FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE JUA KALI SECTOR IN NAKURU TOWN, KENYA

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A Research Project Submitted to the Graduate School in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration of Egerton University

EGERTON UNIVERSITY

OCTOBER 2013

DECLARATION AND RECOMMENDATION

DECLARATION

This research proposal is my original work and has not been presented for any other award in any other institution of learning.

Signature: ______________________ Date: ____________________

Ann Ngima Kinyua

REG. NO: CM11/0624/10

RECOMMENDATION

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

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DEDICATION

This work is dedicated to my husband Stanley Muriu Gachoka and precious daughters Diana and Dorcas and my Son Julius.

ACKNOWLEDGEMENT

I greatly appreciate the opportunity to pursue my Masters degree at Egerton University. Many thanks go to the faculty, staff and students of the Department of Commerce for providing a supportive and academically stimulating environment. Sincere thanks are expressed to Mr. R. Kig'wara for his guidance, encouragement intellectual feedback as well as for giving me the freedom to do independent research throughout the entire process. He represents everything a student can ask for in an adviser and mentor. I would like to thank the respondents in the Jua Kali Sector for their support and opportunity to access them in collecting the primary data for this research work. I sincerely appreciate my fellow Masters students at Egerton University, for their friendship and for creating a pleasant learning environment.

I would like to express my heartfelt thanks, deepest gratitude and appreciation to my husband and our daughters to whom I dedicate this project. Without their love, unconditional moral and financial support, and their countless personal sacrifices, it would be impossible for me to get where I am today. I may not mention everybody by name who contributed in one way or another to my academic success up to this point in time; I will always be indebted to all of them. Last but not least, I thank the **ALMIGHTY GOD** for enabling it all.

ABSTRACT

Interest in the role of small and medium-sized enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. The role of finance, management skills, macro-environment factors and infrastructure have been viewed as a critical element for the performance of small and medium-sized enterprises. Therefore, this study sought to evaluate the factors affecting the performance of SMEs in the Jua Kali sector in Nakuru town. The specific objectives included to; investigate the extent to which access to finance by SMEs affect their performance, determine the effect of management skills on the performance of SMEs, examine the extent to which macro-environment factors affect the performance of SMEs and determine the effect of infrastructure on the performance of SMEs in Jua Kali sector. The study adopted a survey research design and employed a stratified random simple sampling. Primary data was collected from 262 study respondents using structured questionnaires. Data was analyzed with the help of the Statistical Package for Social Sciences computer software. Descriptive statistics such as frequencies means and percentages analyze and present the data. Inferential statistics such as correlation and regression analysis were used to test the relationship between independent variables (factors) and dependent variable (performance). Results of data analysis supported the following key findings that access to finance had the potential to positively affect performance of SMEs although they were yet to be fully utilized to the advantage of the SMEs in the study area. Management skills were found to positively and significantly affect performance of SMEs yet had only been marginally adopted by the SMEs in the study area. Macro environment factors were found to significantly affect performance of the SMEs in the study area. Infrastructure did not significantly affect performance of SMEs in the study area. The study recommends that SMEs should improve access to finance through negotiations for better lending terms and conditions and collateral requirements. The study results indicated that as number of years in operations increased the performance increased. The SME businesses should focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills. SME businesses should effectively strengthen the macro environment in order to increase their performance. The infrastructure especially in terms of electricity and roads should be improved in order to increase their performance.

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LIST OF ABBREVIATIONS AND ACRONYMS

IASB: International Accounting Standard Board

KEBS: Kenya Bureau of Standards

KNFJKA: Kenya National Federation of Jua Kali Associations

OECD: Organization for Economic Cooperation and Development

SME: Small and Medium Enterprises

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Interest in the role of small and medium-sized enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. The advantages claimed for SMEs are various, including: the encouragement of entrepreneurship; the greater likelihood that SMEs will utilize labour intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; SME development can encourage the process of both inter- and intra-regional decentralization; and, they may well become a countervailing force against the economic power of larger enterprises. More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty eradication.

Staley and Morse, (1965) identify a 'developmental approach' to SME promotion which has as its objective the creation of 'economically viable enterprises which can stand on their own feet without perpetual subsidy and can make a positive contribution to the performance of real income and therefore to better living levels'. This approach emphasizes the importance of efficiency in new SMEs. Small producers must be encouraged to adopt new methods, move into new lines of production and in the longer-run, wherever feasible, they should be encouraged to become medium- or even large-scale producers. More recent concerns associated with the performance and efficiency of smaller enterprises has also become prominent (Mazumdar, 1997). Using the case of Northern Italy, Piore and Sabel (1984) have argued that small enterprises are more efficient because they have adopted a flexible specialization approach. Correspondingly, there has been growing interest in whether this model has or can be replicated in developing countries (Schmitz, 1989; Pederson, 1994; Schmitz and Musyck, 1994; Schmitz, 1995).

Small and medium sized firms dominate both developed and developing economies in terms of employment and number of companies, yet their full potential remains untapped. These trends need to be changed. The ability of smaller firms to create jobs is clearly a major attraction for governments in the short term. SMEs must be encouraged and supported to flourish. This is important so that economic objectives (economic growth and development, favourable balance of trade and payment and employment) and social objectives (poverty alleviation and improving standards of living) can be realized.

The Informal sector is increasingly viewed as an important engine for employment creation and economic growth. This has been necessitated by the increasing awareness within the government that large projects in the industrial sector are less likely to generate the requisite employment opportunities, given the high capital-intensity of output in the sector. Experience in Kenya, as is the case in the rest of the world, has shown that SMEs are more flexible and responsive to changes in the market, require relatively less capital, and therefore have the potential to generate significant levels of employment for skilled and semi-skilled labour (Kapoor, Mugwara & Chidavaenzi, 1997). Kenya must respond to the needs of SMEs as they form an important component of the economy (Schlogl, 2004). With the advent of the economic reform programmme for Vision 2030, there has been a significant change in the Kenyan government's attitude towards the SME sector. In the Kenya Government's 1992 Sessional Paper, 'small enterprise and Jua Kali development in Kenya' elevated the Micro and Small enterprise (MSE) sector to apriority position in the policy agenda.

Jua Kali industry is encouraged in Kenya because it requires less capital to establish since it is made up of small scale units. "Jua Kali" refers literally to those who work, without shelter, under the "hot sun" (the meaning in Kiswahili). In the popular mind, "Jua Kali" is equivalent to "informal sector." It creates employment for the growing labour force. It produces mainly for the local market thus the country saves foreign exchange. It requires less expensive machinery since production is manual. It facilitates decentralization of industries since it spreads easily thus checking rural-urban migration. It produces relatively cheap products that are affordable by many and improving the quality of living. It uses locally available and recycled raw materials thus reducing the cost of imports and conserves the environment. It imitates the products that are already in the market thus spreading technological skills. It operates at grass roots level thus uses locally available skills. It empowers the people to initiate projects thus reducing reliance and dependence on the government, donors, etc. Many Kenyans consider the Jua Kali to be the predominant – and most important – economic sector in Kenya, the one in which they all work. This is not far from the truth. According to the Economic Survey published by Kenya's Central Bureau of Statistics, employment within the sector increased from 4.2 million persons in 2000 to 5.1million persons in 2002, accounting for 74.2% of total employment. The sector contributes 18.4% of the gross domestic product and provides goods and services, promotes creativity and innovation, and enhances entrepreneurial culture. A common statement heard throughout Kenya is "We're all Jua Kali nowadays (Kenneth K. 1996)."

The role of finance has been viewed as a critical element for the performance of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their performance and development (Levy, 1993). Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit (Saito and Villanueva, 1981). Insufficient funding has been made available to finance working capital (Peel and Wilson, 1996). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finance. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies show a large number of small enterprises fail because of non-financial reasons (Liedholm, MacPherson and Chuta, 1994). Study by Tushabonwe-Kazooba, (2006) revealed that poor record keeping and lack of basic business management experience and skills are major contributors to failure of small business. Researchers have also identified lack of access to external finance and weak capital base, inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of small business failure (Lussier 1996; Murphy, Shleifer and Vishny 1996; Van Stel and Storey 2004). The solution for solving problems of economic growth in developing countries often resides in the performance of small scale industries. The establishment of those industries has been the centerpiece of industrial development of many countries such as India, Malaysia, Pakistan, Indonesia and Nigeria to mention a few. It is expected that the gains to be derived from the establishment of small-scale industries will be translated into the generation of employment at a low investment cost. These industries will also be able to harness raw materials locally and serve as raw inputs to the large-scale industries. The focus of the study is on the factors which affect the performance of Small and Medium Enterprises (SMEs) in the Jua Kali sector of Kenya, a case of Nakuru Town.

1.2 Statement of the Problem

The role of SMEs is well acknowledged in other countries such as Japan, Korea, and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society (Lukács, 2005). Lukács (2005) reports that SMEs and informal enterprises, accounted for over 60% of GDP and over 70% of total employment in low income countries, like Kenya. The main argument favouring small and medium enterprises in Jua Kali sector in Kenya is that they are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation. However, several factors have presented limitations to most of the Kenyan entrepreneurs in jua kali sector such that not only is the growth of their enterprises affected but survival threatened. The sector faces a number of challenges, the central ones being ready access to finance, productivity of its labour force due to lack of managerial skills, poor or absence of infrastructural facilities, high taxes and policy gaps and competition from giant companies (Wanjohi,2009). Studies have been done on how these factors contribute to success or failure of large organizations and SMEs. In a recent study in Kenya, Opiyo and K'Akumu (2006) not only examine how SMEs are poorly provided with finances, but also look at how the available infrastructural facilities are located vis-à-vis other SME activities within the Kariokor Market cluster in Nairobi. However, the extent to which these factors affect performance of SMEs in Jua Kali sector in Kenya has received little research attention. This study therefore sought to evaluate factors affecting performance of SMEs in Jua Kali sector in Nakuru town, Kenya.

1.3 Purpose of the Study

The purpose of this study was to evaluate factors affecting the performance of SMEs in the Jua Kali sector in Nakuru Town, Kenya.

1.4 Objectives of the Study

The general objective of this study was to evaluate the factors affecting the performance of SMEs in the Jua Kali sector in Nakuru Town. The specific objectives included;

i. To investigate the extent to which access to finance by SMEs in Jua Kali sector have an effect on their performance
ii. To examine the extent to which management skills have effect on performance of SMEs in Jua Kali sector.
iii. To examine the extent to which macro-environment factors (Regulation and policy issues, suppliers, distributors, customers and competitors) have effect on the performance of SMEs in Jua Kali sector.
iv. To examine the extent to which infrastructure (Water, Roads and Electricity) have affected the performance of SMEs in Jua Kali sector.

1.5 Research Hypotheses

The study set out to test the following null hypotheses:

H_{01}: Accesses to finance (Lending terms, Collateral requirements and number of years in operation) does not significantly affect performance of SMEs in Jua Kali sector.

H_{02}: Management skills (Financial, Marketing and Entrepreneural skills) do not significantly affect performance of SMEs in Jua Kali sector.

H_{03}: Macro-environment factors (Regulation and policy issues, suppliers, distributors, customers and competitors) do not significantly affect performance of SMEs in Jua Kali sector.

H_{04}: Infrastructure (Water, Roads and Electricity) does not significantly affect performance of SMEs in Jua Kali sector.

1.6 Significance of the Study

The results of study will be useful for proper planning and decision-making in the jua Kali sector in improving their performance and most importantly achieving vision 2030. The Jua kali sector and the relevant National government and County government departments may use the study results in policy issues that may be aimed at improving effectiveness in ensuring proper management of scarce or expensive resources like water, electricity and raw materials. The findings highlighted what needs to be done to improve the access to finance by jua kali sector to improve their capital base. The study finding indicated the relationship between access to finance and increased production and profits hence boosting performance. The finding on the management skills highlighted the areas of training to be offered to the jua kali sector to enable them manage their business.

Further, this study was significant because it allows for identification of the concept and framework of factors that affect the performance of Jua kali sector. The study findings also generated awareness in jua kali sector on the importance of access to finance, training on management skills, macro environment and infrastructure as a vehicle to effective performance. The findings of this study added to knowledge and understanding of the subject of performance of jua kali sector and its application by expansion of the economies of the National and county Governments. The study forms a basis for further research on how to enhance effective performance of not only the Jual kali sector but other SMEs. This leads to the generation of new ideas for the better and more efficient management of jual kali sector and other SMEs in Kenya and globally.

The study sought to evaluate the factors that affect the performance of SMEs in the Jua Kali sector in Nakuru Town. SMEs are important in that they contribute significantly to economic growth through employment creation. Employment creation leads to more people having disposable income which results in an increase in the demand for goods and services. Disposable income also results in more purchases of goods and services which lead to economic growth. As a result of increased economic growth, the general standard of living of people can be improved.
This study is of value to the Jua Kali sector in Nakuru Town, as different recommendations are made to assist SMEs in their long term development and growth. The study further revealed the challenges faced by Jua Kali sector in Nakuru for purpose of drafting policies that address the specific challenges of sector in Kenya.

Further, the study will be of benefit to the Kenyan government as it has committed a large amount of resources (financial, labour) towards the establishment of SMEs, but their failure rate is still very high. Hence, the study made recommendations to decrease the failure rate. Since SMEs are an important sector of the economy, factors that affect the performance of SMEs must be evaluated. The evaluation of these factors will result in tentative solutions and strategies being adopted to decrease the rate of failure of SMEs in Jua Kali sector in Kenya which is necessary to increase the levels of employment and economic growth in the country.

1.7 Scope of the Study

The study was limited to Nakuru Town .The study targeted small scale and medium business owners who are in Jua Kali sector. The coverage of all Jua Kali sectors may not be possible due to its broadness; therefore the study covered carpentry, mechanics, scrap metal dealers and welders and fabricators sectors. The study took one month to be completed.

1.8 Limitations of the Study

The primary limitation of this study deals with sampling bias. Nakuru have various sectors of SMEs however only Juakali sector was studied due to economic and time factor. This sampling frame may be inherently biased by its nature and may not be an accurate representation of the population under study. To address this limitation, the number of Juakali SMEs that were selected will be considered representative of the Juakali sector.

The study also anticipated possibility of some respondents providing dishonest information which when left unchecked can bear on the authenticity and validity of the results. These limitations were addressed by assuring the respondents that the information obtained from them will be treated with utmost confidentiality and used for study purposes only.

1.9 Assumptions of the Study

This study assumes that the respondents honestly answered the questions given to them. The study assumes that factors such as locality of the Juakali artisans and category of the SME had no significant effect on the performance of Juakali sector.

1.10 Operational Definition of Terms

Growth in the Labour Force- Refers to Human Resources in the form of more staff (e.g. management, professional, technical or administrative personnel)

Infrastructure- Systems considered essential for enabling productivity in the economy

Jua Kali - Refers literally to those who work, without shelter, under the “hot sun” (the meaning in Kiswahili). In the popular mind, “Jua Kali” is equivalent to “informal sector.”

Macro-Environment - Macro-environment consists of stakeholder groups that a firm has regular dealings with i.e suppliers, customers, competitors, distributors and regulators.

Market Share- Indicative of the portion of the market the business is currently serving.

Profitability- It constitutes the ability of a business to make a profit after taking into account all the operating costs.

SME- In Kenya, "Micro-enterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers.

Turnover- Refers to the volume of sales during the financial year.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter examines the literature to develop a framework for this study. It is organized under the following subheadings: The Concept of SMEs in the Informal Sector, Jua Kali Sector in Kenya, Role of the SMEs, The Concept of Performance, Empirical Review and The Gap. Finally this chapter gives a summary and highlights gaps and issues raised and issues reviewed as well as the conceptual framework of the study.

