

**STRATEGIC FACTORS INFLUENCING SMES' PARTICIPATION IN  
THE SECURITIES EXCHANGE**

**BY  
JUDITH TINDYEBWA KAMURASI**

**UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA**

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**BY  
JUDITH TINDYEBWA KAMURASI**

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Fulfilment of the Requirement for the Degree of Masters in Business Administration  
(MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA**

**SUMMER 2017**

**STUDENT'S DECLARATION**

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University - Africa in Nairobi for academic credit.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Judith Tindyebwa Kamurasi**

**ID No: 647908**

This research project report has been presented for examination with my approval as the appointed Supervisor.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Prof. Paul Katuse**

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Dean, Chandaria School of Business**

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## **ABSTRACT**

The objective of this study was to find out the key strategic factors influencing SMEs participation in the NSE with specific focus on the top one hundred in Nairobi Kenya. The study was guided by specific objectives that sought to: establish the scope of operation of small and medium size enterprises necessary for their participation on the bourse, assess the systems and processes in small and medium enterprises, and to determine the effect of corporate governance requirements on participation of small and medium enterprises on the bourse.

The study adopted a descriptive research design. The approach was deemed appropriate and useful towards assessing of the elements influencing listing of SME firms on the securities exchange. The population of the study included both the Top one hundred Small and Medium Enterprises in Nairobi County and thirteen SMEs listed on the Nairobi Securities Exchange (NSE). The sampling frame included a list of eligible SMEs listed on the NSE. Stratified sampling technique was used for the study where random sampled quotas were selected from both listed and non-listed SME's. The sample size of SMEs was determined based on Yamen's formula (Yamane, 1967) that derived 50 companies and all the 13 listed SMEs were considered for sampling. Primary data was used to obtain information in this study using questionnaires. The questionnaires were pretested by the researcher to ascertain suitability of the tool before actual administration. The researcher used quantitative analysis. Correlation and regression analysis was used to examine existing relationships between the variables.

The study revealed that, SME firms developed and exploited new products, technologies, and services that brought changes in the economy, and to increase the size of the SME firms, financial support was obtained from outside the business to cover the additional investment required. The study showed that the decision-making process in SMEs goes through the manager, and through trusted assistants. The study revealed that, formalized strategic planning, human resource management, marketing research, financial planning and control do guarantee market success, and human resource development is driven by operational needs and priorities. The study showed that outside director(s) of the firm had resources that

were complementary to those of inside directors. The role of the firm's board members was to provide legitimacy, to administer advice and counsel, to act as a link to important stakeholders or other significant bodies, and to facilitate access to resources such as capital and building external relations.

The study concludes that, family members of SME owners do not have advantages with regard to firm specific knowledge, lack outside experience, and general business knowledge. Informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies in SMEs, and appointments are beneficial to the firm in terms of enhancing external resources, and trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange.

This study recommends SMEs to explore supplementing their public securities exchanges with private securities exchanges similar to those that exist in Taiwan and the United States (US) because these can provide more platforms for enterprises and entrepreneurs to raise capital and allow investors with different risk appetites to participate. These can also provide more platforms for enterprises to raise risk capital for business innovation.

## **ACKNOWLEDGEMENT**

With all reverence, I thank God for his faithfulness he has been to me during this season of studying hard. To my supervisor, Professor Paul Katuse, I am forever indebted to you for the guidance you offered during the different stages of this project and offering your time and knowledge to impart the same so that this project work would be a success.

Special gratitude goes to my family; my husband and my beautiful babies for their constant prayers and support during this study time. Without you all, my efforts would have been futile. May the Lord surely bless you all.

## **DEDICATION**

I dedicate this work to my God and my Rock; for his faithfulness and unending favor upon my life that I would achieve this milestone. A special tribute to my late dad, Mr Yokana Tindyebwa who trusted and believed in me that I would be a victor no matter what. This was part of his dream that I would have a Master's degree and surely it has come to pass. To my loving husband, Kenneth; for encouraging, support of all kind, and patience during this time when family time was taken away for the sake of this study.

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## **LIST OF ABBREVIATIONS**

<b>AIM:</b>	Alternative Market Segment
<b>GDP:</b>	Gross Domestic Product
<b>IPO:</b>	Initial Public Offer
<b>NSE:</b>	Nairobi Securities Exchange
<b>OECD:</b>	Organization for Economic Development
<b>SMEs:</b>	Small and Medium Enterprises

## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the study

Strategic managers recognize that short run profit maximization is rarely the best approach to achieving sustained corporate growth and profitability (Volberda, Foss and Lyles, 2014). Strategically managed firms characteristically have a profit objective, usually expressed in earnings per share or return on equity. They constantly increase productivity in their systems with objectives such as the number items produced or number of services rendered per unit of output (Jensen and Meckling, 2013).

Quader (2012) describes two aspects to strategic management; the ‘Outside In’ and ‘Inside Out’ approaches. Porter (1996) is a proponent of the Outside in approach while Hamel and Prahalad (1993) are the proponents of the Inside out approach. According to Porter (1996), the essence of strategy is choosing to perform activities differently from rivals do. Operational efficiency though necessary, is not sufficient for success. There must be a fit between various activities carried out by the organization which makes it impossible for rivals to copy (Quader, 2012). A chain is only as strong as its weakest link, but then applying the advice of Porter “Fit” locks out imitators by creating a chain that is as strong as its strongest link (Volberda, Foss and Lyles, 2014).

Firms also position themselves competitively which helps to indicate the long-term priorities. As well as deciding the directions in which to grow either horizontal, vertical, or international, a firm must determine the extent to which it expands by means of internal or organic growth and or external growth (Ravasi and Marchisio, 2013). Hamel and Prahalad (1993) view strategy as a stretch. They argue that whereas the traditional view of strategy focuses on the fit between existing resources and emerging opportunities, it is the strategic intent that fuels growth. Strategic intent implies a significant stretch for the organization (Ravasi and Marchisio, 2013). Current capabilities and resources may be manifestly insufficient to meet the dreams (Hamel and Prahalad, 1993) but with a strong intent, organizations seek and find resources (Volberda, Foss and Lyles, 2014).

Given the resource constraints under which SMEs operate, the meaning and intent of strategy for an SME would correspond more closely with the views of Hamel and Prahalad (1993). They focused on how small companies could successfully enter existing industries that seemed to be controlled by large and established rivals (Ravasi and Marchisio, 2013). Strategic approach for Small and Medium Enterprises (SMEs) would therefore be that of 'stretch' with globalization opportunities increasing as well as the threats, SMEs must stretch their resources and strength and compensate the weaknesses (Gitman and Zutter, 2012).

Small and Medium Enterprises are engines of economic growth and employment in developing countries (Vijayakumar, 2015). With increasing globalization, market integration, and competition, the ability to manage innovation is of growing importance for SME's survival and growth (Yazdanfar, 2013; Burja, 2011). To innovate successfully, SME's need innovation and business practices that facilitate creativity and risk taking behaviors supported by a stable platform of economic exchange and corporation networks induced by an effective institutional framework (Biggs and Shah, 2016; Lu, Sang and Peng, 2008).

According to OECD (2015), small and medium enterprises are considered as sources of employment, competition, economic dynamism, and innovation. SMEs have the capacity to achieve rapid economic growth, while generating a considerable amount of employment opportunities (Tambunan, 2015). The SMEs in create close to 80% of Kenya's employment (African Economic Outlook, 2014). While SMEs subsector constitute close to 80% of employment, it only contributes to about 20% of Gross Domestic Product (GDP). This implies that the SMEs subsector has been performing dismally despite its potential contribution to employment (Tambunan, 2015).

Over the recent years, there have been various studies on the growth and performance of SMEs. Although there is growing participation by these organizations in the trade and business arena, many of the studies have focused on strategies for sustainable growth of these enterprises (Salman and Yazdanfar, 2012). Many exchanges have introduced and launched alternative markets for the listing of startup companies. This helps small businesses to raise capital through initial public offerings and list their shares for trading (Jasra, 2014).

These companies will normally not list on the main Bourse because they cannot fulfill the listing requirements. Many governments and economies believe that alternative markets are engines for economic development in both developed and emerging economies (Vijayakumar, 2015). For example, Peng (2009) suggested that the new growth and enterprise market in Taiwan supports independent innovative enterprises which has a positive impact on the Chinese economy. Total market capitalization and annual turnover vary between markets and have had mixed fortunes. For example, the success of the Alternative Investment Market of London and South Africa (SA) with Korea's Kosdaq having better performance. (Lee et al., 2014; Lall, 2012).

It is therefore important to regulators, stock exchange management, and academic scholars to understand the determinants of successful alternative markets (Peng, 2009). While previous studies have been done on Small and Medium size enterprises, they have often focused on the performance, external factors affecting performance of these enterprises, the strategies that may apply as to improve their performance and sustainable growth (Lall, 2012).

Unfortunately, despite the wide spread recognition of the important role played by the SMEs in the emerging economies, there has been relatively little research done on competitive strategies for SMEs, particularly those that recognize issues such as the strategic elements influencing SME's participation in the securities exchange. This study aims at determining the strategic elements influencing SMEs participation in the securities exchange to include; corporate governance; systems and processes; and, the scope of operation.

The OECD Report (2015) on New Approaches to SME and Entrepreneurship argues that; regulatory burdens remain a major obstacle for SMEs as these firms tend to be poorly equipped to deal with the problems arising from regulations. Access to information about regulations should be made available to SMEs at minimum cost. Policy makers must ensure that compliance procedures associated with for example; new technologies, are not unnecessarily costly, complex or lengthy. It would be of great help to set up a one stop-shop

system, where all the necessary information which affects firm strategies and decisions is made available in one place.

A range of other business environmental factors have also been attributed to slow growth of SMEs. Ayyagari et al. (2007) denotes that lower costs of entry and better credit information sharing are associated with the large size of the sector while higher exist costs are associated with larger informal economy.

