Small Business Management

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Introductıon

Small businesses form a turbulent part of the national economy because of the large-scale movements in and out of sector. Many new ventures are created every year but an almost equally large number of small businesses close down for various reasons. Challenges facing small businesses are a combination of less controllable internal and external factors arising from personal attributes, technical skills, management competencies and behavior of the owner-entrepreneur that influence the chances of growth of entrepreneurship. (Stoke and Wilson, 2006). Motives vary from those factors which 'pull' someone into starting their own business such as search for independence to those which 'push' an individual into self employment such as the lack of employment alternatives.

Once the business is set up, the founder's personal skills and management behavior largely determine how the firm is managed in crucial functional areas. Evidence from several studies suggest that the success of small enterprises depends more upon the policies it adopts rather than the buoyancy of the market in which it operates. External influences are less important than individual factors such as the management behaviors, competency and personal attribute with which to cope in the small business environment. Some individuals succeed as entrepreneurs when the ends seem stacked against them while others fail when the conditions for success are relatively good (Foley and Green 1989).

Small businesses face challenges especially in areas of marketing, accounting, finance and management of people. Various experts describe today's global economy as one in transformation of knowledge economy. Information technology came at the beginning of the 21st century. However, it is not only the information technology, but also working with information itself which conveys the change of thinking and creation of value in modern approaches to business management. These changes are reflected in current economy (Graham, 2002). Utilization of resources is being shifted from current capital strategic resources to strategic resources in the form of information knowledge, creative thinking and innovation. Skills and knowledge belong to critical factors of production. Enterprises can gain competitive advantage by implementing continual and on-going innovations and the managerial skills and knowledge that are at the centre of this process of innovation. Often, these facts are underestimated by small entrepreneurs and overlooked by support programmes for development of this size of entrepreneurship (Burns and Dewhurst 1996)

Chapter One

1.0 Marketıng

1.1 Marketing issues in Small and Medium Entreprises (SMEs)

Small and medium enterprises (SMEs) play a vital role in employment creation and manufacturing of goods and provision of services. They contribute sixty percent to the GDP of Kenyan economy (Economic survey 2010). In spite of this, the failure rate of SMEs is high due to the many challenges they encounter (Kenya Bureau of statistics 2011). One issue that SMEs have to contend with is marketing. Marketing is critical in SMEs because it creates revenue for the SMEs through the sale of goods and services.

It also creates utility for the customers through value addition (Kotler 2010). The government also benefits from marketing from the revenue created through taxation.

SMEs however face many marketing challenges that hinder their ability to achieve their goals. The lack of market information is one big challenge. In this age, market information is critical in the success of any organization (Weaver and Pak, 1990). SMEs in Kenya lack the mechanism to gather information that would help them to market their products/services effectively.

Despite the vast amount of business related information available and the possibility of accessing national and international databases, many small and medium enterprises continue to rely heavily on traditional forms of information such as personal contacts with customers and business colleagues. This is because SMEs lack skills to interpret the statistical data (Muteti, 2005) and poor Information System Net work especially in rural areas. The remedy to this challenge is first to train the entrepreneurs in statistical interpretations and having more of the rural areas connected to both electricity and the internet.

Lack of understanding of marketing is another challenge that SMEs encounter (Burgess and Oldenboom, 1997). A majority of SMEs do not practice the marketing concept which recognizes the supremacy of the customer and ensures customer satisfaction. The selling concept is what is mainly practised by most SMEs. This concept mainly focuses on sales volumes without regard to customer satisfaction. SMEs need to adopt the marketing concept as a long term strategy, because it ensures long term profitability and growth. They also need to adopt promotional strategies mainly advertising, sales promotion and publicity in order to influence demand and gain a competitive advantage (Kotler 2010).

In advertising SMEs can use the different media available in Kenya to reach the target market. The radio can reach most parts of Kenya and therefore can be a very effective tool although it is limited to audio, most people believe in it. Another tool that can be used in advertising is the television. Television combines visual and audio and hence is very effective. It may be limited because it is not available in most parts of Kenya but the SMEs in urban areas and some parts of the rural areas can effectively use it. The only hindrance is the high cost. Sales promotion can be used by SMEs by providing incentives such as premiums, coupons and contests to the customers (Kotler 2009).

Many SMEs have evolved without marketing being recognized as a key function or even being recognized as a core philosophy. Some SMEs may have started with a sales section whose focus is to sell what the SMEs produce (Hill, 2009). Hill, 2009 continues to say that SMEs have evolved without marketing because the entrepreneurs have a narrow view of marketing. They argue that what is important is to produce quality products and customers would still buy. Establishment of a marketing function in SMEs would enhance their performance.

SMEs are viewed as open systems [Katz and Kahn 1978] where all functions interact and are interdependent of one another [Goldhaber, 1986]. If one part of the system is modified all other components of the functions are adjusted to accommodate the change. These effects are likely to be seen at micro and macro levels [Hill, 2009]. At macro level the interdependence of organization has been noted by many researchers [Hill, 2009] Stern and El-Ansary [1995] show distribution channels as 'a network of system', thus looking at organization as interdependent units. At micro level the functions of an organization accommodate each other as the organization adjusts to the changing environment. By putting together the decisions associated with the development and delivery of a marketing communication strategy, it becomes easy to comprehend the complexity and sensitivity in each of the decisions made in a function [Lall, 1991].

SMEs have limited networks to exchange information, experience and contacts for professional businesses or social purposes. According to Shaw and Conway (2000) networks are important during the establishment, development and growth of small businesses. The network may include professionals, business associates and government agencies. Networks are of importance to SMEs because they enhance access to market information, customers and markets both domestic and international. Tulus, 2005 argues that networking is important because it creates clustering which plays an important role in market growth and development.

From the context of Kenya, small enterprises like *mitumba* (selling of second hand clothes) are mainly clustered in one place. This is aimed at creating a closely-knit network that ultimately increases the inflow of customers.

1.2 An Enabling Environment

An enabling environment makes it easier for businesses to operate without hindrances from the Government or any other sources. The Government 'has no business in business' its role should be limited to creating enabling environment by formulating laws which facilitate business growth and minimize business conflicts. SMEs require the enabling environment in view of the fact that they are disadvantaged in comparison to large scale businesses. The government should give support to the SMEs to encourage them to grow and more to be established. The infamous structural adjustments and trade liberalizations of the 1980s were supposed to bring benefits to small and medium enterprises thus creating an enabling environment on the marketing of products and services. However, there is evidence across Africa of both negative and positive impacts of these policies on SMEs development. Although the government is supposed to create an enabling environment, the SMEs can also foster the environment by ensuring acquisition of better skills, knowledge, and being located in strong market niches (King and McGrath, 2002). To understand the environment in which the SMEs operate, it is important to discuss the political, economic, social, technological, environment (physical) and legal environment (PESTEL) (Kotler 2010).

1.2.1 Political environment

Marketing activities at all levels are affected by the political environment of a country according Kotler, 2010. New governments usually formulate new policies that affect businesses including SMEs for example, the Jubilee government has come with new policies of lending women and youth SMEs money at Zero interest rates (Jubilee manifesto 2012). This is yet to be implemented but at least the lending rates would be good and encouraging to the borrowers. These policies are likely to attract the formation of new SMEs which would increase competition in the sector. The competitive environment would make the SMEs to work harder in innovating new products to gain competitive advantage. The political stability is also important to SMEs because it ensures a good business environment. The political conflict of 2007/2008 will live as a testimony of the effects of political instability on businesses both large and small.

1.2.2 Economic environment

The economic environment also influences the operations and performance of SMEs. The economic environment according to Stanton and Futrell [1987] entails the stage of the business cycle, inflation and interest rates. Small and medium scale entrepreneurs should establish the stage in the business cycle where their businesses are. The business cycle according to Stanton and Futrell [1987] has four main stages; prosperity, recession, depression and recovery. Knowledge as to where the SME is in the cycle would help in formulating appropriate marketing strategies.

Inflation is a rise in general price levels in a country [Kotler 2010]. High inflation rates lead to a decline in consumer purchasing power and consequently low demand for SMEs' products and services. SMEs therefore should formulate marketing strategies that would attract customers during periods of rising inflation. One such strategy would be to use sales promotion which entails offering incentives to attract more customers. Interest rates also influence marketing programs of SMEs. When interest rates are high consumers tend to hold back on long term purchases. SMEs therefore need to develop strategies that would influence customers to buy during periods of high interest rates. Sales promotion strategies would be appropriate at such times.

1.2.3 Social cultural environment

The impact of social cultural forces in the market cannot be ignored by any entrepreneur because of the dynamic aspects of these forces. Cultural patterns, life-styles, social values and beliefs are changing faster than ever before (Kotler 2010). Entrepreneurs when marketing their products must be aware of these changes in order to remain competitive and profitable. The marketing strategies of SMEs should reflect these changes at all times. One of the dramatic occurrences in the Kenyan society is the changing role of women. According to Neupert et al, 2006 some of the changes are the break away from the traditional patterns of women as home keepers and their only work is to give birth and take care of the babies while the man goes out there to work for the family. Women today make important decisions not only in their homes but also in offices. Marketers therefore need to be aware of this fact so that they reach out to them when selling their products and services.

1.2.4 Technological environment

Technology has a major impact in our lives, our life-styles, our consumption patterns, and our economic well being (Stanton and Futrell, 1987).Technology has the following impact in the marketing systems of SMEs:

- Starting of entirely new industries such as robots, printers, lasers
- Virtually destroying some existing industries such the movies industry
- Stimulating other markets and industries not related to the new technology. New home appliances such as refrigerators and deep freezers where food can be stored for many days. This gives homemakers additional time to do other things outside the home. Marketer should be in a position to know all these changes and respond to them effectively.

1.2.5 Physical environment

The pollution of the physical environment is a social problem faced today by the entire universe. Marketers are known to contribute immensely to this problem (Neupert et al 2006). Marketers stimulate demand of products and try to satisfy the consumers' wants thereby building huge amounts of solid waste. The making and using these products pollute air and water. Markers should therefore look for ways and means of reducing these pollutants in order to keep our environment clean.

1.2.6 Legal Environment

The legal and economic framework in which enterprises operate is crucial to the performance of SMEs. The licensing procedures that SMEs have to abide by are seen as a hindrance to effective operation. The SMEs are supposed to follow very stringent licensing procedures which make it difficult for them to fully comply with the law for example in Kenya, marketing products in urban areas requires SMEs to get special licenses to advertise their products either through the use of brochures or billboards. This is a very costly endeavour for SMEs.

1.2.7 Competitive environment

Small and medium scale enterprises operate in highly competitive environment. Stanton and Futrell [1987] suggest that businesses should constantly monitor competitor's products, prices, distribution systems and promotional strategies. The monitoring of this environment is critical for SMEs given the fact that they tend to produce undifferentiated products which increase the competition amongst them. This is mainly because the SMEs tend to operate in a perfectly competitive market structure. Small and medium enterprises should differentiate their products to gain competitive advantage in the market. One main differentiation strategy is branding [Kotler 2010]. A majority of the SMEs market unbranded products. Branding would make it easier for the SMEs to promote their products, and thus enhance their performance and profitability.

1.2.8 Demographic environment

The demographic environment influences the operations and performance of SMEs. Demography according to Stanton and Futrell, 1987 constitutes the population and the distribution of that population. SMEs have therefore to take into consideration the age structure of the target market in order to establish the age segment to serve. The gender of the prospective customers needs to be considered. SMEs need to focus their products and services to the gender that they intend to serve. The literacy level of the target market is also important when developing promotional strategies. When target customers are literate SMEs can use print media whereas if the population is illiterate then SMEs can only rely on audio media [Kotler 2009].

1.3 Competitive Advantage in Marketing of SMEs

Abramovitz (2009)) argues that small businesses and entrepreneurship form an integral part of a healthy national economy. In recent years various factors, such as the impact of privatization and specialization in industry and corporate restructuring and downsizing as influenced by new management theories have combined to encourage the emergence of more small and medium-sized companies. However there have been many shortcomings in running small businesses, and more so in the area of this study. To address the shortcomings, an insight into the value addition chain and the interactions of the value activities and the bottlenecks is paramount. Porter (1985) observes that each primary support activity has the opportunity to contribute to the performance of the business unit by enabling it to produce in the market and deliver products or services which meet or surpass the value expectations of buyers in comparison with those resulting from other value chains. This is an important concept in this study.

Porter 1985, asserts that achieving competitive advantage strengthens and positions a business better within the business environment. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors, either through cheaper production model, cheaper labour, cheaper value addition technologies or better marketing approaches. Due to competition in small businesses in the area of study, entrepreneurs have adapted different ways of retaining their customers. According to the study, 45% of the entrepreneurs indicated that providing quality services to customers is the best way of retaining customers, 31% believe in ensuring a competitive price while 24% believe in providing quality products (see figure 4 below).The business competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market.

Everett (2007) argues that access to appropriate technology facilitates design and development in providing quality products and services into the market. With this, one is able to gain competitive advantage over rivals as investment in technology is meant to reduce cost of carrying out operations as well as come up with innovative products which are of more value to the customers. Technology has dramatically impacted the growth of the businesses which use it in the area of this study. It provides the tools relevant to the success of the businesses, thereby empowering the particular businesses with the ability to increase productivity, decrease process time and cost, and increase market share as well as reduce risk. As already discussed, some businesses in the area of study try to reduce service cost and hence charge lower prices to the customers. They also offer differentiated products to customers either through product or channel innovation. This has put pressure on IT to demonstrate more agility and flexibility.