2.2 The Concept of SMEs in the Informal Sector

Typically, the informal sector comprises economic activities not regulated by laws such as environmental, labor or taxation, but is subject to the regulations of the local authorities for orderly business operation, and generally not monitored for inclusion in the Gross Domestic Product (GDP) of Nations (Mohamed, 2009). The United Nation’s Economic Commission to Asia and Far East defined a Small Scale Industry as one operated mainly with hard labour usually not exceeding 50 workers, if no motive power is used or 20 workers if motive power is used. In Malayia, an industry is considered small if it employed less than 10 full time workers and does not use motive power (Hashim and Abdullah, 2000).. The centre of management sciences in Delft University, the Netherland, for instance, classifies handicrafts and cottage industries as establishment employing less than 10 persons. To them small scale industries are firms employing 10-99 person in which manager personally performs all the management functions without taking part in actual production. In Britain, small-scale business is defined as that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees. In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, and those in the retail and services trades with 10 million yen paid-up capital and 50 employees. In Kenya, "Micro-enterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers.

Jua Kali refers literally to those who work, without shelter, under the “hot sun” (the meaning in Kiswahili). In the popular mind, “Jua Kali” is equivalent to “informal sector.” Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya while there are a few medium enterprises (Parker and Torres, 1994). The informal sector is a crucial sector of most of the developing countries. The liberalisation and privatization processes have resulted to the states’ failure to be the employer. The private sector is left to take up this role. The organized private sector has been unable to absorb the growing numbers of jobseekers, and the informal sector stepped in to fill in the gap. This indeed is the reason why informal sector should be supported and encouraged.

In most cases, the informal sector is viewed as illegal and its activities barred by the government as well as the people working in the formal sector. Urbanisation in Kenya on the other end has been occurring in the context of weak economic growth resulting in poor infrastructure, housing and services especially in the slums. Kenya like any other developing country follows an import substituting industrialization strategy for industrial development. This is usually concentrated on large-scale, capital intensive industry, mostly foreign-owned and uses imported technology. There is also duty-free import of capital goods (but micro enterprises are taxed on importation of capital goods), assistance to the large-scale enterprises by the governments to compete with the small scale enterprises (micro enterprises), subsidized interest rates and access to finances, and direct support measures all by the government. However, there is ambiguity of operation associated with the informal sector especially in Kenya. The sector has both activities which are associated with the formal sector as well as other activities which are considered purely as informal sector activities. In Kenya, low-income consumers do not simply consume less: they consume goods and services which serve similar purposes but at a much lower price (Meier & Rauch, 2000).

2.3 Jua Kali Sector in Kenya

The term “informal sector” was popularized by a 1972 study of Kenya, but Kenyans have another term for the sector: Juakali, literally “under the hot sun (ILO, 1972).” It is indicative of the severe conditions under which micro-entrepreneurs and their employees labour. This unstructured sector has emerged as a result of the incapacity of formal, regulated industries to absorb new entrants. The Jua Kali sector encompasses small scale entrepreneurs and workers who lack access to credit, property rights, training, and good working conditions. Originally restricted to artisans, the term has come to include a number of professions, including auto mechanics and market vendors.

The term "Jua Kali" is derived from two Kiswahili words, Jua, meaning sun and Kali, meaning hot. Those small scale workers seeking out their living by manufacturing products and/or providing services in open air under the tropical sun are generally referred to as "Jua Kalis" or Jua Kali artisans. Although, many are characterized by an absence of premises (King, 1996), a number have shelter to store materials as well as work benches and tables. Elsewhere, Jua Kali has been defined as " a skilled artisan operating his/her small business" (KNFJKA 1997 , p.1). This definition does not include newspaper vendors, vegetable sellers, and those running small business shops or kiosks.

The Jua Kali sector can be an asset to the economy if training in business skills is emphasized. In 2001, the Jua Kali sector employed 4.1 million people and their numbers are still rising as it has more potential (ILO, 2001). There is a bent up demand for credit and savings in even the poorest corner of the world and poor people seek out institutions that provide financial services effectively (The Economist, 5th Nov. 2005, 3-5). In Kenya there is a strong demand for financial services. The informal sector has been marginalized by the mainstream banks and as a result, many microfinance institutions have come up whose main characteristic is the giving out of small loans to informal sector (Daily Nation, 8th Nov. 2005,12-13).

Some studies estimate that informal businesses account for 35-50% of GDP in many developing countries. Similarly, in Kenya, the informal sector is quite large, estimated at 34.3% and accounting for 77% of employment statistics .Over 60% of those working in the informal sector are the youth, aged between 18-35 years, 50% being women (Ouma et al 2009).The First 1993 Small & Medium Enterprises (SME) baseline survey revealed that there were approximately 910,000 SMEs employing up to 2 million people. The second SME baseline survey (1995), estimated the size of the SME sector at 708,000 enterprises employing up to 1.2 million people.

Compared to the other sectors of the economy, the contribution of the SME sector to the country's Gross Domestic Product (GDP) increased from 13.8% in1993 to over 18% in 1999, (Sessional Paper No. 2 of 2005). Currently, it is estimated that the contribution to the GDP by this sector stands at over 25% (Economic Survey, 2012).

All these definitions attempt to capture the meaning of the informal sector, a phenomenon which has been constantly changing. For all practical purposes the term informal sector will be understood to refer to small scale units producing and distributing goods and services. More specifically, it will consist largely of independent, self employed producers in urban areas of developing countries, including Kenya, some of whom also employ family labour and/or a few hired workers. Informal sector work is labour intensive, operates with very little capital or none at all, utilises a low level of technology and skills, and therefore, operates at a low level of productivity. It is informal in the sense that artisans are, for the most part, unregistered and unrecorded by official statistics. They tend to have little or no access to organized markets, credit institutions or to many public services and amenities. The history of organizing, managing and assuming business risks (entrepreneurship) in Sub-Saharan Africa is a long one. Many records as far back as the 11th century show a beehive of trade activity along Trans-Africa caravan routes (World Bank, 1989). Over time, a system of operational customs and rules has been established in many cities and towns across the continent. Many markets for various kinds of goods and services have been created.

In Kenya, the Jua Kali as an informal sector, was traditionally run in the form of small industries in a few African homes which mainly dealt with blacksmithing activities (Maundu 1992). The advent of the Asian community to Kenya at the turn of the last century, marked the gradual shift of 'home-based' Jua Kali activity to urbanised enterprises. Among the initial urban Jua Kali enterprises introduced were motor-mechanics, carpentry, masonry, tinsmithery and blacksmithery (Maundu 1992). With time, the indigenous Kenyans soon entered the market and gradually expanded the industry by producing a wide range of such items as jikos (braziers), cooking and frying pans, steel windows, tin lamps, motor spares and leather artefacts . Today the Jua Kali industry represents an enormous conglomeration of products in many towns and villages across the Republic of Kenya. Since the introduction of the 8-4-4 structure of education in Kenya in 1985, the education system has increasingly turned out large number of school leavers at the primary and secondary levels. Many of these graduates are not able to obtain gainful employment in the formal sector. Most of them usually end up in the Jua Kali sector.

Many Kenyans consider the Jua Kali to be the predominant – and most important – economic sector in Kenya, the one in which they all work. This is not far from the truth. According to the Economic Survey published by Kenya's Central Bureau of Statistics, employment within the sector increased from 4.2 million persons in 2000 to 5.1million persons in 2002, accounting for 74.2% of total employment. The sector contributes 18.4%of the gross domestic product and provides goods and services, promotes creativity and innovation, and enhances entrepreneurial culture. A common statement heard throughout Kenya is "We're all Jua Kali nowadays (Kenneth K. 1996)."

Since 1986, the small business enterprise sector, as a means of strengthening Kenya's economy, is highlighted in the Sessional Paper No. 1 of (1986), the Sessional Paper No. 2 of (1996) on industrial transformation to the year 2020 and Eighth National Development Plan (1997 – 2001). The Sessional Paper No. 2 of (1992) on small-scale and Jua Kali enterprise development in Kenya contains the overall policies and strategies in which essential activities could be implemented to promote small enterprise development. The vision of the policy statement is to promote a strong Kenyan economy, which the small enterprises are effectively integrated and able to make significant contribution in the production of goods and services. It also emphasizes the role, importance and benefits of small enterprises.

Despite the critical role played by the small enterprise sector, it is faced with numerous challenges and constraints that include unfavorable policy, access to financial services and markets, inadequate business know-how and linkages with large enterprises, gender inequality, job quality deficits, limited access to information, impact of HIV/AIDS pandemic, unsatisfactory occupational health and safety standards. These constraints have not been well-addressed resulting in a weak base for industrial take-off and sustainable development. Nevertheless, the field of small businesses still remains attractive because the creative enterprising individual likes to be independent and be in control of action and issuing instructions (Sessional Paper No. 2; 2005).

2.4 Role of the SMEs

Small businesses are seen to be in the forefront to stimulating entrepreneurial development, contributing to the transformation of the traditional sector into a modern one, creation of employment, reducing rural and urban migration and serving as a training ground for managerial skill acquisitions (Asaolu 2001 and 2004,Parker 2004; Van Stel, Storey and Thurik 2007). In almost all economies, small businesses are vital for sustained growth. A high failure rate in SMEs is a huge negative for an economy, especially a developing economy with limited capital (Okpara and Wynn 2007). It has also been argued that the principal challenges confronting the poor in Developing Countries include access to capital; access to information and access to stable markets such as fragility of local community markets with environmental degradation (Alarape 2007). Small businesses are active and dominant of the economies of many developing countries. They have been high on the developmental agenda of many African countries. Eke (2007) argued that small businesses accounts for over 93 % of the total entrepreneurs in developing countries. Small scale enterprises in Japan accounted for about 99.4 % of the non-primary business establishments, employing 81.1 % of the country labour force and contributing 51.8% of the shipment (Cowdhury, & Kazuhiro 2007).

2.5 The Concept of Performance

GEM, (2004) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalize and measured in different ways thus making cross-comparison difficult. Cooper et al (1992) examined various factors which influence business performance such as: as experience, education, occupation of parents, gender, race, age, and entrepreneurial goals. While, Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorized the factors that affect their performance into 6 five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations); human capital (level of education, skills) and environmental influences (location, sectoral participation, and socio political variables).Thibault et al. (2002)

suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small scale business operators. The most comprehensive summary of factors influencing performance was noted in a literature review by Lazonick & Sullivan (2000) to include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking and entrepreneurial orientation. Others include environmental factors.

Theoretical approaches to organizational performance and effectiveness include concepts such as the goal approach and system resource approach measures progress toward attainment of organizational goals. The system resource approach assesses the ability of the organization to obtain resources to maintain the organization system (Yuchtman and Seashore 1967). Similarly, the process performance approach focuses on issues such as flexibility of organizational structure bsor internal versus external focus, as well as the blurring distinctions between means and goals and efficiency versus effectiveness. The process performance measuring factors are time, quality, cost, innovation, employee turnover, employee morale, and cohesiveness. Consequently, the goal approach is most widely used because the output goals can be readily measured. The study focuses on the goal approach, which reflects the owner-manager point of view (Pfeffer and Salancik, 1978) and is most relevant to small entrepreneurs because of the dominant role of the entrepreneur in determining the performance of the entrepreneur. The goal approach seems to better fit small entrepreneurs with a significant representation of self-employed entrepreneurs or lifestyles family-owned businesses. Therefore profitability of the goal approach is considered as performance variables in this study.

The concept of performance is used to determine the success of a business entity whether small or big. In 1999, the Organization for economic cooperation and development (OECD) issued a document emphasizing that corporations should be run, first and foremost, in the interest of shareholders (Lazonick & Sullivan, 2000). According to Jensen (2002), this view of OECD is justified by two hundred years of research in economy and finance. It becomes obvious that the financial nature of performance is preferred. The International Accounting Standard Board

(IASB) conceptual framework specifies that frequently, profit is used as measure of performance. This is further confirmed by a study conducted by Ariyo (2007) on companies' financial performance. Five representative measures are pointed out as Net Income, Operating Income, Operating Cash flow, Residual Income and Added value. These elements are directly related to the measurement of profit for investors. Ariyo (2007) is of the view that one of the modalities for encouraging individuals and organizations to invest in equity dominated capital market instruments is the dissemination of projections about the future performance of a firm and as such performance is usually measured in term of earnings, profitability and dividend. Small business performance can be measured in term of size, employment, turnover, capital base and profitability. Usually the profit is calculated as the net of turnover and associated cost.

2.5.1 Access to Finance

Access to finance has been identified as a dominant constraint facing SMEs (Lader, 1996). A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) also found that, there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their low growth and development. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. In Sub-Saharan Africa, most small businesses fail in their first year due to lack of support from government and traditional banks (Biekpe, 2004). In Ghana, the idea that problems in financing small firms have significantly hindered the role they play in the overall macroeconomic performance of the Ghanaian economy is deeply rooted since the overthrow of the first Republic of Dr. Nkrumah (Boapeah, 1993). Previous studies have identified a growing gap in the financial support offered to Ghanaian SMEs. The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs' access to bank loans in Ghana (see Sowa *et al*., 1992; Aryeetey *et al*., 1994; Bigsten *et al*., 2000; Buatsi, 2002).

Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the SMEs are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy (Adera, 1995). Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986).Most SMEs mainly rely on own savings and reinvested profits to finance their business.

Previous researchers suggest that bank financing will depend upon whether the lending can be secured by collateral (Storey, 1994). Berger and Udell (1998) also stated that other factors held constant, firms with more intangible assets need to borrow less, compared with firms with more tangible assets, because of collateral factor. In the previous research, collateral has been proxied by land, machinery or personal assets (Kumar and Francisco, 2005). Bennett and Donnelly (1993), used plant and machinery divided by total assets as a proxy for the securability of assets. Bhaduri (2002), used three proxies for the collateral asset attribute, namely, the ratio of land and buildings to total assets, the ratio of plant and equipment to total assets and the ratio of inventories to total assets.

A number of studies have found that there is a correlation between firm age and access to credit. Being in the business for many years suggests that the firms are at least competitive on average. It can be argued that being an older firm means there is lower informational opacity. On the other hand, the new firms are not likely to meet the collateral requirements of the banks since they have not accumulated sufficient assets. Combined with the absence of information on their financial records, this makes it difficult to lenders to assess lending proposals submitted by new firms. Proceedings of ASBBS Volume 18 Number 1 ASBBS Annual Conference: Las Vegas 259 February 2011. The studies conducted in the past have found that the financing constraints are particularly severe in start up enterprises and relatively young firms (three years old or less).For example, Aryeetey et al (1994) conducted a survey of 133 firms, of which 76 had less than 10 workers, in various industries in Ghana in the early 1990s.They found that only 10 percent of start up firms in Ghana could obtain bank loans but medium size enterprises and older firms are provided with credit three times more often than their smaller counterparts. The similar survey was conducted Levy, (1993) in Sri Lanka and Tanzania and reported that 80 percent of firms with 16 or more workers and with 6 or more years in operation are able to access bank loans, compared to the success rate of around 55 percent in the case of smaller firms with 6-15 employees of similar age, and less than 10 percent for firms with 5 or fewer workers, regardless of age.

2.5.2 Management Skills

The studies conducted by Ibrahim (1986), provide evidence that management skills are critical factors in both the failure and success of businesses (Lichtenstein & Brush, 2001). They illustrate that accounting, cash flow, and marketing need management skills and lack of them is a major cause of failure. Weaknesses in these areas are found to impact on all other areas of the business. A lack of management skills and expertise is a major constraint hindering the progress of the SME sector in Kenya.

