FIRM RESOURCES, EXTERNAL ENVIRONMENT, ENTREPRENEURIAL STRATEGY AND PERFORMANCE OF MICRO, SMALL AND MEDIUM FURNITURE SECTOR ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

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DECLARATION

I Alfred Nzomo Ngulo Kithusi hereby declare that this thesis is my original work and has not been submitted to any other institution of higher Learning for any academic award such as Certificate, Diploma or Degree.

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DEDICATION

This thesis is dedicated to my father the late John Ngulo Kithusi for his passion and love for education. Dad, to you education came first and you demonstrated this through your willingness to part with your meager resources for the sake of our education. I will never forget the many life time values such as hard work, persistence, honesty, professionalism, diligence and sacrifice that you imparted on me. Rest in peace Dad.

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ABBREVIATIONS AND ACRONYMS

BPA	Business Process Automation
BPM	Business Performance Measurement
CBD	Central Business District
CSR	Corporate Social Responsibility
CSS	Customer Service Standards
CT	Contingency Theory
CV	Coefficient of Variation
EMCA	Environmental Management Compliance Act
FKE	Federation of Kenya Employers
GDP	Gross Domestic Product
HR	Human Resource
HRM	Human Resource Management
KeKoBI	Kenya Kountry Business Incubator
KIBT	Kenya Institute of Business Training
LC & D	Low Cost and Differentiation
HC & D	High Cost and Differentiation
HRD	Human Resource Development
IO	Industrial Organization
MFI	Micro-Finance Institutions
MSMEs	Micro, Small and Medium Enterprises
NACOSTI	National Commission for Science, Technology and Innovation
NCBD	Nairobi Central Business district

NCC	Nairobi City County
NEMA	National Environmental Management Authority
OST	Open Systems Theory
PESTEL	Political, Economic, Social, Technological, Ecological and Legal Factors
RBT	Resource-Based Theory
RDT	Resource Dependence Theory
ROI	Return on Investment
SCA	Sustainable Competitive Advantage
SD	Standard Deviation
SMEs	Small and Medium Enterprises
VIF	Variance Inflation Factor

ABSTRACT

This study was carried out in the field of entrepreneurship with focus being on the performance of micro, small and medium enterprises (MSMEs). The study also incorporated entrepreneurial strategy and external environment from the field of strategic management. This is because the two fields are to a large extent inter-related and also share the theories anchoring the study. Firm performance is contingent to many factors. The study sought to establish the influence of firm resources, the moderating role of the external environment and the intervening role of entrepreneurial strategy on the performance of the MSMEs operating in the furniture sector in Nairobi City County (NCC). The study employed the use of a cross sectional survey design. Primary data was obtained using a self-administered questionnaire from 93 respondent firms selected from a sample of 140 out of a population of 221 licensed MSMEs in all the 8 sub counties in Nairobi City County. It was noted that there are many furniture operators but not all are licensed by NCC. NCC did not have a complete listing of all furniture operators in the County. For the purposes of this study, only the listing of licensed MSMEs by NCC was used. The data was tested for suitability for descriptive and inferential statistics. There is dearth of empirical studies on entrepreneurship incorporating jointly the three study variables. Extant literature review identified knowledge gaps which were grouped into three categories: contextual, conceptual and methodological. Firm performance was measured in terms of financial and non financial measures. Financial measures included: improvements in revenue, capital invested, return on capital, profits. Non-financial performance measures included: growth in number of employees, stores, number of customers, improvements in customer service, business processes, employee satisfaction and corporate social responsibility (CSR). The study was anchored on four theories: resource based theory, resource dependency view, contingency theory and open systems theory. Four specific objectives were developed and four related hypotheses were tested to: establish the influence of firm resources on firm performance; establish the moderating role of the external environment on the relationship between resources and firm performance; determine the intervening influence of entrepreneurial strategy on firm resources and firm performance and, lastly; to establish that the joint effect of firm resources, external environment, entrepreneurial strategy on firm performance was different from their individual effects. The findings established that firm resources had a statistically significant influence on firm performance; the external environmental did not have a statistically significant moderating effect on the relationship between firm resources and firm performance; entrepreneurial strategy had a statistically significant intervening influence between firm resources and firm performance. Lastly, the study established that jointly the three study variables had a statistically significant influence on performance which was different from their individual effects. The results of the study support the theories anchoring the study and empirical literature. The study contributes to theory, policy and management practice. This study recommends that NCC should establish a register of all furniture enterprises operating in the County. The study further recommends for a longitudinal study, a similar research on MSMEs operating in other Counties and other significant areas such as the influence of financial resources, business training, and specific proxy factors that influence the moderating effect of external environment on firm resources and firm performance.

CHAPTER ONE
INTRODUCTION

The chapter presents summarized conceptual, contextual and empirical reviews of the study variables. The chapter also discusses the research problem giving rise to the objectives of the study. The chapter further looks into the value of the study and its contribution to theory, policy, practice and management. The chapter concludes with an outline of the organization of the thesis.

1.1 Background of the Study

Studies on the concept of entrepreneurship and firm performance have gained a considerable momentum over the last twenty years. These studies have covered different aspects of entrepreneurship which amongst others include: firm resources (Pesanen, 2003); financial literacy (Sabana, 2014); firm performance (Covin & Slevin, 1989); entrepreneurial orientation (Okeyo, 2013); competitive aggressiveness and autonomy (Lumpkin & Dess, 1996); factors affecting performance (Kinyua, 2014); concept of entrepreneurship and risk taking (Cantillon, 1755). The focus of this study is on firm performance and it is influenced by firm resources, external environment and entrepreneurial strategy.

Firm performance is a source of major concern to many organizations be they state corporations, public or private. Researchers have made attempts to find out why some organizations perform better than others (Ogollah, 2012; Barney, 2001; Tokuda, 2005). Studies have been carried out which suggest that success on the performance of organizations is not based on a single factor (Machuki & Aosa, 2011; Ogollah, 2012). These and other studies suggest that firm performance is dependent on many variables. Some of these variables include firm resources, external environment, entrepreneurial strategy amongst others and which were the subject of this study. Some researchers have argued that resources controlled by a firm can enhance growth and sustainable competitive advantage (Dollinger, 2003). Others have posited contrary views that resources differences are unrelated to growth (Shrader & Simon, 1997). The impact of firm resources on performance can be influenced by many factors among them environment. As such organizations are environment dependent and serving (Ansoff &

McDonnell, 1990; Pearce, Robinson & Mital, 2012) and the impact of the environment on firm resources may be influenced to a large extent by the entrepreneurial strategy under deployment.

The conceptualization of this study is mainly anchored on Resource Based Theory (RBT) (Dollinger, 2003), Resource Dependency Theory (RDT) (Dunnette & Hough, 1996), Open System Theory (OST) (Ansoff & McDonnell, 1990) and Contingency Theory (CT) (Lumpkin & Dess, 1996; Achaoucaou, Bernado & Castan, 2009). This study is anchored on these four theories and sought to examine the effects of firm resources, external environment and entrepreneurial strategy on the performance of micro, small and medium (MSMEs) furniture sector enterprises in Nairobi City County, Kenya.

Firm resources are anchored on the Resource Based Theory (RBT) (Dollinger, 2003; Penrose, 1959 and Wernefelt, 1984) and the Resource Dependency Theory (RDT) (Pfeffer & Salancik, 1978; Ulrich & Barney, 1984). The RBT postulates that resources possessed by an organization are the primary source of performance and competitive advantage. On the other hand Dollinger (2003) argues that it is not the resources possession alone that leads to competitive advantage. But it is how the resources are combined, reconfigured and coevolved, as needs arise would lead to superior performance.

The Resource Dependency Theory (RDT) (Dunnette & Hough, 1996; Pfeffer & Salancik, 1978) is based on organizations interaction with the environment. The theory states that organization's patterns of dependence on resources from the environment leads them to be extremely constrained and controlled. The theory explains organizational behaviour or reaction to the environment in the organizations context.

Proponents of the open system theory which comprises business policy, organizational theory, markets and resources posit that organizations cannot operate as closed systems because they are environment dependent and serving (Ansoff & McDonnell, 1990). This theory is used to explain how the external environment can impact on firm performance.

The contingency theory is based on the original works by Burns & Stalker (1961) and later by Lawrence & Lorsch (1967) and emphasizes on the need to examine the role of contingencies or situations on organizations and their behaviour. The theory holds that environmental conditions determine the extent of appropriateness of the organizations structure (Lawrence & Lorsch, 1967). It suggests the need for a fit between an organizations internal characteristics and environment in which it operates for a better performance.

1.1.1 The Concept of Entrepreneurship

Okeyo (2013) posited that the concept of entrepreneurship has been studied in several social science disciplines including economics, sociology, psychology, history, and political science for several decades. Cantillon (1755) is considered as the father of entrepreneurship having pioneered the field in the mid eighteenth century. Subsequent scholars included: Say (1803), Marshall (1890), Schumpeter (1911), Knight (1921) and Kirzner (1973). They built on the foundation which was established by Cantillon to relate entrepreneurship to organizations and individuals.

Shane and Ulrich (2004) posited that in order to understand entrepreneurship concept, the term entrepreneur needed to be understood first. Many arguments have been advanced as to the meaning of an entrepreneur. Herbert and Link (1988) defined an entrepreneur as an innovator, one who changes the factors of production to create something new. Montanye (2006) defined the concept of entrepreneurship from an economic point of view as the process by which individuals acquire ownership (property rights) in economic rents for their creation. Stevenson and Jarillo (1990) defined entrepreneurship from a psychology perspective as the process by which individuals look for opportunities without regard to the resources possessed or controlled. Definition of entrepreneur and entrepreneurship are many and vary depending on the field of study and context.

Okeyo (2013) posited that the concept of entrepreneurship has been reasoned to manifest in all enterprises irrespective of size. In large firms entrepreneurship has been referred to as corporate venturing, corporate entrepreneurship, internal entrepreneurship or entrepreneurship (Pinchot, 1965). In small organizations, the concept has been referred to

as entrepreneurial orientation (Lumpkin & Des, 1996). It is the process in which risk taking, innovation and proactiveness which leads to creation of new processes, new products and use of new methods to deliver products to old or new markets (Miller, 1983). The process is important since it leads to improved firm performance (Covin & Slevin, 1989).

1.1.2 Concept of Firm Resources

Firm resources refers to an asset or input to production that an organization owns, controls or has access to (Helfat & Peteraf, 2003; Grant & Jordan, 2012) and can be converted into final products or services. Firm resources include items of capital equipment, skills of individual employees, reputation, patents, brand names, finances, assets, capabilities, organization processes, firm attributes, information, knowledge among others controlled by a firm that enable it to conceive and implement strategies that improve efficiency and effectiveness (Helfat & Peteraf, 2003; Teece et al., 1997). This view is further supported by Dollinger (2003) who posits that there are several types of firm resources. These include: physical, reputational, organizational, intellectual, human, technological and financial.

Firm resources when used in different ways and in combination with different other types of resources, provide a different set of service (Grant & Jordan, 2012). The production activity requires the cooperation and coordination of teams of resources through combination, reconfiguration, co-evolution and integration in particular patterns (Teece et al., 1997). This is usually through combinations using organizations processes, procedures, organizational skills and functional competences to match requirements of a changing environment in order to enhance performance (Grant, 1991). It can therefore be argued that performance depends to a large extent on firm resources. This view is supported by Pearce et al. (2012) who posit that firm resources can enhance performance if well utilized, managed and controlled.

Firm resources can be classified into three broad categories which include: tangible, intangible and human resources (Ongeti, 2014). Tangible resources are the financial and physical assets which are easily identifiable and valued in an organization's financial

statements. The primary goal of resources is not to value a company but to understand their potential for creating competitive advantage (Grant & Jordan, 2012). Knowing detailed information of an organization's tangible resources can assist in guiding how more value can be extracted from them. This is done by exploring opportunities that exist for economizing their use and possibilities of employing existing assets more profitably. Examples of tangible resources include specialized equipment, geographical locations, capital, machines, land and buildings (Ongeti, 2014; Eisenhardt & Martin, 2000; Tajala, 2012).

Conversely, intangible or invisible resources are more valuable than tangible ones (Teece et al., 1997; Grant & Jordan, 2012). Yet in financial statements they remain largely invisible. Further the exclusion or undervaluation of intangible resources is a major reason for the large and growing divergence between organizations balance sheet valuations. Their exclusion is largely due to the difficulties in measuring them. Some intangible assets include brand names, intellectual property, technology, knowledge and skills, and sole rights. Reputation is another intangible asset which is key to an organization (Dollinger, 2003). They are organizational assets that can be used to implement value creating strategies and additionally local abilities or competencies that are fundamental to the competitive advantage of a firm (Wernerfelt, 1984; Barney, 1995; Teece et al., 1997).

The study focused on firm resources both tangible and intangible. These comprised: financial resources, managerial experience, human resources and reputation with emphasis on customer service standards. The acquisition and utilization of resources depends on the entrepreneurial strategy and the environment within which an enterprise operates.

1.1.3 Concept of External Environment

Environment can be described as the set of conditions within and around an object or entity (Hornby, 2005). Anthony and Govindarajan (1998) reasoned that environment may be best understood when configured in terms of internal and external environments. This study will focus on the external environment also known as macro environment and how

it affects performance of MSMEs. The external environment, which is also called the remote environment consists of an organization's business and regulatory community and represents one of the major contingencies faced by a firm outside its borders (Hitt et al., 2011). Studies indicate that external environment has an overbearing influence on organizations. However, it still lacks a universal definition since literature has presented many different views (Johnson & Scholes, 2002).

The external environment comprises factors that originate beyond and usually irrespective of any firms operating situation (Hitt et al., 2011). They include political, economic, social, technological, ecological and legal factors (PESTEL) (Pearce, et al, 2012). The external environment presents firms with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence. Ansoff and McDonnell (1990) posit that organizations must adapt to their environments if they have to remain viable. One of the shortcomings of the theoretical and empirical research on organizational environment has been failure to clearly conceptualize external environment (Machuki & Aosa, 2011). This could partly be due to the different perceptions of what constitutes the external environment. Different people perceive and act on occurrences in the external environment differently and will thus craft strategy depending on their perception of it bringing forth behavioural aspects in environmental analysis (Ogollah, 2012). Debate remains inconclusive whether environment should be analysed objectively or subjectively. Organizations are environment serving and dependent (Ansoff & McDonnell, 1990). They get resources and opportunities from the environment. This means that at all times organizations must align themselves to the ever turbulent and dynamic environment.

It is important to note that the environment may play a bigger role for small firms than for bigger firms because of small firms' higher vulnerability to environmental influences. Paradoxically, the environment is a threat for the firm, but also an opportunity in providing resources the firm needs. Therefore, managers should be in the forefront in scanning the external for information in order to be in charge and not be caught unawares Ombaka (2014). Venkataraman and Prescott (1990) argue that the fit between environmental dimensions and strategy will lead to better organizational performance.

The changes in the turbulence of an organization's environment will influence the kind of strategies that managers will develop (Filkelstein & Hambrick, 1990).

The study focused on the external environmental uncertainties mainly political, economic, social, technology and ecology (PESTEL). An organization may have the required resources to achieve performance but this will be influenced by the changes that are likely to occur in the external environment and hence the need for managers or owners of MSMEs to deploy entrepreneurial strategies that fit the organizations and their related external environmental factors.

1.1.4 Concept of Entrepreneurial Strategy

The term 'strategy' originated from the ancient Greeks, where its meaning was chief magistrate or commander in chief (Ghemawat, 2002). Chandler (1962) defined strategy as the determination of the basic long term goals and the objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out the goals. Ideally each business should have a strategy. There are quite a number of definitions for the concept of strategy (Pasanen, 2003). According to Johnson and Scholes (1993), strategy is the direction and scope of an organisation over the long-term which matches its resources to its changing environment and in particular its markets, customers or clients so as to meet stakeholder expectations. Therefore, strategy may depend on but is not completely determined by environment. It is the environmental differences that account for differences in strategy, as strategy is a pattern or stream of decisions taken to achieve the most favourable match between external environment and an organization (Chakravarthy, 1982 and Hofer, 1975). However, strategic management is needed not only to cope with changes in the firm's, external environment but also cope with changes caused by processes internal to the firm. According to Bhide (1996), the questions every entrepreneur must answer are: (1) what are my goals? (2) Do I have the right strategy? and (3) can I execute the strategy? In order to achieve high performance, firms need to adapt strategies to fit their environment. In general, strategy consists of four components: (1) scope, i.e. product/market combinations; (2) deployment of organizational resources; (3) competitive advantage; and (4) synergy among activities, resources and scope (Hofer & Schendel, 1978).

Entrepreneurial strategies are the embodiment of what some view as an entrepreneurial revolution occurring in nations across the globe, including some countries characterized as emerging economies (Morris, Kuratko & Schindehutte, 2001). An entrepreneurial mind set is required for firms to compete successfully in the new competitive landscape through use of carefully selected and implemented entrepreneurial strategies. An entrepreneurial mind set denotes a way of thinking about business and its opportunities that capture the benefits of uncertainty. These benefits are captured as individuals search for and attempt to exploit high potential opportunities that are commonly associated with business environments (McGrath & McMillan, 2000).

There are many entrepreneurial strategies that a firm can focus on to attain competitive advantage and improve on performance. Examples of such strategies include: product strategy, technological strategy, innovation strategy etc. For a firm to succeed, it must have competitive advantage through the deployment of competitive strategies. Porter (1985) defines competitive strategy as the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. He further argues that competition is at the core of the success or failure of firms. Porter (1980), states that there are three generic competitive strategies which are: cost leadership, differentiation, and focus strategy. They can be deployed on stand-alone basis or based on a combination of two dimensions: competitive advantage (lower cost or differentiation and competitive scope (broad target or narrow target). When they are deployed on a combination, they are referred to as hybrid strategies. The study focused on both generic strategies and hybrid strategies (Porter, 1980).

Entrepreneurial strategy is a key tool which is used by MSMEs owners and managers in the deployment of firm resources in a manner that enables their enterprises attain a competitive advantage over their competitors both in the short term and long term. Competitive advantage results in increased revenues, market share, profitability and overall firm performance.

1.1.5 Concept of Firm Performance

According to Statt (2004) performance is the way a job or a task is done by an individual, group or an organization. Firm performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon. Performance can be characterised as the firm's ability to create acceptable outcomes and actions (Pfeffer & Salancik, 1978). However, performance seems to be conceptualised, operationalized and measured in several ways. Strategically, firm performance is often referred to as a firm's success or failure (Dess & Robinson, 1984; Pasanen, 2003; Ostgaard & Birley, 1996).

Success is general, it relates to the achievement of goals and objectives in whatever sector of human life. In business life, success is a key term in the field of management, although it is not always explicitly stated (Pasanen, 2003). Success and failure can be interpreted as measures of good or indifferent management (Jennings & Beaver, 1997). In business studies, the concept of success is often used to refer to a firm's financial performance. However, there is no universally accepted definition of success, and business success has been interpreted in different ways. Due to the central role of an entrepreneur in a small firm, and since different stakeholders may have different objectives and aspirations for a firm, Jennings and Beaver (1997), and Beaver and Jennings (1995) suggest that it would be appropriate to regard an entrepreneur as the primary shareholder and to begin by considering how he/she might define success and failure.

There are at least two important dimensions of success: financial versus other success and short-term versus long- term success. Hence, success can have different forms such for instance: survival, profit, return on investment and so on (Vesper, 1990). In other words success may seem to have different meanings by different people. In spite of these differences, people generally seem to have a similar idea of the phenomenon that is what kind of business is successful (Kay, 1995). However, For quite some time firm performance has always been transformed or related into some form of financial relationship, chiefly being firm profits. Lately though, it has emerged that much as

financial performance measurement of a firm is vital, it is by no means exhaustive. Business scholars and practitioners contend that other non-financial performance measurement methods are equally important and hence should not be overlooked (Kaplan & Norton, 2005). Therefore firms may now adopt to both financial and non-financial performance measurement methods. Non-financial measures include new products, market share, customer service delivery and number of employees (Farjoun, 2002). Both financial and non-financial indicators constitute good methods of measuring performance in organizations. However, problems have been reported in the availability of data for both methods and especially in SMEs. Bisbe & Oakley (2004) reported that SMEs rarely capture or maintain non-financial information and therefore it is difficult to obtain such indicators.

The study focused on firm performance using both financial and non financial parameters. The use of both measures is justified by the fact that performance can be manifested both financially and non – financially (Frank, Kessler, Nose & Suchy, 2001). Firm performance is therefore best measured by using both measures since this will help identify whether success has been achieved in terms of overall firm performance.

1.1.6 Micro, Small and Medium Enterprises in Kenya

MSMEs comprise the vast majority of the small business sector in the Nairobi City County, which could be as a result of entrepreneurship initiatives (Okeyo, 2013). These enterprises operate to a large extent not by choice, but out of necessity. They play a key role in the Kenyan economy to the extent that the Kenya government has legislated and operationalized the Kenya Micro and Small Enterprises, Act 2012.

The performance of MSMEs in Kenya remains a source of concern to policy makers and researchers. This is driven by the fact that as much as they contribute to the Kenyan economy, their performance is not documented (Okeyo, 2013).The objective of this study was that the external environment could moderate the effect of resources on performance of MSMEs. Similarly, entrepreneurship strategy could have an intervening effect between firm resources and external environment and the performance of MSMEs in Nairobi City County. The investigation of this study was based on a theoretical framework in which

various theoretical bases were considered to establish why some enterprises experienced performance while the reverse was the case for others. Theories such as resource based view; resource dependency, open systems and contingency theory were used as part of the theoretical framework. The main anchor theory was the resource based view to underpin issues regarding the role of resources and environment on the performance of MSMEs. This approach is similar to that which was used by Okeyo, (2013); Mkalama, (2014); Murgor, (2014) and Ongeti, (2014). The study examined how firm resources, external environment and entrepreneurial strategy affected the performance of MSMEs in the furniture sector.

An enterprise is an organization or firm involved in the trade of goods and services or both to customers. Enterprises may be classified as micro, small, medium or large in addition to categorization by type of goods, services or sectors in which they operate (Okeyo, 2013). These MSMEs vary in their sizes and activities they undertake in different countries or in the same country. As such, there is no single universal definition of MSMES. They can be defined from a Kenyan legal perspective and international perspective. MSMEs definitions can also vary due to differences that exist in the economic systems of the countries of the world and some of the variables used in their descriptions worldwide. Common criteria used in most countries in describing these enterprises include: number of employees, total assets, sales, capital investment (Okeyo, 2013; Ayyagari, 2005; Kunokawa, Tembo & Willem te Velde, 2008).

Based on the above foregoing criteria, Ayyagari, (2005) argues that MSMEs outside Africa generally employ 0 – 250 people. This means that what constitutes MSMEs in the developed world may be classified as a large firm in Africa. In Kenya, MSMEs are recognized under the Law through the Kenya Micro and Small Enterprises Act 2012 (GOK, 2012). The Act defines a micro enterprise as an enterprise with an investment of less than Shs 5 million, sales of less than Shs. 500,000 per annum or has 1-9 employees. It defines a small enterprise as a business with sales of between Shs. 500,000 to Shs. 1 million per annum or has 10 to 50 employees. Although not defined in the Act, a medium enterprise can be defined as a business with sales of more than Shs. 1 million per annum or has 50 to 100 employees.

MSMEs in Kenya are found in almost every sector of the economy ranging from transport, construction, manufacturing, hospitality, security, agriculture, financial services, energy, education, health and communication (Government of Kenya, 2010). MSMEs contribute significantly to the Kenyan economy by way of employment and trade for goods and services. Even with major contribution, the sector remains fragmented with no national register which makes it difficult to establish their exact number (Okeyo, 2013).

The MSMEs sector in Kenya has for a long time been regarded as an engine for economic growth and contributor to job creation and poverty eradication. Although the extent of this contribution has been difficult to determine accurately, past economic surveys have provided some indicative statistics. The 2004-2005 African Economic outlook report provides statistics which show that MSMEs in Kenya have employed 2.3 million people and accounted for 18% of the national GDP in 2003. Furthermore, the 2011 Government Economic Survey reported that the country recorded an increase in total employment from 8.3 million in 2005 to 8.7 million of which 89 % was from informal sector and SMEs (Okeyo, 2013: Government of Kenya, 2007 and Government of Kenya, 2011). To demonstrate the significance of this sector in the country's economy, the Kenya Government has included it in its Vision 2030 which is Kenya's economic and development blue print and also outlines the support that is necessary for the sector's development.

According to Bowen, Morara and Mureithi (2009) and Okeyo (2013), despite the importance the government attaches to the sector, and its contribution to the Kenyan economy, SMEs face numerous challenges. The economic environment is characterised by high costs of raw materials and interest rates which limit SMEs access to inputs and capital resulting in a negative impact on their performance. Other factors like the dynamic political environment and the rapid changes in the economy, social demographics affect SMEs. They further state that high cost of rapid changes in technology has exacerbated this situation. SMEs in Kenya also face harsh ecological conditions ranging from poor roads to high cost and expensive or inadequate power supply. Furthermore, the legal environment presents SMEs with several regulatory and

legal challenges. Internally MSMEs in Kenya are constrained amongst others by lack of access to finance, markets and technical skills.

Despite the difficulties encountered by the MSMEs, they nevertheless continue to play a significant role in providing employment opportunities, contribution to the exchequer, providing a market for raw materials, consumer goods and services and supply the markets with services and finished goods. This study was concerned with the performance of micro, small and medium enterprises operating in the furniture sector in Nairobi City County, Kenya. The foregoing concerns formed the context of the study.

1.1.7 Micro, Small and Medium Furniture Sector Enterprises in Nairobi City County, Kenya

The furniture business in the Nairobi City County is dominated by two groups. These are large enterprises and the micro, small and medium enterprises. These organizations supply furniture to institutions and homes. According to the researcher, the product range includes imported and locally manufactured furniture comprising items such as: desks, filing cabinets, chairs, stools, tables, sofa sets, shelves, beds and outdoor items. Large enterprises sell the high end value items which constitute the largest market share. It was observed that majority of the MSMEs focused mainly on supplying three key market segments namely: educational institutions, leisure and hospitality industry and domestic market.

According to the researcher and based on the list of population of the study, the micro, small and medium enterprises operating furniture businesses are located in the outskirts of the Central Business District (CBD) with majority operating in the open along road reserves in residential areas with no showrooms. Most of the large enterprises are located within the CBD and in the industrial area. MSMEs operate with a highly limited number of regular employees, mostly utilize hand tools, less automation of manufacturing processes. Most of these enterprises are faced with numerous challenges. However, they continue to play a significant role in the manufacturing and supply of furniture. They are quite creative in developing new furniture. They are also able to carry out perfect imitations of different designs contained in imported furniture catalogues or in the

showrooms of the local imported furniture retailers. There are a lot of similarities in the operations and challenges facing MSMEs in furniture sector in NCC and those operating in other countries such as Tanzania (Mhede, 2012), India (Chakravarty & Munagala, 2013) and Ghana (Emmanuel, 2012).

1.2 Research Problem

Explaining why firms in the same industry and markets differ in their performance remains a fundamental question in management circles (Rumelt, Schendel & Teece, 1994; Ombaka, 2014). There is no single explanation on the source of variation in firm performance. As such, differences in performance can be explained by a number of factors, key among them resources of a firm (Helfat & Peteraf, 2003). Amit and Schoemaker (1993) established a direct relationship between resources and firm performance. Management scholars and practitioners however, argue that resources alone cannot explain variation in firm performance. Other factors come into play, key among them external environment.

There is linkage in literature on the concept of firm resources, external environment and entrepreneurial strategy on firm performance. Resources are important and if well managed can contribute to the performance of a firm. This view is supported by Pearce et al, (2012) and Tokuda (2005) who posit that organizational resources have an influence on firm performance more than any other factor. This view is further supported by Wernerfelt (1984) who argued from a resource based view that an organization's performance is affected by how it applies the available resources to its operations. These theories point to the fact that performance is dependent on resources which organizations have little or no control over. However, performance cannot be explained by a single variable (Awino, 2011). Differences in performance can partly be explained by a number of factors, key among them resources (Tokuda, 2005).

The environment plays a significant role and is a major determinant of business performance. This view is supported by Thompson (1967); Ansoff & McDonnell (1990) and Okeyo (2013) who posit that a stable political environment for example, can lead to an atmosphere that is free of conflicts which may in turn create a conducive business

environment. He further argues that, conflicts arising from political activities such as a country's national election can create uncertainties to businesses. He further posits that unstable or poor economic performance, unfavourable social and cultural changes, changes in technology, concerns on ecological conditions and adverse regulatory and legal constraints all bear serious implications on businesses.

Ansoff & McDonnell (1990) argue that organizations are environment serving and dependent. They get resources and opportunities from the environment. This means that at all times organizations must align themselves to the external environment. The changes in the external environment will influence the type of strategies that managers develop to respond to the external environment. This view is further supported by Hodgetts & Kuratko (2001) who posit that strategic planning can contribute to performance by generating relevant information thus creating a better understanding of the environment and by reducing uncertainty. Kimutai (2014) and Chadamoyo and Dumbu (2012) concluded that there is a relationship between the external environment and entrepreneurial strategy. The performance of a business as a whole is strongly related to the fit between the external environment and managers perception of it, and the choice of strategy they employ (Ward, Duray, Leong & Sum, 1995).

According to the researcher, no known studies have been carried out on the relationship between the three variables under the study and their related effect on firm performance of MSMEs. For example, Okeyo (2013) examined the effects of business development services and environment on the relationship between entrepreneurial orientation and performance of SMEs in Nairobi, Kenya. The study established that performance was positively affected by entrepreneurial orientation, external environment and business development services. However, the study did not take into account resources and entrepreneurial strategy. Otachi (2013) examined the influence of entrepreneurial personality, human capital and entry barriers on performance of the mini-van transport in Nairobi, Kenya. The study established that registered welfare associations contributed to business performance but not education. However, the study did not focus on firm resources, external environment and entrepreneurial strategy.

Similarly, Nganga, Onyango and Kerre (2011) in their study of determinants of SME growth in wood enterprise in Kenya, established that there was a relationship between collective efficiency and development of infrastructure. However, the study focused more on efficiency, infrastructure and technology. It did not take into account firm resources, external environment and entrepreneurial strategy. Also, a study by Maalu (2010) on the effects of succession planning strategy and performance of small and medium family businesses, established that family and firm level institutions were key to succession planning. The study did not focus on effects of entrepreneurial strategy, firm resources and external environment on performance. A study by McCormick (1999) on African enterprises clusters and industrialization and performance of SMEs established that there was a relationship between clustering and performance of SMEs. However, the study did not focus on firm resources, external environment and entrepreneurial strategy.

Although previous empirical studies have made substantial contributions with regard to performance of SMEs, the focus has been on examining the relationship between two variables at a time with none combining the three variables under the study. Also, the moderating role of the external environment on the relationship between firm resources and firm performance has not been documented. Similarly, the intervening role of entrepreneurial strategy and the relationship with firm performance has not been documented too. Also, most of the studies have been on SMEs and large enterprises and no known studies have been carried out to include micro-enterprises alongside SMEs and the effects of resources, environment and entrepreneurial strategy on their performance. It is against this background that this study sought to address the foregoing gaps arising from past empirical studies. This study was guided by the research question: What is the influence of firm resources, external environment and entrepreneurial strategy on the performance of MSMEs operating within the furniture sector in Nairobi City County?

1.3 Research Objectives

The main objective of this study was to determine the influence of the relationship between firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating in the furniture sector in Nairobi City County. This

main objective was then broken down further into the following specific objectives, namely to:

i) Establish the influence of the relationship between firm resources and firm performance.
ii) Establish the moderating role of external environment on the relationship between resources and firm performance.
iii) Determine the intervening role of entrepreneurial strategy on firm resources and external environment and firm performance.
iv) Establish that the joint effect of firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating within the furniture sector in Nairobi City County is different from their individual effects.

1.4 Value of the Study

First, it is anticipated that the findings of the study will help in adding value to theory, policy and practice. In terms of value addition to theory, the study will seek to promote academic knowledge regarding the role of firm resources, external environment and entrepreneurial strategy and their related contribution to firm performance. The findings of the study will significantly make contributions to the various theories including the RBT, RDT, OST and CT.

Secondly, the findings of the study will help MSMEs owners and managers have a body of knowledge that will make them have a better understanding of the influence of firm resources, external environment and entrepreneurial strategy on the performance of their businesses.

Thirdly, the study may also benefit the government and regulatory authorities as they are likely to develop institutional frameworks for MSMEs based on this empirical research. In this regard, the study is expected to influence formulation of policies and procedures that support development of MSMEs. MSMEs have been fronted in Kenya as playing a key role in creating jobs, alleviating poverty and boosting economic growth. They have been recognized by the government as important agents in helping achieve its Vision 2030. Therefore, the study is likely to enable the government to formulate sound policies

that will enhance and promote the development and growth of MSMEs so that they can make a significant contribution to the NCC and the country's economy.

Finally, the findings will provide new knowledge to development partners on performance of MSMEs. This new knowledge will be a useful source of reference when developing support programs for the MSMEs sector in order to facilitate their growth in a structured manner.

1.5 Organization of the Thesis

This thesis is organized into six chapters. Chapter one covers the background of the study. It discusses in detail the various theories of the study namely: Resource based theory, resource dependency theory, open systems theory and contingency theory. It also discusses the theoretical concepts and variables of the study namely: firm resources, external environment, entrepreneurial strategy and firm performance. There is also a discussion on MSMEs in Kenya including the context of the study which is the MSMEs operating in the furniture sector in Nairobi City County. The chapter also highlights the research problem, research objectives, value of the study and the structure of the thesis.

Chapter two presents an in depth review of theoretical, conceptual and empirical studies. It presents and discusses the theoretical underpinnings of the study, followed by discussions on key constructs of the study namely firm resources, the external environment, entrepreneurial strategy and firm performance. It then addresses the relationship between the study variables through pairwise reviews and relationships which are presented in detail. The chapter also presents a summary of empirical studies and knowledge gaps that resulted into the conceptual framework. The conceptual model and the hypotheses of the study are also presented.

Chapter three presents the research methodology. This includes the research philosophy adopted for the study, the research design, and population of the study, sampling design, data collection methods and the instrument. In addition, it describes the instrument's validity and reliability, operationalization of the study variables, data analysis techniques and the analytical models which address the objectives.

Chapter four discusses and presents data analysis and interpretation of the results. Research findings are presented at two levels. The first level deals with descriptive analysis of the data in terms of the demographic profiles of the respondents and firms. The demographic variables are cross tabulated and presented using frequencies and percentages.

Chapter five discusses the second level of analysis which is hypothesis testing. Different relationships of the variables of the study are tested. Hypothesis testing was guided by the research objectives and each hypothesis was tested and subsequently interpreted. Further, the chapter discusses the findings and the results of the study. The findings are discussed in line with each objective in relation to previous studies. Areas of agreement and divergence are highlighted and discussed.

Chapter six presents the summary, conclusion and recommendations of the study. Also, the chapter gives the implications of the study with regard to theory, policy, methodology and practice as well as the limitations of the study. Areas for further research opportunities in the MSMEs sector are also discussed.

1.6 Definition of Terms

For this study, the definitions for key terms and concepts used are as follows:

Firm: The word firm or enterprise is used interchangeably. An enterprise is an organization or firm involved in the provision of goods and services to its customers for monetary gains. Firms can be classified as micro, small, medium or large.

Firm resources: A resource refers to an asset or input to production (tangible or intangible) that an organization owns, controls or has access to on a permanent or semi – permanent basis. Resources include items of capital, skills of individual employees, patents finances, reputation, managerial experience, information among others.

External environment: A firm's external environment is the aggregate of external factors that have impact on its functioning. It is the source of opportunities, constraints, contingencies and problems that affect the terms on which firms transact business. No

firm of any kind can operate in the absence of environmental constraints, or restrictions imposed by the firm's surroundings.

Entrepreneur: An entrepreneur is a person who carries out new combinations which comprise better ways to increase existing demand or develop new products, and in a process referred to as 'creative destruction' the new combinations often render the current technologies and products obsolete. Finding new combinations of factors of production is a process of entrepreneurial discovery which drives economic development.

Entrepreneurship: Entrepreneurship is a dynamic process of innovation, opportunity recognition and creation of a new venture or expansion of an existing business to create wealth, and includes the assumption of risks and rewards. The discovery and exploitation of opportunities also falls within the definition on entrepreneurship

Entrepreneurial strategy: Entrepreneurial strategy refers to the connection between entrepreneurship and strategic management literature. It can also be described as the integration of entrepreneurial (opportunity – seeking actions) with strategic (advantage – seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth through improved firm performance

Firm Performance: Performance is defined as a measure of how well or poorly a firm is doing. Financial measures such as return on investment, return on equity, return on capital, etc. and non – financial measures such as employee retention, market share number of staff, etc. are used holistically and collaboratory to measure a company's performance.

Micro, small and medium enterprises: There is no single universal definition of these enterprises. Their definitions usually vary from country to country and level of economic development in a country. The most common definition for categorizing these MSMEs in most countries includes number of employees, capital invested and turnover. In Kenya, MSMEs are enterprises with a turnover of below kshs 20 million.

1.7 Chapter Summary

This chapter has presented the background of the thesis, discussed briefly the variables of the study that include firm resources, external environment, entrepreneurial strategy and firm performance. The context of the study which is MSMEs operating in the furniture sector in Nairobi City County was discussed including the related variables.

Further, the chapter gives an overview of the theories that anchor the study variables namely: resource based theory, resource dependency theory, open systems theory and contingency theory. The chapter has also presented the research problem, objectives of the study, value of the study and an organization of the thesis. Chapter two will present the theoretical underpinnings of the study, literature review, conceptual framework and the hypothesis of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical, conceptual and empirical review of literature along the key constructs of the study. First, the concept of entrepreneurship which was the main field of the study is explained. The theoretical underpinnings of the study are presented and discussed. The study constructs are then discussed individually, followed by pairwise review of empirical literature along the hypothesised relationships. The pairwise review is undertaken along key relationships between the variables. This brings into the fore the state of knowledge and the existing knowledge gaps that the study addresses to help understand how the constructs influence firm performance. The chapter also presents a summary of selected empirical studies on the variables and identifies the specific knowledge gaps. Lastly, the chapter presents a conceptual framework and model in which the variables and their related relationships are presented and explained. The chapter also presents the hypotheses of the study.

2.2 Theoretical Foundation of the Study

This study focussed on the performance of micro, small and medium enterprises and how their performance is influenced by firm resources, external environment and entrepreneurial strategy. The study reasoned within the theoretical framework of Entrepreneurship Theory (Cantillon, 1755). The study is anchored on four theories. These are the Resource Based Theory (RBT) (Wernerfelt, 1984; Dollinger, 2003), Resource Dependence Theory (RDT) (Dunnette & Hough, 1996), Open System Theory (OST) (Ansoff& McDonnell, 1990) and Contingency Theory (CT) (Lumpkin & Dess, 1996; Acheaoucaou, Bernado & Castan, 2009). The choice of RBT as the anchor theory for the study was informed by the theoretical argument that the entrepreneur is the resource carrier whose personal resources, which exist as idiosyncratic and personalized collections of assets, impact upon the firms' competitive advantage and performance (Chrisman et al, 1999 & Greene et al, 1998). These theories give impetus to the relationship between firm resources, external environment, entrepreneurial strategy and firm performance. These theories are discussed in the following subsections.

2.2.1 Entrepreneurship Theory

Cantillon (1755) who is regarded as the pioneer of entrepreneurship posited that the concept of entrepreneurship was closely related to that of an entrepreneur. An entrepreneur was recognized as having an important role in economic theory and engaged in entrepreneurial activities. Such activities include amongst others market exchanges in pursuit of making profit. Entrepreneurship is what an entrepreneur does and may help organizations improve on their performance (Cantillon, 1755).

Rosa (2013) and Sabana (2014) posited that entrepreneurship theory is a heterogeneous body of knowledge comprising of perspectives from diverse disciplines including economics, accounting, psychology, sociology, law, strategic management and organizational behaviour. While different scholars from the different disciplines have adopted different theoretical assumptions, these concern three central features of entrepreneurial phenomena namely the nature of entrepreneurial opportunities, the nature of entrepreneurs as individuals , and the nature of the decision making context within which entrepreneurs operate (Alvarez, 2010; Sabana, 2014).

According to Sabana (2014) economic theories of Entrepreneurship are rooted in the classical and neoclassical theories of economics and the Austrian market process (AMP). These theories, first advanced by Cantillon (1755) recognized the critical role of the entrepreneur as an explanatory force of several economic phenomena. The AMP, model advanced by Schumpeter (1934) described entrepreneurship as a driver of market based systems and was based on three main conceptualizations namely arbitraging market in which opportunities emerge for given market actors, alertness to profit making opportunities in which entrepreneurs discover entrepreneurial advantage and distinction between ownership and entrepreneurship.

Psychological theories emphasize personal characteristics that define entrepreneurship. The most prominent among the psychological theories are trait theory of entrepreneurship, internal locus of control theory and need for achievement theory. Trait theories of entrepreneurship advanced the notion that certain identifiable psychological traits could predict the entrepreneurship potential of individuals (Pittaway et al., 2011).

The locus of control theory advanced by Rotter (1996) explains how strongly individuals perceive their own efforts as being instrumental in attaining their goals. This theory further states that those individuals who assume that the consequences of their actions are dependent upon their own behaviour are said to have an internal locus of control while those who attribute the consequences of their actions to other causes are said to exhibit an external locus of control. The need for achievement theory advanced by Mclelland (1996) posited that the need to achieve success and the degree of perceived autonomy in aspects such as problem solving, goal setting and goal attainment drive entrepreneurship growth.

Social cultural theory seeks to explain the social conditions from which entrepreneurs emerge and the social factors that influence their decisions. The theory depicts the decision to become an entrepreneur as a function of three factors: the impetus of entrepreneurship, situational characteristics and perceptions of feasibility (Dollinger, 2003). The theory further states that an entrepreneur cannot ignore community and other social actors who are involved in or impact on his / her entrepreneurial effort. Human inferences are shaped by culture, the underlying contextual beliefs and value systems on which actions are based (Hofstede, 1984). In societies where economic rights are more easily exercised than political rights, immigrants turn to entrepreneurship. Throughout the world, for example, Asians and Jewish immigrants wherever they settle they gone into business for themselves (Dollinger, 2003).

