INFLUNECE OF KNOWLEDGE MANAGEMENT STRATEGY ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN WAJIR COUNTY, KENYA

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DECLARATION

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

Signature..... Date.....

ABDIRAHMAN NOOR ABDILLE D53/OL/23375/2013

SUPERVISOR'S APPROVAL

I confirm that the work reported in this project has been carried out by the candidate under my supervision

Signature..... Date.....

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DEDICATION

I dedicate this work to my family for their endless support throughout my studies.

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I would like to acknowledge my family members, friends and colleagues whose support has made it possible for me to come this far in my academics.

I also acknowledge my fellow students and lecturers at the Kenyatta University whose wells of knowledge and support through the academic period has made me better.

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OPERATIONAL DEFINITION OF TERMS

Knowledge acquisition- is the process of extracting, structuring and organizing knowledge from one source, usually human experts

Knowledge creation- according to the Nonaka's SECI model is about continuous transfer, combination, and conversion of the different types of knowledge, as users practice, interacts, and learns.

Knowledge implementation- can be considered as transforming knowledge as an idea spreading into new areas of application or as the replacement of an old concept by a new one

Knowledge sharing- is an activity through which knowledge (namely, information, skills, or expertise) is exchanged among people, friends, families, communities (for example, Wikipedia), or organizations.

Knowledge- the pool of information that results from experience and interpretation

SME performance- in the context of this study SME performance is a measure of how well a SME achieves its purpose. This study will measure financial performance based on profitability, debt equity ratio, return on assets and returns on investment.

Strategy- the determination of the long-run goals and objectives of an enterprise and the adoption of the courses of action and the allocation or resource necessary for carrying out these goals

ABSTRACT

The general objective of this study was to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County. Specifically, the study sought to: establish the influence knowledge creation on the financial performance of small and medium enterprises in Wajir County, determine the influence knowledge acquisition on the financial performance of small and medium enterprises in Wajir County, assess the influence of knowledge sharing/transfer on the financial performance of small and medium enterprises in Wajir County and to investigate the influence of knowledge implementation on the financial performance of small and medium enterprises in Wajir County. This study was guided by Resource based view theory, Organizationa learning theory and Knowledge based theory. The target population was 532 SMEs firms in Wajir County. The sample size was 223 SMEs covering different sectors. The study used questionnaires, containing both open ended and closed ended questions to obtain primary data. The research instrument were pretested with a sample of the respondents. The reliability of the instrument was estimated using Cronbach's Alpha coefficient. The research instrument was subjected to content validity test and a pilot test to ensure that the questionnaire was reliable to answer the research questions. This ensured that all facets under the study were covered. For research data analysis and presentation, data was collected, edited and coded to ensure consistence. Descriptive statistics including the means and standard deviations was used to analyze the data and capture the characteristics of the variables under the study. Inferential statistics was used to test the nature and magnitude of the relationship between dependent and independent variables. Simple regression analysis and Pearson's correlations were computed to determine the nature and the strength of the relationship among the variables. The analyzed data was presented in form of tables and charts. The conclusions of this study were informed by the findings based on each study objective and also findings of other similar studies. Each objective was reviewed and a conclusion provided which covers both theory and practice. The findings of the study revealed that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation are positively related with financial performance of SMEs in Wajir County. Knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation were found to be satisfactory variables in explaining financial performance of SMEs in Wajir County as supported by coefficient of determination of 51.2%. This shows that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation explained 5.2% of the financial performance of SMEs in Wajir County. The results of ANOVA showed that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of financial performance of SMEs in Wajir County. This was supported by an F statistic of 49.522. Finally, the overall model indicated that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation are positively and significantly related. Based on the findings the study concluded that knowledge creation, knowledge acquisition knowledge sharing and knowledge implementation affects performance of SMEs firms. The study recommends that SMEs in Wajir County should adopt knowledge management strategy in running their business so that they can gain improved financial performance, knowledge management strategies to be adopted are: knowledge sharing, knowledge acquisition, knowledge creation and knowledge implementation. The study also recommends that the SMEs firms should invest on highly trained employees.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium enterprises have been noted to play a significant role in employment and economic growth of many countries (Liedholm & Mead, 1999). Indeed, in many developing countries as well as developed countries, small and medium enterprises are the focal point of growth and self-employment. In low-income countries, it is estimated that small and medium enterprises account for more than 60 per cent of the GDP and provide over 70 per cent of employment opportunities (Lukacs, 2005).

Knowledge can be considered as the most important strategic resource for ensuring an organization's long-term success and survival, because it is unique and difficult to imitate (Grant, 1996; Kogut & Zander, 1992). Moreover, it is strategically important for the management of technology and innovation. These facts have motivated researchers to center their studies on the internal aspects of businesses as being fundamental to their competitiveness, particularly those of an intangible nature which are linked to organizational knowledge (Nonaka & Takeuchi, 1995). The Knowledge Management Strategy (KMS) of a firm is based on the best possible strategic design to create, maintain, transfer and apply organizational knowledge to reach competitive goals (Liebeskind, 1996).

According to Reinhardt, Bornemann, Pawlowsky & Schneider (2001), knowledge has become one of the most important resources today making traditional factors of production becoming secondary. As organizations became aware of the power of knowledge as the most valuable strategic resource in the knowledge economy, knowledge management became widely

recognized as essential for the success or failure of organizations. Consequently, over the past 15 years, knowledge management has progressed from an emergent concept to an increasingly common function in business organizations (McKeen, Zack & Singh, 2006).

Kiessling, Richey, Meng and Dabic (2009) KM practices means the process of acquiring, storing, understanding, sharing, implementing knowledge, and these actions are taken in the organizational learning process with regard to the culture and strategies of the organizations. On the other hand, Bhatti, & Qureshi (2007) stated that KM means efforts to explore the tacit and explicit knowledge of individuals, groups and organizations and to convert this treasure into organizational assets so that individuals and managers can use it in various levels of decision making. KM is a systematic and integrated management strategy that develops transfers, transmits, stores, and implements knowledge so that it can improve efficiency and effectiveness of the organization's manpower (Dahiya, Gupta & Jain, 2012).

The development of a KMS includes all the operations related to the creation, acquisition, integration, storage, transmission, protection and application of knowledge. KMS is increasingly regarded as an important factor in contributing to a firm's pursuit of competitive advantage over others (Foss, 1999). A firm can also achieve superior performance on the basis of its ability to generate new knowledge and utilize the existing base more effectively and efficiently than its competitors.

KM helps the SMEs have a proper understanding of and insight into their internal experiences and external resources (customers, suppliers, and competitors). KM activities, including knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing and knowledge implementation can help the SMEs achieve necessary capabilities, such as problem

solving, dynamic learning, strategic planning, decision-making, and improving their organizational performance as a whole (Zack, McKeen & Singh, 2009). The main goal of KM is the rapid, effective and innovative utilization of the resources and knowledge assets, infrastructures, processes and technologies in order to promote organizational performance (Darroch, 2005).

1.1.1 Global perspective

The role of Small and Medium Enterprises in job creation and economic growth globally cannot be disputed. The small and medium sized sector is increasingly being recognized as the prime vehicle for economic development in both developed and developing nations (Zacharakis *et al.*, 2002). It is a major source of employment, revenue generation, innovation and technological advancement. Therefore, SMEs have become a major asset in the economy. In most of the countries in the world, the level of economic dependence on small and medium enterprises has increased in recent years.

In Europe and the U.S. an estimated, 81% of the leading organizations are utilizing some form of knowledge management (Grossman, 2006). Consequently, the key question today is no longer whether to manage knowledge, but how to manage it (Lee & Choi, 2003). The contribution of Small and Medium Enterprises (SMEs) around the globe is unquestionable and especially in developing countries, where development in this sector is seen as a key strategy for economic growth, job generation and poverty reduction (Agupusi, 2007). According to Mutezo (2005), Japan's SME sector accounts for the bulk of the country's business establishment, proving vital support for employment, for regional economies and by extension for the day-to-day life of the Japanese people. In Taiwan the SME sector generates 98 percent of the economy's GDP.

In Malaysia, the concept of knowledge management (KM) began to be implemented in the late 1990s when multinational organizations like Microsoft and Hewlett-Packard brought their KM practices, processes and applications to the country. At the same time, the Malaysian government launched its Knowledge Economy Master Plan, which consisted of strategies for transforming Malaysia from a production-based economy to a knowledge-based economy. One strategy proposed in the plan called for the private sector to be the vanguard of the knowledge economy development. The Multimedia Development Corporation (MDeC), Siemens, Bank Negara Malaysia, Nokia Malaysia, and Telekom Malaysia were among the pioneers for the implementation of KM in the country.

1.1.2 Regional perspective

In Sub Saharan Africa countries, the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector. SMEs in developing countries primarily face issues relating to business regulations and restrictions, finance, human resource capabilities and technological capabilities (Mwangi*et al*., 2013). Developing SMEs in developing countries is an important challenge. The main underlying constraints to their growth are lack of finance, lack of human resource capabilities and lack of technological capabilities (Visser, 2013).

In South Africa, the SME sector may be more important because of the country's history, which has left most people poor, and with no formal education or training Abor & Quartey (2010). Abor and Quartey point out the importance of SMEs in South Africa where it is estimated that 91% of the formal business entities are SMEs. They also contribute between 52 to 57% to GDP and provide about 61% of employment.

1.1.3 Kenya

In Kenya, classification of enterprises is primarily by the number of employees engaged by firms. "Micro-enterprises" in the Kenyan context are those with 10 or fewer workers. According to the Micro and Small Enterprise Act (2012), a Small Enterprise is a business that has sales of between Ksh.500,000 – Ksh.1million a year, or has 10–50 people working in it. Those firms that employ 50 to 99 workers are classified as medium-scale enterprises while firms with 100 or more workers are categorized as large-scale enterprises.

