only a few bounced checks or bogus credit cards, small business managers will have to manage credit policies very closely to assume a positive cash flow, cash problems arise on the "payable" side of the ledger as often as through delayed receipts.

Specifically, most inventory purchases require advanced payments (or at least partial payments on receipts) for young enterprises without a track record, inventory purchases may be strictly on a cash and carry basis. It follows that cash is needed in advance to underwrite sale, cash from sales may be months away, meanwhile, loan payments, utility costs, telephone bills and payroll expenses that occur with monotonous regularity sale, do not occur regularly.

Dun and Bradstreet (1998) point out those financial problems also arise simply through sloppy bookkeeping. It is not surprising that most small business enterprises see their roles "on the firing line," as marketers, engineers, technicians, or merchandisers and in the process, forget to attend to 'back-shop' book.

Norman and Thomas (1996) point out that , sound management is the key to a small business success and effective managers realize that any successful business venture requires proper financial control. The margin for error in managing finances is especially small for most small businesses.

Engel Mann (1991) observes that most small companies are family businesses and because members of most families prefer to keep businesses within the hands of the family, they resent sharing equity (ownership) with outsiders. Even when a family business can benefit from an injection of capital by outsiders (for instance, when the business needs capital for expansion), owners of family businesses will often oppose outside involvement. This denies the business an opportunity to increase its capital. Consequently, family businesses tend to be short of capital at times when such capital is available outside family circles and is badly needed for expansion or for restructuring of the family business inexperience. Dun and Bradstreet (1988) observe that too often small businesspersons launch their enterprises without having sufficient experience to succeed. An individual willing to make the commitment of time and energy to learn about business can overcome this shortcoming.

Experienced managers often make the mistake of assuming that since they are reasonably successful in a salaried position, they can transfer that knowledge to an independent business. Capable individuals start new enterprises within their respective fields but

cannot manage their resources or provide leadership for their employees. Many of these individuals may be 'experienced' but then enterprises have limited value.

2.2.7 Business Philosophy

An unfortunate aspect of many business failures is that too often individual owner's priorities get in the way of sound business practices. In the least obtrusive way, entrepreneurs may not be fully committed to the long hours required to make adventure successful, working for only 40 hours a week is out of the question, particularly for small business retailers. The new venture is a mistress requiring long hours and constant attention, and most retail establishments are expected to remain open daily for 12 to 16 hours a week.

The early stages of starting a business require intensity of effort, sacrifices and the ability to endure at high energy levels without becoming over extended to the point of exhaustion. As the business stabilizes, the challenge is to hire good employees who can manage the businesses in the absence of the owners (David, 2004). Drunker (1977) explains that to be of value to society is to provide a need, useful and a safe product or service. This is the essence of the marketing concept, and it means that business managers will succeed when they can generate satisfied customers by providing quality goods and services. Too many individuals, however, exploit customers to make a fast buck commitment to use the cheapest materials, to pass on marginally safe or defective products and to serve customers. Cheating and deception exist in small businesses just as

in large enterprises. Customers typically have other options for products and services. If they feel cheated, they will spend their money elsewhere.

2.2.8 Controlled growth

Norman and Thomas (1996) observe that growth is a natural, health and desirable part of any business enterprise but it must be planned and controlled. Management experts, Peter Drucker says that, start-up companies can expect to out-grow their capital bases each time sales increase by 40-50 percent. Ideally, expansion should be financed by retail earnings or by capital contributions from the owner but most businesses wind up borrowing at least a portion of the capital and investment. As the business increases in size, complexity and problems tend to increase in proportion and the managements must learn to deal with these. Sometimes entrepreneurs encourage rapid growth when a business outstrips the ability to manage.

2.2.9 Conceptual Framework

From a sample of loanees interviewed, the following was mentioned a lot. Out of the ten interviewed, many of them responded that the poor performance of small-scale businesses is a function of the following independent variables.

1. Experience of small businesspersons.
2. Management of working capital.
3. Business philosophy.
4. Planning.

5. Controlled growth.

This independent variables are presented below.