The many businesses in the area of study compete for the same customers. Porter 1985 further noted that value activities are discrete building blocks of competitive advantage. By using the value chain approach, businesses in the area of study can have the opportunity to generate superior value by having both a cost advantage and a differentiation advantage. A cost advantage means understanding costs better and squeezing them out of the value-adding activities. Differentiation means focusing on those activities associated with core competencies and capabilities in order to perform them better than the competitors. For instance, the ways the businesses do advertisement in the area of study can be reviewed and cost effective methods used.

Hill (2007),argues that the concept of value addition, in the form of the value chain, can be utilized to develop an organization's sustainable competitive advantage in the business arena of the twenty first century. This way, it is easier to identify any bottlenecks within the business process since all organizations consist of activities that link them together to develop the value of the business, and together these activities form the organization's value chain. Such activities may include purchasing activities, manufacturing the products, distribution and marketing of the company's products and activities. An efficient value chain results to an optimized operational efficiency of the small businesses in the area of study.

According to Deyand and Nedungangi (1994), complete understanding of a competitive advantage requires a complex, multidimensional portrayal of all points of superiority or deficiency between a business and its competitors. The identification of the businesses that comprise a business's competitive market is inherent in such a portrayal and investigation into the competitor identification is necessary in this area of study. Actually, some businesses have practiced this concept. Consequently, all businesses in the area of study should know that competitive advantage should begin with a discussion of how business owners identify which businesses constitute their competitors.

1.4 Data Analysis and Presentation

This section presents data on marketing strategies of Small Business ventures in Nairobi, Kiambu and Nyeri counties.

1.3.1 Gender of Entrepreneurs

Data on gender of entrepreneurs is presented in Figure 1 below:

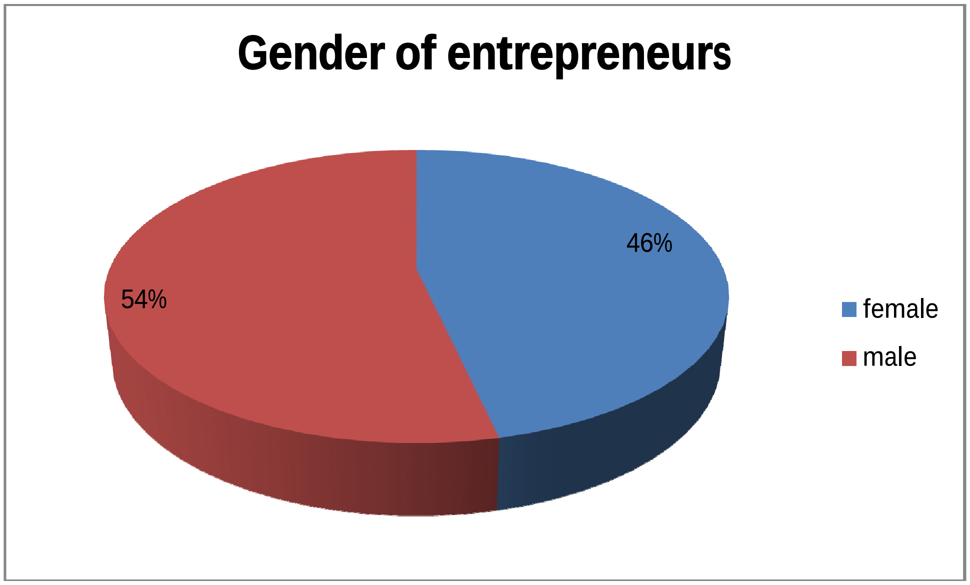


Figure 1: Gender of entrepreneurs.

The findings on gender of entrepreneurs show that 54% are male and 46% are female therefore the ratio is almost 1:1.

1.4.2 Age of Entrepreneurs

The age of entrepreneurs is presented in figure 2 below:

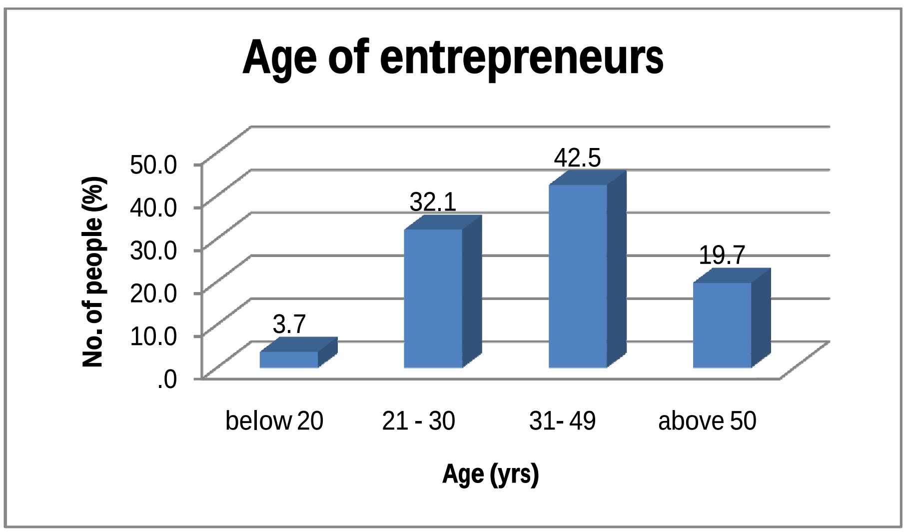


Figure 2: Age of entrepreneurs

The findings of the survey show that 42.5% of the entrepreneurs are within the age bracket of of 21 – 49 years.This reflects the actual position in the counties where a majority of those within this age bracket are school leavers who are unemployed and hence have taken self employment as an alternative to formal employment. 32.1% are in the age bracket of 21 – 30 years. This age bracket consists mainly of the youth. Entrepreneurs who are below 20 years account for only 3.7% and those above 50 years account for 19.7 %.This can be explained by the fact that most of the people above 50years could be employed, the few who are in self employement are those who have retired.

1.4.3 Competition in Small Businesses

One of the major challenges facing businesses in the present world is competition amongst businesses.The market for small scale enterprises is highly competitive and there is therefore need to formulate strategies that would give the enterprises competitive advantage. Figure 3 below presents the different types of businesses that were studied.

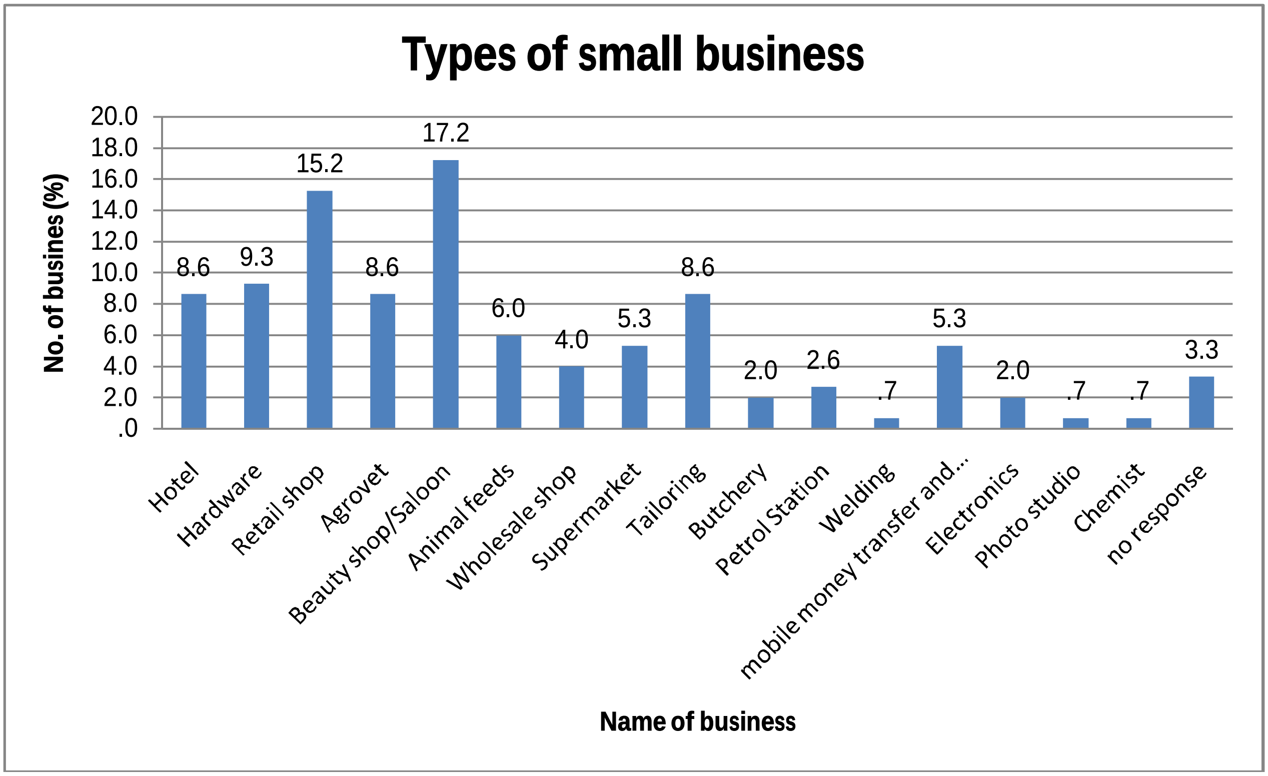


Figure 3: Types of small businesses

Figure 3: shows that beauty shops and saloons are the most operated small businesses with 17.2% followed closely by retail shops (15.2%). It can be noted that welding, photo studios and chemists are the least operated small businesses.

1.4.3 Ways of retaining customers

Due to competition in small businesses, entrepreneurs have adapted different ways of retaining their customers. According to the study, 45% of the business people indicated that providing quality services to customers is the best way of retaining customers, 31% believe in ensuring a competitive price while 24% believe in providing quality products. The findings are presented in figure 4 below:

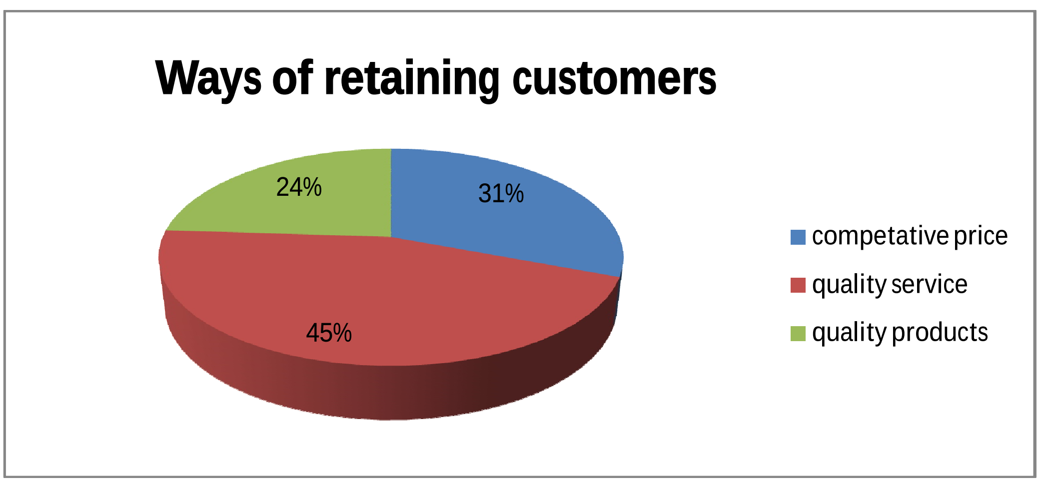
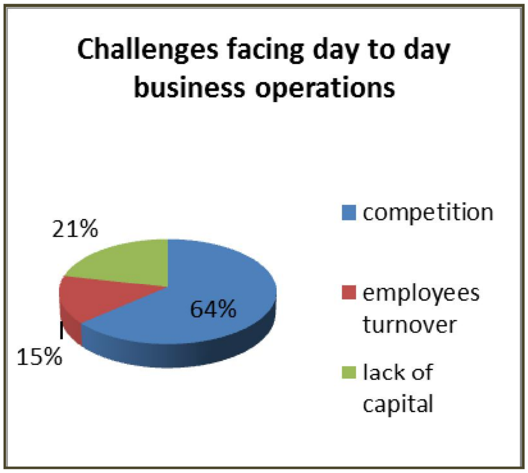


Figure 4: Ways of retaining customers

1.4.4 Challenges facing day-to-day small businesses

The study found out that among the biggest challenges in the day to day small business operations is competition (64%), followed by lack of capital (21%) and finally employees turnover. The challenges are directly proportional to the ways of solving them as shown in figures 5 and 6 below.