Kenya has about 1.6 million registered small and medium sized enterprises constituting about 96 per cent of all business enterprises in the country (Economic Survey, 2009). SMEs represent the largest sector in the economy employing up to 83% Kenya's workforce and contributing up to 18.4% of the country's Gross Domestic Product (GDP) (Economic Survey, 2013). SMEs are therefore an important component of the economy, especially with regard to absorbing a large percentage of the workforce. Adoption of knowledge management strategies to these entities is therefore critical so that they can continue with their economic contribution.

1.1.4 Knowledge management strategies

KM is predominantly becoming an essential and significant component in business strategy (Iyer and Ravindran, 2009) since the value of workers and organisational data have become more critical to the organisation's outcomes and competitiveness. As postulated by Choong and Wong (2010), KM acts as a means by which the organisation's core competencies can be focused and developed. Therefore, KM should not be viewed as just a management 'fad' since researchers like Chen and Hatzakis (2008) interpreted KM as layers of assortment that can be broken down

into norms, practices and, technology that covers most of the aspect of enterprise's core business process in increasing organisational effectiveness.

KM processes: As elucidated by Gold et al. (2001), KM processes is a planned coordination for controlling knowledge in an effectively way. It is important for organisations to follow the steps of KM processes more effectively. To simplify the analysis of KM processes, this study consist of four processes: knowledge creation, knowledge transfer, knowledge sharing and knowledge implementation. Knowledge creation comprises of activities that are associated with the entry of new knowledge into the system, which includes knowledge development, discovery and capture. Hence, the creation of new knowledge in turn generates higher levels of innovative output, which is then manifested in maintaining business performance. The process of conversion involves creation of TK through informal sharing, moving from TK to explicit and enhancing explicit content by combining codified knowledge and using EK to create new TK through thinking and sharing. The most common method of knowledge transfer across companies in all industries is informal interactions between experts and practitioners through sustained mentoring or apprentice relationship, or through brief discussions by phone or video conference. Besides, transfer of knowledge requires an individual or a group to cooperate with each other to distribute knowledge and achieve mutual benefits (Syed-Ikhsan and Rowland, 2004).

Knowledge sharing is all about disseminating and making available what is already known (Tiwana, 2000). For that reason, knowledge sharing is critical to a firm's success as it leads to faster knowledge deployment to various segments of the organisation that can greatly benefit from it (Syed-Ikhsan and Rowland, 2004). Hence, with this in mind, many SMEs wish to share knowledge, as they view co-operation with consumers as vital and without a doubt beneficial.

Lastly, knowledge utilisation includes activities and events connected with the application of knowledge to business processes. Research shows that knowledge utilisation in enterprises results from the mutually dependent influences of organisational processes, control opportunities and control problems that arise through organisational structure. The effective utilisation and application of knowledge are dependent on factors such as clear understanding of roles, opportunities in using it, a need to take action and an awareness of the benefits to be gained from its application (Wong & Aspinwall, 2004).

1.1.5 SMEs in Wajir County

Small and medium enterprises (SMEs) are very important for employment creation and are important sources of economic growth (Tambunan, 2005). Wajir County is a county in the former North Eastern Province of Kenya. Its capital and largest town is Wajir. The county has a population of 661,94 and an area of 55,840.6 km². Wajir County has only one local authority: Wajir county council. The county has four constituencies: Wajir North, Wajir West, Wajir East and Wajir South. Wajir County is divided into fourteen administrative divisions. The number of SMEs in Wajir County are not well established because of the locality (Economic Survey, 2015).

1.1.6 Financial performance

Financial performance assessment in Small and Medium Enterprises (SMEs) is essential to maintain the business viability. Companies with small and medium scale describe their business development in modest financial performance. For example, achieving sales targets, return on capital, profit and growth performance. Generally, few studies measure SMEs financial performance to assess the sales level, profitability, sales growth and profit growth (Subroto,

Husnah, Aisjah & Djumahir, 2013). One solution to overcome the problems affecting SMEs financial performance is through business management of Resource-Based. With these arrangements, company able to create a special competence (St-Pierre & Audet, 2011). Resources Based Value (RBV) theory suggests that resources and capabilities are basis to create a strategy.

Financial performance is a measure of an organization's financial condition or financial outcomes resulting from management decisions and carried out by organization members. The size of financial performance reflects the strategic decisions, operational and financing (Fening, 2012). The analogy, finance is the heart of corporate, business strategy planning must be balanced by financial planning strategy. Any decision or business opportunity that taken should be adjusted according to calculations, weather it really profitable company or not. Significant information in financial statements can be used to assess financial performance during a specific time (Camisón & Villar-López, 2010). It was concluded that financial Performance is part of financial statements which indicates the position of resource companies during the period, and financial statements describing financial company performance 's ability to generate revenue from its available resources. SME financial performance measurement is done by comparing financial ratios. The goal is to see the weaknesses and strengths that have done an SME in running their business operations. Next time they will be able to make repairs and improvements in processing business in an attempt to obtain a good SME (healthy), a measure of perceived financial performance. Studies that measure SMEs financial performance generally consider revenue from sales, probfitability, sales growth and profit growth (Fairoz, Hirobumi & Tanaka, 2010).

1.2 Statement of the Problem

Small and medium enterprises (SMEs) in Wajir County have been experiencing poor performance. The county is not well endowed with natural resources. Residents in urban areas tend to practice small and medium enterprises to meet their needs. However, most of these SMEs collapse after some time because of inadequate human capital, knowledge sharing and knowledge transfer. They SMEs owners lack better ways of managing and growing their businesses (Economic Survey, 2012). This is evidenced by World Bank (2014) which noted that many of the Jua Kali SMEs have collapsed in a span of 5 years. Kenya has about 1.6 million registered small and medium sized enterprises constituting about 96 per cent of all business enterprises in the country (Economic Survey, 2009). SMEs represent the largest sector in the economy employing up to 83% Kenya's workforce and contributing up to 18.4% of the country's Gross Domestic Product (GDP) (Economic Survey, 2013). SMEs are therefore an important component of the economy, especially with regard to absorbing a large percentage of the workforce. Good financial performance of these entities is therefore critical so that they can continue with their economic contribution. However, despite county government efforts of Wajir and the government of Kenya to promote SME activity, not much progress seems to have been achieved, judging by the poor performance of the informal sector (Perry & Pendleton, 2009). Statistics indicate that while a majority of firms in Kenya are small and large, very few are midsized (Economic Survey, 2013). This is famously known as the missing middle.

In addition, the few midsized firms rarely transform to large firms. For an SME to graduate from being small, midsized to large size, a paradigm shift in knowledge management is required. The entrepreneurs of midsized firms may need to adopt a knowledge management strategy that would

break the obstacles that inhibit better financial performance. Marques and Simon (2006) conducted a study on biotechnology and telecommunication SMEs and found a positive relationship between knowledge development, transfer and protection processes with firm performance. This enhances a conceptual gap for the study. Chang and Chuang (2011) also noted that KM processes enhance firm performance in Taiwan manufacturing industries. This presents a geographical gap for this study. Mohrman *et al.* (2003) extended the concept of firm effectiveness measured by Gold *et al.* (2001) by including financial measures, and found a positive relationship between the extents to which firm creates and exploits knowledge with overall firm performances.

None of the studies conducted on knowledge management have focused to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya. In order to cover these two research gaps, the study investigated how knowledge management strategy impacts on the financial performance of small and medium enterprises in Wajir. The study answered the following research question. What is the influence of knowledge creation, acquisition, sharing and implementation on the financial performance of small and medium enterprises in Wajir County?

1.3 General Objective

The main objective of this study was to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya.

1.4.1 Specific Objectives

The following specific objectives guided the study.

a) To establish the influence knowledge creation on the financial performance of small and medium enterprises in Wajir County, Kenya.
b) To determine the influence knowledge acquisition on the financial performance of small and medium enterprises in Wajir County, Kenya.
c) To assess the influence of knowledge sharing on the financial performance of small and medium enterprises in Wajir County, Kenya.
d) To investigate the influence of knowledge implementation on the financial performance of small and medium enterprises in Wajir County, Kenya.

1.4 Research Questions

a) What is the influence of knowledge creation on the financial performance of small and medium enterprises in Wajir County?
b) What is the influence of knowledge acquisition on the financial performance of small and medium enterprises in Wajir County?
c) What is the influence of knowledge sharing on the financial performance of small and medium enterprises in Wajir County?
d) What is the influence of knowledge implementation on the financial performance of small and medium enterprises in Wajir County?

1.5 Justification of the Study

This study is of great value to the Government, researchers and SME owners.

1.5.1 The County Government of Wajir policy makers

Since SMEs are identified as a main channel of development and creation of employment in Wajir County, the county government will find this research significant because it will dissect one of the factors that lead to the failure and low performance among SMEs in the county. Once the influence of knowledge management strategy on financial performance of SMEs is identified, county government policy makers will utilize that information as input which will help to improve the performance of SMEs.

1.5.2 SMEs Owners

SMEs owners will find this study useful as they will have a channel through which they can identify the influence of knowledge management strategy on financial performance. After identification of the influence, the owners and the management of the SMEs will then make appropriate decisions concerning knowledge management to improve financial performance.

1.5.3 Future Researchers

Future researchers will find this study useful for it will provide insight into the influence of knowledge management strategy on the financial performance of SMEs in Wajir County. The academic argument will then be able to go further than just identifying poor financial performance among SME's in the country, but provide insights about better knowledge management strategy and its influence on performance. The researchers will therefore use the findings of this research to advance related argument in future.

1.6 Scope of the Study

This study aimed at determining the influence of knowledge management strategy on the financial performance of the Top SMEs companies in Wajir County. The unit of analysis was the top 532 SMEs companies in Wajir County. The units of observation were top management and owners of the 532 SMEs companies who reports to the overall management. The study was conducted in year 2016.