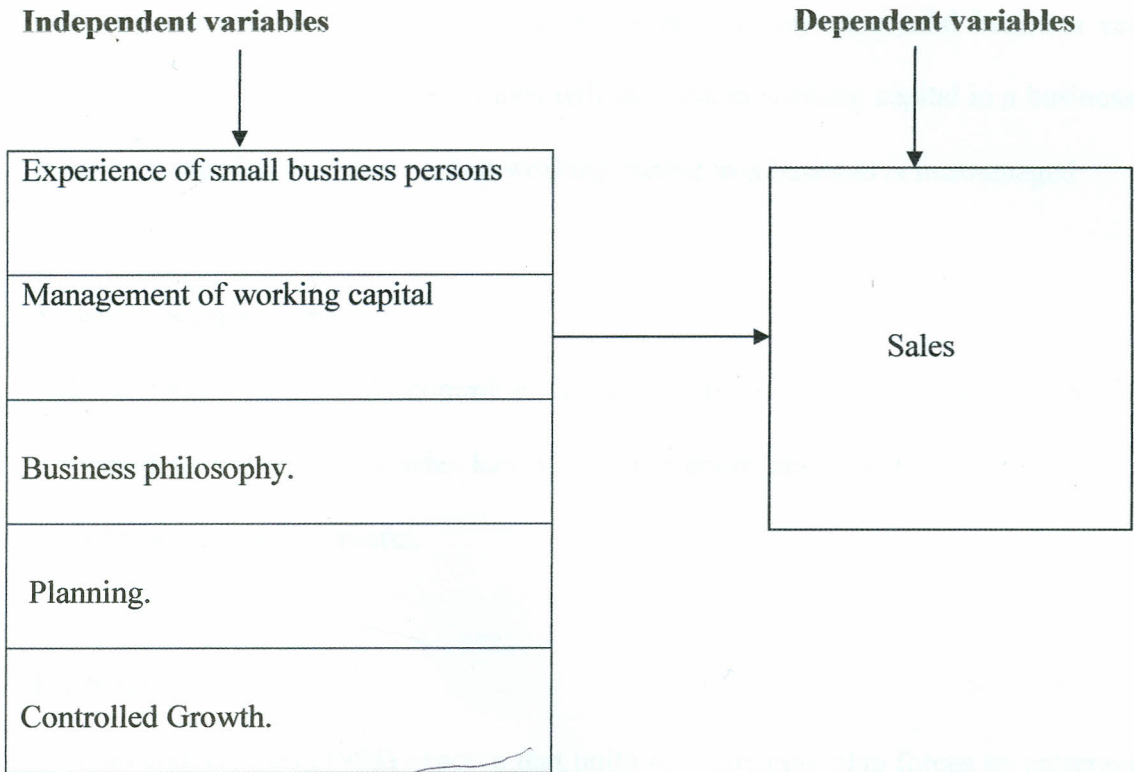


Figure 2.1: Conceptual framework

Source: Researcher

1. Experience of small business person

An experienced small businessperson has the management competence that enables him to make good decisions which lead to performance as compared to inexperienced small businesspersons. In most small businesses, a management without experience or poor decision-making ability is the chief problem of a failing enterprise. An experienced small businessperson makes more sales as compared to inexperienced small businessperson.

2. Management of working capital

Norman and Thomas (1996) point out that sound management is the key to a small company success and effective managers realize that any successful business ventures requires proper financing control. Sales will increase in working capital in a business that is well-managed and decrease when working capital in a business is mismanaged

3. Business philosophy

Entrepreneurs who are fully committed to the long hours of business make high sales as compared to entrepreneurs who lack the commitment and attention required to make business adventure successful.

4. Planning

Norman and Thomas (1996) observe that building a strategic plan forces an entrepreneur to assess realistically the proposed business potential. A business that lacks planning is proven to failure compared to a business that runs under strategic planning. Entrepreneurs with good planning have high sales as compared to those that lack good planning.

5. Controlled growth

According to Norman and Thomas (1996), growth is a natural, health and desirable part of any business enterprise but it must be planned and controlled. When entrepreneurs encourage rapid growth, sometimes the business outstrips their ability to manage hence sales get affected negatively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This study employed descriptive survey in carrying out the research. This is because the study is aimed at providing a phenomenal picture as it occurs, testing the hypothesis and generating the findings that have universal validity. This is in line with what Saunders *et al.*, (2003), who argue that the objective of using descriptive survey is to provide accurate information on the phenomenon studied. According to Ochola (2007), description is the precise measurement and reporting of the characteristics of the phenomena under investigation. The aim of the study was to describe the factors that affect the performance of SSEs.

3.2 Target Population

The population that was studied in this research comprised the small-scale business loanees of the Co-operative Bank Nairobi branches, Kenya. The branches were estimated to have a total of 2,800 small-scale business loanees.

3.3 Sample Size

The sample population for the study were selected from the small-scale businesses in Nairobi area. The population was stratified based on the geographical areas out of which convenience sampling was used. The number of samples were based on the number of

estimated small-scale business loanees per branch as shown by the table below, which shows the estimated distribution of sample size.

