

**SOCIAL-ECONOMIC FACTORS INFLUENCING
FINANCIAL PERFORMANCE OF BUSINESSES
SUPPORTED BY MICRO-FINANCE INSTITUTIONS IN
KANGUNDO SUB-COUNTY MACHAKOS COUNTY**

MUTANGILI MARY

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DECLARATION

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

Signed;

Date;

Name: Mutangili Mary

L50/80678/2012

This research project report has been submitted with my approval as the university supervisor

Signed;

Date;

Dr. John Mbugua;

Senior Lecturer, Open and Distance learning;

University of Nairobi

DEDICATION

This research project report is dedicate to my beloved husband, Joseph and my sons, Festus and Joshua who offered support from the time I started, thank you, may God bless you abundantly.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP	gross domestic product
SME	small and medium enterprises
ICT	information communication technology
BERRs	Business enterprise and Regulatory Reforms
UK	United Kingdom
ILO	International Labor Organization
KWFT	Kenya Women Finance Trust
NGOs	Nongovernmental Organization
TAM	Technology acceptance Model
WEM	Women Enterprise Fund
MFIs	Micro- Finance Institutions
KLGRP	Kenya Local Government Reform Programme
SBP	Single Business Permit
LATF	Local Authority Transfer Fund

ABSTRACT

The SMEs sector has continued to play an important role in Kenyan economy. It is the objective of every entrepreneur to grow their businesses to large extent. To achieve this, most of the entrepreneurs make use of microfinance services. Despite the efforts, many of the businesses are still not able to survive beyond their fifth birthday. It is in this view that the research sought to establish the social economic factors influencing performance of businesses supported by microfinance institutions in Kangundo Sub County. The objectives of the research were; among other things, Influence of demographic factors, technological factors, business characteristics, and effect of human resource on the financial performance of businesses funded by microfinance institutions, this was done on different types of businesses (cyber cafes, green grocers, hardware shops, and general shops). The study was targeting 500 SMEs who were registered business inlets in Kangundo Sub County. The table was used to select 113 respondent from a population of 500. This sample was taken as a representative population in the sub county. Data was analyzed using descriptive statistics such as percentages, and frequency tables. Using statistical package for social science (SPSS), Data was analyzed based on descriptive statistics and the results was used to establish relationship between independent and dependent variables. Descriptive design was be used to explain business categories. Structured questionnaire and observation were used to collect the data. Ten respondents were used to test the reliability of the research instruments. The response rate was 66% of the selected 113 were able to fill the questionnaire completely and return on time. Data was analyzed from 75 respondents. The findings of the study were that, education and training (3.1188), business characteristics (4.4267) and infrastructure 3.4158) as mean had more influence in the financial performance of businesses. The study will be useful to community with the sub-county using it to plan for expansion of businesses in the area.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Businesses funded by micro-finance institutions are those that operate small –scale. This is because micro-finance institutions finance small businesses and is caused by the type of small funds that are provided through group lending so that the members can be able to borrow through the empowering of group contributions.

Small and micro Enterprises (SME'S) play an important economic role in many countries. Over the past 10 years, economic planners have realized the importance of small enterprises sector in achieving economic development (Drucker1985). Many governments and development organizations have focused on promotion of SME's as a way of encouraging broader participation in private sector.

In Europe, SME's play a central role in their economy. They are the major source of entrepreneurial skills innovation and employment. In large European union of 25 countries, some 23 million SME's provide around 75 million jobs and represent 99% of all Enterprise(European commission).For instance in Britain: SME's are the backbone of the British economy (Rowe 2008).According to the department of Business ,Enterprises and Regulatory Reform(BERR'S),Enterprises directorate Analytical unit, the UK economy is 99% SME's employing 14.23m people out of a working population of 30 million in terms of UK turnover GDP,UK SME'S account for 1.48 trillion sterling (British pounds).

SME's are the back bone of Singapore's economy contributing 47% of the country's GDP and generating 62% of available jobs (SMU 2008).The promotion of SME's and especially of those in formal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa .SME's are the major source of employment in developed and developing countries alike ,comprising over 90%of African business operations and contributing to over 50% of African employment and GDP (Okafor 2006). However, many SME's remain outside the formal banking sectors yet they play a key role in the economy of many countries.

In the case of developed countries, like Germany, the economy is characterized as having Strong SMEs and about 2/3 of the workers are employed by these enterprises. Furthermore, newly industrialized Asian countries SMEs have become the driving force in their rapid growth .In South Korea SMEs account for 99% of all enterprises and 88% of all employees. Some of the Korean companies such as Samsung and LG were once small enterprise .From these example ,it is clear that SMEs are important to development process and that it would be beneficial for Africa countries to promote SMEsfor further growth(Otero &Rhyne 1994)

In Kenya SME's create employment at low levels of investment per job, leading to increased participation of indigenous people in the economy, (ILO 1989). This sector accounted for 20% of the GDP in 1999(CBS et al 1999) and 64% in urban employment by 2002 (Karekezi and Majoro 2002). According to economic survey (2006), the sector contributed 50% of new jobs created in the year 2005. The small enterprise sector contributes 33% of the value-added in manufacturing and retail trade in Kenya (Onyango and Tomeko 1999)

Small enterprises in Kenya are said to have 1to50 workers. Census indicates that small enterprises comprise the lion's share of enterprises in Kenya and small-scale businesses are those with less than 50 workers (Kasende 2001). (Hayashi2007) defines small businesses in Kenya as enterprises with between 1to50 employees, have limited fund raising capacity, low turnover and small capital investment. This is the definition adopted for this study.

From an international journal of business and commerce vol.1 no 10;june 2012 summaries, it was noted that most of the financial institutions in Murang'a south sub-county were in operation only at the ages below 5 years this represented 38.9% Of all the microfinance institutions in the sub county .It therefore means that the institutions are entering to capture the new entries into the market inform of new businesses coming up .A good number of the firms seemed to be leaving the market after 5 years this is shown by reduction of 11.1%. This could be explained by a great exit of the microfinance target who were the SME's .The findings could also be applicable

inKangundo sub county as most the financial institutions in Murang'a south are found in Kangundo sub county as the two sub-counties share almost the same

business environments Some of the financial institutions used by both sub counties are; Faulu, KWFT (Kenya women finance trust) and Equity Bank.

Despite their significance, past statistics indicate that three out of every five businesses fail within the first few months of operation (Kenya National Bureau of Statistics 2014) .However it is recognized that SME's face unique problems which affect their growth and performance. The major problem cited is access to credit (Harper 1974, ILO1989, House et al 1991). Micro-finance institutions came in handy to solve the problem of access to credit. The table below presents this evidence;

From kangundo sub-county outlet data report (2014), it was noted that out of 500 small-scale businesses in the sub-county, 300 of them were below two years. This covers 60% of the businesses .It was also noted that most businesses are microfinance supported when they're 2 years and above which covered 400 businesses covering 80% of the small-scale businesses in the sub- County.

Despite the efforts of microfinance institutions such as K-Rep, Family finance, Kenya Women Finance Trust, Equity Bank among others taking micro-finance within the reach of the poor people and SME's who have still not benefitted from the conventional banking system, the SME'S sector has not shown signs of growth and expansion (Kenya economic survey 2009).This in itself depicts that there are other issues that influence their financial performance.

1.2 Statement of the Problem

The Kenya economic survey of 2014 indicated that 80% of 80000 jobs created in the year were in the informal sector. Small and medium enterprises sector has continued to play an important role in the Kenyan economy, the sectors contribution to GDP grew to 5.6% in 2015 compared to 5.3% in 2014. Most studies in the past have been done on accessibility to credit and inflation in the country .Research conducted by Nyambura (2007) established the most highly ranked problem facing SMEs in the manufacturing sector were markets, inventory scheduling, control and transportation logistics .Mutuku (2010) studied on the impact of microfinance institutions on SMEs in Kitale and found that they had great impact on employment creation. Mbugua (2010) studied on the impact of microfinance services on financial performance of SMEs in Kajjado and found out that microfinance services enhance financial

performance of SMEs .Ngugi (2009), Kioko (2009), Makena (2011) studied on financial challenges faced by SMEs and found out that inadequacies in access to finance are key obstacles to SME performance. Kimei (2011) studied the relationship between microfinance services and financial performance of SMEs .The findings were that positive and significant relationships have been established between microfinance institutions and SMEs performance.

Survey of the financial constraints hindering growth of SMEs by Koech (2011) found that factors affecting performance were capital market, costs, capita, access to collateral requirements, capital management. Cooper (2012) studied the impact of microfinance services on performance of SMEs in Nairobi and found a positive impact. Naom (2010) focused on the effect of microfinance services on the growth of SMEs in Machakos County and found out that there was strong positive relationship between the variables. As Microfinance institutions came in to offer support by providing finance through their lending programs, the SME sector has not shown signs of improvement as shown in table 2 by the number of businesses that live to see their fifth birthday though they enjoy microfinance borrowing. This raises questions, are there other issues affecting performance other than the ones researched on and especially in Kangundo sub-county where no research has been done on this topic.