2.2.2 Resource Based Theory

The resource based theory (RBT) of the firm is a theoretical framework for understanding how competitive advantage within a firm is achieved through resources and how that advantage might be sustained over time (Barney, 2001; Pearce, et al., 2012). This theory states that the different resources owned by a firm can have significant influence on its performance. Variations in terms of resources will undoubtedly lead to performance differences. Therefore, possession of resources which are unique is a source of superior performance (Pasanen, 2013).

The RBT was originated from the works of Penrose (1959) and Chandler (1962). These early scholars postulated that resources were the single most important source of

organizational performance and competitive advantage. RBT further states that a successful business must have resources to use. A resource is anything that is of quality and provides sustainable competitive advantage, and is created when a firm possess and employs resources and capabilities that are; valuable, rare, hard to copy and non-substitutable (Dollinger, 2003). This theory is used to explain how the availability of resources can create a sustainable competitive advantage (SCA) and hence contribute to a firm's performance. Penrose (1959) posited that the manner in which a firm deploys its resources can give it competitive advantage over its competitors. This view was supported by Barney (1991) who contends that firms that own resources which are rare, valuable, inimitable and non-substitutable would attain a sustained competitive advantage.

Since the mid–1980s, the RBT has emerged as one of the substantial theories in explaining the role of resources and firm performance. Even though some scholars argue that it does not appear to meet the empirical content criterion for a theoretical system (Priem & Butler, 2001). This theory states that firms can be conceptualized as bundles of resources. That those resources are heterogeneously distributed across firms and that resource differences persist over time (Amit & Schoemaker, 1993: Penrose, 1959; Wernerfelt, 1984). Using these assumptions , researchers have conceptualized that when firms have resources that are valuable, rare inimitable and non – substitutable (VRIN) they can achieve sustainable competitive advantage by implementing fresh value – creating strategies that cannot be easily duplicated by competing firms (Barney, 1995; Helfat & Peteraf , 1993).

The other argument of this theory concerns resource flexibility and slack in firms. Flexibility of resources affects the success rate of responding to environmental changes. The more flexible the resources, the better the chances for the implementation of changes. Flexibility can be divided into internal and external types. Wiklund and Karlsson (1994) further made a more fine – grained classification by dividing firm flexibility into four types which they call input, output, and internal flexibility, and flexible network relations. Internal flexibility refers to the firm's resources as a source of flexibility, for instance, flexibility of factors of production or the structure of the firm.

External flexibility refers to the firm's relations with its stakeholders. For instance, a firm's cooperation through networks can be a source of competitive advantage (Isaksen, 1994; Dyer & Singh, 1998). However, network relations may also cause dependency on other factors, which may have negative effects for the business (Pfeffer & Salancik 1978). Determining which business activities to bring inside a firm and which to outsource, is a critical strategic decision. Failure in this decision may lead to either losing strategic focus or losing competitive advantage (Barney, 1991).

SMEs are regarded as flexible because of their simple organizational structures. They are characterised by a small number of hierarchical levels and short chains of command, and decision making in them is rapid and uncomplicated. In many SMEs, the personnel area is a central resource. Unionism of personnel may be rarer in small firms than in large companies, and employees may see the link between their personal contribution and firm performance more clearly than in the case of a large company. Consequently, employees may be more motivated and committed in working for SMEs than for large companies (Peters & Waterman, 1982).

The concept of flexibility is closely related with that of slack. Slack is a dynamic quality that represents the difference between total resources possessed by the firm and resources demands of the current business which is also often referred to as organizational slack (Cyert & March, 1963). Two firms can possess the same level of resources but differ in resource need of their current business (Mishina et al., 2004). Also, slack has been more broadly considered as a 'cushion of actual or potential resources' (Bourgeois, 1981). There are different kinds of organizational slack: economic, political and managerial. Economic slack refers to liquid financial assets, easily convertible assets, and generalizable capital assets. Political slack encompasses goodwill and consumer loyalty. Managerial slack refers to surplus of managerial resources and capabilities. Moreover, slack related to a firm's network relations may be extremely important particularly for small firms (Johannison, 2000; Pasanen, 2003).

The difference in slack will lead to further growth since those with high slack will be endowed with ability to take advantage of the opportunities afforded by the environment

(Mishina et al., 2004). The increased attention by researchers on firm resources seems to be beneficial in helping to clarify the potential contribution to firm performance (Ongeti, 2014).

The RBT's growing influence has provoked debate on its strategy in the market. Some researchers' report that the resources controlled by a firm generally enhances growth (Tajala, 2012; Grant & Jordan, 2012). RBT continues to face challenge from scholars who posit that it continues to lack definition and therefore conceptually vague and lacks explanatory power (Priem & Butter, 2001). They further argue that the theory is tautogical with intention to the mechanism by which resources actually contribute to firm performance. What remains crucial for the RBT proponents is to continuously get empirical backing and definition of the almost latent variable (Ongeti, 2014). This study is anchored on the RBT because of its argument that resources possessed by an organization have positive influence on a firm's performance.

2.2.3 Resource Dependency Theory

The resource dependency theory (RDT) was developed by Pfeffer and Salancik (1978) and is based on organizations interaction with environment. Since its publication in 1978, RDT has become one of the most influential theories in organizational theory and strategic management. RDT characterizes an organization as an open system, dependent on contingencies in the external environment (Pfeffer & Salancik, 1978). They further posit that to understand the behaviour of an organization you must understand the context of that behaviour which is the ecology of the organization. The theory states that organization's patterns of dependence on resources from the environment leads them to be externally constrained and controlled. RDT recognizes the influence of external factors on organizational behaviour and, although constrained by their context, managers can act to reduce environmental uncertainty and dependence (Ulrich & Barney, 1984).

According to Dunnette and Hough (1992), the theory explains organizational behaviour or reaction to environment by looking at organization's content. Organizations require various types of resources to carry out their businesses. These resources determine how organizations make and deliver their goods and services. RDT recognizes the influence of

external factors on organizational behaviour. According to this theory, the environment is dynamic and uncontrollable thus making access to resources a challenge. Thompson (1967) argued from an open systems view point that organizations' dependence on resources in the external environment affects their effectiveness. Letting (2011) argued that the role that directors play in providing or securing essential resources to an organization through their linkage with external environment is a resource dependence theory issue.

One commonality among many of studies on RDT is that they offer some challenge to the basic tenets put forth in external control of the firm. Assumptions are being tested (Casciaro & Piskorski, 2005), alternative strategies are being offered (Westphal et al., 2006), and gaps in the theory are being filled (Katila et al., 2008). Casciaro and Piskorski (2005) posit that one of the challenges facing RDT is that its prescriptions are intertwined with its theoretical predictions (Casciaro & Piskorski, 2005). The prescriptions that arise from external control undoubtedly require modification today such as tactics like co-opting suppliers, or diversifying would do most firms more harm than good. But the underlying theoretical approach of diagnosing the sources of power and dependence and predicting when and in what direction organizations are likely to respond still yields great insight into organizational behaviour.

In regard to small and medium enterprises and issues that they face, resource dependence theory is important in explaining how their dependence on the environment affects performance. RDT therefore acts as a crucial link in explaining how external environment affects ability of organizations to access resources they need in their businesses and has therefore proven to be an important framework for analysing environment – organization relations (Okeyo, 2014).

This study anchored RDT as one of the theoretical underpinnings in explaining the relationship and dependence of organizations and the external environment. The theory was important in the study as it sought to explain how MSMEs in the furniture sector dependency on the external environment for resources affects their performance.

2.2.4 Open Systems Theory

The open systems theory (OST) which was primarily developed by Fred Emery refers to the concept that organizations are strongly influenced by their external environment. The external environment consists of other organizations that exert various forces of an economic, political, or social nature. The theory further states that the environment also provides key resources that sustain the organization and lead to change and survival. Although there is a great variety in the perspectives provided by the open system theorists, they share the perspective that an organization's survival is dependent upon its relationship with the environment.

The proponents of the open systems theory which comprises business policy, organizational theory, markets and resources postulated that organizations cannot operate as closed systems because they are environment dependent and serving (Ansoff & McDonnell, 1990). Burnes (1996) posits that the external environment is grounded on the open systems theory, which states that organizations are affected by factors which occur in the external environment and can have effects on the factors that exist in the internal environment. For organizations to be successful, they should continuously interact with the environment for inputs and outputs. These inputs should be efficiently converted into outputs which should be accepted by the environment. For superior performance, firms should continuously scan the environment for information that will enable them to be proactive (Ombaka, 2014).

The pioneering work of Von Bertalanyffy (1950) posits that open systems are living systems; they maintain themselves in exchange of materials with the environment. Unless organizations can have permeable boundaries, they cannot interact with the environment (Kreitner, 2007). Pfeffer and Nowak (1976) argue that organizations as open systems have to make routine transactions with the others in their environment for success. Lawrence and Lorsch (1967) posit that as with any system, an organization can sustain itself by interacting with its external environment. Open and adaptive organizations possess a highly permeable boundary while closed organizations possess an impenetrable boundary.

Theorists caution that perceptual screens, cognitive filters, or schemas can trigger a strategic myopia that can affect the degree to which managers engage in environmental scanning (Lawrence & Lorsch, 1967). Carmeli and Tishler (2004b) contend that closed systems are short lived because, unlike open systems, which delay entropy through import of crucial energies from the external environment, closed systems, do not make exchanges with their environment.

Carmeli and Tishler (2004b) further argue that firms compete for scarce resources that are responsible for their existence and only those firms that can make themselves compatible with their task environment avoid mortality. Firms should endeavour to interact with their environment continuously to attract those resources that can make enhanced performance. A firm will be able to perform well only if it achieves a balance with the environment. Firms should also try to be compatible with the environment to avoid mortality (Ombaka, 2014). The OST was important as one of the anchoring theories as it emphasises on the need for firms to embrace and interact with the external environment which plays a critical role in their performance. This theory applies to MSMEs just as it does to large enterprises.

2.2.5 Contingency Theory

Contingency theory has been used in many past studies to analyse the effects of external factors in the design of an organization. Contingency theory (CT) is based on the original works by Burns and Stalker (1961) and later by Lawrence and Lorsch (1967) which emphasized the need to examine the role of contingencies or situations on organizations and their behaviour. The theory holds that environmental conditions determine the extent of appropriateness of the organization structure (Lawrence & Lorsch, 1967). Therefore this suggests the need for fit between an organization's internal characteristics and the environment in which it operates for realization of better performance.

The essence of contingency theory is that best practices depend on the contingency of the situation. Contingency theory is often called the "it all depends" theory, because when you ask a contingency theorist for an answer, the typical response is that it all depends. While this may sound simplistic, assessing the contingencies on which decisions are

depend can be very complex. Contingency theorists try to identify and measure the conditions under which things will likely occur. Contingency theory is considered a dominant, theoretical, rational, open system model at the structural level of analysis in organization theory. The basic assertion of contingency theory is that the environment in which an organization operates determines the best way for it to be organized (Scott, 1992). Researchers try to identify a match between the characteristics of the environment and those of the organization that lead to high performance. This match is called "fit', the better the fit the higher the performance. Contingency theory has two basic underlying assumptions: there is no one best way to organize. Second – any way of organizing is not equally effective (Galbraith, 1973).

Contingency theory over the years has come under criticism. One of the criticism of this approach as practised by many is that causation is assumed but not explained. The assumption is that because a set of environmental conditions and organizational design characteristics were found to be correlated that this is the best fit. Organizations with inferior fits have been selected out by a process of survival of the fittest. Some organizations can exist for extended periods with a poor fit because the industry is profitable enough to support a company operating sub optimally. Others survive because the government or the larger organization of which they are a part subsidizes them. The assumption also does not take into account risk – averting managers do what others do if it seems to work even when other potentially better solutions exist. Correlation between environmental conditions and organizational design characteristics without considering effectiveness indicates selection not fit (Drazin & Van de Ven, 1985).

Other problems with contingency theory are the assumptions that relationships between variables are linear and effects are symmetrical (Schoonhoven, 1981). Some relationships between technology, structure, environment and effectiveness may be linear and others curvilinear. These problems are increased when multiple contingencies and measures of effectiveness are considered. Interaction effects and trade-offs may occur which are not captured by examining single context elements (Gresov, 1989).

Based on the different views expressed by different scholars about CT, there is a near unanimity that CT is a powerful tool for helping to improve performance in organizations. Performance is associated with certain factors such as age, size, environment, industry and the organization structure that gives a fit between the organization and its external environment. This view is supported by Donaldson (1995) who stated that firm performance is the result of a proper alignment of firm design within the context that it operates in. This view is also supported by several empirical studies which have posited that there is a relationship between firm performance and various factors. For example, Johnson and Scholes 1993; Powell 1992 and Thompson 1999 posit that firm performance is often seen to relate to the match between the firm and its environment. The environment carries needs and expectations, that is market opportunities, which the firm tries to respond to with its resources and capabilities. The better the match the better the success (Kay, 1995).

This study focused on three variables which have impact on firm performance. These variables are: firm resources, external environment and entrepreneurial strategy. Also, the RBT which is the anchoring theory for the study is well complimented by the other theories in the study which are: RDT, OST and CT. These theories seek to underpin the significance of firm resources as a key variable in firm performance. Equally, they bring into light the critical issue of the environment and the need for entrepreneurs to be alert of the benefits and consequences that it brings with it and resultant effects on firm performance. These theories further demonstrate the importance of entrepreneurial strategy as an important management tool in the realignment of firm resources and firm performance. The variables under the study are anchored on the four theories.

2.3 Firm Resources and Firm Performance

In the resource based view, the firm is viewed as a bundle of resources that management must deploy systematically to add value. A firm's resources can be defined as all tangible and intangible assets that are tied to the firm in a relatively permanent fashion (Wernerfelt, 1984; Pasanen, 2006). Resources refer to both physical, concrete resources and intangible, invisible resources that is capabilities. Also resources can be divided into human, social, physical, organizational, financial types (Green et al., 1997 a). They can

yield sustained competitive advantage when they are relatively scarce, hard to imitate, and hard to replace (Mahoney & Pandian, 1992; Peteraf, 1993; Collins & Montgomery, 1995 and Lubit, 2001).

Resources have a central role in gaining a competitive advantage (Praest, 1998). In the resource based view, firm performance is based on firm – internal resources (Powell, 1992). Firms may start with a similar resource base, but with time they become differentiated such that their resources cannot be perfectly imitated (Rumelt, 1984). Competitive advantage is seen to be based on the combination of the firm's tangible resources and capabilities. Capabilities refer to knowledge – based tangible or intangible processes, and by combining them the firm can attain its goal and objectives. For generating a sustainable competitive advantage, four criteria to assess the economic implications of resources have been suggested by Barney (1991): value, rareness, inimitability and substitutability. However, the entrepreneur's limited perception may be a central bottleneck factor, and a management team can significantly improve management performance. The knowledge based view emphasizes top management's ability to select, retain and develop critical capabilities (Grant, 1991).

Resources are a primary source for organizational performance (Wernerfelt, 1984; Hitt et al, 2011). But on their own, few resources are productive. It is never resources that are inputs in the productive processes in exclusion but the service that resources render (Grant, 1991 and Tokuda, 2005) also referred to as capabilities. They are the abilities of combing the other resources for superior performance (Pearce et al., 2012). From time to time resources must be configured, reconfigured, coevolved, coordinated and reorganized for proper exploitation thus leading to superior performance as well as competitive advantage (Teece et al., 1997; Pearce et al., 2012).

Capabilities assure sustainable competitive advantage and indeed long-term performance because new resources configurations are always guaranteed as markets collide, emerge, split, evolve and die (Teece et al., 1997). Differences in performance of organizations may emanate from how differently organizations combine their resources and the effects of external environment. In some cases, resources slack can lead to superior performance

depending on how they are converted to active use, while in others they are a source of poor performance due to costs related to maintaining them (Tokuda, 2005).

There are many types of resources which are available to firms and are common to MSMEs and large enterprises. This study focused on four specific resources and how they impact on firm performance. These are: managerial experience, financial resources, human resources and reputation (with emphasis on customer service). These resources are discussed herein.

2.3.1 Managerial Experience

In the resource based view, the firm is viewed as a bundle of resources that management must deploy systematically to add value to the organization. In the firm, there are usually few core capabilities which are difficult to imitate (Prahalad & Hamel, 1990; Aaker 1989). The firm's core capabilities are usually created by the firm, and they promise its ability in adapting to the needs of a rapidly changing environment (Prahalad & Hamel, 1990). In particular, taking advantage of the firm's unique nature is emphasized. Moreover, as Prahalad and Hamel (1990) point out that the management's visionary skills and vision for the future environment in which the firm will operate is unique and important.

Mintzberg (1994); Heene and Sanchez (1997) posit that managements task is to create the future, which should be fitted to the strengths of the firm in a unique way. The core capabilities which are created in the firm serve as a basis for its growth. The unique elements of the firm, the personnel's qualifications and flexibility of business processes play an important role (Stalk et al., 1992). It is characteristic of SMEs that their operations are closely related to the person who is the entrepreneur. In the resource based view, the entrepreneur is a critical firm resource, but it might also be that he/she is an important factor which limits the achievement of firm resources (Whittington, 1988 and Dutton, 1993). The entrepreneur's interpretations and limited ability to see new business opportunities and boundaries set by him/her may limit firm development more than the boundaries set by external environment (Barr et al., 1992). Moreover, the firm's manager

is often also the owner of the firm. Thus ownership, management and the person of an entrepreneur may be combined in an SME.

In SMEs, the position of individuals matter a lot as they are supposed to be generalist in performing their functions (Drew, 2003). Most SMEs personnel are either in key managerial positions or are classified in a unit or function that performs a certain task or numerous tasks. Most SMEs are run by a manager who is usually the owner of the organisation (Demirbas, Hussain & Matlay, 2011). The competence of SME manager is the ultimate determinant of survival or failure. The root cause of either failure or poor performance is almost invariably lack of management attention to strategic issues such as human resources management. Moreover, the early founder of the SME's personal competence in selecting the right business and running it will be crucial, as the firm is likely to be indistinguishable from the owner. Therefore, as the business develops, growth can be rapidly partially due to unwillingness or inability to draw others to help with the management of the SME (Pasanen, 2006).

The management of people (human resources management) is particularly important as it includes not only the personnel issues of dealing with employees, but also of managing people outside the organization who are also critical to its success, such as key customers, suppliers, banks and investors (Stokes & Wilson, 2006). It is also necessary that the owner/manager and other key personnel in SMEs attain an acceptable level of education in order to drive SMEs activities. Research studies have found out that one of the criteria factor for successful SMEs is the level of education (Thong, 1999; Sarosa & Zowghi, 2003). Most SME owner/managers, especially in developing countries, are unable to communicate in international languages that give access to global markets. A general acceptable level of education would be a high school ordinary level certificate, although higher business qualifications are better.

To have a good chance of survival, a small business firm needs to answer the basic strategic questions: What markets are we targeting, with what products? A common weakness in the SME owner/manager lies in their failure to understand key marketing issues (Stokes & Wilson, 2006). They further posit that product or service concepts and

standards often reflect only the perceptions of the owner, which may be mirrored in the market place. They further stated that, minor fluctuations in markets can topple a newly established micro/small business, particularly where it is reliant on small number of customers.

Ibrahim and Goodwin (1986) reported that that possession of the managerial experience and a good level of education by owners/managers of MSMEs is key to the successful performance of these enterprises. Managerial experience is an important resource for it is key in managing the other business resources such as Finance, Human resources and Reputation. They further argued that management skills are critical factors in both the failure and success of businesses. This view is also supported by (Lichtenstein & Brush, 2001). They illustrate that accounting, cash flow, and marketing need management skills and that lack of them is a major cause of failure. Weaknesses in these areas are bound to impact negatively on all other areas of the business. This view is also supported by Kinyua (2014) who posits that lack of management skills and expertise is a major constraint hindering the progress of SMEs in Kenya.

2.3.2 Financial Resources

According to Pasanen (2003) and Kinyua (2014), MSMEs are financially more constrained than large firms and are less likely to have access to formal finance. Lack of capital or financial resources is a major obstacle for MSMEs and entrepreneurs who usually have to mobilize their own capital or their own resources to establish or expand their business (Harvie, 2005).In addition, SMEs in developing countries have difficulties in accessing bank loans as a consequence to the high risk for failing loans, low profitability and lack collateral required by banks (Harvie, 2005).

Studies by Atieno (2009); Biekpe (2004) and Fatoki (2010) indicate that access to finance has been identified as a dominant constraint facing SMEs (Lader, 1996). A World Bank study found that about 90% of small enterprises which were surveyed stated that credit was a major constraint to new investment (Parker et al., 1995). Levy (1993) and Kinyua (2014) also found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their low growth

and development. This stems from the fact that SMEs have limited access to capital markets partly due to the perception of higher risk, informational obstacles, and higher cost of intermediation for smaller firms.

For many SMEs in Nigeria, access to finance and capital appear to be difficult. This comes as a consequence of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of SMEs and access to finance play a crucial role in the growth process and development (WB, 2011). Previous studies have identified a growing gap in the financial support offered to Ghanaian SMEs. The high interest rates, collateral requirements and the cumbersome processes have often been mentioned as the main impediments to SMEs access to bank loans in Ghana (Sowa et al.,1992) and (Buatsi, 2004). In Kenya, Kinyua (2014) in his study of SMEs in Nakuru County found that there is a correlation between firm age and access to credit. He further posits that being in the business for many years suggests that the firms are at least competitive on average. It can be argued that being an older firm means there is lower information opacity. On the other hand, the new firms are not likely to meet the collateral requirements of the banks since they have not accumulated sufficient assets. Combined with the absence of information on their financial records, this makes it difficult to lenders to assess lending proposals submitted by new firms. Kariuki (1995) study of bank credit in Kenya illustrates this point further. A survey of 89 small and medium – scale firms in manufacturing and services industries, combined with secondary information from commercial banks, found that from 1985 to 1990 the average real volume of credit for the sample firms fell, except for the year 1986 which showed a marginal increase of 1.5 %. Several deterrents to utilising formal credit were identified. Small scale enterprises borrowers were found to be faced with higher nominal interest rates at higher inflation rates in the latter half of the 1980s. Moreover, the explicit transactions costs of borrowing were found to be high in relation to interest costs.

According to Fatoki and Garwe (2010), lack of capital seems to be the primary reason for business failure and is considered to be the greatest challenge facing small and micro business owners. This was supported by Shafeek (2009) who said that, from a business

viewpoint without adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, produce and market a product, or do anything of the other things necessary to run a successful operation.

Stokes and Wilson (2006) contend that financial difficulties of SMEs arise, either because of inability to raise sufficient funds to properly capitalise the business, or mismanagement of the funds that do exist or a combination of both. He explained that, access to external funds may be difficult to achieve for new or young, small and micro businesses with no track record, especially for owners without personal assets to offer as collateral. Stokes and Wilson (2006) further contend that many new owner managers, having received funds, misuse them; small businesses are notorious for their lack of proper financial controls and information.

Studies by Atieno (2009); Biekpe (2004) and Fatoki (2010) shows that access to finance by SMEs particularly in developing countries with Kenya included remains a major challenge and hence inhibiting growth and performance of such organizations. Pesanen (2003) posited that SMEs in developing countries rely substantially on finance from: informal sources, family, friends and traditional banking system.

2.3.3 Human Resources

Human resources management (HRM) in SMEs have not received significant attention in management research and management training (Hornsby & Kuratko, 1990). Despite the fact that a large percentage of employees are working in SMEs (Golhar and Deshpande, 1997), current research on HRM has focused on larger firms (Wagar, 1998). SMEs are therefore underrepresented in the main stream literature in this field (Curran, 1987). Since SMEs are not simply a scaled-down version of larger firms (Westhead & Storey, 1996), findings and prescriptions of studies of HRM in larger firms do not readily generalize to SMEs.

Research has shown that the most significant difference between HRM practices (which comprise: staff attraction and retention, training and development, compensation and succession planning) in SMEs and larger firms is not in what practices are adopted but in

how they are adopted (Amba-Rao & Pendese, 1985; Little, 1986). One important dimension is how HRM practices are adopted is the level of formality in HRM. Human resource (HR) formality is defined as the extent to which HR practices are documented, systemized, and institutionalised. Marlow (2002) suggests that as firms grow they develop formal, identifiable policies, rules and regulations that define and oversee the employment relationship. Examples of indicators of a formal system include the presence of personnel specialists and written policies or criteria for recruiting, hiring, and performance appraisal.

An informal mechanism exists when no system is in place and decisions are made on a personal, case by case basis. Further, Marlow and Patton (2002) in their study of small manufacturing firms concluded that business owners face a tension between formality and informality of HR practices in general. They further stated that informality in HR practices is more common in SMEs than in large firms. This view is echoed by Vickerstaff and Parker (1995). They were of the view that there exists a high degree of unplanned, reactive and informal training activity in small firms, where there is typically unlikely to be a dedicated personnel manager or training manager. This view is further supported by Gibb (1999), Lane (1994) and Metcalf et al. (1994) who contend that in many small organizations training does not take place at all. They further add that, where training and development does occur in SMEs, not only is it reactive and informal but it is also short-term and almost exclusively directed at the solution of immediate work related problems rather than the development of people.

Metcalf et al. (1994) further reported that the attitude and motivation of the small firm owner-manager towards HRD and the influence that he or she chooses to exert over it, will impact on the training and development including the organizational performance usually in terms of financial return. This view is supported by Storey (1994) who argues that the motivation of the owner-manager of small organization is key influence on performance and how it is achieved. If, therefore, the owner-manager of an SME cannot equate business performance to training and development, then it's unlikely that he/she will favour a formal HRD policy which is linked to the delivery of business goals and initiatives.

Parker (1995) and Metcalf et al. (1994) reported that human resource is an important factor in SMEs success and its development is the preserve of the MSMEs of the owner-manager. The area gets insignificant attention and support from SMEs owners-managers. This adversely impacts on business performance in terms of attraction, recruitment, training and development and retention of staff.

2.3.4 Firm Reputation

Good reputation relates to customers' trust in the firm and its products and services (Caruana, 1996). Simon (1985) defines reputation as an outcome of pleasurable past interactions which derive from a firm's product. Dozier (1993), posits that reputation may be connected with direct experience taking into consideration customers. Fombrun and van Riel (1997) viewed reputation as a collective representation of a firm's past actions and results that describe the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and external with its stakeholders, in terms of competitive and institutional environments. Strong organizational reputation strengthens the reliability in products and services. It further enhances buying intentions (Schwaiger, 2004). It can be said that the more pleasurable customer experience, the greater reputation the organization gets.

According to Wartick (2002), there is no consensus on the definition of reputation. Many concepts make it even more complicated (Smaizine & Jucevicius, 2009), but nevertheless reputation is still regarded as an important asset in the firm's performance since it has the potential to create value for the firm (Roberts & Dowling, 2002). Reputation plays a significant role despite the size of an organization (Rindova et al., 2005). It is considered as a strategic organizational resource for SMEs (Lopez & Iglesias, 2010). According to Nguyen (2010), a firm can possess multiple reputations consisting of such features like price, service quality, innovativeness etc. Andreassen and Lindestad (1998) posited that firm reputation exhibited enhanced customer satisfaction and perceived quality. According to Davis et al. (2002), he observed that in the context of retailing that there exists positive linkage between reputation and customer satisfaction. It can be argued that reputation is best achieved through enhanced customer service delivery and by creating a market orientation approach to business.

Good customer relationships and customer service have been found to be the most important factor contributing to SME success (Ghosh & Kwan, 1996; Taylor, 1997). In his study of high – technology firms, Rasanen (1999), revealed the importance of close customer relationships. This view is supported by Pasanen (2003) who posit that long-term customer relations contribute to customer closeness, i.e. good knowledge of customers and their real needs. Cordial customer relations can facilitate firm survival and they have an important role in firm renewal and continued success. Good customer relations have been found to be a source of competitive advantage more so for small firms than for large companies, regardless of their strategic focus and the growth of the industry sector. This view is supported by (McDougall et al., 1994; Halborg et al., 1997 and Wijiwardena & Coorey, 1996).

SMEs closeness to customers is often constituted as their unique competitive advantage (O'Dwyer, Gilmore & Carson, 2009; Zontanos & Anderson, 2004). In this context, Winch and McDonald (1999) stress that shorter internal line of communications, speedy responsiveness and effective problem solving stem from less formalized communication systems within the micro environment. Though, these features lead to incorporation of customer focus strategy in SMEs and according to Reijonen and Laukkanen (2010) it is a central element of prediction for SMEs. And this approach gives an opportunity for small entities to satisfy clients' needs in a profitable manner (Narver et al., 2004).

According to Singh et al. (2010) and Rasanen (1999) organizations strive to achieve competitiveness through satisfying customers, quick response, cooperation etc. Such organizations also conduct research which conceptualizes and identifies primary areas of competitive advantage constructs which include: inventory management, customer satisfaction, profitability, customer base identification. Rahimic and Ustovic (2012) examined customer satisfaction as a fundamental determinant for creating and assuring competitive advantage. They concluded that many businesses consider customer satisfaction as the most important aspect in the process of differentiation.

SMEs operating around the globe tend to have less marketing and technical resources, do less market research, possess fewer incentive and reward programs, lack presence in largely accessible markets and have less well recognized brands (Hayami, 2009). Marketing developments are therefore vital for preserving high growth in the small and medium size businesses and their success. Furthermore, market orientation is also necessary for the development of a business. Market orientation is defined as the organization culture that creates the necessary behaviour for the creation of higher value to customers which considerably correlated with business performance. More specifically, market based orientation is important in the selection of products when SMEs operate in markets with relatively homogeneous products (Verhees & Meulenberg, 2009).

Reputation remains amongst the key intangible assets of a firm. This contention is well supported by the resource based theory. It is regarded as an important asset in the firm's performance since it has the potential to create value (Roberts & Downing, 2002). In a competitive business environment, SMEs owners/managers should exploit the potential of this intangible resource to its maximum in view of its value addition in enhancing customer satisfaction which in turn will spur business growth by way of increased repeat business, outlets, revenue and profits and thus contribute to a firm's performance.

2.4 Firm Resources, External Environment and Firm Performance

Studies on firm resources and firm performance have shown that there is a relationship between the two. However, firm resources on their own cannot guarantee performance and hence the need to recognize the importance of external environment and its effects on firm resources and firm performance. Past studies have examined the effects of external environment on firm performance. Miller and Friessen (1978) stated that in conditions of high uncertainty in technology, customer, or competitive environment, firms should accommodate environmental change to improve performance. Likewise, Pasanen (2003) found that changes in the environment cause more uncertainty in SMEs than in larger companies because SMEs resources for acquiring information about the market and changing the course of the enterprise are more limited.

Although a firm has no or little control over the external environmental factors, these factors exercise considerable influence on the organization's performance (Pearce et al., 2012). This view is supported by Pasanen (2003) and Okeyo (2013) who found that aspects of external environment had an effect on firm performance. Although these two and other scholars found that aspects of external environment had an effect on firm performance, contradictory results were reported by others like Machuki & Aosa (2011) who posit that overall results for the effect of external environment on corporate performance were statistically not significant.

This study focused on the external environment in the context of six factors which constitute it and these were: Political, economic, social-cultural, technological, ecological and legal (PESTEL). Kinyua (2014) in her study of factors affecting the performance of SMEs in Nakuru, Kenya, posited that despite the critical role played by SMEs, they are faced with numerous challenges and constraints that include unfavourable policy, access to financial services, markets, inadequate business know-how and linkages with large enterprises, gender inequality, limited access to information, unsatisfactory occupational health and safety standards. These constraints have not been well addressed resulting in a weak base for industrial take- off and sustainable development.

The role of politics which by extension includes government and legal (legislation) are so intertwined that they can only be viewed together and they remain critical to the performance of MSMES. This view is supported by Lukacs (2005) who posited the role of governments should be limited to the provision of an enabling environment for private sector development, correcting potential market failures and creating a level playing field that will allow SMEs to compete with their larger counterpart on an equal basis. An enabling environment for example includes infrastructure development, legislating laws and policies that promote the development of MSMEs.

Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favourable, the opportunities for profitable employment expansion in SMEs are limited. This is true especially for those SMEs that have linkages to larger

enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programmes for SMEs, but also for the growth of the economy as a whole (Kinyua, 2014). She further posited that the move towards economic liberalization proposed in Kenya in the late 1980s and 1990s was aimed at reducing distortions in the economy; deregulation of markets has had an adverse impact on SMEs (Sessional Paper No.2, 2005). The effects included increased macro – economic instability characterised by high inflation rate, current account deficits and policy uncertainty. While the effects have been harmful to all private enterprises, the SMEs were particularly hurt given their small size, and because they have fewer options to ride over instabilities.

The SMEs play an important role in the Kenyan economy. According to the Economic Survey (2006), the sector contributed over 50% of new jobs created in the year 2005. SMEs are the main source of employment in the developed and developing countries alike , comprising over 90% of African business operations contributing to over 50% of total employment and gross domestic product (GDP) (Okafor, 2006). SMEs in Kenya according to the Kenya Economic Survey (2006), contributed over 50% of new jobs created in the year 2005. In addition to its importance in creating jobs, the small enterprises sector contributes 33% of the value added in manufacturing and the retail trade in Kenya (Onyango and Tomecko, 1995). Similarly, SMEs employing upto 250 people accounted for 68 million jobs in the European Union in 1995. Furthermore, available data from some African countries show that in 2003 SMEs in Nigeria accounted for 95% of formal manufacturing activity and 70% of industrial jobs. In South Africa micro and small firms provided more than 55 % of total employment and 22% of GDP in 2003 (OECD, 2005).

Technological innovation is paramount to the survival and growth of any business. It has changed the way enterprises conduct business and the way both customers and clients acquire goods and services. SMEs have to remain competitive and this they can be achieved by the efficient utilization of technology. Use of advanced process technology for instances, usually results in a better product quality and durability. Technology usually aids greatly in reducing cost by affecting savings in materials, energy or through

replacement of conventional materials with cheaper alternative materials. Research points that most SMEs in Kenya are not innovative and this affects them negatively on their growth. Most local firms have not been able to develop technological competencies to acquire and apply knowledge from foreign firms. However, some SMEs show some degree of innovativeness. Little is documented on SMEs innovation and its related impact on growth of SMEs in Kenya (Mwangi & Namusonge, 2014). According to Hill (1988), technology is important in supporting and promoting SMEs development since it is responsive to local economies and results in distinctive products and services. Initiatives to support indigenous technology should therefore aim to link SMEs with technology specialists in order to generate an enabling environment that develops technology capacity. This is likely to result in great performance of SMEs as it provides differentiated products, services and technical services in accordance with resources available and the market needs in the context of these SMEs. Technological innovation plays a strategic role in providing firms with a competitive edge as well as assisting such firms to gain entry into new markets (Becheikh, 2006).

As much as a firm has no or little control over the external environmental factors, these factors exercise considerable influence on the organization's strategy (Pearce et al., 2012). Pearce et al. (2012) further stated that for firms to have competitive advantage or enhance performance, a match between internal capabilities and external environment is important. It can be posited that deployment of appropriate and effective entrepreneurial strategies has an intervening effect on the relationship between firm resources, external environment and firm performance.

2.5 Firm Resources, Entrepreneurial Strategy and Firm Performance

Resource based view proponents (Wernerfelt, 1984; Grant & Jordan, 2012) stated that competitive advantage acquired based on resources and capabilities is much more sustainable than that based on product and market positions. Products and markets are themselves derived from resources and capabilities. Therefore creating a strategy based on unique resources and capabilities creates a more long-term sustainable competitive advantage and performance.

The influence of firm resources on firm performance originated with the works of Penrose (1959), Chandler (1962) including other early scholars. These scholars posited that firm resources are a primary source for firm performance. However, at one time, strategic management was concerned largely with understanding characteristics of the industry in which the firm competed and in light of those characteristics, determining how they could be positioned to respond to competition. The emphasis then was on industry characteristics which underestimated the role of the firm's resources in its performance (Hitt et al., 2011). It was not until firm performance could not be fully explained by external side of the organization that the swing of pendulum occurred back to the internal side of the firm (Tokuda, 2005). Resources possessed by an organization are the main sources of competitive advantage, growth and overall performance. They form the basis of competitive advantage (Hitt et al., 2011).

The ability for an organization to anticipate and respond to opportunities or pressures, both internal and external, is one of the most important ways in which competitiveness and viability are attained (Pearce et al., 2012). The nature and effectiveness of the organizational response through deployment of strategy vary in part with how top management triggers and interprets strategic issues (Mintzberg, 1994). According to Pasanen (2003), one of the primary functions of effective management is to organize and use a firm's resources in ways that minimize the impact of threats and pressure on the firm. He further stated that a firm operates simultaneously in several environments which can be divided into different levels and characterized by several qualities. Strategy matches the firm's resources to its changing environment. Also, strategy can be defined in several ways and different levels of strategy can be distinguished. A major distinction can be made between strategy content and strategy process. Strategy content, which is closely related to the competitive advantage and the critical success factors of the firm, can be approached from the firm – internal or external view. In general, firms may follow an active, market – creating strategy, or, as usually, they have to adapt to the changes in their environment. Moreover, there are usually several strategies that a firm follows, i.e. in addition to generic strategies, firms often have objective and situational based strategies, e.g. growth and turnaround strategies.

According to Chadamoyo and Dumbu (2012), most SMEs face the challenge of putting together strategies to survive the competition in the market. They further posit that the most common strategies used by SMEs include among others, fair pricing, discounts and special offers, superior customer service and continuously improving quality of service delivery. These strategies lead to cost reduction and differentiation of products and services. Lack of innovation and search for customers' needs reduces the survival of SMEs (Bowen et al., 2009). A business plan is of vital importance as better business planning reduces the risks associated with any business activity. Insufficient awareness of the need for a business plan was identified as one problem at start-up phase among SMEs (Chami, 2006). Duchesneau and Gartner (1990) found that most successful firms did not have written business plans but, on the other hand, spent more time on planning than unsuccessful firms, and entrepreneurs in successful firms seek to reduce risk in their business. Miller and Cardinal (1994) analysed previous studies on planning– performance relationship, and found that strategic planning positively influences firm performance. However, the foregoing views are contradicted by Huggins (2007) and Jasra et al. (2011) whose studies of SMEs in Indonesia and Pakistan respectively, posited that a business plan has no significant relationship with the success of an SME.

The availability of business plans and related information is dependent on the level of education, knowledge and entrepreneurial skills (Deakins, 2006). Whilst large organizations understand the need for in depth planning, there are indications that SMEs do not necessarily undertake planning to the same depth, nor do they show the same intensity with respect to strategic planning. Previous studies of SMEs have indicated a lower importance given to strategic planning (Frost, 1991). The success rate of new small firms is very low. Some estimates quote failure rates of greater than 60% in the first three years. A review of the managerial dimension of small business failure has led Jennings and Beaver (1997) to conclude that sub-optimal performance and potential business failure are closely related with lack of attention to strategic management.

Beaver (1997) contends that the monitoring of competitors' performance for many firms tends to be ignored. This may be because information about competitors is not readily available but more likely it reflects the absence of strategic thinking. The absence of a

strategy that sets goals and objectives driven from the market place, means that financial performance indicators and standards will be internally driven. In the absence of accurate reporting procedures, they are unlikely to be articulated frequently with the result that their use to business is considerably reduced.

In the case of small firms, external forces can dictate whether the business survives (Thompson, 1997). It is generally less possible for small firms to influence their environment because they are less powerful. Hall (1995) also suggested that formal planning might be less important for small firms. However, Smith (1998) argued that evidence showed that planning as defined in the business strategy literature for large organizations could also be effectively applied to the new micro-firm. Although small firms and entrepreneurship are often linked (Curran, 2000), the desirable outcomes of entrepreneurial activity-wealth creation, new jobs, economic growth, even new industries - are only to be found in a minority of entrepreneurial small firms (Storey, 1994).

This study focused on Porter's generic and hybrid strategies and their related application by MSMEs. Generic strategies comprise, cost leadership, differentiation and focus. A firm can apply the strategies singly or in a combination of more than one of the strategies. A combination of strategies is often referred to as hybrid strategies. This study focused on the two competitive strategies. These included generic strategies (low cost, differentiation and focus) and hybrid strategies (low cost and differentiation and high cost and differentiation). These two strategies are herein discussed.

2.5.1 Generic Strategies

Leitner and Guldenberg (2010) in their study of generic strategies and firm performance in SMEs posited that strategy research has addressed a range of suggestions with respect to importance, distinctiveness and impact of strategy on the performance of SMEs. A considerable number of papers have studied competitive strategy in SMEs using strategic classifications such as Porter's (1980) strategy framework (e.g., D'Amboise, 1993; Pelham, 2000; Barth, 2003), Ansoff's (1965) product–market matrix (Schwartz, 2000; Moreno and Casillas, 2008) or Miles and Snow's (1978) adaptive strategies (e.g.,

O'Regan & Ghobadian, 2006), thereby assuming that these strategies are also relevant for SMEs.

Some scholars adhere to the notion that the choice of strategy impacts positively to the performance of firms and that only certain set of specific strategies provide competitive advantage. Porter (1980) argues that companies that mix cost leadership, differentiation or focus 'are stuck in the middle', have no valid strategy and therefore achieve low performance, a view that is also adopted for SMEs (D'Amboise, 1993). However, in the recent years, some scholars have criticized Porter's notion of 'stuck in the middle', claiming that a strategy that combines cost leadership and differentiation can also be a valid option (Miller and Dess, 1993). Such strategies have been referred to as hybrid, mixed, combination or even "paradoxical strategies (Spanos et al., 2004; Parnell, 2005; Thornhill & White, 2007).

According to Leitner and Guldenberg (2010) a number of strategic typologies and taxonomies have been proposed to study the link between strategy and performance in SMEs. The classification developed by Ansoff (1965), Porter (1980) or Miles and Snow (1978) are the ones most commonly found in empirical literature on SMEs. Porter uses the term 'generic strategy' in his taxonomy to describe the specific strategies of cost leadership, differentiation and focus. Based on traditional Industrial organization (IO), Porter (1980, 1985) argues that firms have two primary types of competitive advantages: differentiation or low cost. Firms that follow one of these strategies, which are also often labelled as pure strategies (Thornhill & White, 2007), should achieve above average firm performance. Since these two dimensions demand different investments in resources, control procedures, organizational structures and incentive systems, Porter (1985) determines them to be incompatible. In addition to these dimensions, firms have to make another important strategic choice, namely whether to compete in broad markets or focus on specific market segments (i.e. focus strategy). Consequently, firms can follow a cost or a differentiation strategy in either narrow or broad markets. Porter (1980) maintains that his framework is applicable to both large and small firms and argues that smaller firms may elect more often to compete in niche markets.