As economies recover from the global financial crisis of 2008-2009, many economies recognize the need to create employment opportunities for their working population. Thus, there has been a significant shift by European countries looking to emerging markets for investment opportunities. Africa being one of the emerging markets has experienced commendable growth in the SME space because focus has shifted from the traditional Multinational corporations to growth of Small and Medium size enterprises.

The size of financial needs by large companies gives these companies greater importance to tradability. Large shares and bonds trading allow economies of scale and generate experience in listing practices and trading operations thereby enhancing the profitability of those commercially oriented stock exchanges. The financial crisis intensified the debate on especially in the developed world on how stock exchanges can cater for the financial needs of SMEs. Previous studies for example, (Pangano et al., 2011; Ladekarl and Zervos, 2014; Otchere 2012; Otchere and Khaleed, 2007) have explored factors in the operating performance of the exchange; these factors include investor protection, stock market governance structure, accounting standards and market capitalization, among others. Another study offering support that regulations, investor protection and accounting standards affect large corporations and small enterprises differently (Mulheim, 2007; Stringham et al., 2008) These studies recommend the need to examine the impact of these factors on Alternative Markets for SMEs. They however do not consider the strategic factors influencing SMEs participation in the securities exchange. This study will therefore focus on such factors as; corporate governance; systems and processes; and, the scope of operation within the Top 100 Mid-sized company within Nairobi Kenya.

A top 100 Mid-sized Company has been defined as one which ranks ahead of its peers in terms of revenue growth, profit growth, returns to shareholders and cash generation and liquidity. This company has succeeded in progressively grown its market position in the industries in which it operates and overtime, this growth has translated into both returns for its shareholders and a sound financial position. A top 100 company is one that; has an annual turnover between seventy million to one billion Kenya shillings, has audited financial statements for at least the last three financial years (Kenya Top 100).

## **1.2 Statement of the Problem**

Small and Medium Enterprises are engines of economic growth and employment in developing countries (Chaminade and Vang, 2009). With increasing globalization, market integration, and competition, the ability to manage innovation is of growing importance for SME's survival and growth (Radas and Bozic, 2009). To innovate successfully, SME's need innovation and business practices that facilitate creativity and risk taking behaviors supported by a stable platform of economic exchange and corporation networks induced by an effective institutional framework, (Biggs and Shah, 2012; Lu, Sang and Peng 2008). There is also increasing literature that innovation results are favored by the presence of relationships, networks, alliances and other different forms of interaction with external sources of knowledge (Powel and Grodal, 2015).

Family ownership has been recognized as an important determinant of corporate strategic choices. However, little research investigates the effect of family ownership and corporate governance in small and medium size enterprises. Fernandez and Nieto (2012) argue that ownership type can influence corporate strategy because it is associated with different degrees of risk aversion and the firm's resource endowment. Family ownership may induce family managers to align their objectives with those of the firm and behave as good stewards of resources which in turn reduces the internationalization risk (Chen and Hsu, 2009). Institutional investors may influence the corporate strategy by monitoring managers and providing important resources.

SMEs have been noted to make major contributions to employment generation, GDP and reduction of poverty in Kenya. SME development is however hindered by several factors, notable among which is the lack of adequate financing (Kayanula and Quartey, 2010; Aryeetey, 2011). The problem of financing has been argued to be the main reason for many SMEs failing to start or progress. This stems from the fact that SMEs have limited access to capital markets, both locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation. Thus, they obtain long-term finance in form of debt and equity (Kayanula and Quartey, 2010). Also, banks and other formal finance providers are often reluctant to extend credit to SMEs. Lack of managerial competencies and proper governance systems in the SME sector have been identified to swamp efforts at attracting such finance and thus are said to be the main barriers to SME development (Gockel and Akena, 2014).

Previous studies that are known to the researcher have been focused on the following; Effects of working capital requirement and barriers on the performance of flower industries in Naivasha, Kenya (Ashoka, 2014); Factors affecting working capital in SME's; Small and Medium enterprises Access to finance as a growth constraint (Maina, 2014).

There also exists limited scope literature on Alternative markets, for example Aggarwal and Angel (1999) address the potential determinants of alternative market success mainly on one alternative market, The United States (US) emerging company market place. The limited studies in this area with respect to SMEs have been focused mainly on developed economies. Moreover, this literature is usually based on external elements and policy structures to assess growth and performance of both large corporations and Small enterprises, these studies have however not looked at the factors influencing SME businesses with the Top one hundred towards participation on the bourse.

### **1.3 General Objective**

The objective of this study was to find out the key strategic factors influencing SMEs participation in the NSE with specific focus on the top one hundred in Nairobi Kenya.

## **1.4 Specific Objectives**

This study was aimed at investigating the following issues:

**1.4.1** To establish the scope of operation of small and medium size enterprises necessary for their participation on the bourse.

**1.4.2** To assess the systems and processes in small and medium enterprises.

**1.4.3** To determine the effect of corporate governance requirements on participation of small and medium enterprises on the bourse.

## **1.5 Importance of the Study**

### **1.5.1 Small and Medium Enterprises (SMEs)**

This study may be beneficial to other small enterprises in terms of creating awareness towards the attitudes held by owners of these companies in creating sustainable growth. SME owners have a study

### **1.5.2 The Nairobi Securities Exchange (NSE)**

Currently, there are fifty companies listed on the NSE within the Main Investment Market Segment, nine companies in the Alternative market segment; and four companies under the Growth enterprise market segment. The exchange has over time been seeking to list more Small medium size enterprises that has so far not been very fruitful. This study may help management to get a deeper understanding on the strategic factors influencing these small enterprises thus limiting their appetite to list. In turn, the study may facilitate further reviews by management of how to facilitate these companies towards listing which would be mutually beneficial.

### **1.5.3 The Government of Kenya**

Poverty is caused by inadequate incomes, and incomes result in most employment. Employment is thus perceived as the main goal making small enterprises as fruitful sources of jobs. The government and regulators both at policy and operational levels have in the recent past years been encouraging and facilitating small businesses towards survival and sustainability. This information may help in improving better partnerships especially if business owners can get past their intrinsic limitations.

#### **1.5.4 Regional Markets**

Currently, the NSE is the leading stock exchange in the East African region with the highest trading turnover and company listings. With this research, the other markets can share information on small and medium size companies which eventually helps in participation in trading and overall performance of the various exchange.

#### **1.5.5 Researchers and Academicians**

Other researchers and academicians may also benefit through this research as a source of information on SMEs and help in filling existing gaps in this area. They may use this study as a foundation for future research in the same field of study.

#### **1.6 Scope of the Study**

The study focused on SMEs listed on various exchanges but drew specific attention the top one hundred SMEs in Nairobi Kenya and with specific regard to the NSE. From a population of one hundred SMEs that were not listed and the fifty listed on the exchange, using Yamens' formula, the study strata was constructed to comprise of homogeneous elements of the total population. Questionnaires were used as tools for purposes of data collection. The researcher collected data during the months of March and April 2017.

#### **1.7 Definition of Terms**

##### **1.7.1 Strategic Management**

Pearce and Robinson (2015) defines Strategic management as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. On the other hand, strategy is large scale future oriented plans for interacting with the competitive environment to achieve company objectives. This competitive environment comprises of both the Internal and external environment. Under the external environment, comprises of the factors beyond the control of the firm that influence its choice of direction and action, organizational structure and internal processes. An analysis of these factors helps the organization in formulating strategies that optimize the firm's market opportunities.

### **1.7.2 Small and Medium Size Enterprises**

The Bolton report (1971) suggested two definitions for small and medium size enterprises. He suggested that criteria to cover a range of diversity of the small enterprise compared to the large enterprise. The three conditions were: Small firms are those that have a relatively small share of the market. The firm lacks any real power to affect its environment. They are managed by their owners in a personalized way. Thus, the owners are active participants in all aspects of the management of the firm, and take all principal decisions. Small firms are independent in that they are not part of larger corporations, and the owners are free from outside control in taking the main decisions.

### **1.7.3 Bourse Listing**

Mbaru (2007) defines the bourse as a market in which securities- shares or bonds- are traded or exchanged. The bourse is most commonly referred to as the stock exchange. Stocks that are traded on an organized exchange are said to be listed. Some companies are however so small that their common stocks are not actively traded, they are owned by a few people usually company's managers or employees. These are usually referred to as closely held corporations with closely held stock.

### **1.7.4 Corporate Governance**

One way of defining good corporate governance is looking at commitment of the organization's ideals in line with the best corporate governance practices. A well-functioning board through the management control environment. It is also displayed by way of full disclosure and transparency evidenced by shareholder and stakeholder relations.

### **1.7.5 Innovation**

The study adopts the Oslo Manual's (OECD, 2015) definition of innovation as the implementation of any new or significantly improved product (goods or services), methods of production or service delivery, any new marketing methods or processes (packaging, sales and distribution methods), or new organizational or managerial methods or processes in business practices, workplace organization or external relations.

### **1.7.6 Initial Public Offer (IPO)**

An IPO marks a company's first offer to sell its shares to the public. This allows investors to buy shares in a company before they become available on the stock exchange, with funds initially raised going directly to the company and funds raised later by stock exchange transactions pass from buyer to seller (Barclays stockbrokers, 2014). This study is aimed at providing an insight into the strategic elements influencing SMEs participation in the securities exchange. These elements will include; corporate governance; systems and processes; and, scope of operation which will also be reviewed in the next chapter.

### **1.7.7 High Growth Enterprises**

These are enterprises which rather than seeking stability or steady growth, will maintain their development by pursuing a trajectory of rapid growth. High growth SME's experience 20% annual growth for an average of three years, they thus double in size in a few years (Cassia and Minolla, 2012).

## **1.8 Chapter Summary**

This chapter introduced the study including; the background of the study highlighting strategic management as the main area of study. It also facilitated the statement of the problem; the purpose, the general objective; importance of the study; scope and definition of terms. Chapter two of this study provides a literature review of past studies in line with the research objectives, chapter three focuses on the research methodology and design, chapter four presents the study results and findings, and chapter five presents the study discussions, conclusions, and recommendations.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covered the literature and the specific factors influencing SME participation on the bourse, more specifically, related articles, journals and other research papers were reviewed together with other works relevant to the subject of the study. The review critically discusses the existing scholarly material work and the relationships amongst factors such as the scope of operation, systems and processes and corporate governance in Small and Medium enterprises and their effect on their participation on the bourse. The first section discusses literature on the scope of operation in these SMEs, the next part is about systems and processes and the last; corporate governance prevalent in SMEs.