Table 2.2 Small-scale business in Nairobi branches

Name of Branch	Estimate No. of Loanees	Sample
Co-op House	150	18
Nairobi Business Centre	250	30
University Way	200	24
Cannon	150	18
Parliament Road	120	15
Kawangware	330	40
Githurai	200	24
Stima Plaza	150	18
Parliament Road	160	19
Ukulima	140	17
Kimathi Street	120	15
Athi River	280	34
Moi Avenue	100	12
Industrial Area	250	30
Westlands	100	12
Wakulima	95	12
Total	2800	338

3.4 Sampling Techniques

The research used disproportionate stratified sampling technique. The significance of this technique is that it saved on cost and loss of precision. The researcher visited the credit officers of Nairobi area branches for assistance in identifying the small-scale business loanees to be interviewed. To develop the sample size of respective strata, the small-scale business loanees were identified. The sample was stratified based on the branches as outlined on the list of the branches above. The subject were then interviewed. The

researcher worked closely with the credit officers. The researcher used questionnaires to elicit data.

3.5 Data Collection, Instruments and Procedures

Data was collected using questionnaires. Issues that were covered were sequenced. The questionnaires were self-administered where customers were given questionnaires to give their answers. The researcher created a good rapport with the respondents to make the study successful. Secondary data was also used to supplement data.

These were collected from the credit officers from the various branches. Also, the researcher interviewed some of the clients to support secondary data. Observation was used to understand what causes failure in performance of small businesses with a view to finding out how the poor performance affects performance of loans in commercial banks of Kenya. The information that was obtained was used to supplement the questionnaires in report writing.

The study employed largely structured and semi-structured questions with statement pertaining to independent variables. Questionnaires were pre-tested before distribution to the respondents. Secondary data was obtained from credit officers of the various branches.

3.6 Data Analysis

Data were analyzed using Statistical Package for Social Sciences (SPSS) computer software to generate frequency distribution tables; chi-square tests were used to compute the significance of the relationship between the independent and dependent variables. Data were then analyzed qualitatively and quantitatively to address research objectives. The next chapter presents data analysis and interpretation.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.0 Introduction

This chapter presents the findings and discussions on the factors that influence the performance of sales by small-scale business loanees.

4.1 Sample Characteristics of the Study Sample

A total of 28 small-scale business loanees took part in this study. Majority of the sampled respondents 20 (71.4%) had post-secondary education qualifications, 7 (25%) secondary, 1 (3.6%) primary and none had non-formal education (Fig. 4.1). These frequencies 2 df were significantly different ($\chi^2 = 20.214, \rho < 0.05$).

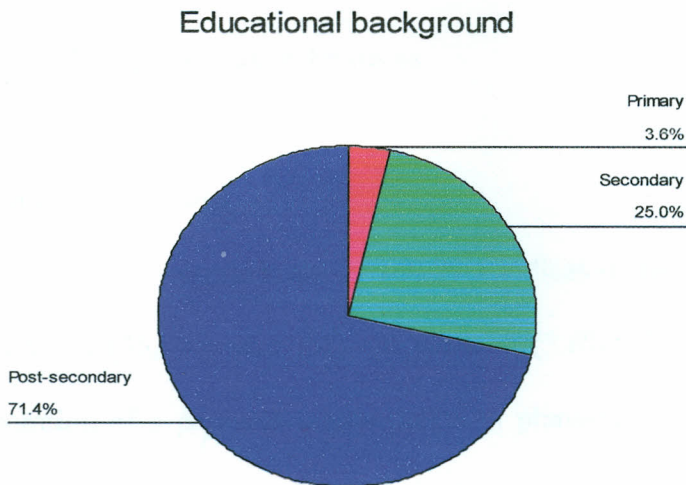


Fig. 4.1: Educational background

Nearly half of the respondents 13 (46.4%) had stayed in the business for between 1 and 2 years, 10 (35.7%) had stayed less than a year and only 5 (17.9%) had stayed for 2 years and above (Fig. 4.2). the length of stay in business 2 df was not significantly different ($\chi^2 = 3.500, p < 0.05$).