1.7 Limitation of the Study

The limitations of this study included respondent's unwillingness to be respond to the questions during normal working time. To overcome these, the researcher sought and availed himself at the most convenient time as it was preferred. The researcher also ensured anonymity to encourage the respondents to share their records for research purposes only.

1.8 Delimitation of the study

The study was confined to SMEs in Waji County. Other sectors of the economy that do not fall under this category were excluded from the study.

1.11 Organization of the study

The study was organized into five chapters. Chapter one consisted of background to the study, statement of problem, purpose of study, objectives, research questions, significance of the study, limitations and delimitations, basic assumptions of the study, definition of key terms and organization of the study. Chapter two consisted of literature review related to the study; theoretical review, empirical review and presentation of conceptual framework.

Chapter three included research methodology that was employed in carrying out the study. These included research design, target population, sample size and sampling procedure, research instruments, instruments validity and reliability, data collection procedure and data analysis techniques. Chapter four presented data analysis, interpretations and discussion of data obtained from the respondents. Chapter five consisted of the summary of the findings, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The general objective of this study was to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya.

The chapter aimed at building a theoretical foundation upon which the proposal is based. It also reviewed existing literature based on the specific objectives of the study to establish the knowledge gaps. A conceptual framework was developed to present the relationship between knowledge management strategies on the financial performance of SMEs in Wajir County.

2.2 Theoretical Review

A theoretical review is a collection of interrelated concepts. It guides research to determine what things to measure, and what statistical relationships to look for (Defee *et al.,* 2010). A good research should be grounded in theory (Mentzer *et al.,* 2008). This study is anchored in resource based view theory, organizational learning theory and knowledge based theory. These theories clearly explain the research in line with the topic.

2.2.1 Resource Based views Theory

Resource Based views Theory originated from Penrose's idea (1959) of the firm as a coordinated 'bundle' of resources, tackles the question of a firm's goals and strategic behavior. According to resource-based views, firms perform well and create value when they implement strategies by exploiting their internal resources and capabilities. KM processes which include knowledge

acquisition, conversion and application are used to manage and increase firm's internal resources and improve firm performance.

The knowledge-based views of the firm considers knowledge as the most strategically significant resource of the firm (Grant, 1996) and identify the primary role for the firm in the creation and application of knowledge (Bierly and Daly, 2002).This view considers firm as a 'distributed knowledge systems' composed of knowledge-holding employees, and believes firm's role is to co-ordinate these employees so that they can create knowledge and value for the firm (Spender, 1996). The rationale is that knowledge endows firms with various competencies and capabilities that account for firm performance and competitiveness in the market. Kogut and Zander (1992) suggested that for a firm to remain competitive, it must effectively and efficiently create, locate, capture and share knowledge and expertise in order to apply that knowledge to solve problems and exploit opportunities. Most of the research on the knowledge-based view is process-oriented.

Absorptive capacity is dependent on a firm's level of prior related knowledge. A firm's absorptive capacity could be enhanced through KM processes which allow the firm to acquire, convert and apply existing and new knowledge by adding value to internal resources, and at the same time sustain competitiveness in the market. Since this is resource based theory, the organization can efficiently with discipline utilize available resources a practice that can be replicated by the SMEs firms in Kenya to boost their financial performance. The resources marshaled by Small and Medium Enterprises in Kenya are small and so this theory is very important when budgeting for the available scarce resources.

2.2.2 Organization Learning Theory

Organization learning theory was developed by Scholars Nevis, DiBella, & Goulds' in 1995. Scholars Nevis, DiBella, & Goulds' defined organizational learning as reflecting the skills of creating, acquiring, and transferring knowledge and modifying behavior to reflect new knowledge and insights. Almost all of the published literature reviews on organizational learning agree on the notion that the process of organizational learning starts with acquiring and disseminating information. Daft and Weick (1984) perceived the abilities of firms to interpret information as the main component of organizational learning. Such learning is said to occur when new knowledge is generated (Huber, 1991). This theory is applicable to our study as it emphasizes on the importance of knowledge to the development of SMEs in Kenya. These SMEs can share knowledge acquired through innovation, new methods of marketing increasing their customer base. Such initiatives increase SMEs' sales revenue.

2.2.3 Knowledge Based Theory

This theory was first coined by Grant in 1996. This theory supposes that knowledge management practices such as knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing and knowledge implementation play a critical role in achieving high level productivity, financial and human resource performance and finally improving sustainable competitive advantage (Soderberg & Holden, 2002). This theory helps significantly towards realizing the important role of knowledge management. . This theory is applicable to our study since SMEs can share knowledge acquired through innovation, new methods of marketing increasing their customer base. Such initiatives increase SMEs' sales revenue.

2.3 Empirical Review

Knowledge Management literature suggests that organizational performance and innovative capacity highly depends on organizational knowledge and its management. Knowledge often contains new ideas and hence knowledge creation and sharing is seen as a main requisite and an antecedent of innovation and competitiveness (Darroch & McNaughton, 2003). An organization's performance depends on its ability to utilize its knowledge resources since innovation and competitiveness process involves the acquisition and use of new and existing knowledge (Nonaka, 1994). Increasing the amount and quality of knowledge sharing within organizations creates new insights crucial to creating higher levels of innovation that stimulates better organizational performance. Thus, innovation enables organizations to translate knowledge about ideas and markets into practice. Many studies have been conducted to illustrate the influence of knowledge management strategy on the financial performance.

2.3.1 Knowledge creation and Performance

Gholami, Asli, Shirkouhi and Noruzy (2013) investigated the Influence of Knowledge Management Practices on Organizational Performance: An Empirical Study. The aim of the study was to investigate the influence of knowledge management practices on organizational performance in small and medium enterprises (SMEs) using structural equation modeling (SEM). A number of 282 senior managers from these enterprises were chosen using simple random sampling and the data were analyzed with the structural equation model. The results showed that knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing, and knowledge implementation have significant factor loading on knowledge management; and

also productivity, financial performance, staff performance, innovation, work relationships, and customer satisfaction have significant factor loading on organizational performance.

Hsu (2006) conducted a study on Analysis of Knowledge Creation and its Affecting Factors in the Asynchronous Web-based Learning System. The study by taking asynchronous web-base learning system as an example discussed the relationship of communication mode, e-learning websites design, and knowledge creation. The research design of this study aimed at a structure equation model to test the integrated effects of communication mode and e-learning websites design on knowledge creation. The study research utilized Path analysis to analyze the various variables affecting knowledge creation to see how they affect tactic and explicit knowledge creation. Further, the study used factor analysis method to extract the common factors in different categories in this questionnaire and find out the structural relationship between variables. Considering the mediating effects on knowledge sharing, the study found that the direct effects of Teacher Involvement, Interaction between students and frequency on tacit knowledge creation were significantly positive. In particularly, Interaction between students had relatively negative indirect effects through tacit knowledge sharing. Finally, Website accessibility and usability had significant direct effect on tacit knowledge creation, and had indirect effects on both tacit and explicit knowledge creation through explicit knowledge sharing. In addition, Curriculum Professionalism was negative correlated with explicit knowledge sharing, and it only had indirect effects on knowledge creation.

Choe (2011) conducted a study on the taxonomy of knowledge management strategies in manufacturing firms: Use of target costing and IT infrastructure. Based on the usage levels of target costing systems (TCS) and information technology (IT) infrastructure, this study aimed at developing a framework useful for classifying four types of knowledge management (KM)

strategies in manufacturing firms: explorative, exploitative, mixed and negative. They adopted a multi-methodological approach by mixing both qualitative and quantitative methods. Before developing a framework, through a mini-case study of the H Motor Company in Korea, the paper aimed to investigate the functions of TCS in the management of tacit knowledge. The mini-case study indicated that with the use of TCS, a firm can create, transfer and share diverse kinds of tacit knowledge among employees for the facilitation of process innovation. They also empirically confirmed the four types of KM strategies, and demonstrated the characteristics (such as, size, total sales, age, and knowledge intensity) of the organizations adopting each strategy.

Uhlaner, van Stel, Meijaard, Folkeringa (2007) conducted a study on the relationship between knowledge management, innovation and firm performance: evidence from Dutch SMEs. The article investigated the relationship between knowledge management (KM), innovation and firm performance of smaller firms (less than 100 employees), based on a panel of more than 400 Dutch firms. Regression analyses explain the variations in sales turnover growth from various measures of KM strategies. They distinguished between KM input, throughput and output (or innovation) strategies. They found that KM input strategies related to knowledge acquisition are positively related to sales turnover growth. In contrast, they did not find a relation between KM throughput and KM output (innovation) measures and firm performance. The results emphasized the importance of both knowledge absorption and knowledge creation to the success of innovative efforts in small firms.

2.3.2 Knowledge acquisition and Performance

Gholami, Asli, Shirkouhi and Noruzy (2013) Investigated the Influence of Knowledge Management Practices on Organizational Performance: An Empirical Study. The aim of the study was to investigate the influence of knowledge management practices on organizational performance in small and medium enterprises (SMEs) using structural equation modeling (SEM). A number of 282 senior managers from these enterprises were chosen using simple random sampling and the data were analyzed with the structural equation model. The results showed that knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing, and knowledge implementation have significant factor loading on knowledge management; and also productivity, financial performance, staff performance, innovation, work relationships, and customer satisfaction have significant factor loading on organizational performance.