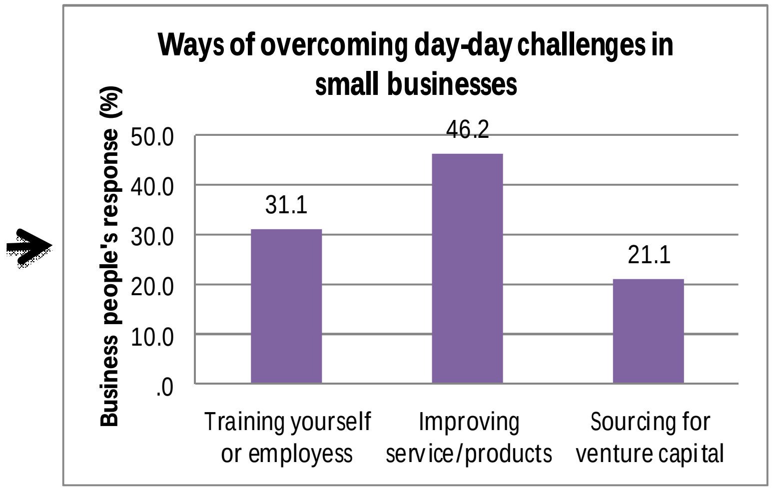


Figure 6: Business operation challenges **Figure 5: Ways of overcoming challenges**

1.4.5 Marketing Strategies

1.4.6.1 Effective methods of marketing products

In the study, most of the small enterprises (58%) prefer personal selling while 42% use advertisement as methods of marketing their business products. The findings are presented in Figure 7 below:

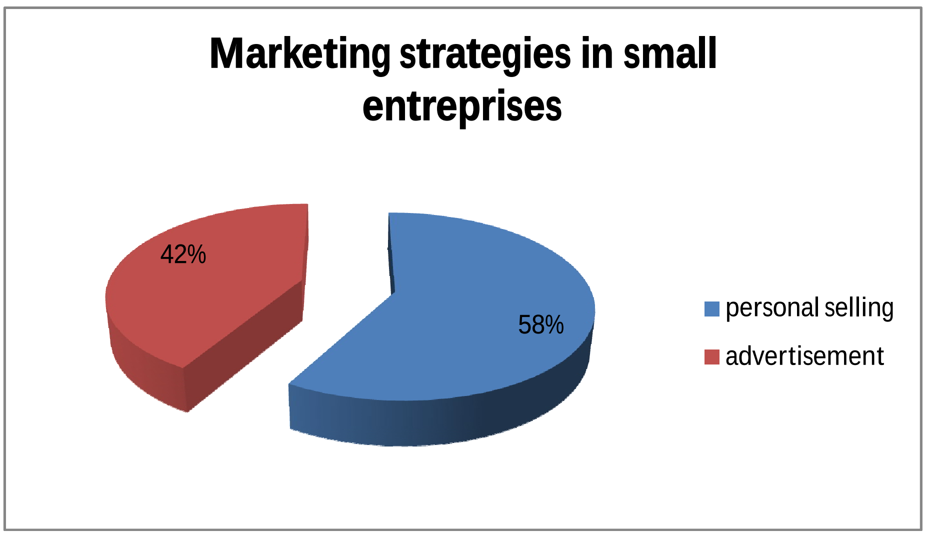


Figure 7: Methods of Marketing

1.4.6.2 Methods used in advertisement of products

Among the business people who use advertisement method in marketing their products, 20.4% of them use Radio mainly vernacular stations, 13.7% use newspapers while 6.7% use T.V. The findings are presented in figure 8 below:

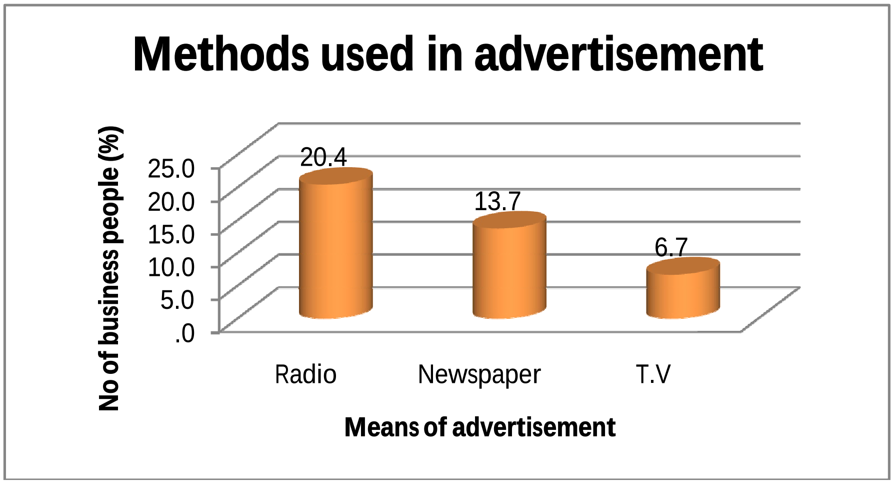


Figure 8: Methods used in advertisement

Chapter Two

2.0 Technıcal Skılls of Small Scale Entrepreneurs

2.1 Overview

Technical skills usually pertains basic knowledge required to perform a particular task. Technical skills are most important for companies in recruitment and selection of employees. Technical skills refer to acquisition of techniques to perform a task that a non-professionals cannot do and needs specialised training in both practical and theoretical aspects. Technical skills are usually the knowledge and ability to operate a machine. They also reflect specific practical knowledge, while business skills are those needed by all businesses. For example, a computer technician needs a variety of specific skills to maintain and repair computers, as well as a variety of general business skills to market her business and obtain customers. Both types of skill sets are important for success. Technical skills apply to specific job requirements. In other words, technical skills are practical and often pertain to mechanical or scientific subjects. Typically, you attain these from training and through experience in a field.

SMEs managers should have business skills, which will help them, perform professionally within their organizations. They include the ability to lead, work well with others, communicate thoughts clearly, negotiate business deals, mentor others, manage time well, display a professional image, interact well with clients, solve problems and employ relevant mathematical reasoning. Basic communication skills, such as the ability to write and speak effectively, are also vital. Depending on your role in an organization, you might also benefit from marketing and sales skills, which will help in improving the performance of the SMEs and hence have an upper edge against those without skills equivalent to them.(source)

2.2 Challenges of Technical Skills in SMEs

Inadequate technical and business skills within the business environment impacts negatively on the business returns. Workforce training and development is critical to improving business performance and local economic development. This issue is especially critical in respect of small and medium size enterprises (SMEs) which not only make up much of most local economies but are often seen as less likely to participate in workforce development, thus compromising their own and their local economy’s futures.

Wilson *et al.* (2003, 7) describe how links between product/service specification/quality and workforce skills, at micro and macro scales, can interact in a vicious circle as follows: “Products are poor because the workforce skills to produce better ones are often lacking, and skills are poor because existing product market strategies do not demand high levels of skill and because work has been organised, and jobs are designed to require low levels of skill and discretion. Low wages can also result in a further reinforcing factor, limiting consumer demand for more highly specified products and services.”

However, on a number of other indicators the picture is Somewhat less positive nearly a quarter of establishments have never funded or arranged training for their staff. The SMEs employers do not provide any training. The main reason for not providing training was that their staffs were "fully proficient". However, this does not mean that there is no possibility of raising employers' ambition and hence their demand for skills. Indeed, a relatively high proportion of employers citing that their staffs are "fully proficient" may be indicative of a lack of ambition to seek growth via high value-added industries based on high skill, innovation and quality, and lack of attention to monitoring skills needs.

The majority of employers reported that the recession/ inflation has had impact on their development activity, hence training will increase their expenses and lead them out of business. Thus, they should only concentrate in profit maximization at the expense of training their staff even if it has long-term effect to the SME. There are a number of different barriers to optimal investment in skills and training. The main reason identified for not providing training cited by employers who had not provided any training in the previous 12 months was that there was no need, predominantly because their staff were "fully proficient"; (however, as discussed above this may reflect a paucity of ambition on the part of the employer and a failure to recognise the links between the product/service strategy and training needs). Other issues cited related to the expense of training, time issues, training supply issues (*e.g.* relating to the availability and quality of courses available locally). A range of other, often more fundamental, barriers to training has been highlighted in other research. For example, Hogarth *et al.* (2009) cite issues indicative of a lack of ambition, including:

- **Management skills**: it is highly skilled managers who are more likely to develop higher value-added product/service strategies, which in turn have implications for skills and training;
- **Management capacity:** a lack of management time to devote to strategic issues;
- **Short-termism**: a focus on immediate requirements and/or only on that training that is immediately available
- **Influence of staff on training**: claims that staff may be unwilling to undertake training
- **Imperfect information:** on the nature and quality of training available and the value of that training to the employer

The most pressing skills need identified by SMEs was technical, practical or job-specific skills. Easily the single most important set of skills found difficult to obtain from applicants were technical, practical or job-specific skills. The next most difficult to obtain were written communication skills; customer handling skills; oral communication skills and team working skills. Strong SMEs tend to be located in urban and peri-urban centres and are usually registered. However, they face a number of constraints, which include the difficulty in employing competent people with techniques in financial management because of the salaries such people would demand, financial problems arising from late payments by debtors, and inability to raise own finance and access to financial services from formal sources

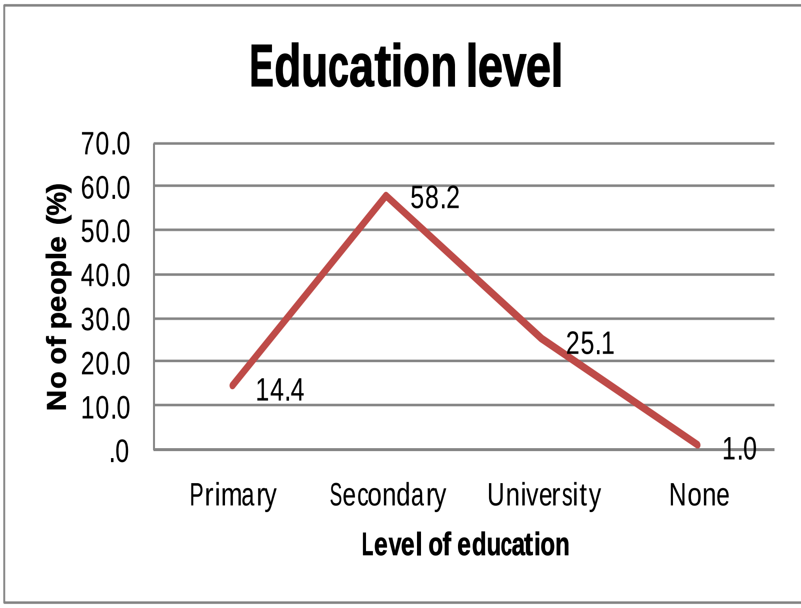
Additionally some small businesses employ less than 5 people, mostly family members who are usually not legally registered, apply simple and relatively rudimentary technology in production and, therefore, the quality of their products is likely to be poor. They may suffer from limited market access and fierce competition from many rival producers. This category of SMEs usually does not have proper physical structures such as premises from which to operate business, accessible roads and other essential utilities, which are major to accessing formal sector credit. In addition, there is a general lack of professionalism within this category of SMEs in terms of strategic planning, decision-making processes and business planning, and management in general.

Generally, the smaller the enterprise, the less likely its management will understand the need for financial management and the poorer the understanding of financial management. Likewise, the size and the distance from major cities/urban centres are negatively related to the level of awareness of financial instruments. That is, the smaller the size of the enterprise and the farther away from the city/urban centre the enterprise is, the less aware the firm is of the financial instruments available. This makes them vulnerable to shocks to revenue or costs and, therefore, makes them unlikely to expand beyond a certain limit. This explains why the turnover of majority of small busineeses in Kenya is estimated at only Kshs.5 million a year. Thus, poor returns, lack of good financial records, and lack of collateral make them not creditworthy.

2.3 Data Analysis and Presentation

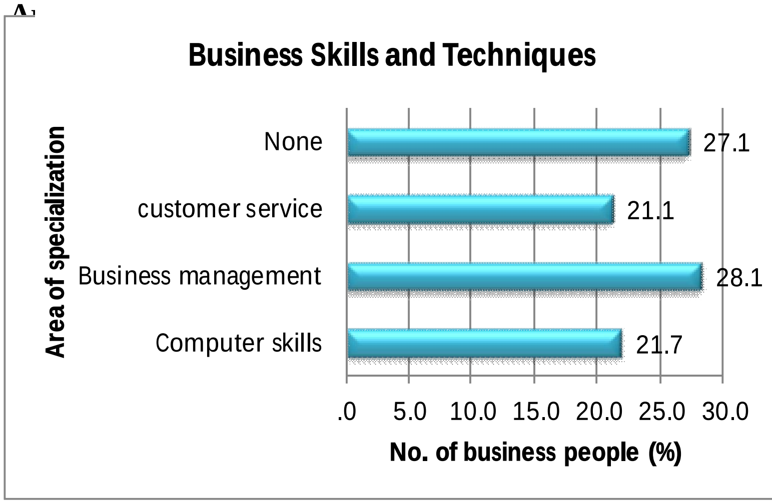
3.3.1 Statistical analysis of Management Skills/Techniques

Education level



The study found that most of the small business people (58.2%) have acquired knowledge up to secondary level. Those who have gone up to university level are 25.1% while primary level is 14.4%. Very few small business people (1%) who have not gone to school completely

Figure 9: Education level of small-scale entrepreneurs



Many business people (28.1%) have been specialised in business management skills, followed by computer skills and finally customer service skills. 27.1% of the business people have engaged themselves in business without any skills in business.