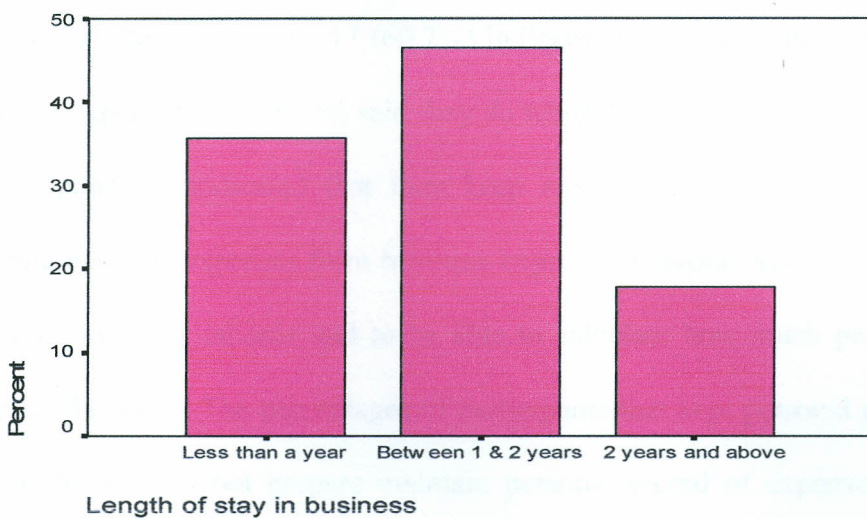


Fig. 4.2: Length of stay in business

4.2 Study's Findings

Majority of the respondents 17 (60.7%) indicated that they do not prepare a personal budget, 10 (35.7%) said they do while 1 (3.6%) did not comment (Table 4.1). The preparation of a personal budget helps in planning, isolates incomes and expenses not related to the business, and guides the business to expend on that which has been earned. The frequencies of participants that prepared and those that did not prepare a personal budget at 2 df differed significantly ($\chi^2 = 13.786, p < 0.05$).

Table 4.1: Do you prepare a personal budget?

Do you prepare a personal budget?	Frequency	Percent
Yes	10	35.7
No	17	60.7
No response	1	3.6
Total	28	100.0

Majority of the respondents 17 (60.7%) indicated that they do not keep records of their personal expenses, 10 (35.7%) said they do while 1 (3.6%) did not comment (Table 4.2). The respondents indicated that they keep records of personal expenses in order to separate personal expenses from business expenses to avoid overspending, keep in check expenses vis-à-vis income and to be able to calculate how much profit is being made from the business. The percentages of participants that kept personal record of expenses and those that did not prepare maintain personal record of expenses at 2 df differed significantly ($\chi^2 = 13.786$, $p < 0.05$).

Table 4.2: Personal record of expenses

Responses	Frequency	Percent
Yes	10	35.7
No	17	60.7
No response	1	3.6
Total	28	100.0

Most of the respondents 17 (60.7%) indicated that they prefer income security less than the chance to earn a potentially high income dependent upon their skills and efforts, 8 (28.6%) indicated otherwise while 3 (10.7%) did not comment (Fig. 4.3). The percentage

of respondents that preferred income security was statistically significant at 2 df compared to those that did not ($\chi^2 = 10.786, p < 0.05$).

Preference of income security

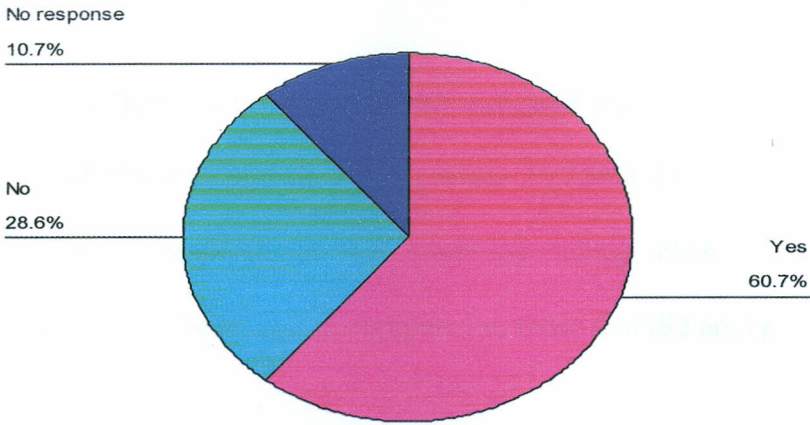


Fig. 4.3: Preference of income security

Majority of the respondents 24 (85.7%) indicated that they are better of competing with other business people than competing with fellow employees for promotion, 2 (7.1%) disagreed and 2 (7.1%) did not comment (Table 4.3). The percentage of respondents that preferred competition with other people for promotion was highly statistically significant at 2 df compared to those that did not ($\chi^2 = 34.571, p < 0.05$).

Table 4.3: Competition with other people for promotion

Responses	Frequency	Percent
Yes	24	85.7
No	2	7.1
No response	2	7.1
Total	28	100.0

More than fifty per cent 15 (53.6%) indicated that they take chances in their business affairs, 11 (39.3%) said they don't while 2 (7.1%) did not comment (Table 4.4). The frequency of respondents that preferred taking chances in business affairs was statistically significant at 2 df compared to those that did not ($\chi^2 = 9.500$, $p < 0.05$).