#### **2.2 SMEs' Scope of Operation Necessary for Bourse Participation**

##### **2.2.1 Innovation**

An important issue facing SMEs worldwide is continuous improvement. In today's markets the inputs of customers and their fast changing needs makes it imperative that enterprises continuously improve the way business is conducted (Branzei and Vertinsky, 2012). SMEs need to consider continuously improving production costs, delivery schedules, manufacturing skills, supplier relationship and productivity in all practices (De Wit et al., 2007). According to Gaither and Frazier (2009), SMEs constantly experience shortages in capital to employee skills to improve production capacity, which makes it necessary to continuously improve their production strategies with customized products and process-focused operations (Dibrell, Davis, and Craig, 2016). Moreover SME operations function should embrace competitive priorities of low production costs, fast on-time deliveries, high quality products and customer services. SMEs that have adapted their production systems to be flexible and their costs and prices competitive will be able to compete and capture increased market share (Gaither and Frazier, 2009). This signifies the importance of innovation in enhancing loyalty and long term customer value.

Innovation in SME's fuels and renews competitive advantage as firms mature (Branzei and Vertinsky, 2012). Developing new and differentiated products is important and failing to

invest in any form of innovation may lower the SME's responsiveness to new or enhanced products or processes by competitors and may lead the firm to miss out on advantages associated with technological leadership and first mover advantages (Dibrell, Davis, and Craig, 2016). Radically innovating SMEs also play a key role in the dynamics in any economy by developing and exploiting new products, technologies, and services that may alter the structures of that economy (Baumol, 2012). Such SME's further increase the local economy's attractiveness for globally mobile large firms that are on the lookout for radically innovating SMEs as external sources of new products or technologies (Veugelers, 2016). For this reason, stimulating radical innovation in SMEs claims a highly-ranked position in many policy intervention agencies.

In the same vein, Kemp et al. (2013) in their research, found that the innovation output was determined by the innovative input, in that, the transformation of input into output. Finally, the innovative output was related to the firm performance. They stated that innovative output, via firm performance, would affect the innovation expenditures. The overall economic performance of a firm would affect all three stages of the innovation process of a firm. The growth of total sales would be higher for innovating firms than for non-innovating firms (Baumol, 2012). They said as a result of this interrelatedness of the relationships, the innovation process should be tested simultaneously. In the same vein Oncioiu (2013) in their study in Romania noted that innovation boosted competitiveness of SMEs in Romania thus signifying

### **2.2.2 Size of the Firm**

The potential to increase value also depends upon the firm size. Agency theory focuses on conflicts of interest in agency relationships, considering the firm as a nexus of contracts (Morriset, 2014). To increase the size of the firm beyond this point, the owner must obtain outside financing to cover the additional investment required, and this means reducing his fractional ownership (Acemoglu, 2013). When he does this, he incurs agency costs, and the lower his ownership fraction, the larger the agency costs he incurs. However, if the investments requiring outside financing are sufficiently profitable, his welfare will continue to increase (Jasra, 2014).

This reasoning leads managers to identify growth strategies. The Principal's objective requires strategies that prioritize long term value (Oncioiu, 2013), whereas the agent tends to follow strategies that may diverge as the business grows. Firm size also influences access to finance by SMEs due to information asymmetry between insiders and outsiders being more severe in small firms because there is less information available in the market (Psillaki and Daskalakis, 2009).

Although innovation in SMEs benefits from a lower degree of bureaucracy, they often possess a narrow organization and technological repertoire, resulting in a lopsided stock of knowledge, few capabilities and a limited capacity to cultivate other capabilities (Zahra and Filatotchev, 2014) which makes SMEs more prone to radical innovation impending competent traps, especially over emphasis on existing knowledge base and seeking knowledge in areas closely related with current expertise (Liao, Welsch, and Stoica, 2013). Furthermore, their innovation potential is hampered by scarcity of internal finance and manpower resources, and the generally excessive influence of founding management (Liao, Kickul and Ma, 2009). These problems often prevent SMEs to look for and gain access to external knowledge sources they in fact need. Thus, they unwittingly ignore the role and importance of external knowledge and management and less complex decision making and control than seen in large firms (Brunninge, Nordqvist, and Wiklund, 2014; Shulze et al., 2011).

### **2.2.3 Knowledge Capabilities in SMEs**

Knowledge is one of the most important inputs for the innovation process (Thornhill, 2012). Innovation is a function of the firm's ability to manage, maintain and create knowledge. It involves connecting previously unconnected ideas and knowledge and combining previously combined ideas or recombining in novel ways (Kogut and Zunder, 2012). Compared with larger firms, innovation in larger firms usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks. Firms can acquire knowledge from both internal and external sources (Volberda, Foss and Lyles, 2014).

According to the Resource-Based View (RBV) theory, firms poses a unique bundle of resources that are complex, intangible and dynamic, a subset of which enables them to achieve competitive advantage and a further long-term performance the family context, the RBV provides that these resources are referred to as “familiness” of a firm as a source of competitive advantage (Modigliani and Miller, 2015). Research suggests that family members have advantages with regard to firm specific knowledge, but at the same time, they may lack outside experience and general business knowledge (Bammens,Voordeckers and van Gils, 2011) management and less complex decision making and control than seen in large firms (Brunninge, Nordqvist, and Wiklund, 2014; Shulze et al., 2011).

#### **2.2.4 Finances**

According to the pecking order theory, SMEs prefer internal equity to debt and debt to the external equity and rarely use external equity (Myer, 2011; Lemmon and Zender, 2014). The pecking order is influenced by factors such as the owners desire to maintain control, their risk aversion (Watson et al., 2014) gender age and personal values and their knowledge of industry, competition and funding opportunities (Bulan and Yan, 2015). SME owner’s knowledge gaps of funding opportunities may reflect gaps in the skills and knowledge of their business advisors especially accountants. In addition to the above characteristics, the search for and access to finance are impeded by business characteristics such as; size, age, profitability and growth objectives (Fama and French 2015; Bulan and Yan, 2015).

Smaller and younger businesses and businesses that do not desire growth are unlikely (Beck and Demirguk-Kunt, 2006). Bulan and Yan (2015) find that mature firms have greater capacity to use external finance because they are older, more stable and have good credit histories. The industry sector of operation also determines access to finance (Carpenter and Peterson, 2012) with manufacturing firms experiencing greater difficulty than service firms (Chakraborty and Mallik, 2012).

Burger and Udell (2008), suggest a finance growth cycle for SMEs where their financial needs and options change with business growth, experience and track record of performance. These factors reduce the information opacity to firms and enable access to external funding.

Berger and Udell (1998) therefore argue that as firms grow, they graduate from using insider finance to debt, external private equity and then public equity. High growth firms can access public equity directly from Initial Public Offers (IPOs) if they meet the listing requirements. The benefits of an IPO extend beyond access to capital; it minimizes the firm's cost of capital and maximizes its value (Brau and Fawrcett, 2012); Improves borrowing capacity (Pagano et al., 2008); creates publicity for the issuing firm (Demmers and Lewellen, 2012); and enhances its reputation with customers, suppliers, and other influential third parties (Witzel, 2015). According to Broude (2007) an IPO is a powerful tool to accessing key employees. IPOs provide businesses with a winning technology or product or first mover advantage in the market and sufficient liquidity to sustain them until their technologies are proven (Maksimovic and Pichler, 2014).

The agency theory has strongly influenced the tendency to attributing a controlling role to the board of directors; this theory assumes that firms are often characterized by diffused ownership and individualistic utility motivations that result in a conflict of interests between ownership and management (Brau and Fawrcett, 2012). Agency problems may be relevant to all types of firms; however, SMEs, most of which are family owned firms differ from large firms in various ways including, their concentrated ownership structures, a greater degree of overlap between ownership and management and less complex decision making and control than seen in large firms (Brunninge, Nordqvist, and Wiklund, 2014).

## **2.3 Systems and Processes in Small and Medium Enterprises**

### **2.3.1 Organizational Behavior**

Angappa, Bharatendra and Micheal (2011) quote researchers who have proposed classification of SMEs into; monocratic, oligarchic and patrician. Monocratic is where most of the decisions are made by the owner or the major shareholder of the enterprise and their presence is absolutely needed in the day today functioning of the business; Oligarchic is where company policy is decided by two or three company managers or owners with each one of them handling one specialized job or the other; and the latter where the owner or major stockholder does not get involved with the day today running of the company and its policy making (McDonald, 2014).

One of the organizational characteristics, which give SMEs considerable advantage in the market, is its simple and innovative organizational structure as compared to large companies (Panikkos, 2014). This is due to the size of the company that makes it very agile. The decision-making process followed in these companies are usually of the centralized kind, where almost every decision goes through the owner manager or their trusted assistants (Fatoki, 2014). Turning to organizational, managerial and organizational SME's that experience high growth share some characteristics. Chan (2012), contend that these organizations share common experiences of stable growth and similar managerial challenges. Their commonality resides in effective management of their organizational capabilities.

### **2.3.2 Operations and Internal Controls**

Internal operations within SMEs are within the control of management's control and require immediate administrative response. The most appropriate way to address operational efficiency is through routinely administered procedures (Clatwothy, 2016). These routine actions generally produce the expected results, as there is little uncertainty as to what to expect after taking action. A routine review of financial and cost accounting information for example can often yield, without uncertainty or ambiguity, information to take appropriate action (Chan, 2012). It is another matter if the firm decides not to take action. Urgent managerial action must be taken when the firm misses deadlines, experiences high labor turnover, increased production costs, and decreased sales volume (Temtime, 2016).