Figure 10: Areas of specialisation of small-scale entrepreneurs

Managerial skills as a determinant of the success of a business

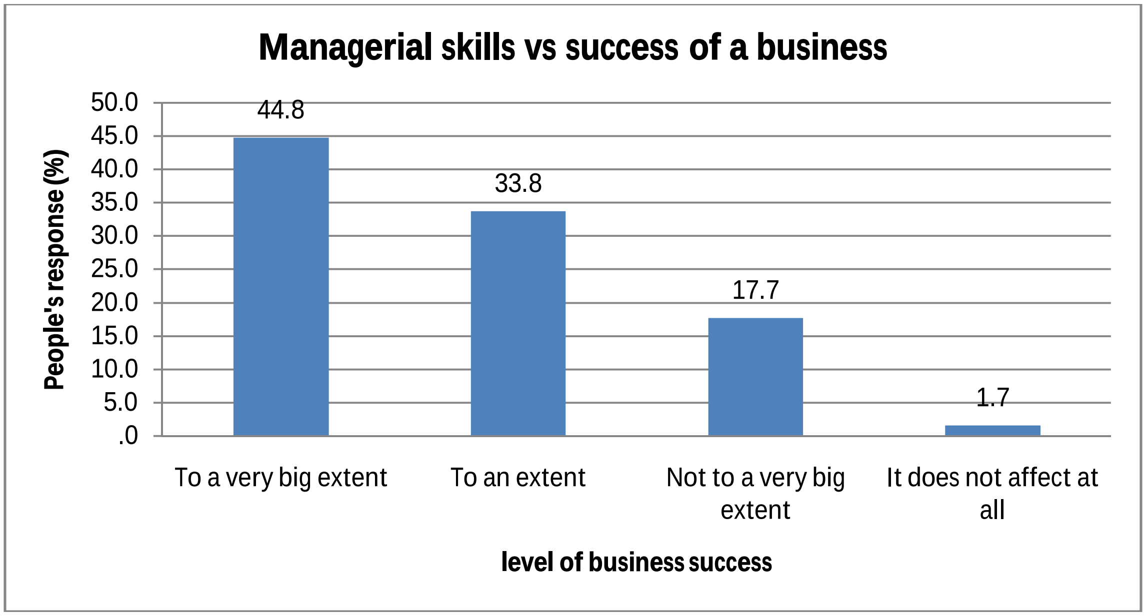


Figure 11: Managerial Skills as a determinant of the success of small business

Most of the business people (44.8%) indicated managerial skills determine the success of a business to "a very big extent". Very few people (1.7%) indicated that it does not affect at all.

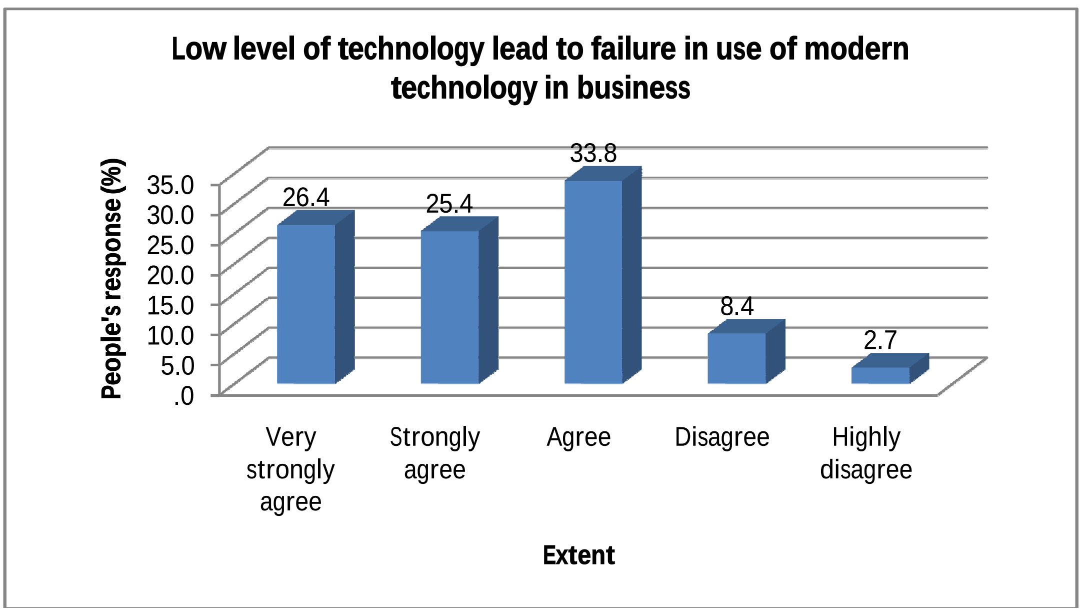


Figure 12: Low level of technology lead to failure of SMEs in using modern technology in business

33.8% of the respondents agree that low level of education lead to many small enterprises to fail to use modern technology because they do not understand their usability. Further, 26.4% and 25.4% not only "agree" but they "very strongly" and "strongly agree" respectfully with the same

Extent to which accessing modern technology affects performance of small enterprises

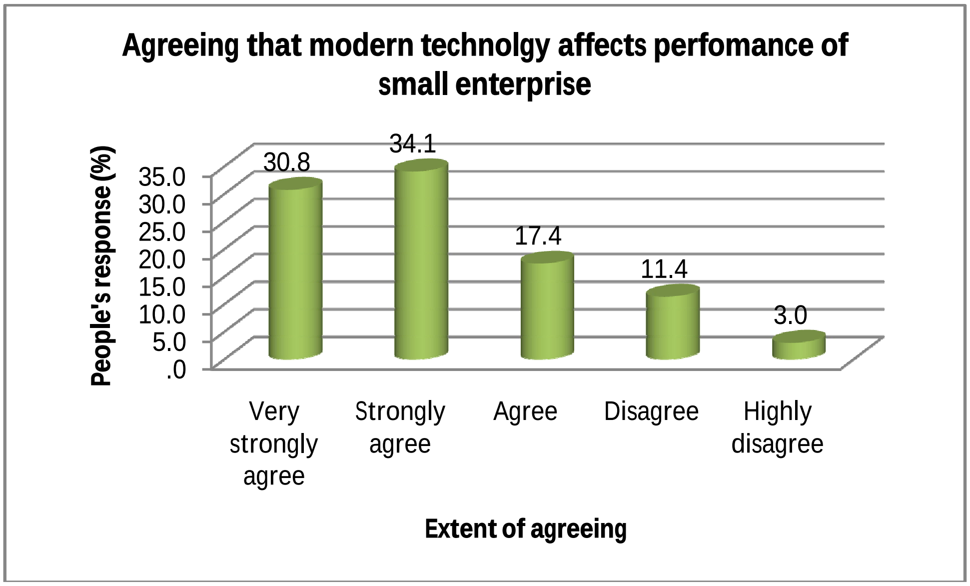


Figure 13: Extent to which accessing modern technology affects performance of small enterprises

Most business people "Very strongly" and "Strongly" agree that accessing modern technology affects the performance of small enterprises. Very few either disagree or highly disagree with the statement.

2.3.2 Data Correlation Analysis

Managerial Skills Vs Success of a small business

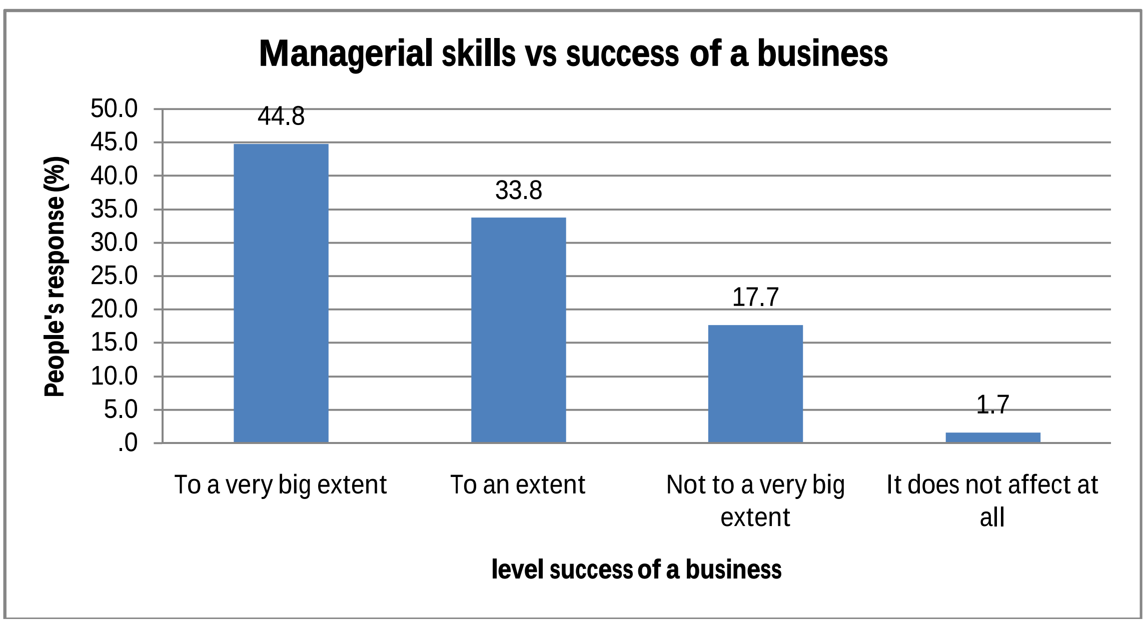


Figure 14: Managerial Skills Vs Success of a small business

The chart above shows that 44.8% of the small business people indicated that managerial skills affects the success of a business to a very big extent and 33.8% reported that it affects just to an extent.

Influence of the respondent's age in determining the level at which managerial skills determines the success of a business

		age	How managerial skills determines the success of a business
Age	Pearson Correlation	1	.143*
	Sig. (2-tailed)		.013
	N	299	299
How managerial skills determines the success of a business	Pearson Correlation	.143*	1
	Sig. (2-tailed)	.013	
	N	299	299

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

The table above shows that, correlation between age of the respondent and his/her decision whether managerial skills affect the success of a business is 0.143. This implies that there is a very weak relationship between the age of the respondent and his/her response on the effects of managerial skills on the success of a business.

Influence of gender of the respondent on his/her response on the effects of managerial skills on the success of a business

		How managerial skills determines the success of a business	gender
How managerial skills determines the success of a business	Pearson Correlation	1	-.008
	Sig. (2-tailed)		.885
	N	299	299
Gender	Pearson Correlation	-.008	1
	Sig. (2-tailed)	.885	
	N	299	299

The table shows that the correlation is – 0.008. This implies that the gender of the respondent is indirectly proportion to his/her response on the level at which managerial skills determines the level of the success of a business. So whether the business person is a male or female, his/her decision on the extent to which managerial skills determine the success of a business is not influenced by his/her gender.

Technical/management skills Vs the effects of managerial skills on the success of a business

		Education Level	Areas trained 1	How managerial skills determines the success of a business
Education Level	Pearson Correlation	1	.689**	.456**
	Sig. (2-tailed)		.000	.000
	N	299	299	299
Areas trained 1	Pearson Correlation	.689**	1	.317**
	Sig. (2-tailed)	.000		.000
	N	299	299	299
How managerial skills determines the success of a business	Pearson Correlation	.456**	.317**	1
	Sig. (2-tailed)	.000	.000	
	N	299	299	299

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

From the table above, the correlation between responses on the extent to which managerial skills determines the success of a business and the level of education of the respondent is 0.456. This implies that there is an average relationship between the two. The higher the level of education of the respondent, the more he/she agrees that managerial skills determine the success of a business. However, since response of people with high levels of education is low, it explains why the correlation is not stronger. The higher the level of education, the higher the technical skills and vice versa.

The relationship between the gender of the respondent and the technical/management skills

The technical/management ranges from the level of education of the businessperson to the areas of specialisation the person who has acquired education has trained in

		gender	Education Level	Arears trained 1	age
Gender	Pearson Correlation	1	.001	-.008	-.017
	Sig. (2-tailed)		.987	.886	.766
	N	299	299	299	299
Education Level	Pearson Correlation	.001	1	.689**	-.017
	Sig. (2-tailed)	.987		.000	.775
	N	299	299	299	299
Areas trained 1	Pearson Correlation	-.008	.689**	1	-.018
	Sig. (2-tailed)	.886	.000		.754
	N	299	299	299	299
Age	Pearson Correlation	-.017	-.017	-.018	1
	Sig. (2-tailed)	.766	.775	.754	
	N	299	299	299	299

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

The table above shows that the correlation between the gender of a businessperson and his/her level of education is 0.001. This shows that there is no any relationship between the two because correlation is significant at the level of 0.01. However, there is a strong relationship between the education and the areas the respondent is trained on since the correlation is 0.689. Of course, this is expected because training area is informed by the education level of a person. The relationship between age and the level of education as well as the area trained is very weak. This implies that the age of a person as well as gender does not affect his or her technical/management skills. From the study it is evident that a major challenge facing SMEs in Kenya is lack of technical skills and also the fact that Kenya does not have an SME Act in place yet, to regulate SMEs.

There is need to make this part of a policy and it will encourage SMEs to grow. This issue is important since SMEs form a huge sector of our economy and present a great potential in wealth creation and employment.