The *Jua Kali* sector can be an asset to the economy if training in business skills is emphasized. In 2001, the *Jua Kali* sector employed 4.1 million people and their numbers are still rising as it has more potential (ILO, 2001). There is a bent up demand for credit and savings in even the poorest corner of the world and poor people seek out institutions that provide financial services effectively (The Economist, 5th Nov. 2005, 3-5). In Kenya there is a strong demand for financial services. The informal sector has been marginalized by the mainstream banks and as a result, many microfinance institutions have come up whose main characteristic is the giving out of small loans to informal sector (Daily Nation, 8th Nov. 2005, 12-13). Altogether, the microfinance sector comprises a very large and diverse group of institutions providing a range of loans and savings products to their clients.

Several studies conducted in Zimbabwe suggest that entrepreneurs in the SME sector attach low priority to training and are often unwilling to participate in programs which require them to finance even a small proportion of total training costs. The areas of weaknesses identified range from cash management to marketing strategies and finance. Business start-ups lack technical skills such as designing and to produce quality products, but also expertise in implementing growth strategies for their enterprises (Nyoni, 2002). One way of reinforcing the need to develop management skills is to look at studies identifying reasons why small firms succeed or fail. The two studies conducted by Ibrahim (1986), provide evidence that management skills are critical factors in both the failure and success of businesses (Lichtenstein & Brush, 2001). They illustrate that accounting, cash flow, and marketing need management skills and lack of them is a major cause of failure. Weaknesses in these areas are found to impact on all other areas of the business.

Lichtenstein & Brush (2001) investigated the relationship between entrepreneurial skills and small business performance, using Pearson product moment correlation and Regression Analysis, found that out of the four entrepreneurial skills like business management, financial management, marketing and record keeping skills, the business management skill contributed more than others and that the financial management skill alongside increased the contribution. The finding was in line with the earlier studies by Carland and Carland (2009), Alarape (2007), Akwani (2007), Yusuf and

Schindehutte (2000) etc. Thomas (2004) stated three fundamental propositions about entrepreneurial skills thus; entrepreneurs are successful to the extent that they have the necessary skills, entrepreneurs come to entrepreneurship at different level of skills and that entrepreneurial skills can be developed.

Beckman and Marks (1996), Castrogiovanni (1996) and Bruno *et al., (*1987) in their researches indicate that, success and failure are often determined by poor cash flow management and a lack of a simple accounting process. That is why Management Accounting and Cash Control skills are given as performance measures. There is need for establishing all the necessary accounting procedures to manage cash. Cash management helps the small business owner get a better handle on the source of financial problems. 'Many surveys of SMEs show that lack of capital is a strong constraint to growth' (Chu-Hua *et al.,* 2001). There has been a change in attitude towards the SME sector which has been achieved through courses offered by the College of Banking, although the existing culture in the financial sector makes it difficult to apply what is taught (Oketch, 2000). Furthermore, very few banks have sent their staff for the courses, an indication that the banks do not find the sector viable. The enactment of the Micro-finance Bill is hoped to ease the regulatory and other financial risks that currently constrain lending to the sector. But as much as Kenyan entrepreneurs may cite lack of credit as the most constraining factor to business operations and contributing to 37 percent of business closures (National Baseline Survey, 1999), lack of capital can be a secondary rather than a primary problem. Rukunga 1999 in (Ronge, Ndirangu & Nyangito (2002) indicates that most SMEs do not keep proper records and most entrepreneurs do not pay themselves a salary. Instead, they make withdrawals as need arises. Such withdrawals may exceed earned income, therefore eating into the working capital. This is a problem of poor management skills.

According to Chaston (2002), marketing management is a philosophy that leads to the process by which organizations, groups and individuals obtain what they need and want by identifying value, providing it, communicating it and delivering it to others. The core concepts of marketing are customers' needs, wants and values; products, exchange, communications and relationships. The success of many small firms is to be able to effectively sell and provide the necessary service to meet the needs of a niche market. A marketing plan is developed along with identifying promotional activities, sales support material and advertising. This also includes the development of a 'public relations strategy to market the concepts and ideas to the target audience' (Berger, 2005).

Chaston and Mangles (2002) highlight the importance of product and service lifecycle. The concept proposes that products and services pass through four stages namely, introduction, growth, maturity and decline. In recognition of the risks associated with a small firm depending upon a single product, which has a finite life, the more successful small firms will have a number of products positioned at different stages on the lifecycle curve. Porter (1980) explains how a firm should gain competitive advantage by taking account of the forces "Porters five forces" (buyers, suppliers, new entrants, substitutes, rivalry) that interacts with each other to either open up or close down opportunities. Under the conditions produced by the five forces, product differentiation is paramount. Lowest price and cost leadership may be an important means of differentiation as is product branding and adding extra features and services. When all these features are integrated to the marketing mix, they sustain a longer lifecycle.

Access to markets and lack of market information are among most critical constraints to the growth of emerging SMEs in Kenya (Session Paper No. 2, 2005). The prescribed policies for addressing this problem do not seem to have achieved much success because access to market and information on competitors continues to be a severe problem for SMEs (as cited by 34% of those interviewed in the 1999 National Baseline Survey). Due to the depressed state of economic activity in Kenya, markets have been characterized by limited purchasing power of the average consumer. A wide range of consumer goods competes for the buyer's money and preference is often oriented to the cheapest product. In turn, the enterprises compete in a market that views domestic products as vastly inferior to foreign-made products. Since the release of Session Paper No. 2, SMEs have had to contend with shifts from import controls to import liberalization and this has intensified competition leading to closure of many enterprises (business failure).

2.5.3 Macro-economic Environment

The macro-environment consists of stakeholder groups that a firm has regular dealings with. The way these relationships develop can affect the costs, quality and overall success of a business. Although the move towards economic liberalization proposed in the late 1980s and 1990s was aimed at reducing distortions in the economy, deregulation of markets has had adverse impact on SMEs (Sessional Paper No. 2, 2005). The effects include increased macro-economic instability characterized by high inflation rate, current account deficits and policy uncertainty. While the effects have been harmful to all private enterprises, the SMEs have been particularly hurt given their small size, and because they have fewer options to ride over instabilities.

2.5.3.1 Regulation and Policy Issues

For business owners, important regulations include state actions relating to the following non-exhaustive list; contract enforcement, property rights, including intellectual property, corporate governance, taxation and financial reporting, employment and health and safety, trading standards and consumer rights, environmental protection, premises and planning rules, data protection, transport. Some regulations apply to particular types of business. For example, VAT registration in the UK is only compulsory for those trading above the specified turnover threshold (currently £60k per annum). Employment rights are only relevant to those employing, or considering employing others. Other types of regulation, though universal in their scope, vary in their impact across businesses. Environmental regulations concerning the storage and use of hazardous substance are likely to have a greater impact on certain sectors than others, for example, agriculture, manufacturing and transport and communications businesses (Carter *et al.*, 2004). Critics of state regulation argue that it imposes costs on individuals and businesses that hamper business start-up, investment, innovation, employment, business growth and, ultimately weaken national economic performance (HM Treasury/SBS 2002) from which businesses, workers and consumers all suffer. This, of course, will depend on pre-existing business practices at the time a regulatory change comes into effect as well as the regulatory requirements themselves.

2.5.3.2 Suppliers

The questions which arises to SMEs in Jua Kali sector is whether the suppliers can provide high quality raw materials at a good price, do it reliably in the volumes required, have the flexibility to respond to a SMEs changing demands, and the bargaining power of the suppliers and the level of dependency by SMEs on them and also their approach to their staff and resources as regards SMEs ethics. Firms must decide on issues such as who to supply them with raw materials, and on the terms and conditions it adopts. Some firms take quite an aggressive attitude towards their suppliers by trying to push down the prices and delay payments. Others view the relationship more as a partnership in which they are working together with suppliers and that by helping each other both can benefit. The importance of suppliers can be seen if things go wrong. In 2000 Ford's image was damaged when tyres on its Explorer vehicles started exploding. These tyres were produced by Bridgestone and the supplier ended up re-calling over 6.5 million tyres. In 2007 Sony batteries in several Dell laptops caught fire which caused a terrible public relations issue for the computer manufacturer and led to over 4 million laptop batteries being recalled.

2.5.3.3 Distributors

Often getting products to the end customers can be a major issue for firms. SME in Jua Kali sector will need to sell their products by getting it on the shelves in the leading distributors and supermarkets which means moving someone else's products off the shelves! So the challenge is to get stores to stock the products; this may be achieved by good negotiating skills and offering appropriate incentives. The distributors used will determine the final price of the product and how it is presented to the end customer. When selling via retailers, for example, the retailer has control over where the products are displayed, how they are priced and how much they are promoted in-store. Competitive advantage can also be gained by using changing distribution channels. Banks, insurance companies, holiday firms, hotels and many others businesses have seen the opportunities created by the internet. Direct Line insurance, Dell computers and Amazon have reduced costs by selling direct. Some firms such as Betterware and Avon have used alternative distribution channels to their competitors by selling door to door; Ann Summers' products have sold well via parties.

2.5.3.4 Customers:

Customers are obviously the key to sales. Managers must monitor customer needs and try to anticipate how these will develop so that they can meet these requirements effectively now and in the future. To help understand their customers firms are increasingly trying to gather information on them through mechanisms such as loyalty cards. By gathering data on shopping patterns and matching this to data on the individual shoppers firms can build up detailed pictures of their buyers and then offer them appropriate deals. Many firms are also trying to develop relationships with customers to help ensure they come back time and time again. Loyalty cards, frequent flyer programmes and frequent shopper incentives are all aimed at rewarding customers who buy a firm's product regularly. Newsletters, email lists and recommendations to online shoppers of what else they might be interested in are all ways of trying to build a relationship with customers. Of course, potential buyers usually have many choices and so may be able to use their bargaining power in relation to firms. The growth of the internet has enabled customers to search quickly for alternatives and compare deals more easily; this puts pressure on firms to provide better value for money or they will lose their customers.

2.5.3.5 Competition

The success and behaviour of any business will depend on the degree of competition in its market. In some markets one firm is dominant. This is called a monopoly. Technically in the UK a monopoly exists when a firm has a market share of over 25%. If you are in a monopoly position this may allow you to exploit the consumer with relatively high prices (assuming your position is protected in some way) and you may be able to offer an inferior service if customers have no other choices. In other markets a few firms dominate; this type of market structure is called an oligopoly. In oligopolistic markets there is a high degree of interdependence and so firms will think carefully how their rivals might react to any actions they take. This can lead to an emphasis on non price competition; a price change is relatively easy to imitate and so firms may rely more on methods such as branding or product development. In more competitive markets where there are many firms providing similar products customers have more choice; this may put downward pressure on prices and means that excellent customer service is essential.

2.5.4 Infrastructure

Infrastructure and technology are a challenge for SMEs who are hard put to accumulate capital hence can do little on their own to support infrastructure and technology development. This calls for the adoption of the collective efficiency paradigm in the planning and development of infrastructure in LDCs. Infrastructure offers supportive structure for the growth of other sectors, raises growth of enterprises and reduce income inequity (Lopez, 2004). Infrastructure planning and development, especially in rural areas should support technology adoption and innovation that in turn lead to enterprises growth and building of competitive advantage. This does not seem to happen in LDCs where SMEs remain generations behind in the kind of technology they employ. This is one area where policy pronouncements has not fully succeeded in creating a direct connection between infrastructure development, technology acquisition, adoption and development and thus the growth of individual SMEs. Research seems also to be treating this as separate and more so, not emphatically establishing empirically the significance of the differences between the inter-relationship from one region to the other, one country to the other and one society to the next.

Since SMEs in LDCs are unable to develop infrastructure and technology significantly on their own, then collective efficiency paradigm need inform the infrastructure planning and development so that SMEs engage in joint actions. The thesis here is that this joint actions needs to be engineered in the planning and developing of industrial infrastructure, targeting to support SMEs access better or improved technology and hence the growth of the individual enterprises and the sector as whole and its contribution to the industrialization process.

The joint actions, as noted by Nadvi *et al,* (1994) works better when Jua Kali enterprises work/operate close together in clusters. Nadvi *et al* (1994) and Schimitz (1995) notes that industrial clusters are concerned with local growth processes that arise from sectoral and regional concentration of small and medium sized firms that facilitates gain in efficiency and flexibility.

In infrastructure planning, Ombura (1997) points that infrastructure networks are useful instruments within network economies. Infrastructure and related services help to make things happen, it feeds and it is fed by trade, it fuels foreign direct investment, it backs up the creation and sustainability of industrial clusters, it cuts costs and raises competitiveness. Infrastructure includes both hard and soft: ports Airports, Railway systems, Road Networks, Power, Communication, water, Waste management, IT, Legal, Financial and Technological infrastructure . Infrastructure planning begins with industrial location choices which place spatial distribution of industry in reference to other social aspects. A spatial planning approach ensures the most efficient use of land by balancing competing demands within the context of sustainable development (Rozee, 2003). It becomes an ongoing, enduring process of managing change by a range of actors, in the interests of sustainable development (Tewdwr, 2004). This makes efforts to promote industrial development extremely urgent and rural focused.

A sustainable industrial policy and development strategies encompassing a variety of inter-related economic, social and environment objectives such as encouragement of an open and competitive economy, the creation of productive employment and protection of the natural resources through efficient use of renewable and non renewable resources required. Such a policy and strategy should create a self sustaining industrial sector having strong linkages with domestic economy. This, network analysis approach in infrastructure planning portends that cooperative mechanism should be established alongside the competitive rules of behaviour and take advantage of collective differentiation and learning (Ombura, 1997). It emphasizes pooling together to create infrastructure for use in network economies. This leads to the combined improvement in the fields of technology, marketing, transportation, communication, access to services and waste management with the benefit of reduced costs in overcoming difference.

2.6 Empirical Review

Entrepreneurial and small and medium-sized enterprises (SMEs) firm performance is a complex, multifaceted construct that should be examined with an eye toward its complexity. Their research study seeks to accomplish this examination by proposing a conceptual model of SME performance with two distinct but related outcome dimensions- growth as one dimension and profitability as another. Wolff, and Pett, (2006) suggested that internationalization and innovator position have a positive impact on new product and process improvements, while environmental hostility, internationalization, and product improvement have positive influences on growth as a performance dimension. Wijewardena, and Zoysa, (1993) study similar took into account entrepreneurial intensity as well as environmental constraints and difficulties in small businesses in Turkey. Knowledge of the relative role of personal and environmental factors in bringing about expansion and growth is expected to provide insights for government policy. Though the study deals with the influence of these factors in a single country, it is hoped that it will encourage and facilitate similar studies in other countries that are in the process of incorporating private initiative more into their performance models.

Yonggui et. al. (2002) examined a set of internal and external factors/variables that may be critical to distinguish high-growth SMEs from those of poor performance. The study based on the relationship between factors and determinants concerning entrepreneur/top management team, firm characteristics, organizational strategies and external environment, and poor performance and high-growth performance in SMEs in China. Van de Ven (1993) emphasized that the process of entrepreneurship is not limited to the for profit sector; numerous entrepreneurial factors in the public and not-for-profit sectors play crucial roles. It motivates one to examine the different roles played by these factors, and how their joint contributions interact to develop and commercialize a new technology. This in turn makes it possible to understand how the risk, time, and cost to an individual entrepreneur are significantly influenced by developments in the overall infrastructure for entrepreneurship. Twelve characteristics of women entrepreneurs were examined by Selvamalar and Sadiq Sohail (2006). They considered women entrepreneurs in North-East, Sri Lanka for their study. They especially examined women entrepreneurs those who were affected by the war. They indicated in their findings that high need for achievement, high level of confidence, high level of determination and desire to overcome hurdles and solve problems, and set clear goals for themselves are strong women entrepreneurial characteristics for succeeding business. Another study has identified six principal factors (Efficient management, marketing strategy, customer orientation, supportive environment, capital accessibility, and product quality) that are perceived to be major contributors to the success or growth of manufacturing SMEs in Sri Lanka (Wijewardena, and Zoysa, 1993). They mainly considered the small and medium entrepreneurs. In addition to these two research articles; The International Labour Organization has published a series of working papers on small and medium scale entrepreneurs in Sri Lanka. Wijewardena et al (2004) identified the extent of both planning and control processes and their relationship to performance of manufacturing SMEs. This was done by examining the budgeting and budgetary control processes and operating performance of 168 manufacturing SMEs operating in the Greater Colombo area of Sri Lanka. Their study has demonstrated that planning and control sophistication is an important contributor to the performance in manufacturing SMEs. In essence, the findings of the study suggest that the greater the sophistication in both planning and control processes, the higher the growth.