Mahapa (2013) conducted a study on the Impact of Knowledge Management Strategies on Organizational Performance in the Hospitality Industry of Zimbabwe. The research identified knowledge management strategies and how they impact on organizational performance in the hospitality industry in Zimbabwe. The research made use of the Processes, Intellectual capital, Culture and Strategy (PICS) model which shows a substantial positive relationship between processes, intellectual capital, and knowledge acquisition and knowledge management. The research was based on case studies of 3 hotels in Zimbabwe. Structured interviews were used to elicit information from managerial employees and questionnaires were administered to non-managerial employees. Stratified random sampling was used to select a total 50 participants mainly 15 managerial and 35 non-managerial staff in the research from all the hotels. The findings from this research revealed that the organisations have in place knowledge management

strategies and these lead to development of new ideas, new products and also new ways of doing things that will eventually lead to improve the organizational performance.

Daud (2012) conducted a study on Knowledge management processes in SMES and large firms: A comparative evaluation. The competitiveness of a firm depends on the quality of knowledge they apply to their business processes. Knowledge management (KM) processes are part of the firm business processes. These processes require turning personal knowledge into corporate knowledge that can be widely shared throughout a firm and appropriately applied. This study examines how SMEs and large firms apply KM processes in their daily business activities and analyse the influence of KM processes on their financial and non-financial performance. KM processes comprise knowledge acquisition, conversion and application while firm performance is measured from financial and non-financial perspectives that consist of profit, growth, innovativeness, customer satisfaction, quality and flexibility. Survey questionnaires were distributed to managers at SMEs and large firms. Results showed that the effects of KM processes on financial and non-financial performance differ between SMEs and large firms. Findings from the survey could help these firms to enhance their financial and non-financial performance via appropriate KM processes.

2.3.3 Knowledge sharing and Performance

Wanjiru and Gathenya (2015) conducted a study on the Role of Knowledge Management on Performance of Social Enterprises in Kenya: A Case Study of Nairobi City County. This study investigated the role of knowledge sharing on performance of social enterprises in Kenya. Ten social enterprises in Nairobi were selected for the study. A sample of 90 individuals was interviewed from the 10 organizations. Data was collected using questionnaires, interview guides

and review organizations' document. Data was analyzed through quantitative and qualitative methods. Most social enterprises document share knowledge as indicated by 65% of the respondents who reported that their organizations had established ways of documenting and sharing knowledge.

Maroofi, Nayebi and dehghani (2013) conducted a study on Strategic Knowledge Management, innovation, sharing and Performance. Their aim was to spread knowledge involving a certain subject of the results of knowledge management (KM) strategies on firm's innovation and incorporated in performance. The sampling procedure was based on random sampling, with regards to firm size and activity sector. The study consisted of 195 Iranian organizations and structural equations modeling, results show that both KM strategies influences on innovation and organizational performance directly and indirectly. Thus, one of the main final decisions of the research was that KM was found to have significant mechanism of increasing innovation and incorporated in performance.

Choe (2011) conducted a study on the taxonomy of knowledge management strategies in manufacturing firms: Use of target costing and IT infrastructure. Based on the usage levels of target costing systems (TCS) and information technology (IT) infrastructure, this study aimed at developing a framework useful for classifying four types of knowledge management (KM) strategies in manufacturing firms: explorative, exploitative, mixed and negative. They adopted a multi-methodological approach by mixing both qualitative and quantitative methods. Before developing a framework, through a mini-case study of the H Motor Company in Korea, the paper aimed to investigate the functions of TCS in the management of tacit knowledge. The mini-case study indicated that with the use of TCS, a firm can create, transfer and share diverse kinds of tacit knowledge among employees for the facilitation of process innovation. They also

empirically confirmed the four types of KM strategies, and demonstrated the characteristics (such as, size, total sales, age, and knowledge intensity) of the organizations adopting each strategy.

2.3.4 Knowledge implementation and Performance

Kombo (2015) conducted a study on Knowledge Strategy, Innovation and implementation in Manufacturing Firms in Kenya. The objective of the study was to empirically examine the effect of knowledge strategy on organizational innovation. The study adopted cross-sectional survey research design. The target population comprised of 655 manufacturing firms in Kenya. The results show that knowledge strategy has a positive and significant effect on innovation activities of the firms. It is concluded that higher levels of knowledge strategy implementation would result in higher organizational innovation.

Gómez and Manzanares (2011) conducted a study on Knowledge Management Strategies, Innovation and Firm Performance - an Empirical Study. The study investigated, from the knowledge-based view of the firm, whether there are groups of firms with homogeneous behaviours, as regards to knowledge management strategies. The results show important differences in the conception and implementation of KMS, and significant relationships between the performance of some firms and their efficiency in the transmission and application of existing knowledge.

Daud and Yusoff (2010) conducted a study on Knowledge Management and Firm Performance in SMEs: The Role of Social Capital as a Mediating Variable. The study examined knowledge management, social capital and firm performance through the use of a questionnaire directed to small- and medium-sized enterprises all of them situated within the Multimedia Super Corridor

in the Klang Valley of Malaysia. The results based on 289 usable questionnaires demonstrated that, knowledge management processes (creation, sharing, acquisition and implementation) influence social capital positively; social capital enhances firm performance; and social capital is a mediator between knowledge management processes and firm performance. The research demonstrated that knowledge management processes (creation, sharing, acquisition and implementation) and social capital can be integrated to enhance firm performance.

Javed (2013) conducted a study on the Importance of Knowledge Management and Factors that Influence and Encourage the Implementation of KM in SMEs. The purpose of this study was to investigate the importance of knowledge management and to identify the factors that influence and encourage the implementation of knowledge management in small and medium enterprises (SMEs). Qualitative design has been used in this research study to identify knowledge management factors that influence the knowledge management implementation in small organizations. A case study was used and data was collected through interviews from employees of kunjah online service provider. Properly utilizing these factors make a contribution towards organizational growth.

2.5 Conceptual Framework

Figure 2.1shows the relationship between the dependent and independent variables tested in the study. The dependent variable in this was performance of SMEs. The indicators of performance of the SME sector that was studied herein are sales growth, number of branches and profits. The independent variables to be included in the study are knowledge creation, Acquisition, Transfer, Storage, Sharing and Implementation.

Independent Variables

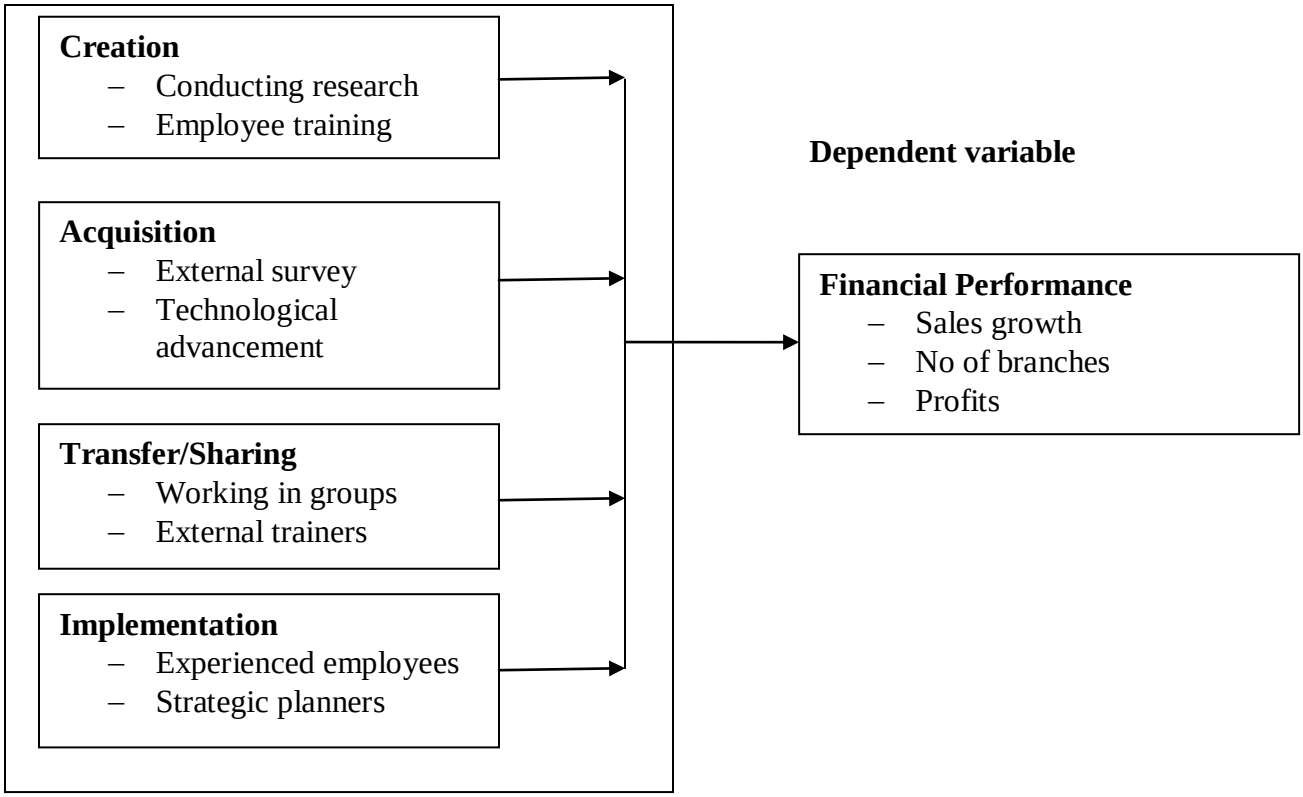

Figure 2.1: Conceptual framework

(Researcher, 2016)

2.6 Summary of Conceptual framework

The conceptual framework summarizes the interaction of the independent variables to bring about the dependent variable. Specifically, knowledge creation, knowledge acquisition, knowledge transfer and knowledge implementation measured in terms of their indicators interact leading to improved financial performance of the SMEs firms in Wajir County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the methodology that was used in this study including the research design, study population, sample design, data collection method, data analysis, research procedures, reliability and validity, and data analysis methods.