Technical/Management skills and financial management

		Education Level	Areas trained 1	How managerial skills determines the success of a business	Where did you get your initial start-up capital?	How many employees do you have currently?	value of the quantity of the stock when first started the business	Grading of loan repayment patterns
Education Level	Pearson Correlation	1	.689**	.456**	.624**	.350**	.558**	.207**
Areas trained in	Pearson Correlation	.689**	1	.317**	.394**	.218**	.340**	.128*
How managerial skills determines the success of a business	Pearson Correlation	.456**	.317**	1	.404**	.222**	.345**	.125*
1. Where did you get your initial start up capital?	Pearson Correlation	.624**	.394**	.404**	1	.560**	.665**	.236**
How many employees do you have currently?	Pearson Correlation	.350**	.218**	.222**	.560**	1	.367**	.161**
value of the quantity of the stock when first started the business	Pearson Correlation	.558**	.340**	.345**	.665**	.367**	1	.377**
Grading of loan repayment patterns	Pearson Correlation	.207**	.128*	.125*	.236**	.161**	.377**	1

From the table above, the correlation between the level of education and the response on how managerial skills determine the success of a business is 0.456. This implies that there is an average relationship between the two. The few responses from the people with tertiary education reflect the average relationship. There is a strong relationship between the level of education and the response on the initial start-up capital for starting a business since the correlation between the two is 0.624. This means that the level of education is directly proportional to the initial start-up capital of any business capital. The higher the level of education, the higher the start-up capital and vice versa.

There is also a relationship between technical/management skills i.e. education level and the number of employees a business person hires although the relationship is weak. From the table, the correlation between the two is 0.350 implying that the relationship is weak. This may be affected by a few business people with tertiary education.

The education level is directly proportional to the value of the quantity of the stock when the business person first started the business. The correlation between the two is 0.558 implying that the relationship is strong. The higher the level of education, the higher the amount of stock the business person started with.

The relationship between the level of education and the response on the grading of repayment of the loan is weak. The correlation between the two is less than 0.5 i.e. it is 0.207.

Chapter Three

3.0 Fınancıng of Small and Medıum Enterprıses (Smes) in Kenya

3.1 Overview

Finance is one of the factors of production other than land, labour and entrepreneurship. Having sufficient capital in a business is a critical element for success of any business (ILO, 2008). An entrepreneur requires finances to start up a business or expand an existing one. Therefore he has to make a choice from the many alternatives of financing available to him. Small businesses are very important in Kenya's economy since they employ a large number of people. They face challenges in acquisition of capital. This is mainly caused by complex legal procedures involved in getting capital and due to weak creditworthiness. Entrepreneurs need information on available alternatives of raising funds. Small businesses have different financial needs. Some of them include; cash flow challenges for purchasing machinery, hiring employees, capital investments for leasing space, constructing of buildings and equipment and lengthy product development cycles (Mc Cormick and Pederson, 1996, Khanka and Chand, 1999).

Financing of Small businesses is available from both internal and external funds. Internally generated funds come from several sources. "Profits, sale of assets, reduction in working capital, expanded payments terms, and accounts receivable" (Hisrich et al, 2008). External sources of funding depends on three dimensions a) the length of time when funds are available, b) the costs involved, and c) the amount of company control lost (ibid). The most commonly used source of funds are self, family and friends, commercial banks, research and development limited partnerships, government loan programs and grants, venture capital private placement , boot strap financing and government financing.

There are various sources of capital for small businesses but entrepreneurs tend to prioritize their sources of funds. They start with funds that are cheaper and easy to access and then move on to those that are costly and difficult to get, (Roy, 2012). There are two types of financing available; debt financing and equity financing. Debt financing is a financial method that involves an interest – bearing instrument such as a loan. Debt financing is also called asset-based financing because some form of an asset is used as collateral (Hisrich et al, 2009). Equity financing does not require collateral but instead allows the investor some form of ownership in the business. The choice of financing is determined by availability of assets, interest rates and funds (ibid). According to Charantimath raising finances depends on four dimensions namely; i) right source, ii) time schedule, iii) cost and iv) adequacy.

3.2 Ways of Financing Small Scale Businesses

3.2.1 Personal Funds

Personal funds are funds invested by the owner of the enterprise. They are less costly and one has control over them. These are essential in assisting the entrepreneur to obtain external funding from banks, private investors, and venture capitalists. Personal funds are mainly obtained from savings, life insurance and /or mortgage on a house or car.

3.2.2 Family and Friends

Family and friends provide capital to entrepreneur due to the relationship with the entrepreneur. They provide little capital for new businesses. Despite the fact that it is cheaper to obtain funds from family and friends may call for them to claim ownership position in the venture, and all rights and privileges that pertain to that position (Hisrich et al, 2008). This may have a negative effect on the employees, facilities, sales and profits. A loan offered by a friend or relative should specify the rate of interest and time for repayment to avoid conflicts. Any dividends generated should be declared openly to avoid conflicts. A formal agreement with all terms and conditions is necessary to avoid conflict in future (ibid).

3.2.3 Commercial Banks

Commercial banks provide short or long term funds depending on the need of the enterprise. They always request for collateral from the entrepreneurs. This collateral may be in form of business assets (land, equipment or any other assets), personal assets such as a house, car, land, stock or bonds, or any other personal assets (Hisrich et al 2008).There are various types of bank loans offered. Normally the banks lend loans on the bases of the assets or the cash flow of the enterprise. So bank statements are required in order to access credit. Hisrich et al 2008 came up with various types of loans that banks offer such as; Accounts Receivable Loan- This is favorable for the customer who is well known to the bank and is creditworthy.

Banks may finance up to 80 percent of the value of the enterprise account receivables (ibid). Inventory Loan is used to finance ventures against their inventory. This may involve the finished goods. Banks also lend funds as per invoice of goods which is paid on pro- rata basis when the goods are sold. This is called trust receipts which is a special type of loan.

Equipment financing is used in financing long term loans for 3 – 10 years. There are many types of equipment financing; new equipment financing, used equipment already possessed by the enterprise, sales – lease back loan, or lease loan. The equipment which is in existence or being bought serves as the collateral. Real Estate Loan is commonly used as asset-based finance. This is useful in financing company's land, plant or a building. Cash Flow Financing is another form of loan. Entrepreneurs get credit to finance their businesses by paying a commitment fee to ensure that the bank will process the loan when called upon to do so and then pay interest on any outstanding amount that the bank lends to the entrepreneurs. Installment Loans are also available to entrepreneurs with obtainable records of sales and profits. Normally the funds are used for a specific capital need and for a particular duration when financing is required. Straight Commercial Loans are given by banks to build up inventors for a period of 1 – 3 months.

There are long term loans given to more stable and strong ventures. These are funds that are repaid back after a period of up to 10 years. Long term loan has a repayment schedule and interest rate. Banks also give character loans which are advanced to entrepreneurs individually and his personal assets are pledged as the collateral. This situation arises when the business does not have the assets required by the banks. Banks normally make leading decisions through a loan committee and loan officer after a thorough scrutiny of the entrepreneur and his financial track record (creditworthiness). These decisions are based on quantifiable information and subjective judgments .The decisions are based on five Cs of lending: character, capacity, collateral, capital and conditions. The bank reviews all financial records of the borrowers in terms of credit rating, inventory turnover, capital invested and commitment to business. The bank also focuses on market size, sales and profitability. It also addresses the competitive advantage of the firm in the market and risks involved and cover from insurance companies. A good business image is paramount in order to acquire finances from a commercial bank (ibid).

3.2.4 Research and Development (R&D) Limited Partnerships

R & D Ltd. Partnerships are another alternative to financing small businesses. This is possible where high technology is employed. They also fund ventures in high degree risk and requires basic research and development. The R & D Ltd Partnership has three dimensions; the contract, the sponsoring company and the limited partnership. It funds the enterprise in three stages; the funding stage, the development stage and the exit stage.

3.2.5 Private Placement

Entrepreneurs of small businesses may also access capital through private investors (angels) who may be family, friends or wealthy persons. The investors take an equity position in the business and may influence the direction and operations of the venture. Some of those investors take advisory roles or get actively involved or remain passive (Hisrich et al 2008).Formal agreement are made to access funds through private offerings. These have laws that govern them such as: provisions of private offerings, definitions of private offering and their operating rules.

3.2.6 Boot Strap Financing

This is a method used to try to preserve cash by such items as: supplier discounts, bulk packaging, and reducing costs of shipment. The entrepreneur has the obligation to consider all possible sources of capital and hence select the best and appropriate for the business with cover costs and with minimal control of the business. Different sources of funds are used at various stages of development of the business.

3.2.7 Government Funds

Government funds are another form source of financing. The government of Kenya has provided funds to boost youth and women enterprises. It has introduced two types of funds; the Women Enterprise Fund and Youth Enterprise Fund. The Women Enterprise Fund was launched in 2007 to offer financial assistance to women in starting and expanding their businesses by accessing credit cheaply. Women face a number of challenges such as; high cost of credit, lack of collateral and low finance literacy. This fund is under the social pillar in vision 2030.

Funds are meant to reduce gender disparities. By increasing more opportunities to women, through empowering them economically, hence building their capacity and reducing their vulnerability. Women can access a loan at 8 percent interest per annum from financial institutions. So far 645,825 women have already utilized the funds (GoK, 2012). The Youth Fund has the mandate to facilitate young entrepreneurs' access capital , assist them to in provision of development services, facilitate supply chain linkages ,help create market opportunities locally and abroad for their products and facilitate good infrastructure for their businesses (ibid).

Many SMEs, despite the significant role played by the sector have continued to experience many binding constraints that have inhibited the realization of their full potential. Some of these constraints include; poor access to markets and financial services, unfavourable policies and a conducive environment (Ekiru, 2013). Entrepreneurs often lack the education, skills, and access to information required to turn their entrepreneurial spirit into bankable project ideas. She emphasizes the need to formalize businesses and get clear business strategies to provide a platform for growth. Kenya's growth is highly pegged on the performance of its economy (ibid).

According to Leritsky and Prasad (1995), small businesses have difficulties in obtaining financial assistance in both industrialized and developing countries. The reasons why small enterprises have limited access to credit are due to:

a. High risks involved, causing many financial institutions to fear leading to SMEs. This is due to uncertainty that face the industry, high mortality rate of investments as a result of market and economic changes
b. Preferential treatment by financial institutions in favour of large scale businesses. Large firms on the other hand have negotiating power to access financial assistance.
c. Lack of records or poor accounting records. Banks require some financial records to serve as securities or collateral for credit.
d. They also demand securities inform of assets which may limit the SMES.

According to Kauffman (2005), MSEs suffer from "cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes". This has caused many firms to remain small and informal and use simple technology. Financing a business through credit is expensive and therefore available funds should be carefully planned, managed and controlled for the intended purpose.

A taskforce in South Africa found out that a) SMEs play a key role in income generation, create employment and hence the need to access financial services (b) financial access depends mainly on SMEs' stage of growth. Equity finance is paramount for the young and potentially high risk enterprise (c) non-bank financial intermediaries contribute significantly to SMEs d) access to capital markets also increases access to capital to the SMEs (e) access to information is paramount for the SME's and for the providers of credit. SMEs are able to identify potential financial providers. Those offering financial assistance may need to evaluate the risks involved (f) Venture capital depending on stage of SME growth of may be a better alternative for financing the business.. Government should give tax incentive to venture capital investors.

According to Duru and Kehinde (2012) SMEs suffer from instability of financial institutions. Berger and Udele (2001) argued that economic environment under which SMEs exist and banks affect the "willingness and the capacity of these institutions to lend to SMEs. Some of the causes of this instability are due to technological innovation, regulatory systems and changes in the macroeconomic environment. Therefore these changes cause the lending institutions to develop stringent lending rules to the SMEs and ensure that investment is guaranteed in both short and long term.

Kenya Vision 2030 (2007) highlights intentions of government to fund MSEs. The government aims at creating a vibrant and globally competitive financial sector and promotes high levels of savings .The government aims at increasing bank deposits from 44 percent to 80 percent of GDP in order to reduce cost of borrowed .New and growing ventures require finances as they develop overtime. The demand for finances depends on the type of venture, the rate of growth and the stage of the ventures development. Low growth firms, for example, require small amounts of funding than do higher-growth firms. Service firm requires less than manufacturing firms. Capital is the life blood of any business venture. Few ventures have enough capital to begin and grow without an infusion from external sources. Equity capital provides ownership to the investors while debt capital provides return to the investor in the form of interest on capital supplied. Kenya's MSEs have little to finance, which thus hampers their emergence and eventual growth.

Their main sources of capital are mainly retained earnings, informal savings and loan from associations, which are unpredictable and have little scope of risk. Access to formal finance is poor because of the high risk of default among SMEs due to inadequate facilities.

In addition there is no structured institutional mechanism in Kenya to facilitate the flow of financial resources from the formal financial sector through Micro Finance Institutions (MFIs) to the MSEs. This increases the cost of credit services to formally registered businesses, which meet criteria such as proper maintenance of books of accounts and verifiable asset base. Most MSEs cannot meet these criteria. Also availability of collateral is limited by the difficulty of obtaining legal title to land. Even where collateral exists commercial banks are not confident that the legal system will allow them to realize their money in cases of default. The problem is greater in the rural areas where bank branches are few and far apart. Limited competition between banks aggravates the problem. According to Oyuke(2012), banks face obstacles in doing business with SMEs. These obstacles are related to the nature of SMEs, others are due to some bank-specific factors, macro-economic, regulatory factors, legal and contractual environment. Government is not proactive towards the SME sector in regards to prudential regulation. Despite the increasing number of MFIs their outreach has remained severely constrained, especially in the rural areas, because of their limited resource base and lack of institutional capacity to provide a wide range of financial services. Currently MFI outreach is basically through group lending schemes, which have limited absorptive capacity for financial services. However commercial banks have a strong resource base and widen outreach but lack the expertise and best practice for MFI lending to the MSE sector.