Small businesses have failed in the past for ignoring the vital measurement variables and factors for performance. Study by Tushabonwe-Kazooba, (2006) revealed that poor record keeping and lack of basic business management experience and skills are major contributors to failure of small business. Researchers have also identified lack of access to external finance and weak capital base, inexperience in the field of business, particularly lack of technical knowledge plus inadequate managerial skills, lack of planning and lack of market research as causes of small business failure (Lussier 1996; Murphy, Shleifer and Vishny 1996; Van Stel and Storey 2004). Akwani, (2007) observed the increased rate in business failure despite all the support and incentives as most business rarely survived their first year in operation. Ode, (2004) cited administration problems as major cause of failure for small businesses. Adeolu (2003) identified restrictive banking legislation, high interest charges and imperfections in the operation of the market mechanism as stumbling blocks to the finance of Small and Medium Enterprises (SMEs).

Earlier work on the internal workings of small and medium-sized enterprises was mainly concerned with the size of small firms and providing explanations for their performance. Staley and Morse (1965) examined the stages small firms pass through as an economy grows. They postulated several reasons why small firms in low income countries initially grow rapidly before their share in total industrial activity begins to decline. Rapid performance of small firms could be explained where: demand was rising as rural incomes were growing and where infrastructure costs still favoured small firms locating near fragmented markets; subcontracting and local assembly was common, as for example in varieties of machine-shop activities and where smaller firms produced a range of differentiated and innovative products serving small total markets. But as Anderson (1982) pointed out these propositions had not been quantitatively tested by the early 1980s.

Earlier researchers were also preoccupied with investigating the extent to which small firms form the foundation for larger firm performance. As Anderson (1982) reported, the body of that research claimed that, firms practically always begin as very small entities, with low amounts of capital drawn from the savings of the owner or borrowings from friends and relatives; initial levels of employment are low, typically less than a dozen, though the figure varies with the nature of the business; the social and occupational backgrounds of the owners varies greatly; and the firms that expand into medium or large scale activities do so continually or in steps. Expansion can be very fast for some firms, though the performance rates appear as broadly distributed as their final sizes'. Anderson (1982, p.926) concluded that the available empirical evidence suggested that a significant part of the performance of large scale enterprises was rooted in the expansion of once small firms through the size distribution.

Kenya's private sector (agriculture, industry and services) amounts to 81 percent of GDP and provides more than half of the formal wage employment. It's the informal sector and the SMEs in it which have created almost all of the new jobs in Kenya's economy last year, comparatively these micro-enterprises account for 53 percent of all jobs in Europe and 30-45 percent in Botswana (Economic survey, 2006). Most SMEs are disadvantaged private sector players; current relationship within the private sector must change for more productive business interaction. This requires opening up of access to formal financial and non –financial services a process of education and capacity development of smaller business and above all, trust building between the larger firms and their smaller suppliers and marketers. All this requires active facilitation and resources as indicated in Economic survey, 2006.

According to ILO study carried out by Steven son and St-ONge (2005), there are three profiles of women entrepreneurs operating SMEs in Kenya, namely those in Jua Kali micro-enterprises, “very small” micro-enterprises and “small-scale” enterprises. These are differentiated by their demographic profiles, extent of previous business experience, needs, access to resources and growth orientation. Most of the rural women provide for their families through subsistence farming and other agricultural activities supplemented by petty trade or micro enterprises. But they continue to face challenges.

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone.

Kinyanjui (2006) adds that jua kali entrepreneurs have financial social demands that compete with business capital, leading to a diversion of capital away from business needs. Kinyanjui (2006) records that some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirements getting and paying loans.

Loans from Kenyan microfinance institutions tend to be limited in amount, have no grace period, are short term in design and carry very high interest rates. Studies have shown that loans to MSE entrepreneurs only satisfy a fraction of their financial needs (ILO, 2008).

2.7 The Gap

As with many developing countries, there is limited research and scholarly studies about the SME in Jua Kali sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favorable, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there is need to conduct an empirical enquiry to investigate into the factors affecting the performance of SMEs in the Jua Kali sector in Nakuru Town, Kenya.

2.8 The Conceptual Frame Work

The conceptual framework for this study considers access to finance, management skills and macro-economic environment as critical components of SMEs growth and performance. The conceptual framework recognizes the independent variables of the study which are assessed through the various elements of factors affecting SMEs Performance: access to finance, management skills, macro-economic environment factors and infrustructure. On the other hand performance is considered to be the dependent variable assessed in terms of indicators such as profitability and production output. In this conceptual framework, the external environment of an organization is considered essential in determining the performance level. In this study, the moderating factors include; Environmental regulations and Kenya Bureau of Standards regulations. The conceptual framework for this study is illustrated in the Figure 1.

Conceptual Framework

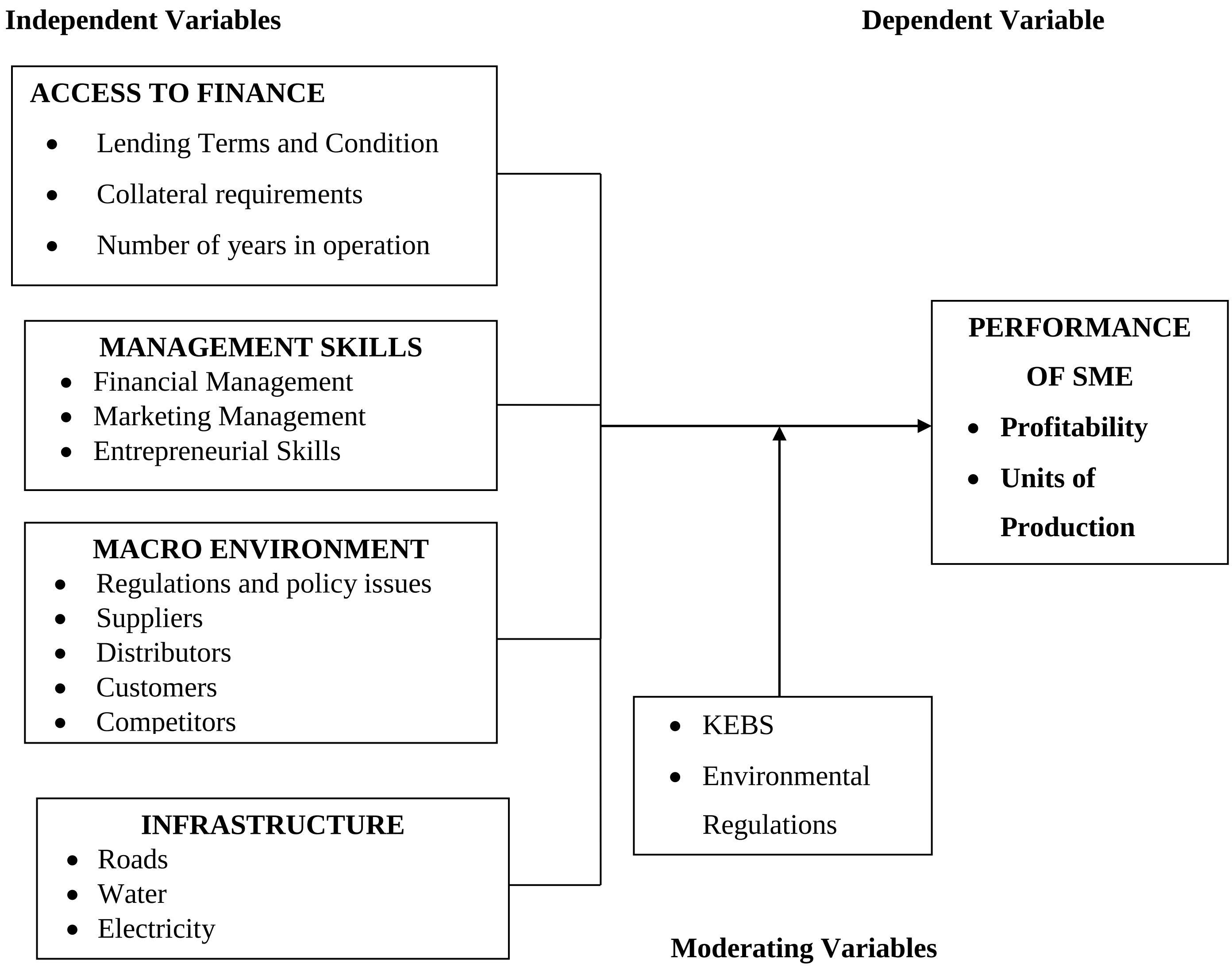

Figure 1: Relationship between factors affecting SMEs Performance

Source: Reviewed literature, 2013

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology was presented in the following order, research design, study population, sample size and sampling procedures, validity and reliably, data collection methods and finally the data analysis and presentation.

3.2 Research Design

The study adopted survey research design to achieve the objectives. Specifically, this study employed a cross-sectional survey. This is the study of groups of individuals differing on the basis of specified criteria at the same point in time, meaning that the data required for the problem will be gathered just once. This research design is known to save on time, effort, and costs that would otherwise be incurred in collecting data over several time. The study evaluated factors affecting performance of SMES in Jua Kali sector in Nakuru Town.

3.3 Study Population

The study involved Nakuru Town in Nakuru County. In this study the population of interest was the SMEs in the Jua Kali sector of Nakuru Town. There are currently 759 SMEs in the Jua Kali sector in Nakuru Town as per Nakuru municipal council licensing department.

3.4 Sample Size and Sampling Procedure

The study employed stratified random simple sampling. This facilitated achievement of desired representation of the various subgroups in the population. This method was appropriate because the population of the study formed strata's in the form of their homogeneity in the area of the study. This ensured that each stratum is adequately represented in the sample so that the level of accuracy is increased. The sample size was determined by the following formula (Yamane, 1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where

n is the sample size,

N is the population size, and

e is the level of precision.

In this case N is 759, ±5% Precision Levels where Confidence Level is 95% and P=.5

Hence, the sample size of the study will be 262. To determine the sample size to be taken in each stratum, the following formula will be used.

$\mathbf{n_i = N_i * n / N}$

Where;

$\mathbf{n_i}$ – Sample size of the stratum

n- Sample of the population of the study (**N**)

$\mathbf{N_i}$ - Population in the stratum

N - Total population of the study

The study will stratify the respondents in four categories as show in the table below:

Table 3.4. Sampling Procedure and Sample Size

Category	**Population of the Stratum**	**Sample of the Stratum**
Carpentry	125	43
Mechanics	200	69
Scrap metal dealers	134	46
Welders and fabricators	300	104
Total	**759**	**262**

Random sampling was used to select respondents from each stratum. This was necessary in order to avoid the problem of sample selection bias.

3.5 Validity and Reliability

Validation of the data collection involved going through the questionnaire in relation to the set objectives and make sure that they contain all information that enabled answering these objectives. To ensure reliability, the questionnaire was pre-tested on a few selected respondents from other SME not in Jua Kali sector. The results of the piloted instruments were used to calculate the reliability coefficient. The reliability co-efficient (alpha value) was found to be 0.73 compared to more than 0.7 and was assumed to reflect the acceptable reliability. The Alpha value ranges from zero to one and indicates the reliability of an instrument. The more the Alpha value is closer to one, the more reliable the instrument.

3.6 Data Collection

The study employed a structured questionnaire to gather information from the study respondents (Jua Kali owners). A likert type scale was used to collect information on evaluation of factors affecting performance of SMEs. At the onset of data collection, the respondents were consulted in order to facilitate a seamless data collection process. It was ensured that the questionnaires are accurately completed during the field work. The questionnaires were numbered and coded to ensure that all the necessary information is recorded. When coding the data any questionnaire which might not have been collected was identified and the anomalies corrected.

3.7 Data Analysis and Presentations

The data from the completed questionnaires was coded to facilitate statistical analysis. Descriptive statistics and inferential statistical techniques were used to analyze the data. Descriptive statistics such as means, standard deviation and frequency distribution enabled the researcher to meaningfully describe the distribution of measurements. The use of descriptive statistics also indicated what number and percentage of respondents considered different factors determining the performance of SMES in Jua Kali sector in Nakuru.

This study applied Pearson moment correlation to determine the strength and direction of association between factors affecting performance and performance of SMEs. The relationship between factors affecting performance and performance of SMEs was tested at alpha level $p < 0.05$ significance levels (2-tailed test), as conventionally applied in social science surveys.

Regression analysis was used to test the overall factors affecting performance of SMEs on performance of Jua Kali Sector. The regression is based on the linear equation model expressed as: $Y= b_0 + b_1x_1 + b_2x_2 + b_3x_3 +b_4x_4+b_5x_5$

Where Y= dependent variable (Performance Jua Kali Sector)

b_0= constant ; b_1, b_2, b_3, b_n= corrélation coefficient and $x_1, x_2, x_3 \ldots x_n$= independent variables (Access to finance, Management Skills, Macro Environment and Infrastructure). The data was analyzed with the help of the Statistical Package for Social Sciences (SPSS) computer software.

CHAPTER FOUR
DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The study sought to evaluate factors affecting the performance of small and medium enterprises in the Jua Kali sector in Nakuru town. The data was collected using questionnaires targeting Jua Kali artisans. The results of data analysis are summarized, presented and discussed as follows:

4.2 Background Information

The results of the sampled respondents and the profile of the sampled SMEs in the Jua Kali sector are analyzed in this section. The description provides a better understanding of the respondents as a good foundation for a detailed discussion of the results based on the stipulated objectives of the study. The demographic characteristics included designation, gender and years of service.

4.2.1 Type of Sampled SMEs

According to study sample (Table 4.2.1), 16.41% were carpentry, 26.34% of businesses were mechanics, 17.56 were scrap metals while 39.69% were welders and fabricators.

Table 4.2.1. Nature of SME Businesses

Type	Frequency	Percent
Carpentry	43	16.41
Mechanics	69	26.34
Scrap metal dealers	46	17.56
Welders and fabricators	104	39.69
Total	**262**	**100.0**

4.2.2 Respondent's Gender

According to study findings (Figure 4.2.2), out of the total 262 study respondents, 92% were male whereas 8% were female respondents. This data showed that majority of respondents were males.

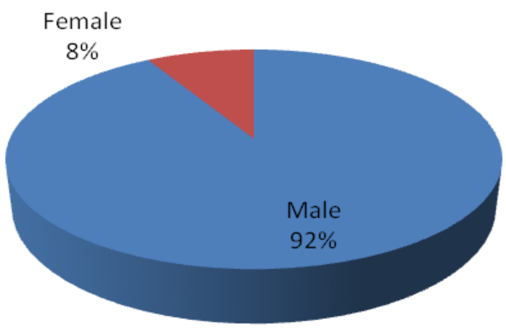

Figure 4.2.2. Respondent's Gender

4.2.3 Number of Years in Operation

Survey data (Table 4.2.3) indicates that 43.5% of the SMEs had been in operation for 6-10 years, 37% had operated for 11-15 years, 14.5% had operated for 1-5 years while 5% had operated for 16-20 years. These findings generally suggest that a significant proportion of the respondents (80.5%) had operated for 6-15 years.