3.2 Research Design

The study employed a quantitative research design. A quantitative research is the systematic empirical investigation of observable phenomena via statistical, mathematical or computational techniques (Lisa, 2008). According to Hopkins (2010), quantitative research design is an excellent way of finalizing results and proving or disproving a hypothesis. A quantitative research design are useful for testing the results gained by a series of qualitative experiments, leading to a final answer, and a narrowing down of possible directions for follow up research to take (Hopkins, 2010). Quantitative research design can either be descriptive or experimental. This study is descriptive in nature. According to Orodho and Kombo (2002) a descriptive survey design is used when collecting information about people's attitude, opinions and habits. An explanatory survey design shows how variables relate to each other. Descriptive research gives the researcher the opportunity to use both quantitative and qualitative data in order to find data and characteristics about the population or phenomenon that is being studied (Kothari, 2008).

3.3 Population

3.3.1 Target Population

The total population for this study comprised all the SME's in Wajir County. In Kenya, classification of enterprises is primarily by the number of employees engaged by firms. 'Micro-enterprises' in the Kenyan context are those with 10 or fewer workers. According to the Micro and Small Enterprise Act (2012), a Small Enterprise is a business that has sales of between Ksh.500, 000 – Ksh.1million a year, or has 10–50 people working in it. Those firms that employ 50 to 99 workers are classified as medium-scale enterprises while firms with 100 or more workers are categorized as large-scale enterprises.

The target population for the study was 532 SMEs in Wajir County. The list of these SMEs was obtained from the County records of Wajir registered SMEs. The respondents were the managers and owners of the SMEs. The managers were selected for the study because they had a clear and consistent understanding of the SMEs operations which implies that the results can be generalized without a lot of errors.

The population was heterogeneous since it comprises of SMEs operating in varied industries. These include education, ICT, construction, engineering, health, manufacturing, retail, hospitality, energy, financial, automotive, real estates, services and logistics in Wajir County.

Table 3.1: Target Population

SMEs Category	Target Population
ICT	37
Construction & Engineering	59
Hospitality & Hotel services	87
Manufacturing	19
Automobiles & Logistics	64
Retailing	103
Financial	39
Energy	41
Others	83
Total	**532**

(Researcher, 2016)

3.4 Sampling Design

This is a definite plan or method for obtaining or selecting a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2008). A sample design is the architecture or the strategy used to select study participants or respondents. The rationale is to draw conclusions about the entire population. The sample design is a particularly important aspect of survey methodology, as it provides the basis for sound measurement of economic and social phenomena from surveys of business. It includes the sample frame, sampling techniques and sample size.

3.4.1 Sampling Frame

A sampling frame is a list, directory or index of cases from which a sample can be selected (Kothari, 2008). The sampling frame were the SMEs firms in Wajir County in the year 2011 - 2015. The units of observation were top managers (human resource manager and finance manager) and owners of the SMEs firms. The choice of the firms was based on the availability of financial information and their willingness to participate in the study. The list of the SMEs firms was obtained from the Wajir County offices for the year 2011 - 2015.

3.4.2 Sampling Technique and Sample size

According to Upagade & Shende (2012) sampling technique is a definite plan for obtaining a sample from a given population upon which data is collected from. Fostgate (2012) recommends that a formula should be used for calculating the sample size of a population that has more than 10,000 units. The choice of the formula depends on the margin of error and the proportion chosen. One famous formula is given below.

$$n=Z^2*p*(1-p)/d^2$$

Where:

n = Sample size for large population

Z = Normal distribution Z value score, (1.96)

p = Proportion of units in the sample size possessing the variables under study, where for this study it is set at 50% (0.5)

d = Precision level desired or the significance level which is 0.1 for the study

The substituted values in determining the sample size for a large population are as follows.

$$n = \frac{(1.96)^2(0.5)(0.5)}{(0.1)^2} = 96$$

Hence, according to this formula, the sample size for this study should be 96. However, since the population is less than 10,000, another formula was used to adjust the sample size further.

$$n = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = 384$$

$n_0 = n/ (1+ ((n -1)/ N))$

$n_0 = 384/ (1+ ((384 -1)/ 532))$

$n_{0=}$ 223 Desired sample size.

n= 384 Sample Size when population is more than ten thousand

N= 532 Total population size

The sample size was 223 SMEs in Wajir County.

This study used stratified random sampling technique. Stratified random sampling technique used as it ensures that all the mid-sized companies of different categories are well represented according to the various regions. According to Adejimi, Oyediran and Ogunsanmi (2010), stratified technique is advantageous as it samples each sector (stratum) independently by grouping members of the population into relatively homogeneous sub-groups before sampling. This improves the representativeness of the sample by reducing sampling error.

Table 3.2: Sample Size

SMEs Category	Target Population	Sample Size (42%)
ICT	37	16
Construction & Engineering	59	24
Hospitality & Hotel services	87	37
Manufacturing	19	8
Automobiles & Logistics	64	27
Retailing	103	43
Financial	39	16
Energy	41	17
Others	83	35
Total	**532**	**223**

(Researcher, 2016)

3.5 Data Collection Method

Burns and Grove (2003) define data collection as the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observations, focus group discussion, narratives and case histories. The study used primary data. Primary data refers to information that a researcher gathers from the field Kothari (2008).

Primary data was obtained from the original sources using questionnaires. The questionnaires were administered through drop and pick method to the respondents working in the selected SMEs. For the purposes of the study, the questionnaires were designed to have respondents

ascertain which items were important to them in assessing knowledge management strategy. It w begun with a brief description of the purpose of the study and include a confidentiality note. In sequencing the items, due consideration was given to keep respondents focused on knowledge management strategy.

3.6 Data Collection Procedures

According to Kombo and Tromp (2009), data collection is important in research because it allows for the dissemination of accurate information and development of meaningful programmes. The questionnaires were self-administered. The researcher informed the respondents that the instruments being administered was for research purpose only and the response from the respondents will be kept confidential. The researcher obtained an introductory letter from the University in order to collect data from the field and then personally deliver the questionnaires to the respondents so that they can be filled in and then collect the questionnaires later. The drop and pick later method was used in the study.

The study engaged the help of two research assistants. The research hired proffessional research assistants from a research consultant firm. The research assistants was also briefed and trained by this researcher on the purpose of this study. Specifically, the research assistant was trained on ethics to ensure that they approach respondents in a polite way. In addition, their knowledge about the purpose of the study enabled them guide the respondents appropriately so as to achieve the required information.

3.7 Pilot Testing the Instrument

The researcher carried out a pilot test before the final and actual data collection process. Pilot studies are important in detecting ambiguity, evaluating the type of answers given to determine

whether they help the researcher to achieve the laid down objectives (Robson, 2007). Mugenda & Mugenda (2003) reported that a pre-test sample should be between 1% and 10% depending on the sample size. This study used a pre-test sample of 22 respondents. The respondents who participated in the pilot study were excluded in the final study. The findings from the pilot study were used to refine the questionnaire for final administration.

3.7.1 Reliability Tests

Reliability is the degree at which results obtained from a survey is consistent after interpreted number of times. Reliability in every research gives the same results on frequent assessment from and experiment or test by using similar methodology (Joppe, 2008). Reliability in research is influenced by the degree of error (Creswell, 2008). As random error increases, reliability decreases (Mugenda, 2013). In order for results to be usable in further research steps they must be reliable and valid. The questionnaires were subjected to overall reliability analysis of internal consistency. This was measured using Cronbach alpha as a coefficient of internal consistency. To ensure reliability, the questionnaires were pre-tested on a pilot scale through selected respondents outside the study area. The objectives of pre-testing allowed for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the questionnaires before administering them to the actual respondents.

3.7.2 Validity Tests

Validity is the degree to which the test measures what it is supposed to measure. The questionnaire should be in line with the definition used in the research. When a measure is reliable and valid the results can be correctly utilized and understood (Elstak, 2013). Validity of the instrument was established by the research supervisor reviewing the items and took care of

construct validity and content validity. For construct validity, the questionnaire is divided into several sections to ensure that each section assessed information for a specific objective, and also ensured that the same closely ties to the conceptual framework for this study. To ensure content validity, the questionnaires were subjected to thorough examination by two randomly selected SMEs company owners. They were asked to evaluate the statements in the questionnaire for relevance and whether they were meaningful, clear and loaded of offensive. On the basis of the evaluation, the instrument was adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced.

3.8 Data Analysis Methods

According to Zikmund *et al.* (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. This involves coding, editing, data entry, and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis will be guided by the aims and objectives of the research and the measurement of the data collected.

After quantitative data is obtained through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keyed into statistical package for social sciences (SPSS) version 20.0 for analysis. The choice of SPSS to other statistical software is that it is user friendly. The statistics generated were descriptive statistics and inferential statistics. The specific descriptive statistics include percentages and frequencies while the inferential statistics include a multiple linear regression model. Microsoft excel was

used to complement SPSS especially in production of diagrams and tables. Descriptive statistics including the means and standard deviations was used to analyze the data and capture the characteristics of the variables under the study. Inferential statistics was used to test the nature and magnitude of the relationship between dependent and independent variables. Simple regression analysis and Pearson's correlations were computed to determine the nature and the strength of the relationship among the variables.

The multiple linear regression models was used to measure the relationship between the independent variables and the dependent variable which are explained in the model. The regression model helps to explain the magnitude and direction of relationship between the variables of the study through the use of coefficients like the correlation, coefficient of determination and the level of significance.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y = Financial Performance of SMEs

X_1 = Knowledge creation

X_2 = Knowledge acquisition

X_3 = Knowledge sharing

X_4 = Knowledge implementation

In the model *a* is the constant term while the coefficient β_1 to $\beta 4$ are used to measure the sensitivity of the dependent variable (Y) to unit change in the independent variable (X_1, X_2,

$X_3, X_4,$). ε is the error term which captures the unexplained variations in the model. The results will be presented in form of tables and pie charts.