Table 4.4: Taking chances in business affairs

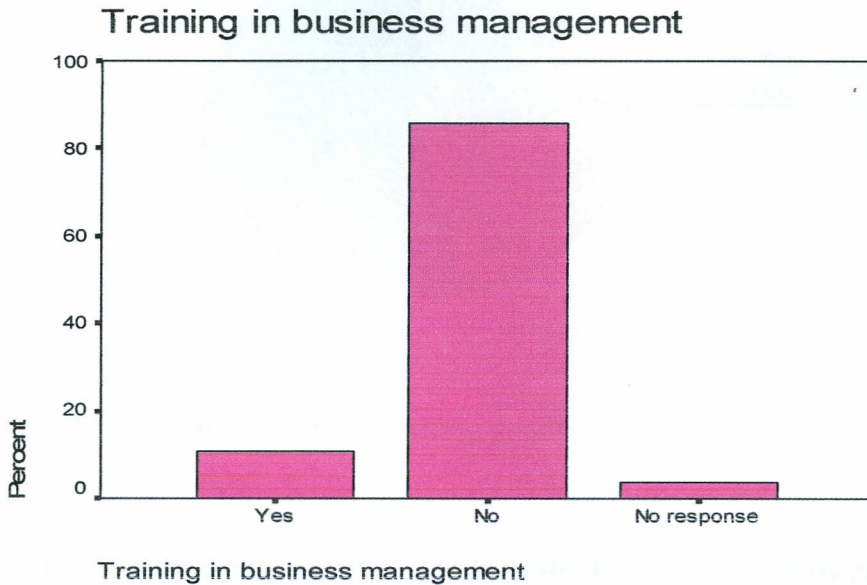
Responses	Frequency	Percent
Yes	15	53.6
No	11	39.3
No response	2	7.1
Total	28	100.0

Most of the respondents 18 (64.3%) indicated that they don't have business experience, 9 (32.1%) said they have while 1 (3.6%) did not comment (Table 4.5). Some of the respondents indicated that they acquired the experience during internship training; family business; while others had traded in various businesses in various countries. The frequency of respondents that had business experience was statistically significant at 2 df compared to those that did not ($\chi^2 = 15.500$, $p < 0.05$).

Table 4.5: Business experience

Responses	Frequency	Percent
Yes	9	32.1
No	18	64.3
No response	1	3.6
Total	28	100.0

Majority of the respondents 24 (85.7%) indicated that they do not have any training in business management, 3 (10.7%) said they possess training and 1 (3.6%) did not comment (Fig. 4.4). The percentage of respondents that had training in business management was statistically significant at 2 df compared to those that did not ($\chi^2 = 34.786, p < 0.05$).

**Fig. 4.4: Training in business management**

Nearly half of the respondents 13 (46.4%) are guided by a credit policy when selling goods, 11 (39.3%) said they don't have such a policy while 4 (14.3%) did not comment (Fig. 4.5). The respondents indicated that they give credit only to credit worth customers and also ensure that the amount of credit does not exceed the maximum sales in a day to avoid over lending and make follow ups to ensure the amount lent is paid back. The percentage of respondents that had credit policy when selling goods was statistically significant at 2 df compared to those that did not ($\chi^2 = 4.786, p < 0.05$).