Some studies indicate that SMEs primarily follow a focus strategy (Watkin 1986; Weinstein, 1994 Gibcus and Kemp, 2003). In a focus generic strategy, a firm targets a specific, often narrow, segment of the market. The firm can choose to concentrate on a select customer group (youths or senior citizens, for example), product range, segment of a market, geographic areas, or service line. The focus strategy aims at growing market share through operating in a narrow market or niche segment more effectively than larger competitors (Akan, Allen, Helms & Spralls, 2006).

Leitner and Guldenberg (2010) found differentiation to be the most popular competitive strategy used by SMEs in the market niches. Differentiation often comprises product innovation and product quality. When using a differentiation strategy, an enterprise focuses its effort on providing a unique product or service, setting their offerings apart from competitors. Product differentiation fulfils a customer need and involves uniquely tailoring the product or service to the customer. This strategy allows organizations to charge a premium price to capture market share (Akan et al., 2006).

In addition to differentiator strategies, low cost strategies assume a central role for SMEs (Ebben & Johnson, 2005). However, even when SMEs are often too small to follow a cost leadership strategy (Gibcus & Kemp, 2003), cost efficient production is still an important requirement. Lower costs can be achieved by modernizing production and/or implementing process innovations, frequently the main strategic investments made by a firm. Porter's generic strategy of cost leadership focuses on gaining competitive advantage by having the lowest costs and cost structure in the industry. In order to achieve a low cost advantage, an organization must have a low cost leadership mind-set. Low cost manufacturing with rapid distribution and replenishment, and a workforce committed to the low cost strategy. There are many ways of achieving cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. Cost leaders work to have the lowest product service until costs can withstand competition with their lower cost structure (Akan et al., 2006).

The impact of the generic firm strategies on performance of SMEs is inconclusive. This view is supported by studies by D'Amboise (1993) who posited that cost leadership and

differentiation strategies had similar impact on profits. Pelham (2000) posited a different view and posited that for SMEs a market differentiation strategy has greater impact on profits than a cost – leadership strategy, while Dess and Davis (1984) found that low cost leaders had a higher return on assets than differentiators. Moreover, some scholars (Moreno & Casillas, 2008) claim that porter's generic strategies are primarily associated with financial performance and not growth, while others point out that generic strategies impact on both financial performance and growth (Pelham, 2000). In this context, studies investigating the relationship between different performance variables suggest that performance is a multi-dimensional construct.

Based on the above mentioned studies on SMEs, there is no clear evidence so far that one strategy is superior to another one with respect to both financial performance and growth. This study focussed on the extent to which the MSMEs under the study deployed the generic strategies singly or in combination (hybrid).

2.5.2 Hybrid Strategies

A firm may also choose a combination strategy often referred to as hybrid strategy by mixing one of the generic strategies of low cost or differentiation with the focus strategy. For example, a firm may choose to have a focus differentiation strategy or a focus/cost leadership strategy (Akan, Allen, Helms et. al., 2006). The question of whether companies can (or even should) combine generic strategies has been discussed in the past (Parnell, 2000; Spanos et al., Thornhill & White, 2007). Porter (1985) argues that firms with no clear strategy are "stuck in the middle" and achieve inferior performance, maintaining that a "stuck in the middle" position stems primarily from efforts to combine both low cost and differentiation strategies.

A few researchers (e.g., Phillips et al., 1983; Murray, 1988) counter that two strategies are indeed compatible. For instance Murray (1988) contends that the preconditions for a viable cost leadership strategy stem principally from an industry's structural factors, whereas the preconditions for successful product differentiation are related to customer tastes. Since these two exogenous factors are independent and exist in many industries, he concludes that it is possible to successfully combine both strategies. Some scholars

argue that changing competitive environments have challenged the traditional view of generic strategy (Courtney et al., 1997; Fjeldstad & Haanaes, 2001). Thus, a combination strategy allows firms to maintain greater agility and flexibility in offering products that focus either more on cost or on a specific product feature (Anand and Ward, 2004; Panell & Hershey, 2005).

Some scholars apply resource based theory to explain the validity of combining strategies and the resultant use of combination of resources (Parnell, 2000). From this perspective, a successful low cost strategy might also contribute to organizational learning, which, in turn, can enhance product quality without necessarily identifying quality as a means of differentiation (Parnell, 2000). Organizational learning literature also delivers support for the notion that effective organizations constantly discover and implement means to reduce cost and differentiate their products to maintain their market position (Hawawini et al., 2003). Fuchs et al. (2000) argue that the integration capabilities and alignment of all the necessary elements provide the competitive advantage of a combination strategy and that these capabilities are as important as the positioning effect of generic strategy.

Literature on innovation also delivers arguments supporting the validity of combining low cost and differentiation strategies. For instance, improving existing or developing new products (innovation differentiation) often requires process innovations, which, in turn, can reduce product costs regardless of scale and scope (Helms et al., 1997). Targeted new production technologies and organizational or system innovation can also help firms to combine cost efficient production and product differentiation (Loveman & Sengenberger, 1991; Parnell et al., 2004).

Empirical evidence on the impact of combination strategies in SMEs remains limited. White (1986), Wright et al. (1991) and Helms et al. (1997) are among the few authors who demonstrate that firms that combined low cost and differentiation strategies performed better than firms that followed a pure strategy. In their study of British SMEs, Wright et al. (1991) and Helms et al. (1997) found that firms that followed a combination strategy performed better in terms of Return on Investment (ROI) than business with low cost and differentiation strategies. Parnell (2000) in the case of retail firms, delivers

evidence that specific combinations can lead to superior performance in terms of either growth or profitability, but not in both.

The importance of competitive strategy in Greek firms, Spanos et al. (2001) delivers evidence that low cost, quality and innovation strategies are often considered to be equally important by SMEs and large firms. In another study, Spanos et al. (2004) show that hybrid strategies were more profitable than pure strategies and that firms that combined more dimensions were even more successful. In contrast, in their study of large and small Canadian firms, Thornhill and White (2007) found that a pure strategy produced better results than a combination strategy, although there was no impact of firm size performance.

Leitner and Guldenberg (2010) in their study of Australian SMEs on generic strategies and firm performance concluded that although some management publications might promote a pure strategy, SMEs should not hesitate to pursue a combination strategy. They found that in stark contrast to Porter's original proposition that SMEs that pursue a combination strategy achieved equal or greater financial performance than SMEs with cost – efficiency or differentiation strategies. They further stated that empirical evidence of hybrid strategy for SMEs remains limited. This view is contradicted by Miller and Dess (1993) and Parnell, (2002) who reported that that a combination strategy can help to maximize adaptive capacity as firms do not have to rely solely on cost–based or differentiation advantage.

Based on the above literature, it can be concluded that there is no unanimity as to which of the two strategies is commonly used and delivers best performance in SMEs. This view is supported by Hill (1988); Murray (1988) who reported that some of the research supporting singular generic strategy also produces results that sow seeds of doubt about relationship between singular generic strategy and superior performance, and it appears that some businesses succeed only when they combine differentiation and low cost generic strategies. This study as part of the overall entrepreneurial strategy, focussed on both generic strategies and hybrid strategies incorporating – low cost and differentiation and high cost and differentiation.

As much as a firm has no or little control over the external environmental factors, these factors exercise considerable influence on the organization's strategy (Pearce et al., 2012). The choice of strategic response by a firm may be informed by various factors among them the firm's capabilities and the external environment as perceived by the owner or manager of an SME. The crafting of the entrepreneurial strategy to deploy then becomes an outcome of the perception of the owner or manager on the MSMEs operating external environment.

2.6 Firm Resources, External Environment, Entrepreneurial Strategy and Performance

Grant & Jordan (2012) who are proponents of the resource based view posit that competitive advantage acquired based on resources and capabilities is potential and much more sustainable than that based on products and markets. They argue that markets and products can come and go but firm's capabilities are more enduring. This means that creating a strategy based on unique resources and capabilities provides a more long-term and sustainable competitive advantage and performance. This view is further supported by Dollinger (2003), who contends that for an organization to be successful it must have resources to deploy.

Tan and Litsschert (1994) viewed the environment as a source of scarce resources badly needed by competing firms. When the environment becomes hostile, as it sometimes does, the resources get more scarce, a situation that forces firms to operate in a state of uncertainty which often results in poor performance. The uncertainty is often aggravated by the environmental hostility and complexity and can have adverse effect on a firm's performance. The proper fit between a firm's resources, strategy and environment will generally influence its performance in a positive manner. This view is supported by Machuki (2011) who posits that there is a strong relationship between organizational strategies and performance.

The essence of strategy is the development of sustainable competitive advantages, the identification, development and application of key resources, and ultimately the resource most likely to lead to a sustainable competitive advantage is the firm's unique knowledge

base (Barney, 1991: Grant, 1996; Peteraf, 1993). The knowledge base is comprised of the firm's intellectual capital, which can be defined as the tangible and intangible knowledge, experience, and skills of employees in an organization.

The focus of most research to date has been on large firms and has not addressed specific issues encountered by small – to medium - sized enterprises (Harrison & Leitch, 2005; Ravasi & Turati, 2005; Sadler-Smith et al., 2001). This may be a major problem because SMEs are typically more resource constrained and have less organizational slack than large firms, and therefore face greater challenges in developing a knowledge base. Additionally, smaller firms differ from larger firms in terms of their organizational structures, managerial styles, response to the environment, and how they compete (Chen & Hambrick, 1995: Rangone, 1999). Large firms have competitive advantages based on their size because of increased market power, economies of scale, reduced costs of inputs and more resources for development and advertising (Chen & Hambrick, 1995; Hambrick, Macmillan & Day, 1982). SMEs must overcome size disadvantage by creating advantages in flexibility of production (Fiegenbaum & Karnani, 1991), speed of response (Chen & Hambrick, 1995), niche strategies focusing on price and quality (Woo & Copper, 1981) and innovation (Covin & Covin, 1990).

Firm performance is subject to availability of firm resources which are necessary in order to create a competitive advantage. Business strategies on the other hand create a match between a firm's resources and performance and to its ever changing environment. All these enhance the chances of high performance (Pasanen, 2003).

2.7 Summary of Knowledge Gaps

The literature review has highlighted a number of gaps relating to conceptual, contextual and methodological aspects. The reviews indicate that none of the studies have been conceptualized to examine firm resources, external environment and entrepreneurial strategy and their related effects on performance of MSMEs operating in the furniture sector in Nairobi City County.

Whilst past studies have focused on MSMEs performance in different contexts, they mainly investigated various variables singly and thus not combing several/multiple variables to investigate their joint effect on MSMEs performance as is the case with this study. Based on the literature review, the conceptual gaps were identified as comprising firm resources, external environment and entrepreneurial strategy. The contextual gaps relate to the MSMEs operating within the furniture sector in Nairobi City County, Kenya. Methodological gaps include study design, choice of population, sample size, sampling method and data analysis techniques. These gaps which have been identified in the literature review are detailed in Table 2.1.

Table 2.1: Summary of Previous Studies and Knowledge Gaps

Study By	Focus of the Study	Methodology	Findings	Knowledge Gaps	How the Proposed Study will Address gaps
1. Okeyo, W. O. (2013)	Effects of business development services and environment on the relationship between entrepreneurial orientation and performance of SMEs in Nairobi.	- Cross sectional survey was used. - Target population was SMEs in Nairobi City County. - Multi-linear regression analysis was used.	Performance was positively affected by entrepreneurial orientation, external environment and business development services.	The study focused more on business development studies and entrepreneurial orientation and environment. However, there was no strong focus on firm resources and entrepreneurial strategy.	This study seeks to establish the influence of resources, entrepreneurial strategy, external environment, on firm performance.
2. Otachi, B. N. (2013)	Influence of entrepreneurial personality, human capital and entry barriers on performance of entrepreneurs in the informal minivan transport business in Nairobi, Kenya.	- Cross sectional survey was used. - Target population was minivans operating in Nairobi City County. - Multi-linear regression analysis was used.	Registered welfare associations contributed to performance. However, education was not a major contributor of performance.	The study focused on the factors that influence the performance of minivan business such as personality human capital and entry barriers to the sector. However, there was no focus on external environment and entrepreneurial strategy.	This study will focus on the influence of firm resources, entrepreneurial strategy and external environment on firm performance.
3. Mungai, E. N. (2013)	Social-cultural factors and entrepreneurial intentions of undergraduate students in public universities in Kenya.	- Cross sectional survey was used. - Target population was 14863 university students across Kenya. - Multi-linear regression analysis was used.	Study found that culture has a direct and indirect effect on entrepreneurial intentions and that gender and ethnicity make no significant difference	The study focused on social-cultural factors and how these affect entrepreneurial intentions. However, there was no focus on firm resources, external environment and entrepreneurial strategy.	The study will not focus on social cultural behaviour but will instead focus on the key variables of the study and their impact on firm performance.
4. Christian L. O & David G. R. (2012)	Does female representation improve firm performance?	- This was a longitudinal survey spanning 15 years from 1992 to 1997 in USA. - Multi-linear regression analysis was used.	Study established that formal representation at top management does improve performance but only to the extent that innovation is key focus of the strategy.	The study focused on influence of gender on performance but not on the effects of resources, external environment and entrepreneurial strategy on performance.	This study seeks to divorce itself from issues of gender on performance and instead focuses on the influence of resources, entrepreneurial strategy and external environment on MSMEs performance.

Study By	Focus of the Study	Methodology	Findings	Knowledge Gaps	How the Proposed Study will Address gaps
5. Nganga, S. I., Onyango, G. M. &Kerre, B. W. (2011)	Determinants of SME growth in small wood enterprises	- Cross sectional survey was used. - Target population was wood enterprise in Rift Valley Province. - Multi-linear regression analysis was used.	Study established a relationship between collective efficiency and development of infrastructure	The study concentrated on collective efficiency, infrastructure and technology. However it did not focus on firm resources, external environment and entrepreneurial strategy.	The proposed study is much wider in scope and seeks to cover resources, entrepreneurial strategy and external environment, related influence on performance.
6. Maalu, J. K. (2010)	Succession planning strategy and performance of small and medium family businesses.	- Cross sectional survey was used. - Target population was family owned SMEs. - Multi-linear regression analysis was used.	Family and firm level institutions.	The study main focus was on family business and succession planning strategies on SMEs performance. It did not focus on resources, external environment and entrepreneurial strategy.	This study will focus on influence of resources, entrepreneurial strategy and external environment on performance.
7. Bowen et al (2009)	Managing business challenges of SMEs.	- Cross sectional survey was used. - Target population was SMEs in Nairobi. - Multi-linear regression analysis was used.	The study focused on the managerial challenges affecting SMEs.	The study did not cover the influence of resources, external environment and entrepreneurial strategy	This study is much broader and covers resources, entrepreneurial strategy and external environment.
8. Thapa et al (2008)	Determinants of entrepreneurship success in Nepal.	- Cross sectional survey was used. - Target population was fast food vendors in Vastrapur Street, Ahmedad, India. - Multi-linear regression analysis was used.	The study focused on several variables that determine the success of SMEs.	The study is silent on firm resources, external environment and entrepreneurial strategy.	The study will focus on the influence of resources, entrepreneurial strategy and external environment as determinants of MSMEs performance.
9. McCormick , D. (1999)	African enterprise clusters and industrialization and performance of SMEs.	- Clustering method was used. - Study covered 6 African countries and samples were drawn from small scale industries in the selected cities.	Clustering leads to better SME growth.	The study did not focus on firm resources, external environment and entrepreneurial strategy on performance.	This study will go beyond the clustering of enterprises and focus on the influence of other variables.
10.Nelson, R. E. & Mwaura, M.	Growth strategies of medium sized firms in Kenya.	- Cross sectional survey was used. - Target population was	The study established different strategies applied by medium sized firms.	The focus was mainly on business strategies but did not look at other variables such as firm resources,	This study will focus on firm resources, entrepreneurial strategy and external

Study By	Focus of the Study	Methodology	Findings	Knowledge Gaps	How the Proposed Study will Address gaps
F. (1997)		medium sized firms operating in Nairobi.		external environment and entrepreneurial strategy. It focused on medium sized enterprises and did not include micro and enterprises.	environment including their influence on MSMEs performance.
11. Pasanen, M.(2003)	In search of factors affecting SME performance. The Case of Eastern Finland	- Cross sectional survey was used. - Target population was SME in Eastern Finland	The study established that there are several factors that affect the performance of SMEs.	The study focused more on those factors that were perceived to affect performance of SMEs. The study did not focus on specific variables such as firm resources, external environment and entrepreneurial strategy and their individual and combined effect on firm performance.	This study will focused on the three specific variables and their related impact on firm performance.
12. Piryakul, M. and Wingwon, B. (2013)	Effect of Corporate ability and reputation on organizations' performance and CSR on SMEs	- Cross sectional survey - Study targeted SMEs in the Northern region of Thailand	There was both direct and indirect effect on Corporate social responsibility (CSR) on organizational performance.	The study focused on only one variable – CSR.	This study focused on three variables including firm resources which include CSR as a sub variable under reputation.
13. Aworemi, J.R , Abdul – Azeez, I.A. & Opoola, N.A. (2010)	Impact of social – economic factors on performance of small – scale enterprises in Osun State , Nigeria	- Targeted ten SMEs involved in production in Osogbo - Cross sectional survey - Multi regression analysis was used	The study found that there was a significant difference between social – economic factors performance in terms of growth in profitability	The study focused on a single variable and its effect on SMEs performance.	This study covered more than one variable and included social economic as sub-variable under external environment.
14. Anga, R.M., (2014)	Determinants of development of Small and medium scale enterprises in Nigeria	- A cross sectional survey - Sample size was 230 SMEs - A logistic regression analysis was used	Study found that SMEs face a lot of challenges which were classified into internal and external.	The study focused on the factors that affect the development of SMEs.	This study focused on several variables and their related impact on firm performance.
15.Chadamoyo ,P. & Dumbu, E. (2012)	Competitive strategy and business environment influencing performance of small and medium enterprises in the manufacturing sector:	- Sample size was 50 SMEs in Masivingo City Council, Zimbabwe - A cross sectional survey	The study found that the external environment in particular political, economic and technology had a significant effect on SMEs performance.	The study focused on two variables which included business strategy and business environment. However, it did not include firm resources.	This study focused on three variables including firm resources.

Study By	Focus of the Study	Methodology	Findings	Knowledge Gaps	How the Proposed Study will Address gaps
	The cases study of manufacturing firms in Mucheke light Industry in Zimbabwe				
16. Kinyua, A.N (2014)	Factors affecting the performance of Small and medium enterprises in the Jua Kali sector in Nakuru Town , Kenya	- A cross sectional survey was used - Sample size was 262 SMEs - Regression analysis was used	The study found that finance and external environment had an effect on performance of SMEs	The study sought to establish factors that had an impact on performance of SMEs	This study had three specific variables that were explored and their related impact on MSMEs performance
17. Jasra, J.M., Khan, A.S , Hunjra, A. I., Rehman, R.A.U & Azam, R.I (2011)	Determinants of Business success of small and medium Enterprises	- Sample size was 520 SMEs - Study was conducted in Islamabad , Rawalpindi and Lahore in Pakistan - A cross sectional survey was used - Multi regression analysis was used	The study identified several determinants of success which included: financial resources, marketing strategy technology, government support, business plan and entrepreneurial success	The study did not concern itself with the broader aspects of variables such as resources, external environment and business strategy except for the sub variables. As such study was very limited	The study covered holistically the three main variables and their related impact on firm performance.
18. Navikaite , A.(2013)	Customer Satisfaction Augmentation in the context of Small and Medium Enterprises in Lithuania	- Cross sectional survey using internet survey - Multi linear regression was used - Sample size of 362	Customer satisfaction is prudent in creating long-term rapports between the SMEs and their clients	The study was restricted to a single variable and did not look into how the issue of firm performance.	The study is very broad and covered three major constructs including reputation with focus to customer service and impact on firm performance.
19. Nguyen, T.V. & Bryant, S.E. (2004)	A study of the formality of Human resource management practices in Small and medium size enterprises in Vietnam	- Cross sectional survey - A structured questionnaire - Sample of 102 SMEs owners in Hanoi - Hierarchical regression analysis was used	The results of the study confirmed that there was high degree of informality in Human resource practices by most of the SMEs	The study focused on the formality of HR practices as a single variable. The study did not look into effects of the practices and impact on firm performance	The study is broad based and examined HR as a sub variable in the context of firm resources and the resultant impact on firm performance.
20. Hill, R. & Stewart, J. (2000)	Human Resource Practices in small organizations	- A study on SMEs in the UK - Multiple case study - Structured questionnaire administered via the post - Sample size 350 SMEs - Quantitative data analysis method was used	The results of the study revealed high levels of informality, shortermish, spontaneity, lack of training amongst other short comings	The study focussed on Human resource practices as a single variable. Also there were no hypotheses to be tested and neither was any regression analysis carried out.	The study was not limited to HR practices but HR as a whole and its impact on form performance.

Study By	Focus of the Study	Methodology	Findings	Knowledge Gaps	How the Proposed Study will Address gaps
21. Atieno, R. (2009)	Linkages, Access to Finance and performance of small scale enterprises in Kenya.	- Data collected from MSEs dealing in clothing in Eldoret and Kisumu towns. - Sample size 322 MSEs - Structured questionnaire was used - Statistical t – value test was used	The results of the study concluded that there was need for policy to strengthen the institutional networks and linkages among MSEs, to enable them to access financial resources to overcome some of the constraints they face	The study focussed on linkages between MSEs and Financial institutions in a bid to access and effects on firm performance financial.	The study focused on other firm resources including finance and their related impact on firm performance. The study is thus multifaceted and much broader.
22. Mhede, E.P. (2012)	The growth of micro and small cluster based furniture manufacturing firms and their implications for poverty reduction in Tanzania.	- Study was carried out in Dar es Salaam towns of : Keko, Bugurini – Malapa and Mbezi beach kwa Komba - Study involved owners and workers - Sample size was 150 firms and 300 workers. - There were two types of questionnaires – one for owners and one for workers - Descriptive statistics was used	The study concluded that clustering helped the firms grow and owners and workers benefited from the growth. However the firms faced challenges such as insufficient business skills, infrastructure, technological backwardness etc.	The study focused on benefits of cluster based SMEs and the implication of this on growth of the enterprises and the resultant benefits to owners and workers. The study did not focus on any specific variables and their impact on firm performance. There were no hypotheses to be tested.	The study is broad based and focused on three specific variables and how they impact on firm performance.

Source: Secondary Data (2015)

2.8 Conceptual Framework

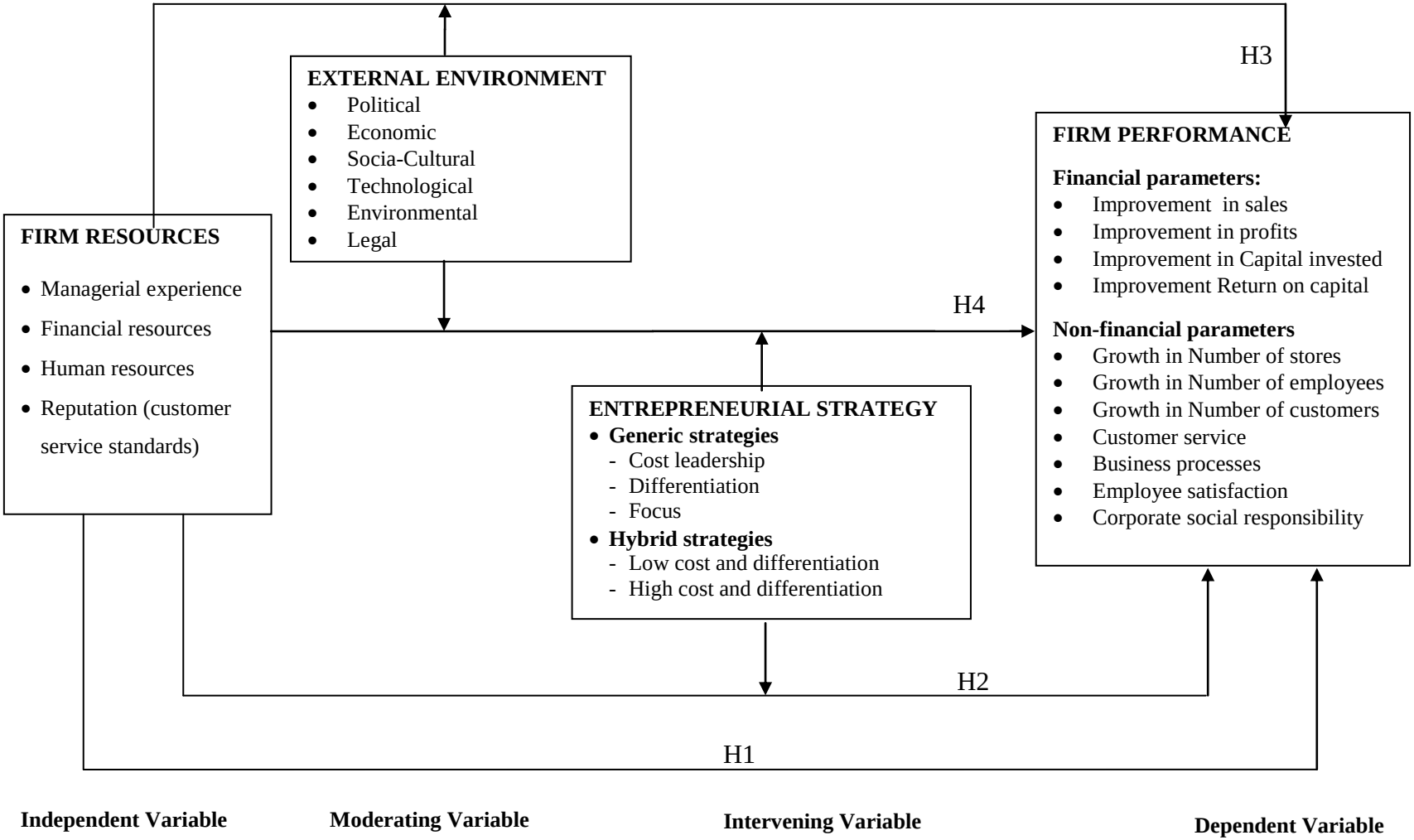
A framework is a structure that consists of a set of beliefs, ideas and rules that is used as a basis for making judgements and decisions (Hornby, 2005). Frameworks are commonly applied in research especially in situations where ideas and thoughts involving several interacting social events or phenomena are concerned. The variables that normally form the subject matter of investigation in research are usually viewed from theoretical perspectives as concepts which a study intends to test their veracity (Okeyo, 2013).

A concept is an idea or principle that is connected to something (Hornby, 2005). In scientific research, concepts refer to formally or logically developed ideas about classes of phenomena that a research seeks to study (Berg, 2001). Okeyo (2013) postulates that concepts are used in research to create a meaning or enhance the underlying social events or phenomena in a process called conceptualization. This is a creative process which requires that ideas and thoughts be combined several times into new entities. The end result of this creative process is a conceptual framework.

A conceptual framework is a network formed by integrating ideas and thoughts about a phenomenon in form of variables and constructs within the domain on interrelated theoretical perspectives (Okeyo, 2013). In this study, several theories including: resource based theory, resource dependence theory; contingency theory and open systems theory were involved. The resource based theory was used as the anchor theory. The theoretical framework comprised three predicator variables which included firm resources, external environment and entrepreneurial strategy. These were argued to have influence on firm performance.

Out of the three variables, firm resources were argued to be an independent influence on performance. Both external environment and entrepreneurial strategies were argued as having a moderating and intervening influence respectively on firm performance. It was further argued that all the three predictor variables jointly had a different effect on firm performance than their individual effects. The inter–variable relationships are theorized in the framework were depicted in the conceptual model in Figure 2.1.

Figure 2.1: Conceptual Model of Firm Resources, External Environment, Entrepreneurial Strategy and Firm Performance



Source: Developed from the reviewed literature by Researcher (2015)

2.9 Research Hypotheses

A hypothesis is a researcher's anticipated explanation or opinion regarding the result of the study. For example, in a study on productivity of labour within manufacturing industries, a researcher may hypothesize that more monetary incentives would lead to increases in productivity of labour or that provision of recreational facilities would raise productivity (Mugenda & Mugenda, 2003). It can further be said that a hypothesis is a proposed explanation for a phenomenon. In a hypothesis, the proposed explanation can be tested in order to either approve or disapprove the hypothesis (Okeyo, 2013; Kimutai, 2014). According to Smith and Brown (2013), a hypothesis does not have to be right or wrong but has to be tested to the limits. In instances when a hypothesis turns up not to be supported, this opens up opportunities for further research to investigate the phenomenon differently. Indeed, there have been many instances where research hypotheses were not confirmed (Letting, 2011; Machuki, 2011; Ogollah, 2012).

Many Scholars (Aosa, 1992; Okeyo, 2013; Otachi, 2013: Ombaka, 2014; Kimutai, 2014; Ongeti, 2014; Kinyua, 2014) have used hypothesis to examine different phenomena in their empirical studies. For example, Okeyo (2013) used the hypothesis testing approach to test the effect of several factors, which included amongst others environment on the performance of SMEs. Similarly, Ombaka (2014) used the approach to examine the relationships among several variables including resources on performance of Insurance Companies in Kenya. Kinyua (2014) used a similar approach in her study of factors affecting performance of SMEs in Nakuru. Hypothesis testing has been used as a proven method in research. This study adopted similar approach where several hypotheses arising from the conceptual model were tested.

Emerging from the relationship in the conceptual model in Figure 2.1, the following hypotheses were formulated and tested:

H_1 There is a significant relationship between firm resources and performance of MSMEs operating in the furniture sector in Nairobi City County.

H_2 The external environment has a significant moderating influence on the relationship between firm resources and performance of MSMEs operating in the furniture sector in Nairobi City County.

H_3 Entrepreneurial strategy has an intervening influence on the relationship between firm resources and external environment in the performance of MSMEs in the furniture sector in Nairobi City County.

H_4 The joint influence of firm resources, external environment and entrepreneurial strategy is different from the individual effects of each of the variables on performance of MSMEs operating in the furniture sector in Nairobi City County.

2.10 Chapter Summary

The chapter has presented a detailed literature review including the theories anchoring this study. The theories included resource based view, resource dependency, contingency and open system. The chapter also discussed the pairwise reviews of the study variables including the hypothesis arising from the conceptual framework.

The objective of the literature review was to provide an understanding of the variables of the study and how they relate to firm performance. A summary of previous empirical studies and the related research gaps was presented. A conceptual framework to guide the study was presented. The hypotheses arising from the conceptual framework were also presented. The next chapter presents the research methodology that guided the study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to undertake the study. It discusses the research philosophy, research design, target population of the study and sampling design. It further discusses the type and sources of data and the related methods that were used to collect the data. Also discussed in the chapter are data collection methods, tests for reliability and validity. Tests on data for the assumptions of linear regression were conducted and results were within the limits necessary for further statistical tests. Further the analytical method showing how the hypotheses were tested including the operationalization of research variables and analysis of data are also presented.

3.2 Research Philosophy of the Study

Scientific inquiry has been guided by two broad research philosophies. These are positivism (quantitative) and phenomenology (qualitative) paradigms (Saunders et al, 2007). Hussey and Hussey (1997) posit that positivism is founded on the belief that the study of human behaviour should be conducted in the same way as studies conducted in the natural sciences. They went further to argue that positivists' law provides the basis of explanation, permit the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled. They argue that explanation consists of establishing causal relationship between the variables by establishing causal laws and linking them to a deductive or integrated theory. The positivism approach seeks the facts or causes of social phenomena. Ciborra (1998) argues that in positivism, logical reasoning is applied to a research so that precision, objectivity and rigour replace hunches, experience and intuition as the means of investigating research problems.

Phenomenology is defined as a science of phenomena. This type of research focuses on the immediate experience, open and unstructured interviews. A phenomenon is a fact or an occurrence that appears or is perceived, especially one of which its cause is in question. Phenomenological paradigm is concerned with understanding human behaviour from the participant's own frame of reference. In this research the researcher becomes part of the research process (Hussey & Hussey, 1997).

This study adopted the positivism paradigm because it seeks to objectively establish facts by empirically establishing relationships among variables. Also, it is based on the theory from which hypothesis are drawn. The study hypotheses were tested accepted or rejected and findings were generalized. Studies by scholars such as: Aosa (1992); Munyoki (2007); Maalu (2010); Machuki (2011); Otachi (2013); Okeyo (2013) and Ombaka (2014) adopted the positivism paradigm. In the positivism approach, the researcher is independent of the study and does not influence its outcome. Rather the outcome will be determined by empirical testing of the operationalized variables.

3.3 Research Design

A research design is a plan for selecting the sources and types of information to be used to answer questions. It is a framework for specifying the relationships among the study's variables as well as a blue print that outlines each procedure from the hypothesis to the analysis of data (Kerlinger, 2007; Mugenda & Mugenda, 2003). This study adopted a descriptive cross-sectional survey research design. According to Olsen and George (2004), in cross sectional survey, the whole population or a portion of it may be selected, and from these individuals, data is collected to help answer research questions of interest.

In Tanzania, Mhede (2012) used cross sectional survey approach in his study of the growth of MSMEs cluster based furniture manufacturing firms and their implications for poverty reduction in Tanzania. Similarly, in Kenya, Kinyua (2014) used a cross sectional survey in her study of factors affecting the performance of SMEs in the *jua kali* (informal in Kiswahili language) sector in Nakuru town. The use of cross sectional survey is supported by Cooper and Schindler (2006) who posited that cross sectional studies are carried out once and represent a snap shot of one point in time. They help a researcher to establish whether significant associations among variables exist at some point in time (Nachmias & Nachmias, 2004).

This study sought to establish the relationship between firm resources, external environment and entrepreneurial strategies and their individual and combined effect on performance of MSMEs operating in the furniture sector in Nairobi City County. Data was collected from owners and managers of MSMEs to determine linkages between

study variables and firm performance. The cross sectional survey was considered as the most appropriate as it helped the researcher to collect data to establish linkage between the study variables. This design has been used successfully by researchers: (Aosa (1992), Munyoki (2007), Machuki (2011), Otachi (2013) and Okeyo (2013) to test hypothesis and draw conclusions. Mugenda (2008) posits that cross sectional studies are appropriate where the objective is to establish whether significant associations exist among study variables at some point in time.

3.4 Population of the Study

The population of interest was all the enterprises operating within the furniture sector in NCC. The researcher made attempts to obtain a complete listing of these enterprises but without success. This was not possible according to the Chief Revenue Officer at NCC because some of the enterprises are licensed while others are not. As such the exact population of these enterprises is not known. The researcher obtained a listing of all furniture sector enterprises licensed by NCC from the Chief Revenue Officer. The list contained the enterprises licensed by NCC as at 31 December 2013 all totalling 529 enterprises. The list was useful because it contained micro, small, medium and large enterprises. The list also contained vital information such as business names, physical address / location, telephone contacts amongst others.

Since the population of interest to the researcher was MSMEs, the Chief Revenue Officer was able to isolate the large enterprises from the listing by using the license fees paid. From the exercise the Chief Revenue Officer identified the total number of MSMEs as being 221 out of the total 529 licenced enterprises. This number was by no means the total number of all MSMEs in the furniture sector in NCC. However, it was considered a good representation since the firms were licensed by NCC and this was an indication of formality in the enterprises. This was considered key in a study of this nature. The absence of a complete listing of all furniture enterprises operating in the furniture sector was considered a limitation. However, this did not adversely affect the study.

The researcher carried a pilot survey to validate the listing and in particular the location and existence of the enterprises and the willingness of the owners/managers to participate in the research. The results of the survey confirmed that the listing could be reliable and could yield valid results if used. A study by Maalu (2007); Bowen et al (2009) and Sabana (2014) used the same approach. The list of target population which was provided by NCC is contained in Appendix III. The 221 furniture enterprises are spread unequally across the eight sub counties that comprise the Nairobi City County. These sub counties are: Central, Dagoretti, Embakasi, Kasarani, Kibera, Makadara, Pumwani and Westlands. The maps of Republic of Kenya and Nairobi City County are contained in Appendices VII and VIII.

3.5 Sampling Design

The size of the target population was less than 10,000. Therefore to calculate the desired sample size of 140 MSMEs, the following formula by Mugenda and Mugenda (2003) and Cochran (1997) for a population of less than 10,000 was used to determine the sample size (n) for the study:

$$n = \frac{Z^2 \times pq}{d^2}$$

Where: n = desired sample size if target population is greater than 10,000

Z = the degree of confidence at 95 %

P = proportion in the target population estimated to have characteristics of being Measured: 50% is chosen by Fisher et al (1993)

q = the proportion in the target population estimated as having no characteristic Of being measured 0.5 (q=1-p)

d = level of confidence level

$$n = \frac{(1.96)^2 \times (0.50)(0.50)}{0.50^2}$$

$$= 384$$

Since the target population was less than 10,000, the required sample size was smaller.

As such, in calculating the final sample estimate (n*f*) the result derived by using the above formula were adjusted by applying the following formula by Mugenda and Mugenda (2003).

$$nf = \frac{n}{1 + (\frac{n}{N})}$$

Where: nf = the desired sample size where population size is less than 10,000

n = the desired sample size where the population is more than 10,000

N = the estimate of the population size (i.e. 221 in the study)

The application of the two formulae yielded a sample size of 140 as follows.

$$nf = \frac{384}{1 + (\frac{384}{221})} = \frac{384}{2.74} = 140$$

The sample size for the study was 140 MSMEs out of the total population of 221 MSMEs. The sample size represented 63.3% of the population which was considered adequate. The population of the study is distributed unequally within the 8 sub counties which make up the Nairobi City County. These sub counties were treated as a stratum. A proportionate stratified sampling technique was used to determine the desired sample size in each stratum. In selecting a sample from each stratum, a simple random sampling technique was used where a number was given to every subject member of the accessible population in the stratum, placing the number in a container and then picking any number at random. The subject corresponding to numbers picked were then included in the sample (Mugenda & Mugenda, 2003). Proportionate stratified sampling technique has been used in many studies including those by Busienei (2013), Otachi (2013) and Kimutai (2014). The population and sample distribution are contained in Appendix II.The sample of 140 was subjected to proportionate stratified sampling to determine the sample size for each stratum (Sub County) as indicated in Table 3.1.

Table 3.1: Sampling Strata

STRATA (Nairobi City County – sub counties)		**Population (N)**	**Sample Size (n)**
1	Central	13	8
2	Dagoretti	45	28
3	Embakasi	48	30
4	Kasarani	33	21
5	Kibera	12	8
6	Makadara	22	14
7	Pumwani	33	21
8	Westlands	15	10
	Total	**221**	**140**

Source: Research Data (2015)

3.6 Data Collection

This study relied on primary data. Primary data was collected through structured questionnaires and interviews. According to Mugenda and Mugenda (2003), the two types of data collection methods commonly used in survey studies are primary and secondary. In the study, primary data was considered most suitable for MSMEs which from extant literature (Bisbey & Oakley, 2004) do not keep reliable records. The questionnaire sort both qualitative and quantitative data. The questionnaires were hand delivered to owners/managers of MSMEs by research assistants who also helped the respondents in administering the questionnaires where necessary. Majority of the questions were formulated in the Likert type scale ranging from (1) – (5). Likert scale is the most frequently used variation of the summated rating scale. It consists of statements that express either a favourable or unfavourable attitude towards the object of interest. Using the likert scale, the respondent is asked to agree or disagree with each statement (Cooper & Schindler, 2006). The research instrument was subjected to a lot of refinement by the University's resource persons during the various stages of presentation which were made to: departmental, open forum and doctoral committees.

Prior to collecting data, a pilot study involving 10 firms was carried out to test the effectiveness of the data collection instrument. The 10 firms that were used for pilot study they were selected from the list of firms that were left out in the random selection, with at least one firm from each of the 8 divisions. The objective was to establish how the target respondents will respond to the questions. The pilot testing revealed certain gaps and the instrument had to be modified to correct certain anomalies before the final instrument was deployed for data collection. The pilot testing highlighted that performance measurement using quantitative financial data was going to be a challenge to obtain from the respondents. To overcome this, the questionnaire was revised by including perceptual (qualitative) financial measures to complement quantitative financial data. Some of the scholars that applied pilot testing include: (Aosa, 1992; Munyoki, 2007; Okeyo, 2013 and Ombaka, 2014). The researcher was involved in the pilot testing of the questionnaire personally. This was consistent with Sharma, Yetton and Crawford

(2009) who posited that personally administering questionnaires enhances the response rate and enables the researcher to get credible responses.

The questionnaire was divided into five sections: Section A covered general information on the demographic profile of the respondents and the enterprises. Section B focused on firm resources (managerial experience, financial resources, human resources and reputation). Section C captured information on entrepreneurial (business) strategy. Section D dealt with the external environment and section E dealt with firm performance. The use of questionnaires which are sectionalised is quite common in empirical studies. Some of the studies that used sectionalised questionnaires include those by: (Aosa, 1992; Munyoki, 2007; Maalu, 2010; Otachi, 2013; and Ombaka, 2014).

The unit of analysis in the study was the MSMEs and as such questionnaires were hand delivered to all the MSMEs in the sample. The target respondents were owners and or managers of the MSMEs. They were selected as respondents because they were perceived to be better placed to answer the research questions in terms of knowledge of the enterprise and related activities, its related performance and the variables of the study. They were thus deemed to be able to provide credible responses. This was consistent with Campbell (1995) who posited that key informants should be knowledgeable about the issues being studied and also willing to communicate the information. A single respondent either the owner or manager from each respondent firm filled the questionnaire to avoid information duplication that could arise from multiple responses from a single enterprise. During the study, ordinary employees were excluded from the exercise because it was felt that they were not as knowledgeable as the owners or managers of the MSMEs.

The questionnaires were administered using a drop and pick method. This process was carried out by the research assistants who also went through the questionnaires with the respondents in detail to make sure that they clearly understood the questions before completing the questionnaires. The method of drop and pick has been used in other studies (Awino, 2011; Machuki & Aosa, 2011; Ogollah, 2012; Otachi, 2013 and Okeyo, 2013).

3.7 Validity Tests

Validity is the ability of the research instrument to measure what it is supposed to measure. In other words, validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity, therefore, has to do with how accurately the data obtained in the study represents the variables of the study (Mugenda & Mugenda, 2003). This view is supported by Cooper and Schindler (2006) who posited that validity is the ability of the research instrument to measure what it is supposed to measure. There are two main types of validity namely; construct validity and content validity.