3.9 Ethical Considerations

Ethical considerations relate to the moral standards that the study considered in all research methods in all stages of the research process. The researcher got consent from all respondents before handing over the questionnaire. The identity of people from whom information was obtained in the course of the study was kept strictly confidential. The nature and purpose of the research was explained to the respondents and were assured that the data collected will not be used for other purpose other than academic research. The participants were also assured of anonymity; and their ability to withdraw from the study at was assured.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter provided the presentation of the findings and discussions. The findings were presented in line with the study objectives. Analysis of descriptive statistics and inferential statistics was conducted and the results presented in form of tables and figures.

4.2 Response Rate

The number of questionnaires that were administered was 223. A total of 197 questionnaires were properly filled and returned. The results for the response rate are as presented in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	194	86.5
Unreturned	29	13.5
Total	**223**	**100%**

The results in Table 4.1 indicated an overall successful response rate of 86.5%. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is excellent. Based on these assertions from renowned scholars, 86.5% response rate was very good for the study.

4.3 Demographic Characteristics

This section consists of information that describes basic characteristics of the respondents such as gender of the respondent, level of education, position and work experience.

4.3.1 Gender of the respondents

The respondents were asked to indicate their gender. The results are presented in Figure 4.1.

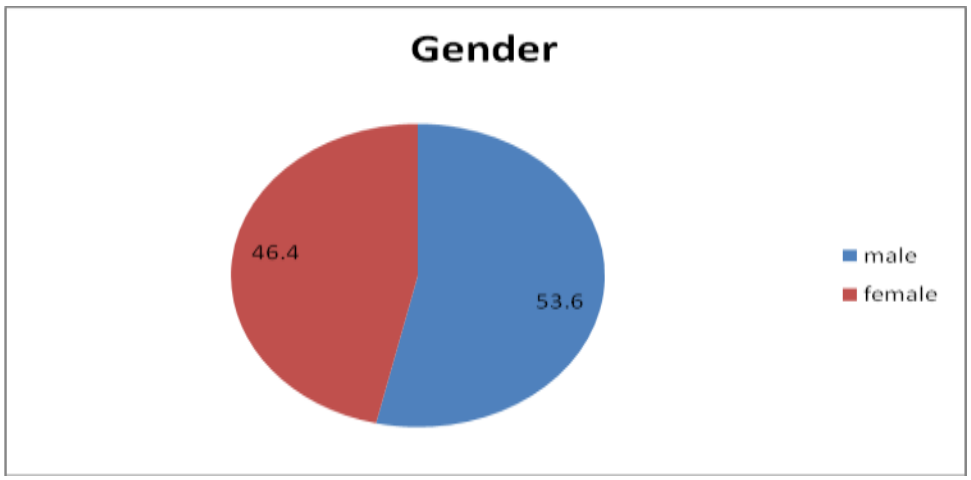

Figure 4.1 Gender

Results in Figure 4.1 indicate that majority of the respondents, 53.6%, were males while 46.4% were females. This implies that there is still gender disparity among employees working in Wajir County.

4.3.2 Education level of the respondents

Respondents were asked to indicate their level of education. The results are presented in Figure 4.2.

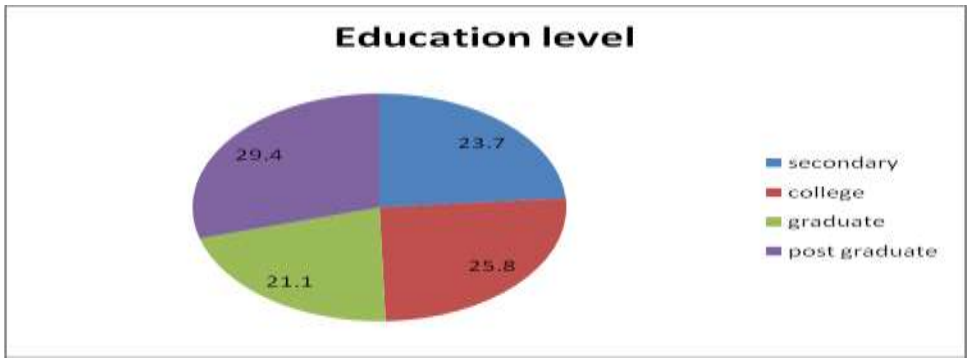

Figure 4.2 Education level

Study findings indicated that majority; (29.4%), of the respondents had post graduate level of education, and 25.8% of the respondents had diploma level of education. Another 21.1% had under graduate level 23.7% certificate as their highest level of education. This implies that majority of workers in Wajir County have post graduate degrees.

4.3.3 Period of service of the respondents

The respondents were asked to indicate the duration they have been working in Wajir County. The results are presented in Figure 4.3.

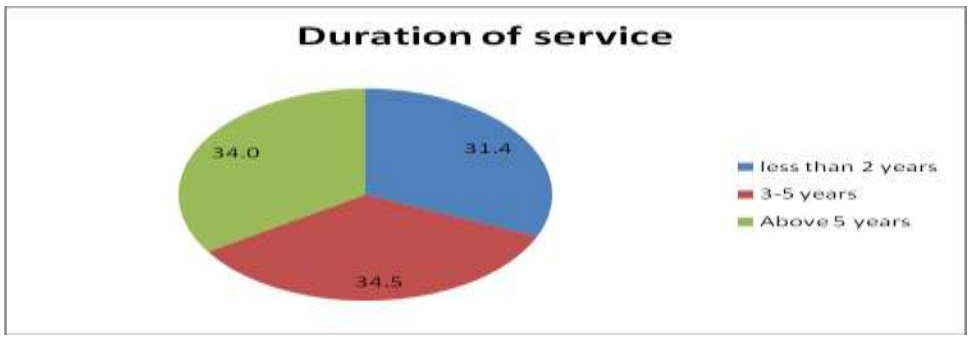

Figure 4.3 Duration of service

Majority 34.5% of the respondents indicated that they have been working for the period of 3-5years, 34% for a period of above 5 years, and 31.4% for less than 2 years. This implies that Smes are increasing at a higher rate.

4.3.4 Position held by respondents

The respondents were asked to indicate their position in the company. The results are presented in Figure 4.4.

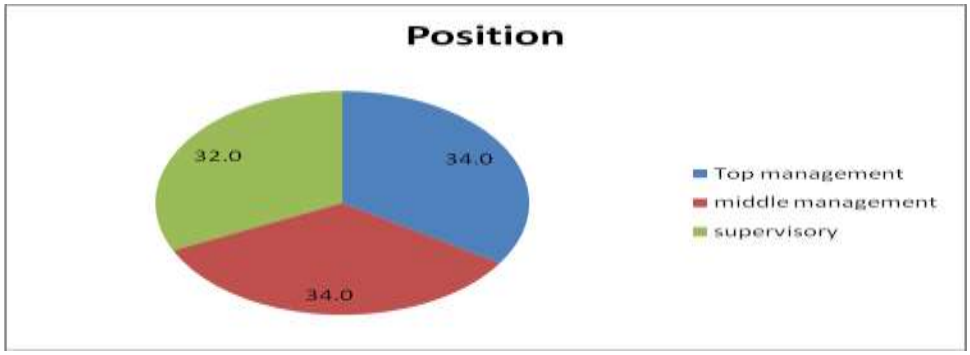

Figure 4.3 Position held

Majority 34 % of the respondents indicated that they are top managers and also 34% are middle managers, 32% of the respondents are supervisors. This implies that Smes are growing at a higher rate creating need for personnel's with management skills.

4.4 Descriptive statistics

4.4.1 Knowledge creation and financial performance SMEs

The first objective was to establish the effect Knowledge creation on financial performance of small and medium enterprises in Wajir County. The respondents were asked to respond on statements relating to knowledge creation. The result findings were shown in table 4.2.

Table 4.2: Knowledge creation and financial performance SMEs

Statement	strongly disagree	Disagree	moderate agree	agree	strongly agree	Mean	S d
Knowledge enables creation of new products and services to meet customer need.	5.2%	17.5%	21.1%	27.3%	28.9%	3.6	1.2
Our SMEs are encouraged to innovate for better services	4.1%	11.3%	23.7%	28.9%	32.0%	3.7	1.1
We use knowledge created to utilize available resources efficiently	1.5%	14.4%	26.3%	25.8%	32.0%	3.7	1.1
Our SME firm adopt knowledge creation to obtain competitive advantage	0.0%	0.0%	21.1%	44.8%	34.0%	4.1	0.7

Results in table 4.2 revealed that majority of the respondents who were 77.3 % agreed that knowledge enables creation of new products and services to meet customers need which leads to improved financial performance of small and medium enterprises. The results also showed that majority of the respondents who were 84.6 % agreed Smes are innovating their products and services which leads to improved financial performance. The results also showed that majority of the respondents who were 84.1% of the respondents agreed that knowledge created helps Smse

to utilize available resources efficiently. The results also show that 99.9% of the respondents agreed that Smes adopt education creation as a competitive advantage.

4.4.2 Knowledge acquisition and financial performance of SMEs

This objective was to establish the effect Knowledge acquisition on financial performance of small and medium enterprises in Wajir County. The respondents were asked to respond on statements relating to knowledge acquisition. The result findings were shown in table 4.3.