Table 4.2.3 Number of Years in Business

Age Group	**Frequency**	**Percent**
1-5yrs	38	14.5
6-10yrs	114	43.5
11-15yrs	97	37.0
16-20yrs	13	5.0
Total	**262**	**100.0**

4.2.4 Respondent’s Designation

According to study findings (Figure 4.2.4), 77.9% of the respondents were owners, 16% were supervisors/attendants, 6.1% of the respondents were partners. This data showed that a significant proportion of respondents (77.9%) were owners of the sampled SMEs.

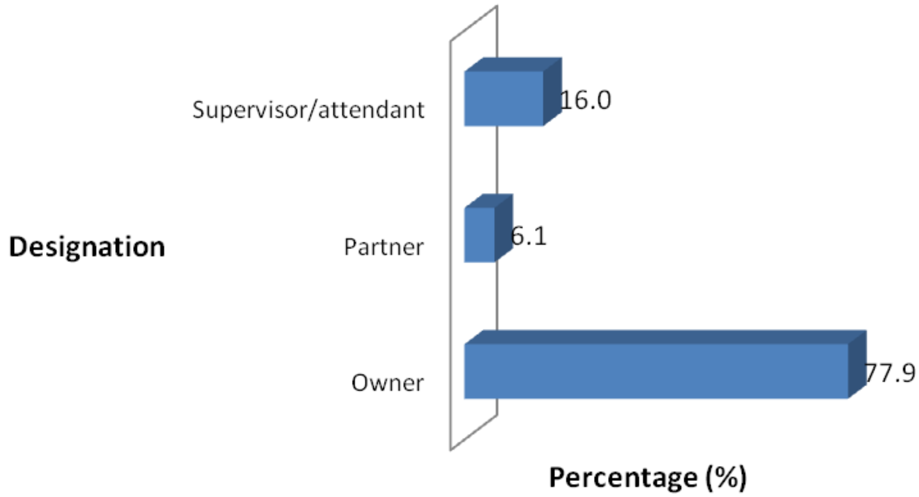

Figure 4.2.4. Respondents' Designation

4.3 Effect of Access to Finance by SMEs on Performance in the Jua Kali Sector

Objective one of the study sought to identify the extent to which access to finance affected performance of SMEs. In order to achieve this objective, the study examined the various aspects of access to finance such as: Lending terms and conditions; Collateral requirements and Number of years as discussed in the sections below:

4.3.1 Lending Terms and Conditions and Performance of SMEs

The study respondents were asked to indicate the extent to which lending terms affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very greater extent (5), to a greater extent (4), to some extent (3), to a low extent (2) and not at all (1). The results were presented in the Table 4.3.1.

Table 4.3.1 Effect of Lending Terms and Conditions on Performance

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
Lack of financial records makes it difficult to access finance	1.9	5.0	30.5	60.3	2.3	3.561
Most financial institutions are reluctant to provide long-term credit to SMEs.	0.0	1.1	12.3	72.5	14.1	3.996
High interest rates, premium cost and other loan processing cost makes SMEs unable to obtain funds from banks.	0.0	0.8	35.9	58.3	5.0	3.678

This study revealed that 62.6% of the respondents reported that to a great extent lack of financial records made it difficult for SMEs to access lending proposals, 35.5% reported to some extent while 1.9% reported not at all. This study also revealed that 86.6% of the respondents generally reported that most financial institutions were reluctant to provide long-term credit to SMEs while 13.4% reported to some extent. In addition 63.3% of the respondents generally reported that high interest rates, premium cost and other loan processing cost made SMEs unable to obtain funds from banks, whereas 36.7% reported to some extent.

With regard to the overall effect of lending terms and conditions on performance, survey data (Figure 4.3.1) shows that 84% of the respondents reported moderate, 12% reported “low” and only 4% reported “high”. The study findings indicate that overall effect of lending terms and conditions on performance of SMEs was found to be moderate

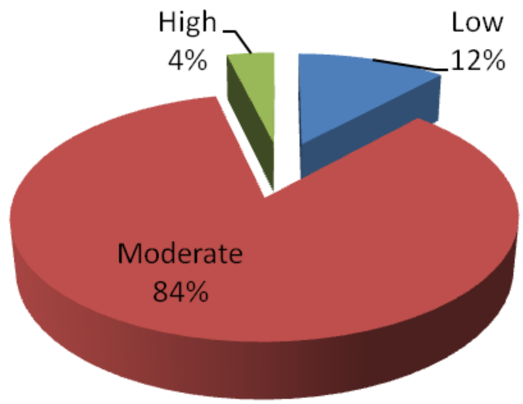

Figure 4.3.1 Overall Lending Terms and Conditions Index

4.3.2 Collateral Requirements and Performance of SMEs

The study respondents were asked to indicate the extent to which collateral requirements affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.3.2.

Table 4.3.2 Effect of Collateral Requirements on Performance of SMEs

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
Firms with intangible assets can only borrow less.	0.8	3.8	31.3	39.9	4.2	3.629
SMEs cannot afford the required collateral.	0.8	1.5	38.2	53.8	5.7	3.622
SMEs lack accumulation of sufficient assets.	2.7	1.1	29.0	62.6	4.6	3.652

The study findings revealed that, 44.1% of the respondents generally reported that firms with intangible assets could only borrow less, 35.1% reported to some extent while 0.8% reported not at all. Further, the study findings indicated that 59.5% of the respondents generally reported that

SMEs could not afford the required collateral, 39.7% reported to some extent while 0.8% reported not at all. Also, the study findings showed that 67.2% of the respondents generally reported that SMEs lacked accumulation of sufficient assets, 30.1% reported to some extent while 2.7% reported not at all.

On the extent to which overall collateral requirements affected performance of SMEs, study findings (Figure 4.3.2) show that 57.6% of respondents reported to moderated, 40.8% reported high and only 1.6% reported low. It was evident that collateral requirements moderately affected performance of SMEs in the study area.

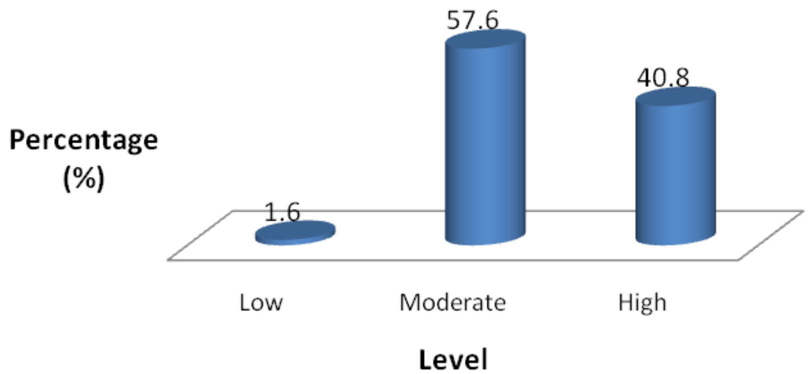

Figure 4.3.2 Overall Collateral Requirements on Performance Index

4.3.3 Number of Years in Operation and Performance

The study respondents were asked to indicate the extent to which number of years in operation affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.3.3.

Table 4.3.3 Effect of the Number of years in Operation on Performance

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
SMEs which have operated for long number of years develop good business track record and reputation.	7.2	4.2	32.1	53.1	3.4	3.412
SMEs which have operated for long number of years have developed accounting systems and establishes legal identity	4.6	3.8	36.3	53.8	1.9	3.438
Old firms have information required by the lenders to evaluate and process applications.	5.4	5.3	24.4	62.6	2.3	3.511

Study findings revealed that 58.5% of the respondents reported that to a great extent SMEs which had operated for long number of years developed good business track record and reputation, 36.3% reported to some extent while 7.2% reported not at all. In addition, study findings revealed that 55.7% of the respondents generally reported that to a great extent SMEs which have operated for long number of years had developed accounting systems and established legal identity, 40.1% reported to some extent while 4.2% reported not at all. In addition, 64.9% of the respondents generally agreed reported that to great extent old firms had information required by the lenders to evaluate and process applications, 29.7% reported to some extent while 5.4% reported not at all.

On the extent to which number of years in operation affected performance of SMEs, survey data (Figure 4.3.3) indicate that 59% of the respondents reported “high”, 35% reported high extent while 6% reported “low”. These findings generally indicate that number of years in operation greatly affect performance of SMEs.

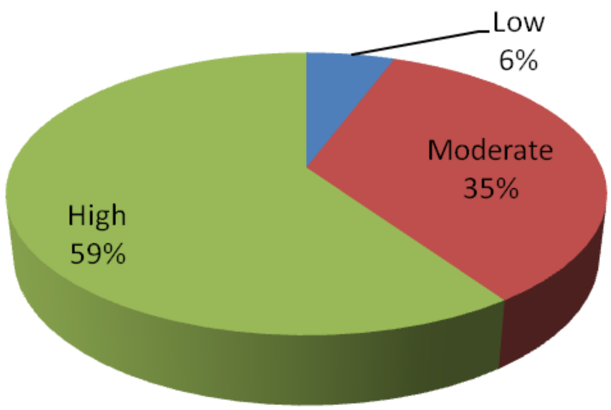

Figure 4.3.3 Overall Number of Years in Operation Index

4.4 Effect of Management Skills on Performance in the Jua Kali Sector

Objective two of the study sought to determine the relationship between management skills and performance of SMEs in the study area. In order to achieve this objective, the study examined the various aspects of management skills such as: Financial management; Marketing management and Entrepreneurial skills as discussed in the sections below:

4.4.1 Financial Management and Performance of SMEs

The study respondents were asked to indicate the extent to which financial management affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.4.1.

Table 4.1.1 Effect of Financial Management on Performance

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
SMEs have well maintained financial records.	58.0	5.7	32.1	3.8	0.4	1.828
Cash is well managed and no withdraws are made by the owners without consideration of net income generated.	26.0	12.6	58.8	2.6	0.0	2.381
SMEs differentiate on capital and income.	57.6	9.2	30.2	3.0	0.0	1.788

The study findings revealed that only 4.2% of the respondents generally to a great extent SMEs had well maintained financial records, 37.8% reported to some extent while 58% reported not at all. Also, only 2.6% of the respondents generally reported that to a great extent cash was well managed and no withdraws were made by the owners without consideration of net income generated, 71.4% reported to some extent while 26% reported not at all. In addition, only 3.1% of the respondents generally report that to a great extent SMEs differentiated on capital and income, 39.4% reported to some extent while 57.6% reported not at all.

On the overall effect of financial management on performance, survey data (Figure 4.4.1) indicate that 53.8% of the respondents reported low, 42% reported moderate while 4.2% reported high. These findings generally indicate that overall effect of financial management on performance of SMEs was found to be generally low.

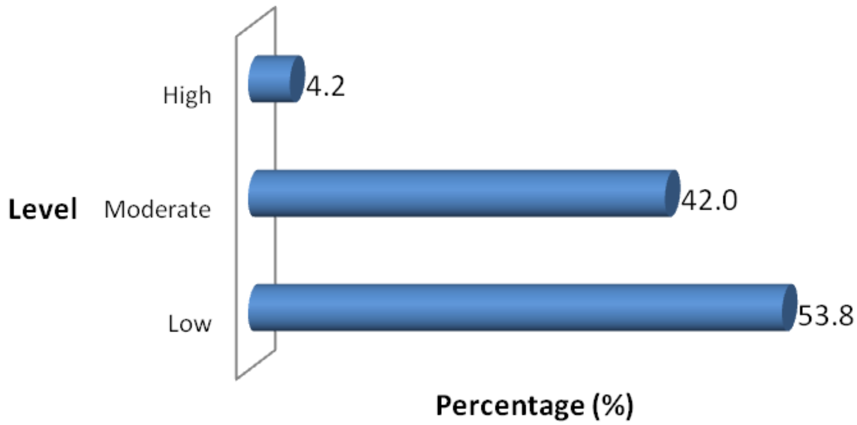

Figure 4.4.1 Overall Financial management Index

4.4.2 Marketing Management and Performance of SMEs

The study respondents were asked to indicate the extent to which marketing management affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.4.2.

Table 4.4.2 Effect of Marketing Management on Performance of SMEs

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
Marketing plan is well prepared.	68.4	16.0	15.6	0.0	0.0	1.4773
SMEs are capable of satisfying customer needs while meeting stakeholders expectations.	21.0	17.6	59.9	1.5	0.0	2.419
Its capable to create a competitive edge.	28.6	16.4	51.9	3.1	0.0	2.293
Its capable of identifying target markets.	43.5	18.7	36.6	1.1	0.0	1.954
Its capable to identify promotional activities.	66.0	17.2	14.9	1.9	0.0	1.503

This study revealed that 31.6% of the respondents generally reported that to some extent the marketing plan was well prepared while 68.4% reported not at all. This study also revealed that only 1.5% of the respondents generally reported that to a great extent SMEs were capable of satisfying customer needs while meeting stakeholders expectations, 77.5% reported to some extent while 21% reported not at all. In addition only 3.1% of the respondents generally reported that to a great extent SMEs were capable of creating a competitive edge, 68.3% reported to some extent while 28.6% reported not at all.

The study findings revealed that 1.1% of the respondents generally reported that to a great extent SMEs were capable of identifying target markets, 55.3% reported to some extent while 43.5% reported not at all. Finally, 1.9% of the respondents generally agreed that reported that to a great extent SMEs were capable of identifying promotional activities, 32.1%reported to some extent while 66% reported not at all.

With regard to extent to which marketing management affected performance of SMEs, survey data (Figure 4.4.2) shows that 58% of the respondents reported low, 37% reported “moderate” and only 5% reported “high”. The study findings indicate that the effect of marketing management on performance of SMEs was found to low.

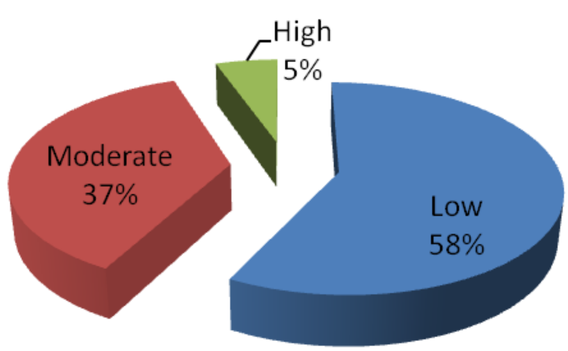

Figure 4.4.2 Overall Marketing Management Index

4.4.3 Entrepreneurial Skills and Performance of SMEs

The study respondents were asked to indicate the extent to which entrepreneurial skills affected performance of SMEs. Their responses were measured on a five-point Likert : To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.4.3.

Table 4.4.3 Effect of Entrepreneurial Skills on Performance

Statement	**Percentage Response (%)**					**Mean**
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
Have been taking trainings on business skills.	61.2	3.1	23.3	12.4	0.0	1.862
Have been trained on drafting business plans.	74.0	3.8	17.2	5.0	0.0	1.530
Has specialized training on productivity, environmental awareness.	88.5	3.1	6.9	1.5	0.0	1.213
Has training on establishing net works, partnerships and joint ventures.	78.6	5.7	6.5	9.2	0.0	1.461

According to study findings, 12.4% of the respondents generally reported that to a great extent they had undertaken trainings on business skills, 26.4% reported to some extent while 61.2% reported not at all. Further, the study findings indicated that 5% of the respondents generally agreed that reported that to a great extent they had been trained on drafting business plans, 21%reported to some extent while 74% reported not at all.

Also, the study findings showed that 1.5% of the respondents generally reported that to a great extent they had specialized training on productivity, environmental awareness, 10%reported to some extent while 88.5% reported not at all. Finally, study findings revealed that 9.2% of the respondents generally reported that to a great extent they had training on establishing net works, partnerships and joint ventures, 12.2% reported to some extent while 78.6% reported not at all.