Formalized strategic planning, human resource management, marketing research, financial planning and control all do not necessarily guarantee market success (Haswel and Holmes, 2009). The human resource problem for example looks at human resources from a strategic point of view and illustrates how certain human resource issues such as; small business owners' inability to perform both administrative and planning functions; high employee turnover; problems of excessive reliance upon family labor, lack of employee legitimacy and recruitment policies (Ravasi and Marchisio, 2013); extended employee benefits and incentives can be of strategic importance to the firm (Panikkos, 2014).

The literature highlights the importance, and prevalence of and preference of informal human resource development in SMEs, where practices are embedded within the normal, daily operations and routines (Barret, 2015). SMEs adopt ad hoc and reactive approaches to day to day operations and Human Resource Development (HRD) is driven by operational needs and priorities (Hirshsohn, 2008). The focus of human resource development is on addressing pragmatic concerns such as; performance deficits, managing skill shortages, and creating a mobile and flexible workforce (Kortey and Folker, 2014). Thus HRD is often built around the resolution of pressing work related work problems rather than as a long-term people development strategy (Walker et al., 2014). Informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies, hence it is assumed that HRD in SMEs is inferior and unorganized, if not non-existent (Massey, 2014).

### **2.3.3 Corporate Entrepreneurship**

Corporate entrepreneurship can take various forms which Modigliani and Miller (2015) have elucidated. These include administrative, opportunistic, acquisitive imitative and incubative entrepreneurship. Administrative entrepreneurship involves the company taking a step beyond having a traditional Research and Development (R&D) department. A philosophy of corporate enthusiasm for supporting researchers exists. This is accompanied by the provision of extensive resources for making new ideas commercial realities (McDonald, 2014). In the case of opportunistic entrepreneurship, the company encourages champions to pursue opportunities for the company, and through external markets. Corporate managers are also allowed to seek new opportunities outside the company thus promoting acquisitive entrepreneurship (Modigliani and Miller, 2015). These opportunities include mergers, acquisitions, new technologies and strategic alliances. Imitative entrepreneurship is greatly epitomized by Japanese firms. This form of entrepreneurship largely involves reversing engineering of others' products (Tambunan, 2015). Another form of entrepreneurship, is incubative entrepreneurship occurs when semi-autonomous new venture development units are formed that provide seed capital, access to corporate resources, freedom of independent action and responsibility for implementation from venture concept to commercialization (Yazdanfar, 2013).

The above issues point to the fact that it is important for firms not to lose sight of innovation and creativity which adds value to firms, when implementing corporate governance mechanisms. Stringent corporate governance rules governed primarily by addressing the interests of shareholders and thus profit maximization of the firm could reduce efforts to encourage innovation and creativity (Lall, 2012). Hence it is important to have explicit obligations by firms on value creation, their merits and the need for these in a firm (Tambunan, 2015).

Entrepreneurial firms need access to resources for growth. They need inputs on business operations, good strategy and best practices in the industrial sector. These resources can be provided for through the presence of non-executive directors or external board members as in the case of listed firms. Research on listed firms has shown that strategy influences corporate performance (McDonald, 2014) and external board members challenge strategies by management (Panikkos, 2014). Thus the existence of external board members could lead to better management decisions and help SMEs to attract better resources. As noted by Jasra (2014), access to finance is one main obstacle to growth and performance of the SME sector in Ghana. Incorporation of corporate governance into the sector could greatly reduce this constraint. The infusion of external board membership in this case is crucial since there is a high incentive for the board member(s) to introduce ways of attracting finance. Non-executive directors could also introduce creativity and innovation through opinions and suggestions during decision making (Lall, 2012). In the Japan Small Enterprise Agency, SMEs with very high growth rates use non-executive directors more actively than larger firms (McDonald, 2014).

As SME firms grow, the need to introduce professional governmental practices and managers arises. This begins the process of separation between management and owners. However, agency problems will still exist between non-family professional managers and owners (Kellermans and Eddleston, 2014). The underlying fact is that these non-family professionals would have to be motivated with incentives in order to gain from their expertise. In addition, for best performance from managers, governance of business units must be clear and distinct. Accounting controls and internal audits will have to be put in place to help assess the

performance of these managers (Rodrik, Subramanian and Trebbi, 2013). This merit has dire implications for the SMEs in Ghana which are run largely by less competent managerial staff, mostly the sole proprietor and family. Corporate governance makes room for the composition of a board which will include external directors not necessarily linked to the owner and thus induce more independent best practice methods of running the business and attaining profits (Kellermans and Eddleston, 2014). The possible tension here is that which may develop between the owner and board of directors (especially in sole proprietorships). In Ghana, as noted, one of the banes of SME development is poor managerial competencies, an SME with a corporate governance structure will better overcome these problems via the expertise and more stringent internal control measures introduced by the board members (Gitman and Zutter, 2012).

Similarly, good corporate governance practices assist SMEs in improving on their prospects of obtaining funding from investors and financial institutions. This is an exact consequence of proper bookkeeping and accounting practices and information disclosure which increases the confidence of investors in the firm (Salman and Yazdanfar, 2012). The SME will also have a healthier growth and be committed to business efficiency due to the presence of external supervisory parties. Applying good governance principles reduces the problems associated with information asymmetry and makes the SME less risky to invest in (Gitman and Zutter, 2012).

#### **2.4 Corporate Governance in SMEs**

Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy (Uhlener et al., 2014). In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Barroso, Villega and Perez-Calero, 2011). Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and is shaped by prevailing systems of corporate governance (Uhlener et al., 2014). The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place

(Kellermans and Eddleston, 2014). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Miller and Miller, 2012). The definition of “ownership” is problematic in this context (Uhlener et al., 2014). At the bottom, differences in conceptions of ownership lead to differences in forms of control and, therefore, differences in the formulation and implementation of corporate strategy (Kellermans and Eddleston, 2014).

For an SME, it concerns the respective roles of the shareholders as owners and the managers (the directors and other officers). It is about setting rules and procedures as to how the company is run (Bammanes, Voordeckers and van Gils, 2016). It is also about putting checks and balances in place to prevent abuses of authority and ensure the integrity of financial results. As a result, the role and independence of the auditor has been under the microscope (Uhlener et al., 2014). The main corporate governance themes that are currently receiving attention are: adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles (Miller and Miller, 2012); ensuring that the board has an effective mix of independent and non-independent directors (Kellermans and Eddleston, 2014); and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board (Barroso, Villega and Perez-Calero, 2011).

#### **2.4.1 Board Performance**

Outside board directors may be important to an important governance mechanism to help resolve possible agency related problems and problems of interest alignment (Gabrielson and Huse, 2015) but outside directors (all non-employed members of the board) may also help to improve managerial decisions, provide an independent view on corporate strategy, provide resources and expertise to boards (Kellermans and Eddleston, 2014). Family firms at different generational phase have different governance needs and characteristics (Bammanes, Voordeckers and van Gils, 2016). The generational evolution of family firms can influence board characteristics, disagreements about goals and strategies (Kellermans and Eddleston,

2014) and therefore, board composition. Hence board composition may vary depending on the generation in charge of the firm.

Corporate governance mechanisms change when SMEs are listed (Uhlener et al., 2014). While corporate governance is a choice for unlisted SMEs, the AIM listing rules require the implementation of measures such as Board of directors, audit committees, remuneration committees and independent directors. Although AIM listed SMEs are not obliged to comply with the UK's combined Code of Ethics, they are encouraged to do so, (Mallin and Awyong, 2016). Mendoza (2014) contends that any sub-optimal corporate governance regime will threaten the continuity of the firm on the AIM.

Good corporate governance strengthens companies' operations, bolsters long term performance and reconciles divergent interests, reduces risk of crises and scandals. It offers higher resilience to crises and other external shocks. One way of assessing good corporate governance is looking at commitment of the organization's ideals in line with the best corporate governance practices (Miller and Miller, 2012). A well-functioning board through the management control environment. It is also displayed by way of full disclosure and transparency evidenced by shareholder and stakeholder relations (Kenya Chamber Magazine, 2016).

Although outside directors may increase supervision, reduce agency costs, introduce independence in decision making, bring outside resources and increase the level of business knowledge, these benefits are not necessarily realizable (Luan and Tang, 2014). Outside directors may not be able to exert influence because they lack superior information about each business or unable to monitor the actions of management; an outside director may not be able to fully comprehend the nature of the firm's operations. Directors who are simultaneously directors and family managers are also an important source of information and knowledge for the board (Raheja, 2015), and their presence on the board can be a valuable asset in the process of decision making (Miller and Miller, 2012).

Following Clarryse, Knorkeart and Lochert (2014), outside directors can bring resources including; networks, expertise, access to external resources and reputation, that are complement to, or substitute for inside directors' resources. Where outside directors have resources that are complementary to those of inside directors, firm performance may increase and where these resources are not complementary, firm performance may be limited. The board's service role includes providing legitimacy, administering advice and counsel, acting as a link to important stakeholders or other significant bodies and facilitating access to resources such as capital and building external relations (Pfeffer and Salancik, 1978).

The board's service role of co-opting external influences relies on the status of the board membership of the firm, and the board is thus seen as a device to secure inter-organizational linkages. Outside director appointments can be viewed as a way to increase the firm's ambit and should be beneficial to the firm in terms of enhancing external resources (Luan and Tang, 2014).

Rykroft and Kash (2014) define innovation networks as self-organized linkages in a constant learning process between firms and government agencies to create, capture, and integrate the different skills, knowledge and resources needed for developing technologies and bringing them to the market. Networking practices can be characterized by three dimensions; the content exchanged in relationships; the governance of relationships; and the structural pattern resulting from crosscutting ties (Hoang and Antocic, 2015). Networks help SMEs alleviate financial constraints, provide technical and market information, and govern contracts and relationships (Biggs and Shah, 2012).

Networking with International companies helps SMEs to obtain new ideas, develop radical product innovations, increase research and development intensity and performance, and introduce new products (Rykroft and Kash, 2014). Governance undergirding and coordinating network exchange includes trust and reciprocity, implicit and open ended contracts, and legal contracts. Trust is a critical element in enhancing the quality of information and enhancing other types of network exchange (Hoang and Antocic, 2015).