Credit policy when selling goods

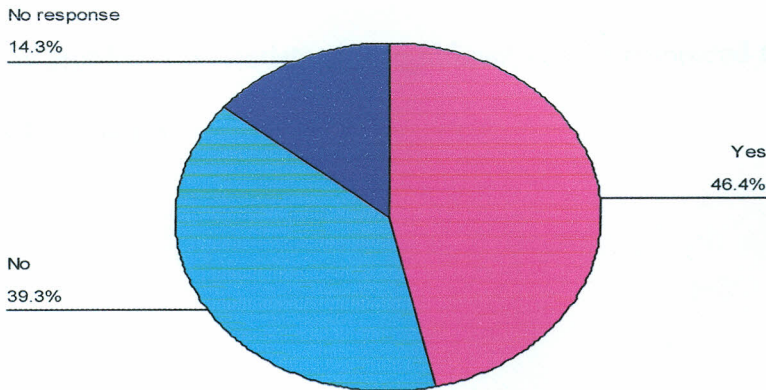
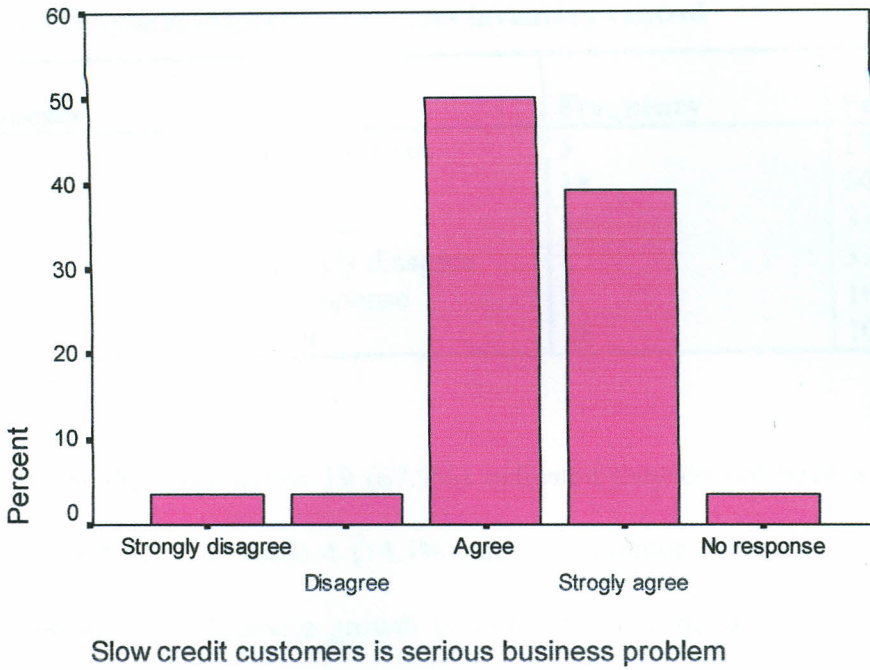


Table 4.5: Credit policy when selling goods

Half of the respondents 14 (50%) agreed with the notion that slow credit customers are a serious business problem, 11 (39.3%) strongly agree, 1 (3.6%) strongly disagree, 1 (3.6%) disagree and 1 (3.6%) did not comment (Table 4.6). The respondents observed that customers who don't pay promptly accumulate debts and may end up not paying the

debts leading to loss of income. Slow credit customers hold up capital for long periods forcing the business person to acquire more credit to run the business. This may lead to financial problems for the business in the long run. They hold business money for long periods forcing the businessperson to get credit from suppliers, reduce stock or get an overdraft. The overdraft is charged interest. There is therefore need to follow up to collect from customers promptly. This ensures that money due to the business is collected in time and inconveniences such as lack of money required to purchase stock for the smooth running of the business are avoided.

The frequency of respondents that supported the notion that slow credit customers is serious problem was statistically significant at 4 df compared to those that did not ($\chi^2 = 29.143, p < 0.05$).



★ Fig. 4.6: Slow credit customers is serious business problem

Majority of the respondents 18 (64.3%) agree with the notion that visual inspection provides effective inventory control, 5 (17.9%) strongly agree, 1 (3.6%) disagree, 1 (3.6%) strongly disagree and 3 (10.7%) did not comment (Table 4.6). It was observed that daily or periodic physical inspection enables the owner to know if any stock is missing, avoid unnecessary shortages and helps keep track of business progress. The percentage of respondents that strongly agree, agree and strongly disagree was statistically significant at 4 df ($\chi^2 = 13.786$, $p < 0.05$).

• **Table 4.6: Physical inspection provides inventory control**

Responses	Frequency	Percent
Strongly agree	5	17.9
Agree	18	64.3
Disagree	1	3.6
Strongly disagree	1	3.6
No response	3	10.7
Total	28	100.0

Majority of the respondents 19 (67.9%) indicated they do not have a growth policy, 5 (17.9%) said they do while 4 (14.3%) did not comment (Table 4.7). Having a growth policy ensures that business growth is within the laid down growth strategies, growth opportunities are only financed using profits realized from existing businesses and the balance from loans, helps measure the strength of the business, reduce risks and avoid over borrowing. The policy also enables the business to have customers that can be effectively serviced. The frequency of respondents that had a growth policy was statistically significant at 2 df compared to those that did not ($\chi^2 = 15.071$, $p < 0.05$).

Table 4.7: Growth policy

Responses	Frequency	Percent
Yes	5	17.9
No	19	67.9
No response	4	14.3
Total	28	100.0

More than half of the respondents 15 (53.6%) indicated that uncontrolled growth is a serious business problem, 6 (21.4%) strongly agree, 1 (3.6%) strongly disagree, 3

(10.7%) disagree while 3 (10.7%) did not comment (Table 4.8). unplanned growth may lead to over expansion i.e. increasing sales without expanding the capital base. Expanding before clearing outstanding loans may lead to problems in the long run. The percentage of respondents that strongly agree, agree, strongly disagree and agree with the notion that uncontrolled growth is a serious business problem was statistically significant at 4 df ($\chi^2 = 22.000, p < 0.05$).