Content validity measures the extent to which the instrument provides adequate coverage of the investigative questions guiding the study. Content validity was determined using expert input from my doctoral research supervisors, research experts and fellow colleagues in the doctoral programme as was successfully done by (Okeyo, 2013; Machuki, 2011 and Munyoki 2007).

Content validity was further achieved by pilot testing questionnaires among 10 selected MSMEs prior to actual data collection. During the pilot testing, some issues were detected during this pilot testing. Some of the issues identified included the fact that majority of the respondents had serious reservations in making available quantitative financial performance information such as: annual sales, return on capital, amount of capital invested, annual profits, etc. Majority of the respondents did not have difficulties in understanding and responding to qualitative information related questions. The information derived from the pilot testing including the views of the respondents was used to add additional information in the instruments such as perceptual questions on financial performance to supplement the challenges which were identified in getting quantitative financial data. To further strengthen confidence in the results obtained, the researcher performed back-checks on 10 randomly selected questionnaires in order to validate the answers given earlier. The results obtained were very similar to the original ones.

3.8 Reliability Test

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). It establishes if the measure is able to yield same results on other occasions or that similar observations are reached by other observers. Reliability was used to check the internal consistency of the data measuring instrument. Cronbach's coefficient alpha determines the internal consistency or the average correlation of items within the test. It was used after collection of data to test the results. Alpha values (coefficient) range from zero (0) where there is no internal consistency to one (1) where there is internal consistency. The higher the coefficient, the more reliable the measurements scale. Nunnally (1978) postulated that that if values were too low, either few items were used or the items had little in common and suggested that a value of 70 and above was sufficient.

Many past studies (Busienei, 2013; Okeyo, 2013; Awino, 2011) have used Cronbach's alpha coefficient to assess the internal consistency or average correlation of items within the test. Alpha values range from 0 and 1 (Mugenda & Mugenda, 2003). The closer the Alpha coefficient is to 1.0, the greater the internal consistency of the items in the scale and the closer the Cronbach's coefficient is to zero (0), the less the internal consistency of the items in the scale. Recent studies by (Busienei, 2013; Okeyo, 2013) have used and recommended Cronbach's alpha values of 0.70 and above. A coefficient of 0.70 or more implies that there is a high degree of reliability of the data (Mugenda & Mugenda, 2003). However, Sekaran (2003) argued that an alpha coefficient of between 0.50 and 0.80 is adequate to accept presence of internal consistency. This study used the alpha coefficient for the sample at 0.7. This is consistent with more recent studies (Awino, 2011; Okeyo 2013 and Ombaka 2014). For this study, internal consistency of the instrument was measured using Cronbach's alpha. Recent studies (Busienei, 2013; Okeyo, 2013) used and recommended Cronbach's alpha values of 0.70 and above same as (Nunnally, 1978). Sekaran (2003), on the other hand, argues that a scale between 0.5 and 0.8 is adequate to impute internal consistency. This study used alpha value of 0.50 and above. The results for all the variables are shown in Table 3.2.

Table 3.2: Reliability Test

Variable Group /Sub Group	Number of Items	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
Firm Resources	28	.836	.843
Entrepreneurial Strategy	12	.798	.787
External Environmental Factors	6	.692	.686
Firm Performance	32	.632	.781

Source: Research Data (2015)

Table 3.2 shows that overall the groups had high values which were above the 0.5 cut-off that the study adopted. This confirmed the reliability of the data used to draw conclusions from the theoretical concepts.

3.9 Sampling Adequacy

As a precursor to hypothesis testing, it was important to test for sampling adequacy amongst the study variables. The Kaiser-Meyer-Olkin (KMO) Measure of sampling adequacy and Bartlett's test of sphericity were used. A KMO value of 0.5 and above shows adequacy of the sample (Williams et al, 2012). The results are shown in the table 3.3

Table 3.3: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity

Factor	KMO Test	Bartlett's Test of Sphericity			Determinant
		Approx. Chi-Square	df	Sig.	
Firm Resources	0.688	944.54	27	0.000	>0
Entrepreneurial Strategy	0.909	1139.36	10	0.000	>0
External Environmental Factors	0.627	100.99	15	0.000	0.322
Firm Performance	0.701	1154.365859	378	0.000	>0

Source: Field Data (2015)

Table 3.3 results indicate that all the KMO test values were are above 0.5. From Bartlett's test of sphericity which measures if the samples are from populations with equal variance, all the chi-square values were statistically significant ($p<0.05$). As well, all the Determinant values were above 0.000001. The study thus confirmed that there was sampling adequacy.

3.10 Tests of Statistical Assumptions

Normality tests assume that the data is normally distributed (has two-tails or is bell-shaped) and thus is less likely to lead to Type I error (false positive) or Type II error (false negative). Since the association between the four study variables were tested through regression analysis it was important to conduct normality tests. (Ghasemi & Zahediasl, 2012) posit that larger samples (>30 or 40) tend to be normally distributed and should assume parametric tests and also that normality should be tested both visually using plots and statistically using Shapiro-Wilk test. This study adopted Q-Q plot for visual and Shapiro-Wilk test for statistical significance of normality where a p value greater than 0.05 confirmed normality of the data. Shapiro–Wilk Test is more appropriate or most powerful normality test (Razali and Wah, 2011). It is a more reliable test for determining skewnesss and kurtosis values of normality.

Table 3.4: Test of Normality

Study Variable	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Firm Resources	.106	93	.012	.926	93	.000
External Environmental	.099	93	.026	.960	93	.006
Entrepreneurial Strategy	.135	93	.000	.945	93	.001
Firm Performance	.112	93	.006	.921	93	.000

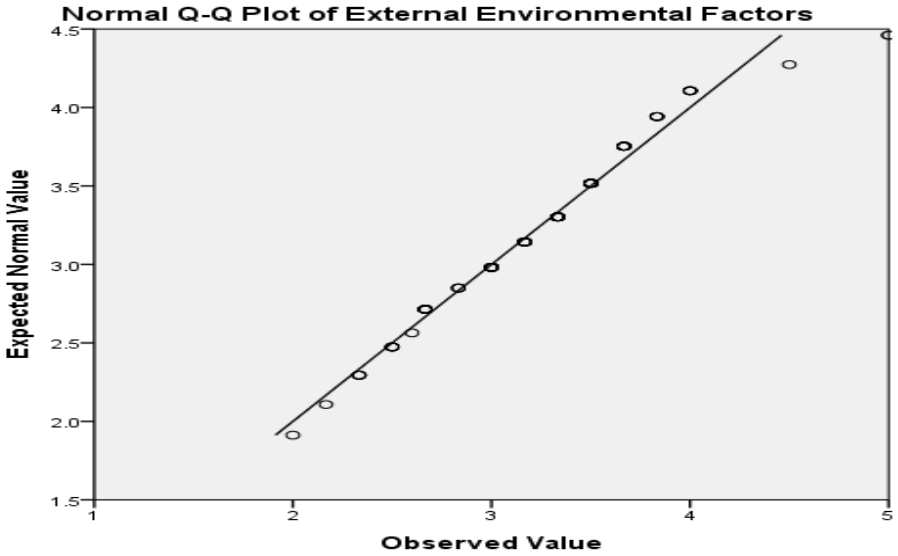
a. Lilliefors Significance Correction

Source: Research Data (2015)

Table 3.4 indicates that all the four study variables had a p value below 0.05. This implies that the variables were not normally distributed. Ghasemi & Zahediasl (2012) argue that even in cases where there is a slight deviation from normality, in larger samples (n>30) the results of parametric tests may not be affected.

Visually, the normality of all the four study variables was confirmed as shown in the Q-Q

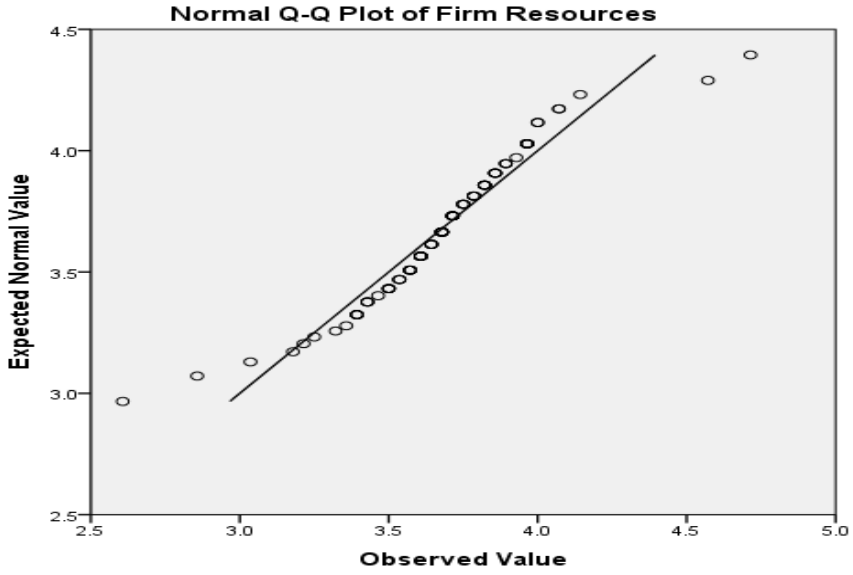
Figure 3.1: Normal Q-Q Plot of External Environmental Factors



Source: Research Data (2015)

Figure 3.1 shows the Normal Q-Q plot of external environmental factors and indicates a normal distribution of the study variable.

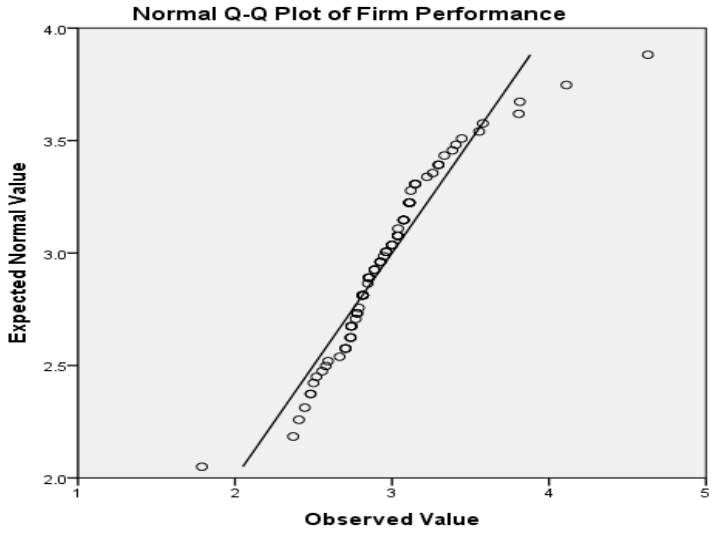
Figure 3.2: Normal Q-Q Plot of Firm Resources



Source: Research Data (2015)

Figure 3.2 shows that the variable firm resources had a normal distribution but with a slight right tailed distribution.

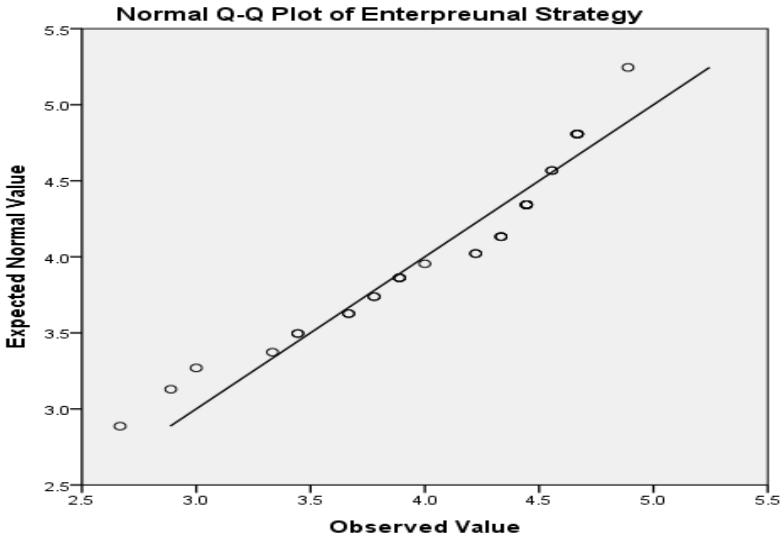
Figure 3.3: Normal Q-Q Plot of Firm Performance



Source: Research Data (2015)

Figure 3.3 plot shows that Firm performance had a tendency towards a right skewed distribution.

Figure 3.4: Normal Q-Q Plot of Entrepreneurial Strategy



Source: Research Data (2015)

Figure 3.4 the plot for entrepreneurial strategy shows a slight left skewed distribution. From all the four charts it is noted visually that most of the variables had a linear pattern, some with slight tails. This study therefore concluded that the study data met the threshold for normality based on Ghasemi & Zahediasl (2012) and is therefore suitable for parametric tests.

3.10.1 Linearity of Data

Osborne and Waters (2002) posited that multiple linear regressions can only accurately estimate the relationship between dependent and independent variables if the relationships are linear in nature. The absence of linear relationship between the dependent and the independent variables leads to the results of the regression analysis to under – estimate the true relationship (Ombaka, 2014).

According to Ombaka (2014), linearity of data means that the values of the outcome variable for each increment of a predictor variable lie along a straight line. Linearity is an important association between the dependent and the independent variables. The Q-Q plots in Figures 3.1 to 3.4 confirm the general linearity of the data despite some cases being slightly away from regression line (outliers). This confirmed the existence of a linear relationship among the study variables.

3.10.2 Multicolinearity in Data

Multicolinearity is defined as the undesirable situation where the correlations among the independent variables are strong. When this happens, standard errors and beta coefficients tend to have large values leading to their instability (Osborne and Waters; 2002 and Angore, 2008). Multicolinearity increases the standard errors of the coefficients and thus makes some variables statistically not significant while they should otherwise be significant (Osborne & Waters, 2002).

Multicolinearity is detected from reading the Variance Inflation Factor (VIF) and tolerance in regression analysis. VIF measures how much variance the regression coefficient is inflated by Multicolinearity, thus misleadingly inflates standard errors. When there is no problem with Multicollinearity, tolerance value should not be less than

0.10 while VIF value should be more than 10. According to Ombaka (2014), if the VIF for one of the variables is around or greater than 5, it is concluded that there is collinearity associated with the variables. The VIF measures how much the variance of the estimated coefficients is increased over the cases of no correlation among the independent variables. If no two variables are correlated, then all the VIFs will be 1. If there are two or more variables that have a VIF around or greater than 5, one of these variables must be removed from the regression model. If this happens, the researcher should use one set of the independent variable to make the estimate (Kothari, 2004).

Tolerance is the amount of variance in independent variables that is not explained by the other independent variables. The minimum cut-off point for tolerance is 0.10. Multicolinearity was monitored throughout in this study and as shown in table 3.5.

Table 3.5: Test for Multicolinearity

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.518	.498		5.060	.000		
	Firm Resources	-.046	.127	-.037	-.361	.719	.954	1.048
	Entrepreneurial Strategy	-.031	.064	-.050	-.483	.630	.945	1.058
	External Environment	.233	.068	.349	3.415	.001	.953	1.050
a. Dependent Variable: Firm Performance								

Source: Research Data (2015)

Table3.5 indicates that all the VIF values were below 5 while all Tolerance values were above 0.1. Considering the tolerance rules and the VIF values for all the independent variables, the study therefore ruled out Multicollinearity in the data.

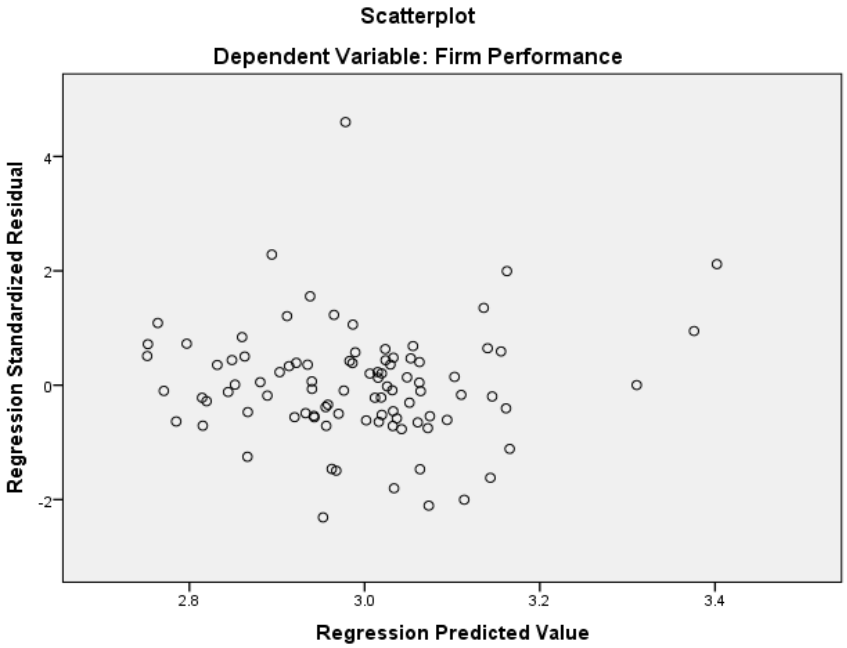
3.10.3 Heteroscedasticity (Homogeneity of Variance Tests)

The last assumption in regression analysis is that data has homogeneity of variance (homoscedasticity) across the predicted values. Heteroscedasticity therefore occurs where variance is not uniform across the data (Okeyo, 2013 and Ombaka 2014). This phenomenon introduces bias in standard errors. Standard errors are crucial in calculating

T and F statistics. Berry and Feldman (1985) and Tabachnick and Fidel (1996) posit that slight heteroscedasticity has little effect on significance tests.

Heteroscedasticity is normally tested visually where it is observed that residuals are not evenly distributed around the horizontal line. For example: low income earners cannot afford to pay high rent whereas high income earners can afford to pay both high or low rent depending on their choice, thus variance in rent will be higher amongst high income earners and lower amongst low income earners (Murray, 2005). In this study for example, firm performance may be influenced by the customer base.

Figure 3.5: Scatterplot to Test for Heteroscedasticity



Source: Research Data (2015)

Figure 3.5 depicts a graph which indicates that there is no clearly discernable pattern at both ends, thus the study rules out Heteroscedasticity.The study therefore concludes from the tests carried out that the data is fit for further analysis.

3.11 Operationalization of Study Variables

Operationalization of study variables is important as it facilitates the measurement of the variables quantitatively and thus enabling the testing of the study hypotheses. The study variables comprised: firm resources as the independent variable, external environment as the moderating variable, and entrepreneurial strategy as the intervening variable and firm performance as the dependent variable.

Zikmund (2003) posited that operationalization gives meaning to a concept by specifying the operations necessary to measure it. Dillman (2000) proposed that study constructs should be operationalized in order to test relationships among the constructs in the theoretical model. According to Kothari (2004), in a Likert scale, the respondents are asked to respond to each of the statements in terms of several degrees, usually five degrees of agreement or disagreement. The respondent indicates his / her disagreement or agreement with each statement in the instrument. The technique assigns a scale value to each of the five responses indicating its favourableness or otherwise. The scores are totalled to measure the respondent's attitude.

Firm characteristics included gender of the respondent, reasons for venturing into business, length of time the business has been in existence which was measured by the number of years, whether financial records are maintained, level of education and whether respondent has attended business related courses.

Firm resources were the independent variable for this study and were operationalized based on Barney (1991) and Grant (2001). According to Barney (1991) resources can be physical, human and capital. Grant (2001) expanded this list by including the technological and Reputational aspects. The study classified firm resources into: financial, managerial, human and reputation. These were then measured using a Likert scale.

External environment was the moderating variable. The external environment is considered as all those variables outside the organization and these include government, customers, supplies, trade unions etc (Duncan, 1972). According to the PESTEL

framework, the external environment is classified into six main categories which comprises political, economic, social, technological, ecological and legal (Johnson et al., 2008). The external environment which was the moderating variable of the study was operationalized through the six main categories of PESTEL. These were measured through a Likert scale by asking a set of questions on each of the PESTEL factors to establish whether they had an effect on firm performance.

Entrepreneurial strategy was the intervening variable of this study. It surfaces as other variables start operating to influence the firm performance which is the dependent variable. The operational indicators for entrepreneurial strategy were generic strategy and hybrid strategy (Porter, 1980). These were measured through a five point likert scale.

Firm performance, which was the dependent variable in this study, was measured using both quantitative and qualitative financial and non-financial indicators. Financial performance indicators used for this study were quantitative in nature and included growth in annual sales, return on capital, capital invested and number of: stores, employees and customers. The data covered a period of four years from 2011-2014. Perceptual values were also used rather than hard quantities. This was primarily to compliment quantitative financial data with qualitative information to measure financial performance after it was observed during the pilot testing of the questionnaire that respondents were reluctant to give quantitative financial data. The qualitative financial information included increase in: sales, return on capital, capital invested, annual profits, stores, product range, staff and customers. Focus on cost control by management was also included as a measure. Financial performance was measured quantitatively. Whilst perceptual financial performance was measured using a Likert scale. The use of both quantitative and qualitative information to measure financial performance is common in empirical studies. Some of the past studies that used this approach include (Kaplan and Norton 1992; 1996; Okeyo, 2013 and Ombaka, 2014).

The five point Likert type scales were used to measure all the variables in the study. Likert scales generally present simple but versatile approach to obtaining primary data (Khandawalla, 1977). The scales enable evaluation of respondents' attitudes along the

same underlying negative to positive dimension. In addition, participants find them easy to read, understand and complete. Moreover, the five point likert scale in particular presents clearly, distinct and adequate choices which have no overlaps and therefore less confusing to the respondent compared to scales with more choices (Okeyo, 2013). Some of the past scholars who have used Likert type scales to collect data in their studies include (Covin & Slevin, 1989; Machuki & Aosa, 2011; Otachi, 2013; Okeyo, 2013; Ombaka, 2014 and Ongeti, 2014).

Table 3.6 shows the summary of the operationalization of the study variables which were tested and the hypotheses. The independent variable in the study was firm resources while the dependent variable was firm performance. External environment and entrepreneurial strategy were the moderating and intervening variables respectively.

Table 3.6: Operationalization of Study Variables

Variable	Nature of variable	Indicator/measure	Rating Measure	Questionnaire
1. Organization data and general information	Background information	Mixed	Mixed	Section A Questions 1 – 10
2. Firm resources	Independent	**Managerial Experience** - Academic qualifications - Management of assets - Managing people - Managing finances - Relationship with suppliers - Relationship with customers - Relationship with banks and stakeholders - Compliance with rules and regulations - Understanding market dynamics - Regular market surveys - Experience in market surveys **Financial Resources** - Access to loans - Raising capital - Budgeting - Monitor cash flows - Monitor inputs - Conversion of profits to capital **Human Resources** - Skilled employees - Technical ability - Experienced staff - Relevant business knowledge - Technical ability by managers - Specialization	5- point type Likert scale	Section B Questions 11 – 13

		Firm Reputation - Customer service standards - Procedures for handling complaints - Prompt action on complaints - Customer feedback		
3. Entrepreneurial strategy	Intervening	**Generic Strategies** - Cost leadership - Differentiation - Focus **Hybrid Strategies** - Low cost and differentiation - High cost and differentiation	5- point type Likert scale	Section C Questions 14 – 20
4. External environment	Moderating	- Political - Economic - Social-cultural - Technological - Ecological - Legal	5- point type Likert scale	Section D Questions 21 – 23
5. Firm Performance	Dependent	**Financial Parameters** - Growth in sales - Growth in profits - Capital invested - Return on capital - Number of stores - Number of employees - Number of customers --customer service - Cost control **Non-Financial Parameters** Customer service - Customer complaints - Customer satisfaction - Customer response - Service excellence - Customer retention - Customized products - Loyalty scheme Processes - Improvement in last five years - Process standardization - Technology and process automation Employee satisfaction - Skills and capabilities - Employee satisfaction and motivation - Understanding customer needs - Employee turnover - Employee pride and sense of belonging - Employee loyalty - Multitasking Corporate social responsibility - Environmentally friendly activity - Compliance with laws - Promotion of CSR - Increase in CSR related expenditure	5- point type Likert scale	Section E Question 24

Source: Researcher based on Research Questionnaire (2015)

3.12 Data Analysis

The data was analysed using SPSS version 2.0 for both descriptive and inferential statistics. Descriptive statistics such as frequency distribution, measures of central tendency, measures of dispersion, percentages, t-tests and tests of significance were computed to analyse data. This is crucial in determining normality of data which is key when it comes to linear regression analysis. Descriptive statistics were used to examine individual study variables in order to obtain certain information such basic features and characteristics. Hypotheses were tested using simple and multiple regression analyses. This was to determine the relationship between all the variables in the study.

Inferential Statistics including correlation and regression analysis were used in this study to test the hypotheses in order to infer the sample into the larger population. To test the pattern of relationships between the research variables as stated in the hypothesis, simple and multiple linear regression equation were used. Pearson's correlation coefficient (r) was used to establish relationships between two variables. Correlation reveals the magnitude and direction of the relationship (Cooper & Schinder, 2006). Magnitude is the degree to which variables move in unison or opposition and ranges from -1 to 1. The coefficient correlation (r) ranges between -1 and +1. The nearer it approaches -1 or +1, the stronger the correlation. The results of the correlation tests indicated that certain of the study variables were correlated. As a result, further analyses were carried out which involved linear regression analysis.

Regression analysis is the statistical test that is used to determine the relationship among variables in a study. Examples of the regression analysis include simple, multiple, logistic etc. Most studies have used multiple linear regressions. Such studies included Munyoki, 2007; Letting, 2011; Ogollah, 2011; Otachi, 2013; Okeyo, 2013; Busienei, 2013 and Ombaka, 2014. Multivariate techniques such as multiple linear regression analysis (using stepwise regression analysis) were used. Multiple regressions were used to test the nature and magnitude of relationships between the variables in the study which are more than one (Aiken & West, 1991), while stepwise regression was used to determine how much the extra variable added to the prediction of dependent variable over and above the contribution of previously included independent variables. A multi regression model was used to express the relationship between the dependent variable (performance) and other

predictor variable which comprised firm resources, external environment and entrepreneurial strategy. Multi regression analysis yields the coefficient of determination (R^2) which seeks to explain the proportion of variance in the given dependent variable which is accounted for by the combination of predictors (Mugenda & Mugenda, 2003).

Multiple linear regression analysis (using stepwise regression analysis) was used to come up with the model expressing the relationship between dependent variable (firm performance) and predictor variables (firm resources, entrepreneurial strategy and external environment). Multiple regression analysis yields the coefficient of determination (R^2) which provided the proportion of variance in the independent variable accounted for by the combination of predictors (Mugenda & Mugenda, 2003). The multi regression analysis was performed at 95% percent confidence level. The regression equation was expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_n X_n + \varepsilon$$

Where: Y = Performance of MSMEs within the furniture sector, β_0= is a constant, β_1 and β_2 = regression coefficients, X_1 = firm resources, X_2 = external environment, X_3= entrepreneurial strategy, ε= is the error term.

A summary of objectives, hypotheses and the regression models are presented in table 3.7.

Table 3.7: Summary of Objectives, Hypotheses and Analytical Models

Objective	Hypothesis		Statistical test	Analytical Models	Interpretation
To determine the influence of firm resources on performance of MSMEs	H_1.	There is a significant relationship between firm resources and MSMEs performance.	a) Multi-linear regression tests b) Test for statistical significance (f or t-tests	Multi-linear Regression equation that is; $Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \cdots . + \beta_n X_n + \varepsilon$ Business performance is a function of managerial experience (M) + Financial resources (F) + Human capital (H) + Reputation (Customer Service Standards) (CSS) $= \beta_0 + \beta_1$(managerial experience) + β_2 (financial resources) + β_3 (human capital) + β_4(Customer Service Standards) Success (Y_1) therefore is due to: X_1= Managerial experience, X_2 = Financial resources, X_3= Human capital, X_4 = Reputation (Customer Service Standards): $Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$……(1)	a) If R (1) >0 then a positive (significant).relationship exists. b) If p-value ≤0.05 then the relationship is significant.
To determine the influence of external environment on firm resources and performance of MSMEs	H_2.	The external environment has an influence on the relationship between firm resources and performance of MSMEs.	a) Stepwise multi-linear regression b) R^2test c) Test for statistical significance (f or t-test)	To use a multi linear regression equation that is: $y = \beta_0 + \beta_1 X_1 \beta_2 X_2 + \beta_3 X_3 + \beta_n X_n + \varepsilon$ Business performance is a function of Environment which is expressed as: political, economic, social, technological and legal factors. Therefore X_5= Political; X_6= Economic; X_7= social; x_8= technological, x_9 = legal Success (Y_2) therefore is due to: $Y_1 = \beta_{02} + \beta_{21} X_1 + \beta_{22} X_2 + \beta_{23} X_3 + \beta_{24} X_4 + \beta_{25} X_5 + \beta_{26} X_6 + \beta_{27} X_7 + \beta_{28} X_8 + \beta_{29} X_9 + \epsilon$ ……(2)	a) The higher the R^2(3) then significant influence exists. b) If p-value ≤0.05, then the influence is significant.
To determine the influence of entrepreneurial strategy on performance of MSMEs	H_3.	Entrepreneurial strategy has an influence on the relationship between firm resources and performance of MSMEs.	a) Stepwise multi-linear regression. b) R^2test c) Test for statistical significance (f or t-test).	To use a multi linear regression equation that is; $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 +$ -------+ $\beta_n x_n + \varepsilon$ Business performance is a function of Cost Leadership (CL) +Product Differentiation (PD) + Focus (F) $S = \beta_0 + \beta_9$ (cost leadership) + β_{10} (product differentiation) + β_{11} (niche market) + β_{12} (Low cost and differentiation + β_{13} (High cost and differentiation (HCD) Success (Y_3) therefore is due to: x_{10} = Cost leadership, x_{11} = Product differentiation, x_{12} = Niche market, x_{13} = Low cost and differentiation, x_{14} = High cost and differentiation	a) The higher the R^2(2) then significant influence exists. b) If p-value ≤0.05 then the influence is significant.

Objective	Hypothesis		Statistical test	Analytical Models	Interpretation
				Hence $Y_3 = \beta_{03} + \beta_{31}X_1 + \beta_{32}X_2 + \beta_{33}X_3 + \beta_{34}X_4 + \beta_{39}X_9 + \beta_{310}X_{10} + \beta_{311}X_{11} + \beta_{312}X_{12} + \beta_{313}X_{13} + \beta_3$ …..(3)	
To establish the joint influence of firm resources, external environment and entrepreneurial strategy are different from their individual effect on performance of MSMEs	H_4:	The joint effect of firm resources, external environment and entrepreneurial strategy is different from their individual effects on the performance of MSMEs.	a) Stepwise multi-linear regression. b) R^2test. c) Test for statistical significance (f or t-test).	Stepwise regression model will be used. This can be represented as follows: $Y = Y_1 + Y_2 + Y_3$ Where Y = Dependent variable Y_1 = Performance due to the effect of firm resources Y_2= performance due to entrepreneurial strategy Y_3 = Performance due to external environment Success (Y_4) therefore is due to: $Y_4 = \beta_{04} + \beta_{41}X_1 + \beta_{42}X_2 + \beta_{43}X_3 + \beta_{44}X_4 + \beta_{45}X_5 + \beta_{46}X_6 + \beta_{47}X_7 + \beta_{48}X_8 + \beta_{49}X_9 + \beta_{410}X_{10} +$ ……..(4)	a) If R^2 (4)>the individual R^2 values from firm resources (1),entrepreneurial strategy (2) and external environment (3) respectively then the joint effect is greater than individual effects. b) If P-value ≤0.05 then relationship is significant.

Source: Researcher (2015)

3.13 Chapter Summary

This chapter has presented the research methodology adopted in the study. The chapter described the research philosophy, research design, population of the study, sample size determination, data collection instruments, data collection method, reliability and validity of the data collection instruments.

The chapter further presented operationalization of study variables and analytical techniques and models. The analytical techniques applied included descriptive statistics, inferential statistics, regression analysis, correlation analyses and hypotheses testing. The chapter concluded by presenting the analytical model which shows the four study variables and related hypotheses which were tested.

The next chapter presents data analysis and findings using descriptive data analysis and interpretation of results.

CHAPTER FOUR
DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents preliminary results of the study variables through descriptive statistics. The demographic data is presented in tabular format (frequencies), cross-tabulating each key component with division, gender and education level. Other statistics such as means, standard deviation were also applied where applicable. One sample t-test was used in the detailed descriptive statistics for the attitude questions and the co-efficient of variation and p-value for test of significance observed. The four hypotheses of the study were tested using simple and multiple regressions. Correlations were also carried out between various study variables. The analysis and interpretation was done and the resulting statistics discussed. The chapter concludes with a summary of the findings.

4.2 Study Response Rate

The sample size for the study was 140 MSMEs operating in the furniture sector within Nairobi City County out of which 93 responded giving an overall response rate of 66%. Kasarani Division had the highest response rate at 86% while Pumwani Division had the lowest response rate at 52%. The overall response rate compares well with other similar studies conducted in the past such as Ombaka (2014) who achieved 69.5%, Okeyo (2013) who achieved 65%, and Ongeti (2014) who achieved 65%. Awino (2007) proposed that an average response rate of 65% for empirical studies is acceptable. The distribution and summary of responses by the sampled firms is shown in Table 4.1.

Table 4.1: Study Response Rate

Strata (sub county)		Population	Sample Distribution	Actual Sampled	Response Rate
	Central	13	8	6	75%
	Dagoretti	45	28	19	68%
	Embakasi	48	30	18	60%
	Kasarani	33	21	18	86%
	Kibera	12	8	5	63%
	Makadara	22	14	10	71%
	Pumwani	33	21	11	52%
	Westlands	15	10	6	60%
	Total	221	140	93	66%

Source: Research Data (2015)

In this study, all divisions were well represented thus avoiding any possibility of biasness. The questionnaires were self-administered. Some respondents, however, expressed lack of willingness to participate. Some of the respondents who participated did not complete the questionnaires, citing lack of time and suspicion that the information collected could be used against them by tax agents. The response rate of 66% for this study was thus considered acceptable and representative of the population.

4.3 Respondents' Demographic Profiles

The respondents were asked to state their gender, education level and position in company and the reason for starting the business. The results are summarized in table 4.2.

Table 4.2: Respondent Demographic Profile

Characteristic	Frequency	Percentage (%)
Gender		
Male	81	87%
Female	12	13%
Education Level		
Primary school	21	22.6%
Secondary School	40	43.0%
College Certificate or Diploma	30	32.3%
Undergraduate Degree	2	2.2%
Masters	0	-
Ph.D.	0	-
Position of Respondent in Business		
Owner	48	51.6%
Manager	45	48.4%
Owner & Manager	0	-
TOTAL	**93**	**100%**

Source: Research Data (2015)

Table 4.2, indicates that majority of the respondents were male, forming 87% (81) of the respondents while the 12 female represented 13% of the respondents. The results imply that the MSMEs are a male dominated industry and the sector does not seem to attract a significant number of degree holders. This view is supported by Vosen.0berg (2013) who did an extensive study on women entrepreneurship in developing countries.

Nearly half of the respondents (43%) had attained secondary school education and 20% had attained post secondary education (polytechnic). Only 2 respondents had attained a university degree. The study had special interest in assessing level of education and especially post primary school, since it gave an indication of the respondents' understanding of their businesses and ability to complete the questionnaires. (Smit & Watkins, 2012) posit that education beyond primary school level is important in that entrepreneurs with a greater level of education and training adapt easier to the ever changing business environment.

The study found out that 51.6% (48) of the respondents were actual owners of the business while 48.4% (45) were managers. There were no respondents performing the dual role of owner-managers. Smit and Watkins (2012) posit that owner-managers, while they are most familiar with their business, have challenges in identifying factors that affect their businesses. It was thus important that the study assess the position of the respondent in the business since many of the questions required someone of authority. Being either owners or managers gave comfort that the respondents were knowledgeable in their businesses and had the relevant information and thus competent enough to complete the questionnaires.

Further analysis revealed that all the 12 females were managers thus further reinforcing the notion of male domination. Vossenberg (2013) asserts that "women still own and manage fewer businesses than men, they earn less money with their businesses that grow slower, are more likely to fail and women tend to be more necessity entrepreneurs".

4.4 Organizational Characteristics

The Table 4.3 shows selected characteristics of the business sampled.

Table 4.3: Organizational Characteristics

Characteristic	Frequency	Percentage (%)
Type of Business Ownership		
Sole proprietorship	82	88.2%
Partnership	10	10.8%
Limited Liability Company	1	1.1%
Business Market Outlet(s)		
Individuals (Walk-In Customers)	93	100%
Large furniture enterprises	2	2%
Government	5	5%
Corporate	22	24%
Hospitality	32	34%
Export	0	0%
Religious Institutions	36	39%
Years of Business Operation		
0-5 years	17	18.3
5-10 years	61	65.6
10-15 years	10	10.8
15+ years	5	5.4
TOTAL	**93**	**100%**

Source: Research Data (2015)

Table 4.3 results indicate that 88% (82) of the businesses were sole proprietorship while 11% (10) were partnerships. Only one business was a limited liability company and which was run by a university degree holder. Type of ownership is key for MSME success. Most MSMEs have problems accessing finance because of the legal composition of the businesses which may confer certain advantages when dealing with financial institutions, government and other donors. This view is further supported by Smit and Watkins (2012) who posit that in South Africa, bankers shy away from SMEs due to their perceived high risk and weak expected returns.

All businesses interviewed reported to have multiple market sources. The primary market however, remains individual customers (100%), followed by educational institutions at 73%. A previous directive by the Kenya Government in 2010 that government institutions buy locally made furniture does not seem to have penetrated the MSME furniture market since only 5% of the respondents reported to sell to Government

institutions. Though the export market is still out of reach of many MSMEs, there is an opportunity in the subcontracting by the larger furniture enterprises (2%) as well as selling to corporates (24%). The fact that there is multiplicity of markets implies that the firms have no niche and this has implication on the entrepreneurial strategy to adopt.

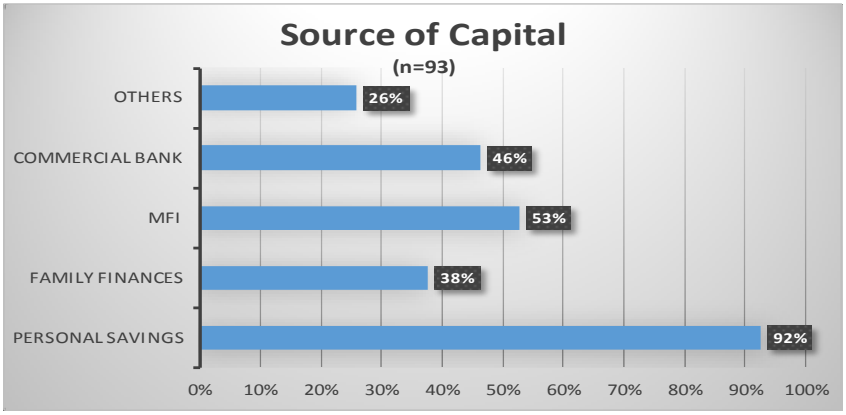
It is observed that 65.6% of the businesses have been in operation for between 5 to 10 years. The average number of years for all the businesses was 8.35 years with a standard deviation of ±4.93 years. This is an observation worth noting since most studies indicate that a lot of SMEs fail within the first 5 years of operation. In South Africa, Broembsen as cited in (Neneh, 2012) found that SME survival beyond 42 months is less likely.

4.5 Other Organizational Characteristics

4.5.1 Source of Capital for Business

Figure 1 indicates that most of the businesses sought capital from more than one source. It is further observed that the firms used diverse and multiple sources of finance, with a great majority of the businesses using personal savings 86 (92%). A significant number of respondents 49 (53%) sought capital from microfinance institutions; 43 (46%) sought funding from Commercial Banks; 35 (38%) of the businesses sought finances from family; 24 (26%) sought from other sources mainly Chama (Groups) Loans, cash from other investments, benefits from previous job, sale of properties, and shares.

Figure 4:1: Source of Capital for Business



Source: Research Data (2015)

The major commercial banks mentioned were Cooperative, Equity, Family and National Banks. This can be an indicator of challenges encountered by MSMEs in securing funding for their businesses. This view is supported by Kinyua (2014) in his study of SMEs in Nakuru County.

The Table 4.4 summarizes other organizational characteristics. They comprise some of the key managerial skills that are key to success of an enterprise. Rogerson, cited in Smit & Watkins (2012), identified finance, skills, business training and less rigid regulations as key elements to promote entrepreneurship, enhance business environment and promote competitive edge of enterprises.

Table 4.4: Other Organizational Information of Interest

Characteristic	Frequency	Percentage (%)
Maintain Accounting (Financial) Records		
Yes	86	92%
No	7	8%
Attended any business related training		
Yes	16	17.2%
No	77	82.7%
Perceive Business as Successful		
Yes	88	95%
No	5	5%
Deployment of Business (Entrepreneurial) Strategy		
Written	34	36.6%
Not Written	59	63.4%
Perception of Rate of Change in External Environment		
Slow	14	15%
Moderate	64	69%
Fast	15	16%
TOTAL	**93**	**100%**

Source: Research Data (2015)

Overall, 86 (92%) of the firms reported that they maintain accounting (financial) records. During the pilot of the questionnaires, it was clear that the respondents were not confortable revealing the actual books of accounts maintained and thus the claim could not be verified. Subsequently, the section on quantitative financial information was omitted from the questionnaire and replaced with qualitative financial questions.

Regular trainings were important in improving individual performance and particularly in the effective management of a business. The study sought to assess the level of business training amongst the MSMEs in Nairobi. The results show that only 17.2% of the respondents had ever attended any business-related training. This lack of focus on training was cited by Gibb (1999), Lane (1994) and Metcalf et al (1994) who posited that in many small organizations, training does not take place at all and where it happens it is more informal, short-term direct to solving immediate problems rather than the development of people.

It is always the intention of every business enterprise to be successful. Success can be difficult to measure since there is no single measure for success as posited by Vesper (1990) and Pasanen (2003). Sometimes it can be a matter of perception. The study sought to measure success by asking the respondents whether they considered themselves or their businesses as being successful. The results show that 88 (95%) of the respondents considered their businesses to be successful. Further analysis reveals that success factors were listed as Profitability and Self-sustaining (able to meet all its expenses), Provision of income, and achievement of unspecified objectives in setting up the businesses. Conversely, other factors hindering success for MSMEs were reported as lack of demand, lack of working capital, high competition, and high cost of labour.