From this perspective, the board of directors performs a strategic and service role where the knowledge, experience and expertise accumulated by directors may be a resource that is integrated with firm strategies in ways that produce positive performance results (Barroso, Villega and Perez-Calero, 2011). The relational capital of outside directors may be an important resource mitigating small family firms 'lack of external links hence increasing firm resources (Hoang and Antocic, 2015).

Small firms often characterized by concentrated ownership, and the appropriateness of the agency theory as a theoretical lens in such contexts has been questioned (Schulze, Labatkin and Dino, 2013; Uhlaner, Floren and Geerlings, 2014). An alternative theory to agency relationships is the team production theory explaining governance behavior and board behaviors (Roberts, McNulty and Styles, 2015). According to this theory, instead of explicitly contracting with each other in order to determine their share in team production, team members surrender decision making powers on the allocation of duties and rewards to a mediating hierarchy (Blair and Stout, 1999). In the context of small firms, the overlap between ownership and management, the lack of formalized managerial structure, as well as the need to bring critical resources into the firm (Arthurs et al., 2009; Cowling, 2015) make the team production approach a useful theoretical lens for understanding boards, especially the strategic involvement of boards.

#### **2.4.2 Board Knowledge**

Following the logic of team production, boards are viewed as cooperatives that contribute to firm's value creation through their strategy involvement. Each board member brings firm specific and knowledge to the board, a key characteristic of team production approaches (Kaufman and Englander, 2005). Board leadership is about effectively facilitating the presence and the use of firm- relevant knowledge and skills of board members (Huse, 2007). Board leadership also includes the design of effective interactions in boardrooms by means of rules and interactions as well as having skilled chairpersons exhibiting leadership behaviors (Kaufman and Englander, 2005).

From the team production dimension, board leadership is not a simple dimensional, but a multi-dimensional construct. It involves processes that ensure board members bring relevant knowledge to the board room, the design of interactions that facilitate the use of knowledge and skills, as well as chairperson leadership behaviors that maximize team production. Therefore, board leadership is a major determinant of board strategy involvement, and a central mechanism to bring out the board's value-creating potential (Gabrielsson et al., 2014; Leblanc, 2015).

Board development is particularly important in small firms for three related reasons; first, small firms are often characterized by lack of formal structures and a dominance of informal processes (Uhlener, Wright and Huse, 2007). While informality may give flexibility, it can also increase uncertainty among board members and centralize decision making in a way that hampers long term economic development. Formal board development can thus give structure to strategic process in small firms and facilitate a greater involvement by board members. Second, governance in small firms is often characterized by role integration (Johannison and Huse, 2010) and division between various governance tasks are not always evident (Cowling, 2013). In small firm boards, formal firm instructions and evaluations may help to define board member tasks to clarify the relationships between board members and top management (Gabriellsson and Winland, 2010). Lastly, following the team production theory, board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions (Arthurs et al., 2009; Fiegenger, 2015; West, 2007).

The main reasons that prompt SME leaders to set up advisory boards are the desire for complimentary expertise (Arthurs et al., 2009), and the need for advice support and decision making (Leblanc, 2015). These leaders recognize that having an advisory board has a significant impact on the success of their business on the success of their business (Arthurs et al., 2009). Most areas of impact cited by these leaders are; company vision, innovation, risk management and profitability (Fiegenger, 2015). Deep industry knowledge allows SME boards to provide close hands on guidance on an ongoing basis through periods of high risk and rapid growth (Uhlener, Floren and Geerlings, 2014). Within SMEs, this expertise

provides the added benefit requiring managers to make more compelling arguments for strategic decisions, as the board is nearly as expert as the managers (Cowling, 2013).

## **2.5 Chapter Summary**

This section presented the literature review of the study by using books and journals to discuss in depth SMEs' scope of operation necessary for bourse participation by researching SMEs' innovation, firm size, knowledge capabilities, and finances. The chapter also discusses SME systems and processes by observing SMEs' organizational behavior, operations and internal controls, and corporate entrepreneurship. The chapter has presented literature on corporate governance in SMEs through the discussion of board performance, and knowledge. The next chapter focuses on research methodology adopted by the study.

## **CHAPTER THREE**

### **3.0 RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter provides the research design and methodology and, procedures used for data collection and analysis. Alongside that, the research provides information on the target population, sampling frame, sampling design and sample size. In the later subsection, the chapter looks at data collection instruments and research procedures, and finally data analysis. The research methodology was used to answer the three research objectives; to explore the requirements for listing of companies on the stock exchange; identify benefits of listing of small and medium size enterprises on the Alternative Market; identify factors influencing small and medium enterprises towards bourse listing.

#### **3.2 Research Design**

Research design is a blue print for assemblage, measurement and analysis of data (Trochim, 2006). A design is used to structure the research, showing how all the major parts of the research project work together to address the core of the study. This study adopted a descriptive research design. The descriptive aspect was used to portray an accurate profile of the persons, and situations in the study (Mugenda and Mugenda, 2003). Descriptive research has three main objectives including; descriptions of the phenomena or characteristics associated with a subject population; estimates of the proportions of the population that have these characteristics; and discovery of associations among different variables (Cooper and Shindler 2014). This approach was deemed appropriate and useful towards assessing of the elements influencing listing of SME firms on the securities exchange. The independent variable in this study was identified as listing of SMEs on the securities exchange while the dependent variables included the factors influencing SMEs towards listing on the bourse.

#### **3.3 Population and Sampling Design**

##### **3.3.1 Population**

According to Cooper and Shindler (2014), population is the total collection of elements about which the researcher intends to make some inferences. The population of the study included both the Top one hundred Small and Medium Enterprises in Nairobi County and thirteen

SMEs listed on the Nairobi Securities Exchange (NSE). Samples of those that were listed on the NSE and those that were not listed were drawn from the population. There were nine companies listed on the Alternative Market Segment, and four companies on the Growth Enterprise Market companies in Nairobi (Kenya Top 100; NSE, 2015). These companies formed part of the population.

### **3.3.2 Sampling Design**

#### **3.3.2.1 Sampling Frame**

According to Cooper and Schindler (2014), sampling frame is a list of all elements from which the sample is drawn. Ideally, it is a complete and correct list of population members only. The sampling frame consisted of the Top 100 SMEs in Nairobi counties. The sampling frame included a list of eligible SMEs listed on the NSE.

#### **3.3.2.2 Sampling Technique**

This refers to the methods used in drawing samples from a population which then help in determining a stated hypothesis regarding the population, Cooper and Schindler (2014). Randomly sampled quotas were selected from both listed and non-listed SME's, which then were used to form clusters. Stratified sampling is used when individuals in a population can be split into two distinct, non-overlapping groups. These groups are called strata. The common strata for this study were listed and non- listed SMEs. This sampling method is beneficial when there are big differences between the strata as they can give a more accurate representation of the population, if the sample size is large enough, it allows for a further subset analysis (Cooper and Schindler, 2014). To account for possible attrition, the number of listed companies was maintained at ten while those not listed was reduced to twenty.

Constraints such as time and cost limited the study of the whole population. Using cluster sampling, a total of forty enterprises were selected for the study. This was because, the technique offered for more economic efficiency but also the practicability of a sample frame for the individual enterprises to be selected.

### 3.3.2.3 Sample Size

A sample is a smaller group or subgroup obtained from the accessible population (Mugenda and Mugenda, 2003). The subgroup is carefully selected as a representative of the whole population with relevant characteristics. And to that extent, the sample size ensures that the information is detailed and comprehensive enough for inferences to be drawn. The Sample size of SMEs was determined based on Yamane's formula (Yamane, 1967). By using Yamane's formula of sample size with an error of 10% and with a confidence coefficient of 90% (Yamane,1967), the calculation from a population of 100 SMEs that were not listed, derived 50 companies and all the 13 listed SMEs were considered for sampling.

$$n = \frac{N}{1 + Ne^2}$$

Where,  $n$  =Sample size

$N$ = the size of the population

$e$ =the error of 10 percentage points

### 3.4 Data Collection Methods

Primary data was used to obtain information in this study. Questionnaires based on the three research objectives were developed by the researcher for purposes of collecting of data. The researcher guided respondents through the questions to ensure understanding by respondents. Two respondents were selected per element of study making the total number of respondents to be 60 in total.

### 3.5 Research Procedures

The questionnaires were pretested by the researcher to ascertain suitability of the tool before actual administration. Pretesting was to also help to identify any training needs for the researcher. Pretesting was achieved through administering five questionnaires to randomly selected individuals from the target population but did not form the sample size. This helped in fine-tuning the questionnaires towards ensuring objectivity and efficiency.

### 3.6 Data Analysis Methods

The researcher used quantitative data analysis in line with (Cooper and Schindler 2014). To minimize the margin of error and ensure accuracy of results, the questionnaires were coded per each variable of study. The researcher used both quantitative and descriptive statistics. According to Mugenda and Mugenda (2003), descriptive statistics involves a process of transforming a mass of raw data into tables, charts with frequency distribution and percentages which are a vital part of data analysis. The regression model took the form of:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where  $Y$  = SMEs' Participation in NSE

$X_1$  = Influence of Scope of SME Operations

$X_2$  = SME Systems and Processes

$X_3$  = SMEs' Corporate Governance

$\beta_i$  = Coefficients of the independent variables, where  $i = 1, 2, 3$

$\varepsilon$  = Error term

### 3.7 Chapter Summary

This chapter primarily explained the methodology used to conduct the research. It covered areas outlined in the research design; the population and sampling design, data collection methods. The next chapter provides information on the results of findings and interpretation, followed by summary, discussions, conclusion and finally the researcher's recommendations.