In order to answer the question, the research study sought to establish social-economic factors influencing performance of businesses supported by micro-finance institutions in Kangundo sub-county. According to Kangundo sub county outlets data of 2014, it was found that 300 businesses were below two years out 500.this represented 60% of the businesses. The data collected also indicated that400 out of 500 businesses were microfinance supported because they were two years and above .this represented 80% of the SMEs in the sub county. At the end of the third year only 350 SMEs were in operation meaning that 500 businesses supported by microfinance institutions had closed shop at the end of the third year. It at this point that the study seeks to establish the social-economic factors influencing the performance of businesses supported by micro-finance institutions in Kangundo sub county The study will among other things look at demographic factors such as (age, education, and employment), use of ICT in M-pesa technology and ICT business,

business characteristics such as (capital invested and age of the business), and human resource factors which include technical skills and management practices.

1.3 Purpose of the Study

The study is aimed at establishing the socio-economic factors that influence performance of businesses supported by micro-finance institutions in Kangundo sub-county.

1.4 Objectives of the Study

The study was guided by the following objectives;

I To determine the influence of consumer demographic factors, on the financial performance of businesses, supported by micro-finance institutions in Kangundo sub-county.

II To establish the influence of technological factors on financial performance of businesses supported by microfinance institutions in Kangundo sub-county

III To determine the influence of business characteristics on the financial performance of businesses supported by microfinance institutions in Kangundo sub-county.

IV To establishing the influence of human resource factors on financial performance of businesses supported by microfinance institution in kangundo sub-county.

1.5 Research questions

The study sought to give answers to the following questions.

I How do consumer demographic factors influence financial performance of a businesses supported by microfinance institutions in kangundo sub-county?

II How do technological factors influence financial performance of a businesses supported by microfinance institutions in Kangundo sub-county?

III How do business characteristics influence the financial performance of businesses supported by micro-finance institutions in Kangundo Sub- County?

IV What influence does the human resource of a business have on the financial performance of businesses supported by microfinance institutions in Kangundo Sub County?

1.6 Significance of the Study

It is hoped that the study results will be used in planning by the departments of youth affairs, gender and social services, micro-finance institutions in Kenya to develop policies for their departments and institutions. The county government of Machakos is hoped to use the research to develop policies and strategies that will guide the planning for the county and other counties in Kenya .Non-governmental organizations (NGO'S) and other development partners dealing with poverty alleviation will also find the research useful. The results of this study are hoped to be disseminated in workshops and published and stored in libraries thus will contribute to the stock of knowledge.

1.7 Delimitations of the Study

According to Kangundo sub county outlets data of 2014, there were different types of SME'S. Those who deal with general stores, vehicle repairs in workshops, hotels, cyber cafes, cobblers and green grocers. Questionnaire was used to guide in interviewing and drawing desired results. Research assistants were trained on how effectively they were to handle the questionnaire.

1.8 Limitations of the Study

The study is expected to face the following challenges;

Due to time and resource constraints, the study covered only the SME'S within Kangundo sub-county. The hilly terrain is expected to affect the speed at which the results are to be collected. This was countered by using samples from each location and hiring of research assistants. Some of the retailers may not be willing to release their true report however the given report was assumed to be true.

1.9 Assumptions of the Study

The study was based on the assumptions; that all SME's operating within the sub-county are operating legally. That all sampled business owners were given the information as required by the questionnaire and they were cooperative, that all answers given by the respondents were assumed to be true and factual.

1.10 Definition of Significant Terms

Financial Performance;

This is a level of how a business is doing over specified period of time expressed in terms of profits and losses. It is a subjective measure of how well a business can use assets from its primary mode of business and generate revenue.

Socio-economic;

This is factors that help a person relate well with others and things that help an individual to generate wealth. These factors characterize an individual or a group within a social structure.

Government Involvement;

Government actions designed to affect economic activity and pursue one or more economic goals. Also called economic policies, the four common types of government policies are fiscal, monetary .regulator and judicial.

Physical Infrastructure;

The term infrastructure refers to the substructure or underlying foundation on network used for providing goods and services; especially the basic installations and facilities on which the continuance and growth of a community state depend. For ICT it is concerned with presence of internet connectivity and presence of network for mobile connectivity.

Small and Medium Enterprise (SMEs)

Small businesses that have been financed by a one or only a few people or whose business operations are geographically localized and are not dominant compared to bigger firms in the same industry whose number of employees does not exceed ten. For this research the definition of less than ten employees will be used for SMEs (small and medium enterprises)

Mobile Technology;

This is how business owners can use their mobile phones to do businesses, like. Scanning documents or order cheques to make their transactions faster and cheaper.

1.11 Organization of the Study

The research proposal is organized in five chapters. Chapter one focuses on the background of the study that introduces the key concepts and contexts of the study, statement of the problem that establishes the research gap, objectives, research questions, scope of the study significance of the study, limitations and delimitations of the study, basic assumptions and definitions of significant terms and organization of the study.

Chapter two focuses on literature review where different works relevant to the study are reviewed and gives a detailed account of factors influencing performance of SMEs. It also presents the theories guiding the study, characteristics of SMEs, effects of education and training business ownership, technology.

Chapter three focuses on the research design target population, sampling procedure and sample size, target population, data collection methods, validity and reliability of data collection, operational definition of variables.

Chapter four focuses on presenting data collected from the field, its analysis and finally the interpretation of the findings on socio-economic factors influencing financial performance of businesses supported by microfinance institutions in Kangundo sub-county. The data is presented in form of frequency tables, charts and graphs.

Chapter five provides summary of the findings from chapter four, and also the conclusions and recommendations of the study based on the objectives of the study. The objective of the study was to establish the social-economic factors influencing financial performance of businesses supported by microfinance institutions in kangundo sub-county.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter was looking at what previous researchers have found out in relation to performance of businesses supported by microfinance institutions. This is done systematically from general theories, principals and generalizations of research findings to specific theories.

2.2. Importance of SMEs

In this section literature is reviewed to establish the state of SMEs in Kenya, their characteristics and various factors that have affected the growth and development of small and medium enterprises (SMEs) in Kenya. Much of the discussions is about SMEs which have for long time been based on the perception that industrialization of countries is a process leading from small and medium enterprise that continued to exist. The importance of SMES the apparent ability to provide reasonably priced goods, income and employment to a number of people. This chapter reviews literature related to SMEs in general and factors influencing their performance, particularly the chapter will discuss theories related to SMEs performance, characteristics of SMEs, infrastructure, human resource quality government policies on SMEs and demographic factors of the firms.

Small firms are backbone of national development (McLntyre&Dallago 2003).For a country to reach its full potential in terms of economic and social development. It cannot afford to ignore the importance of its indigenous micro and small scale enterprises (SME) and the contributions that they make to the country's economy. They reduce regional disparities through the creation of employment and opportunities in the rural areas and mobilize local resources more readily than large scale industries (UK Pabio 2004 and the world bank 2001).The SME sector provide certain benefits to the economy, key among them is the recognized potential of SMEs sector to generate incomes and provide jobs to large number of Kenyans. The 1992 session paper on SMEs highlights other benefits that make promotion of SMEs crucial for development of a labor –surplus(primarily agricultural) economy such as

Kenya (republic of Kenya 1992). The performance of these businesses can be improved if the same social economic factors are addressed.

In many areas, the leaders generally accept that SMEs play an important role in the Kenyan economy. According to economic survey of (2006) the sector contributed over 50% of new jobs created in 2005. Despite their significance, the statistics that are previous showed that three out of every business fail within the first few months of operation. According to Koech (2011) the factors affecting growth are capital, market cost, capital access, collateral requirement, information access, capital management and cost of registration. One of the most significant challenges of performance was the negative perception towards SMEs. Potential clients perceived small businesses as lacking the ability to provide quality service and are unable to satisfy more than one critical project concurrently.

As in many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The baseline survey conducted by central bureau of statistics and K-Rep holdings in 1999 provided the most comprehensive picture of SMEs in Kenya. Comparison of Kenyan SME sector to the southern African countries such as Malawi, Zimbabwe, Lesotho and Swaziland shows that 60% of SMEs are located in rural areas (Daniel 1992). This is caused by the fact that SMEs are common in people who have low income and generally found in the rural parts of the country where majority of the population live. Due to SME recognition and the ability to solve the unemployment problem and create wealth, considerably support programs have put in place by the government and the private sector to assist small establishment of small and the private sector to assist small establishment of small and micro-enterprise and the effort made to improve growth like licensing many microfinance firms, coming up of Uwezo funds and women trust fund.

2.3 Consumer Demographic Factors and Financial Performance

Consumer's age plays a major role in the consumption of different products in the market, younger population would like to spend more on luxuries and things that are fashionable compared to the aged. The level of education of the general consumer population will affect businesses like cyber cafes, and other products that high level of literacy in order to use like e-citizen and use of electronics. Improved literacy affects general consumer income. When the consumer population are able to bring something

on table, then it is said that the population is employed and this improves the purchasing power .high population density leads to high demand of products.