Entrepreneurs with a business mind-set recognise that it is important to have a written strategy document. Smit and Watkins (2012) identified the inability of SME entrepreneurs to draw up a business plan as a major risk factor to business failure in South Africa. The results from this study as detailed in Table 4.4 above shows that while majority of the businesses are aware of the need for a strategy, only 34 (36.6%) have a written strategy, mostly covering up to 5 years. This is consistent with other studies (Chadamoyo and Dumbu, 2012) that have shown that most SMEs had a challenge in putting together written strategies to survive the competition in the market. Further analysis reveals that most of the firms with a written strategy only do it as a requirement by financial institutions.

The study sought to establish whether MSMEs owners or managers were aware of the external environment and the related factors (PESTEL) and whether they sought information on the same regularly when crafting their business strategy. From the study results, slightly more than 2/3 (69%) of the respondents reported a "moderate" change in external environment; 15% reported "slow" and 16% reported "fast". Pasanen (2003) posited that the changes in the environment cause more uncertainty in SMEs than in larger companies because SMEs resources for acquiring information about the market and changing the course of the enterprise are more limited. From the study results, it can be concluded that a majority of the MSMEs have not experienced major business environmental turbulence during the study period.

4.6 Descriptive Analysis

The study results in the preceding section showed the demographic characteristics of the businesses sampled. In order to have a general understanding of the responses to the study variables, prior to hypothesis testing, the data was subjected to the one-sample t-test in order to observe any variations in responses. Each construct consisted of several related statements and respondents were asked to state on a 5-point Likert scale the extent to which they agreed or disagreed with statements applicable to each construct. In this analysis, there was no need to symmetrically reverse the scores since all sentences were positively worded. A composite scale was created as a mean score for each construct and its sub-groups. For instance, Firm Resources is one construct that is made up of four sub-groups (Managerial Experience, Financial Resources, Human Resources and Reputation).

The One-Sample t-Test procedure tests whether the mean of a single variable differs from a specified constant. This study adopted the value 3 as the hypothetical value (constant) against which the means were compared using a confidence interval of 95%. The standard deviation (SD) was calculated so as to show how closely the individual variables cluster around the mean (plus or minus). The nearer the SD is to 0, the lower the variance. In order to obtain a uniform measurement of the variation in the responses across different variables, the Coefficient of Variation (CV) was calculated for each response. This is defined as the ratio of the standard deviation to the mean and it measures the level of dispersion of a single variable and is normally expressed as a

percentage. In addition, the study included skewness and kurtosis. Skewness measures asymmetry and deviation of the normal distribution (left skewed +positive or right skewed -negative) while Kurtosis measures the "peakedness" or flattening of the distribution. Where the skewness is greater than 1.0 (or less than -1.0), it shows that the skewness is substantial and the distribution is far from symmetrical. A Kurtosis score of 0 shows a perfectly normal distribution: a flatter distribution has negative kurtosis while a positive kurtosis shows a higher peak than normal.

4.6.1 Assessment of Firm Resources

The first objective of this study was to establish the influence of firm resources on performance of MSMEs in the furniture sector in Nairobi City County. Firm resources were captured and categorized along four broad categories namely: Managerial experience, Financial, Human resources and Reputation. Firm resources have been suggested by many scholars as being the principal drivers of firm profitability and strategic advantage (Barney, 1991: Amit and Schoemaker, 1993). They posited that firms that have adequate stock of resources perform better than their counterparts who have fewer resources.

The operationalization of firm resources was guided by Grant and Jordan (2012), Newbert (2008) and Pearce et al. (2012). To capture data on various firm resources, descriptive statements were presented to respondents on a 5 – point likert scale. They were presented to respondents who were then asked to indicate the extent to which the statements applied to their enterprises. The findings for each of the four categories are presented in the subsections below.

4.6.1.1 Managerial Experience

Possession of managerial experience and a good level of education by owners or managers of business enterprises are key to successful performance of their enterprises. Managerial experience is key in managing other resources of the business (Ibrahim & Goodwin, 1986; Lichtenstein & Brush, 2001). To measure influence of managerial experience, descriptive statements were presented to the respondents on a 5- point Likert

scale. They were required to indicate the extent to which these statements applied to their enterprises. The findings are presented in Table 4.5.

Table 4.5: Respondents' Scores on Managerial Resources

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Academic Qualifications	93	2.01	.994	.495	.791	0.220	-9.593	92	.000
Asset Management	93	3.27	.628	.192	.535	0.626	4.128	92	.000
Managing People	93	3.39	.692	.204	.115	-0.118	5.394	92	.000
Managing Finances	93	3.56	.598	.168	-.388	-0.211	9.014	92	.000
Supplier Relations	93	3.94	.567	.144	-.745	2.510	15.901	92	.000
Customer Relations	93	4.42	.558	.126	-0.249	-0.894	24.530	92	.000
Relationship with Banks	93	3.83	.653	.171	-.529	0.841	12.225	92	.000
Business Rules Compliant	93	4.37	.734	.168	-1.037	0.839	17.941	92	.000
Understand Market	93	3.74	.606	.162	.188	-0.525	11.803	92	.000
Regular Market Survey	93	3.94	.704	.179	-.864	2.651	12.812	92	.000
Experience in Market Survey	93	3.56	.650	.183	.503	-0.375	8.290	92	.000

Source: Research Data (2015)

Table 4.5 indicates that in managerial experience, all the scores except academic qualifications had a mean score above 3 and that all the scores were statistically significant ($p<0.05$). This implies that most people did not perceive academic qualifications to be a determinant of success in managing a business. This is a significant statement given that close to 66% of the respondents had only primary or secondary education; 52% of the respondents were actual business owners while 48% were managers; and that 88% of the businesses were sole proprietorship. Again, the statement on academic qualifications had the highest CV value of 49.5% implying that. It is natural to assume that people with lower education are successful in business and thus education doesn't really matter in management, thus the high variance. The skewness scores ranged

from ±1 meaning that the distribution was symmetrical. The exception was "Business rules compliant" which was much right-skewed. Supplier relations and regular market surveys had leptokurtic curves (high peaked).

Within the same sub-group of managerial experience, it was observed that the statement "I relate well with my customers" had the highest mean score (4.42) as well as the least Coefficient of Variation (13%). Again this is significant since competition has been reported as one of the biggest challenges (Bowen et al., 2009). It goes without saying then that a strong and loyal customer base is one of the most important resource to ensure MSMEs succeed.

4.6.1.2 Financial Resources

Financial resources are perhaps more important than any other resources for a business. Access to finance remains a critical factor in MSMEs more than in large enterprises (Harvie, 2005). To measure the influence of financial resources, descriptive statements were presented to respondents on a 5-point Likert scale to indicate to what extent variables such as access to finance, capital raising, budgeting, cash flow and cost control impacted on their enterprises. The findings are presented in Table 4.6.

Table 4.6: Respondent's Scores on Financial Resources

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Able to Access Loans	93	3.94	.689	.175	-.733	1.306	13.103	92	.000
Partners also raise Capital	93	3.33	.785	.235	-.393	-0.076	4.096	92	.000
Budgeting	93	3.88	.657	.169	-.578	1.054	12.944	92	.000
Monitor Cashflow	93	4.54	.760	.167	-2.485	8.564	19.515	92	.000
Monitor Inputs	93	4.52	.669	.148	-1.282	1.348	21.842	92	.000
Profit Conversion to Capital	93	3.52	.685	.195	-.473	-0.124	7.261	92	.000

Source: Research Data (2015)

Table 4.6 results indicate that respondents were generally in high agreement with the statements under the Financial Resources sub-group. However, monitoring of cash flow and business inputs were most significant in this sub-group, with a mean score of 4.54

and 4.52, respectively. These variables manifested an extreme right skewness with a high kurtosis score of 8.56. The t-values were all statistically significant ($p<0.05$). The CV values were generally low except Partners also raising capital which had a CV of .235. Given that most of the businesses were sole proprietorship the onus is in the owner to inject capital to run the business. From detailed analysis the study observed that for most of the businesses, the source of capital was from personal finances with 92% stating that they had used their personal savings to start the business. It is thus prudent that they will closely monitor cash flow and the inputs and in general, to all their financial resources. All the variables were right skewed with generally high peaked curves.

4.6.1.3 Human Resources

The significance of Human resources whether in MSMEs or large enterprises cannot be over emphasized. Human resources are key to firm performance and therefore firms put measures in place to ensure staff attraction and retention, training and development, compensation and succession planning (Little, 1986; Amba-Rao and Pendese, 1989). To establish the influence of human resources on the MSMEs, respondents were subjected to descriptive statements which were presented on a 5- point Likert scale and were required to indicate the extent to which the statements applied to their organizations. Table 4.7 presents the results.

Table 4.7: Respondent's Scores on Human Resources

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Skilled Employees	93	4.18	.551	.132	0.076	-0.011	20.716	92	.000
Technical Skills	93	3.94	.507	.129	-.120	0.959	17.807	92	.000
Staff Experience	93	3.61	.643	.178	-.184	-0.059	9.189	92	.000
Management Business Knowledge	93	3.59	.594	.165	.114	-0.456	9.600	92	.000
Management Technical Knowhow	93	3.71	.652	.176	-.345	0.263	10.490	92	.000
Skills Delegation	93	3.35	.637	.190	.049	-0.154	5.375	92	.000
Skills Support	93	3.16	.664	.210	.037	-0.240	2.342	92	.021

Source: Research Data (2015)

Table 4.7 indicates that skilled employees run the business appeared to be one of the most valued human resource assets amongst the MSMEs, with the highest mean score of 4.18 and a CV of 13.2%. This was closely followed by the statement on importance of

technical abilities of staff in the production of quality goods. This was however more significant in that the mean was 3.94 with the lowest CV at 12.9% amongst all the variables within the HR group. The least important (though positive) factor in the sub-group was that "staff members who handle specific duties have workers who report to them" with a mean score of 3.16 and CV of 21%, which is the highest variation within the group. This has implication on skills transfer which in the MSMEs is done mainly through apprenticeship (Miyandazi, 2013). In the MSMEs there are special tasks (e.g. Swahili carvings on furniture) that are performed by people who may not necessarily be employed by one entity but hire their services wherever needed. All the sub variables within human resource had statistically significant t-values ($p<0.05$). Most of the kurtosis scores were near zero, indicating a near normal distribution.

4.6.1.4 Reputation (Customer Service Standards)

Reputation plays a significant role despite the size of an organization and it is considered as a strategic organizational resource for SMEs (Roberts and Dowling, 2002; Lopez and Iglesias, 2010). Several variables which included aspects such as customer service standards, customer complaints and related action and customer feedback were tested. To capture the data on these variables, descriptive statements were presented to respondents on a 5-point Likert scale. They were requested to indicate the extent to which the statements applied to their respective organizations. The results are presented in Table 4.8.

Table 4.8: Respondents Scores on Reputation

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Customer Service Standards	93	3.67	.712	.194	-.888	1.689	9.027	92	.000
Handling Customer Complaints	93	2.82	.833	.296	.357	-0.317	-2.115	92	.037
Complaints Immediately Handled	93	3.77	.662	.175	-.639	0.862	11.286	92	.000
Customer Feedback	93	3.52	.564	.160	.122	-0.727	8.831	92	.000

Source: Research Data (2015)

Table 4.8 results show that the least ranked statement amongst the sub variables was: "In my business I have ways of handling customer complaints" received a mean score of 2.82 with 29.6% CV. This indicated that that there was no structured way of handling customer complaints. This was closely related to the statement that: "I ensure customers receive feedback about the complaints they raise" and which ranked a mean score of 3.52 and the lowest CV of 16%. It was thus not surprising that: "complaints are handled immediately they are received" had the highest mean score of 3.77 and a CV of 17.5%. This added to the earlier observation that there was no structured way of handling customer complaints since this seemed rather reactionary and that it is mostly the business owner or manager who handles the crises when they occur. To this end it appears there is no institutional memory since if these complaints were recorded, it would inform any product improvements as well as customer service. The t-value for all the sub-variables were statistically significant ($p<0.05$). Lopez and Iglesias (2010) posited that reputation is considered as a strategic organizational resource for SMEs. The kurtosis score shows that customer service standards had the highest peakedness.

4.6.1.5 Summary of Firm Resources

The mean score for each sub variables in firm resources was calculated subjected to one sample t-test with a cut-off value of 3. Table 4.9 shows the results and as can be discerned, financial resources had the highest mean score of 3.95 with a CV of 11.7%, followed by Human Resources with a mean score of 3.65 and a CV of 10.4%. On the other hand, managerial experience had a mean score of 3.64 but with the lowest CV of 9.8% meaning that it had the least variance. Firm reputation was the least rated at a mean score of 3.44 which was barely above the cut off point of 3 for the t-test and a CV of 12.6%. All the variables had statistically significant t-values ($p<0.05$). A negative skewness was observed in the financial resources sub-group though the curves were all generally high peaked. The kurtosis scores were generally high thus indicating a high peak. It thus comes out that financial resources would have a significant role with several multiplier effects in firm resources.

Table 4.9: Summary of Sub-Variables in Firm Resources

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Managerial Experience	93	3.64	.357	.098	.317	2.586	17.203	92	.000
Financial Resources	93	3.95	.463	.117	-1.079	1.865	19.848	92	.000
Human Resources	93	3.65	.366	.104	.173	2.040	17.133	92	.000
Reputation	93	3.44	.432	.126	.617	2.567	9.910	92	.000

Source: Research Data (2015)

4.6.2 Entrepreneurial Strategy

This study was meant to establish the influence of Entrepreneurial strategy on the relationship between firm resources, external environment and firm performance. The nature of entrepreneurial strategy to be deployed is usually determined by the external environment in which a firm operates in. The resources available will also determine the kind of entrepreneurial strategy to be adopted according to the resource based view which states that every kind of strategy is unique to each organization. This view is also confirmed by Pasanen (2003) who posited that strategy matches the firm resources to its changing environment.

The entrepreneurial response strategies are essentially the strategic choices which a firm makes given its external environment and the type of resources that it has. The study focused on two entrepreneurial strategies. These were generic strategies and hybrid strategies. The sub variables of generic strategies included; cost minimization, product differentiation, and focus. In the hybrid strategy the sub variables included; low cost and differentiation, and high cost and differentiation. Other general sub variables which were considered included; weak and strong points of competitors, constant review of strategy, market retention and other external factors. For each of these sub variables, respondents were presented with descriptive statements on a 5- point likert scale. They were required to indicate the extent to which they agreed with the statements. The results for each response are presented in the subsequent subsections.

4.6.2.1 Entrepreneurial Strategies

There are many entrepreneurial strategies that a firm can focus on to attain competitive advantage. These can be deployed on a stand-alone basis or based on a combination of

two dimensions (hybrid). This study focused on Porters competitive strategy which comprise Cost Leadership, Differentiation and Focus (niche) (Porter, 1980). These are often referred to as generic strategies. The results are highlighted in the proceeding sections.

In the study, entrepreneurial strategy came out as one area that is not very strong within the MSME sector given that out of the 93 respondents only 32 have a written business strategy. The balance of 61 respondents did not have a written business strategy but rather relied on experience of the owner-managers to provide strategic direction for the business. The view by Chadamoyo and Dumbu (2012) that most SMEs face the challenge of putting together strategies to survive the competition in the market further corroborates this notion. It is worth noting, however, that those who responded had some of the highest mean scores observed throughout this study, thus implying how serious they took the concept of business strategy. Table 4.10 summarizes the results on the influence of entrepreneurial strategy from the study.

Table 4.10: Répondent' Scores on Entrepreneurial Strategy

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Minimising Cost a Key Factor	93	3.58	.864	.241	.417	-.801	6.482	92	.000
Product Differentiation	93	3.42	.785	.229	.204	.433	5.154	92	.000
Specific Market Products	93	3.31	.807	.244	.002	.752	3.725	92	.000
Market Retention	93	3.47	.880	.253	.475	-.607	5.187	92	.000
External Factors	93	3.43	.728	.212	.507	-.036	5.695	92	.000
Low Cost and Differentiation	93	3.18	.607	.191	.191	.258	2.904	92	.005
High Cost and Differentiation	93	3.39	.692	.204	.517	.157	5.394	92	.000
Strong Points of Competitors	93	3.24	.728	.225	.464	1.274	3.132	92	.002
Weak Points of Competitors	93	3.43	.813	.237	.169	.229	5.102	92	.000
Constant Review of Strategy	93	3.54	.867	.245	.445	-.710	5.982	92	.000
Capability to access resources	93	3.46	.760	.219	.358	-.229	5.868	92	.000

Source: Research Data (2015)

Table 4.10 indicates that amongst all the strategies, cost minimization had the highest mean score of 3.58 and a low CV of 24.1% indicating a general agreement on the importance of minimizing operating costs. This was followed by market retention and constant review of strategy at means of 3.47, 3.54 and respective CV of 25.3% and 24.5%, respectively. This implied that the firms were alive to the fact that business strategy is not static and should be in tandem with circumstances in the external environment. Teece (2010) acknowledges that organizations have to constantly review and improve their way of doing business in tandem with new developments in the market. The sub variables with the least scores were low cost and differentiation with a mean of 3.18 and CV of 19.1%; high cost and differentiation (mean=3.39, CV of 20.4%). The firms appeared to be more concerned with competitor's weaknesses (mean=3.43, CV=23.7%). It would appear that weakness of competitors is perceived as an opportunity and that it is logically cheaper to do better when the competition is doing badly than trying to outdo those that are perceived as strong in the market. Lastly, environmental scanning (in the variable external factors) was also an important factor (mean=3.43, CV=21.2%). All the t-values were statistically significant ($p<0.05$). Only strong points of competitors had a high kurtosis score while specific market products had none.

Further analysis revealed that cost minimization (leadership) was the most deployed strategy by the MSMEs across the eight study divisions. Differentiation was the second most preferred strategy after cost leadership. Most of the firms in all the divisions applied this strategy an indication that in order to gain competitive advantage most firms attempted to produce unique products. This view is supported by Leitner and Guldenberg (2010) who posit that uniqueness of a product or service sets a firm apart from its competitors. Market focus was least popular amongst the three generic strategies. This is probably bolstered by the belief that if production costs are kept to the minimum and products are unique, it does not quite matter focusing on building products for specific markets. It could also imply that the size of the market may not be big enough to sustain a niche market in terms of volume. This view is shared by Akan et al. (2006) who posit that focus strategy aims at growing market share through operating in a narrow market or niche segment more effectively than larger competitors. It will be recalled in the earlier

sections that the majority of the customers were the individual walk-in customers and thus focusing on a niche market may not yield increased sales or could be detrimental to the MSMEs.

Hybrid strategy is a combination or the mixing of one of the generic strategies with another. For example a firm may choose to mix two generic strategies such as low cost or differentiation with niche strategy (Akan et al, 2006). Some scholars argue that two strategies are compatible (Philips et al. 1983; Murray, 1988). It appears that low cost and differentiation was the least preferred of the hybrid strategies while high cost and differentiation strategy was the most popular of the hybrid strategies.

4.6.3 External Environmental Factors

External environmental factors exercise considerable influence on the organization's performance (Pearce et al, 2012). Several variables which included aspects such as changes in: political, economic, social-cultural, technological, environment and legal factors were tested. To capture the data on these variables, descriptive statements were presented to respondents on a 5-point Likert scale. They were requested to indicate the extent to which the changes in the external environment impacted on their respective organizations. The results are presented in the Table 4.11.

Table 4.11: Respondent's Scores on External Environmental Factors

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Changes in the political scene	93	2.80	1.027	.368	.054	-.509	-1.918	92	.058
Changes in the economy	93	4.39	.692	.158	-.890	.411	19.328	92	.000
Emergence of new technologies	93	2.59	.981	.378	.410	.032	-4.018	92	.000
Influence of socio-cultural beliefs	93	2.24	.949	.424	1.067	1.459	-7.761	92	.000
Changes in environmental regulation	93	3.61	.794	.220	-.646	.643	7.440	92	.000
Changes in rules and regulations	93	3.86	.618	.160	-1.033	4.241	13.415	92	.000

Source: Research Data (2015)

Table 4.11 results indicate that External environment construct somewhat had the highest variations among the responses. Respondents were asked to score on a scale of 1-5 (where 1 was "not at all" and 5 was to a "very large extent") the extent to which external environmental factors impacted on firm resources and business performance. The results are discussed further in the following subsections.

4.6.3.1 Changes in Political Scene

The study focused on Nairobi City County which is a politically active county, being the seat of the National Government, County Government and home to all major political parties. The results for the sub-variable changes in political scene had a low mean score of 2.80 but a high CV of 36.8%. The t-value for this variable was not statistically significant ($p>0.05$). In Nairobi there exist political hotspots during the election periods which adversely affect businesses and these may account for the high variance. One respondent in Ridgeways, Westlands Division, stated that the fear of post-election violence in 2013 scared some customers away thus accounting for his low margins during the period after. This study was conducted two years after the last general elections of 2013.Okeyo (2013) also cited that political factors can adversely affect business. He gave the example of the 2007/8 post-election violence which badly affected Nairobi and other Counties in Kenya. The violence only stopped after the intervention of the international community. A lot of MSMEs were badly affected financially and in many other aspects.

4.6.3.2 Changes in the Economy

On the other hand, most respondents were consistent on the fact that changes in the economy affected them most as observed in the mean score of 4.39 with a related CV of 15%. This was the highest score amongst the environmental sub variables. The t-value was statistically significant. In reality, changes in the economy influence consumer preferences as a result of inflation, taxes, growth, contraction, imports, employment as well as buying power. Kenya has experienced an influx of cheap imported goods including furniture from China and this has affected most local businesses. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of MSMEs. This is further supported by Kinyua (2014) who highlights

the adverse impact of the restructuring and liberalization of the economy in the 1980s which led to influx of imports.

4.6.3.3 Emergence of New Technologies

The MSME sector is one area of the economy that has absorbed the unemployed. It remains a labour intensive economy and technology is employed only as long as it is perceived to bring better results than traditional methods as well as improve image (Ramayah, et al, 2013). Mwani and Namusonge (2014) posit that most SMEs in Kenya are not innovative and that this affects them negatively on their growth. The mean score for the sub variable Emergence of new technologies was low at 2.59 and the CV was high at 37.8%. This was interpreted to mean that changes in technology had less impact on the MSMEs. The t-value was statistically significant ($p<0.05$).

4.6.3.4 Influence of Social-Cultural Beliefs

Robaro and Mamuzo (2012) contend that socio-cultural environment has a relationship with entrepreneurship and define these as consisting of all the elements of the social system and culture of people which positively or negatively affect and influence entrepreneurial emergence, behaviour, performance and entrepreneurial development in general. In the study (Table 4.11), the influence of socio-cultural beliefs was rated least at mean score of 2.24 with a related CV of 42%. The t-value was statistically significant ($p<0.05$). The high variation here implies that most respondents were not consistent in their agreement on effect of socio-cultural beliefs on business.

4.6.3.5 Changes in Environmental Regulation

The Environmental Management and Co-ordination Act (1999) is an Act of Parliament to provide for the establishment of an appropriate legal and institutional framework for the management of the environment and for the matters connected therewith and incidental thereto. Businesses affect the environment in many ways: Noise Regulation; Wetland Regulations; Water Quality Regulations; Water Management regulations; Controlled Substances (Ozone depleting gases); and Biodiversity. The MSMEs thus should have environmental mitigation measures since they also produce wastes which can often be harmful to the public. The mean score was high at 3.61 with a CV of 22%. The t-value

was statistically significant ($p<0.05$).Clearly, NEMA and the Nairobi City County appear to have an impact on environmental regulations affecting MSMEs.

4.6.3.6 Changes in Rules and Regulations

Kamau (2010) posits that Kenya has a poor legal and regulatory environment framework that has not only affected SMEs but also macro enterprises, especially so in the Nairobi Central Business District (NCBD). In this study, of interest is the fact that changes in rules and regulations was perceived as a key influencing factor. The mean score for this variable was 3.86 with a CV of 16%. The t-value was statistically significant ($p<0.05$). This variable, together with socio-cultural beliefs had the highest kurtosis score. This high score and low variance has implication on the fact that most MSMEs comply with rules and regulations in order to avoid the resultant disruption in business caused by non-compliance, especially the City County by-Laws.

4.6.4 Firm Performance

Murgor (2014) posited that financial performance is the most used performance criterion for profit organizations. The measure is a reflection of the shareholders' value of their investment in a firm. Different financial measures are used to depict the financial perspective. This study sought to establish the extent which the MSMEs had achieved financial and non-financial performance measures. All the three constructs discussed in the preceding sections were hypothesized to influence firm performance. Firm performance which had eight indicators was operationalized as financial performance and non–financial performance. The period covered was four years 2011–2014. The financial performance indicators were qualitative and comprised four perceptive indicators: sales, annual profits, capital invested and return on investment. Non-financial performance included: customer service improvement, business processes improvement, employee satisfaction and increased Corporate Social Responsibility (CSR). The results of firm performance are discussed in the following sub sections.

4.6.4.1 Financial Performance

The results on financial performance are detailed in the Table 4.12.

Table 4.12: Respondent's Scores on Financial Performance

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Increased firm sales	93	3.38	.550	.163	-.092	-.874	6.599	92	.000
Increased Return on capital invested	93	3.23	.592	.184	-.103	-.399	3.677	92	.000
Increased amount of capital invested	93	3.40	.514	.151	.669	-.998	7.469	92	.000
Increased annual profits	93	3.66	.617	.169	.374	-.636	10.257	92	.000

Source: Research Data (2015)

Table 4.12 indicates that the sub variable with the highest variance was increased annual profits at a mean score of 3.66 and a related CV of 16.9%. This was followed by increased amount of capital invested at a mean score of 3.40 and a CV of 15.1%. Increased firm sales scored a mean of 3.38 with a CV of 16.3% while Increased Return on Investment scored least at 3.23 with a related CV of 18.4%. The t-value for all the sub variables were statistically significant ($p<0.05$). The annual profits exhibited a left skewness while all the variables had a platykurtic shape. The results in Table 4.12 show consistency in growth across the sub-variables.

4.6.4.2 Non-Financial Performance Measures (Growth)

Respondents were presented with descriptive statements on a 5- point Likert scale where they were requested to indicate the extent to which the statements on non–financial performance applied to their respective firms. The results are summarized in the Table 4.13.

Table 4.13: Respondent's Scores on Non-Financial Qualitative Measures (Growth)

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Increased number of stores	93	2.71	.582	.215	.136	-.533	-4.811	92	.000
Increased number of employees	93	2.72	.665	.245	.384	-.749	-4.052	92	.000
Increased number of customers	93	3.68	.493	.134	-.490	-1.081	13.262	92	.000

Source: Research Data (2015)

Table 4.13 shows the responses to the questions on non-financial (growth) performance. The results show that increased number of customers was high at 3.68 and a CV of 13.4%, the corresponding observation on increase in number of employees and stores was low at means of 2.72 and 2.71, with CV of 24.5% and 21.5%, respectively. All the t-values were statistically significant. Number of customers had a right skewness as well as a platykurtic kurtosis.

4.6.5 Non–Financial (Qualitative) Firm Performance

Non - financial firm performance measures are important as they take into account all the stakeholders and are not subjective as compared to financial measures (Kaplan and Norton, 1996). The non–financial performance measures indicators in this study were: customer service, business processes, employee satisfaction and corporate social responsibility.

To capture the data on these variables, descriptive statements were presented to respondents on a 5-point Likert scale. The respondents were requested to indicate the extent to which the statements applied to their respective firms. The results are presented in the following subsections.

4.6.5.1 Customer Service Performance

Good customer service has been found to be the most important factor contributing to SMEs success (Taylor, 1997). Customer service is important in the creation of competitive advantage (Singh et al., 2010). The results on customer service are indicated in Table 4.14.

Table 4.14: Respondents Score on Customer Service Performance

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Reduced Customer Complaints	93	2.68	.862	.322	.056	.234	-3.610	92	.000
Customers are Satisfied	93	3.73	.628	.168	-.805	1.040	11.229	92	.000
Maintain Customer Complaints Register	93	1.48	.904	.609	1.942	3.147	-16.169	92	.000
Customer Complaints Response in 24hrs	93	3.22	.954	.297	-.831	.102	2.174	92	.032
Able to retain more customers	93	3.35	.637	.190	-.725	.803	5.375	92	.000
Has customer loyalty scheme	93	2.33	1.046	.448	.455	-.966	-6.146	92	.000
Continually Improve Services	93	3.31	.625	.189	-.339	-.636	4.810	92	.000

Source: Research Data (2015)

Table 4.14 indicates that of the 7 sub variables under customer service, "customers are satisfied" had the highest mean score of 3.73 with a CV of 16.8%. This was followed by "able to retain more customers" at 3.35 and a CV of 19%. "Maintain customer complaints register" and "has customer loyalty scheme" had the lowest mean scores at 1.48, 2.33 and a CV of 60.9% and 44.8%, respectively. All the t-values were statistically significant. The kurtosis score for complaints register was high with an extreme left skewed distribution. As had been observed earlier, there is no structured way of handling customer complaints. For this reason it may not be surprising that most respondents did not maintain a customer complaints register. While customer retention appeared to be a positive outcome in the business performance, the concept of a customer loyalty scheme seems to be something for the big businesses only as data from the study shows. Hayami (2009) posits that SMEs tend to have fewer incentive and reward programs. Overall, it appears that the scores for the variables in this sub group were marginally above 3 thus an indication that customer service is an area that needs further improvement.

4.6.5.2 Business Processes Improvement

Business processes which are internal to the firm, enables a firm to meet the expectations of its customers in the market and those of other stakeholders. The measure is a reflection of a firm's core competences and areas of operational excellence (Murgor, 2014). Business processes and their effective execution can be measured through many variables. The variables which were used in this study comprised: process improvement, standardization through use of procedure manuals, improved customer care through use of technology and process automation, focus on cost control and application of technology. The results on business processes are presented in Table 4.15.

Table 4.15: Respondent's Scores on Business Processes

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Management has focused on cost control	93	4.14	.653	.158	-.147	-.642	16.843	92	.000
Internal Processes Improved	93	3.04	.588	.193	-.661	2.496	.705	92	.482
Standardized Processes through SOP	93	3.03	.541	.178	.028	.533	.575	92	.567
Improved Customer Care through Technology and BPA	93	2.14	.760	.355	.668	.578	-10.911	92	.000

Source: Research Data (2015)

Table 4.15 results indicate that focus on cost control was the most valued outcome under business process. The mean score was high at 4.14 with a CV of 15.8%. The t-value was statistically significant ($p<0.05$). This was followed by internal business process improvement at a mean of 3.04 and a CV of 19.3%. The t-value was not statistically significant ($p>0.05$). Standardization through use of procedure manuals was 3.03 with a CV of 17.8%. The t-value was not statistically significant ($p>0.05$). Improved customer care through use of technology and business process automation had the least score at 2.14 with a CV of 35.5%. The t-value was statistically significant ($p<0.05$). Internal business process exhibited a Leptokurtic curve and was right skewed.

Similar to what was mentioned at the sections on Firm Resources and Entrepreneurial strategy, cost minimization comes up again as most important. The aspect of business process automation (BPA) was the least agreeable since it had the highest CV of 35.5%. This may be partly due to the fact that the MSMEs support job loading from the formal sector and absorbing the unemployed. Okeyo (2013) posits that SMEs are critical in employment creation and thus leveraging the disparities in wealth creation. As such, they would like to retain as many employees as possible but using rudimentary technology. It should also be noted that business process automation by way of modern technology is very costly and may be beyond the reach of most MSMEs.

4.6.5.3 Employee Satisfaction

Employee satisfaction according to Murgor (2014) in his study on measures of learning and growth as non-financial performance measure is necessary for the achievement of firm performance. In this study five sub variables were used to measure employee satisfaction and comprised: motivation, possession of superior skills, low staff turnover, loyalty to the firm and willingness to multi-task. The results are presented in Table 4.16.

Table 4.16: Respondent's Scores on Employee Satisfaction

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Employees are satisfied and motivated	93	3.26	.624	.191	-.243	-.590	3.989	92	.000
Employees have superior skills	93	3.74	.641	.171	-1.228	3.386	11.161	92	.000
Low employee turnover	93	2.25	.996	.443	.897	.246	-7.286	92	.000
Employees Loyal	93	2.97	.616	.208	-.552	1.517	-.505	92	.615
Employees willing to multitask	93	2.06	.907	.439	.497	-.532	-9.951	92	.000

Source: Research Data (2015)

Table 4.16 indicates that in the sub group, the respondents disagreed with 3 out of the 5 statements on employee satisfaction. While the most agreeable was the fact that the employees have superior skills (similar to what was noted in Firm Resources), employee satisfaction and motivation, most respondents disagreed on the aspect of employee multi-tasking with related mean scores of 3.74 and 3.26 with CV of 17.1% and 19.1%,

respectively. Employee loyalty and retention (turnover) is a tricky issue given that most of them are casual labourers. This explains the reason for the low mean scores for the two variables at 2.97 and 2.25 with CV of 20.8 % and 43.9 % respectively. All the t-values were statistically significant except for the variable employees are loyal ($p<0.05$). Employee have superior skills had an extreme right skewness as well as a high peaked curve. This also applied to Employee loyalty.

4.6.5.4 Corporate Social Responsibility (CSR)

According to Aqueveque and Ravasi (2006), CSR is relatively new concept in business and SMEs still have limited perception and appreciation of CSR activities compared to large enterprises. The alertness of CSR trend among SMEs, however, has increased, starting from the awareness about the importance of CSR and putting it into practice. The study sought to measure CSR through four sub variables which included: Environmentally friendly activities, compliance with environmental laws, CSR practices and increased CSR expenditure.

In order to counter the effects of climate change, businesses have been encouraged to adopt environmental friendly activities. Compliance with environmental laws in Kenya as a whole is enforced by the National Environmental Management Authority (NEMA). CSR is one way of appreciating customers and where it is practiced, most businesses continually avail increased funding for the same. Pirsch et al. (2007) on environmental protection prefers finding corrective solutions by not only complying with environmental laws and regulations but adopting recycle materials and energy efficiency practices. The results for each sub variable are presented in Table 4.17.

Table 4.17: Respondent's Scores on Corporate Social Responsibility

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Environmental friendly activities	93	2.48	.962	.387	.757	.747	-5.171	92	.000
Comply with environmental laws	93	4.13	.726	.176	-.725	.832	15.003	92	.000
Practises CSR	93	2.03	1.037	.510	1.370	1.805	-9.001	92	.000
CSR Expenditure Increased	93	1.81	1.045	.579	1.625	2.329	-11.012	92	.000

Source: Research Data (2015)

Table 4.17 results indicate that compliance with environmental laws was the most agreeable and was rated highest at mean score of 4.13 with a CV of 17.6%. This was followed by adoption of environmental friendly activities with a mean of 2.48 and CV of 38.7%. The least was increase in CSR expenditure at 1.81 with a CV of 57.9%. All the t-values were statistically significant ($p<0.05$) while practise of CSR and related expenditure had extreme skewness and kurtosis scores. As stated earlier, the Environmental Act (EMCA), 1999 outlines environmental regulations that would affect the furniture industry in terms of materials used and waste management. A good number of MSMEs do not have permanent structures and mostly operate from road reserves or reserved spaces under temporary occupation license. Considering that from the analysis, educational institutions form some of the largest customer base for the businesses, the fact that most respondents disagreed with the statement on increased CSR expenditure with mean score of 1.81 and a CV of 57.9% implies that CSR is still an alien concept to MSMEs. This may be attributed to either resource constraints or that they have not perceived CSR as being of any significance in contributing to business growth. The high variance of 57.9% implies that this statement was not uniformly agreed on and that some firms may be contributing more to CSR than others.

4.6.6 Summary of Firm Performance

Balogun (2003) posited that the way in which performance measures are used can differ widely depending on their application. Some performance measurement systems are used as a reporting mechanism for example financial reports while other systems are employed for controlling the performance of products, employees and other resources within an organization including costing, staff appraisal and records. Performance measurement should therefore be appreciated from a broader perspective.

The previous sub sections on firm performance laid focus on the specifics of each performance indicator. This subsection lays focus on the overall picture of the performance perspectives. The overall score as indicated on Table 4.18 was arrived at by taking the mean scores of the specific variables under the study namely: financial performance, non-financial performance growth, customer service, business process improvement, employee satisfaction and CSR.

Table 4.18: Summary of Firm Performance

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Financial Performance	93	3.41	.393	.115	.350	-.258	10.166	92	.000
Firm Growth	93	3.31	.452	.137	.049	-1.151	6.647	92	.000
Customer Service	93	2.87	.349	.121	.613	1.514	-3.523	92	.001
Internal Business Processes	93	2.94	.440	.150	-.242	.951	-1.297	92	.198
Employee Satisfaction	93	2.86	.450	.158	.489	.510	-3.085	92	.003
Corporate Social Responsibility	93	2.61	.726	.278	1.394	2.549	-5.145	92	.000

Source: Research Data (2015)

Table 4.18 overall results indicate that financial performance achieved a mean score of 3.41 with a CV of 11.5%. The composite index is a result of collapsing the 5 sub-variables under non-financial (qualitative) performance. The results show that financial performance was stronger than non-financial amongst the firms studied. Under non-financial, corporate social responsibility had the lowest score at 2.61 with a CV of 27.8% thus the highest variation amongst all the performance sub-variables. The same variable shows extreme skewness and kurtosis scores.

4.7 Summary of the Study Variables

The section presented, analysed, interpreted and discussed the descriptive statistics of all the variables under the study and how the respondents viewed them. Descriptive statistics were done through one sample t-tests statistics which showed the means, standard deviation, Coefficient of Variations (CV), t-value and its accompanying p-value. The Table 4.19 shows the result of the summary of the four study variables.

Table 4.19: Summary of the Study Variables

Sub-Variables	N	Mean	SD	CV	Skewness	Kurtosis	t	df	p-value
Firm Resources	93	3.67	.291	.079	-.081	3.841	22.246	92	.000
Entrepreneurial Strategy	93	3.38	.622	.184	.028	-.467	5.835	92	.000
External Environmental	93	3.25	.536	.165	.478	1.366	4.446	92	.000
Firm Performance	93	3.00	.309	.103	.594	1.731	.042	92	.967

Source: Research Data (2015)

Table 4.19 indicates that firm resources had the highest mean score of 3.67 with a low CV of 7.9%. Firm performance had the least score of 3.00 with related CV 10.3%. The t-values for the variables were statistically significant. Firm Performance had the least mean score at 3.00 with a CV of 10.3% and a t-value that was not statistically significant ($p>0.05$). Firm resources had the only right skewed distribution while resources, external environment and performance had high peaked curves. Although there was variability in the mean scores among the four variables, there was unanimity by the respondents that each of the variables did contribute to firm performance.

4.8 Testing of Hypotheses

This section presents the hypotheses testing and interpretation of the results. The broad objective of the study was to establish the influence of firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating in the furniture sector in the Nairobi City County, Kenya. To achieve this objective, four specific objectives and their related hypotheses were formulated. To test the hypotheses, the study utilized a number of inferential statistical tests. Both simple and multiple regression analyses were used to establish the influence of the independent variables on the various indicators of the dependent variable. Simple regression was used to test independent effects. To test for the moderating and intervening effects of the related variables, the hierarchical regression analysis was used in the study. These tests were carried out at 95% significance level ($p<0.05$). The coefficients of determination and t-values were also extracted.

The regression analyses was used to obtain the values of R, R^2, t- values, F ratio and their associated p-values. The R-value was used to show the strength of the relationship between the variables. The R^2 value was used to show the extent to which the independent variables explain the variations in the dependent variable and which is referred to as goodness of fit or the explanatory power. The F-value was used to show the significance of the overall study model. The t-values were used to represent the significance of the individual variables under the study. The Beta (β) values show the effect of the independent variable on the dependent variable (positive or negative). The p-values represents the significance level at 95% confidence level ($p=0.05$) at which point a

decision is made to either reject or fail to reject the main hypotheses. If the p-value was >0.05, the hypotheses was rejected. And if the p-value was <0.05 the hypotheses was not rejected.

The study findings are presented in various sections of this chapter along with the study objectives and corresponding hypothesis. The results have been discussed within the context of theory and empirical literature.

4.8.1 Influence of Firm Resources on Firm Performance

The first objective of the study was to establish the influence of firm resources on performance of MSMEs operating within the furniture sector in the Nairobi City County, Kenya. This objective corresponds with the first hypotheses stated as

H1: ***There is a significant relationship between firm resources and performance of MSMEs.***

To test this hypothesis and achieve the study objective, firm resources was operationalized along four sub groups: managerial experience, financial resources, human resources, and reputation (Customer Service). It should also be noted that firm performance was composed of five dimensions: financial performance; growth; customer service; business processes improvement; employee satisfaction; and improved CSR. The study analyzed the independent effects of each group of firm resource as well as the combined effect of all firm resources on performance. The results of the tests are presented in the following subsections.

4.8.2 Correlations – Firm Resources and Firm Performance

Before embarking on hypothesis testing, it was important first to determine the correlation between the dependent and the independent variables. In the first step, correlation analysis was done on the variables within Firm Resources and Firm Performance. The Pearson correlation coefficient shows the strength of the relationship and the p-value showed the statistical significance of each. Next step was to analyse the independent effect of firm resources (as a composite index) on each dimension of firm performance as dependent variables. Afterwards, the joint effect of the composite index

of firm performance on the combined dimensions of firm performance. Lastly the composite indexes of firm resources on the composite index of firm performance was analyzed in order to come to the conclusion on effect of firm resources on firm performance. A summary of the key predictor variables of firm performance was done through stepwise regression in order to ascertain which variables can best predict the outcome of firm performance from firm resources.

The results of the correlation analysis are detailed in the Table 4.20:

Table 4.20: Correlations – Firm Resources and Firm Performance

		Financial Performance	Customer Service	Business Processes	Employee Satisfaction	CSR
Managerial Experience	Pearson Correlation	.096	.223*	-.050	.126	.075
	Sig. (2-tailed)	.362	.032	.635	.227	.476
	N	93	93	93	93	93
Financial Resources	Pearson Correlation	.062	-.214*	-.169	-.176	-.347**
	Sig. (2-tailed)	.553	.040	.105	.092	.001
	N	93	93	93	93	93
Human Resources	Pearson Correlation	-.012	.015	-.094	.037	.018
	Sig. (2-tailed)	.909	.889	.370	.726	.868
	N	93	93	93	93	93
Reputation	Pearson Correlation	-.041	.247*	-.003	.157	.253*
	Sig. (2-tailed)	.696	.017	.974	.132	.015
	N	93	93	93	93	93

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2015)

Table 4.20 results indicate that within Firm Resources, all the variables were positively correlated and the correlations were statistically significant ($p<0.05$). The Pearson correlation coefficient values within the group was strongest between managerial experience and financial resources (.470), followed by Managerial Experience and Reputation (.417), Financial Resources and HR (.417), HR and reputation (.348),

Managerial Experience and HR (.285), and lastly Financial Resources and Reputation (.204).