## CHAPTER FOUR

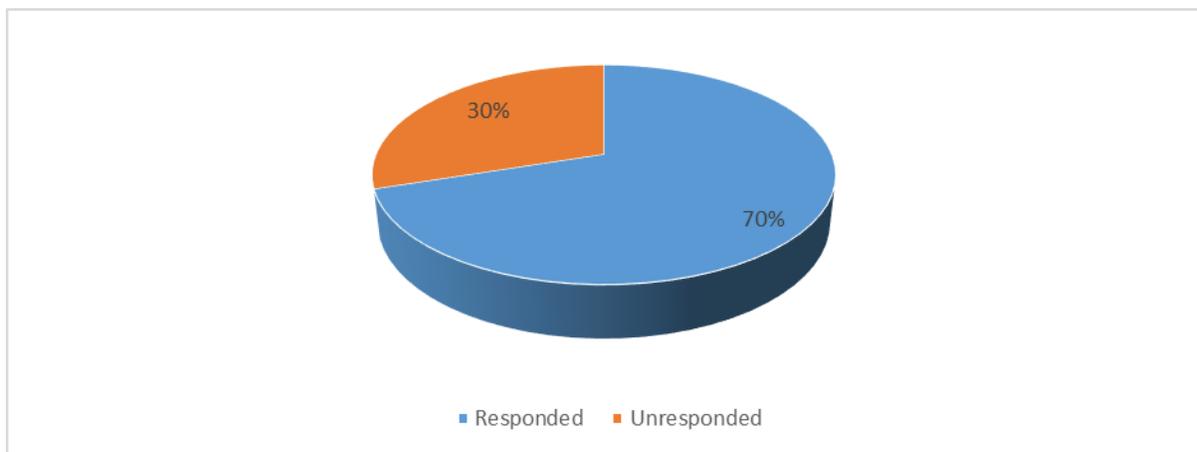
### 4.0 RESULTS AND FINDINGS

#### 4.1 Introduction

This section presents the study findings in the form of figures and tables. The section has been guided by the questionnaires that were handed out to the target population. The section offers the response rate, background information, the scope of operation of small and medium size enterprises necessary for their participation on the bourse, the systems and processes in small and medium enterprises, and the effect of corporate governance requirements on participation of small and medium enterprises on the bourse.

#### 4.2 Response Rate

The researcher handed out 40 questionnaires to the population and only 28 were completely filled and were fit for analysis. These results gave the study a response rate of 70% which was above the required threshold.

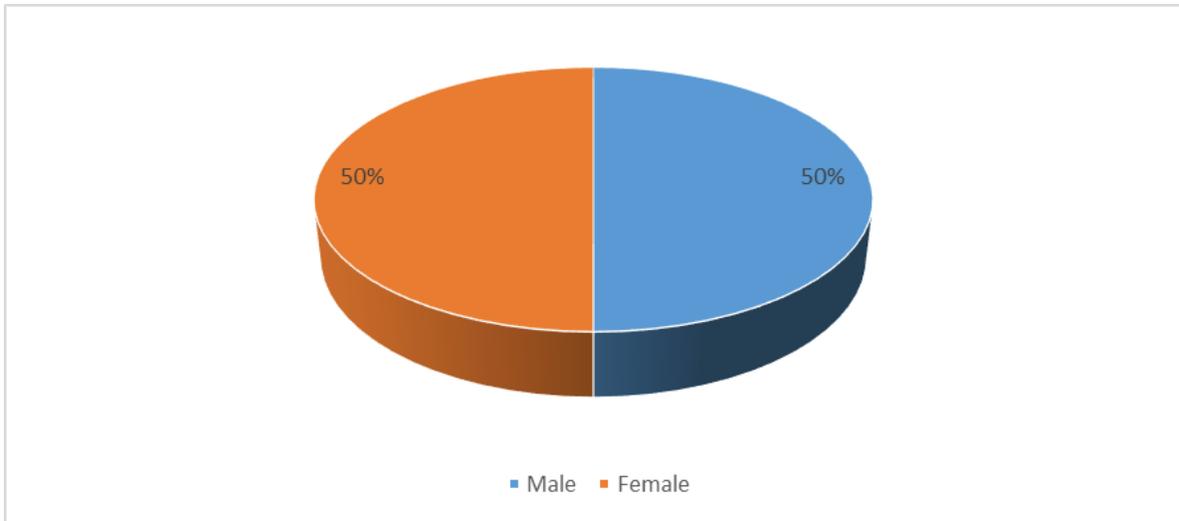


**Figure 4.1 Study Response Rate**

#### 4.3 Background Information

##### 4.3.1 Gender

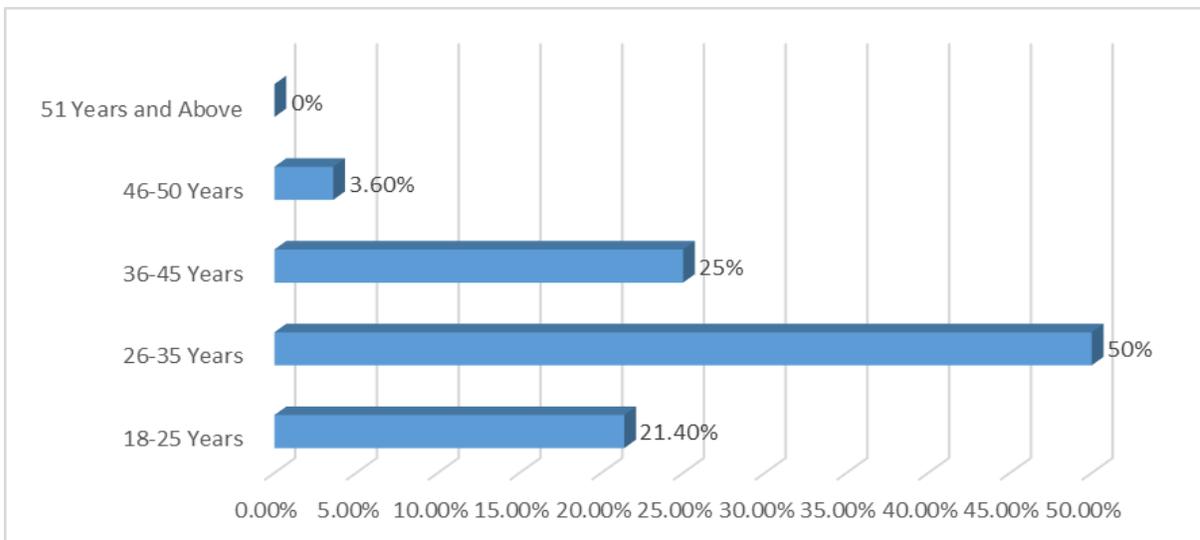
The respondents were asked to indicate their gender, and from the response collected, 50% were male, and 50% were female. These results indicate that both genders equally dominated the SME sector.



**Figure 4.2 Gender**

### 4.3.2 Age Bracket

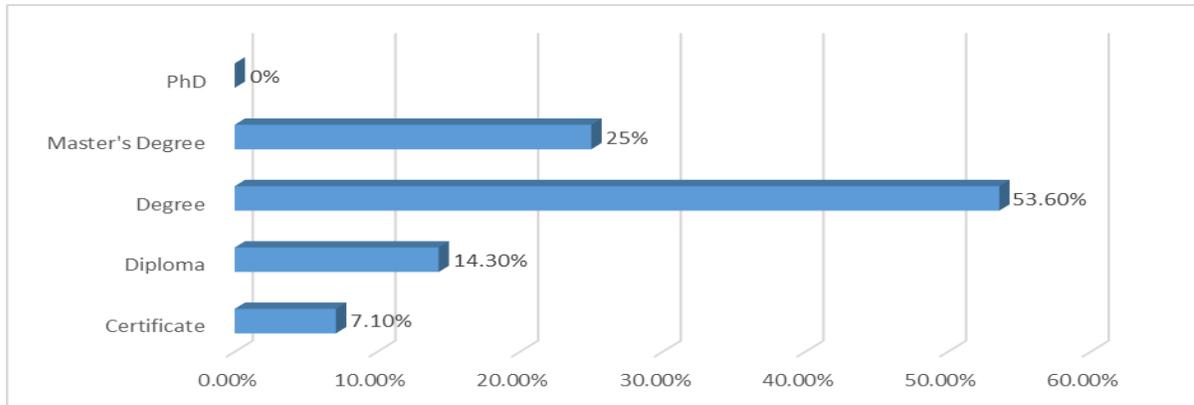
The respondents were asked to indicate their age bracket, and from the response collected, 50% were aged between 26-35 years, 25% were aged between 36-45 years, 21.4% were aged between 18-25 years, 3.6% were aged between 46-50 years, and none was 51 years and above. These results show that majority of SME owners and employees are young adults and youths.



**Figure 4.3 Age Bracket**

### 4.3.3 Level of Education

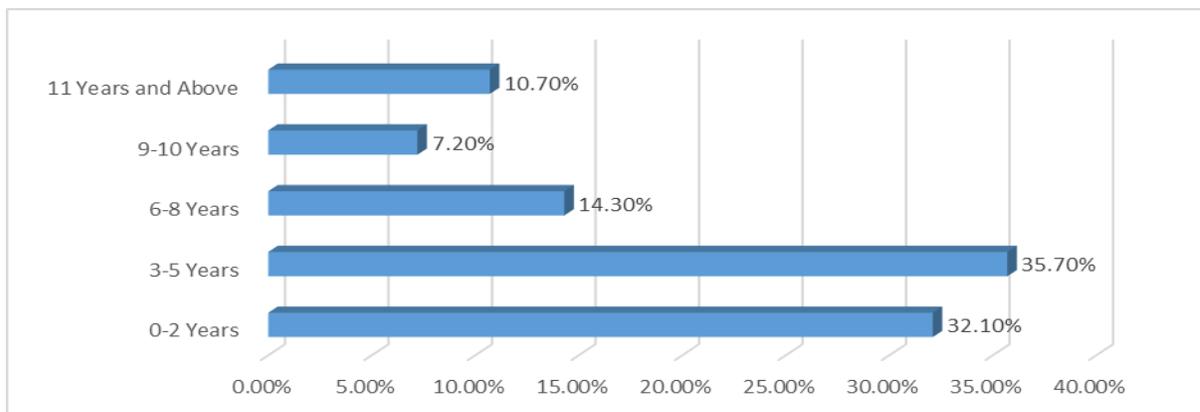
The respondents were asked to indicate their level of education, and from the response collected, 53.6% had university degrees, 25% had Master's degrees, 14.3% had diplomas, 7.1% had certificates, and none had a PhD. These results show that the respondents were well educated and could easily understand the research questions.