A firm's product usually appeal to a certain income groups' people with lower income are more sensitive to price and prefer discounted products .This is because they've less disposable income. Value is a major determinant in their products. Consumers' income situation has great influence on business performance, if the income and savings of a consumer is high than he/she can purchase the products in the market. On the other hand, a person with low income and savings will purchase goods of low cost (int.j.curr.res.Aca. Rev.2014; 2(9); 52-6

Services are more likely to appeal to certain age .Certain buying groups have more buying power than others. The lifestyle values, environment, activities hobbies and consumer habits evolve throughout life .The product sold should go with the target age in the business environment or target group.

Understanding consumer behaviors attitudes and opinions of each age group is an important aspect in business (Rentz&Reynolds 1991). Hawkins et al 1998 indicated that adolescents and elderly consumers have different aptitudes, values and behaviors. These two segments of the population differ in their choice using these choices of products and services, activities media.

Adolescent have their own language and way of speaking their own expression and tones (Hawkins et al 1998). Firms are using this behavior among young consumer to launch brands or to reposition current brands to appeal to this large target market (Blackwell et al 2001) indicated that today's elderly consumers who think feel and buy young. (Engel et al 1995) indicated three qualities important to elderly consumers during shopping; comfortable environment, physical and financial security and easy access to stores. (Johnson –Hillary 1995) found that elderly consumer's perceptions of a salesperson were significantly affected by the sales person's services hospitality and personal characteristics.

2.4 Technological Factors

These are factors concerned with technological infrastructure like availability of power sources, internet connectivity, and availability of strong mobile network. Knowledge of using the internet connectivity, the potential benefits of ICT is noted globally in all fields. It creates new types of economic activity and employment opportunities by changing the nature of work, the range of occupations and skills requirement. ICT contributes to business efficiency, productivity and profitability by reducing transactions costs and creating new opportunities to directly market products and services. It offers new methods of educating and training such as distance learning, lifelong education, alternative to formal education and community –based learning (Hafkin2002).the cost of it software and hardware for rural population is prohibitively expensive

SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Furthermore studies show that most of those running SMEs in ICT sector have at least attained college level education (Wanjohi and Mugure 2008)

In Kenya there has been a rapidly increasing trend in mobile phone subscription by rural and urban population .This increased changes in most sectors of the economy and particularly the rural sector with micro- and small enterprise changing their business and operating environment ,thereby creating an impact on Kenya’s fastest growing sector and employer (government of Kenya 2012). Mobile technology has the potential to improve the economic performance of SMEs affecting almost every structural characteristic of these organizations. Mobile phones have been a key ICT product that has affected business practices .They are used as a method of payment and this has made revolution on how business is conducted among the small scale holders .this mode of payment is viewed as an easier form of cash delivery to their suppliers and clients .It is a system which is relatively affordable, personal and can be used anywhere and anytime (Anurag, Tyang and Raddi 2009). In Kenya a system of mobile payment, M-Pesa has been embraced by many since its inception in March 2007 with five million subscribers by 31st Dec 2008. Other networks subscribers have also entered in the market like the Airtel money. The technology

requires basic knowledge and also has become a favorite of many in the Provision of efficient communication channel and cash transactions (kinyumu 2013)

The inadequacy of physical infrastructure is a principle cause of low levels of investment and unsatisfactory performance of small and microenterprises .The economic recovery strategy paper 2003 has identified poor infrastructure as a critical factor that constrain profitable business in Kenya. The infrastructure problem includes poor state of roads, inaccessibility to land, work space, water, proper communication and electricity supply. Lack of allocation of suitable land to SMEs in rural areas is a major impediment to growth and development. Inaccessibility to land and lack of property rights hamper access to infrastructure and utilities by line SMEs (Nteere 1997).

(Ombura 1997) points out that infrastructure networks are useful instruments within networks economies infrastructure and related services help to make things happen, it feeds and its fed by trade ,it fuels foreign direct investment, it backs up the creation and sustainability of industrial cluster, it cuts competitiveness.

A spatial planning approach ensures the most efficient use of land by balancing competing demands within the context of sustainable development (Roze 2003).It becomes an ongoing, enduring process of managing change by a range of factors in the interest of sustainable development (Tewdwr 2004). This makes efforts to promote industrial development extremely urgent and rural focused (Kinyua 2012).

2.5 Business Characteristics and Financial Performance

These are attributes of the business and their influence in performance. These involve ownership, age capital invested, and type.

Length of time in operation may be associated with a learning curve. Old players most probably learn much from their experiences than have done the new ones. (Kristiansen Furuholt& Wahid 2003)found out that length time in operation was significantly linked to business success.(Missouri 1988) in his unpublished PhD thesis stated that experience on the part of the owner /manager factor contributing to the survival of business in their study of new small firms (Dunchesneau and Gartner 1990)found that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents ,to have had a broader business experience

and more prior startup experience and to believe that they had less control of their success in business ,than unsuccessful entrepreneurs . They also found that lead entrepreneurs in successful firms worked long hours, had personal investment in the firms and were good communicators, Moreover successful firms were those initiated with ambitious goals and lead entrepreneurs had clear and broad business idea (Dunchesneau& Gartner 1990). Firms with more than one shareholder when it was set up were significantly more likely to survive (Westhead et al 1995)

Size of enterprise reflects how large an enterprise is in employment terms. (McMahon2001)found that the enterprise size significantly linked to better business performance, larger enterprise were found to have a higher level of success. Studies on the effect of firm performance in terms of size have generated mixed results ranging those supporting a positive relationship to those who opposing it. A positive relationship between firm size and performance was found by Vijayakumar and Tamizhselvean(2010). In their study, which was based on a simple semi-logarithmic specification of the model, the authors of different measures of size (sales and total assets)and performance (profit margin and profit on total assets)while applying a sample of 15 companies in operation .lee(2009) examined the role that firm size plays on performance. He used fixed effect dynamic panel data model and performed analysis on a sample of more than 7000 US publicly-held firms. The results showed that absolute firm size plays a role in explaining performance.

2.6 Human Resource Characteristics and Financial Performance of Businesses

The individual characteristics of the owner –manager; firm characteristics and environmental characteristics .The individual characteristics include attributes like the age, education, Managerial know-how, industry, experience and social skills of the owner or manager. According to (Cragg& King 1980) ;(Rutherford& Oswald 2000) small businesses success has often been classified into three categories of antecedents.

A research by Charney and Libecap (2000) found that entrepreneurship education produces self-sufficient enterprising individuals .Furthermore they found that entrepreneurship education produces increase the formation of new ventures, the likely hood of self-employment, the likelihood of developing new products and the

Likelihood of self –employed graduates owning a high technology business. Also the study revealed that entrepreneurship education of employee increases the sales growth rates of emerging firms and graduates assets. Similarly, (Sinha1996) who analyzed the education background of the entrepreneur revealed that 72%of the successful entrepreneurs who had a minimum level of technical qualification, whereas most 67% of the unsuccessful entrepreneurs did not have technical background. She summed up the entrepreneurs with business and technical backgrounds are in better position to appreciate and analyze hard reality and deal with it intuitively, which seems to play a critical role in entrepreneurial effectiveness.

Human resource specialist's recruiters and employment specialists develop a strategy to attract applicants with qualifications expertise and interests the organization needs. Employees base their level of work output or quality in anticipation of employer response, this might include pat in the back, positive performance, appraisal for better work assigned.

The personal characteristics of the manager have been under increasing interest .Some attempts have been made to explain business success or failure in terms of personality traits of the entrepreneur (Glancey,Greig& Pettigrew 1998;Stewart jrWatson,Carland&Carland 1998).(Nootboom1994) highlighted that one of the most important characteristic of the small business is diversity .The sources that produce diversity lie in the variance of the backgrounds ,motives and goals of the entrepreneurs . According to(Yusuf 1995) personal qualities and traits such as self –confidence and perseverance have been suggested to affect firm success .In their study of small firms, Duchesneau and Gartner 1990 found that lead Entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents to hold a broader business experience and more prior startup experience and to believe that they had less control of their success in business than unsuccessful entrepreneurs Education and prior experience in business have been seen as critical success factors in small firms (Yusuf 1995;Winjewardena 1996).consumers have different aptitudes, values and behaviors. These two segments of the population differ in their charge using these choices of products and services, activities.

Adolescent have their own language and way of speaking their own expression and tones (Hawkins et al 1998). Firms are using this behavior among young consumer to launch brands or to reposition current brands to appeal to this large target market (Blackwell et al 2001) indicated that today's elderly consumers who think feel and buy young. (Engel et al 1995) indicated three qualities important to elderly consumers during shopping; comfortable environment, physical and financial security and easy access to stores. (Johnson –Hillary 1995) found that elderly consumer's perceptions of a salesperson were significantly affected by the sales person's services hospitality and personal characteristics.

2.7 Government Legislative Processes on Financial Performance of Small and Medium Enterprises

Having the success ingredients in itself, is not sufficient .The business must have a coherent plan which links all the elements together and which has to be set up to operate the business on day today basis. These includes the legal form of organization and its compliance with statutory requirements including tax .Removal of trade barriers ,reduction in import tariffs and removal of quotas and other import restrictions such as licensing are expected to improve the competitiveness of local enterprises .It is anticipated that important liberalization will increase access to imported raw material and intermediate good embodying new technology that will benefit smaller enterprise .A more open policy towards direct foreign investment will encourage greater use of sub- contracting agreement involving smaller firms and provide learning opportunities for locally employed workers to become local entrepreneurs world (investment report 1994).