3.3 Data Analysis, Presentation and Recommendations

A study was carried out on 300 small businesses in Nairobi, Thika, Kiambu, Nyeri and Nanyuki. The study was carried out in April 2013 on businesses that had trading permits to determine how small businesses finance their operations. The study used descriptive research design. A questionnaire was used to collect primary data. The data was collected and analyzed by use of Statistical Package for Social Sciences (SPSS software) and presented by use of descriptive statistics, pie charts and bar charts. It was observed as shown Figure 15 below, that out of the businesses studied ,beauty shops/saloon are the most operated small business with 17.2% ,retail shops 15.2%, hardware 9.3%, hotels, agrovet and tailoring had each 8.6%. It was noted that welding, photo studios and chemists are the least operated small businesses.

3.3.1 Types of small businesses

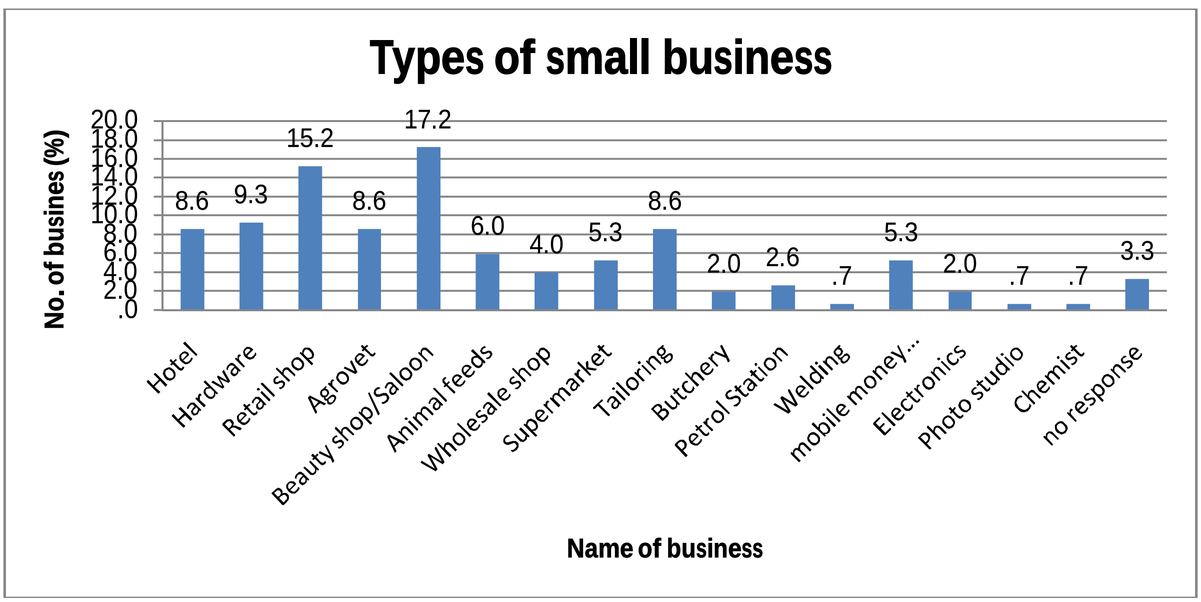


Figure 15: Types of small businesses

4.3.2 Gender of Small Business People

On gender of the entrepreneurs, as shown in Figure 16 below, most of the entrepreneurs (54%) in the areas of study were male and women were 46%.

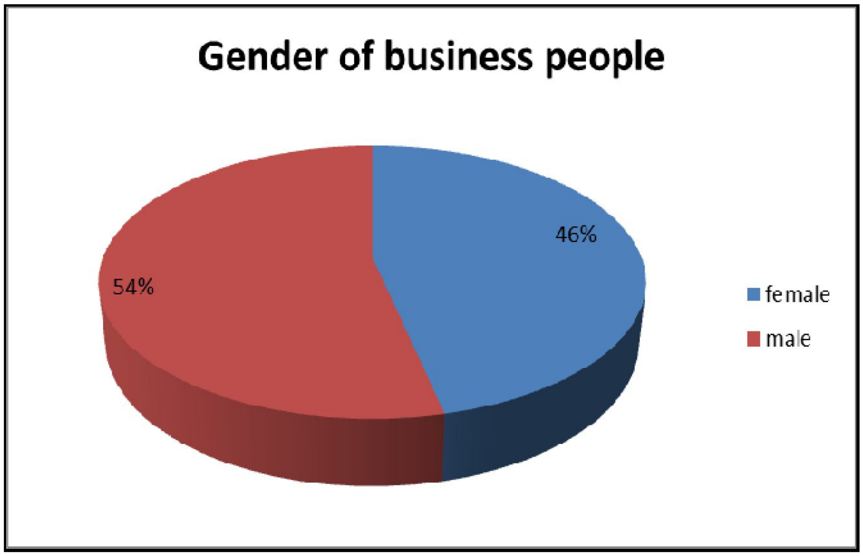


Figure 16: Gender of Small Business owners

4.3.2 Age of Business owners

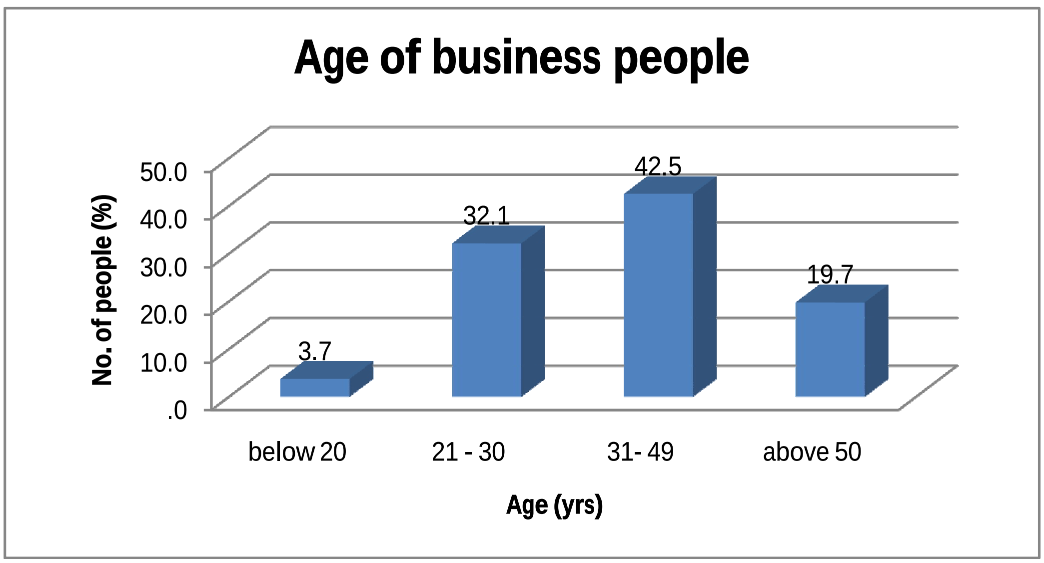


Figure 17: Age of Business owners

Most entrepreneurs (42.5%) in the area of study are between the age of 31 – 49 years. Close to them are those between the age of 21 – 30 years (32.1%)) which are are mostly the youth. The least people in the business venture are people who are below 20 years .This implies that 81.3% are below 49 years.This due to the high rate of unemployment in Kenya ,many people open business for self employment. This is similar to a study done by ILO in 2008 on women enterprises that found out that 80% of the businesses were being operated by women below 40 years.

3. 3.3 Challenges facing day-to-day small businesses

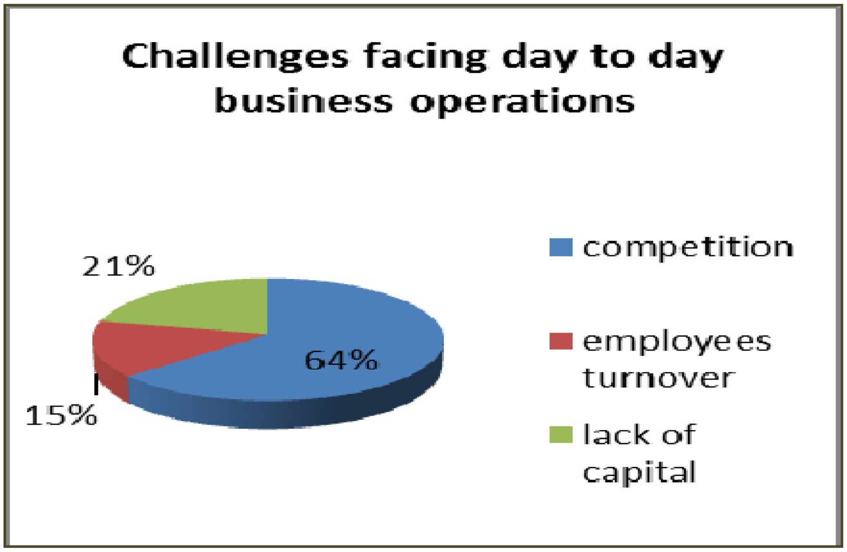


Figure 18: Challenges facing day-to-day-Small Businesses

The study found out that the among the biggest challenge in the day to day operations of small business is competition (64%), followed by lack of capital (21%) and finally employees turnover. The challenges are directly proportional to the ways of solving them as shown Figure 5 below. A study by ILO indicated that respondents' main problem was lack of cash flow (30%), followed by excess credit to customers and finally inadequate skills, knowledge and experience. Another study by Bowen et al (2009), ranked competition as the first challenge of businesses (71% ,poor security(36%) ,debt collection ,lack of working capital and power interruptions in that order.

3.3.4 Ways of overcoming challenges

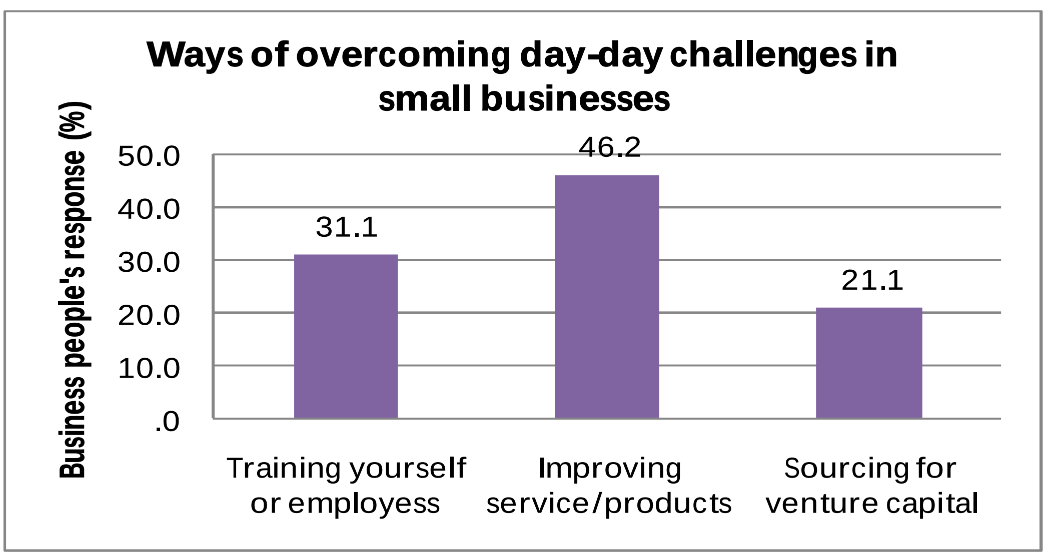


Figure 19: Ways of overcoming day-day challenges in small businesses

As indicated in Figure 19, it was observed that to overcome day to day challenges entrepreneurs need to improve services and products due to competition (46.2%). This is followed by training at 31.1% and finally the least seeking for venture capital (21.1%).this is different from the study by ILO whose 53%of the respondents raised the issue of training and advice as the most important way to overcome challenges. Technological changes are causing a lot of competition as businesses improve on quality and get more convenient methods to do business.