With regard to the extent to which overall entrepreneurial skills affected performance of SMEs, survey data (Figure 4.4.3) show that 71.8% of respondents reported low, 23.7% reported moderate and only 4.5% reported high. Overall, the study findings indicate that the effect of entrepreneurial skills on performance of SMEs was found to be generally low.

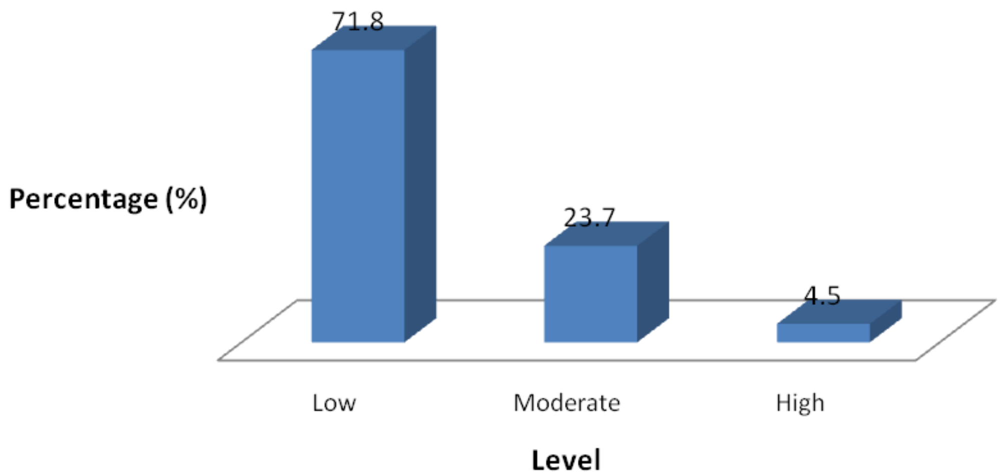

Figure 4.4.3 Overall Entrepreneurial Skills Index

4.5 Effect of Macro Environment on Performance in the Jua Kali Sector

Objective three of the study sought to examine the extent to which macro environment affected performance of SMEs in the study area. In order to achieve this objective, the study examined the various aspects of macro environment such as: Regulations and policy issues; Suppliers; Distributors; Customers and Competitors as discussed in the sections below:

4.5.1 Regulations and Policy Issues and Performance of SMEs

The study respondents were asked to indicate the extent to which regulations and policy issues affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.5.1.

Table 4.5.1 Effect of Regulations and Policy Issues on Performance

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
The firm is required to adhere to Property rights	78.3	3.4	16.0	2.3	0.0	1.423
The firm is required to adhere Taxation and financial reporting	23.3	5.3	23.3	43.9	4.2	3.003
The firm is required to adhere Employment and health and safety standards	53.4	7.6	22.9	16.0	1.1	2.061
The firm is required to adhere to Environmental protection	22.6	8.0	26.3	39.3	3.8	2.939
The firm is required to adhere to Premises and planning rules	80.9	1.5	14.5	2.3	0.8	1.404
The firm is required to adhere to Trading standards and customer rights	88.6	5.0	9.2	1.1	1.1	1.313

Furthermore, study findings revealed that 2.3% of the respondents generally reported that to a great extent the firm was required to adhere to property rights, 19.4% reported to some extent while 78.3% reported not at all. In addition, study findings revealed that 48.1% of the respondents generally reported that to a great extent the firm was required to adhere taxation and financial reporting, 28.6% reported to some extent while 23.3% reported not at all.

In addition, 17.1% of the respondents generally reported that to a great extent the firm was required to adhere to employment, health and safety standards, 30.5% reported to some extent while 53.4% reported not at all. Further, 43.1% of the respondents generally reported that to a great extent the firm was required to adhere to environmental protection, 34.3% reported to some extent while 22.3% reported not at all.

Also, 3.1% of the respondents generally reported that to a great extent the firm was required to adhere to premises and planning rules, 16% reported to some extent while 80.9% reported not at all. Finally, 2.2% of the respondents generally reported that the firm was required to adhere to trading standards and customer rights, 14.2% reported to some extent while 88.6% reported not at all

On the extent to which regulations and policy issues affected performance, survey data (Figure 4.5.1) indicate that 58.4% of the respondents reported “moderate”, 29.8% reported low while 11.8% reported “low”. These findings generally indicate that the effect of regulations and policy issues on performance was found to be moderate.

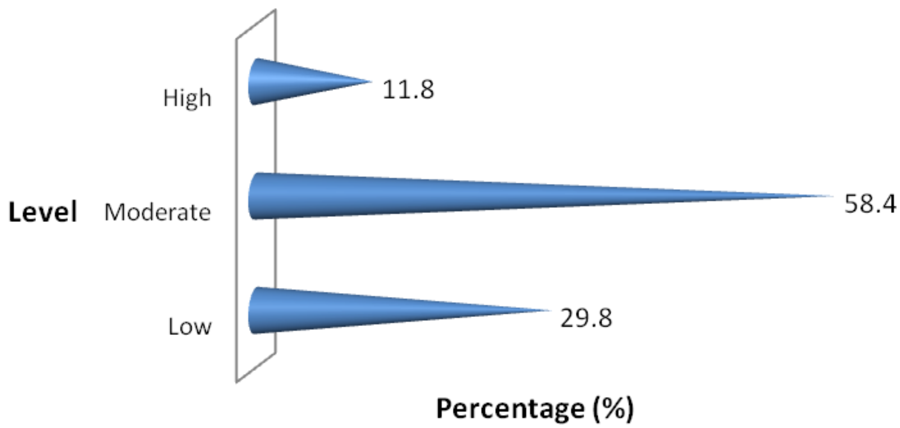

Figure 4.5.1 Overall Regulations and Policy index

4.5.2 Suppliers and Performance of SMEs

The study respondents were asked to indicate the extent to which suppliers affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.5.2.

Table 4.5.2 Effect of Suppliers on Performance

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
Capable to provide high quality raw materials at appropriate prices	13.3	8.0	71.8	6.1	0.8	2.729
Capable to provide reliable volumes of raw materials	11.5	6.5	63.7	18.3	0.0	2.889
Have flexibility to changing volumes	13.4	7.6	66.4	12.6	0.0	2.782

This study revealed that 6.9% of the respondents generally reported that to a great extent the SMEs were capable of providing high quality raw materials at appropriate prices, 79.8% reported to some extent while 13.3% reported not at all. This study also revealed that 18.3% of the respondents generally reported that to a great extent the SMEs were capable of providing reliable volumes of raw materials, 70.2% reported to some extent while 11.5% reported not at all. Finally, 12.6% of the respondents generally reported that to a great extent the SMEs had flexibility to changing volumes, 74% reported to some extent while 13.4% reported not at all.

With regard to extent to which suppliers affected performance of SMEs, survey data (Figure 4.5.2) shows that 68% of the respondents reported moderate, 18% reported "high" and only 14% reported "low". The study findings indicate that overall effect of suppliers on performance of SMEs was found to be generally moderate.

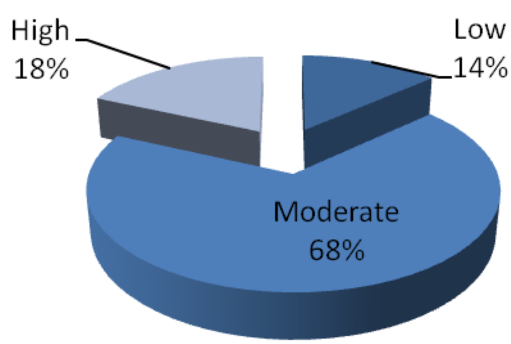

Figure 4.5.2 Overall Suppliers Index

4.5.3 Distributors and Performance of SMEs

The study respondents were asked to indicate the extent to which distributors. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.5.3.

Table 4.5.3 Effect of Distributors on Performance

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
Avail adequate stores to stock firms product	67.2	8.0	23.7	1.1	0.0	1.587
Adequately displays firms products in their shelves	64.1	14.1	19.8	0.8	1.1	1.606

According to study findings, 1.1% of the respondents generally reported that to a great extent the SMEs availed adequate stores to stock firm's product, 31.7% reported to some extent while 67.2% reported not at all. Further, the study findings indicated that 1.9% of the respondents generally reported that to a great extent the SMEs adequately displayed firms products in their shelves, 34% reported to some extent while 64.1% reported not at all.

With regard to the extent to which distributors affected performance of SMEs, survey data (Figure 4.5.3) show that 79.4% of respondents reported low, 18.7% reported moderate and only 1.9% reported high. Overall, the study findings indicate that the effect of distributors on performance of SMEs was found to low.

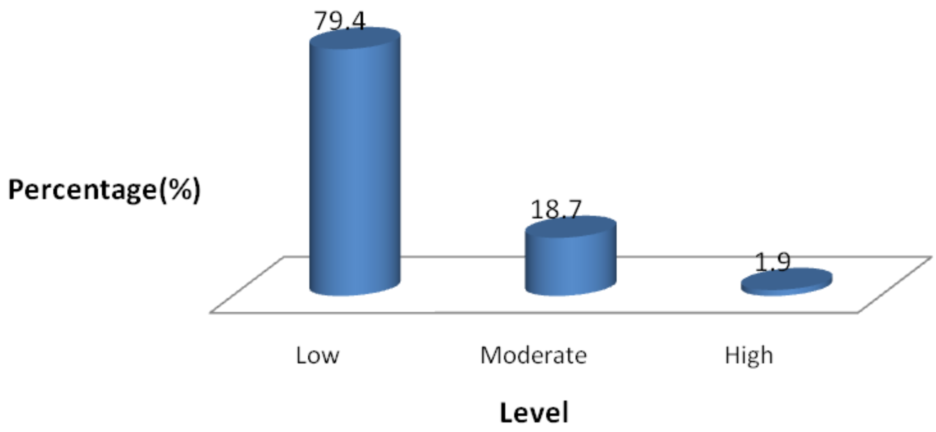

Figure 4.5.3 Overall Distribution Index

4.5.4 Customers and Performance of SMEs

The study respondents were asked to indicate the extent to which customers affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.5.3.

Table 4.5.3 Effect of Customers on Performance

Statement	**Percentage Response (%)**					**Mean**
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
Their needs are met effectively	14.5	8.0	67.6	9.9	0.0	2.729
There is good relation with customers through incentives	8.0	5.0	64.9	21.0	1.1	3.022

Furthermore, study findings revealed that 9.9% of the respondents generally reported that to a great extent their needs were met effectively, 75.6% reported to some extent while 14.5% reported not at all. In addition, study findings revealed that 22.9% of the respondents generally reported that to a great extent there was good relation with customers through incentives, 69.9% reported to some extent while 8% reported not at all.

On the extent to which customers affected performance of SMEs, survey data (Figure 4.5.4) indicate that 58% of the respondents reported “moderate”, 23% reported high extent while 19% reported “low”. These findings generally indicate that real time gross settlement (RTGS) and online transfers had been achieved to moderate extent among commercial banks.

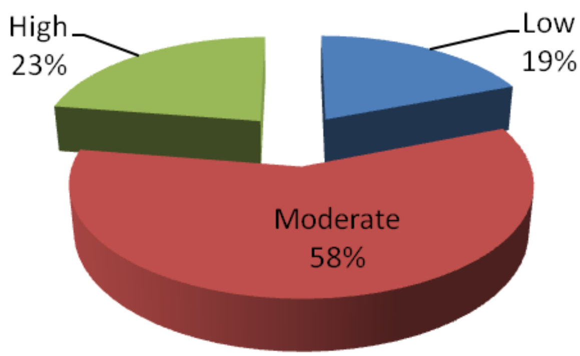

Figure 4.5.4 Overall Customer Index

4.5.5 Competitors and Performance of SMEs

The study respondents were asked to indicate the extent to which competitors affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.5.5.

Table 4.3.4 Effect of Competitors on Performance

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
The firm has a bigger market share than competitors	65.3	9.5	21.0	3.4	0.8	1.648
The firm is capable to offer excellent products than its competitors	32.0	9.9	50.0	7.3	0.8	2.347
The firm offers favorable prices	5.7	3.1	31.7	42.7	16.8	3.618

The study findings revealed that 4.2% of the respondents generally reported that to a great extent the firm had a bigger market share than competitors, 30.5% reported to some extent while 65.3% reported not at all. Also, 8.1% of the respondents generally reported that to a great extent the firm was capable of offering excellent products than its competitors, 59.9% reported to some extent while 32% reported not at all. Finally, 59.5% of the respondents generally reported that to a great extent the firm offered favorable prices, 34.8% reported to some extent while 5.7% reported not at all.

On the overall effect of competitors on performance of SMEs, survey data (Figure 4.5.5) indicate that 56.5% of the respondents reported moderate 31.3% reported low while 12.2% reported high. These findings generally indicate that overall effect of competitors on performance of SMEs was found to be generally moderate.

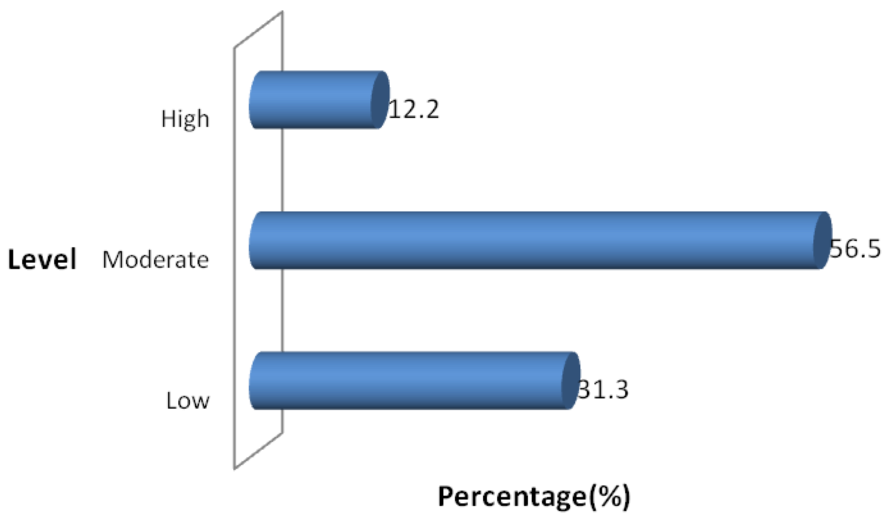

Figure 4.3.4 Overall Competitors Index

4.6 Effect of Infrastructure on Performance of SMEs in the Jua Kali Sector

Objective four of the study sought to determine the extent to which infrastructure affected performance of SMEs in the study area. In order to achieve this objective, the study examined the various aspects of infrastructure such as: Water; Electricity and Roads as discussed in the sections below:

4.6.1 Water and Performance of SMEs

The study respondents were asked to indicate the extent to which water affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.6.1

Table 4.6.1 Effect of Water on Performance

Statement	**Percentage Response (%)**					**Mean**
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
There is adequate water	2.2	8.8	46.2	42.0	0.8	3.301
The cost of water is adequate to your sector	4.6	4.2	45.0	46.2	0.0	3.328

This study revealed that 42.8% of the respondents generally reported that to a great extent there was adequate water, 55% reported to some extent while 2.2% reported not at all. This study also revealed that 46.2% of the respondents generally reported that to a great extent the cost of water was adequate to their sector, 49.2% reported to some extent while 17.3% reported not at all.

With regard to extent to which water affected performance of SMEs, study findings (Figure 4.6.1) shows that 50% of the respondents reported high, 48% reported moderate and only 2% reported “low”. The study findings indicate that the overall effect of water on performance of SMEs was found to generally high.