The government of Kenya as the sole regulator and licensor plays a crucial role in SMEs development through different ministries, departments and state corporations .Key organs of government such as cabinet office, parliament and local authorities concerned with policy making have to grasp the role of government in SMEs advancement, and beware of the impact New policies and laws imposed on the operations of small enterprises. In doing this the government establishes the institutional framework for business rules of the game and ensures that promising enterprises receive appropriate incentives to facilitate efficient performance. Such

interventions have potential for mainstreaming the informal economy alongside larger formal enterprise.

In republic of Kenya (1996), it was argued that small scale entrepreneurs have limited access to credit and where the credit is available, high collateral requirements, well documented cash flow analysis and general distrust of small scale entrepreneurs by banks tend to inhibit access. At the same time credit available does not meet the demands in the market. Despite this, government has encouraged grass root funding systems and expansion of more formal sources of credit through group based micro financing and the adoption of less stringent group base collateral .One such funding system is the introduction of Women Enterprises Fund (WEF), The fund was established in order to create affordable access to finance for Kenyan women facing difficulties accessing existing microfinance institutions (MFIs) and banks (republic of Kenya 2006).

In Kenya the underdeveloped capital market has forced entrepreneurs to rely on self-financing or borrowing from friends or relatives ,numerous money lenders in the name of pyramid schemes came up ,promising hope among the little investors which they can make it to the financial freedom through soft borrowing .The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternative and soft credit with low interest rates while making profits .Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure 2008).

In the journey towards revitalizing a well as SME sectors, the Kenya Local Government Reform Programme (KLGRP) has been particularly relevant .This was spurred in 1999 with a deliberate policy priority focusing on reducing poverty and unemployment going hand in hand with accelerating economic growth. The KLGRP reforms had three components; improving local service delivery; enhancing economic governance and alleviating poverty .These objectives were to be achieved through enhancing efficiency; accountability; transparency and citizen ownership and on the practical side, removal of unnecessary regulatory barrier and the reduction in costs of doing business.

In particularly the government initiated two nationwide reform efforts, namely; the Single Business Permit (SBP) and Local Authority Transfer Fund (LATF).The SBP

was a response to business licensing problems faced by SMEs in the startup phase as they had to get multiple licenses before opening shop draining initial business inertia.

Survey carried out by Kariuki (1995) on bank credit access in Kenya which surveyed 89 firms in manufacturing and services industries, combined with secondary information from commercial banks found that from 1985-1990 the average real volume of credit for the sample firms fell, except for the year 1986 which showed a marginal increase 15%, several deterrents to utilizing formal credit were identified. Small scale borrowers were found to be faced with higher nominal interest rates in the latter half of the 1980s. Moreover the explicit transaction costs of borrowing were found to be high in relation to interest costs. The SME act, passed into law in December 2012 is meant to regulate the SME cheaper loans. Enterprise development does not take place in isolation, it takes place within and alongside a whole series of public, private and voluntary policies, structures, organizations institutions and initiatives which both help and hinder the establishment and growth of enterprises (Mayour 2000 and Goheer 2003).

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2.8 Theoretical Review

Over the last two decades in particular, financial performance of SMEs has received considerable attention from researchers and policy –makers around the world for its ability to mobilize resources as well as creating employment for the workforce population (Kithae 2012). This has created a considerable interest within the field of small firm’s policy and researchers in the identification of features that distinguish firms which grow from those that stand still or fail. This is thought important if more selective small firm policies are to be developed. Identifying distinctive features of more and less successful firms may also provide insight into the factors influencing small firm performance.

It is based on valence, expectance and instrumentality. Valence refers to level of confidence an employee has to expect a desirable income for his actions and behaviour. Expectance is the outcome an employee anticipates in response to his actions or behaviour. Instrumentality is the qualification and abilities an employee has to perform the work necessary to produce desirable income.

Expectance theory may be confused with or linked to extrinsic motivation, because in both cases, employees engage in action and behavior to produce a desirable income. Expectance theory is the basis for why an employee performs the job at a particular level. It is used to explain how individuals make decisions regarding various behavioral alternatives.

The theory of motivation has been a target of many critics Graen (1969), Lawler (1971), Lawler, Porter (1967&1968) since it was originally presented by Vroom in 1964. These critics are more an extension to the original concepts as opposed to a deviation for them. Actually, Vroom admitted himself that expectation theory of motivation should be updated with new research findings.

One major criticism of the theory was its simplicity in the sense that it does not explain the different levels of effort acted out by an individual. There are also assumptions that reward will entice an employee to expand greater efforts in order to obtain a reward but neglect the fact that the reward in question could have a negative effect on the individual. The effectiveness of the expectancy theory of motivation decision model from managerial perspective relies on the manager to make assumptions on the motivational force of the reward for employees

This theory aims at positive correlation between efforts and performance .It aims at favorable performance which will result in desirable reward, in turn the reward will satisfy an important need. Desire to satisfy the need is strong enough to make effort worthwhile.

Vroom the proponent suggests that an employee belief about expectancy, instrumentality and valence interact psychologically to create a motivational force such that employee act in ways that bring pleasure and avoid pain.

Opportunities are created by the institutional or external environment for those entrepreneurs who could identify them to start or improve their businesses and subsequently their welfare. Entrepreneur's ability to identify and tap such opportunities differs between entrepreneurs. It also depends on their ability to access information and willingness to act upon the information in terms of risk, that it is their attitude (Shane 2005). Individual attribute affect discovery of entrepreneurial opportunity .It is made up of psychological and demographic factors such as

motives, attitude to risk, education and training, career experience, age and social status.

Changes in business environment such as economic ,financial ,political, legal ,socio-cultural factors also affect performance of a business activity .For example income level of an entrepreneur ,capital, availability ,political stability laws concerning private enterprise and poverty rights and desire for enhanced social status by the entrepreneurs could affect the performance of a business ,with its setting affecting performance .Industrial sectors such as distribution, manufacturing ,agricultural .catering and business service bare more attractive to performance (Brana 2008). Evaluation of the identified performance is another stage in the business process, and the decision to exploit the opportunity (Shane 2005).

The decision to exploit and opportunity depends on the intention which the entrepreneurial and the appropriate measure of entrepreneurial decision making is intention which leads to recognition of entrepreneurial opportunity (Shane 2005). Exploitation of the opportunity depends on the entrepreneur's level of education, skills. Or knowledge acquired through work experience social networks, credit and cost benefit analyst of the business (Shane 2005).

Appropriate use of the acquired resources through good business strategy ,organizational design could lead to business performance (Koontz&Weihrich 2006).Again financial management theorists believe that funds could only be sourced to finance a predetermined project business or contract (Van home 1980).As such SME's could only lead to business performance when there is a tendency to engage in new business or business expansion,(Antonicic 2003).Therefore .this study examines social –economic factors influencing business performance because limited studies available in this area ,(Tata &Prasad 2008;shane 2003).Environment plays a great role in performance than individual attributes (Kuziwa 2005).

2.9 Conceptual Frame work

The conceptual framework depicts that performance of SMEs is influenced by consumer demographic (age, employment, population size) technological factors (infrastructure, use of ICT), business characteristics (age of business, capital invested), human resource characteristics (technical skills, management skills behavioral skills)as independent variables with government policies as intervening variables, operating environment(security, political environment)as moderating variables for business performance which is the dependent variable