Within Firm Performance group, there were 7 positive statistically significant relationship ($p< 0.05$) out of the 20 possible combinations. The other 13 were also positive but not statistically significant ($p>0.05$). The strongest statistically positive relations were observed amongst Employee Satisfaction and CSR (.606); Employee Satisfaction and Customer Service (.563); Employee Satisfaction and Business Process (.446); Customer Service and CSR (.521); Business Process and CSR (.383); Customer Service and Business Process (.324); and lastly, Financial Performance and Employee Satisfaction (.246) based on the Pearson Correlation coefficient.

Overall, Managerial experience had only a statistically significant positive correlation with Customer Service (.223) implying that as the value of managerial experience increased so did the value of customer service; Financial Resources had negative statistically significant correlations with Customer service and CSR at -.214 and -.347, respectively, implying that reduced value of financial resources impacts negatively on customer service and CSR. It should be recalled that these variable groups had some of the lowest mean scores throughout the study, further reinforcing the notion that these are areas that do not receive much attention amongst the firm interests.

4.8.2.1 Independent Effect of Firm Resources on Financial Performance

Regression analysis was done to test for the independent effect of firm resources (managerial experience, financial resources, human resources and reputation) on the specific aspects of firm performance viz. financial performance (FP), firm growth (FG), customer service (CS), business process (BP), employee satisfaction (ES) and corporate social responsibility (CSR) as the dependent variable. The Table 4.24 shows the results of regression analysis of financial performance as the dependent variable with the four independent variables that form firm resources.

Table 4.21: Influence of Firm Resources on Financial Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.179[a]	.032	.018	.387

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of square	Df	Mean square	F	Sig
1	Regression	.385	4	.096	.642	.634[b]
	Residual	11.689	78	.150		
	Total	12.074	82			

a. Dependent Variable: Financial Performance;

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.520	.552		6.380	.000		
	Managerial Experience	.168	.144	.161	1.167	.247	.649	1.540
	Financial Resources	-.001	.110	-.001	-.006	.996	.657	1.523
	Human Resources	-.076	.136	-.073	-.561	.576	.743	1.347
	Reputation	-.119	.115	-.134	-1.039	.302	.748	1.337

a. Dependent Variable: Financial Performance
Source: Research Data (2015)

Table 4.21 shows that firm resources have a relatively weak relationship with financial performance (R=.179) in the model summary and explain only 3.2 % of the change in financial performance (R^2=.032). From the ANOVA Table, it is observed that not all the firm resources variables have a significant influence on financial performance since this relationship is not statistically significant (p=>0.05). From the Coefficients table, it is observed that managerial experience has the strongest effect on financial performance (beta=.161). This means that a unit change in managerial experience will affect a .161 change on financial performance. These effects were however not statistically significant (p>0.05). Financial resources, Human resources and reputation on the other hand have a negative impact on financial performance. Reputation had the highest negative impact (beta=-.134), where a unit change in reputation will negatively impact financial performance by -.134.

The implication in this analysis is that financial performance is sensitive to the inherent dynamism of firm resources. In the earlier preliminary analysis, it was observed that under firm resources, reputation is the aspect of customer service which has a direct bearing on customer base and consequently sales and profitability. Equally, it should be recalled that there was no systematic way of handling customer complaints. As well under managerial experience, it will be recalled that a manager with good customer relations is key to the success of the MSME since it has a link to the customer base and the consequent profitability. In order for a firm to succeed there is need to have a strong financial resource base and from earlier analysis it was observed that a firm's ability to source capital was key to its success. In summary, the model shows us that the MSMEs financial performance can be improved through maximum utilization of managerial experience.

The model for the independent effect of firm resources on financial performance is as follows:

$$FP=3.520+.161ME-.001FR-.073HR-.134R$$

Where, FP=Financial Performance

3.520 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of ME, FR, HR and R we can predict the value of financial performance using the model.

4.8.2.2 Influence of Firm Resources on Growth

Business growth is closely tied to firm resources. In this study, the construct of business growth was defined by increased number of stores, employees and customers as well as improvements in cost control. These, under normal circumstances can be attributed to improved quality and demand of products.

Table 4.22: Influence of Firm Resources on Growth

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.196	.038	.005	.523

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.960	4	.240	.879	.480
	Residual	24.029	88	.273		
	Total	24.989	92			

a. Dependent Variable: Firm Growth

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.039	.707		5.711	.000		
	Managerial Experience	-.046	.186	-.032	-.248	.805	.672	1.489
	Financial Resources	-.010	.142	-.009	-.071	.944	.687	1.457
	Human Resources	.106	.172	.074	.616	.540	.754	1.327
	Reputation	-.234	.144	-.194	-1.622	.108	.763	1.310

a. Dependent Variable: Firm Growth

Source: Research Data (2015)

Table 4.22, under the Model summary it is observed that growth had a weak relationship with firm resources (R=.196) and changes in firm resources explain only 3.8% of the change in firm growth (R^2=.038). From the ANOVA Table, it is also observed that not all aspects of firm resources have a significant relationship with firm growth (p>0.05). From the coefficients Table it is noted that Human Resources was the variable with the highest positive influence on firm growth (beta=.074) whereas Reputation had the highest negative influence on growth (beta=-.194). None of the independent variables had a statistically significant relationship with firm growth. In summary, the model above shows that MSME growth can be best improved by maximizing on the human resource base. On the other hand, more resources should be put in place to improve reputation, managerial experience and financial resources.

The model for the independent effect of firm resources on firm growth is as follows:

$$FG=4.039-.032ME-.009FR+.074HR-.194R$$

Where, FG=Firm Growth

4.039 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of ME, FR, HR and R we can predict the value of growth using the above model.

4.8.2.3 Influence of Firm Resources on Customer Service

From the preceding sections, it was observed that MSMEs have high attachment on customer service. The Table 4.23 shows the results of the analysis.

Table 4.23: Influence of Firm Resources on Customer Service

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.459[a]	.211	.175	.313

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.300	4	.575	5.872	.000[b]
	Residual	8.618	88	.098		
	Total	10.919	92			

a. Dependent Variable: Customer Service

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.338	.424		5.518	.000		
	Managerial Experience	.324	.111	.336	2.909	.005	.672	1.489
	Financial Resources	-.314	.085	-.422	-3.693	.000	.687	1.457
	Human Resources	.030	.103	.032	.291	.772	.754	1.327
	Reputation	.146	.087	.182	1.683	.096	.763	1.310

a. Dependent Variable: Customer Service

Source: Research Data (2015)

Table 4.23, indicates the relatively strong relationship between firm resources and customer service (R=.459). The percentage of variability in customer service explained by firm resources is 21.1% (R^2=.211). The F-value of 5.872 is equally high and is statistically significant ($p<0.05$), meaning that majority of the variables in firm resources have a significant influence on customer service. As observed in the coefficients Table, Managerial Experience, Reputation and Human Resources had the highest influence on Customer Service (beta=.336, .032 and .182, respectively). The t-value for Managerial Experience and Financial Resources were statistically significant ($p<0.05$) whereas the t-value for Human Resources and Reputation were not statistically significant ($p>0.05$). Financial resources on the other hand had a negative influence on customer service (beta=-.422). In summary, the model shows that the performance of Customer Service can be best improved by maximizing on managerial experience, reputation and human resource base. Financial resources on the other hand need to be closely monitored and improved in order to realize an improvement in customer service.

The model for the independent effect of firm resources on customer service is as follows:

$$CSP=2.338+.336ME-.422FR+.032HR+.182R$$

Where, CSP=Customer Service Performance

2.338 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of *ME*, *FR*, *HR* and *R* we can predict the value of customer service using the model.

4.8.2.4 Influence of Firm Resources on Business Process Improvement

In the study, business Process Improvement entailed three variables: improved internal processes over the last 4 years; standardization of processes through developing and use of procedure manuals; and improving customer care through use of technology and process automation. From the descriptive analysis in the earlier chapters, it was observed that use of technology and automation was least rated with a mean of 2.14. In reality such

would be found in large manufacturing firms that want to minimize on labour costs and maximize on efficiency using modern technology. Hill (1987) posited that technology is important in supporting and promoting SMEs development since it is responsive to local economies and results in distinctive products and services. Perhaps many of the MSMEs have no way of objectively verifying improved internal business processes and likewise it would be rare to find documented processes since most of the SMEs rely on "expert" knowledge from amongst its employees and the business owner. This again raises the issue of lack of institutional memory through documentation of processes. Table 4.24 summarizes the results of the regression analysis.

Table 4.24: Influence of Firm Resources on Business Process Improvement

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.178[a]	.032	.012	.443

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.562	4	.140	.717	.583[b]
	Residual	17.238	88	.196		
	Total	17.800	92			

a. Dependent Variable: Business Processes

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Coefficients[a]		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	3.523	.599		5.881	.000		
	Managerial Experience	.035	.158	.029	.224	.824	.672	1.489
	Financial Resources	-.163	.120	-.172	-1.359	.178	.687	1.457
	Human Resources	-.051	.145	-.042	-.350	.727	.754	1.327
	Reputation	.035	.122	.034	.287	.775	.763	1.310

a. Dependent Variable: Business Processes

Source: Research Data (2015)

Table 4.24 indicates that there was a relatively weak relationship between firm resources and business process improvement (r=.178) and only 3% variability is explained (R^2=.032). From the ANOVA section of Table 4.27, it can also be observed that not all

the variables within the firm resources have a significant influence on business process improvement. The F-value was low at .717 and was not statistically significant ($p>0.05$). From the correlations table it is noted that reputation had the highest impact on business process improvement (beta=.034) followed by managerial experience (beta=.029). Financial and human resources on the other hand had a negative impact on business process improvement (beta=-.172, -.042, respectively). In summary, business process improvement can be best achieved by maximizing on reputation and managerial experience. Adequate financial and human resources on the other hand should also be allocated to financing activities that would lead to improved business processes.

The model for the independent effect of firm resources on business process improvement is as follows:

$$BPI = 3.523 + .029ME - .172FR - .042HR + .034R$$

Where, BPI =Business Process Improvement

3.523 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of *ME*, *FR*, *HR* and *R* we can predict the value of Business Process Improvement using the model.

4.8.2.5 Influence of Firm Resources on Employee Satisfaction

Employee productivity is closely related to their satisfaction level. Every business strives to improve the morale of their work through providing a conducive working environment not limited to only higher pay but availing the right tools and terms for employees to produce at their optimum. Adequate firm resources should be directed towards ensuring that employees are satisfied. In this study the construct of employee satisfaction as a component of firm performance was measured through satisfaction, skills, turnover, employee loyalty, and multi-tasking. From the descriptive analysis in the previous sections, it is noted that multi-tasking, loyalty and turnover elicited generally negative

sentiments since their average was 2.42, which in the Likert scale ranges between disagree and neutral. The Table 4.25 shows the results of the regression analysis.

Table 4.25: Influence of Firm Resources on Employee Satisfaction

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.324[a]	.105	.065	.437

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.978	4	.495	2.589	.042[b]
	Residual	16.813	88	.191		
	Total	18.792	92			

a. Dependent Variable: Employee Satisfaction

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.405	.592		4.065	.000		
	Managerial Experience	.272	.156	.215	1.745	.084	.672	1.489
	Financial Resources	-.323	.119	-.331	-2.717	.008	.687	1.457
	Human Resources	.094	.144	.076	.652	.516	.754	1.327
	Reputation	.114	.121	.109	.946	.347	.763	1.310

Source: Research Data (2015)

Table 4.25 shows that there appears to be a relatively strong relationship between firm resources and employee satisfaction (R=.324). The changes in firm resources explain 10.5% of the changes in employee satisfaction (R^2=.105). From the ANOVA Table, it is clear that some of the variables in firm resources exert significant influence on employee satisfaction ($p<0.05$). From the Coefficients Table, Managerial Experience is the highest influencer of employee satisfaction (beta=.215), followed by reputation (beta=.109) and least Human Resource base (beta=.076). The t-values for all the three variables were not statistically significant ($p>0.05$). Financial Resources as consistent with the previous analyses has a negative impact (beta=-.331) and this is statistically significant ($p<0.05$).

In summary, the value of coefficients of correlation shows that employee satisfaction in MSMEs can be improved by maximizing on the inherent advantages of managerial experience, firm reputation and human resource capital. Adequate financial resources should be allocated towards supporting efforts to improve employee satisfaction.

The model for the independent effect of firm resources on employee satisfaction is as follows:

$$ES=2.405+.215ME-.331FR+.076HR+.109R$$

Where, ES=Employee Satisfaction

2.405 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of *ME*, *FR*, *HR* and *R* we can predict the value of employee satisfaction using the model.

4.8.2.6 Influence of Firm Resources on Corporate Social Responsibility

All businesses are living entities in the society. They are obligated to function in conformity with the existing societal norms and standards. The Table 4.26 shows the results of the regression analysis.

Table 4.26: Influence of Firm Resources on Corporate Social Responsibility

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.511[a]	.261	.228	.638

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.662	4	3.165	7.786	.000[b]
	Residual	35.778	88	.407		
	Total	48.440	92			

a. Dependent Variable: CSR; b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Coefficients[a]		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.329	.863		2.699	.008		
	Managerial Experience	.391	.227	.193	1.723	.088	.672	1.489
	Financial Resources	-.827	.173	-.528	-4.776	.000	.687	1.457
	Human Resources	.193	.209	.097	.923	.359	.754	1.327
	Reputation	.414	.176	.246	2.348	.021	.763	1.310

a. Dependent Variable: Corporate Social Responsibility

Source: Research Data (2015)

Table 4.26 results indicate that CSR had the strongest relationship with firm resources (r=.511). The changes in firm resources explain 26% (R^2=.261) of the changes in CSR. From the ANOVA table, it is observed that the model has relatively high value of t-value 7.786 and which was statistically significant ($p<0.05$). This shows that a number of the variables in firm resources had significant influence on CSR. From the coefficients Table Reputation had the highest impact on CSR, followed by Managerial Experience and Human Resource base (beta=.246, $p<0.05$; beta=.193, $p>0.05$; and beta=.097, $p>0.05$, respectively). Financial Resources had a low negative correlation (beta=-.827) with a statistically significant t-value ($p<0.05$). In reality, most of the MSMEs would spare little financial resources to cater for CSR and even the concept of CSR is alien and only associated with the big corporate entities (Aqueveque and Ravasi, 2006).In summary, the value of coefficients of correlation shows that CSR improvement in MSMEs greatly benefit from maximizing on the inherent advantages of firm reputation, managerial experience and human resource base. Adequate financial resources should be allocated towards supporting efforts to improve CSR.

The model for the independent effect of firm resources on CSR is as follows:

$$CSR=2.329+.193ME-.528FR+.097HR+.246R$$

Where, CSR=Corporate Social Responsibility

2.329 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of *ME*, *FR*, *HR* and *R* we can predict the value of CSR using the model.

4.8.3 Joint Effect of Firm Resources on Firm Performance

All the subgroups under firm performance were merged into a composite index so as to assess the joint effect of firm performance against the individual groups of firm resources. The results of the regression analysis are summarized on Table 4.27.

Table 4.27: Joint Effect of Firm Resources on Firm Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.409[a]	.167	.129	.301

a. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.593	4	.398	4.410	.003[b]
	Residual	7.947	88	.090		
	Total	9.540	92			

a. Dependent Variable: Firm Performance;

b. Predictors: (Constant), Reputation, Financial Resources, Human Resources, Managerial Experience

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Coefficients[a]		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	2.725	.407		6.700	.000		
	Managerial Experience	.232	.107	.258	2.170	.033	.672	1.489
	Financial Resources	-.306	.082	-.440	-3.748	.000	.687	1.457
	Human Resources	.085	.099	.096	.861	.392	.754	1.327
	Reputation	.087	.083	.117	1.046	.298	.763	1.310

a. Dependent Variable: Firm Performance

Source: Research Data (2015)

Table 4.27 results indicate that there was a relatively strong and positive relationship between the composite index of firm performance with that of the individual variables in firm resources (r=.409). Changes in firm performance could be explained by 16.7% changes in firm resources. The ANOVA table shows that a number of the firm resource variables had a significant relationship with firm performance (F-value=4.410, $p<0.05$). The coefficients Table shows that Managerial Experience, Reputation and Human Resources had the highest positive significant impact on firm performance (beta=.258, $p<0.05$; beta=.117, $p>0.05$; beta=.096, $p>0.05$). Financial Resources on the other hand had a significant negative effect on firm performance (beta=-.440, $p<0.05$). As has been observed throughout this section, adequate financial resources need to be invested under firm resources in order to improve performance.

The model for the joint effect of firm resources on firm performance is as follows:

$$FP=2.725+.258ME-.440FR+.096HR+.117R$$

Where, FP=Firm Performance Composite Index

2.725 is constant (intercept)

ME=Managerial Experience;

FR=Financial Resources;

HR=Human Resources;

R= Reputation (Customer Service)

Given values of *ME*, *FR*, *HR* and *R* we can predict the value of firm performance using the model.

The study therefore concludes that firm resources have a significant influence on performance. This influence is mainly on account of financial resources and managerial experience.

4.8.4 Stepwise Regression: Firm Resources and Firm Performance

To further explain the phenomenon above where the individual variables in firm resources showed a significant relationship with the composite index of firm performance, stepwise regression was conducted on all the 28 individual variables that form firm resources under each resource category in order to come up with the best predictor(s) of firm performance from amongst the independent variables in firm resources. This was done through regressing each of the sub variables against the main

variables in order to identify which of the sub variables were the best predictors. The result was that four indicators out of twenty eight came out as the best predictors of firm performance. The Table 4.28 shows a summary of the results of the stepwise regression.

Table 4.28: Stepwise Regression: Firm Resources and Firm Performance

		R	R^2	F	Sig	Constant	Beta	t	Sig
Management Experience	Academic Qualifications	.394	.155	16.749	.000	2.713	.394	4.093	.000
	Academic Qualifications + Experience in managing people	.437	.191	10.623	.000	2.997	-.190	-1.988	.050
Financial Resources	Ability to Access Loans	.346	.119	12.340	.001	3.606	-.346	-3.513	.001
Human Resources	*None*								
Reputation (Customer Service)	Customer Feedback	.256	.066	6.407	.013	2.455	.256	2.531	.013

Dependent variable: Firm Performance
Source: Research Data (2015)

Table 4.28 shows that under managerial experience, the results produced two models. In the first model, it turns out that academic qualifications was the best predictor of firm performance (r=.394) and changes in academic qualifications explained 15.5% of the changes in performance (R^2=.155). In Model 2, "Experience in managing people" added the most significant contribution to the model. The combined variables improved the model and now accounted for 19.1% of the variance in firm performance (R^2=.191). The remaining variance of 80.9% was explained by other variables not determined in this study.

Under Financial Resources, the ability to access loans was the best predictor of firm performance. Variations in firm resources accounted for 11.9% of the variation in firm performance (R^2=119). None of the variables in Human Resources contributed to the model. Under Reputation, customer feedback was observed as the best predictor of firm performance and changes in ability to access loans explained 6.6% of the changes in performance.

In conclusion the study failed to reject the hypothesis that jointly, firm resources have an influence on firm performance. Specifically, the best predictors of firm performance were the academic qualifications of the management, experience in managing people and the ability to access loans (hence working capital) and customer. Financial resources was the weakest link in the model since it had an overarching negative effect on most performance measures. As such it is a resource that needs to be critically enhanced in order to improve firm performance across the board.

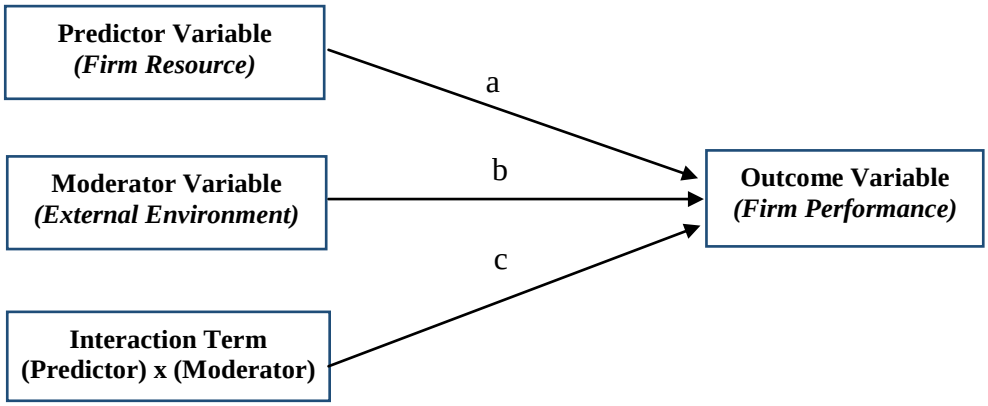
4.9 Moderating Effect of External Environment on the Influence of Firm Resources on Performance

The second objective of the study was to establish moderating role of external environment on the relationship between resources and firm performance. To achieve this the following hypothesis was tested:

H_2 ***The external environment has a significant moderating influence on the relationship between firm resources and performance of MSMEs operating in the furniture sector in Nairobi City County.***

The hypothesis sought to establish the role of external environment on the relationship between firm resources and firm performance. From the conceptual framework, External Environment was established as having a moderating effect on the role of firm resources on firm performance. According to Baron & Kenny (1986), a moderator variable affects the direction and/or strength between an independent and a dependent variable. In other words the moderator is able to alter the strength of the causal relationship (increases or weakens the relationship). It is usually measured through the effects that the interaction term has on the regression coefficients. The effect can be either positive or negative indicating that moderator has an impact on the independent variable and the resultant outcome which is firm performance. This is illustrated in the Figure 4.2.

Figure 4.2: Moderator Model



Source: Adapted from Baron & Kenny (1986)

The interaction term is the fourth variable obtained by multiplying the moderator and predictor variable. Centering was done in order to avoid the effect of multicolinearity.

To test the moderation effect each of the individual variables under External Environment were analyzed independently as the moderator variable together with its interaction term and lastly the composite score of external environment was analyzed together with its interaction term. In this study, External environmental factors comprises of six components monitoring changes in: political, economy, technology, socio-cultural beliefs, environmental regulation and business rules and regulations. The moderation effect is indicated by the interaction of the independent variable and the moderator variable in explaining the dependent variable. It is estimated by the following multiple regression equation.

$$Y=i+ \beta_1 X + \beta_2 M + \beta_3 XM$$

Where $\boldsymbol{\beta_1}$ is the coefficient of the Firm Resources (X) to the Firm Performance (Y) when External Environmental Factor (M) = 0; $\boldsymbol{\beta_2}$ is the coefficient relating M to Y when X = 0, **i** the intercept in the equation; $\boldsymbol{\beta_3}$ is the coefficient relating to the interaction.

The p-value of the interaction does not have to be significant to prove moderation effect since on one hand the relationship may be non-linear and on the other hand the actual moderator may be another variable with which the moderator correlates ("proxy"). In the case of this study, political party financing may be a proxy to political environment, just the same way as changes in the local economy may be affected by fluctuation in world oil prices.

Table 4.29: Pearson Correlation between Firm Resources, Performance and External Environment

		Firm Performance	Firm Resources	Changes in the political scene	Changes in the economy	Emergence of new technologies	Influence of socio-cultural beliefs	Changes in environmental regulation	Changes in rules and regulations
Firm Performance	Pearson	1	.010	.254*	-.075	.511**	.544**	.166	.020
	Sig. (1-tailed)		.921	.014	.472	.000	.000	.113	.851
	N		93	93	93	93	93	93	93
Firm Resources	Pearson		1	.084	.383**	.097	-.117	.220*	.002
	Sig. (1-tailed)			.426	.000	.353	.266	.034	.989
	N			93	93	93	93	93	93
Changes in the political scene	Pearson			1	.326**	.423**	.374**	.248*	.040
	Sig. (1-tailed)				.001	.000	.000	.016	.703
	N				93	93	93	93	93
Changes in the economy	Pearson				1	.204	.041	.276**	.280**
	Sig. (1-tailed)					.050	.696	.008	.007
	N					93	93	93	93
Emergence of new technologies	Pearson					1	.491**	.464**	.120
	Sig. (1-tailed)						.000	.000	.252
	N						93	93	93
Influence of socio-cultural beliefs	Pearson						1	.195	.205*
	Sig. (1-tailed)							.061	.048
	N							93	93
Changes in environmental regulation	Pearson							1	.265*
	Sig. (1-tailed)								.010
	N								93
									1

**. Correlation is significant at the 0.01 level (1-tailed).
*. Correlation is significant at the 0.05 level (1-tailed).

Source: Research Data (2015)

The Table 4.29 shows the correlations between firm performance, resources and external environmental factors. It is observed that firm performance is positively correlated to all the variables except changes in the economy. The relationship is strongest and statistically significant with socio-cultural beliefs (R=.544, $p<0.05$), followed by emergence of new technologies (R=.511, $p<0.05$), changes in political scene (R=.254, $p<0.05$).

Firm resources on the other hand has a strong significant relationship with changes in economy (R=.383, $p<0.05$) as well as changes in environmental regulation (R=.220, $p<0.05$). Socio-cultural beliefs had a negative relationship with firm resources but this is not statistically significant (R=-117, $p>0.05$).

Changes in political scene have strong and positive statistically significant relationship with all the other variables within external environmental factors except changes in rules and regulations. These are statistically significant at 99.9% confidence interval.

4.9.1 Moderating Effects of Changes in Political Environmental on Firm Resources and Performance

The first variable under the External Environment was Changes in Political Environment. As a moderating factor, politics tends to influence availability and access to the requisite resources that would ensure optimum firm performance. In Kenya this is particularly significant. During the election campaigns for 2003 most politicians promised to introduce a 24-hour economy. This would have had significant effects on the business environment. According to Spencer & Gomez (2003) who conducted a study on effect of political environment on firm growth in Latin America, political pronouncements and introduction of regulatory obstacles, government intervention and extensive corruption generally slowed down growth, thus the moderating effect. The Table 4.30 shows the results of the moderating effects of changes in political environment.

Table 4.30: Moderating Effects of Changes in Political Environmental on Firm Resources and Performance

Model Summary[d]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.254[b]	.065	.044	.302	
3	.271[c]	.073	.042	.302	1.342
a. Predictors: (Constant), Firm Resources					
b. Predictors: (Constant), Firm Resources, Changes in the political scene					
c. Predictors: (Constant), Firm Resources, Changes in the political scene, Politics Interaction					
d. Dependent Variable: Firm Performance					

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	.566	2	.283	3.107	.050[c]
	Residual	8.203	90	.091		
	Total	8.769	92			
3	Regression	.642	3	.214	2.345	.078[d]
	Residual	8.127	89	.091		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.830	.402		7.041	.000		
	Firm Resources	-.012	.109	-.011	-.107	.915	.993	1.007
	Changes in the political scene	.077	.031	.255	2.491	.015	.993	1.007
3	(Constant)	1.840	1.156		1.592	.115		
	Firm Resources	.257	.314	.242	.819	.415	.119	8.392
	Changes in the political scene	.363	.316	1.208	1.151	.253	.009	105.910
	Politics Interaction	-.078	.085	-1.011	-.912	.364	.008	117.937

Source: Research Data (2015)

Table 4.30 shows the results of multiple regression involving the independent variable (resources), the moderator variable (political changes), the political interaction term and the dependent variable (performance). In the model summary it is observed that firm resources alone account for less than 1% of the variance in firm performance (R=.008,

R^2=.000). Addition of changes in political environment marginally improves the model to account for 6.5% of the changes in performance (R^2=.065) while addition of the interaction term raises it marginally to 7.3% (R^2=.073). From the ANOVA Table it is observed that not all the variables in the model had a significant effect on firm performance ($p<0.05$). From the coefficients table, it is noted that introduction of changes in political scene variable produces a statistically significant t-value ($t=2.491$, $p<0.05$). The interaction term, however produces a negative t-value that is not statistically significant ($t=-.912$, $p>0.05$). The moderating effects are represented in the following equation:

$$Y=1.840+..242X+1.208M-1.011XM$$

Where: Y=Firm performance; X=firm resources; M=changes in political scene; XM=politics interaction term, 1.840=constant (intercept).

The study therefore concludes that though changes in political environment have a statistically significant effect on firm performance, its interaction term which defines moderation was not statistically significant, thus ruling out a moderating effect of changes in political environment on the influence of firm resources on performance. Further studies are recommended in order to find out if there are any specific political dimensions that have a direct moderating effect.

4.9.2 Moderating Effects of Changes in Economic Environment on Firm Resources and Performance

The SMEs play an important role in the Kenyan economy. According to the Kenya Economic Survey (2006), the sector contributed over 50% of new jobs created in the year 2005. The situation is similar in other African countries. In this study, the moderating effect of changes in economic environment was tested through multiregression. The results are shown in Table 4.31.

Table 4.31: Moderating Effects of Changes in Economic Environmental on Firm Resources and Performance

Model Summary[d]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.087[b]	.007	.015	.311	
3	.111[c]	.012	.021	.312	1.274

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Firm Resources

c. Predictors: (Constant), Firm Resources, Economic Changes

d. Predictors: (Constant), Firm Resources, Economic Changes, Economics Interaction

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	.066	2	.033	.340	.713[c]
	Residual	8.703	90	.097		
	Total	8.769	92			
3	Regression	.108	3	.036	.371	.774[d]
	Residual	8.661	89	.097		
	Total	8.769	92			

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Coefficients[a]		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	3.004	.414		7.259	.000		
	Firm Resources	.049	.121	.046	.405	.687	.853	1.172
	Economic Changes	-.042	.051	-.093	-.818	.415	.853	1.172
3	(Constant)	4.149	1.780		2.331	.022		
	Firm Resources	-.278	.509	-.262	-.547	.586	.048	20.726
	Economic Changes	-.311	.410	-.696	-.758	.451	.013	76.065
	Economics Interaction	.076	.115	.778	.661	.510	.008	124.760

Source: Research Data (2015)

Table 4.31, shows that introducing the variable changes in economy introduces a marginal increase in R^2 in the model such that the changes explain 0.7%. The interaction term yields a marginal increase of 1.2% (R^2=.012). From the coefficients Table, it is

noted that introduction of the interaction term has a positive impact on performance (Beta=.778). None of the values produced a statistically significant t-value.

The moderating effects are represented in the following equation

$$Y=4.149-.262X-.696M+.778XM$$

where *Y*=Firm performance; *X*=firm resources; *M*=changes in economy; *XM*=economy interaction term, 4.149=constant (intercept).

A unit change in firm resources results in 0.262 negative change in performance that is not statistically significant; a unit change in economy results in .696 negative change in performance and that is not statistically significant; lastly a unit change in the interaction term yields a .778 positive change in performance, although not statistically significant. The study therefore concludes that changes in economic environment have no moderating effect on the influence of firm resources on performance.

4.9.3 Moderating Effects of Emergence of New Technologies on Firm Resources and Performance

As it had been noted in the previous chapters, the adoption of new technologies is paramount to the survival and growth of any business. The study sought to test the moderating effect of emergence of new technologies on the relationship between firm resources and performance. The results are outlined in the Table 4.32.

Table 4.32: Moderating Effects of Emergence of New Technologies on Firm Resources and Performance

Model Summary[d]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.513[b]	.263	.247	.268	
3	.517[c]	.267	.243	.269	1.573
a. Dependent Variable: Firm Performance					
b. Predictors: (Constant), Firm Resources					
c. Predictors: (Constant), Firm Resources, New Technology					
d. Predictors: (Constant), Firm Resources, New Technology, New Technology					

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	2.308	2	1.154	16.075	.000[c]
	Residual	6.461	90	.072		
	Total	8.769	92			
3	Regression	2.344	3	.781	10.820	.000[d]
	Residual	6.426	89	.072		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.736	.356		7.689	.000		
	Firm Resources	-.042	.096	-.040	-.438	.662	.990	1.010
	New Technology	.162	.029	.515	5.669	.000	.990	1.010
3	(Constant)	2.200	.844		2.607	.011		
	Firm Resources	.106	.232	.100	.455	.650	.172	5.819
	New Technology	.318	.224	1.009	1.421	.159	.016	61.310
	New Technology Interaction	-.043	.061	-.530	-.701	.485	.014	69.430

Source: Research Data (2015)

Table 4.32, shows that introducing the variable emergence of new technology introduces a substantial increase in R^2 in the model such that the changes explain 26.3%. This is a fairly strong model. The interaction term yields a marginal increase of 26.7% (R^2=.267). The ANOVA Table shows that the model is a good fit and that the variables produce a statistically significant F value ($p<0.05$). From the coefficients table, it is noted that introduction of the interaction term has a negative impact on performance (Beta=-.530).

The moderating effects are represented in the following equation

$$Y=2.200+.100X+1.009M-.530XM$$

where Y=Firm performance; X=firm resources; M=emergence of new technology; XM=emergence of new technology interaction term, 2.200 =constant (intercept).

A unit change in firm resources results in 0.100 positive change in performance that is not statistically significant; a unit change in technology results in 1.009 positive change in performance and that is statistically significant; lastly a unit change in the interaction term yields a .530 negative change in performance, although not statistically significant. The study therefore concludes that though emergence of new technologies has a statistically significant effect on firm performance, its interaction term which defines moderation was not statistically significant, thus ruling out a moderating effect on the influence of firm resources on performance. Further study is needed in order to find out if there are any specific dimensions of new technology that have a direct moderating effect.

4.9.4 Moderating Effects of Socio-Cultural Beliefs on Firm Resources and Performance

The fourth variable in the external environmental factors was the influence of socio-cultural beliefs as a moderator of firm resources on performance. The results are shown in the Table 4.33.

Table 4.33: Moderating Effects of Socio-Cultural Beliefs on Firm Resources and Performance

Model Summary[a]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.549[b]	.301	.285	.261	
3	.555[c]	.309	.285	.261	1.619
a. Dependent Variable: Firm Performance					
b. Predictors: (Constant), Firm Resources					
c. Predictors: (Constant), Firm Resources, Socio-Cultural					
d. Predictors: (Constant), Firm Resources, Socio-Cultural, Socio-Cultural Interaction					

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	2.639	2	1.320	19.377	.000[c]
	Residual	6.130	90	.068		
	Total	8.769	92			
3	Regression	2.706	3	.902	13.238	.000[d]
	Residual	6.063	89	.068		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.308	.360		6.410	.000		
	Firm Resources	.079	.094	.075	.843	.402	.986	1.014
	Socio-Cultural	.180	.029	.552	6.224	.000	.986	1.014
3	(Constant)	1.664	.746		2.230	.028		
	Firm Resources	.258	.204	.243	1.264	.210	.211	4.749
	Socio-Cultural	.411	.236	1.263	1.739	.085	.015	67.887
	Socio-Cultural Interaction	-.065	.065	-.716	-.986	.327	.015	67.923

Source: Research Data (2015)

Table 4.33 indicates that introducing the variable emergence of socio-cultural changes introduces a substantial increase in R^2 in the model such that the changes explain 30.1% of the variation in firm performance. The interaction term results in a marginal increase

of 30.9% (R^2=.309). The ANOVA Table shows that the model is a good fit and that the combination in Model 3 produces a statistically significant F value ($p<0.05$). From the coefficients table, it is noted that introduction of the interaction term has a negative impact on performance (Beta=-.716). The moderating effects are represented in the following equation

$$Y=1.664+.243X+1.263M-.716XM$$

where Y=Firm performance; X=firm resources; M=socio-cultural; XM=socio-cultural interaction term, 1.664=constant (intercept).

A unit change in firm resources results in 0.243 positive change in performance that is not statistically significant; a unit change in socio-cultural changes results in 1.263 positive change in performance and that is statistically significant; lastly a unit change in the interaction term yields a .716 negative change in performance, although not statistically significant. The study therefore concludes that though socio-cultural beliefs has a statistically significant effect on firm performance, its interaction term which defines moderation was not statistically significant, therefore ruling out a moderating effect of on the influence of firm resources on performance. Further study is needed in order to find out if there are any specific dimensions of socio-cultural that have a direct moderating effect.

4.9.5 Moderating Effects of Changes in Environmental Regulations on Firm Resources and Performance

The fifth variable on external environmental factors was the influence of changes in environmental regulation. The results of the moderating effect of changes in the environmental regulations on firm resources and performance are presented in Table 4.34.

Table 4.34: Moderating Effects of Changes in Environmental Regulations on Firm Resources and Performance

Model Summary[a]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.168[b]	.028	.007	.308	
3	.168[c]	.028	.005	.309	1.306

a. Dependent Variable: Firm Performance$_a$

b. Predictors: (Constant), Firm Resources$_b$

c. Predictors: (Constant), Firm Resources, Environmental Regulations$_c$

d. Predictors: (Constant), Firm Resources, Environmental Regulations, Environmental Regulations Interaction$_d$

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	.247	2	.123	1.303	.277[c]
	Residual	8.522	90	.095		
	Total	8.769	92			
3	Regression	.247	3	.082	.859	.465[d]
	Residual	8.522	89	.096		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.867	.410		6.986	.000		
	Firm Resources	-.029	.113	-.027	-.256	.798	.952	1.051
	Environmental Regulations	.067	.041	.172	1.611	.111	.952	1.051
3	(Constant)	2.800	1.931		1.450	.151		
	Firm Resources	-.010	.535	-.010	-.020	.984	.043	23.311
	Environmental Regulations	.084	.494	.216	.170	.865	.007	147.955
	Environmental Regulations Interaction	-.005	.136	-.052	-.035	.972	.005	195.273

Source: Research Data (2015)

Table 4.34 results show that introducing the variable emergence of environmental regulations introduces a marginal increase in R^2 in the model such that the changes explain 2.8% of the variation in firm performance. The interaction term results in a no increase in the coefficient of determination (R^2=.028). The ANOVA Table shows that the model is not a good fit and that the combination in Model 3 produces a F value that is not statistically significant ($p<0.05$). From the coefficients table, it is noted that introduction of the interaction term has a negative impact on performance (Beta=-.013).

The moderating effects are represented in the following equation

$$Y=2.800-.010X+.216M-.052XM$$

where Y=Firm performance; X=firm resources; M=environmental regulation; XM= environmental regulation interaction term, 2.800=constant (intercept).

A unit change in firm resources results in 0.010 negative change in performance that is not statistically significant; a unit change in environmental regulation results in .216 positive change in performance and that is not statistically significant; lastly a unit change in the interaction term yields a .052 negative change in performance, although not statistically significant. The study therefore concludes that environmental regulations has no moderating effect on the influence of firm resources on performance.

4.9.6 Moderating Effects of Changes in Business Rules & Regulations on Firm Resources and Performance

The results of the regression analysis on the moderating effect of changes in business rules and regulations on firm resources and performance are presented in Table 4.35.

Table 4.35: Moderating Effects of Changes in Business Rules and Regulations on Firm Resources and Performance

Model Summary[a]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.022[b]	.000	.022	.312	
3	.090[c]	.008	.025	.313	1.306

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Firm Resources

c. Predictors: (Constant), Firm Resources, Business Rules Regulations

d. Predictors: (Constant), Firm Resources, Business Rules Regulations, Business Rules Regulations Interaction

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	.004	2	.002	.022	.978[c]
	Residual	8.765	90	.097		
	Total	8.769	92			
3	Regression	.071	3	.024	.242	.867[d]
	Residual	8.698	89	.098		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.923	.459		6.369	.000		
	Firm Resources	.011	.112	.010	.098	.922	1.000	1.000
	Environmental Regulations	.010	.053	.020	.187	.852	1.000	1.000
3	(Constant)	1.848	1.382		1.337	.185		
	Firm Resources	.287	.353	.271	.813	.418	.100	9.952
	Environmental Regulations	.317	.376	.634	.843	.402	.020	50.787
	Environmental Regulations Interaction	-.079	.096	-.673	-.825	.412	.017	59.802

Source: Research Data (2015)

Table 4.35, indicates that introducing the variable business rules and regulations together with its interaction term explains less than 1% of the variation in firm performance (R^2=.008). The ANOVA Table shows that the model is not a good fit and that the combination in Model 3 produces a F value that is not statistically significant ($p<0.05$). From the coefficients Table, it is noted that in the combined model, none of the variables produces a statistically significant coefficient ($p<0.05$).

The moderating effects are represented in the following equation

$$Y=1.848+.271X+.634M-.673XM$$

where Y=Firm performance; X=firm resources; M=business rules; XM=business rules interaction term, 1.848=constant (intercept).

A unit change in firm resources results in 0.271 positive change in performance that is not statistically significant; a unit change in business rules results in .634 positive change in performance and that is not statistically significant; lastly a unit change in the interaction term yields a .673 negative change in performance, although not statistically significant. The study therefore concludes that business rules and regulation has no moderating effect on the influence of firm resources on performance.

4.9.7 Moderating Effects of Composite Index of Changes in External Environmental Factors on Firm Resources and Performance

Lastly, the composite index of external environmental factors was tested for its moderating effect on firm resources and performance. The results are shown in the Table 4.36.

Table 4.36: Moderating Effects of Changes in External Environmental Factors on Firm Resources and Performance

Model Summary[a]	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.010[a]	.000	.011	.310	
2	.429[b]	.184	.166	.282	
3	.433[c]	.187	.160	.283	1.545
a. Dependent Variable: Firm Performance					
b. Predictors: (Constant), Firm Resources					
c. Predictors: (Constant), Firm Resources, External Environment					
d. Predictors: (Constant), Firm Resources, External Environment, External Environment Interaction					

ANOVA[a]		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.010	.921[b]
	Residual	8.768	91	.096		
	Total	8.769	92			
2	Regression	1.617	2	.809	10.176	.000[c]
	Residual	7.152	90	.079		
	Total	8.769	92			
3	Regression	1.643	3	.548	6.839	.000[d]
	Residual	7.126	89	.080		
	Total	8.769	92			

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.961	.410		7.227	.000		
	Firm Resources	.011	.111	.010	.099	.921	1.000	1.000
2	(Constant)	2.417	.391		6.181	.000		
	Firm Resources	-.062	.102	-.059	-.609	.544	.975	1.026
	External Environment	.250	.055	.435	4.510	.000	.975	1.026
3	(Constant)	1.555	1.579		.985	.327		
	Firm Resources	.177	.437	.167	.405	.686	.054	18.574
	External Environment	.494	.436	.858	1.133	.260	.016	62.760
	External Environment Interaction	-.068	.120	-.513	-.563	.575	.011	90.736

Source: Research Data (2015)

Table 4.36, indicates that introducing the variable External Environmental factors introduces a substantial increase in R^2 in the model such that the changes explain 18.4% of the variation in firm performance. The interaction term results in a marginal increase

of 18.7% (R^2=.187). The ANOVA Table shows that the model is not a good fit and that the combination in Model 3 does not produce a statistically significant F value ($p<0.05$). From the coefficients Table, it is noted that introduction of the interaction term has a negative impact on performance (Beta=-.513).