**Figure 4.4 Level of Education**

### 4.3.4 Years of Experience

The respondents were asked to indicate their years of experience, and from the response collected, 35.7% had 3-5 years, 32.1% had 0-2 years, 14.3% had 6-8 years, 10.7% had 11 years and above, and 7.2% had 9-10 years of experience. These results show that the population had a good experience and were valid for the study.



**Figure 4.5 Years of Experience**

#### 4.3.5 Position in the Organization

The respondents were asked to indicate their years of experience, and from the response collected, 21.4% were operational managers, 14.3% were accountants, 10.7% were administrators, 7.1% were administration, and finance managers, and 3.6% were equally assistant accountant, associate consultant - investor relations, asst. head sales and procurement, chief finance officer, data entry clerk, driver, human resource manager, manager, marketing and communications, operations assistant, and sales and marketing. These results show that all positions were covered.

**Table 4.1 Position in Organization**

	Distribution	
	Frequency	Percent
Accountant	4	14.3
Admin Manager	2	7.1
Administrator	3	10.7
Assistant Accountant	1	3.6
Associate Consultant - Investor Relations	1	3.6
Asst. Head Sales & Procurement	1	3.6
Chief Finance Officer	1	3.6
Data Entry Clerk	1	3.6
Driver	1	3.6
Finance Manager	2	7.1
HR Manager	1	3.6
Manager	1	3.6
Marketing and Communications	1	3.6
Operations Assistant	1	3.6
Operations Manager	6	21.4
Sales and Marketing	1	3.6
<b>Total</b>	<b>28</b>	<b>100.0</b>

#### **4.4 SMEs' Scope of Operation Necessary for Bourse Participation**

##### **4.4.1 Rating of SMEs' Scope of Operation Necessary for Bourse Participation**

The respondents were asked to rate several key factors of SMEs' scope of operation necessary for bourse participation using the scale: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree, and their results were as shown in Table 4.2. The resulting standard deviation of <1.5 shows that the difference in response was almost similar.

Table 4.2 shows that developing new and differentiated products is considered important in the SME firms as agreed to by 89.3% of the respondents, the results had a mean of 4.14 and a standard deviation of 0.591. Failing to invest in any form of innovation may lower the firm's responsiveness to new or enhanced products as agreed to by 92.9% of the respondents, the results had a mean of 4.25 and a standard deviation of 0.585. Failing to invest in any form of innovation may lower the firm's responsiveness to new processes by competitors as agreed to by 92.9% of the respondents, the results had a mean of 4.25 and a standard deviation of 0.585. Failing to invest in any form of innovation may lead the firm to miss out on advantages associated with technological leadership as agreed to by 96.4% of the respondents, the results had a mean of 4.43 and a standard deviation of 0.690. SME firms develop and exploit new products, technologies, and services that may bring changes in the economy as agreed to by 82.1% of the respondents, the results had a mean of 4.36 and a standard deviation of 0.780. To increase the size of the firm beyond this point, financial support must be obtained from outside to cover the additional investment required as agreed to by 53.6% of the respondents, the results had a mean of 3.61 and a standard deviation of 1.370. Firm size influences access to finance as agreed to by 78.5% of the respondents, the results had a mean of 4.07 and a standard deviation of 1.184. The innovation potential of the firm is hampered by scarcity of internal finance, manpower resources and the generally excessive influence of founding management as agreed to by 60.7% of the respondents, the results had a mean of 3.64 and a standard deviation of 1.311. Innovation in the firm usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks as agreed to by 67.9% of the respondents, the results had a mean of 3.75 and a standard deviation of 1.076.

**Table 4.2 Rating of SMEs' Scope of Operation Necessary for Bourse Participation**

	SD	D	MA	A	SA	Mean	Std. Dev
	%	%	%	%	%		
Developing new and differentiated products is considered important in my firm.	0	0	10.7	64.3	25	4.14	.591
Failing to invest in any form of innovation may lower the firm's responsiveness to new or enhanced products.	0	0	7.1	60.7	32.1	4.25	.585
Failing to invest in any form of innovation may lower the firm's responsiveness to new processes by competitors.	0	0	7.1	60.7	32.1	4.25	.585
Failing to invest in any form of innovation may lead the firm to miss out on advantages associated with technological leadership.	0	3.6	46.4	50	0	4.43	.690
My firm develops and exploits new products, technologies, and services that may bring changes in the economy.	0	0	17.9	28.6	53.6	4.36	.780
To increase the size of the firm beyond this point, financial support must be obtained from outside to cover the additional investment required.	7.1	17.9	21.4	14.3	39.3	3.61	1.370
Firm size influences access to finance.	7.1	3.6	10.7	32.1	46.4	4.07	1.184
The innovation potential of the firm is hampered by scarcity of internal finance, manpower resources and the generally excessive influence of founding management.	3.6	25	10.7	25	35.7	3.64	1.311
Innovation in the firm usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks.	3.6	10.7	17.9	42.9	25	3.75	1.076
Family members have advantages with regard to firm specific knowledge	21.4	28.6	21.4	10.7	17.9	2.75	1.404
Family members may lack outside experience and general business knowledge	14.3	17.9	21.4	28.6	17.9	3.18	1.335
Search for and access to finance are impeded by business characteristics such as; size, age, profitability and growth objectives	0	7.1	25	46.4	21.4	3.82	.863
IPO minimizes the firm's cost of capital	0	17.9	39.3	35.7	7.1	3.32	.863
IPOs Improves firm's borrowing capacity	0	0	32.1	46.4	21.4	3.89	.737

Table 4.2 also shows that family members did not have advantages with regard to firm specific knowledge as disagreed to by 50% of the respondents, the results had a mean of 2.75 and a standard deviation of 1.404. Family members may lack outside experience and general business knowledge as agreed to by 46.5%, while 21.4% were neutral, and 32.1% disagreed, the results had a mean of 3.18 and a standard deviation of 1.335. Search for and access to finance are impeded by business characteristics such as; size, age, profitability and growth objectives as agreed to by 67.8% of the respondents, the results had a mean of 3.82 and a standard deviation of 0.863. IPO minimizes the firm’s cost of capital as agreed to by 42.8% of the respondents, 35.7% were neutral, and 17.9% disagreed, the results had a mean of 3.32 and a standard deviation of 0.863. IPOs improves a firm’s borrowing capacity as agreed to by 67.9% of the respondents, the results had a mean of 3.89 and a standard deviation of 0.737.

#### 4.4.2 Correlations for SMEs’ Scope of Operation Necessary for Bourse Participation

A Pearson correlation test was carried out to determine the significant variables for SMEs’ scope of operation necessary for bourse participation by transforming the study variables to form 4 variables (Innovation, Firm Size, Knowledge Capabilities, and Finances) that were tested. The threshold for the study was set at <0.05, and the results were as shown on Table 4.3.

**Table 4.3 SMEs’ Scope of Operation Necessary for Bourse Participation Correlations**

	NSE Participation	Innovation	Firm Size	Knowledge Capabilities	Finances
NSE Participation	1				
Innovation	.341 .076	1			
Firm Size	.287 .139	.281 .147	1		
Knowledge Capabilities	.080 .687	-.038 .846	.114 .564	1	
Finances	.418* .027	.448* .017	.574** .001	.063 .750	1

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

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

Table 4.3 shows that innovation was an insignificant factor for NSE participation ( $r=0.341$ ,  $p>0.05$ ). Firm size was an insignificant factor for NSE participation ( $r=0.287$ ,  $p>0.05$ ). Knowledge capabilities was an insignificant factor for NSE participation ( $r=0.080$ ,  $p>0.05$ ). Finances was a significant factor to NSE participation ( $r=0.418$ ,  $p<0.05$ ).

#### 4.4.3 SMEs' Scope of Operation Necessary for Bourse Participation Regression

The researcher used the transformed variables: Innovation, Firm Size, Knowledge Capabilities, and Finances, to carry out a regression analysis, and the results were as shown:

**Table 4.4 Model Summary SMEs' Scope of Operation Necessary for Bourse**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.459	.211	.074	.46005

a. Predictors (Constant): Innovation, Firm Size, Knowledge Capabilities, and Finances

Table 4.4 shows the results of the regression model summary for innovation, firm size, knowledge capabilities, and finances (independent variables), and the dependent variable which was NSE participation. The adjusted R square value for the model shows that 7.4% of the variance in NSE participation by SMEs could be explained by innovation, firm size, knowledge capabilities, and finances.

**Table 4.5 SMEs' Scope of Operation Necessary for Bourse Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.200	.956		2.300	.031
Innovation	.213	.226	.195	.940	.357
Firm Size	.029	.118	.056	.245	.809
Knowledge Capabilities	.033	.100	.062	.332	.743
Finances	.233	.192	.295	1.215	.237

a. Dependent Variable: NSE Participation

The regression coefficients in Table 4.5 predicts the relationship between the variables (innovation, firm size, knowledge capabilities, and finances) and NSE participation. The regression coefficient indicates that innovation had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SME innovation, there would be a 21.3% increase in NSE participation if all factors are held constant. Firm size had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' firm size, there would be a 2.9% increase in NSE participation if all factors are held constant. Knowledge capabilities had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' knowledge capability, there would be a 3.3% increase in NSE participation if all factors are held constant. Finance had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' finance, there would be a 23.3% increase in NSE participation if all factors are held constant.

## **4.5 Systems and Processes in Small and Medium Enterprises**

### **4.5.1 Rating of Systems and Processes in Small and Medium Enterprises**

The respondents were asked to rate several systems and processes in SMEs using the scale: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree, and their results were as shown in Table 4.6. The resulting standard deviation of  $<1.5$  shows that the difference in response was almost similar.