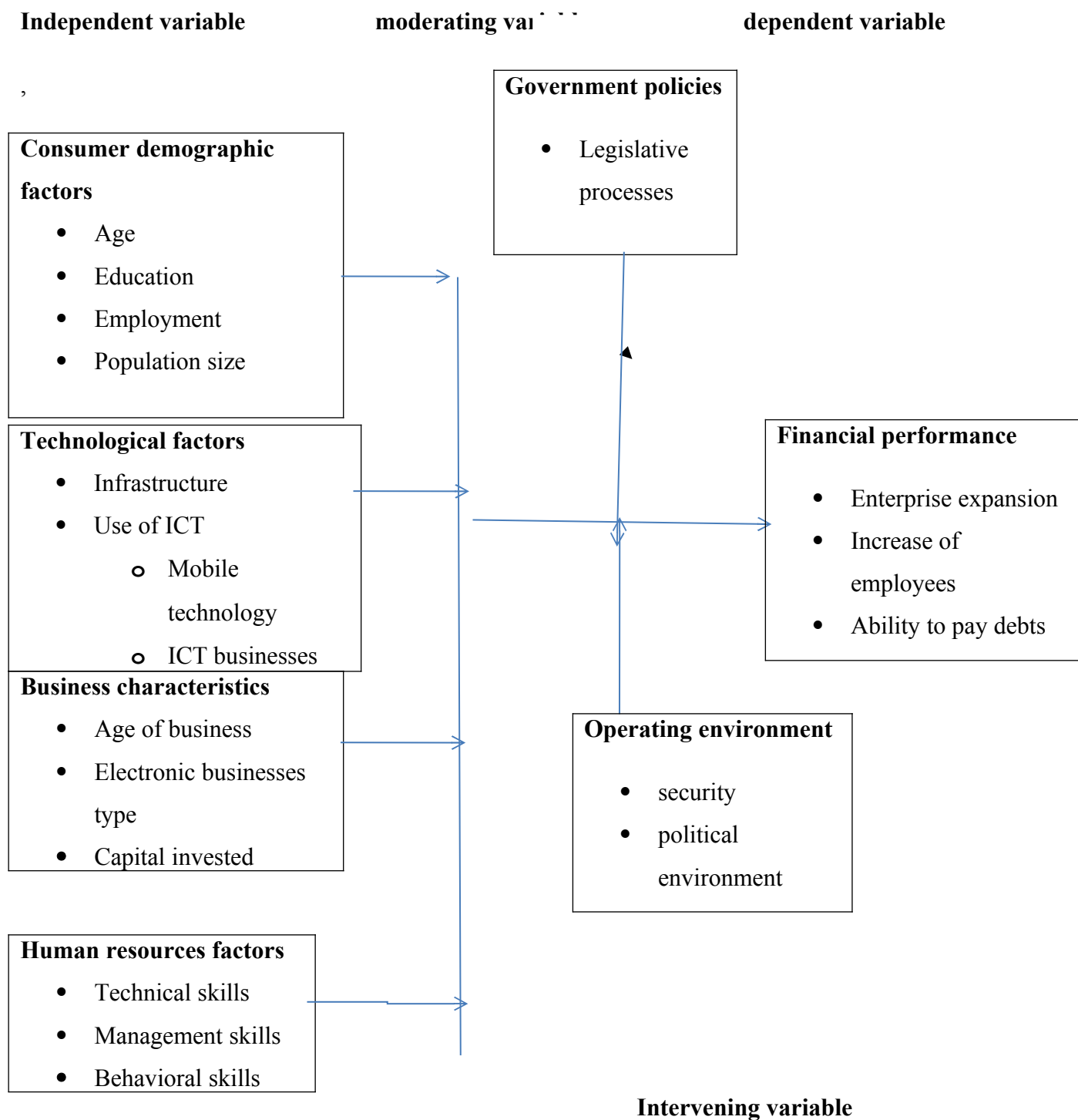


Figure 1: Conceptual Framework

2.10 Research Gap

A lot of research has been carried out locally and internationally reviewing small and micro enterprise. Most of these research concentrate on businesses in the cities and urban centers. They also concentrate on their study areas based on their own objectives .There is scarcity of literature touching on the rural traders ,therefore the proposed study was built on the local literature on factors influencing performance of rural market traders .Similarly studies have focused on challenges faced by SMEs traders but this study concentrated on what affects their performance .The impact of access to business information availability of managerial experience are yet to be researched as a single intervention in rural setting.

This study was concentrated mainly on the factors that influence financial performance of business supported by microfinance institutions in Kangundo sub county Machakos county Kenya. Theories used to explain the study are balanced score card theory and sociological theory. The studies quoted are (Mwania 2011) on the effect of Biashara Boresha loan (BBL) on performance of micro and small enterprises owned by Kenya commercial bank (KCB) Ruiru branch customers. (Gathitu 2007) on factors affecting performance of entrepreneurs in private owned secondary schools in Thika,(Kinyua 2014) on factors affecting enterprises in Jua kali sector in Nakuru town Kenya and (Mugo 2012) made a study to investigate factors affecting women entrepreneurs performance in central business district of the city of Nairobi.

2.11 Summary of Literature Review

The chapter has literature related to factors influencing performance of businesses supported by microfinance institutions in Kangundo sub-county. Both theoretical and empirical literatures have been reviewed, particularly the chapter has discussed the theories related to SME'S performance characteristics of SME'S ,demographic factors ,use of technology ,business ownership, government policy with performance indicators as enterprise expansion, break-even time ,debts and span of control.

Theories discussed include expectancy theory proposed by Valency which states that the level of confidence an employee has to expect desirable income for his action drives him/her. This explain effort applied by the employee or the owner to achieve the desired results. The theory of motivation from within is push toward desirable

results the stochastic theory states many factors come into play to influence performance of a business. The conceptual frame work was also discussed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter will be looking at research design, target population, sampling or respondents of the study, research instruments, methods of data collection procedures, methods of data collection and ethical issues.

3.2 Research Design

.This study adopted descriptive survey .This is because it is the most appropriate in collecting the data about the characteristics of a large population in terms of being cost effective and within the constraints of available and more so questionnaire is to be employed as the main tool for data collection. It also allows for the coverage of the population and its findings were generalized. Typical survey studies are concerned with assessing attitudes opinion preference, demographic practices and procedure Gray (2003).Given that Kangundo Sub County has various SME 's, its findings were generalized to reflect socio-economic factors influencing performance of businesses funded by microfinance institutions in Machakos County. Orodha (2003) defines research design as the scheme, outline or plan that is used to generate payments electronically answers to research problems. Kothari (2003) refers to it as an arrangement of conditions for collections and analysis of a data in a manner that aims to combine relevance with the research purpose. It is the conceptual structures within which researchers is conducted and it constitutes the blue print for collection measurement and analysis of data.

3.3Target Population

The research was targeting 500 SME 's clients in Kangundo sub-county (kangundo sub-county outlets data 2014). This number includes, secondhand clothe dealers, hotel operators and restaurants, fresh fruit and vegetable dealers, general shop operators and kiosks, pharmacies and chemists, tailors, cyber café operators, carpenters, hardware shops and cobblers. The survey is deemed necessary to sufficiently represent all microfinance clients in the sub-county .The target population are the small-scale traders who are microfinance clients in Kangundo, Kakuyuni, Kanzalu and Manyatta

Divisions. This is because the research sought to establish the socio-economic factors influencing the performance of businesses supported by microfinance institutions in Kangundo sub- County.

3.4 Sample Size and Sampling Procedure

This is method by which sample size is selected and then used in research to arrive at the size recommended.

3.4.1 Sample Size

A sample size is a number of individuals selected from a population for a study in a way that they represent the larger group from which they were selected. This made it possible to generalize the characteristic of the sample to the population. A population can be defined as a complete set of objectives that can be studied .According to (Orodho (2003) a design is a definite plan determined before any data is actually collected for obtaining a sample from given population. A properly designed population sample however provides a reliable means of inferring information about a population without examining every member or element. The smaller sampling operation lends itself to the application of more rigorous controls, thus ensuring accuracy. This rigorous control allowed the researcher to reduce none-sampling errors such as interviews, none-response problems, questionnaires, design flaws and data processing. Random sampling was used where the respondent were of different types, e.g. those selling fresh vegetables, general shops .Mugenda &Mugenda(2003) suggested that if objectively selected, a sample of between(10-30)%of the population is recommended adequate for generalization of the findings. In this study the researcher used a sample size of 113 through the use of Yamane's table of data sampling.

3.4.2 Sampling Procedure

Following the high level of homogeneity among target respondents especially challenges to be faced by the SMEs, this study used stratified sampling technique to select respondents in each category in M-Pesa business, hotels/restaurants, fresh fruits and vegetables, general shops /kiosks, and hardware stores. From 2014 Kangundo sub-county outlets data, 500 small businesses were registered. Proportionate stratified sampling will be used to pick a sample 13 from various categories of small businesses registered in Kangundo sub-county.

Table; 3.1 Sampling Frame

	No registered	Sample size	Percentage
Second hand clothes	90	20	18
Hotels and restaurants	50	11	10
Fresh fruits and vegetables	100	22	20
General shops/kiosks	115	26	23
Pharmacies/chemists	20	5	4
Tailors	31	7	6.2
Cybercafes/M-Pesa outlets	24	6	4.6
Hardware shops/workshops	40	9	8
Shoe shops and cobblers	30	7	6
Total	500	113	100

Source; Kangundo sub county outlets data report (2014)

Total number to be conducted; 113

3.5. Data Collection Instruments

The study conducted a survey (descriptive) and collected data using observation, oral interviews and semi-structured questionnaire. The questionnaire were administered to the owners or their representatives' .Secondary data was obtained through a review of the available records both financial and none-financial. These records included the respondent's books of accounts, registration records and available operations data.

3.5.1 Pilot Testing

This is finding out if my survey was to work in the field by trying it out first on a few people .This was to make sure that everyone in the sample not only understands the question but understands them in the same way. It helped in this way to check

whether the questions made respondents uncomfortable. It also helped the researcher to find how long it would take to complete the survey. The testing was done on ten respondents selected favorably from different strata in the research area. The data collected from the pilot test was used to revise the data instrument.

3.5.2 Validity of Research Instrument

In this study, multiple sources were used as a way to ensure validity. The research instruments were developed based on specific research objectives, analyzed, corrections and improvements made where necessary. Consulting experts in the subject matter was also undertaken to ensure validity. Orodho (2004) contends that validity concerns the accuracy with which items generated measures what it was supposed to validate. The study was confined to 113 out of 500 SMEs.