The moderating effects are represented in the following equation

$$Y=1.555+.167X+.858M-.513XM$$

where Y=Firm performance; X=firm resources; M=external environment; XM=external environment interaction term, 1.555=constant (intercept).

A unit change in firm resources results in 0.167 positive change in performance that is not statistically significant; a unit change in external environment results in .858 positive change in performance and that is statistically significant; lastly a unit change in the interaction term yields a .513 negative change in performance, although not statistically significant.

The study therefore concludes that though external environment has a statistically significant effect on firm performance, its interaction term which defines moderation was not statistically significant, therefore ruling out a moderating effect on the influence of firm resources on performance. The study therefore failed to accept the hypothesis. Further studies are needed in order to find out if there are any specific dimensions of external environment that have a direct moderating effect.

4.10 Intervening (Mediating) Effect of Entrepreneurial Strategy on Firm Resources and Performance

The third objective of the study was to determine the intervening role of entrepreneurial strategy on firm resources and firm performance. To achieve this objective, the following hypothesis was formulated and tested:

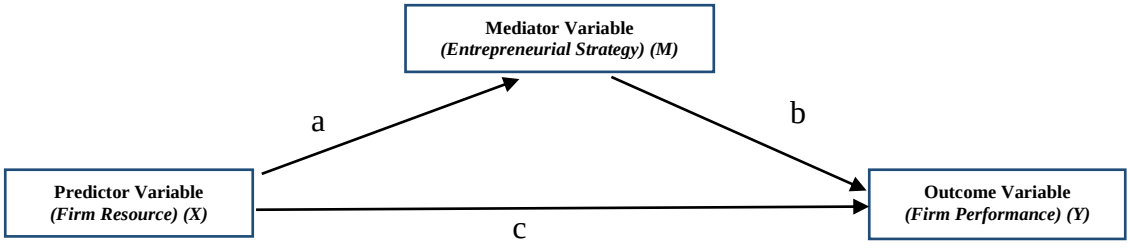
H_3 ***Entrepreneurial strategy has a significant intervening influence on the relationship between firm resources and the performance of MSMEs in the furniture sector in Nairobi City County***

The study tested the relationship between strategy as a mediator or intervening variable between resources and performance. Strategy had two major components (generic and hybrid strategy). Generic strategy comprised three variables: Cost Leadership, Differentiation and Market Focus whereas hybrid strategy entailed Low Cost and Differentiation as well as High Cost and Differentiation. In total, 5 independent variables were analyzed under Entrepreneurial strategy.

Porter (1980) outlines generic strategies that a firm may adopt in order to achieve and retain competitive strategy. This is through using its relative strength to position itself as a leader. Ultimately, Porter (1980) outlines three strategies which he refers to as generic: cost leadership, differentiation, and focus. He further refers to them as generic since they are not "firm or industry dependent". Cost Leadership targets mass market through lower production costs and consequently power pricing. Differentiation on the other hand focuses on products that are perceived as superior due to uniqueness and are usually aimed at the high end market. This strategy has obvious implications on production cost and sale price. Focus is a strategy that focuses on a specific market segment where a firm enjoys customer loyalty. This study adopted Porters (1980) Generic strategies as a mediating (intervening) factor in the relationship between resources and performance.

Baron & Kenny (1986) state that a mediating variable as "may be said to function as a mediator to the extent that it accounts for the relation between the predictor and the criterion". That "mediators explain how external physical events take on internal psychological significance "and "whereas moderator variables specify when certain effects will hold, mediators speak to how or why such effects occur". The Figure 4.3 shows the mediational model from (Baron & Kenny, 1986).

Figure 4.3: Mediational Model



Source: Adapted from Baron & Kenny (1986)

4.10.1 Mediating Effect of Cost Leadership on the Influence of Resources on MSME Performance

The mediating effect of Cost Leadership on the influence of firm resources is summarized in Table 4.37.

Table 4.37: Mediating Effect on Cost Leadership on Influence of Resources on Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Cost Leadership	.256	.066	6.406	.013	0.785	.762	.301	.256	2.531	.013
3a	Resources	Performance	.329[a]	.108	11.017	.001[b]	2.581	.117	.035	.329	3.319	.001
3b	+ Cost Leadership		.337[b]	.114	5.781	.004[c]	2.863	.125	.037	.349	3.399	.001

Source: Research Data (2015)

Table 4.37 indicates that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 6.6% of the variation in Cost Leadership (R^2=0.066), thus establishing the causal effect. This relationship is statistically significant and as the value of firm resources increase so does the value of cost leadership (beta=.256, t=.2.531, p<0.05). Step 3 is a multiple regression model where both resources and cost leadership are entered. The result is that the introduction of Cost Leadership improves the model to the extent that it accounts for 11.4% the variation in performance (R^2=.114). In this model cost leadership has a positive impact on performance and the influence is statistically significant (beta=.349, t=3.399, p<0.05). This means that a unit change in the value of cost leadership increases the value of performance by .349. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=0.785+0.256X
Model 3: Y=2.863+.329X+.349M

Where Y=Performance; X=Resources; M= Cost Leadership

The study therefore concludes that Cost Leadership has a mediating effect on the influence of resources on firm performance.

4.10.2 Mediating Effect of Differentiation on the Influence of Resources on MSME Performance

Differentiation is the second variable under entrepreneurial strategy. The mediating effect of differentiation on the influence of resources is summarized in Table 4.38.

Table 4.38: Mediating Effect on Differentiation on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Differentiation	.126[a]	.016	1.474	.228	2.169	.341	.281	.126	1.214	.228
3a	Resources	Performance	.204[a]	.041	3.939	.050[b]	2.727	.080	.040	.204	1.985	.050
3b	+ Differentiation		.204[b]	.042	1.960	.147[c]	2.785	.081	.041	.206	1.977	.050

Source: Research Data (2015)

Table 4.38 shows that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 1.6% of the variation in differentiation (R^2=0.016), thus establishing the causal effect. This relationship is not statistically significant and as the value of firm resources increase so does the value of differentiation (beta=.126, t=1.214, p>0.05). Step 3 is a multiple regression model where both resources and differentiation are entered. The result is that the introduction of differentiation does not quite improve the model to the extent that it still accounts for 4.2% the variation in performance (R^2=.042). In this model differentiation has a positive impact on performance and the influence is statistically significant (beta=.206, t=1.977, p<0.05). This means that a unit change in the value of differentiation increases the value of performance by .206. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=2.169+.126X
Model 3: Y=2.785+.204X+.206M

Where Y=Performance; X=Resources; M=Differentiation

The study therefore concludes that Differentiation has a mediating effect on the influence of resources on firm performance.

4.10.3 Mediating Effect of Focus on the Influence of Resources on MSME Performance

Focus is the third variable under entrepreneurial strategy. The mediating effect of focus on the influence of resources is summarized in Table 4.39.

Table 4.39: Mediating Effect on Focus on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Focus	.197	.039	3.667	.059	1.307	.546	.285	.197	1.915	.059
3a	Resources	Performance	.133[a]	.018	1.633	.204[b]	2.833	.051	.040	.133	1.278	.204
3b	+ Focus		.134[b]	.018	.820	.444[c]	2.893	.052	.041	.136	1.277	.205

Source: Research Data (2015)

Table 4.39 indicates that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 3.9% of the variation in focus (R^2=0.030), thus establishing the causal effect. This relationship is not statistically significant and as the value of firm resources increase so does the value of focus (beta=.197, t=1.915, p>0.05). Step 3 is a multiple regression model where both resources and focus are entered. The result is that the introduction of focus does not quite improve the model to the extent that it accounts for only 1.8% the variation in performance (R^2=.018). In this model focus has a positive impact on performance but the influence is not statistically significant (beta=.136, t=1.277, p>0.05). This means that a unit change in the value of focus reduces the value of performance by .136. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=1.307+.197X
Model 3: Y=2.893+.133X+.136M

Where Y=performance; X=resources; M=focus

The study therefore concludes that focus has no mediating effect on the influence of resources on firm performance.

4.10.4 Mediating Effect of Low Cost and Differentiation (LC&D) on the Influence of Resources on MSME Performance

Low Cost & Differentiation (LC&D) is the fourth variable under entrepreneurial strategy. The mediating effect of LC&D on the influence of resources is summarized in Table 4.40.

Table 4.40: Mediating Effect on LC&D on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	LC&D	.170[a]	.029	2.709	.103[b]	1.880	.355	.216	.170	1.646	.103
3a	Resources	Performance	.153[a]	.023	2.168	.144[b]	2.754	.078	.053	.153	1.472	.144
3b	+ LC&D		.153[b]	.024	1.084	.343[c]	2.812	.079	.054	.155	1.469	.145

Source: Research Data (2015)

Table 4.40 shows that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 2.9% of the variation in LC&D (R^2=0.029), thus establishing the causal effect. This relationship is not statistically significant and as the value of firm resources increases so does the value of LC&D (beta=.170, t=1.646, p>0.05). Step 3 is a multiple regression model where both resources and LC&D are entered. The result is that the introduction of LC&D reduces the model to the extent that it accounts for less than 2.4% of the variation in performance (R^2=.024). In this model LC&D has a positive impact on performance but the influence is not statistically significant (beta=.155, t=1.469, p>0.05).

This means that a unit change in the value of LC&D increases the value of performance by .155. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=2.168+.153X
Model 3: Y=2.812+.153X+.155M

Where Y=performance; X=resources; M=LC&D

The study therefore concludes that LC&D has no mediating effect on the influence of resources on firm performance.

4.10.5 Mediating Effect of High Cost and Differentiation (HC&D) on the Influence of Resources on MSME Performance

HC&D is the fifth variable under entrepreneurial strategy. The mediating effect of HC&D on the influence of resources is summarized in Table 4.41.

Table 4.41: Mediating Effect on HC&D on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	HC&D	.074	.006	.504	.479	2.739	.177	.249	.074	.710	.479
3a	Resources	Performance	.335[a]	.112	11.504	.001[b]	2.495	.149	.044	.335	3.392	.001
3b	+ HC&D		.335[b]	.112	5.701	.005[c]	2.550	.150	.044	.336	3.375	.001

Source: Research Data (2015)

Table 4.41, shows that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for less than 1% of the variation in HC&D (R^2=0.006), thus establishing the causal effect. This relationship is not statistically significant and as the value of firm resources increase so does the value of HC&D (beta=.074, t=.710, p>0.05). Step 3 is a multiple regression model where both resources and HC&D are entered. The result is that the introduction of HC&D improves the model to the extent that it accounts for 11.2% the variation in performance (R^2=.112). In this model HC&D has a positive impact on performance and the influence is statistically significant (beta=.336, t=3.375, p<0.05). This means that a unit change in the value of HC&D increases the value of performance by .336. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.011X
Model 2: M=2.739+.074X
Model 3: Y=2.550+.335X+.336M

Where Y=performance; X=resources; M=HC&D

The study therefore concludes that HC&D has a mediating effect on the influence of resources on firm performance.

4.10.6 Mediating Effect of Generic Strategy (Composite Index) on the Influence of Resources on MSMEs Performance

The three sub variables in generic strategy were merged to form one composite index for generic strategies. The result of the analysis is summarized in the Table 4.42.

Table 4.42: Mediating Effect on Generic Strategy on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Generic Strategy	.216[a]	.047	4.447	.038[b]	1.420	.549	.261	.216	2.109	.038
3a	Resources	Performance	.248[a]	.062	5.964	.017[b]	2.646	.103	.042	.248	2.442	.017
3b	+ Generic		.252[b]	.063	3.049	.052[c]	2.808	.107	.044	.258	2.467	.016

Source: Research Data (2015)

Table 4.42 shows that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 4.7% of the variation in generic strategy (R^2=0.047), thus establishing the causal effect. This relationship is statistically significant and as the value of firm resources increase so does the value of generic strategy (beta=.216, t=2.109, p<0.05). In Step 3 the introduction of generic strategy moderately improves the model to the extent that it accounts for 6.3% the variation in performance (R^2=.063). In this model generic strategy has a positive impact on performance and the influence is statistically significant (beta=.258, t=2.467, p<0.05). This means that a unit change in the value of generic strategy increases the value of performance by .258. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=1.420+.216X
Model 3: Y=2.808+.248X+.258M

Where Y=performance; X=resources; M=generic strategy

The study therefore concludes that generic strategy has a mediating effect on the influence of resources on firm performance. This effect is largely on account of cost differentiation.

4.10.7 Mediating Effect of Hybrid Strategy (Composite Index) on the Influence of Resources on MSMEs Performance

The two sub variables in hybrid strategy were merged to form one composite index for hybrid strategies. The results of the analysis are summarized in the Table 4.43.

Table 4.43: Mediating Effect on Hybrid Strategy on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Hybrid Strategy	.132[a]	.017	1.605	.208[b]	2.310	.266	.210	.132	1.267	.208
3a	Resources	Performance	.276[a]	.076	7.525	.007[b]	2.524	.145	.053	.276	2.743	.007
3b	+ Hybrid Strategy		.278[b]	.077	3.757	.027[c]	2.621	.147	.054	.280	2.739	.007

Source: Research Data (2015)

Table 4.43 shows that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 1.7% of the variation in Hybrid Strategy (R^2=0.017), thus establishing the causal effect. This relationship is not statistically significant and as the value of firm resources increase so does the value of Hybrid Strategy (beta=.132, t=1.267, p>0.05). Step 3 is a multiple regression model where both resources and hybrid strategy are entered. The result is that the introduction of Hybrid Strategy improves the model to the extent that it accounts for 7.7% the variation in performance (R^2=.077). In this model hybrid strategy has a positive impact on performance and the influence is statistically significant (beta=.280, t=2.739, p<0.05). This means that a unit change in the value of hybrid strategy increases the value of performance by .280. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=2.310+.132X
Model 3: Y=2.621+.276X+.280M

Where Y=performance; X=resources; M=hybrid strategy

The study therefore concludes that hybrid strategy has a mediating effect on the influence of resources on firm performance. This effect is largely on account of the High Cost and Differentiation Strategy.

4.10.8 Mediating Effect of Entrepreneurial Strategy (Composite Index) on the Influence of Resources on MSMEs Performance

All the five sub variables in Entrepreneurial Strategy were merged to form one composite index for entrepreneurial strategies. The results of the analysis are summarized in the Table 4.44.

Table 4.44: Mediating Effect on Entrepreneurial Strategy on Influence of Resources on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Resource	Ent Strategy	.204[a]	.042	3.947	.050[b]	1.776	.436	.219	.204	1.987	.050
3a	Resources	Performance	.281[a]	.079	7.830	.006[b]	2.530	.140	.050	.281	2.798	.006
3b	+ Ent Strategy		.286[b]	.082	3.995	.022[c]	2.704	.145	.051	.291	2.825	.006

Source: Research Data (2015)

Table 4.44 indicates that in Step 1, it is established that an increase in resources caused an increase in performance though this relationship was not statistically significant (beta=.010, t=.099, p>0.05). In step 2 it is established that resources alone accounted for 4.2 % of the variation in Entrepreneurial Strategy (R^2=0.042), thus establishing the causal effect. This relationship is statistically significant and as the value of firm resources increase so does the value of Entrepreneurial Strategy (beta=.204, t=1.987, p<0.05). Step 3 is a multiple regression model where both resources and Entrepreneurial Strategy are entered. The result is that the introduction of Entrepreneurial Strategy improves the model to the extent that it accounts for 8.2% of the variation in performance (R^2=.082). In this model Entrepreneurial Strategy has a positive impact on performance and the influence is statistically significant (beta=.291, t=2.825, p<0.05). This means that a unit

change in the value of Entrepreneurial Strategy increases the value of performance by .291. The intervening relationship can be represented by the following equations:

Model 1: Y=2.961+.010X
Model 2: M=1.776+.204X
Model 3: Y=2.704+.281X+.291M

Where Y=Performance; X=Resources; M=Entrepreneurial Strategy

On account of the results in Table 4.44, the study can conclude that Entrepreneurial Strategy has a mediating effect on the influence of resources on firm performance. It was observed that both generic and hybrid strategies in particular cost leadership and high cost and differentiation, respectively, had a statistically significant mediating effect. In reality as Porter (1980) posit, it is possible to apply the generic strategy singly and attain competitive advantage rather than in combination. In conclusion therefore, on a composite basis, entrepreneurial strategy has a mediating effect on the influence of resources on performance. The study therefore failed to reject the hypothesis on this account.

4.11 Joint Effect of Firm Resources, External Environment and Entrepreneurial Strategy on Performance

The fourth objective of the study was to establish that the joint effect of firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating within the furniture sector in Nairobi City County is different from their individual effects. To achieve this, the following hypothesis was formulated and tested:

H_4 ***The joint influence of firm resources, external environment and entrepreneurial strategy is different from the individual effects of each of the variables on performance of MSMEs operating in the furniture sector in Nairobi City County.***

The prior sections have dealt much with the individual effects of the variables on firm resources on the individual components of firm performance as well as the composite index of firm performance. Regression analysis was done on the composite indexes of firm resources, entrepreneurial strategy, external environment and firm performance.

The Table 4.45 shows the summary of the results of the individual effects of the three study variables on firm performance.

Table 4.45: Individual Effects of Firm Resources, Entrepreneurial Strategy and External Environmental Factors on Firm on MSME Performance

	Independent Variable	Dependent Variable	Model Summary		ANOVA		Coefficients					
			R	R^2	F	F Sig.	Constant	B	SE	Beta	t	Sig. t
1	Firm Resource	Performance	.010[a]	.000	.010	.921[b]	2.961	.011	.111	.010	.099	.921
2	Ent. Strategy	Performance	.281[a]	.079	7.830	.006[b]	2.530	.140	.050	.281	2.798	.006
3	Ext. Environment	Performance	.426[a]	.181	20.122	.000[b]	2.206	.245	.055	.426	4.486	.000

Source: Research Data (2015)

Table 4.45, indicates that firm resource alone has no statistically significant effect on firm performance. Resources alone accounted for less than 1% of the changes in performance while Entrepreneurial Strategy alone accounted for 7.9% of the changes in performance and the effect is statistically significant ($p<0.05$). External environment also has a significant impact on firm performance as changes in external environment explain 18.1% of the variation in firm performance. This effect is statistically significant (t-value=4.486; $p<0.05$).

The Table 4.46 shows the results of the joint effect of the three study variables on firm performance.

Table 4.46: Joint Effect of Firm Resources, External Environmental Factors and Entrepreneurial Strategy on Firm Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.457[a]	.208	.182	.279

a. Predictors: (Constant), External Environmental, Entrepreneurial Strategy, Firm Resources

	ANOVA[a]	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.828	3	.609	7.813	.000[b]
	Residual	6.941	89	.078		
	Total	8.769	92			

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), External Environmental, Entrepreneurial Strategy, Firm Resources

Coefficients[a]		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.337	.391		5.984	.000
	Firm Resources	-.089	.103	-.084	-.871	.386
	Entrepreneurial Strategy	.083	.051	.167	1.643	.104
	External Environmental	.219	.058	.381	3.778	.000

a. Dependent Variable: Firm Performance

Source: Research Data (2015)

Table 4.46 indicates that the model summary shows that jointly, External Environmental, Entrepreneurial Strategy, Firm Resources explain 20.8% (R^2=.208). The F-value of 7.813 and its accompanying p-value of .000 confirm the fact that most of the variables in the model have an impact on firm performance. From the coefficients section it is observed that external environmental factors had the highest and statistically significant impact on firm performance (beta=.58; t=3.778; p<0.05). This is followed by Firm resources which had a statistically non-significant negative impact on firm performance (beta=-.084; t=-.871; p>0.05) though this was not statistically significant. Entrepreneurial strategy also showed a negative impact on performance. As it has been noted in the previous sections entrepreneurial strategy is one area that has not fully been explored. In this study only 32 out of the 93 firms had a written strategy and this can have a significant effect on performance. In conclusion, the study failed to reject the fourth hypothesis that the joint effects of the three variables were different from their individual effects.

4.12 Chapter Summary

This chapter has presented and attempted to prove the four hypotheses covered in this study. Each of the four study variables had a number of sub variables which were assessed individually and later combined into composite indexes. Pearson's Correlations were used to explore the relationship between the study variables. The variables were then regressed using simple and multiple methods as applicable. In the first hypothesis, hierarchical stepwise regression was used so as to come up with the best predictors of firm performance from the list of variables that formed firm resources.

Three of the four hypotheses were confirmed whereas one was not confirmed. For the hypothesis which was not confirmed, this was on account of the whole composite index even though some of the sub variables exhibited strong influence on performance and this presented the problem of proxy variables (otherwise known as confounders). This mostly affected the section on moderating and mediating (intervening) effects. The next chapter presents a discussion of the results.

CHAPTER FIVE
DISCUSSION OF RESULTS

5.1 Introduction

This chapter explains the results of the analysis in the relationship between firm resources and firm performance. It further explains the moderating role of external environmental factors as well as the intervening role of entrepreneurial strategy on the influence of firm resources on firm performance. These are discussed in detail individually and jointly. Lastly, the chapter discusses how the findings relate to existing theory and findings from similar studies.

5.1.1 Influence of Firm Resources on Firm Performance

The first objective of the study was to establish the influence of firm resources on performance of MSMEs operating within the furniture sector in the Nairobi City County, Kenya. This objective was achieved by testing hypothesis ***H_1 which stated that there is a significant relationship between firm resources and performance of MSMEs.*** The study used each of the 6 performance sub variables (Financial, Growth, Customer Service, Business Process Improvement, Employee Satisfaction and CSR) as the dependent variables against which the four firm performance sub-variables (Managerial experience, financial resources, human resources and customer service (reputation) were correlated.

A correlation analysis was done in order to determine the strength and direction of the relationship between the sub variables of firm performance and firm resources. The results indicate that out of the possible 20 combinations, 7 were positively correlated and statistically significant. 13 were positive but not statistically significant. Financial resources and reputation tended to be negatively correlated with most of the performance dimensions. The implication is that financial performance is sensitive to the inherent dynamism of firm resources and firm reputation. Under managerial experience, a manager with good customer relations is key to the success of the MSME since it has a link to the customer base and the consequent profitability. Human resource capacity appeared to have no significant correlation with firm performance. In order for a firm to

succeed there is need to have a strong financial resource base and from earlier analysis it was observed that a firm's ability to source capital was key to its success.

Regression analysis revealed that firm resources had most influence on Customer Service (R^2=.211), Employee Satisfaction (R^2=.105) and CSR (R^2=.261). Jointly, firm resources explained 16.7% of the variation in firm performance (R^2=.167). In summary, the model shows us that the MSMEs financial performance can be improved through maximum utilization of managerial experience.

Access to finance remains a critical factor in MSMEs more than large enterprises (Harvie, 2005). It should also be noted that technology is important in supporting and promoting SMEs development since it is responsive to local economies and results in distinctive products and services (Hill, 1988).

While the results of this study show that Human Resources had no significant correlation with performance other studies have noted that human resources are key to firm performance and therefore firms put measures in place to ensure staff attraction and retention, training and development, compensation and succession planning (Little, 1986; Amba-Rao and Pendese, 1985).

Murgor (2014) posits that Business process improvement is a reflection of a firm's core competences and areas of operational excellence. In this study, resources had no significant influence on business process improvement. Particularly the aspect of use of technology (automation) still remains a challenge in MSMEs. This may be partly due to the fact that the MSMEs support job loading from the formal sector and absorbing the unemployed. Okeyo (2013) posits that SMEs are critical in employment creation and thus leveraging the disparities in wealth creation. As such, they would like to retain as many employees as possible but using rudimentary technology. It should also be noted that business process automation by way of modern technology is very costly and may be beyond the reach of most MSMEs. Employee satisfaction according to Murgor (2014) in his study on measures of learning and growth as non-financial performance measures is

necessary for the achievement of firm performance. This study found that firm resources significantly influenced employee satisfaction.

Piriyakul and Wingwon (2013) posit that CSR practices through various activities and projects result in good corporate image and minimize the negative opposition from local communities; and employees' participation on all corporate activities would generate conformity and in turn raise more profits from increasing number of consumers who value CSR activities. In this study improvement in CSR was measured through engagement in environmental friendly activities, compliance with environmental laws, being in the forefront in CSR and increased CSR expenditure over the years.

Balogun (2003) posited that the way in which performance measures are used can differ widely depending on their application. Some performance measurement systems are used as a reporting mechanism for example financial reports while other systems are employed for controlling the performance of products, employees and other resources within an organization including costing, staff appraisal and records. Performance measurement should therefore be appreciated from a broader perspective.

The findings are in tandem with extant literature which suggests that resources are a primary source for organizational performance (Wernerfelt, 1984; Hitt et al, 2011). From time to time resources must be configured, reconfigured, coevolved, coordinated and reorganized for proper exploitation thus leading to superior performance as well as competitive advantage (Pearce et al, 2012; Praest, 1998). The findings are consistent with empirical studies which established that firm or organizational resources influenced performance (Pasanen, 2003; Ongeti, 2014; Kimutai; 2014).

The results overall concur with the proponents of RBT (Wernerfelt, 1984; Penrose, 1959) that resource possession influences performance. However, the argument that resource possession leads to performance more than any other aspects in an organisation has been refuted (Chandler, 1962). Although the model was statistically significant, the explanatory power of the model and the correlations of firm resources with performance

were positive but weak. This indicated that there could be other factors other than resources which influence performance.

5.1.2 Influence of External Environmental Factors in Moderating the Influence of Firm Resources on Firm Performance

The second objective of the study was to establish the moderating role of external environment on the relationship between firm resources and firm performance. This objective was achieved by testing hypothesis ***H_2 which stated that the external environment has a significant moderating influence on the relationship between firm resources and performance of MSMEs operating in the furniture sector in Nairobi City County***.

External environmental factors exercise considerable influence on the organization's performance (Pearce et al, 2012). In this study the variables tested included changes in: political, economic, social-cultural, technological, environment and legal factors. The study adopted the Baron & Kenny (1986) Moderator model in testing for moderating effect of the external environment.

It was observed that firm performance was positively correlated to all the variables except changes in the economy. The relationship is strongest and statistically significant with socio-cultural beliefs ($R=.544$, $p<0.05$), followed by emergence of new technologies ($R=.511$, $p<0.05$), changes in political scene ($R=.254$, $p<0.05$).

Firm resources on the other hand had a strong significant relationship with changes in economy ($R=.383$, $p<0.05$) as well as changes in environmental regulation ($R=.220$, $p<0.05$). Socio-cultural beliefs had a negative relationship with firm resources but this was not statistically significant ($R=-117$, $p>0.05$). Changes in political scene had strong and positive statistically significant relationship with all the other variables within external environmental factors except changes in rules and regulations.

Social-cultural and technological changes had the most significant moderating effects According to Spencer & Gomez (2003) who conducted a study on the effect of political environment on firm growth in Latin America, political pronouncements and introduction

of regulatory obstacles, government intervention and extensive corruption generally slowed down growth, thus the moderating effect.

Kenya has experienced an influx of cheap imported goods including furniture from China and this has affected most local businesses. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of MSMEs. This is further supported by Kinyua (2014) who highlights the adverse impact of the changes of the economy and gives examples of the effect of the liberalization of the economy in the 1980s which led to influx of imports.

Mwangi and Namusonge (2014) posit the fact that most SMEs in Kenya are not innovative and this affects them negatively on their growth, largely supporting the findings in this study about the moderating effects of technological changes. Robaro and Mamuzo (2012) contend that socio-cultural environment has a relationship with entrepreneurship. They define it as consisting of all the elements of the social system and culture of people which positively or negatively affect and influence entrepreneurial emergence, behaviour, performance and entrepreneurial development in general.

The results indicate that the external environment did not have statistically significant moderating effect on firm resources and firm performance. The findings contradict past studies which have examined effects of external environment on firm performance. According to Pearce et al (2012), although a firm has little or no control over the external environmental factors, these factors exercise considerable influence on the organization's performance. This view is supported by Kinyua (2014) in her study of factors affecting the performance of SMEs in Nakuru, Kenya. She posited that SMEs are faced with numerous external environmental factors which include amongst others unfavourable policy, markets, limited access to information and inadequate occupational health and safety standards. This view is also supported by empirical studies by Ombaka (2014; Okeyo (2013); Pasanen (2003) in their respective studies of insurance companies and SMEs respectively which found that aspects of external environment had an effect on firm performance. The findings of the study contradict the proponents of the Open systems theory who postulated that organizations cannot operate as closed systems

because they are environment dependent and serving (Ansoff & McDonnell, 1990; Burnes, 1996).

The Findings also contradict the Contingency theory which has in the past been used to analyse the effects of external contingent factors on organizations and their behaviour (Burns and Stalker, 1961; Lawrence and Lorsch, 1967). They suggested the need for a fit between an organization‘s internal characteristics and the external environment in which it operates for better performance. However, the findings are supported by the study by Machuki and Aosa (2011) which found the external environment not to have a statistically significant influence on performance of public quoted companies in the Nairobi Securities Exchange.

5.1.3 Influence of Entrepreneurial Strategy in Intervening between Firm Resources and Firm Performance

The third objective of the study was to determine the intervening role of entrepreneurial strategy on firm resources and firm performance. This objective was achieved by testing hypothesis ***H_3 which stated that entrepreneurial strategy has a significant intervening influence on the relationship between firm resources and performance of MSMEs operating in the furniture sector in Nairobi City County.***

The study tested the relationship between entrepreneurial strategy as a mediator or intervening variable between resources and performance. The results indicated that cost leadership, differentiation and high cost and differentiation had the most significant impact on the influence of firm resources on performance. Leitner and Guldenberg (2010) posited that uniqueness of a product or service sets a firm apart from its competitors thus the preference for differentiation. In reality as Porter (1980) posited, it is possible to apply the generic strategy singly and attain competitive advantage rather than in combination. Chadamoyo and Dumbu (2012) noted that most SMEs face the challenge of putting together strategies to survive the competition in the market further corroborates this notion. In this study only 34% of the firms had a written strategy.

From the study results, market focus was least popular (mean=3.31) amongst the three generic strategies. This is probably bolstered by the belief that if production costs are kept to the minimum and products are unique, it does not quite matter focusing on building products for specific markets. It could also imply that the size of the market may not be big enough to sustain a niche market in terms of volume. This view is shared by Akan et al (2006) who posit that focus strategy aims at growing market share through operating in a narrow market or niche segment more effectively than larger competitors. This implied that the firms were alive to the fact that business strategy is not static and should be in tandem with circumstances in the external environment. Teece (2010) acknowledges that organizations have to constantly review and improve their way of doing business in tandem with new developments in the market.

Overall results indicated that entrepreneurial strategy had a statistically significant intervening effect on performance. The results are in tandem with extant literature which has examined the effects of entrepreneurial strategy on firm performance (Porter, 1980; Schwartz, 2000; Pearce et al, 2012). They postulated that the ability for an organization to anticipate and respond to opportunities or pressures, from both internal and external, is one of the most important ways in which competitiveness and viability are attained.

The findings of the study are supported by empirical studies. Chadamoyo and Dumbu (2012) found that most common strategies used by SMEs included fair pricing, discounts special offers, customer service and continuously improving quality of service delivery. They concluded that these strategies lead to cost reduction and differentiation of products and services and hence improved firm performance. Duchesneau and Garner (1990) found that most successful firms did not have written strategies but, on the other hand, spent more time on planning than unsuccessful firms, and entrepreneurs in successful firms seek to reduce risk in their business. Miller and Cardinal (1994) analysed in their previous studies on planning and performance relationship, and found that strategic planning positively influences firm performance.

The results of the study support the proponents of RBT (Penrose, 1959; Barney, 2001; Pearce et al, 2012) who stated that competitive advantage within a firm is achieved

through resources and how that advantage might be sustained over time. They further stated that different resources owned by a firm can have significant influence on its performance. The results further support the proponents of OST (Ansoff & McDonnell, 1990; Von Bertalanyffy, 1950) who posited that a firm will perform well only if it achieves a balance with the environment. They argued that for organizations to be successful they must continuously interact with the environment and they must create a strategic fit with it. The findings also support the proponents of CT (Burns and Stalker (1961) who stated that there was a need for a fit between an organization's internal characteristics and the environment in which it operates for realization of better results. The results are also supported by a study that was undertaken by Tan and Litschert (1994) which established that firms with appropriate strategic response achieved positive response than those that did not respond appropriately.

5.1.4 The Joint Influence of Firm Resources, External Environmental Factors and Entrepreneurial Strategy on Firm Performance

The fourth objective of the study was to establish that the joint effect of firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating within the furniture sector in Nairobi City County is different from their individual effects. This objective was achieved by testing hypothesis ***H_4 which stated that the joint influence of firm resources, external environment and entrepreneurial strategy is different from their individual effects on the performance of MSMEs operating in the furniture sector in Nairobi City County.***

The results show that jointly, firm resources, external environment factors and entrepreneurial strategy explained 20.8% of the variation in firm performance (R^2=.208). Individually, however, firm resources explained less than 1% of the changes in performance; external environmental factors explained 18.1% while Entrepreneurial strategy explained 7.9% of the changes. The study therefore concluded that the joint effect was different from the individual effects and that jointly, the three variables have a greater influence on performance than individually.

The findings are supported by empirical studies which confirmed that no single factor is responsible for firm performance but it is instead dependent among many different

factors (Powell, 1992; Thompson, 1999; Awino, 2011; Otachi, 2013; Sabana, 2014; Kimutai, 2014; Ongeti 2014). In this study the different factors were firm resources, external environment and entrepreneurial strategy. The results confirm that firms face challenges and multiplicity of factors in an effort to improve on performance (Kimutai, 2014). The owners and managers of MSMEs operating within the furniture sector should be alert to this fact in order to steer their enterprises to better performance.

5.2 Summary of the Study Results and Discussion

This chapter has presented and attempted to prove the four hypotheses covered in this study. Each of the three study variables had a number of sub variables which were assessed individually and later combined into composite indexes. Pearson's Correlations were used to explore the relationship between the study variables. The variables were then regressed using simple and multiple methods as applicable. In the first hypothesis, hierarchical stepwise regression was used so as to come up with the best predictors of firm performance from the list of variables that formed firm resources.

Three of the four hypotheses were confirmed whereas one was not confirmed. While the moderating influence of external environmental factors was not confirmed, the other hypotheses were confirmed. This was on account of the whole composite index even though some of the sub variables exhibited strong influence on performance and this presented the problem of proxy variables (otherwise known as confounders). This mostly affected the section on moderating and mediating (intervening) effects. The next chapter presents a summary of the findings, conclusion and recommendations.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter presents a summary of the study, its findings, conclusion and recommendations for future study. The chapter further presents implications of the study in terms of theory, methodology, policy and management practice. The chapter ends with limitations of the study and suggestions on areas for further research.

6.2 Summary of the Findings

The study had four objectives and related hypotheses which were developed and tested. The study established that the ownership and management of MSMEs was dominated by male at 87% (81) and female at 19% (12). In terms of education, nearly 43% of the respondents had attained secondary school education and 20% had attained post secondary education with only 2 respondents having attained a university degree. It was also noted that 52% of the respondents were owners of their businesses while 48% were employed as managers. The level of education and position of the respondent was considered to be reasonable for the purposes of giving the required information.

The study found that most of the respondents ventured into business in order to take advantage of their technical skills. Others ventured into business due to lack of gainful employment and to improve their economic welfare. This confirms that MSMEs do offer opportunities for self-employment and absorbing the unemployed. At such times when the government is trying to reduce its workforce this is a sector that needs to be supported. This view is further supported by Kamunge et al. (2014) who posit that SMEs are increasingly gaining importance in terms of employment, wealth creation and the development of innovation. The study found that 88% of the businesses were sole proprietorship. These are usually easy to set up and give the owner more control in the finances, technical backup and marketing. The rest of the firms were partnership with one being a limited liability company.

The study also showed that 63% of the respondent firms had been in business for between 6 to 10 years. The average number of years in business was 8.35 years. This is an interesting observation since many studies have confirmed that survival of SMEs is usually less than 5 years (Bowen et. al., 2009; Pasanen, 2003). This may explain the assertion by most of the respondents (95%) that they considered their businesses to be successful. This view is supported by Kinyua (2014) who posited that being in business for many years was an indication of a firm's competitive advantage. Others reported success factors were profitability, self-sustainability and business as a source of income. Conversely, factors hindering success for MSMEs were reported as lack of demand, lack of working capital, high competition, and high cost of labour.

The sources of capital for the MSMEs were varied with personal finances being the highest source of capital followed by, micro finance institutions, commercial banks and other sources. Maintenance of financial records, participation in business training, written entrepreneurial strategy were observed as areas that need strengthening. Most of the firms had more than one source of capital and this can be an indicator of challenges encountered by MSMEs in securing funding for their businesses. Regular training is important in improving individual performance and particularly in the effective management of a business. The study found out that this is an area with huge gaps that also needs strengthening since only 1% attended business training often. While 82% were aware of business strategy, only 47% had a written strategy covering mostly 5 years, 65% written by their owners and 35% by consultants. It appears that the written strategies are only a reaction to requirement by banks when obtaining loans and not as a management practice.

All the businesses still rely on individual customers but the study observed that there is opportunity in sub-contracting where the small firms produce products for the big companies. Other opportunities abound in the education and hospitality sectors. Government should encourage the sector by improving market share from the current 5% observed in the study. The fact that there is multiplicity of markets implies that the firms have no niche and this has implication on the entrepreneurial strategy to adopt.

There was awareness by the respondents about the external environmental factors and that these were considered when preparing entrepreneurial strategy. A majority of the firms (91%) sought information about the external environment.

The study had four objectives from which four hypotheses were developed and studied. The findings are summarized in the Table 6.1.

Table 6.1: Summary of Test of Hypotheses

Objective	Hypothesis	Results	Interpretation & Comments
I. Establish the influence of firm resources on firm performance.	**H1**: There is a significant relationship between firm resources and performance of MSMEs.	Failed to reject	Individually, the best predictors of performance with firm resources were: Academic qualifications; managerial experience; ability to access loans; and customer service
II. Establish the moderating role of external environment between firm resources and firm performance.	**H2**: The external environment has a significant moderating effect on the relationship between firm resources and performance of MSMEs within the furniture sector in Nairobi City County.	Failed to accept	Presence of proxy variables affected the moderating effect of most of the sub variables
III. Determine the intervening role of entrepreneurial strategy on firm resources and firm performance.	**H3:** Entrepreneurial strategy has a significant intervening effect on the relationship between firm resources and performance of MSMEs within the furniture sector in Nairobi City County.	Failed to reject	Generic strategy was confirmed on account of Cost leadership. The Hybrid strategy was also confirmed on the strength of high cost and differentiation. The composite index of both the hybrid and generic strategies were statistically significant
IV. Establish that the joint effect of firm resources, external environment and entrepreneurial strategy on performance of MSMEs operating within the furniture sector in Nairobi City County was different from their individual effects	**H4:** The joint influence of firm resources, external environment and entrepreneurial strategy is different from the individual effects of each of the variables on performance of MSMEs within the furniture sector in Nairobi City County.	Failed to reject	All variables were found to have an influence.

Source: Research Data (2015)

Table 6.1 results show that the study failed to reject three out of the four hypotheses. The results are discussed in the following subsections.

6.2.1 Firm Resources and Firm Performance

The study proves the hypothesis that firm resources have an influence on firm performance. From the study, the attributes of firm resources that best predicted firm performance were the academic qualifications of the management, experience in managing people, the ability to access loans (hence working capital) and firm reputation. Financial resources were the weakest link in the model since they had an overarching negative effect on most performance measures. Monitoring of cash flow and business inputs were most significant financial resources As such financial resource is an area that needs to be critically enhanced in order to improve firm performance across the board. Customers were the most valued firm resource and the firms need to create and maintain a loyal customer base through producing quality products and respond to any issues raised by the customer. The study concluded that there is a statistically significant relationship between firm resources and firm performance. Hypothesis 1 was therefore accepted.

6.2.2 Moderating Effect of External Environment on Firm Resources and Performance

The study observed that although changes in political environment had a statistically significant effect on firm performance, its interaction term which defines moderation was not statistically significant, thus ruling out a moderating effect of changes in political environment on the influence of firm resources on performance. A further study is needed in order to find out if there are any specific dimensions in political environment that have a direct moderating effect.

The other five sub variables which included economic environment, emergence of new technology, socio-cultural influence, Changes in Environmental Regulations and Changes in Business Rules & Regulations had no moderating effect on the relationship between resources and performance. The study concluded that external environment had no statistically significant moderating effect on firm resources and firm performance. Hypothesis 2 was therefore rejected.

6.2.3 The Mediating (Intervening) Effect of Entrepreneurial Strategy on Firm Resources and Firm Performance

Entrepreneurial strategy comprised both generic strategies and hybrid strategies with their related sub variables. Out of the three sub variables under generic strategy, only cost leadership had a statistically significant intervening effect on firm performance. Differentiation and focus were found not to have a statistically significant intervening effect. Generic strategy was confirmed to have a statistically significant effect on account of cost leadership.

The two sub variables under hybrid strategies which included low cost and differentiation and high cost and differentiation were found to have a statistically significant relationship. The composite index of both the generic and hybrid strategies were statistically significant. Hypothesis 3 was therefore accepted.

6.2.4 The Joint Influence of Firm Resources, External Environment and Entrepreneurial Strategy on Firm Performance

The study results indicated that out of the three individual variables only the external environment was not statistically significant effect on firm performance. The other two variables firm resources and entrepreneurial strategy had statistically significant influence on firm performance.

It was further observed that jointly the three variables had a statistically significant influence which was greater than their individual influence on firm performance. The study concluded that their joint effect was different from their individual effects. The fourth hypothesis was therefore accepted.

6.3 Conclusion of the Study

The main objective of the study was to test the relationship between firm resources, external environment and entrepreneurial strategy on the performance of MSMEs operating within the furniture sector in Nairobi City County. The relationship was conceptualized and schematized in a conceptual framework. Primary data was collected

using a structured questionnaire. The analyses were done using descriptive statistics, simple, multiple and hierarchical regression analyses. The results were varied.