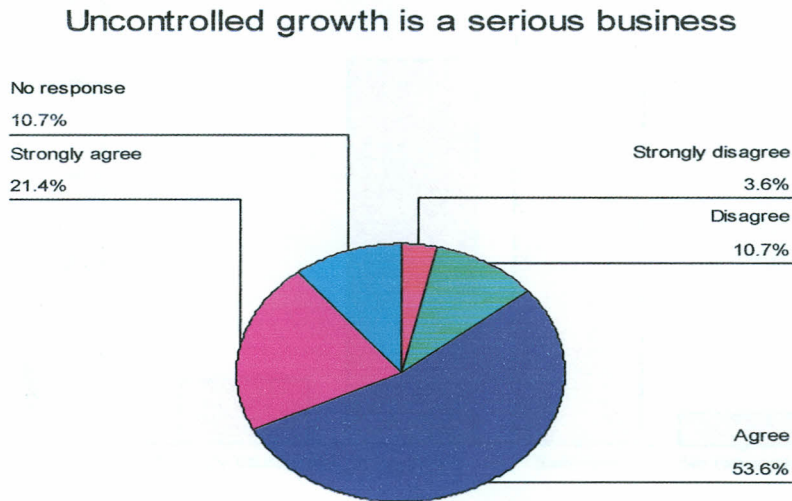
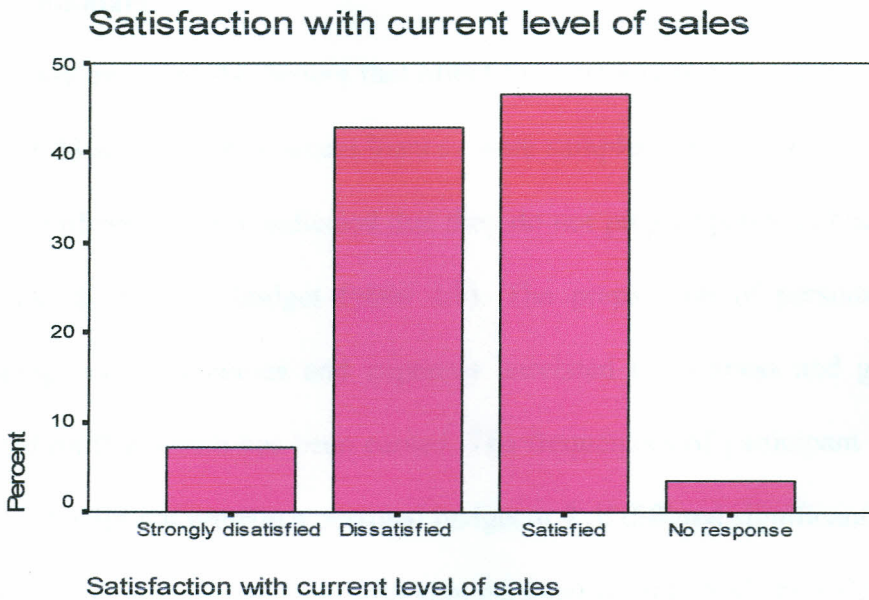


Figure 4.7: Uncontrolled growth is a serious business problem

Almost half of the respondents 13 (46.4%) indicated that they were satisfied with current level of sales, 12 (42.9%) were dissatisfied, 2 (7.1%) were strongly dissatisfied while 1 (3.6%) did not comment (Fig. 4.8). those who were satisfied said this was because their businesses were at steady growth rates and therefore the sales and profits were growing gradually. For others, the level of current sales is not satisfying to enable them to exceed

the cost of goods to make profit. Their feeling was that their businesses were not doing well because of stiff competition, lack of credit opportunities, expensive utilities and high interest rates. The frequency of respondents that were strongly dissatisfied, dissatisfied, satisfied and strongly satisfied with current levels of sales was statistically significant at 3 df compared to those that did not ($\chi^2 = 17.429$, $p < 0.05$).



* 4.8: Satisfaction with current level of sales

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This study investigated the factors that influence the performance of sales by small-scale business loanees. This chapter presents the summary, conclusion and recommendations.