3.5.3 Reliability of Research Instrument.

Pilot test of instrument was done on ten respondents to test reliability of the research instruments. The questionnaire was self-administered by the researcher or the research assistants. Split-half method was used to test consistency of the research instrument. They were collected from the respondents when fully filled up. Real questionnaires were then being administered after ascertaining that they are intended to give the right response. Mugenda & Mugenda (1999) defines reliability as a measure of the degree to which research instrument yields consistent results.

3.6 Data Analysis Procedure

The qualitative data generated from open-minded questions in the questionnaire will be analyzed in the themes, content and categories. Primary data was organized into descriptive statistical summary for ease of interpretation and analysis. The data was run through the statistical package for social sciences (SPSS) in order to obtain the effective results. Mean scores were used to analyze the data from section A-H of the questionnaire in order to obtain average estimate of the results so as to arrive at a comprehensive conclusion on the factors influencing performance of businesses. The study used both descriptive and inferential statistics. According to Cooper (2008), descriptive analysis involves a process of transforming a mass of raw data into tables, charts, with frequency distributions and percentages, which are vital part

of making sense of the data. In this study, the descriptive statistics such as percentages and frequency distribution was used to analyze the demographic profile of participants. The demographic data was tabulated using frequency and percentages. In order to describe the data the study used the mean and the standard deviation of each variable. Then the data was presented using tables.

3.7 Ethical Considerations in the Study

The purpose of the research was clearly stated to the respondents, privacy, anonymity was maintained during the research. Oral consent was also sought from each respondent before any interviews or discussions are conducted. Orodho (2004) contends that it concerns the accuracy with which items generated measures what it was supposed to validate. The study was confined to 113 out of 500 SME's. In this study, multiple sources were be used i.e. primary & secondary data sources.

3.8 Operational Definitions of Variables

Operational definition of variables is the operationalization or operationally defining a concept to render it measurable. It was done by looking at the behavior dimensions, indicators, facts, or properties denoted by the concept; Translated into observable and measurable elements to develop and index the concept, measures can be objective or subjective.

Table 3.2 operationalization of variables

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Objectives	variable	indicator	Measurement scale	Type of analysis
To determine the influence of consumer demographic on financial performance of businesses supported by microfinance institutions in Kangundo sub-county	Consumer demographic	National Id Certificates Census report	nominal	Descriptive
To establish the influence of technological factors on the financial performance of businesses supported by microfinance institutions in Kangundo sub-county	Technological factors	Use of mobile phones Presence of cyber cafes	Nominal	Descriptive
To determine the influence of business characteristics on the financial performance of businesses supported by microfinance institutions in Kangundo sub-county	Business characteristics	Years of operation Observation Span of control	Ordinal	Descriptive
To establish the influence of Human resource characteristics on the financial performance of businesses supported by microfinance institutions in Kangundo sub-county.	Human resource characteristics	Certificates attained Recommendations given	Ordinal	Descriptive

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction;

The chapter presents data collected from the field, its analysis and finally the interpretation of the findings on establishing the factors influencing business performance of b businesses supported by microfinance institutions in Kangundo sub-county.

4.2 Questionnaire Response Rate

Table 4.1; Questionnaire Return Rate

	Frequency	Percentage
Second hand clothes	13	18
Hotels and restaurants	8	10
Fresh fruits and vegetables	15	20
General shops and kiosks	16	23
Pharmacies	3	4
Tailors	5	6.2
Cybercafés/M-Pesa outlets	4	4.8
Hardware	6	8
shops/workshops		
Shoe shops and cobblers	5	6
Total	75	100

The study targeted 113 participants in small medium enterprises in Kangundo sub-county.

Out of the targeted population 75 participants filled and returned the questionnaires giving a response rate of 66%. The response rate is excellent and agrees with Mugenda and Mugenda (2003) where the prescribed rate for statistical analysis being established as minimal value of 50%.

4.3 Background Information (demographic)

4.3.1 Gender and Financial Performance

The study sought to find the gender of respondents. The findings are represented in the Table 4.2

Table 4.2 Gender of the Respondents

	Frequency	Percentage
Male	41	54.5
Female	34	45.5
Total	75	100

From the findings, the study found out that majority (54.5%) of the respondents were male while (45.5%) of the respondents were female.

4.3.2 Age and Financial Performance

The study sought to find out the age of the respondents. The findings are represented in table 4.3

Table 4.3; Age of the Respondents

		Frequenc	Percentage
		y	
Below	20	2	3
years			
(20-30) years		25	32.7
(31-40) years		30	40.6
Above	40	13	23.7
years			
Total		75	100

From the findings, the study established that majority (40.6%)of the respondents were aged between 31-40 years, (32.7%)of the respondents were aged between 21-30 years, (23.7%) were aged above 40 years and only (3%) were aged below 20 years.

4.4.1 Educational Level and Financial Performance

In this study, the educational level of the respondents was sought. The findings are in table 4.4

Table 4.4; Education Level,

	Frequency	Percentage
None	5	5.9
Primary	13	17.9
Secondary	38	50.5
College/university	19	25.7
Total	75	100

From the findings (50.5%) were found to have attained secondary education , (25.7%) have attended college or a university, (17.7%) have only attended primary and (5.9%) have gone to school.

4.4.2 Training and Financial Performance

The respondents were to illustrate whether they had attended any formal training in the business field.

Table 4.5; Training,

	Frequency	Percentage
Yes	35	46.5
No	40	53.5
Total	75	100

From the findings, the study established that majority (53.5%) of the respondents had not attended any form of training in business while (46.5%) of the respondents attended a training in business related field. The subjects covered being keeping records, running of a business, and business management.

4.5 Evaluation of Business Performance.

The table demonstrates on the responses as to whether the respondents evaluated the performance of their businesses

Table 4.6 Evaluation of Business Performance (formal)

	Percentag e	Frequencies
Yes	70	94.1
No	5	5.9
Total	75	100

The data findings revealed that majority (94.1%) of the respondents evaluated the performance of their businesses while (5.9%) did not evaluate their performance, for those who answered YES, The respondents were to illustrate how often their businesses were evaluated.

Table 4.7; Frequency of Business Assessment

	Frequenc y	Percentage
Weekly	2	3
Fortnight	7	10
Monthly	40	57
Others	21	30
Total	75	100

From the findings, the study found that (57%) of the businesses were evaluated monthly, (30%) evaluated their businesses after one month, and (10%) of the businesses were evaluated after a fortnight while only (3%) evaluated their businesses after a week.

4.6.1 Use of Mobile Technology in Business Performance

The respondents were required to show how they were using mobile technology in their businesses. The findings are shown in the table 4.8

Table 4.8; Use of Mobile Technology

	Frequenc y	Percentage
make calls to clients	15	20
Make payments of purchases	36	48
Make calls to suppliers	45	60
Receive payments from customers	14	18

Form the findings, there was evidence of the use of mobile technology with 60% using mobile phone to make calls to suppliers, 48% use the phone to make payments of purchases, 20% make calls to clients and 18% use mobile phone to receive payments from clients.

4.7 Business Characteristics and Financial Performance

The respondents were required the length their businesses have been. The findings are shown in the table 4.9.

4.7.1 Length of Time in Business

Table 4.9 Business Characteristics

	Frequency	Percentage
Below one year	3	4
(1-2) years	11	14
(3-5) years	29	39
(6-10) years	26	35

Above 10 years	6	8
Total	75	100

From the findings, (39%) of the businesses were in the ages (3-5) years, (35%) were in the ages (6-10) years, (14%) were in (1-2) years, only (8%) were above 10 years and (4%) were under one year.

4.7.2 Approximate Capital

The respondents were required to state the approximate capital of their businesses. The findings are as in the table 4.10

Table 4.10 Approximate Capital (ksh);

	Frequency	Percentage
Below 50000	22	29
(51000-100000)	30	41
(101000-150000)	14	18
Above 150000	9	12
Total	75	100

From the findings, (41%) of the businesses had an approximate capital between (51000-100000) ksh, (29%) had approximate capital below ksh 50000, (18%) had an approximate capital between (101000-150000) ksh and (12%) having a capital above ksh 150000.

4.7.3 Business Output

The respondents were required to compare their input with the output from their businesses. The findings are as in the table 4.11

Table 4.11 Output of Business

	Frequenc y	Percentag e
Poor	7	10
Average	30	40
Good	38	50
Total	75	100

From the findings (50%) of the respondents rated their businesses as good, (40%) were rated as average while (10%) were performing poorly.

4.8 Infrastructure and Financial Performance

The respondents were required to select the infrastructure available in their areas where they do their businesses; the findings were as in table 4.12

Table 4.12 Infrastructure

	frequency	Percentage
Roads	29	38.2
Mobile networks	32	42.7
Electricity	14	19.1
Total	75	100

From the findings (42.7%) of the respondents said that mobile network was available, (38.2%) said roads were available, while (19.1%) said that electricity was available.

The respondents were to choose the aspect of infrastructure affected them negatively most, the findings were as in table 4.13

Table 4.13 Effect of Infrastructure

	Frequenc y	Percentag e
Mobile networks	30	40.6
Good roads	40	53.4
Electricity	5	6
Total	75	100

From the findings (53.4%) of the respondents were mostly affected by availability of good roads, (40.6%) were affected by availability of mobile network and only 6% of them were affected by availability of mobile network.