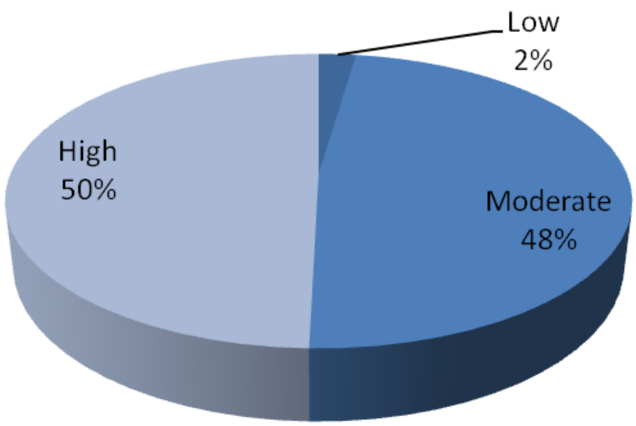

Figure 4.3.1 Overall Water index

4.6.2 Electricity and Performance of SMEs

The study respondents were asked to indicate the extent to which electricity affected performance of SMEs. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.6.2.

Table 4.6.2 Effect of Electricity on Performance of SMEs

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
There is adequate electricity	14.9	9.9	35.9	37.4	1.9	3.015
The cost of electricity is affordable to your sector	17.3	9.5	35.5	36.6	1.1	2.905

According to study findings, 39.3% of the respondents generally reported that to a great extent there was adequate electricity, 46.8% reported to some extent while 14.9% reported not at all. Further, the study findings indicated that 37.7% of the respondents generally reported that to a great extent the cost of electricity was affordable to your sector, 45% reported to some extent while 17.3% reported not at all.

With regard to the overall effect of electricity on performance, survey data (Figure 4.6.2) show that 39.3% of respondents reported moderate, 34.7% reported moderate and only 26% reported low. Overall, the study findings indicate that the overall effect of electricity on performance of SMEs was found to be generally moderate.

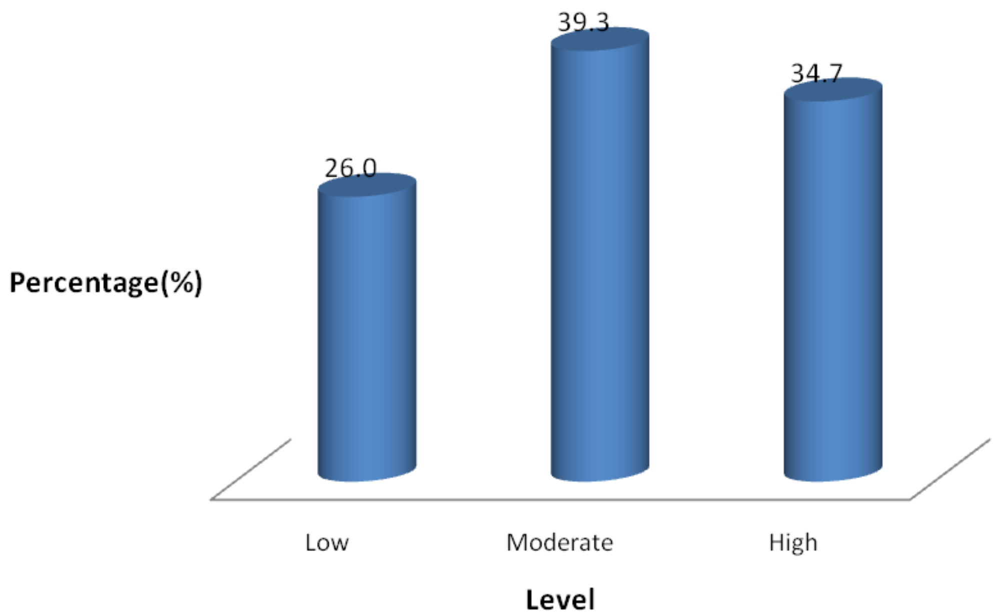

Figure 4.3.2 Overall Electricity Index

4.6.3 Roads and Performance of SMEs

The study respondents were asked to indicate the extent to which roads affected performance of SMEs in the study area. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.6.3.

Table 4.6.3 Effect of Roads on Performance of SMEs

Statement	Percentage Response (%)					Mean
	Not at all	To a low Extent	To some extent	To a greater extent	To a very great extent	
There is adequate roads to access your business	0.0	2.7	37.8	49.2	10.3	3.671
The roads were well maintained	0.0	1.1	32.1	47.3	19.5	3.854

The study findings revealed that 59.5% of the respondents generally reported that to a great extent there were adequate roads to access their businesses while 40.5% reported to some extent. In addition, study findings revealed that 66.8% of the respondents generally reported that to a great extent the roads were well maintained while 33.2% reported to some extent.

On the overall effect of roads on performance of SMEs, study findings (Figure 4.6.3) indicate that 78.2% of the respondents reported "moderate", 19.1% reported high while 2.7% reported "low". These findings generally indicate that the overall effect of roads on performance of SMEs was found to be generally moderate.

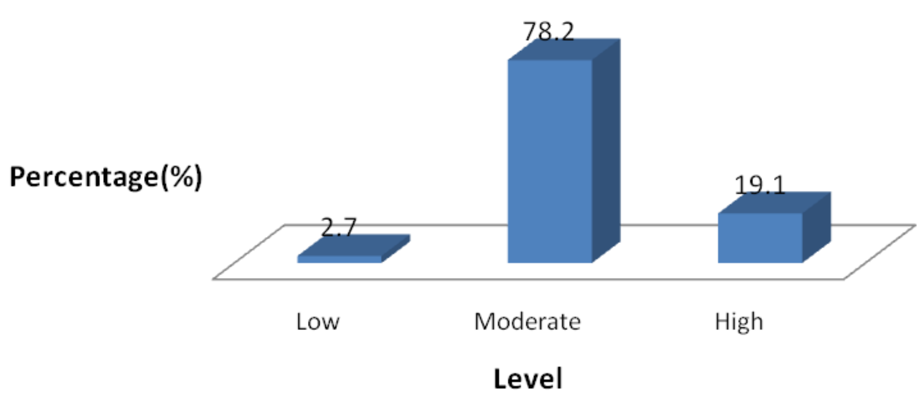

Figure 4.6.3 Overall Roads Index

4.7 Level of Performance among the SMEs in the Jua Kali Sector

The study sought to establish the level of performance of SMEs in the study area. In this regard, the study examined the various aspects of performance such as profits and production output as discussed in the section below:

4.7.1 Level of Profits among SMEs

The study respondents were asked to indicate the level of profits among the SMEs in the study area. Their responses were measured on a five-point Likert: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.7.1.

Table 4.7.1 Impact of Profitability on Bank Performance

Statement	**Percentage Response (%)**					**Mean**
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
Net income have increased	0.0	1.2	62.2	35.1	1.5	3.370
Operating cash flow have increased	0.0	1.2	54.2	40.8	3.8	3.473
Value of the firm have increased	0.0	3.4	55.0	38.9	2.7	3.408
Residual income have increased	0.0	4.2	43.9	49.6	2.3	3.500

The study findings revealed that 36.6% of the respondents generally reported that to a great extent the net income had increased whereas 63.4% reported to some extent. Furthermore, 44.6% of the respondents generally reported that to a great extent the operating cash flow had increased while 55.4% reported to some extent. In addition, 41.6% of the respondents generally reported that to a great extent the value of the firm had increased while 58.4% reported to some extent. Finally, 41.6% of the respondents generally reported that to a great extent the residual income had increased while 48.1% reported to some extent.

With regard to the overall performance in terms of profits, survey data (Figure 4.7.1) shows that 49% of the respondents reported moderate, 47% reported high and only 4% reported low. The study findings generally indicate that overall performance of SMEs in the study area was generally moderate.

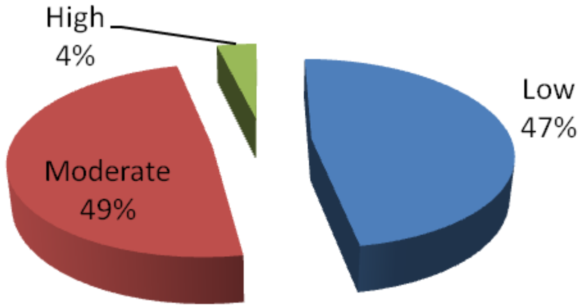

Figure 4.7.1 Overall Profit Index

4.7.2 Level of Production Output among SMEs

The study respondents were asked to indicate the level of production output among the SMEs in the study area. Their responses were measured on a five-point Likert scale: To a very great extent (5), To a greater extent (4), To some extent (3), To a low Extent (2) and Not at all (1). The results were presented in the Table 4.7.2

Table 4.7.2 Level of Production Output

Statement	Percentage Response (%)					Mean
	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**	
The level of output have increased	0.0	4.2	43.9	49.2	2.7	3.503
There was no wastage of raw materials	0.0	3.1	34.3	56.5	6.1	3.655

The study findings revealed that 51.9% of the respondents generally reported that to a great extent the level of output had increased whereas 48.1% reported to some extent. Furthermore, 62.6% of the respondents generally reported that to a great extent there was no wastage of raw materials whereas 37.4% reported to some extent.

With regard to overall performance of SMEs in terms of production output, study findings (Figure 4.7.2) shows that 88.5% of the respondents reported moderate, 7.2% reported high and only 4.2% reported low. The study findings generally indicate that overall level of production output of SMEs was found to generally moderate.

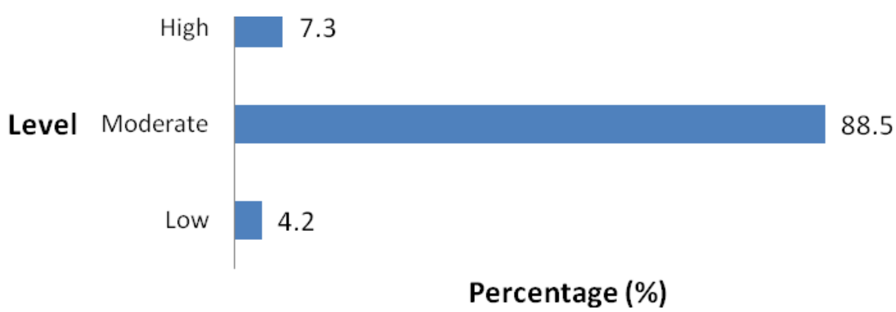

Figure 4.7.2 Overall Production Index

4.8 Hypothesis Testing

The study set out to test the null hypotheses.

4.8.1 Correlation Analysis

Correlation analysis involved correlating of the computed scores of the independent variables (access to finance, management skills, macro environment and infrastructure) with computed scores of the dependent variables (profit and production output). The results of correlation analysis were summarized in Table 4.8.1.

Table 4.8.1 Correlations Matrix

Independent Variables	Statistics	Dependent Variables	
		Profit	**Production**
Lending terms and conditions	Correlation Coefficient (r)	.265**	.241**
	Significance Level (p-value)	.000	.000
Collateral requirement	Correlation Coefficient	.177**	.118
	Significance Level (p-value)	.004	.056
Number of years in operation	Correlation Coefficient	.144*	.165**
	Significance Level (p-value)	.020	.008
Combined Access to Finance	Correlation Coefficient	**.251****	**.227****
	Significance Level (p-value)	**.000**	**.000**
Financial Management	Correlation Coefficient	.335**	.271**
	Significance Level (p-value)	.000	.000
Marketing Management	Correlation Coefficient	.045	.071
	Significance Level (p-value)	.473	.252
Entrepreneurial Skills	Correlation Coefficient	.098	.107
	Significance Level (p-value)	.114	.083
Combined Management Skills	Correlation Coefficient	**.226****	**.216****
	Significance Level (p-value)	**.000**	**.000**
Regulatory and Policy Issues	Correlation Coefficient	.161**	.163**
	Significance Level (p-value)	.009	.009
Suppliers	Correlation Coefficient	.115	.023
	Significance Level (p-value)	.063	.717
Distributors	Correlation Coefficient	.074	.227**
	Significance Level (p-value)	.230	.000
Customers	Correlation Coefficient	.038	.057
	Significance Level (p-value)	.543	.354
Competitors	Correlation Coefficient	.077	.127*
	Significance Level (p-value)	.214	.040
Combined Macro Environment	Correlation Coefficient	**.120**	**.220***
	Significance Level (p-value)	**.051**	**.040**
Water	Correlation Coefficient	.207**	.126*
	Significance Level (p-value)	.001	.002
Electricity	Correlation Coefficient	.045	.147*
	Significance Level (p-value)	.473	.017
Roads	Correlation Coefficient	.080	.124*
	Significance Level (p-value)	.055	.045
Combined Infrastructure	Correlation Coefficient	**.087**	**.008**
	Significance Level (p-value)	**.674**	**.895**

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

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

Source: Research data, 2013

The correlation results findings indicate that access to finance was significantly associated with profits ($r = 0.251$, $P < 0.05$) and production output ($r = 0.227$, $P < 0.05$). This implies that an increase in access to finance results in an increase in profits and production output of SMEs

Further, study findings reveal that management skills was significantly associated with both profits ($r = 0.226$, $P < 0.05$) and production output ($r = 0.215$, $P < 0.05$). This implies that an increase in management skills results in an increase in profits and production output of SMEs.

Findings also indicate that macro environment was not significantly associated with profits ($r = 0.120$, $P > 0.05$) but significantly associated with production output ($r = 0.220$, $P < 0.05$). This implies that an increase in macro environment resulted in an increase in production output but not profits of SMEs in the study area.

Finally, correlation results indicate that infrastructure was not found to be significantly associated with both profits ($r = 0.087$, $P > 0.05$) and production output ($r = 0.008$, $P > 0.05$). This implies that an increase in infrastructure did not result in an increase in profits and production output among SMEs in the study area.

4.8.2 Regression Analysis Results of Individual Factors

In determining and confirming the effect of the independent variables (access to finance, management skills, macro environment and infrastructure) on the dependent variable (performance of SMEs), regression analysis was done and results summarized in Table 4.8.2.

Table 4.8.2 Regression Analysis Results of Individual Factors

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig. (p-value)
		B	Std. Error	Beta		
1	(Constant)	12.095	1.798		6.726	.000
	Lending terms and conditions	.496	.110	.272	4.490	.000
	Collateral requirements	.109	.097	.069	1.121	.263
	Duration of business	.098	.077	.074	1.265	.207
	Financial management	.326	.077	.252	4.230	.000
	Marketing management	.098	.070	.083	1.394	.165
	Entrepreneurial skills	.232	.057	.233	4.057	.000
	Regulation and policy issues	-.275	.044	-.395	-6.305	.000
	Suppliers	-.024	.075	-.019	-.313	.755
	Distributors	-.054	.090	-.033	-.600	.549
	Customers	-.094	.111	-.049	-.845	.399
	Competitors	-.159	.081	-.112	-1.962	.051
	Water	.563	.125	.283	4.510	.000
	Electricity	-.108	.071	-.086	-1.512	.132
	Roads	-.117	.112	-.060	-1.043	.298
a. Dependent Variable: SME Performance						

Source: Research data, 2013

According to the significance values (Table 4.8.2), Lending terms and conditions (P=0.000, P <0.05), Financial management (P=0.000, P <0.05), Entrepreneurial skills (P=0.000, P <0.05), Regulation and policy issues (P=0.000, P <0.05) and Water (P=0.000, P <0.05), were found to significantly affect performance of SMEs. Study findings further indicate that factors such as Collateral requirements (P=0.263, P >0.05), number of years in operation (P=0.207, P >0.05), Marketing management (P=0.165, P >0.05), Suppliers (P =0.755, P >0.05) Distributors (P=0.549, P >0.05), Customers (P=0.399, P >0.05), Competitors (P=0.051, P >0.05), Electricity (P=0.132, P >0.05) and Roads (P=0.298, P >0.05) were not found to significantly affect performance of SMEs.