The hypotheses were tested and were either accepted or rejected on account of statistical significance or the lack of it. The results were compared to theoretical propositions, conceptual and previous empirical studies. In this regard, the study drew several conclusions. It was established that the influence of firm resources on firm performance was statistically significant. The study established that the moderating influence of external environment between resources and firm performance was not statistically significantly. Also, it was established that the intervening influence of entrepreneurial strategy between resources and firm performance was statistically significant.

Lastly, the study established that the joint effect of firm resources, external environment and entrepreneurial strategy was different from their individual effect on firm performance. These findings confirm that it is not resources alone which may influence firm performance but entrepreneurial strategy and external environment need to be considered in addition to resources in order to ensure effective firm performance. This conclusion is supported by previous studies and lends credence to the postulation that firm performance is determined, in part, by the combination of many factors (Kimutai, 2014). The study has various implications to theory, policy, management practice and methodology. The subsequent sections and related subsections present these implications.

6.4 Implications of the Study

This study sought to establish the relationship between firm resources, external environment and entrepreneurial strategy on the performance of micro, small and medium furniture sector enterprises in Nairobi City County, Kenya. The study was able to confirm and reject some of the hypotheses. The hypothesis that firm resources had a significant influence on firm performance was accepted. The hypothesis that entrepreneurial strategy had an intervening effect on the relationship between firm resources performance was accepted. The hypothesis that the external environment had a mediating effect between firm resources and performance was rejected. The study

findings will undoubtedly have implications for future research, theory, practice and methodology.

6.4.1 Implications for Theory

This study was mainly anchored in the resource based theory, resource dependency theory, open systems theory and contingency theory. The study established that firm resources can lead to positive firm performance. It also confirmed, however, that not all resources lead to performance and points out specifically that academic qualifications, managerial experience, and ability to access capital are key resources that influence performance. This finding supports the much needed empirical strength in support of the resource based theory and resource dependency theory. The study further established that the external environment had no statistically significant moderating effect on firm performance. Individually, political changes, emergence of new technologies and influence of socio-cultural beliefs appeared to have a moderating effect on the influence of firm resources on performance. Legal environment did not appear to exert any statistically significant influence, perhaps on account that it is a statutory requirement. This finding does not support both the open systems theory and contingency theory.

On the other hand, the study established that entrepreneurial strategy did have an intervening influence between resources and firm performance. This has supported some previous empirical studies (Ombaka, 2014) and the postulations by Porter (1980). The external environment was also found not to have a moderating effect on firm resources and firm performance. The findings contradicted past studies (Okeyo, 2013; Ansoff, 1990). Nevertheless, the findings concurred with the study by Machuki and Aosa (2011) who posited that the influence of external environment on performance was not statistically significant. It thus appears that there are proxy factors in the external environment that affect the moderating influence between firm resources and firm performance.

The implications of this study are its contribution to knowledge by empirically establishing that the joint effects of firm resources, external environment and entrepreneurial strategy are different from their individual effects on firm performance.

This demonstrates that it is not resources only that influences firm performance but a combination of various factors.

This was the first study that sought to establish the relationship between firm resources, external environment, entrepreneurial strategy and performance of MSMEs in the furniture sector in Nairobi City County. There is no known study in the past which had examined these variables in the context of MSMEs in the furniture sector. The study recommends researchers and scholars to carry out further research on the same variables on MSMEs operating furniture enterprises outside Nairobi City County in order to prove or disapprove the findings of this study and in particular the findings that the external environment did not have a moderating effect.

6.4.2 Implications on Policy

The findings of this study have several policy implications on several agencies. These include government, business associations, financial institutions, and Nairobi City County Government and development agencies. The findings of this report will be of tremendous benefit to these agencies. The findings of the study indicate that most of the study variables had either a positive or negative effect on performance of the MSMEs. This study confirms what other past studies have confirmed that MSMEs are a source of employment and have been regarded as a source of growth in Kenya and many other countries. This study should aid both the National and County Governments in the legislation of laws and policies which support MSMEs development including making accessible loans through the different funds such as Youth Fund and Uwezo Fund. In addition, they should be given preference in supply of furniture to Government offices and other institutions.

The study recommends that the government should encourage firms to register as limited liability companies which separate ownership of business from owners once they become legal entity. This then brings the issues of financial record keeping and tax returns as mandatory and which in return encourages banks to support MSME growth. MSMEs need to be encouraged to plan well and monitor their businesses. It appears that the written strategies are only a reaction to requirement by banks when obtaining loans and

not as a management practice. There is an opportunity in training of entrepreneurs since there is a huge gap especially in the furniture sector. Government, development agencies and private entities such as banks should play an active role in preparation of structured business training courses as well as continuous monitoring of performance by SMEs. The Kenya Institute of Business Training (KIBT) needs to be more assertive in skills building and its training course should dedicate business strategy development as a separate unit. It has direct link with other major stakeholders such as the Business Incubator (KeKoBI) Enterprises, Federation of Kenya Employers (FKE), TehnoServe, and many others. This would go a long way in enabling the owners and managers to improve on the performance of their businesses.

The findings of the study indicated that the external environment factors and in particular political changes had an impact on business performance. This view is shared by Okeyo (2013) who posited that the overall business environment in Kenya presents many challenges particularly to SMEs due to lack of scale to deal with such dynamics. He further posited that changes in the country's economy, rapid changes in technology and the dynamics of social cultural developments all have serious implications for these enterprises, and that it is the responsibility of the government to create an enabling environment that may minimize the impact of these factors on SMEs. This may be done through the creation of SMEs friendly policies that address their needs.

6.4.3 Implications for Management Practice

The study indicated that generally businesses do not access trainings. It would be important for MSME owners to be sensitized on the need to invest in the training of their owners and managers. This is also an important opportunity for managers to continually improve on their management and staff skills by setting aside funds for training. Considering that a business strategy is a pre-requisite for obtaining financing from most of the financial institutions, the study indicated that a majority of MSMEs did not have business strategies in place whether written or unwritten. It would be sensible if managers and owners of MSMEs get themselves trained in business strategy formulation and implementation. Financial institutions can take advantage of this and provide the necessary training to their MSMEs clientele.

The study also observed that adoption of new technology had a very low mean score. The study recommends that managers and owners of the MSMEs to adopt modern technology in order to improve on product quality and service delivery which will result in improved customer service and reputation. Technology will always create new labour opportunities and so loss of jobs need not be a major inhibiting factor in adoption of technology.

6.4.4 Implications for Methodology

The results of the study indicated that when testing the statistical significance of the effects of certain individual variables on performance changed when they were analysed in their individual elements, as a construct of several dimensions and as a single dimensional variable computed as a composite sum of all dimensions. For example, the individual effects of firm resources, external environment and entrepreneurial strategy on firm performance only two variables were statistically significant but when computed as a composite index, the overall position was that they became statistically significant. A similar situation was experienced by Okeyo (2013) who asked the question: what could be the reason for these differences? The study recommends this an area of which should be of interest to scholars to carry out future investigations. The practicality in application of the moderating-intervening effects by Baron and Kenny (1986) needs to be further researched since majority of scholars appear to apply it wrongly. Other simpler methods need to be explored and developed. The success rate of the methodology used in this study where questionnaires were self-administered confirms similarity to other studies that this methodology is appropriate.

6.4.5 Limitations of the Study

The study focused on MSMEs operating within the furniture sector within the Nairobi City County. The study therefore limited its scope to Nairobi City County and excluded other MSMEs in the country. By limiting the study to one geographic area of the country, this limited the possibility of a larger population and hence the sample size had it not been limited to Nairobi only. The contextual limitation therefore restricts the generalization of the study findings to the MSMEs operating within the furniture sector in Nairobi City County. The total number of furniture enterprises operating in NCC could not be established since not all enterprises are licensed by NCC. The study focused only

on the licensed enterprises. Also, the list of the population of MSMEs provided by NCC was composite and did not list the enterprises into the three categories of: micro, small and medium enterprise but instead consolidated all of them. The study recommends that NCC encourage all enterprises operating in the furniture sector to register their businesses. This will help establish a register of such enterprises which can be used for different purposes including research. Another limitation was on data collection and choice of respondents. The MSMEs owners and managers were chosen as the respondents on the basis of their knowledge of the respective enterprises. The element of bias could not be ruled out. The future studies should consider using multiple respondents in order to minimize the element of bias. The respondents in future studies should include employees and customers.

6.5 Suggestions for Further Research

This study should be replicated in MSMEs operating furniture enterprises in Counties outside Nairobi to establish if similar results can be achieved. Also the study can be replicated to cover MSMEs operating in other sectors to see whether similar results can be obtained. As mentioned under limitation, every effort should be made to have the population of furniture enterprises broken into four categories: micro, small, medium and large enterprises. These will assist in population classification and sample selection criteria to ensure proper coverage and adequate sample size. It will also help in the characterisation of the enterprises and findings. Future researchers should consider introducing other factors not covered in this study such as entrepreneurial orientation, business development services, innovation etc. to establish their effect on firm performance.

A cross sectional survey design was used for this study while assessing performance within the past four years. Cross sectional studies do not capture causal effects of variables. Future research could use a longitudinal study stretching several years on a sample number of firms. This will better explain the effects of the variables on firm performance such as which firms performed better or worse.

The external environment was hypothesized as having a moderating effect between resources and firm performance. The results of the study show that the hypothesis was not statistically significant and it was therefore rejected. In addition, some of the variables under firm resources showed that they were not statistically significant to have effect on performance while others did. This was also the case with the external environment. The study recommends for further research regarding such sub variables on performance.

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APPENDICES

Appendix I: Research Questionnaire

SECTION A: GENERAL INFORMATION

Name of Business _____

Name of respondent (optional) _____

Gender of respondent Male ☐ Female ☐

Please fill or tick the appropriate answer in the space provided beside each question

1. Location of your business _____
2. What made you venture into furniture business?
   a) Lack of gainful employment ☐ b) Due to economic reasons ☐
   c) To use my technical skills ☐ d) To own a business ☐
3. How long has the business been in operation? _____ years
4. What is your position in the business
   i. Owner ☐
   ii. Manager ☐
   iii. Owner & Manager ☐
5. What is the main source of capital for the business?
   i. Personal savings ☐
   ii. Family finances ☐
   iii. Microfinance Institution ☐
   iv. Commercial Bank ☐
   v. Other (specify) _____
6. Do you maintain financial (accounting) records for your business?
   a) Yes ☐ b) No ☐
7. What is your level of education?
   a) Primary school ☐ b) Secondary School ☐ c) college certificate or diploma ☐ d) degree ☐ e) Masters ☐ f) Ph.D ☐
8. How often do you attend business related training?
   Never ☐ Rarely ☐ Occasionally ☐ Often ☐
9. What is the nature of your business registration?
   Sole proprietorship ☐ Partnership ☐ Limited Liability Company ☐

10. What is your primary customer base?

i. Individuals ☐
ii. Large furniture enterprises ☐
iii. Government ☐
iv. Corporate organizations ☐
v. Hospitality (hotels and restaurants) industry ☐
vi. Export ☐
vii. Religious institutions ☐
viii. Educational institutions ☐

SECTION B: FIRM RESOURCES

11. Do you consider your business to be successful?

No ☐ Yes ☐

If the answer to 8 (above) is No, please give reasons

i._____
ii._____
iii_____

If the answer to 8 (above) is Yes, please give reasons

i._____
ii._____
iii_____

12. Please respond to the questions below where: (1) Strongly disagree (2) Disagree (3) Neither agree nor disagree (4) Agree (5) strongly agree

	1	2	3	4	5
Managerial Experience					
a) My academic qualification contributes to my success in managing the business.					
b) Proper management of assets in my business has helped me grow					
c) My experience in managing people has proved important to managing my business					
d) My experience in managing finances has proved important over time					
e) I have a good working relationship with my suppliers					

f)	I relate well with my customers					
g)	I have a good working relationship with banks and other stakeholders					
h)	I comply with all the rules and regulations that govern my business operations					
i)	Understanding the market is vital when making decisions about my business					
j)	I regularly survey the market to find out what new challenges I have to meet					
k)	Experience in carrying out market survey is vital					
	Financial Resources					
l)	I am able to access loans from financial institutions that enable me grow my business					
m)	I have engaged other partners in raising the capital required for my business					
n)	Most of the requirements of my business have to be budgeted for					
o)	I always monitor cash flows in my business					
p)	I closely monitor the inputs that are used in my business operations					
q)	Part of the profits for the previous years are converted to capital in the next year					
	Human Resources					
r)	My business operations are run by skilled employees					
s)	The technical abilities of my staff have proved important in the production of quality goods					
t)	The experience of my staff has been employed in reducing costs over time					
u)	My supervisors and managers have the relevant business knowledge required in my type of business					
v)	My supervisors and managers have the technical knowhow to run my business					
w)	In my business I have specific people who handle specific duties and they report to me					
x)	The staff members who handle the specific duties have workers who report to them					
	Reputation (Customer Service)					
y)	In my business we have set customer service standards that we try to achieve					
z)	In my business I have ways of handling customer					

complaints received					
aa) The complaints are handled immediately they are received					
bb) We ensure that customers receive feedback about the complaints they raise					

13. Please explain how lack the following has affected your business.
    i) Management Experience _____
    ii) Financial resources (banking facilities) _____
    iii) Skilled workers _____
    iv) Markets_____

SECTION C: ENTREPRENEURIAL (BUSINESS) STRATEGY

14. Are you aware of a business strategy?
    No ☐ Yes ☐
15. If the answer to 14 above is yes, does your business have a strategy?
    No ☐ Yes ☐
16. If the answer to 15 above is yes, is it written?
    No ☐ Yes ☐
17. If the answer to 16 above is yes, who prepared the strategy?
    i) Management/Business Consultant ☐
    ii) Owner ☐
    iii) Manager ☐
    iv) Owner and manager ☐
18. If the answer to 16 above is no, do you have unwritten business strategy?
    No ☐ Yes ☐
19. If the answer to question 16 above is yes, please indicate below the period the business strategy covers
    i) 1 year
    ii) 1 to 2 years
    iii) 1 to 3 years
    iv) 1 to 4 years
    v) 1 to 5 years
20. Please respond to the questions below where: (1) Strongly disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly agree

STATEMENTS	**1**	**2**	**3**	**4**	**5**
a) When crafting my business strategy I always consider the strong points of my competitors					
b) I also consider the weak points of my competitors when crafting strategy					

c)	I constantly review my business strategy to ensure that I am meeting my customers' needs					
d)	When coming up with my strategy I always consider my capabilities in accessing resources (finances, labour, raw materials and products)					
e)	Minimizing cost is a key factor that we focus on in my business					
f)	As a strategy we always strive to differentiate our products (superior quality, design etc) from our competitors					
g)	Our product lines are focused on very specific markets					
h)	We always ensure that we maintain these markets by remaining competitive					
i)	We always consider factors external to the business when coming up with our strategy					
j)	Our strategy is to always offer the highest quality and most innovative products in the market at the lowest cost					
k)	Our strategy is to reach for customers at the high end of the market and who are willing to pay a premium for quality and innovative products in the market					
l)	We have remained competitive in the market because we have developed working strategies to control the cost of running the business (financial performance)					

SECTION D: EXTERNAL ENVIRONMENT

The external environment includes political, economic, social-cultural, technological, ecological and legal factors (PESTEL). Some of these factors may have an impact on your business. Please provide answers to the questions in this section

21. How often do you seek information on the happenings in the external environment?
    Rarely ☐ Occasionally ☐ Often ☐
22. How would you describe the rate of change of factors in the external environment in which your firm operates?
    Slow ☐ Moderate ☐ Fast ☐
23. On a scale of 1-5, kindly indicate to what extent the following external environmental factors influenced the relationship between your firm resources and business performance?
    (1) Not at all (2) Less extent (3) Moderate extent (4) Large extent (5) Very Large extent

EXTERNAL ENVIRONMENTAL FACTORS	1	2	3	4	5
a) Changes in the Political scene					
b) Changes in the economy					
c) Emergence of new technologies					
d) Influence of Social-cultural beliefs					
e) Changes in environmental regulation					
f) Changes in rules and regulations governing business operations					

SECTION E: FIRM PERFORMANCE:

24. Please complete below questions in (i) and (ii)

i) Financial (Qualitative) Measure

On a scale of 1-5, kindly indicate to what extent the following statements describe your firm's performance during the past four years (2011 -2014).

(1) Not at all (2) Less extent (3) Moderate extent (4) Large extent (5) Very Large extent

Statements -Performance indicator	1	2	3	4	5
a) The firm's sales have increased during the years due to increased demand in our products					
b) The return on capital invested has increased during the years due to increased profits					
c) Amount of capital invested has increased over the years due to growth in business					
d) Annual profits have increased during the years due to increase in sales and cost control measures					
e) The number of stores have increased due to increase in demand of our products					
f) The number of employees have increased					
g) The number of customers has increased due to increased demand in our products					
h) Cost control is an area of focus by management					

Please give reason below for any significant changes in performance of your business during any of the years.

_____

_____

_____

ii) Non-Financial (qualitative) Measures

Kindly indicate with a tick the extent to which you agree with the following statements regarding non-financial performance of the business where: (1) Strongly disagree (2) Disagree (3) Neutral (4) Agree (5) Strongly agree

Statement	1	2	3	4	5
Customer Service					
a) Customer complaints have reduced considerably in the last five years					
b) Customers are satisfied with the products offered by my business					
c) My business responds to customer complaints within 24 hours					
d) We offer excellent service to its customers					
e) My business is able to retain more customers as compared to its peers in the industry					
f) We have a range of customized products for its customers					
g) My business has a customer loyalty scheme					
h) we continually improve our services as compared to our competitors					
Processes					
i) Our internal processes have improved considerably in the last five years					
j) We have standardized our processes through procedure manuals					
k) My business has improved its customer care through technology and process automation					
Employee Satisfaction					
l) Employees have superior skills and capabilities					
m) Employees of the firm are satisfied and motivated					
n) Employees have knowledge required to satisfy customer needs					
o) Rate of employee turn-over is very low in our organization					
p) Employees are proud of the business					
q) Employees are loyal to the business					
r) Our employees do not leave us for competitors					

s) Employees are always willing to do additional tasks					
t) Employees speak favourably about the business					
Corporate Social Responsibility					
u) We engage in environmental friendly activities					
v) My business complies with environmental laws					
w) My business is in the fore front in corporate social responsibility					
x) CSR expenditure has been increasing over the years					

THANK YOU FOR TAKING YOUR TIME TO PARTICIPATE IN THE STUDY

Appendix II: Strata, Population and Sample Distribution

	STRATA (Nairobi City County – sub counties)	Population	Sample Distribution
1	Central	13	8
2	Dagoretti	45	28
3	Embakasi	48	30
4	Kasarani	33	21
5	Kibera	12	8
6	Makadara	22	14
7	Pumwani	33	21
8	Westlands	15	10
	TOTAL	**221**	**140**

Source: The sample for each stratum was calculated based on its proportion to the total population of the micro and small furniture enterprises (MSMEs) which are contained in the list of the licensed organizations in the study in Appendix III

Appendix III: List of Licensed MSMEs Furniture Makers

Name	Location	Nature of Business
1) Supreme Centre	Ngong Road	Buying and selling of motor vehicles/making and selling of furniture
2) David Njenga Karuri	Ngong Road	Furniture repairs
3) John Kariuki Fare Hardware	Naivasha Road	Furniture shop & timber yard
4) Matharu Furniture	Road C	Furniture making and joinery
5) Pemuka Proprietors	Outering Road	Buying and selling of second hand items and furniture
6) Woodwise	Ngong Road	General furniture and timber sales
7) Kaloleni Woodwork And Repair	Oweno Ola Road	Furniture making and repair
8) Tim Furniture	Along Naivasha Road	Making furniture and display on road reserve
9) Zero Grazing Furniture	Mumias Road	Furniture
10) Mwanjo Furniture Designers	Gikomba	Furniture selling
11) Christ Joints World of Interiors	Pipeline-Outering Road	Furniture workshop
12) Benathi3Starts Furniture	Chiriku Lane of Pumwani	Retail of furniture
13) Young Turks Furniture	Kamiti Road	Furniture
14) Palmac Furnishers	Naivasha Road	Small furniture workshop
15) Jesmos Furniture	Rabai Road	Furniture, workshop
16) Ridor Furniture	Mombasa Road	Sale of furniture and carpet
17) Family Pride Centre	Along Outering Road	Small furniture workshop
18) Isabell W. Gathumbi & Magdaline K. Mahiga	Off Limuru Road-Runda	Retail of furniture-no display on road reserve
19) Faith Quality Furniture	Ruai	Furniture making
20) Victory Furnitures	Off Thika Road	Retail of furniture
21) Final Touch Finishes	Ngong Road-Paresia Centre	Furnishing and general finishes (furniture)
22) J. M. Furniture	Community Mkt-Umoja Ii	Retail of furniture
23) Aristariscs Furniture	Wanyee Road	Household furniture and fittings
24) Stan Interior Workshop	Dagorett Road	Making furniture and repair
25) Masai Curio & Furniture Shop	Langata Road	Furniture and cushion making
26) Umash Furniture & Coffins	Makadara Road	Retail of furniture & coffins
27) Vapour Pyramid Furniture Workshop	Kawangware-Gitanga Road	Furniture workshop
28) Kemu Furniture	Mutindwa Road	Retail of furniture
29) The Karen Furniture Mart	Karen Langata Road	Furniture workshop
30) Metawood Company	Kilome Road	Furniture workshop
31) Wanjiru Furniture and Handicraft	Karen Road	Furniture and handicrafts
32) Komolo General Woodworks	Off Kamunde Road	Furniture making
33) Banita Furnishers	Ngong Road	Selling furniture
34) A. G. Furniture House	Kirinyaga Road	Furniture
35) Economic Furniture Traders	Thika Road	Furniture
36) Bevelit Wood	New Donholm	Workshop & retail of furnitures
37) Samuel R. Irungu	Eastlands Crescent	Furniture workshop
38) Woodley Furniture	Ngong Road	Furniture repair – no display on road reserve
39) Moses Furniture Design	Off Mumia Road – Cresent Road	Workshop furniture

40)	Furncon Sales	Mirema Drive	Furniture workshop
41)	Panaroma Designs	Kiambu Rd-Ridgeways Rod Junction	Furniture making
42)	Henry West Furniture	Mombasa Road	Furniture showroom
43)	Talent And Taste	Tobman Road	Retail of handicraft furniture
44)	Graduates Furniture Makers	Spine Road	Furniture workshop
45)	Ebeneza Furnitures	Kasarani Hunters	Sale of furnitures
46)	Blue Moon Furniture	Naivasha Road	Furniture making
47)	Joseph Irungu Kiuria	Waiyaki Way-Mountain View	Small furniture workshop
48)	Kiwelu Joinery	Kirinyaga Road	Furniture workshop
49)	Accurate Tent Makers	Off Kamunde Road	Making of steel furniture/all kinds of repairs
50)	Lapiz Lazuli	Ruaraka	Furniture
51)	Sammy Furniture	Off Langata Rd	Furniture showroom
52)	Carols Furniture	Chiriku Lane	Furniture workshop
53)	Sisi Kwa Sisi Furniture	Tena Market	Making furniture
54)	Lifestyle Furniture	Eastleigh	Furniture
55)	Kenyash Inter-Business Enterprise	Moi Avenue	Renovation services, office equipments, furnitures
56)	Chiengmach Investments	Tena Community Mkt	Repair & sale of new and old furnitures
57)	Paul MainaWachira	Kariobangi	Furniture work
58)	Interior Workshop	Off Thika Rd	Small workshop-furniture
59)	Timberline Furniture	Ngong Rd	Furniture shop
60)	Interior Workshop	Off Thika Rd	Small workshop-furniture
61)	Master Furniture	Komarock Rd	Furniture workshop
62)	Griffin Ofolo Gamali	Off Outering	Furniture-carpentry
63)	Ngware Furniture	Outering Rd	Furniture making
64)	Mwanyagetinge	TenaMkt	Timer yard/furniture
65)	Jackson Mwangi Irungu	Outering Road	Retail of old and new furniture and electronics
66)	Mukiti Furniture	Outering Road	Making and selling furniture
67)	Kangundo Road Furniture	Kangundo Road	Furniture workshop
68)	Grace Okumu House Furniture	Outering Road	Furniture
69)	Mwanjo Furniture	Outering Road	Furniture
70)	Candid Cash investment	Outering Road	Sale of second hand furniture
71)	Princes Diana Workshop	Kangundo Road	Workshop/furniture
72)	Genuine Investments	Outering Road	Second hand furniture
73)	Wamunyu Furniture	Kayole-Nyanza Stage	Furniture
74)	Nyalego Furniture	Chiriku Lane	Small workshop/furniture
75)	Harocom Creative	Cross Road	Retail of furniture
76)	Peru Furniture	Kasarani Mwiki Road	Furniture shop & workshop
77)	Kiwelu Joinery	Kirinyaga Road	Furniture workshop
78)	K Chiras Woodwork	Naivasha Road	General furniture
79)	Mwangi Wainaina	Roysambu Road	Furniture making
80)	Young Turks	Roysambu Roundabout	Furniture making
81)	Emmanuel Wood Works	Githurai 45	Furniture making
82)	ThiyaFura	Githurai Rd	Furniture making
83)	Zawamu Enterprises	Eastleigh Sec 2	General merchant and furniture & equity agent
84)	Dovetail Enterprises	Umoja-Outering Rd	Furniture repairs
85)	Vine Yard	Ngong Road	Furniture workshop

86)	Mima Designs	Outering Road	Showroom and sale of furniture
87)	Hilda Natema Macharia	Kangundo Rd	Furniture
88)	Shanniam Enterprises	Pumwani Rd	Furniture workshop
89)	Build It	Enterprise Rd	Furniture
90)	Rukia Hassan Ali	Eastleigh-Wood Street	Furniture workshop
91)	Tim Furniture	Naivasha Rd	Making furniture
92)	Bimos Renovating & Finishing	Kiambu Rd	Sale of furniture
93)	Mowanjo Furnitures	Ngong Rd	Sale of furniture
94)	Tiny Town Interior Designs	Purui Hse	Display of furniture
95)	Ledmage Furniture	Hombe Rd	Furniture making
96)	Instyle Design Furniture	Limuru Rd	Retail of furniture and furnishing
97)	Brilliant High Quality Furniture	Jogoo Rd	Furniture making
98)	Jericho Furniture	Uhuru Highway	Sale of furniture
99)	Orienza Furniture	Langata Rd	Furniture workshop – no display on road reserve
100)	Ndovu Timber And Metal	Komarock Rd	Furniture and small workshop
101)	Nthae Furniture	Off Waiyaki Way	Furniture
102)	Sammisa Wood Works	Uthiri Junction	Making furnitures
103)	Halleluya Furniture	Heshima Rd	Furniture workshop
104)	Ed Shapiro Interior Designs	Bahati Shopping Entre	Making and repair of furnitures
105)	Onesmus Kariuki Ngigi	Gitanga Rd	Retail of furniture
106)	Bush Furniture Enterprises	Dagoreti-Karandinin Rd	Furniture workshop
107)	Me & U Furniture	Savannah Estate	Small workshop (furniture)
108)	Genesis Enterprises	Outering Rd	Small furniture workshop
109)	Hezzy General Workshop	Ngong Rd-Dago Corner	Sale of furniture and workshop
110)	AshaAbdulle Hassan	1st Avenue-Eastleigh	Furniture retail
111)	Pangani Jua Kali Furnitures	Kirinyaga Rd	Furniture show room and repair
112)	Faithfull Ideal Furniture	New Pumwani Rd	Furniture shop
113)	Gitugu General Furniture	Off New Pumwani	Furniture workshop
114)	Boab Kiari Muchiri	Naivasha Rd	Furniture workshop
115)	Jane Njeri Muchiri	Naivasha Rd	Furniture workshop
116)	Stan Interior Designer	Limuru Rd	Furniture and cushion making
117)	Impact Julima Furniture	Outering Rd	Small retail & sales of furnitures
118)	The Velvet Room	Ngong Rd	Interiors-retail of furniture
119)	K. N. Mamuru Kianjokoma General Merchants	Donholm-Outering Rd	Sale of timber/furniture
120)	Yokefellow	Tena Community Market	Sale of old and new furnitures and Mpesa
121)	Simon Kamiti Njenga	Gitanga Rd – Naivasha Rd	Retail of second hand furniture
122)	Ngengi Furniture	Kawangware-Naivasha Rd	Sale of furniture & workshop
123)	Otis De Furniture	Jogoo Rd	Sale of furniture
124)	F. M. Furniture	Ladhies Rd	Retail of furniture
125)	Customer Agencies	Kenyatta Rd	Small furniture workshop
126)	Ole Jormart Furniture	General Waruinge	Furniture sale
127)	Sky Furniture	New Pumwani	Sale of furniture
128)	Starrest Funeral Services	Tamworth Rd	Making of furniture
129)	Faith Base Furniture	Kamiti Rd	Workshop & furniture

130)	Makuyu Classic Furniture	Mwiki Kasarani	Small furniture display shop
131)	L. W. Furniture	New Pumwani Rd	Furniture workshop
132)	Kiganda Furniture and Construction	Chiriku Lane	Furniture repair/sale no display on road reserve
133)	Dargain Furniture Mart	Ngara Rd	Small furniture mart
134)	Gikurwe Timber & Hardware	Chiriku Lane	Furniture workshop
135)	Salmahs Mayflower Designers	Ring Road	Sale of furniture
136)	Heritage Furnitures	Kariobangi Light Industries	Making of wood furnitures
137)	Richwell Enterprises	Naivasha Rd	Furniture
138)	Diplomatic Furniture Mart	Along Rabai Rd	Small furniture workshop
139)	Kandi Furniture	Tassia Outering Rd	Small furniture workshop
140)	Faith Base Furniture	Ngong Rd	Small furniture
141)	Unique/Highlands Furniture	Wanyee Rd	Small furniture shop
142)	Zacharia Mutange	New Pumwani	Retail and furniture
143)	Impact Furnitures Workshop	Outering Rd	Furniture
144)	Dream World Furniture Mart	Naivasha Rd	Furniture
145)	The Grillzone	New Pumwani Rd	Furniture workshop
146)	FM Furniture Workshop	New Pumwani Rd	Furniture workshop
147)	L. W. Furniture	New Pumwani Rd	Furniture workshop
148)	Jaribu Furnitures	Zimmerman Off Kamiti Rd	Small retail of furnitures
149)	Amon Furniture	Ngong Rd Kimbo	Small workshop furniture
150)	Paul Rawinya Furniture	Off Ngong Rd	Furnitures
151)	Ephraim Furniture	Ngong Rd	Small furniture workshop
152)	Jecamps Design	Kitanga Rd	Furniture
153)	Equator Furniture	Ngong Rd	Retail of furniture
154)	The Ark Furniture	Kabiria	Furniture workshop
155)	High Class Furnishes	Kawangware	Furniture workshop
156)	Floma Furniture Enterprises	Eastleigh	Retail of furniture
157)	Goodwill Furnitures	Ngong Rd	Furniture workshop
158)	Philpen Furniture Mart	Embakasi Village	Furniture
159)	Smart Furniture	Outering Rd	Retail of furniture
160)	Ibra Furnitures	Muratina Street	Furniture repairs
161)	Rubicon Engineering Associates	Popo Rd	Furniture workshop
162)	J. W. Furnitures	Outering Rd	Making display and selling furnitures
163)	Sir John Furnitures	Jogoo Rd	Furniture repairs
164)	Riziki Furniture	TenaMkt	Furniture workshop
165)	Slopes Craftsman	Naivasha Rd	Furniture workshop
166)	J. J. Furnitures	Nyando Rd	Small furniture shop
167)	Alfred Ndereva	Kayole	Furniture workshop
168)	Lapis Lazuu	Thika Rd	Furniture workshop
169)	Kirunga Furniture Showroom	New Pumwani Rd	Furniture shop
170)	Sabina Ngalange	Likoni Rd	Timber sale and furniture making
171)	Mwaniki Furniture Workshop	Macharia Rd	Furniture workshop
172)	Moses Furniture	Macharia Road	Furniture
173)	H. K. Kibunja and Sons Limited	Ahero St	Small workshop/furniture showroom
174)	Bullion Contractors & Renovations	Kibera Station Rd	Making of furniture
175)	Wood Touch Options Limited	Thika Rd	Furniture workshop
176)	Marvellous Furnitures	Garage Rd	Open air furniture
177)	Lapiz Lazuu	Outering Rd	Furniture workshop
178)	Belacassa Interior Designers & Furniture	Garden Estate Rd	Furniture workshop

179) Gikure Timber & Hardware	Chiriku Lane	Furniture workshop
180) Gathambia Enterprises	Tena Estate	Furniture
181) Bonny Quality Furniture	Manyanja Road	Furniture workshop
182) Wamwathi Furnitures	Naivasha Rd	Sale of furniture & workshop
183) Peru Classic Furniture	Kasarani – Mwiki	Furniture shop & workshop
184) Winstone Furniture	Kariobangi Light Industries	Wood furniture
185) Unique Furniture	Kasarani	Retail of furniture/workshop
186) Belyn Investments	Ngong Road	Small workshop furniture
187) Gladys Mumbi Gichuhi	Kombo Munyiri Rd	Furniture shop
188) Maji Mazuri	Juja Rd	Workshop furniture
189) Timcat Investments	Kilome Rd	Buying and selling of used furniture
190) Salad Furniture	Eastleigh	Making of furniture
191) Terry Tables	Off Thika Rd	Retail of furniture making
192) Barneno Furniture	Muhoho Avenue	Furniture
193) Foresight Interiors	Ndemi Rd Off Ngong Rd	Furniture showroom
194) Thandi Wood Cabinet Fitters	Komarock Rd	Furniture workshop
195) Maco Furniture Makers	Off Waiyaki Way Uthiru	Furniture workshop
196) Wakio Workshop	Macharia Rd	Workshop-furniture
197) Usenge Furnitures	Oldonyo Sabu Rd	Furniture workshop and display
198) Indian Ocean Creations	Off Ngong Rd	Furniture workshop
199) Gloryland Furnitures	Tom Mboya Hall. – Rabai Rd	Small furniture workshop
200) Danpasto Hardware	Roysambu Kamiti Rd	Workshop furniture
201) Danpen Traders	Makadara NCCK	Retail of furniture and coffins
202) Antique Furniture	Manyanja Rd	Furniture shop
203) Mambo Interiors	Road A	Furniture making
204) Nyokiro Furniture	Umoja II	Furniture
205) Ayanah Enterprises	Karen Rd	Furniture workshop
206) Kanini Furniture Mart	Outering Rd	Furniture workshop
207) Beacon Furnitureland	Githurai 44	Furniture workshop
208) Draf Furniture	Gitanga Rd	Furniture
209) Kosiro Woodwork Furniture	Moi Avenue	Furniture
210) Sangimu Workshop	Zimmerman	Furniture workshop
211) Nifco Contractors	Kasarani Mwiki Rd	Furniture workshop
212) Maryland Furniture (B)	Naivasha Rd	Furniture workshop
213) Maryland Furniture (A)	Gathuru Rd	Furniture workshop
214) Esther Showroom	Karen Raod/Motherland	Furniture showroom
215) Faith Base Furniture	Kamiti Rd – Mirema	Retail of clothes housewares & furniture
216) Mary Wambui Mburu Furnitures	Gitanga Rd	Workshop/wood furnitures
217) Junction Workshop	Light Indu- Off Kamunde Road	Making of wood furnitures
218) Boxwood Enterprises	Lumumba Drive	Furniture making
219) New Uzima Workshop	Mwiki-Njiru Road	Workshop/furnitures
220) Wunder Furniture Enterprises	Kasarani Mwiki Rd	Furniture workshop
221) Vumbua Arts	Off Waiyaki Way	Making of furniture, decorations, arts etc

Source: Nairobi City County (2013)

Appendix IV: Introduction Letter

Alfred Nzomo Kithusi
University of Nairobi
School of Business
P.O Box 30197 – 00100
NAIROBI
Kenya

Tel: 0727 905 605

6 March 2015

To Whom It May Concern
Dear Sir / Madam

RE: REQUEST FOR ACADEMIC RESEARCH DATA
I am a Doctor of Philosophy (PhD) candidate at School of Business, University of Nairobi. As part of the requirements for the award of the degree of Doctor of Philosophy, I am required to undertake a research study on an identified contemporary topic. I am requesting for your participation in a study titled: **Firm Resources, External Environment, Entrepreneurial Strategy and Performance of Micro, Small and Medium Furniture Sector Enterprises in Nairobi City County, Kenya.** The study covers a period of four years – 2011 to 2014. The target respondents are owner(s) and manager(s) in your organization.

Since your firm is part of the population of interest, I request that you complete the attached questionnaire. Please answer all the questions as honestly as possible. The information collected will be used for academic purposes only and will be treated with utmost confidentiality. Only the summary results of the study will be made public. Should you require the summary results of this study, kindly indicate so at the end of the questionnaire.
For the purposes of data collection, I have appointed Mr Jacob Muthangia together with his team of research assistants to assist me in this exercise. Please accord him and his team all the necessary assistance and co- operation.

Yours Faithfully

Alfred Nzomo Kithusi
PhD Candidate

Appendix V: Authorization Letter from the University

UNIVERSITY OF NAIROBI

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

DOCTORAL STUDIES PROGRAMME

Telephone: 4184160/1-5 Ext. 225
Email: dsp@uonbi.ac.ke

P.O. Box 30197
Nairobi, Kenya

02ND March, 2015

TO WHOM IT MAY CONCERN

RE: ALFRED NZOMO KITHUSI:D80/8543/2006

This is to certify that, **ALFRED NZOMO KITHUSI:D80/8543/2006** is a Ph.D candidate in the School of Business, University of Nairobi. The title of his study is: **"Firm Resources, External Environment, Entrepreneurial Strategy and Performance of Micro, Small and Medium Furniture Sector Enterprises in Nairobi City County, Kenya".**

The purpose of this letter therefore, is to kindly request you to assist and facilitate in carrying out the research/study in your organization. A questionnaire is herewith attached for your kind consideration and necessary action.

Data and information obtained through this exercise will be used for academic purposes only. Hence, the respondents are requested not to indicate their names anywhere on the questionnaire.

We look forward to your cooperation.

Thank you.

PROF. MARTIN OGUTU
FOR: ASSOCIATE DEAN
GRADUATE BUSINESS STUDIES
SCHOOL OF BUSINESS

Appendix VI: Authorization by NACOSTI

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349, 310571, 2219420
Fax: +254-20-318245, 318249
Email: secretary@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No.

Date:

8th September, 2015

NACOSTI/P/15/33131/7925

Alfred Nzomo Ngulo Kithusi
University of Nairobi
P.O Box 30197-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Firm resources, external environment, entrepreneurial strategy and performance of Micro, Small and Medium furniture sector enterprises in Nairobi City County, Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for a period ending **8th September, 2016.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

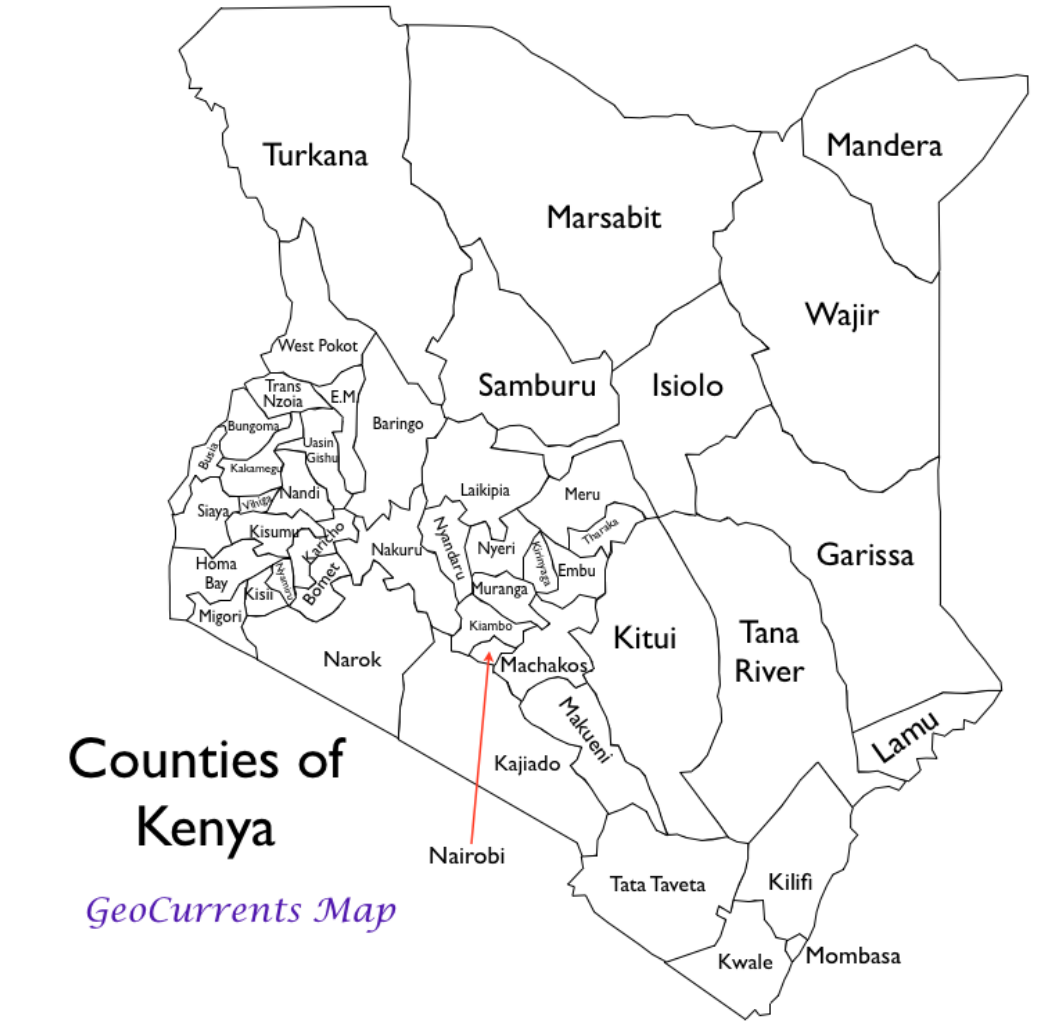
SAID HUSSEIN
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

Appendix VII: Map of Republic Kenya



Appendix VIII: Map of Nairobi City County