The respondents were required to determine the extent to which the infrastructure influenced their performance. The findings were as in the table 4.14

Table 4.14 Extent of Infrastructural Influence,

	Frequency	Percentage
No extent	14	18.8
Small extent	15	19.8
Average extent	27	36.6
Large extent	19	24.8

Total	75	100
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From the findings, (36.6%) of the respondents had the performance of their businesses influenced by infrastructure to an average extent, (24.8%) to a large extent, (19.8%) to a small extent and (18.8%) were not affected by infrastructure.

4.9 Operating Environment and Financial Performance

The respondents were required answer if they had security concerns .the finds are as shown in table 4.15

Table 4.15 Operating Environment,

	Frequency	Percentage
Yes	72	96.2
No	3	3.8
Total	75	100

From the finding, (96.2%) sighted security concerns while (3.8%) did not have any security concerns. Those who sighted security concern were required to state how they tackle their security issues from different methods as were provided. The results of their methods chosen are as in the table 4.16

Table 4.16 Methods of Security Chosen,

	Frequency	Percentage
Closing early	24	33.6
Employing a guard	3	3
Using Nyumba kumi	45	63.4
Total	72	100

From the finding, (63.4%) were relying on Nyumba kumi for solution of their security concerns, (33.6%) closing early to solve their security fears while 3% employed a guard.

4.10 Politics and Financial Performance

Respondents were asked if politics influence the financial performance of their businesses. The findings are as shown in the table 4.17

Table 4.17 Political Influence,

	Frequenc y	Percentage
Yes	61	81.8
No	14	18.2
Total	75	100

From the findings, (81.8%) of the respondents said that politics influenced the performance of their businesses while (18.2%) said that politics had no influence on the financial performance of their businesses.

Respondents who had their performance influenced by politics were required to state to what extend had the influence in their business. The findings are as in the table4.18

Table 4.1 Extent of Political Influence.

	Frequency	Percentage
Small extent	59	97.6
Great extent	2	2.4
Total	61	100

The findings were that, (97.8%) had been influenced to a small extent while (2.4%) were influenced to a great extent

4.11 Government Legislative Processes and Financial Performance

The respondents were required to state weather their businesses were registered or not. The results were as shown in the table 4.19

Table 4.19 Government Legislative Processes. (Registration)

	Frequency	Percentage
Yes	70	92.3
No	5	7.7
Total	75	100

The findings were that majority (92.3%) had their businesses registered and (7.7%) had their businesses not registered. Those registered were required to state the length of time it took them to get the licenses and the costs incurred the findings are as shown in the tables 4.20

Table 4.20; Time Taken for Registration,

	Frequenc	Percentage
	y	
(1-2) months	15	21.4
(3-4) months	45	64.3
(5-6) months	10	14.3
Total	70	100

According to the responses (64.3%) got their licenses within a span of 3 to 4 months, (21.4%) got in one to two months and (14.3%) got them in 5 to 6 months. The response on costs incurred were as in the table 4.21

Table 4.21 Cost Incurred in Registration

	Frequenc	Percentage
	y	
(1000-5000)	45	64.2
(6000-10000)	17	24.6
Above 10000	8	11.2
Total	70	100

From the table, (64.2%) of the respondents spent between ksh 1000 and ksh 5000, 24.6% spent between ksh 6000 and ksh 10000 and (11.2%) spent more than ksh 10000 to get their licenses. For those having their businesses not registered, cost of registration was said to be the main course of their failure to acquire registration certificate. .

4.12 Factors Influencing Financial Performance

The respondents were required to state which factors of financial performance influenced their businesses most. The findings are as shown in the table 4.22

Table 4.22 Factors of performance

	Frequency	Percentage
Education, training/innovativeness	20	26.8
Registration policy/license	5	6.2
Physical infrastructure	34	45.3
Government policy /license	6	8
Political environment	2	2
Security	8	11.6
Total	75	100

From the findings (45.3%) representing 34 respondents had their performance influenced greatly by physical infrastructure,(26.8%) representing 20 respondents had their business performance influenced by education training and innovativeness,(11.6%) representing 8 respondents had their financial performance in businesses influenced by security(,8%) representing 6 respondents had the performance of their businesses influenced by government policies, representing 5 respondents had their business performance influenced by registration policy/licenses and only (2%) representing 2 respondents had the financial performance of their businesses influenced by political environment .

4.13 Financial Performance and Businesses

The respondents were required to tolerate statements of performance. The findings are as shown on the table.

Table 4.23 Financial Performance;

	Strongly disagree	disagree	Likely	Agree	Strongly agree
I made profits within the expected time	20.34%	19.6%	37.8%	20.26%	.....
The business has experienced an increase over the last two years	10.24%	35.5%	26.5%	27.39%	2.36%
There are unpaid debts	.....	74.68%	.....	25.32%	.....
I have increased the number of employees	.....	73.2%	.....	26.8%	.....

From the findings, (37.8%) agreed to the statement that they made profits within the expected time, (20.34%) strongly disagreed, (20.26%) agreed, while (19.6%) disagreed to the statement. (33.5%) of the respondents disagreed to the statement that the business experienced an increase over the previous two years, (27.39%) agreed, (26.5%) said it was likely, (10.24%) strongly disagreed to the statement, (2.36%) strongly agreed. (74.68%) of the respondents disagreed with the statement that, their businesses had uncleaned debts. (73.2%) of the respondents disagreed to the statement that they had increased the number of employees, (26.8%) agreed to have had an increase of employees.

Table 4.24 Factors Influencing Financial Performance of Businesses**Analysis**

	Mean	Mean deviation
Education and training	3.1188	1.72213
Registration and licensing	2.1485	0.97351
Physical infrastructure	3.4158	1.77701
Government policy	2.2777	1.90642
Political environment	2.3153	1.81321
Technology	2.1275	0.96121
Security	2.3814	0.89567
Business characteristics	4.4267	0.85698

From the findings, it was established that education and training contributed to financial performance of their businesses to a moderate extent as shown by a mean of 3.1188. on registration and licenses, it was established that it contributed to the financial performance of their business to a moderate extent as shown by a mean of 2.1484, Physical infrastructure was found to have contributed to the financial performance of their businesses to a moderate extent as shown by a mean of 3.4158, government policy was established to have influence on financial performance of the businesses to a little extent as shown by a mean of 2.2777. Political environment was found to have influence on financial performance of their businesses to a little extent as shown by a mean of 2.1695; technology was established to have influence on financial performance of businesses to a moderate extent as shown by a mean of 3.9733. On the issue of operating environment, it was found to have influenced financial performance to a little extent as shown by a mean of 2.3814 and business characteristics were established to have influence on financial performance of businesses to a great extent as shown by a mean of 4.4267.

CHAPTER FIVE

SUMMARY OF THE FINDINGS , DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction;

This chapter provides the summary of the findings from chapter four and also the conclusion and recommendations of the study based on the objectives of the study .the objective of this study was establishing social-economic factors influencing performance of businesses supported by microfinance institutions in Kangundo sub-county.

5.2 Summary of the Findings

The chapter was based on providing the analysis of data collected .it found out that most of the respondents were men (54.5%).the age bracket for most respondents was found to be mostly (31-40) years taking (40.6%). On education majority (50.5%) had attained secondary school education. The respondents had (53.5%) who had not attended any training in business field, however a great percentage (94.1%) had their business performances evaluated with (45.8%) evaluating their businesses weekly.

Most of the businesses (67.3%) had their business registered with (64.3%) of those registered getting their licenses in a span of three to four months and a (64.2%) of those registered getting their licenses at a cost of between ksh 1000 and ksh 5000. The use of mobile technology was found to gain favor with most respondents (60%) giving 45 were found using it to make calls to suppliers, (48%) covering 36 respondents were found to make mobile call to suppliers, (20%) catering for 15 respondents were found to make calls to clients and (18%) who were 14 respondents were found to use their mobile phones in receiving payments from clients

In business characteristics, 29 of the businesses were found to have been in operation for a period between (3-5) years having a (39%) of the respondents being in this bracket, 26 of the businesses had been in the business in the bracket (6-10) years, 11 businesses catering for (14%) were registered as having been in the business for a short period of (1-2) years and only 3 businesses covering (4%) had been in the business for less than a year. Most of the businesses were in the capital bracket of (51000-100000) as this was collected 30 respondents covering (41%) of the respondents, 22 respondents which was (29%) had their capital below 50000, 14 respondents took (18%) had the capital of their businesses between (101000-150000), and only 9 respondents taking (12%) who had the capital of their businesses going for above 150000.

The output of the business was also rated by the respondents, (50%) (38) Of the respondents rated their business output as good, (40%) (30) Of the respondents rated their output as average and (10%) (7) Of the respondents rated their businesses as poor. On the side of infrastructure, (42.7 %) (32) Sighted mobile network as the infrastructure used one used, (38.2 %) (29) Of the respondents sighted road as the infrastructure used while (19 %) (14) Sighted that electricity influenced them much. The infrastructure that impacted negatively most was good roads with (53.4 %) (40) Of the respondents with an average extent of (40.6 %) (30) Sighting mobile network and (6 %) (5) sighted electricity as influencing their businesses most.