3.3.5 Source of Initial start-up capital

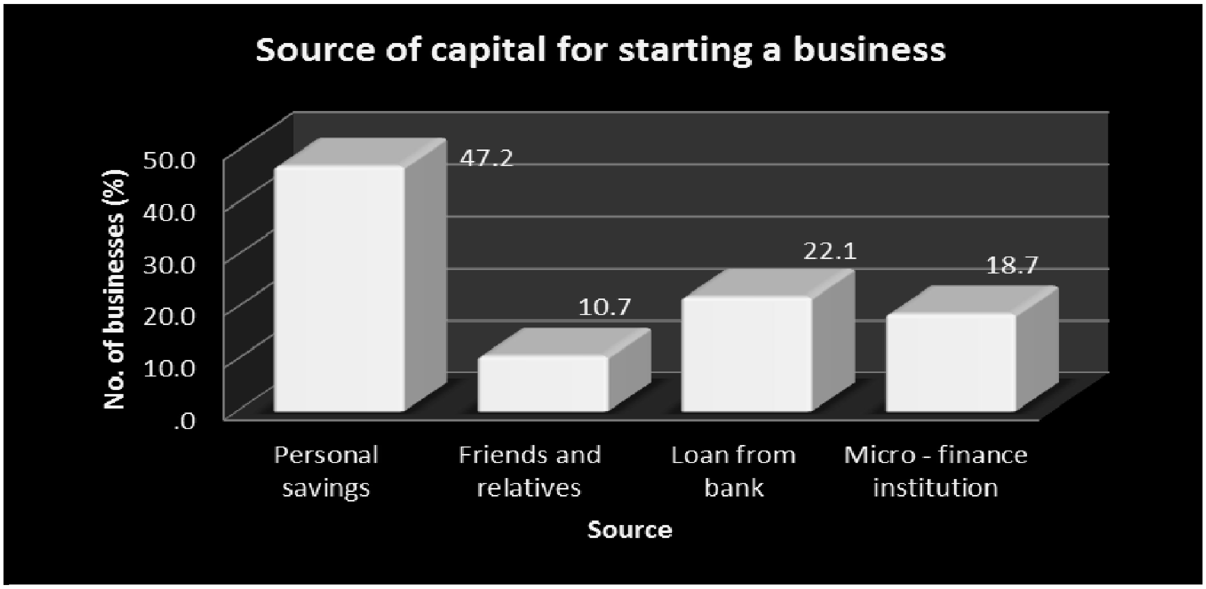


Figure 20: Source of Initial start-up capital

From the chart above, it is obvious that most small businesses (47.2%) get their starting capital from personal savings. Loans from banks (22.1%) come as a second source of starting a small business, then micro – finance institutions (18.7%) and finally friends and relatives (10.7%). This is similar to a study done by ILO (2008) indicated that women with a source of capital as personal savings was 61.7%.This is because of contingent conditions placed by financial institutions to access funds.

3.3.6 Value of Stock when starting a business

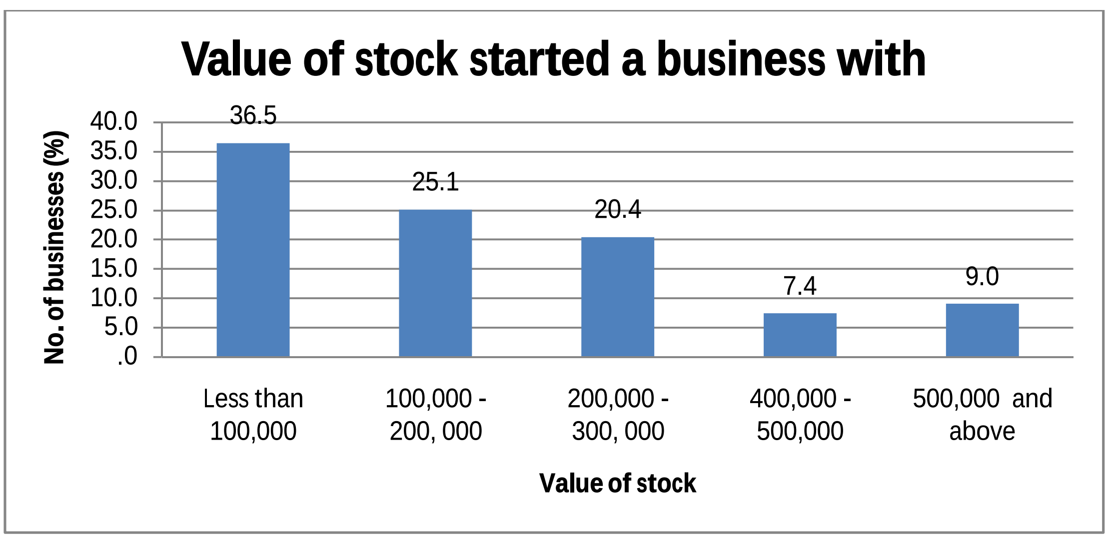


Figure 21: Value of Stock when starting a business

Most small businesses (36.5%) in the study, started with a stock that is worthy less than Kshs 100,000. The number of businesses that started with a stock between Kshs 100,000 and 300, 000 was 45.1%, businesses that started with a stock that is between 300000-400000 was 7.4% and over 500000 accounted for 9.0%. It is observed from the study that 81.6% entrepreneurs started their businesses with a stock of less than 300,000. This is because most entrepreneurs are limited by their personal savings. This is similar to a study done by ILO in 2008 on women enterprises that found out women that started off with a capital between 0-100,000,were the majority with 80%.This means most businesses are at still micro enterprises.

3.3.7 Grading Loan repayment patterns

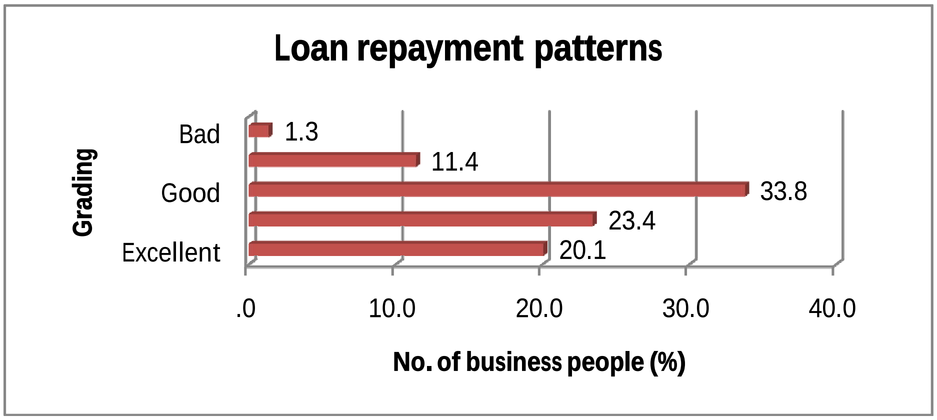
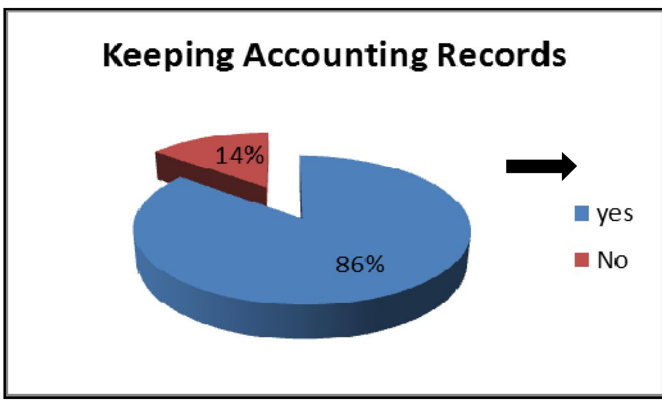


Figure 22: Grading Loan repayment patterns

The entrepreneurs who get loans from the banks are able to pay back in good time. Cumulatively most business people (77.3%) grade their loan repayment pattern as "Good" Very Good" and Excellent. Very few (1.3%) indicated that it is bad and only 11.4% rate it as fair.This indicates that possibility of defaulting a loan is low.

3.3.8 Keeping Accounting Records



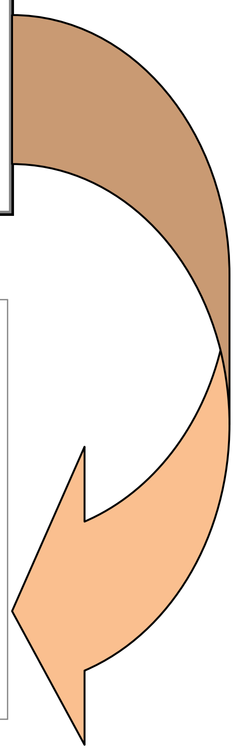
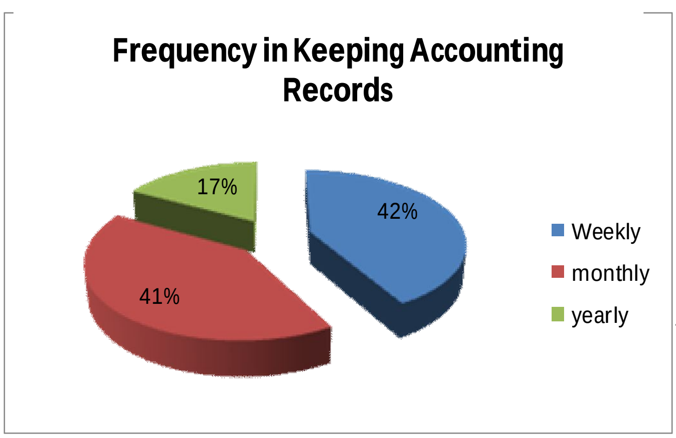


Figure 23 Keeping Accounting Records



The charts above indicate that most business people (86%) keep accounting records. On how often they keep the records, most of them, 42% and 41% keep the accounting records on a weekly and monthly basis respectively. Very few business people (17%) keep accounting records on yearly basis.

Chapter Four

4.0 Technology And Innovatıon In Small Scale Entreprıses In Kenya

4.1 Overview

Technology can be defined as the science and art of getting things done through the application of skills and knowledge. It is a body of knowledge, techniques, methods, processes and designs. This ranges from the way a product is made and designed, the way raw materials are sourced and used and how the production line and workshop is designed and structured and how the production line and workshop is designed and structured and how the product are distributed and stocked. The definition of a small enterprise depends on a number of factors for instance the purpose of the definition, the technology being used, the turn-over rates, the level of development on which the definition being given. In a Kenyan perspective, the number of employees has been accepted as the criterion used in defining an enterprise. An enterprise employing 0-9 is a micro- enterprise, 10-49 is a small enterprise, 50-70 is a medium enterprise while 70 and above is a small enterprise.

The term innovation is not new to the minds of many managers of both small and large organizations around the globe. Innovation comes from a Latin word innovate meaning to make something new. Researchers and managers have come up with different definition of this term and although the definition vary in words the all stress on the requirement on newness, completion of the development and exploitation of the new knowledge. According to Drucker (1985), innovation is a specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business service. Branson (1998) while offering a lecture on innovation defined an innovative business as one which lives and breathes outside the box, a business that does not just generate good ideas, but also motivates its staffs and understand what a customer want. Tabas & Polak (2010) in the study of innovation barriers in small and medium enterprise (SMES), defined innovation as a change which leads to gaining profit for an individual, for an enterprise or for a whole society. The importance of innovation to the small medium enterprise (SMES) in Kenya cannot be ignored. This is because approximately 80% of the employment opportunities are in these small firms and they also contribute a big portion of the Kenyan GDP.

Globalization and market liberalization has caused intensive competition in the domestic market which is the focus of majority of the SMEs in the country. This has caused the small organization to lose their markets to more innovative large organizations due to relatively high overheads hence experience difficulties in facing the foreign markets. Previous Studies done in other continents show a positive relationship between innovation and organization performance. There is common perception that innovation is the basic element of economic growth and improvement of organization competitiveness in the market. Porter (1990) supported this in his book the competitive advantage of an nation by concluding that organizations achieve competitive advantage though the act of innovation and they approach innovation through technology and new ways of doing things. Technology adoption is one way of increasing the speed of innovation in SMEs. According to scull (1999), increased use of technology has brought about numerous changes in the business world. One such technology is the adoption of internet which has been recognized for the vast array of information, services, meeting places, and communities-of-interest that it offers. This paper looked at the type of the technology adopted by SMEs in Kenya and the usage of internet as an information source. It also assessed the importance of the adoption technology to the performance of the business.

To explore technology and innovation adoption of SMEs in Kenya, SMEs in three counties namely; Nairobi, Nyeri and Kiambu were identified and a sample of three hundred SMEs located in these three counties were randomly sampled. Questionnaires were chosen to collect data, as they were deemed suitable for gathering a large amount of data and also collecting accurate data. According to Hair (2003) such qualitative research method is suitable for measuring phenomena and enables this study to generalize in identifying innovative patterns. Questionnaire is also the main methods of data collection in many previous SMEs studies.