The study therefore came up with the following regression model for determining the performance of SMEs in Jua Kali sector;

$Y = 12.095+0.27x_1+0.025x_2+0.233x_3-0.395x_3+0.283x_5+1.798$

Where

x_1= lending terms& conditions

x_2= Financial management

x_3= Entrepreneurial skills

x_4= Regulations and policy issues

x_5= Infrastructure

In order to determine the effect of factors on performance of SMEs and test the study hypotheses, the combined independent variables (access to finance, management skills, macro environment and infrastructure) were regressed on the dependent variable (performance of SMEs).

Table 4.8.3 Regression Analysis

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig. (P-value)**
		B	**Std. Error**	**Beta**		
1	(Constant)	15.518	1.697		9.142	.000
	combined Financial access	.161	.039	.236	4.168	.000
	Combined Management skills	.208	.034	.365	6.039	.000
	Combined Macro environment	-.150	.029	-.323	-5.180	.000
	Combined Infrastructure	.060	.046	.076	1.300	.195
a. Dependent Variable: Combined Performance						

Source: Research data, 2013

Results of regression analysis (Table 4.8.3) of the combined factors reveal that access to finances was found to significantly affect performance of SMEs (P= 0.000, P < 0.05). Hence the null hypothesis that Accesses to finance (Lending terms, Collateral requirements and number of years in operation) does not significantly affect performance of SMEs in Jua Kali sector was rejected.

Findings also indicate that combined management skills was found to significantly affect performance of SMEs (P= 0.000, P < 0.05). Thus the null hypothesis that Management skills (Financial, Marketing and Entrepreneural skills) do not significantly affect performance of SMEs in Jua Kali sector was rejected.

In addition, findings reveal that combined macro environment was found to significantly affect performance of SMEs (P= 0.000, P < 0.05). Thus the null hypothesis that Macro-environment factors (Regulation and policy issues, suppliers, distributors, customers and competitors) do not significantly affect performance of SMEs in Jua Kali sector was rejected

Finally, findings indicate that Infrastructure was not found to significantly affect performance of SMEs (P= 0.195, P > 0.05). Thus the null hypothesis that Infrastructure (Water, Roads and Electricity) does not significantly affect performance of SMEs in Jua Kali sector was accepted.

The regression summary model (Table 4.8.4), indicates that the co-efficient of determination (R) with a value of 0.595 and R^2 = 0.355 or 35.5%. These findings confirm that the observed change in performance attributed to the identified factors was 35.5% while the remaining percentage could be explained by other intervening factors.

Table 4.8.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.595[a]	.355	.318	2.20165	.355	9.692	14	247	.000

a. Predictors: (Constant), Roads , Distributors, Customers, Financial management, Lending terms and conditions, Entrepreneural skills, Electricity, Competitors, Duration of business, Regulation and policy issues, Marketing management, Suppliers, Collateral requirements, Water.

CHAPTER FIVE:
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings and conclusions of the study with a view to highlighting findings that are most relevant to policy decisions in the Jua Kali. This chapter identifies specific policy recommendations that flow from these conclusions, as well as areas in which follow-up research might be most useful to confirm and elaborate this study's findings.

5.2 Summary of Findings

The broad objective of this study was to evaluate the factors affecting the performance of SMEs in the Jua Kali sector in Nakuru Town. The study specifically sought to address the effect of the identified factors (access to finance, management skills, macro-environment factors and infrastructure) on the performance of SMEs in Jua Kali sector. The study further tested four study hypotheses using correlation and regression analysis. The summary of the study findings based on the study objectives are discussed in this section:

The study findings revealed that the sampled SME businesses ranged from Welding/metal fabrication, Automotive and Furniture. Further, findings indicate majority of the respondents were males with a significant proportion of respondents being owners of the SMEs. Most of the respondents indicated that a significant number of SMEs had been in operation for a period between six to fifteen years

The first objective of this study sought to identify the extent to which access to finances (Lending terms and conditions; Collateral requirements and Number of years) affected performance of SMEs. Descriptive findings indicate that lending terms and conditions as well as collateral requirements were found to moderately affect performance of SMEs. It was also evident from the findings that number of years was found to affect access to finance to a great extent. Correlation analysis results indicate that access to finance was positively related to both profits and production output. Furthermore, regression analysis results show that access to finance significantly affected performance of SMEs in the study area.

The second objective of this study sought to identify the extent to which management skills (Financial management; Marketing management and Entrepreneurial skills) affected performance of SMEs. According to the descriptive findings, financial management, marketing management and entrepreneurial skills were found to affect performance of SMEs to a low extent. Correlation analysis results indicate that management skills was found to be positively and significantly related to both profits and production output. In addition, regression analysis results show that management skills significantly affected performance of SMEs in the study area.

The Third objective of this study sought to identify the extent to which macro environment (Regulations and policy issues; Suppliers; Distributors; Customers and Competitors) affected performance of SMEs. According to the descriptive findings, regulations and policy issues; suppliers; customers and competitors were found to moderately affect performance of SMEs. It was also evident that distributors were found to affect performance of SMEs to a low extent. Correlation analysis results indicate that macro environment was found to be positively and significantly related to production output but not significantly associated to profits. In addition, regression analysis results show that macro environment significantly affected performance of SMEs in the study area.

The fourth objective of this study sought to identify the extent to which infrastructure (Water; Electricity and Roads) affected performance of SMEs. According to the descriptive findings, roads and electricity were found to moderately affect performance of SMEs whereas water was found to greatly affect performance of the SMEs. Correlation analysis results indicate that infrastructure was found not to be significantly related to both production output and profits among the SMEs. In addition, regression analysis results show that infrastructure did not significantly affect performance of SMEs in the study area.

With regard to the overall level of performance among the SMEs, study findings indicate that the level of profits and production output were found to be generally moderate.

5.3 Conclusion

The study findings concluded that access to finance was not only positively related to both profits and production output but also significantly affected performance of SMEs in the study area. However, descriptive findings indicate that aspects of access to finance such as Lending terms and conditions; Collateral requirements and Number of years were moderately rated by the study respondents. The overall conclusion is that SMEs access to finance had the potential to positively influence performance of SMEs in Jua Kali Sector, however access to finance were yet to be fully utilized to the advantage of the SMEs in the study area.

With view to the effect of management skills on performance of SMEs, the specific management skills such as financial management; marketing management and entrepreneurial skills were rated very low by respondents in their respective SMEs. Management skills had the potential to positively and significantly affect performance of SMEs and yet had only been marginally adopted by the SMEs in the study area.

Similarly, the study concluded that the effect of macro environment (Regulations and policy issues; Suppliers; Distributors; Customers and Competitors) on performance of SMEs was positive and significant especially on production output despite being moderately rated among the SMEs. Finally, the study concluded that infrastructure was not statistically found to significantly affect performance of SMEs in the study area.

5.4 Recommendations

The study findings revealed that although the access to finance had the capability to positively influence performance of SMEs they had not been fully utilized to the advantage of the SMEs in the Jua Kali Sector. Therefore, SMEs should improve their access to Lending terms and conditions; Collateral requirements and Number of years in order to increase performance. From the study findings it was evident that management skill had the potential to positively and significantly affect performance of SMEs and yet had only been marginally adopted by the SMEs in the study area. Accordingly, SME businesses should focus on acquiring appropriate management skills such as financial, marketing and entrepreneurial skills.

Further, it was evident that the effect of macro environment (Regulations and policy issues; Suppliers; Distributors; Customers and Competitors) on performance of SMEs was positive and significant especially on production output despite being moderately rated among the SMEs. This study concludes that the SME businesses should effectively strengthen the macro environment in order to increase their performance.

Finally, it was noticeable that the study concluded that infrastructure was not statistically found to significantly affect performance of SMEs in the study area. This study recommends that the SME businesses should effectively address the infrastructure especially in terms of electricity and roads in order to increase their performance

5.5 Suggestion for Further Research

This study provided relevant insight on the factors affecting the performance of SMEs in the Jua Kali Sector. It is important that further research is carried out to assess the impact of the factors on performance of other SMEs outside the Jua Kali Sector. The same research should be conducted in the same areas but more focus should be on qualitative measures of performance. The same research should be carried out in other parts of Kenya with a view to compare the outcomes.

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APPENDIX 1: QUESTIONNAIRE

FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE JUA KALI SECTOR IN NAKURU TOWN

INSTRUCTIONS

Please answer all the questions honestly and exhaustively. The information and data given will only be used for academic / research purposes and will be treated with the utmost confidentiality.

A. ORGANIZATION’S BACKGROUND INFORMATION

1. Nature of Business?..

2. Title/Designation of Respondent:…………………………………………………

3. Sex of Respondent: Male ☐ Female ☐

4. Number of years the business has been in operation………………………………

1-5 Years	6-10 Years	11-15 Years	16-20 Years	21-25 Years	26-30 Years	31-35 Years	36 years and Above

B. Access to Finance

5. Indicate the extent to which you agree with the following statements concerning the access to finance by your firm? **Please Tick the appropriate box**

		Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**
		1	**2**	**3**	**4**	**5**
I	***Lending Terms and Conditions***					
	Lack of financial records makes it difficult to access finances.					
	Most financial institutions are reluctant to provide long-term credit to SMEs.					

	High interest rates, premium cost and other loan processing cost makes SMEs unable to obtain funds from banks.					
II	***Collateral Requirements***					
	Firms with intangible assets can only borrow less.					
	SMEs cannot afford the required collateral.					
	SMEs lack accumulation of sufficient assets.					
III	***Number of years in operation***					
	SMEs which have operated for long number of years develop good business track record and reputation.					
	SMEs which have operated for long number of years have developed accounting systems and establishes legal identity.					
	Old firms have information required by the lenders to evaluate and process applications.					

C. Management Skills

6. Indicate the extent to which you agree or disagree with the following statements concerning management skills of your firm? **Please Tick the appropriate box**

		Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**
		1	**2**	**3**	**4**	**5**
I	**Financial Management**					
	SMEs have well maintained financial records.					
	Cash is well managed and no withdraws are made by the owners without consideration of net income generated.					
	SMEs differentiates on capital and income.					
II	**Marketing Management**					
	Marketing plan is well prepared.					
	SMEs are capable of satisfying customer needs while meeting stakeholders expectations.					
	Its capable to create a competitive edge.					
	Its capable of identifying target markets.					
	Its capable to identify promotional activities.					
III	**Entrepreneurial Skills**					
	Have been taking trainings on business skills.					

	Have been trained on drafting business plans.					
	Has specialized training on productivity, environmental awareness.					
	Has training on establishing net works, partnerships and joint ventures.					

D. Macro Environment

7. Indicate the extent to which you agree or disagree with the following statements concerning macro environment of your firm? **Please Tick the appropriate box**

		Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**
		1	**2**	**3**	**4**	**5**
I	**Regulations and policy issues**					
	The firm is required to adhere to Property rights					
	The firm is required to adhere Taxation and financial reporting					
	The firm is required to adhere Employment and health and safety					
	The firm is required to adhere Environmental protection					
	The firm is required to adhere Premises and planning rules					

	The firm is required to adhere Trading standards and customer rights					
II	**Suppliers**					
	Capable to provide high quality raw materials at appropriate prices					
	Capable to provide reliable volumes of raw materials					
	Have flexibility to changing volumes					
III	**Distributors**					
	Avail adequate stores to stock firms product					
	Adequately displays firms products in their shelves					
IV	**Customers**					
	Their needs are met effectively					
	There is good relation with customers through incentives					
V	**Competitors**					
	The firm has a bigger market share than competitors					
	The firm is capable to offer excellent products than its competitors					
	The firm offers favorable prices					

E. Infrastructure

8. Indicate the extent to which you agree or disagree with the following statements concerning Infrastructure of your firm? **Please Tick the appropriate box**

		Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**
		1	**2**	**3**	**4**	**5**
I	**Water**					
	There is adequate water					
	The cost of water is adequate to your sector					
II	**Electricity**					
	There is adequate electricity					
	The cost of electricity is affordable to your sector					
III	**Roads**					
	There is adequate roads to access your business					
	Are the roads well maintained					

9. Indicate the extent to which you agree or disagree with the following statements concerning performance of your firm? **Please Tick the appropriate box**

	Not at all	**To a low Extent**	**To some extent**	**To a greater extent**	**To a very great extent**
	1	**2**	**3**	**4**	**5**
Profitability					
Net income have increased					
Operating cash flow have increased					
value of the firm have increased					
Residual income have increased					
Production Output					
The level of output have increased					
There was no wastage of raw materials					

THE END
THANK YOU VERY MUCH

Small and Medium Scale Entrepreneurs Questionnaire

No……………

Dear Sir/Madam

I am a post graduate student at Egerton University. In partial fulfillment of the requirements for the conferment of the Masters of Business Administration degree, I am conducting a research titled "*factors affecting the performance of small and medium enterprises in the Jua Kali sector of Kenya": a case study of Nakuru Town.*

I wish to request you to kindly assist in providing the required information, by filling the questionnaire provided.

Please note that any information given will be treated with utmost confidentiality and will only be used for the purposes of this study.

Thank you.

Anne Ngima Kinyua

(Researcher)

APPENDIX II

LETTER OF AUTHORITY TO COLLECT DATA

ALL COMMUNICATIONS TO BE ADDRESSED TO THE TOWN CLERK

THE MUNICIPAL COUNCIL OF NAKURU

Tel. No. 051 – 2216380/1
Fax No. 051 – 2210007

Municipal Office
P.O. Box 124
NAKURU
KENYA

Your Ref:

Our Ref: S/10/A/1/2013/LE/be

16th January, 2013

TO WHOM IT MAY CONCERN

RE; RESEARCH AUTHORIZATION – ANNE NGIMA KINYUA CM11/0624/10

This is to inform you that the above named is a student of Egerton University undertaking Masters of Business Administration Programme. She has been authorized to carry out Research on;

- **Factors affecting the performance of small and medium Enterprises in the Jua Kali sector, a survey of Nakuru Town, Kenya**

Please accord her with the necessary assistance to facilitate her Research.

LAVUSA EVANS
FOR TOWN CLERK

When Replying Please Quote Our Reference Number

APPENDIX III:

SUMMARY OF SMES IN NAKURU MUNICIPALITY AS AT JANUARY 2013

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEMS
BUSINESS ACTIVITY CODE SUMMARY

LA Name : - 576 / MUNICIPAL COUNCIL OF NAKURU

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
800	INDUSTRIAL PLANTS, FACTORIES, WORKSHOPS,	209	1,243,550.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
895	Other Manufacturer, Workshop, Factory, Contractor	209	5,950	1,243,550
	Total No. of Businesses	209	Total Potential	1,243,550

There are 134 no of scrap metal dealers in the municipality.

16/1/13

LICENSING OFFICER
MUNICIPAL COUNCIL OF NAKURU
P.O. Box 124 - 20100,
NAKURU.

1

LOCAL AUTHORITY INTEGRATED FINANCIAL OPERATIONS MANAGEMENT SYSTEMS
BUSINESS ACTIVITY CODE SUMMARY

LA Name : - 576 / MUNICIPAL COUNCIL OF NAKURU

Main Activity Code	Main Activity Description :	No of Businesses :	Revenue Potential (Ksh) :
800	INDUSTRIAL PLANTS, FACTORIES, WORKSHOPS,	1,493	8,883,350.00

Business Registration Details

Activity Code :	Main Activity Description :	Category No of Businesses :	Category Permit Fee (Ksh) :	Category Rev Potential (Ksh) :
830	Small Workshop/Service-Repair Contractor	1,493	5,950	8,883,350
	Total No. of Businesses	1,493	Total Potential	8,883,350

There are
125 No. workshops dealing with Capentry.
300 No " " " Metal work.
200 No garages within the Municipality.

16/1/13

LICENSING OFFICER
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