In operating environment, (96.2%) sighted security concerns which the respondent pointed out that the Nyumba kumi initiative was used to deal with the security fears with (63.4%) of the respondents sighting security concern using the initiative.

Political influence was sighted by (81.8%), of those sighting political influence, (97.6%) of them said it was to a small extent.

The factors influencing performance of businesses supported by microfinance institutions, business characteristics affected to a great extent, physical infrastructure to an average extent, education and training and the rest to a small extent.

5.3 Discussion

The research findings concur with Koech (2011) that the factors influencing performance were market, capital, cost, information access, capital management, and cost of registration. On the influence of education and training on the financial performance, the study established that majority had not attended any training in business related field. The findings are in consistence with those of Anderson (1993) who argued that many SME owners or managers lack business training and experience. They develop their own approach to management, through a process of trial and error. King and McGrath (2003) adds to this by arguing that majority of those who run SME's are ordinary lot whose educational background is lacking hence may not be well equipped to carry out managerial routines in an enterprise. Training is relevant because as Wanjohi and Mugure (2008) argued most of those running SME's have at least attained co

As Koech reviewed business characteristics like the capital invested was found to a lot of influence on performance as this went along well with the proponents of expectancy theory that capital is invested in relation to the expected output. The word capital in this case will mean amount of money and non-monitory inputs like effort put in the business to assure good results.

On the registration process and policies in SME financial performance, the study established that majority of the entrepreneurs had their businesses registered although quite a number had not. The entrepreneurs acknowledged that regulation challenges influenced their registration process including other mandatory requirements to operate their businesses. They established licensing influence financial performance in Kangundo sub-county

Physical infrastructure had a great influence .the findings agree with the findings of Hirshman(1958)who argued that infrastructure are services without which ,primary,

secondary and tertiary production activities cannot function and these infrastructure can be extended to include mobile network, good roads, electricity and water supply. Kassides (1993) posts that infrastructure contributes to economic growth both through supply and demand channels by reducing cost of production contributing to the application of modern technology, raising economic returns of labour (by reducing work time in non-productive activities or improving health). Infrastructure contributes to rising quality of life by creating amenities providing consumption of goods (transport and communication) and contributing to macro-economic stability and that infrastructure does not contribute economic potential but only develops it where appropriate conditions like labour and private capital exist.

On the influence of information communication technology on financial performance, there were benefits in that majority in business were able to use mobile phone to make call to suppliers, the mobile phones were able to make financial transactions using M-pesa transactions. This lessened the burden of visiting suppliers to order for purchases and also were able to pay for the transactions without visiting the client or the supplier. The operating environment has had its challenges and influences though not much. As the stochastic model of firm performance states that there's no dominant theory and many theories co-exist to play in financial performance of a business O Farrel & Hitchen (1998). From the findings, the study concludes that business characteristics, education and training affected SME financial performance, this was especially in terms of capital investments and management skills inadequacy. The business with more capital invested were able to break-even in their expected time. However this was not uniform across board as the financial performance was a function of many factors some of which were beyond the scope of this study. The study further concludes that the entrepreneurs shared information about business management with their friends.

5.4 conclusions

The study found out that business characteristic, education and training influenced performance of SME's. Majority had not any form of training on business management, failure to invest more was caused by lack of well-trained managers. The study therefore recommends that training policies should be introduced to business owners. As county governments look at SME's as a way of providing

employment to the many unemployed youth, they should consider investing in these people by providing education and training. Infrastructure was also found to influence financial performance of businesses to a great extent and so the recommendations are that the government should come up with a method of providing good feeder roads because a great number complained of the negative influence caused by poor roads.

5.5 Recommendations for further research

The study focused on establishing and analyzing numerous factors influencing financial performance of businesses supported by microfinance institutions in Kangundo sub county Machakos County. It therefore recommends

- i) Similar study should be done on financial performance strategies employed by SME's in Machakos County as a whole.
- ii) The study further recommends further research on issue of business performance and business records.
- iii) County governments in partnership with national government to establish a mechanism which will ensure that business owners have simple business knowledge in keeping simple business records.

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APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

Mary Mutangili

P.O .Box 1380

KANGUNDO

Tel; 0719203505

Dear Respondent,

RE; Research on Socio- economic Factors, Influencing Performance of Businesses Supported by Microfinance Institutions, in Kangundo sub county.

I am a final year in masters in Arts of the University of Nairobi specializing in project planning and management. As part of my course I'm required to carry out a research on the above topic.

I will be grateful if you could spare sometime from tour busy schedule and fill in the questionnaire. All information provided will be purely used for academic purposes and your identity will be treated with utmost confidentiality.

Thank you in advance for your cooperation.

Kindly do not write your name anywhere on the questionnaire.

Yours faithfully,

Mary Mutangili

APPENDIX II

Hallo! My name is Mary Mutangili, a student of masters in project planning and management, of the University Of Nairobi .I am carrying out a research on social economic factors influencing performance of businesses funded by microfinance institutions in Kangundo Sub County. The information you give will be used purely for academic purposes and treated with utmost confidentiality.

Instructions

Please tick where applicable. Do not write your name.

SECTION A: Consumer Demographic Factors

1) How old are you? (Below 20 yrs), (21-30) yrs, (31-40) yrs,
Above 40 years

2) What is your gender, tick where applicable (female, male)

3) Which is your highest level of education attained?

(Primary) (secondary) (post-secondary) (none)

4) What is average family size served by this business? (Below 2), (3 -5)
, (Above 5)

SECTION B: Technological Factor

5) Name the type of business owned

Use of phone	<input type="checkbox"/>	1			
Make calls to all clients	<input type="checkbox"/>				
Make payments of purchases					
Make calls to suppliers					
Receive or make payments					

A) Mobile repair

B) General shop

C) M-pesa

D) Cyber café

E) Others specify

6) Do you have a mobile phone? (Yes) , (No)

7) If yes how do you use it in business? (Tick where applicable in a scale of four)

1= 25% 2= 50% 4= 100% 3= 75%

8) How does availability of Roads, influence your business?

- A) No influence
- B) Small extent
- C) Average extent
- D) Large extent

9) What do you use for lighting the room where you operate your business?

- A) Electricity
- b) Torch
- c) Lantern lamp

10) If you use electricity, how else do you use the electricity?

- A) To charge electronics
- b) Security lights

SECTION C: Business Characteristics

11) How long have you been in this business?

- A) Below 1yr

B) 2-4 yrs

C) 5-10yrs

D) Above 10yrs

12) What is the approximate capital of your business?

Below ksh 50000.

From ksh (51000-100000)

From ksh (101000-150000)

Above ksh 150000

13) How does your input compare with the output?

(Poor) , (Good) (Average)

SECTION D: Human Resource

14) Have you attended any form of training? (Yes) (No)

15) If yes, indicate the subjects covered

A) How to keep records

B) How to run business

C) Business management

16) Do you evaluate the performance of your business? (Yes) , (No)

17) If yes, how often?

(Weekly) (Fortnight) , (Monthly) others specify

18) In what way has education and training acquired, influenced the performance of your business? (Tick all applicable)

A) Improved level of accountability

B) Improve relationship with customer

C) Enabled me manage business better

19) To what extent has education and training acquired influenced the performance of your

Business?

A) Great extent

B) Moderate extent

C) No extent

D) Little extent

SECTION E; Government Legislative Processes

20) Is your business registered?

(Yes) (No)

21) If yes, how long did it take to get a license? -----

22) How much did it cost you to get the license? -----

23) If not registered, what are the reasons that made you not get registered?

A) Not aware of registration

B) The offices are too

C) The cost is too high

D) The process is too long

24) To what extent has registration influenced the growth and expansion of your

Business?

A) Very Great extent

B) Great extent

C) Moderate extent

- D) Little extent
- E) No extent

SECTION F; Infrastructure

25) To what extent has physical infrastructure affected your enterprise?

- A) No influence
- B) Small extent
- C) Average extent
- D) Large extent

26) Which aspect of physical infrastructure affects your business most?

- A) Availability of power
- B) Good roads
- C) Availability of mobile network

27) To what extent would you say each of the following factors have contributed to the Growth and development of your business? Use a scale of 5; Where 1 = not at all, 2 = little extent, 3 = Moderate extent, 4= Great extent, 5= Very Great extent

FACTOR	1	2	3	4	5
Education and Training innovativeness					
Registration process Policy and licenses					
Physical infrastructure					
Government policy on SME					
Political environment					
Security					

SECTION G; Operating Environment

28) Do you have Security concern? (Yes) , (No)

29) If yes, how do tackle them?

A) Closing early

B) Employing a guard

C) Using Nyumba Kumi Initiative

30) Do politics influence your business? (Yes) , (No)

31) If yes, how? (Small extend), (great extent)

SECTION H; Financial Performance

32) Indicate the extent to which you agree with the following statements using a scale of 1 to 5.

1=strongly agree, 2=disagree, 3=likely, 4=agree, 5=strongly agree;

indicator	1	2	3	4	5
I made profits within the expected time					
The business has experienced an increase over the last two years.					
There are unpaid debts					
I have increased the number of					

employees					
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APPENDIX III PLAGIARISM REPORT