4.2 Data Analysis and Presentation

4.2.1 Frequently used technology in small business

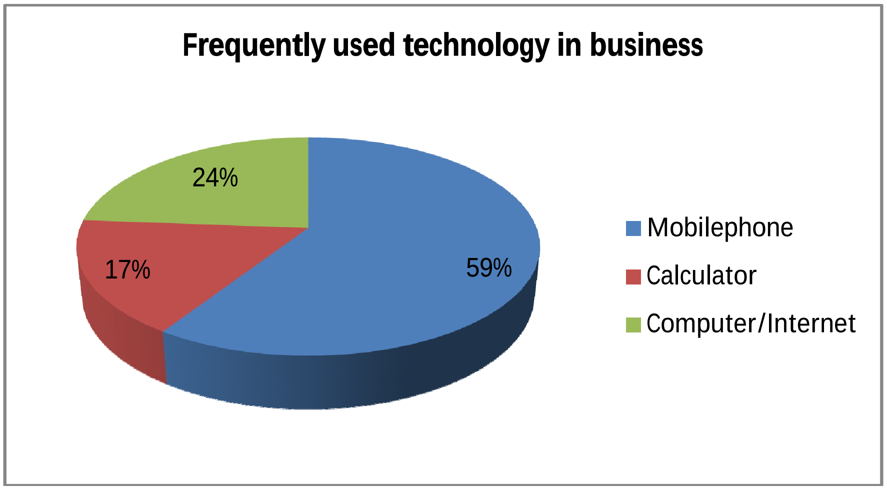
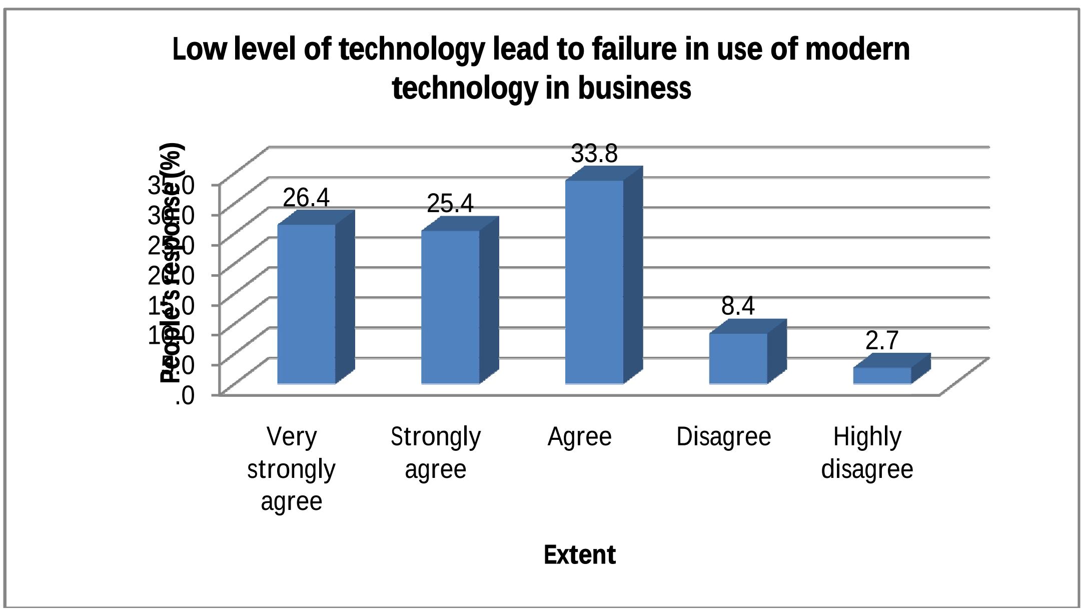


Figure 25: Frequently used technology

Mobile phones are the most modern technology used by business people (59%), followed by computers (24%) and finally calculators 17%).

4.2.2 Low level of education lead to failure in use of modern technology in business



33.8% of the respondents agree that low level of education lead to many small enterprises to fail to use modern technology because they don't understand their usability. Further, 26.4% and 25.4% not only "agree" but they "very strongly" and "strongly agree" with the same.

4.2.3 Extent to which accessing modern technology affects performance of small enterprises

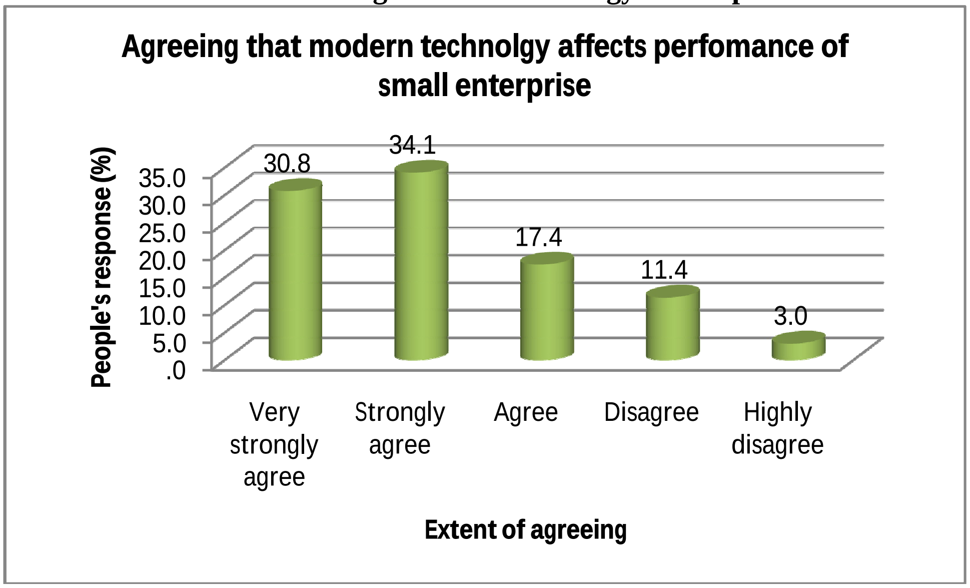


Figure 26: Extent to which accessing modern technology affects performance of small enterprises

Most business people "Very strongly" and "Strongly" agree that accessing modern technoly affects the performance of small enterprises. Very few either disagree or highly disagree with the statement.

4.2.4 Access to internet and how often

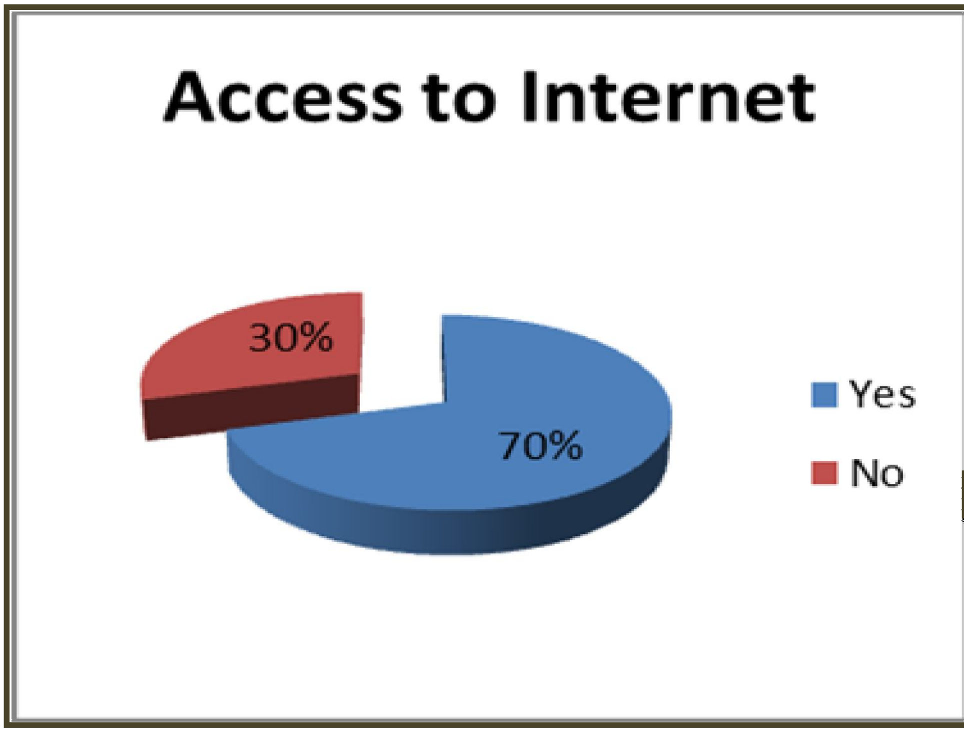


Figure 28: Access to internet by small entrepreneurs

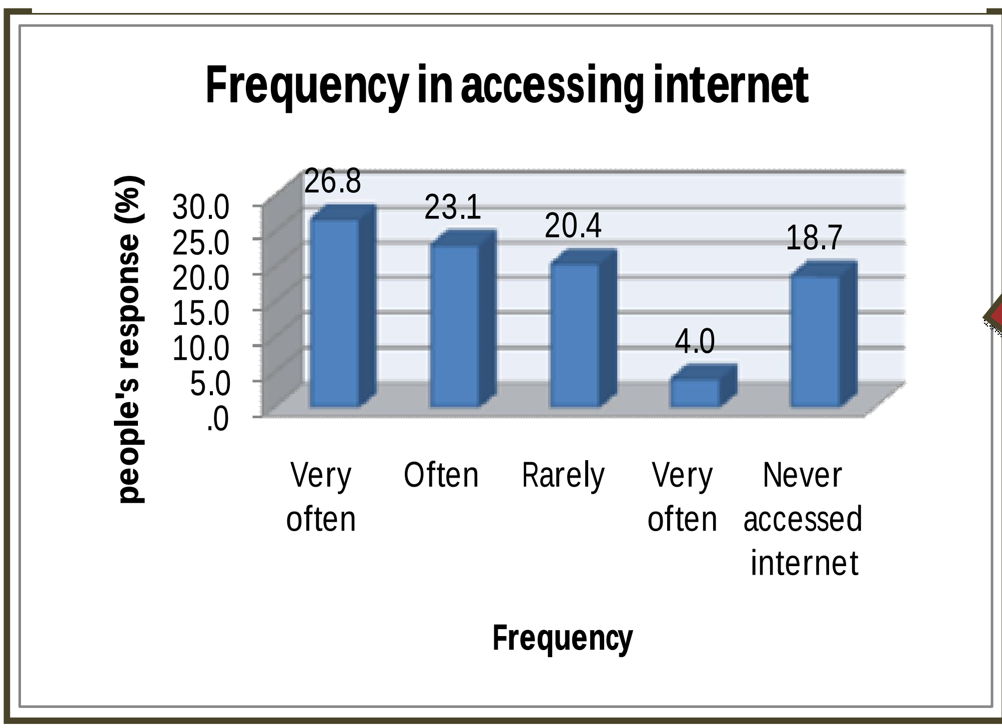


Figure 28: Frequency in accessing internet by small entrepreneurs

The above charts show that most business (70%) accepted that they do access the internet with 26.8% of them saying that they access the internet very oftenly, 23.1 % access of often and 20.4% access internet rarely. On the other hand, 30 % of business people indicated that they do not access internet at all.

Chapter Five

5.0 Conclusıon and Reccommendatıons

5.1 Conclusions

The study shows that the main challenge faced by Small Busineses is competition. The Small Businesses have to devise strategies to maintain their customers. The most important one being provision of quality services and products so that they can retain their customers. Personal selling and advertisement are the main methods used in marketing small businesses'produts. Radio was found to be the most effective method of advertising small businesses' products because it is the cheapest and also most accessible to the target market. While contributions of small businesses to development are generally acknowledged, they face obstacles that limit their survival and development. The rate of small businesses failure is high in the area of study. Starting a small business is a risky venture and making it past five years is quite difficult hence the need to safeguard against failure (Pamela *et al*., 2007).Small businesses face higher production and operation cost making them unable to produce and sell at competitive prices.

The government has a role to make regulatory and fiscal policies that are favorable for entrepreneurs to access capital. Some of these policies are made by Central Bank such as reducing interest rates. This in turn allows the commercial banks to reduce rates on loans (Daya, 2013).The government also has a role in coming up with incubation programmes to train businessmen against high business failure. The government has launched an ICT-based incubation programme worth Ksh 140m in support of incubation. This program seeks to avail finance to businesses, facilitate business linkages to the elite community and industry, and help them commercialize their innovations. The government has the role to equip business people with skills, provide infrastructure that will enhance performance of businesses (Private Sector, (2013). Training of business people will expose them to better methods of doing business and also of the internet to outsource and for e-commerce.

The result showed that the mostly widely used technology in SMEs was a mobile phone at (59%) and only (24%) of the respondents used or had a computer in their businesses. The low penetration of computers and usage was because of the level of education concerning the operation and the usability of the computers and the researcher recommends that capacity building on the usage and the operation of computers should be enhanced to the owners of SMEs. On internet technology, the SMEs owners should be educated on the importance of this technology to their businesses. There was also an agreement by majority of the business owners that adoption of technology has a positive effect on the business performance hence it is important to adopt ways of enhancing that the SMEs are able to acquire these technology. Internet access through the mobile phones or computers was also high with 70% of the respondent being able to access while 24% using it often which is a positive response since. A frequency of 27% use is very low compared to the number of SMEs around.

5.2 Recommendations

The study recommends that small businesses formulate strategies that should give them competitive advantage in the highly competitive market. Therefore there is need to apply branding as a way of differentiating the products of one SMEs to another. It would be important to study the extent to which branding is used by SMEs.

According to Kauffman expanding the financial sector, improving business conditions and strengthening firm linkages will go a long way in increasing SMEs access. In order to improve business conditions the SMEs should be able to improve the firm's accounting system the government to improve the legal system to settle contract disputes and put in place friendly tax laws. SMEs should be in a position to join credit associations to reduce risks through sharing. These associations help financial institutions to scrutinize the credibility of the borrower and the viability of projects and as guarantors. Clusters of SMEs enable member firms to seek finance together, provide collective guarantees or even set their own savings and credit cooperatives (SACCO). In Kenya some SMEs have formed Biashara SACCO to meet their needs.

In order for SMEs to access credit, it is important that commercial banks and MFIs reduce contingent conditions already set .Many MFIs give loans to groups, which act as the guarantors to the individuals who wish to take up loans. Business people should be encouraged to make savings with financial institutions to improve their chances of being funded. Access of internet gives the SMEs an opportunity to seek information and also market their products online. To increase the frequency of using internet, there should be availability of internet in rural counties and lowering the cost of internet access.

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