Table 4.3 Knowledge acquisition and financial performance of SMEs

Statement	strongly disagree	Disagree	moderate agree	agree	strongly agree	Mean	Sd
Our SME conducts external survey to acquire more knowledge	5.7%	10.8%	14.4%	29.9%	39.2%	3.9	1.2
Our SMEs sent our employees for external training	12.9%	11.9%	12.9%	31.4%	30.9%	3.6	1.4
Our SME puts great importance in hiring skilled employees	9.3%	10.8%	16.0%	31.4%	32.5%	3.7	1.3
We put great importance on technological advancement	8.2%	11.3%	12.4%	33.5%	34.5%	3.7	1.3

Results in table 4.3 revealed that majority of the respondents who were 83.5% agreed that conducting external survey to county. The results also showed that majority of the respondents who were 75.2% agreed that they have arrangements for external trainings for their employees. The results also showed that majority of the respondents who were 79.9% of the respondents agreed

that they employ skilled employees. The results also show that 80.4 % of the respondents agreed that they consider advancement in technology as vital to the organization.

4.4.3 Knowledge sharing and financial performance of SMEs

This objective was to establish the effect Knowledge sharing on financial performance of small and medium enterprises in Wajir County. The respondents were asked to respond on statements relating to knowledge sharing. The result findings were shown in table 4.4.

Table 4.4 Knowledge sharing and financial performance of SMEs

Statement	strongly disagree	Disagree	moderate agree	agree	strongly agree	Mean	Sd
Our SME empresses knowledge sharing as a key driver to innovation	7.7%	10.8%	17.0%	32.0%	32.5%	3.7	1.2
Our SME firm organizes meetings to enable sharing of knowledge	9.8%	10.3%	15.5%	24.7%	39.7%	3.7	1.3
External experts are invited to share knowledge to our employees	5.2%	7.7%	12.9%	35.6%	38.7%	3.9	1.1
To achieve technological advantage, our SME encourage knowledge sharing on current issues	4.6%	4.1%	13.9%	35.6%	41.8%	4.1	1.1

Results in table 4.4 revealed that majority of the respondents who were 81.5% agreed that knowledge sharing is the key driver to innovation. The results also showed that majority of the respondents who were 79.9% agreed that Smes firms organize meetings to share knowledge. The results also showed that majority of the respondents 87.2% agreed that they invite external

experts to share knowledge with their employees. The results also show that 91.3% of the respondents agreed that in order to achieve technological advantage, knowledge sharing on current issues is important.

4.4.4 Knowledge implementation and financial performance SMEs

This objective was to establish the effect Knowledge implementation on financial performance of small and medium enterprises in Wajir County. The respondents were asked to respond on statements relating to knowledge implementation. The result findings were shown in table 4.5.

Table 4.5: Knowledge implementation and financial performance SMEs

Statement	strongly disagree	Disagree	moderate agree	agree	strongly agree	Mean	Sd
We address the problem of poor strategic business planning through effective knowledge implementation	4.6%	7.2%	12.4%	36.1%	39.7%	4.0	1.1
In order to make rational decisions regarding our SME knowledge implementation is key driver	6.7%	6.7%	9.3%	35.6%	41.8%	4.0	1.2
Our SMEs business has a panel of experts in implementing knowledge management practices	5.2%	10.3%	19.1%	26.8%	38.7%	3.8	1.2
Our SME involves all departments when implementing KM	6.2%	9.3%	13.9%	32.0%	38.7%	3.9	1.2

Results in table 4.5 revealed that majority of the respondents who were 88.2% agreed that knowledge implantation leads to improved financial performance. The results also showed that majority of the respondents who were 86.7% agreed that knowledge implementation is crucial in order to make rational decisions .Further research shows that 84.7 % of the respondents agreed that they have panel of experts in implementing knowledge management system. The results also indicate that 84.6% of the respondents agreed that they involve all departments when it comes to knowledge management implementation.

4.4.5 Financial performance of small and medium enterprises

Respondents were asked to indicate to what extent knowledge influence performance.

Result finding were presented in figure 4.6 below.

Table 4.6: Financial performance of small and medium enterprises

Statement	strongly disagree	Disagree	moderate agree	agree	strongly agree	Mean	Sd
The SME has experienced an improvement in profitability	6.2%	9.8%	13.4%	25.8%	44.8%	3.9	1.2
The SME has experienced an improvement in total Return on Assets (ROA)	5.7%	11.3%	10.3%	28.4%	44.3%	3.9	1.2
The SME has experienced an improvement in total Return on Investment (ROI)	6.2%	8.8%	18.6%	30.9%	35.6%	3.8	1.2
The SME has experienced an improvement in Debt Equity Ratio	8.2%	7.7%	12.9%	22.7%	48.5%	4.0	1.3

Majority of the respondents agreed that education has led to growth of Smes in wajir County in terms of ROI, RAO, Debt equity ratio and in terms of profitability.

4.5 Inferential statistics

4.5.1 Correlation matrix

The study sought to establish the association among the study variables. The results are as presented in Table 4.6.

Table 4.6: Correlation matrix

		Financial performance	**Knowledge creation**	**Knowledge acquisatio**	**Knowledge sharing**	**Knowledge implementation**
Financial performance	Pearson Correlation	1	.450**	.559**	.438**	.421**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
Knowledge creation	Pearson Correlation	.450**	1	.274**	.165*	.162*
	Sig. (2-tailed)	0.000		0.000	0.022	0.024
Knowledge acquisition	Pearson Correlation	.559**	.274**	1	.273**	.376**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
Knowledge sharing	Pearson Correlation	.438**	.165*	.273**	1	.206**
	Sig. (2-tailed)	0.000	0.022	0.000		0.004
Knowledge implementation	Pearson Correlation	.421**	.162*	.376**	.206**	1
	Sig. (2-tailed)	0.000	0.024	0.000	0.004	

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.6 indicated that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation are positively related with financial performance of SMEs in Wajir County. Results indicated that knowledge creation (r= .450, p=0.000), knowledge acquisition (.559, p=0.000), knowledge sharing (r= .438, p=0.000) and knowledge implementation (r= .421, p=0.000) are significantly and positively related to financial performance of SMEs in Wajir County. An increase in either of the above variable leads to increased financial performance of SMEs. The results agree with that study of Hsu (2006) conducted a study on analysis of knowledge creation which established that knowledge creation affects the performance of Web-based Learning System. The results also agree with that of Gholami, Asli, Nazari-Shirkouhi and Noruzy (2013) that knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing, and knowledge implementation have significant factor loading on knowledge management; and also productivity, financial performance, staff performance, innovation, work relationships, and customer satisfaction have significant factor loading on organizational performance. The results are also in agreement with the study by Pai and Chang (2013) that Knowledge sharing and absorption are required to achieve and sustain competitive advantage. The results also agree with that of Akpotu and Lebari (2014) who examined the relationship between knowledge acquisition practices and performance of administrative employees in educational institutions in SouthSouth Nigeria and found a significant relationship between knowledge acquisition and administrative employee performance.

4.5.2 Model summary

The results presented in table 4.7 presented the fitness of model used of the regression model in explaining the study phenomena. Knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation were found to be satisfactory variables in explaining financial performance of SMEs in Wajir County. This is supported by coefficient of determination also known as the R square of 51.2%.

Table 4.7: Model summary

Indicator	Coefficient
R	0.715
R Square	0.512

This means that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation explains 51.2% of the variations in the dependent variable which is financial performance of SMEs in Wajir County. This means that we have other factors which affect financial performance of SMEs which are not included in the model. The results further indicate that the model applied to link the relationship of the variables was satisfactory. The study agree with Ghalomi et al. (2012) who examined 282 senior managers of SMEs using SEM analysis and found that knowledge acquisition, storage, creation, sharing, and implementation are positively related to organizational performance. The study also congers with that of Wanjiru and Gathenya (2015) who conducted a study on the Role of Knowledge Management on Performance of Social Enterprises in Kenya and found that documenting and sharing knowledge was important for the bank.

4.5.3 Analysis of Variance

Table 4.8 provides the results on the analysis of the variance (ANOVA). This was to establish whether there was any significant difference among the variables means. Independent variables were explored to determine whether their existed any significance difference with the dependent variable (financial performance of SMEs in Wajir County).

Table 4.8: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	46.285	4	11.571	49.522	.000
Residual	44.161	189	0.234		
Total	**90.446**	**193**			

The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of financial performance of SMEs in Wajir County. The results agree with that of Al-Qarioti (2015) that Knowledge management components are highly related to organizational performance. The results also conger with that of Valmohammadi and Ahmadi's study (2015) who examined the impact of knowledge management practices on organizational performance and found that KM practices positively and meaningfully impact overall organizational performance. This was supported by an F statistic of 49.522 and the reported p value (0.000) which was less than the conventional 0.05 significance level. Therefore, the result findings from the ANOVA showed that there exist a significant difference between the independent variables and the dependent variable.

4.5.4 Regression of Coefficients

Regression of coefficients results in table 4.9 shows that knowledge creation, knowledge acquisition, knowledge sharing and knowledge implementation are positively and significantly related. Knowledge creation (r=0.314, p=0. 000), knowledge acquisition and financial performance of SMEs are also significantly related (r=0.320, p=0.000). The table further indicates that Knowledge sharing and financial performance of SMEs are positively and significantly related (r=0.254, p=0.000), knowledge implementation and financial performance of SMEs are also positive and significantly related (r=0.182, p=0.000). Song (2008) showed that knowledge creation practices were significantly related to organizational improvement.