5.1 Summary

The study analysed the factors that affect the performance of small-scale enterprises. A total of 28 small-scale business loanees were sampled and took part in this study. Most (60.7%) of respondents indicated that they do not prepare personal budgets. Only 35.7% said they do prepare budget (table 4.1). The preparation of personal budget help in planning, isolate incomes and expenses unrelated to business and guides business to expend on that which has been earned. The frequencies of participant who prepared and those who did not prepare a personal budget at 2 df differed significantly ($X^2=13.785$, $p<0.05$). The percentage of those who kept personal records study revealed that respondents do not keep records of expenses (table 4.2). They reasoned that they prefer income security less than the chance to earn a potentially high income dependent on their skills and efforts. The percentage on this issues was statistically significant at 2 df compared to those who did not prefer income security ($X^2= 10.70.786$, $p<0.05$).

When respondents were asked about what chances they take in their business affairs, majority (53.6%) said 'Yes' while 39.3% said 'No', only 7.1% did not comment. This

finding shows that majority of respondents prefer taking chances in business affairs (table 4.4)

Training in business management was one of the factor the researcher was interested in investigation. Most of the respondents were trained in business management and the results was significantly significant at df compared to those who had no training ($X^2= 34, 786, P < 0.05$) (figure 4.4).

The study further revealed that half of respondents are guided by credit policy when selling goods and that slow credit customers are a serious problem. The respondents observed that customers who do not pay promptly accumulate debts an may end up paying the debt leading to loss of income

The national that visual inspection provides effective inventory control was agreed by most of the respondents (64.3%).

Most respondents (67.9%) do not have growth policy. Lack of uncontrolled growth is to them a serious problem. Most of them (64.3%) were found to have no business problem.

5.2 Conclusion

The study concluded that;

- i. Preparation of personal budget is necessary if a business in to thrive

- ii. Most of the MSEs do not keep records.
- iii. The micro small-scale entrepreneurs prefer income security and taking chances in business affairs
- iv. The slow credit customers are a serious problem due to lack of credit policy

5.3 Recommendations

- i. The study recommended that micro small-scale entrepreneurs need more training, credit policy, keep personal records and should be given income security.

5.4 Areas for further research

The study focused on micro small-scale enterprises in Nairobi. A similar study should be replicated in other provinces.

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APPENDIX 1

QUESTIONNAIRE FOR SMALL-SCALE BUSINESS LOANEEES

Introduction

The main objective of this study is to find out the factors that influence the performance of sales by small business people. Kindly complete all statements.

PART 1: Personal information.

Please tick () the answer that corresponds to your opinion in each of the following.

1. What is your educational background?
 - (a) Non-formal (b) Primary (c) Secondary (d) Post-secondary.

2. How long have you been in small-scale business?
 - (a) Less than 1 year (b) Between 1 and 2 years (c) Above 2 years.

PART 2: Please tick () in the brackets the answer that corresponds to your opinion in each of the following:

a) Planning

- 3) Do you prepare a personal budget? Yes () No ()

If yes explain.....

- 4) Do you record personal income and expenses? Yes () No ()

If yes explain.....

b) Business philosophy

- 5) Do you really prefer income security less than the chance to earn a potentially

high income dependent upon your own skills and efforts as a business person?

Yes () No ()

6) Would you be better of competing with other business people than competing with fellow employees for promotion? Yes () No ()

7) Do you take chances in your business affairs? Yes () No ()

c) Experience

8) Have you had any business experience in your line of business?

Yes () No ()

If yes, which one.....

9) Have you had any training in small business management?

Yes () No ()

If yes, which one.....

d) Management of resources

10) Do you have a credit policy when selling goods? Yes () No ()

If yes explain.....

11) Slow credit customers are a serious business problem

1. Strongly Disagree 2. Disagree 3. Agree 4. Strongly Agree.

If you strongly agree, give reasons.....

.....If you strongly disagree, give reasons.....

12) Visual inspection can always provide effective inventory control

- 1) Strongly Agree 2) Agree 3) Disagree 4) Strongly Disagree.

If you strongly disagree or agree, please explain.....

.....

e) Controlled Growth.

- 13) Do you have a growth policy? Yes () No. ()

If yes, explain.....

- 14) Uncontrolled growth is a serious business problem.

- 1. Strongly disagree 2. Disagree 3. Agree 4. Strongly agree.

If you strongly agree, give
 reasons.....

If you strongly disagree give
 reasons.....

f) Performance

- 15) How satisfied are you with your current level of sales?

- 1. Strongly Dissatisfied 2. Dissatisfied 3. Satisfied 4. Strongly Satisfied.

If strongly dissatisfied or satisfied, give
 reasons.....

.....

Thank you for your co-operation.

Linah Kioko