Table 4.9: Regressions of coefficients

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	-0.312	0.244		-1.281	0.202
Knowledge creation	0.314	0.059	0.284	5.331	0.000
Knowledge acquisition	0.320	0.055	0.337	5.867	0.000
Knowledge sharing	0.254	0.052	0.26	4.859	0.000
Knowledge implementation	0.182	0.052	0.195	3.518	0.001

Thus, the optimal model for the study is;

Financial performance of SMEs in Wajir County = -.312+ 0.314Knowledge creation+ 0.320 Knowledge acquisition +0.254 Knowledge sharing+0.182 Knowledge implementation

This overall model shows that knowledge creation will increase financial performance of SMEs by 0.314units. Knowledge acquisition will increase the financial performance of SMEs in Wajir County by 0.320 units; knowledge sharing will increase financial performance of SMEs by 0.254 units while knowledge implementation will increase financial performance of SMEs in Wajir County by .182 units. Finally, the negative constant (-.312) represents other factors which can reduce the financial performance of SMEs which are not included in the model. Effective customer KM greatly assists organizations to build sound customer relationships that will

significantly impact on customer satisfaction and overall performance (Abdullateef et al., 2010). The study also congers with that of Ahmed, Fiaz and Shoaib (2015) that knowledge management activities that encompases knowledge acquisition, knowledge conversion, knowledge application and knowledge protection results in provision of quality services to customers, high customer satisfaction, efficiency in resource utilization, more profits and overall improved organizational performance. The results also conger with Omotayo (2015) that creating, managing, sharing and utilizing knowledge effectively is vital for organisations to take full advantage of the value of knowledge. However, the study by Uhlaner, van Stel, Meijaard and Folkeringa (2007) did not agree with these findings who did not find any relation between KM and firm performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addressed the summary of the findings, the conclusions and the recommendations. This was done in line with the objectives of the study.

5.2 Summary of the study

The purpose of this study was to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya. The study objectives were; establish the influence knowledge creation on the financial performance of small and medium enterprises in Wajir County, determine the influence knowledge acquisition on the financial performance of small and medium enterprises in Wajir County, assess the influence of knowledge sharing on the financial performance of small and medium enterprises in Wajir County and to investigate the influence of knowledge implementation on the financial performance of small and medium enterprises in Wajir County.

The first objective was to establish the influence of knowledge creation on the financial performance of small and medium enterprises in Wajir County (r=0.314, p=0. 000). Regression of coefficients results showed that knowledge creation and SMEs financial performance were positively and significantly related.

The second objective was to determine the effect of knowledge acquisition on the financial performance of small and medium enterprises in Wajir County. Result findings revealed that that knowledge acquisition was positively related with financial performance of small and medium

enterprises in Wajir County (r=0.320, p=0.000). Regression of coefficients results also showed knowledge acquisition on the financial performance of small and medium enterprises in Wajir County were positively and significantly related.

The third objective was to understand the influence of knowledge sharing/transfer on the financial performance of small and medium enterprises in Wajir County (r=0.254, p=0.000). Regression of coefficients results also showed that knowledge sharing and financial performance of small and medium enterprises in Wajir County were positively and significantly related

The fourth objective was to establish the influence of knowledge implementation on the financial performance of small and medium enterprises in Wajir County(r=0.182, p=0.000) Regression of coefficients results also showed that knowledge implementation and financial performance of small and medium enterprises in Wajir County were positively and significantly related

5.3 Conclusions

The conclusions of this study were informed by the findings based on each study objective and also findings of other similar studies. Each objective was reviewed and a conclusion provided which covers both theory and practice. The purpose of this study was to investigate the influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya.

It is clear that organizations in their pursuit for sustainable competitive advantage must develop and incorporate sound KM strategy. Knowledge as one of the most critical resource of all corporate organizations needs to be properly managed to survive in the intensely competitive business environment. Globally, every organization irrespective of whether private or public are established to attain some performance targets for instance profit or non-profit. One of the ways

through which organizations could improve their performance goals is through KM practices. For KM programs to be effective organizational performance must be improved. The SMEs sector today, is one of the most significant backbone of most economies and needs knowledge and innovation. Hence, to perform organizations need to identify and manage new and potential knowledge availing the business community.

The first objective was to establish the effect of knowledge creation on the financial performance of small and medium enterprises in Wajir County, Kenya. Based on the findings the study concluded that knowledge creation affects performance SMEs. Knowledge creation involves the utilization of internal and external resources of an organization to generate new knowledge for achieving the organizational goals. Brainstorming methods and conducting research to make the best use of the knowledge assets of customers, suppliers and staffs are strategies applied in many prosperous SMEs for creating knowledge

The second objective was to determine the effect of knowledge acquisition on the financial performance of small and medium enterprises in Wajir County. Based on the findings the study concluded that knowledge acquisition affects financial performance SMEs. Knowledge acquisition encompass the process of acquiring and learning appropriate knowledge from various internal and external resources, such as experiences, experts, relevant documents, plans and so forth. Interviewing, laddering, process mapping, concept mapping, observing, educating and training are the most familiar techniques for knowledge acquisition

The third objective was to understand the effect of knowledge on the financial performance of small and medium enterprises in Wajir County on the findings the study concluded that knowledge sharing affects financial performance of small and medium enterprises in Wajir

County. This is because information shared is used for business growth and development. Knowledge sharing is a process through which personal and organizational knowledge is exchanged. In the other words, knowledge sharing refers to the process by which knowledge is conveyed from one person to another, from persons to groups, or from one organization to other organization

The fourth objective was to determine the effects of knowledge implementation on the financial performance of small and medium enterprises in Wajir County. Based on the findings the study concluded that knowledge implementation affects financial performance SMEs. This means the application of knowledge and the use of the existing knowledge for decision-making, improving performance and achieving goals. Organizational knowledge should be implemented in the services, processes and products of the organization

5.4 Recommendations for study

The following recommendations were made;

The study recommends that SMEs in Wajir County should adopt knowledge management strategy in running their business so that they can gain improved financial performance, knowledge management strategies to be adopted are: knowledge sharing, knowledge acquisition, knowledge creation and knowledge implementation. When knowledge is recognized, acquired, and stored, SMEs can implement this knowledge to explore problems and create solutions, producing a structure for facilitating efficiency and effectiveness. In the modern dynamic and complex environment, SMEs need to acquire, create, share, save and implement new knowledge in order to make strategic decisions that can lead to improvements in productivity, financial and staff performance, innovation, work relationships, and customer satisfaction. Thus, SME

managers should be committed to providing a supportive climate and culture, one that motivates employees and supervisors to implement the mentioned KM practices, in order to foster the SMEs results.

5.5 Suggestions for further study

Further should involve the use of different methodology to establish the influence of knowledge management strategies on financial performance of firms. This may involve the use of secondary data to instead of questionnaires that was used in this study. This will address the problem of non-response that was witnessed as a result of using questionnaire.

Since the study was carried out in one county only, more studies should be replicated in other counties in Kenya to establish whether the same results still hold.

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APPENDICES

Appendix 1: Letter of Introduction

Kenyatta University

School of Business

P. O. Box …..

Nairobi

Dear Sir/ Madam,

RE: REQUEST FOR PARTICIPATION IN RESEARCH

I am post graduate student at Kenyatta University pursuing a Masters Degree in the School of Business Corporate. I am carrying out a study on influence of knowledge management strategy on the financial performance of small and medium enterprises in Wajir County, Kenya.

I kindly request you to assist me gather information in your institution. The information provided will only be used for the purpose of this study and the identities of the respondents will be held in strict confidence.

Yours faithfully,

Abdirahman Nur Abdille

Appendix II: Questionnaire

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

PART 1: DEMOGRAPHIC INFORMATION

Section A: General /Demographic Data

1. Kindly indicate your gender
    a) Male ☐
    b) Female ☐
2. Please indicate the highest level of education you have ever attained
    a) Secondary level ☐
    b) College level ☐
    c) University level ☐
    d) Post graduate level ☐
3. How many years have you worked in the enterprise?
    a) Less than 2 years ☐
    b) 3 to 5 years ☐
    c) Over 5 years ☐
4. What is your position?
    a) Top management level ☐
    b) Middle management level ☐
    c) Supervisory level ☐

Section B: Performance of Small and Medium Enterprises

What are your views on the way the SME's are performing on each of the following performance indicators? Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
1	The SME has experienced an improvement in profitability					
2	The SME has experienced an improvement in total Return on Assets (ROA)					
3	The SME has experienced an improvement in total Return on Investment (ROI)					
4	The SME has experienced an improvement in Debt Equity Ratio					

Section C: Knowledge Creation and Financial Performance of SMES

6. Knowledge creation

This section seeks to examine the influence of knowledge creation on the financial performance of SMEs in Wajir County. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
1	Knowledge enables creation of new products and services to meet customer need.					
2	Our SMEs are encouraged to					

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
	innovate for better services					
3	We use knowledge created to utilize available resources efficiently					
4	Our SME firm empress knowledge creation to obtain competitive advantage					

Section D: Knowledge Acquisition and Financial Performance of SMES

7. Knowledge acquisition

This section seeks to examine the influence of knowledge acquisition on the financial performance of SMEs in Wajir County. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
1	Our SME conducts external survey to acquire more knowledge					
2	Our SMEs sent our employees for external training					
3	Our SME puts great importance in hiring skilled employees					

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
4	We put great importance on technological advancement					

Section E: Knowledge Sharing and Financial Performance of SMES

7. Knowledge sharing

This section seeks to examine the influence of knowledge sharing on the financial performance of SMEs in Wajir County. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly agree
		1	2	3	4	5
1	Our SME empresses knowledge sharing as a key driver to innovation					
2	Our SME firm organizes meetings to enable sharing of knowledge					
3	External experts are invited to share knowledge to our employees					
4	To achieve technological advantage, our SME encourage knowledge sharing on current issues					

Section F: Knowledge Implementation and Financial Performance of SMES

7. Knowledge implementation

This section seeks to examine the influence of knowledge implementation on the financial performance of SMEs in Wajir County. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	**Strongly disagree**	**Disagree**	**Moderately Agree**	**Agree**	**Strongly agree**
		1	**2**	**3**	**4**	**5**
1	We address the problem of poor strategic business planning through effective knowledge implementation					
2	In order to make rational decisions regarding our SME knowledge implementation is key driver					
3	Our SMEs business has a panel of experts in implementing knowledge management practices					
4	Our SME involves all departments when implementing KM					