Table 4.6 shows that the decision-making process in the firm goes through the manager as agreed to by all the respondents, the results had a mean of 4.43 and a standard deviation of 0.504. The decision-making process in the firm goes through the trusted assistants as agreed to by 57.1% of the respondents, the results had a mean of 3.57 and a standard deviation of 0.836. Urgent managerial action are taken when the firm misses deadlines as agreed to by 78.6% of the respondents, the results had a mean of 3.79 and a standard deviation of 0.957.

**Table 4.6 Rating of Systems and Processes in Small and Medium Enterprises**

	SD	D	MA	A	SA	Mean	Std. Dev
	%	%	%	%	%		
The decision-making process in my firm goes through the manager	0	0	0	57.1	42.9	4.43	.504
The decision-making process in my firm goes through the trusted assistants.	0	10.7	32.1	46.4	10.7	3.57	.836
Urgent managerial action are taken when the firm misses deadlines.	0	17.9	3.6	60.7	17.9	3.79	.957
Urgent managerial action are taken when the firm experiences high labor turnover	7.1	21.4	17.9	42.9	10.7	3.29	1.150
Urgent managerial action are taken when the firm experiences increase in production costs.	3.6	10.7	7.1	53.6	25	3.86	1.044
Urgent managerial actions are taken when the firm experiences decrease in sales volume.	0	14.3	14.3	39.3	32.1	3.89	1.031
Formalized strategic planning, human resource management, marketing research, financial planning and control do not necessarily guarantee market success	17.9	32.1	17.9	25	7.1	2.71	1.243
Human resource development is driven by operational needs and priorities	3.6	0	25	42.9	28.6	3.93	.940
The focus of human resource development is on addressing performance deficits	0	0	35.7	42.9	21.4	3.86	.756
The focus of human resource development is on addressing managing skill shortages	0	3.6	21.4	50	25	3.96	.793
The focus of human resource development is on creating a mobile and flexible workforce.	3.6	3.6	10.7	57.1	25	3.96	.922
Informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies.	0	10.7	10.7	53.6	25	3.93	.900

Table 4.6 also shows that urgent managerial action are taken when the firm experiences high labor turnover as agreed to by 53.6% of the respondents, the results had a mean of 3.29 and a standard deviation of 1.150. Urgent managerial action are taken when the firm experiences increase in production costs as agreed to by 78.6% of the respondents, the results had a mean of 3.86 and a standard deviation of 1.044. Urgent managerial actions are taken when the firm experiences decrease in sales volume as agreed to by 71.4% of the respondents, the results had a mean of 3.89 and a standard deviation of 1.031. Formalized strategic planning, human resource management, marketing research, financial planning and control do guarantee market success as disagreed to by 50% of the respondents, the results had a mean of 2.71 and a standard deviation of 1.243. Human resource development is driven by operational needs and priorities as agreed to by 71.5% of the respondents, the results had a mean of 3.93 and a standard deviation of 0.940. The focus of human resource development is on addressing performance deficits as agreed to by 64.3% of the respondents, the results had a mean of 3.86 and a standard deviation of 0.756. The focus of human resource development is on addressing managing skill shortages as agreed to by 75% of the respondents, the results had a mean of 3.96 and a standard deviation of 0.793. The focus of human resource development is on creating a mobile and flexible workforce as agreed to by 82.1% of the respondents, the results had a mean of 3.96 and a standard deviation of 0.922. Informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies as agreed to by 78.6% of the respondents, the results had a mean of 3.93 and a standard deviation of 0.900.

#### **4.5.2 Correlations for Systems and Processes in Small and Medium Enterprises**

A Pearson correlation test was carried out to determine the significant variables for systems and processes in small and medium enterprises by transforming the study variables to form 3 variables (Organizational Behavior, Operation and Internal Controls, and Corporate Entrepreneurship) that were tested. The threshold for the study was set at  $<0.05$ , and the results were as shown on Table 4.7.

**Table 4.7 Correlations for Systems and Processes in Small and Medium Enterprises**

	NSE Participation	Organizational Behavior	Operation & Internal Controls	Corporate Entrepreneurship
NSE Participation	1			
Organizational Behavior	.024 .905	1		
Operation & Internal Controls	.277 .154	.512** .005	1	
Corporate Entrepreneurship	-.125 .526	.014 .945	.174 .945	1

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

Table 4.7 shows that organizational behavior was an insignificant factor for NSE participation ( $r=0.024$ ,  $p>0.05$ ). Operation and internal controls were an insignificant factor for NSE participation ( $r=0.277$ ,  $p>0.05$ ). Corporate entrepreneurship was an insignificant factor for NSE participation ( $r=-0.125$ ,  $p>0.05$ ). The researcher did not carry out a regression analysis for the systems and processes variables since none of the factors was significant to SMEs' participation in the NSE.

#### 4.5.3 Regressions for Systems and Processes in Small and Medium Enterprises

The researcher used the transformed variables: Organizational Behavior, Operation and Internal Controls, and Corporate Entrepreneurship, to carry out a regression analysis, and the results were as shown:

**Table 4.8 Model Summary Systems and Processes in Small and Medium Enterprises**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.362	.131	.023	.47260

a. Predictors (Constant): Organizational Behavior, Operation and Internal Controls, and Corporate Entrepreneurship

Table 4.8 shows the results of the regression model summary for organizational behavior, operation and internal controls, and corporate entrepreneurship (independent variables), and the dependent variable which was NSE participation. The adjusted R square value for the model shows that 2.3% of the variance in NSE participation by SMEs could be explained by organizational behavior, operation and internal controls, and corporate entrepreneurship.

**Table 4.9 Regression Coefficients of Systems and Processes in SMEs**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.468	.960		4.655	.000
Organizational Behavior	-.172	.213	-.180	-.808	.427
Operation and Internal Controls	.294	.165	.402	1.781	.088
Corporate Entrepreneurship	-.174	.175	-.193	-.994	.330

a. Dependent Variable: NSE Participation

The regression coefficients in Table 4.9 predicts the relationship between the variables (organizational behavior, operation and internal controls, and corporate entrepreneurship) and NSE participation. The regression coefficient indicates that organizational behavior had a negative, and insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in organizational behavior, there would be a 17.2% decrease in NSE participation if all factors are held constant because of the inverse relationship between the variables. Operation and internal controls had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' operation and internal control, there would be a 29.4% increase in NSE participation if all factors are held constant. Corporate entrepreneurship had a negative, and insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in the SMEs' corporate entrepreneurship, there would be a 17.4% decrease in NSE participation if all factors are held constant because of the inverse relationship between the variables.

## 4.6 Corporate Governance in SMEs

### 4.6.1 Rating of Corporate Governance in Small and Medium Enterprises

The respondents were asked to rate several corporate governance factors in SMEs using the scale: 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, and 5-Strongly Agree, and their results were as shown in Table 4.10. The resulting standard deviation of <1.5 shows that the difference in response was almost similar.

**Table 4.10 Rating of Corporate Governance Factors in Small and Medium Enterprises**

	SD	D	MA	A	SA	Mean	Std. Dev
	%	%	%	%	%		
Outside director(s) of the firm have resources that are complementary to those of inside directors.	7.1	28.6	21.4	25	17.9	3.18	1.249
It's the role of the firm's board members to provide legitimacy	3.6	3.6	21.4	50	21.4	3.82	.945
It's the role of the firm's board members to administer advice and counsel	3.6	0	17.9	46.4	32.1	4.04	.922
It's the role of the firm's board members to act as a link to important stakeholders or other significant bodies	0	7.1	0	57.1	35.7	4.21	.787
It's the role of the firm's board members to facilitate access to resources such as capital and building external relations	0	7.1	14.3	53.6	25	3.96	.838
The board's service role of co-opting external influences relies on the status of the board membership of the firm.	0	3.6	25	57.1	14.3	3.82	.723
Appointments are beneficial to the firm in terms of enhancing external resources	3.6	3.6	32.1	46.4	14.3	3.64	.911
Trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange.	0	3.6	28.6	42.9	25	3.89	.832
Board leadership is a major determinant of board strategy involvement.	0	0	17.9	57.1	25	4.07	.663
Board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions.	0	0	21.4	42.9	35.7	4.14	.756

Table 4.10 shows that outside director(s) of the firm have resources that are complementary to those of inside directors as agreed to by 42.9% of the respondents, while 35.7 disagreed, and 21.4% were neutral, the results had a mean of 3.18 and a standard deviation of 1.249. It is the role of the firm's board members to provide legitimacy as agreed to by 71.4% of the respondents, the results had a mean of 3.82 and a standard deviation of 0.945. It is the role of the firm's board members to administer advice and counsel as agreed to by 78.5% of the respondents, the results had a mean of 4.04 and a standard deviation of 0.922. It is the role of the firm's board members to act as a link to important stakeholders or other significant bodies as agreed to by 92.9% of the respondents, the results had a mean of 4.21 and a standard deviation of 0.787. It is the role of the firm's board members to facilitate access to resources such as capital and building external relations as agreed to by 78.6% of the respondents, the results had a mean of 3.96 and a standard deviation of 0.838. The board's service role of co-opting external influences relies on the status of the board membership of the firm as agreed to by 71.4% of the respondents, the results had a mean of 3.82 and a standard deviation of 0.723. Appointments are beneficial to the firm in terms of enhancing external resources as agreed to by 60.7% of the respondents, the results had a mean of 3.64 and a standard deviation of 0.911. Trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange as agreed to by 67.9% of the respondents, the results had a mean of 3.89 and a standard deviation of 0.832. Board leadership is a major determinant of board strategy involvement as agreed to by 82.1% of the respondents, the results had a mean of 4.07 and a standard deviation of 0.663. Board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions as agreed to by 78.6% of the respondents, the results had a mean of 4.14 and a standard deviation of 0.756.

#### **4.6.2 Correlations for Corporate Governance in Small and Medium Enterprises**

A Pearson correlation test was carried out to determine the significant variables for corporate governance factors in small and medium enterprises by transforming the study variables to form 2 variables (Board Performance and Board Knowledge) that were tested. The threshold for the study was set at  $<0.05$ , and the results were as shown on Table 4.11.

**Table 4.11 Correlations for Corporate Governance in Small and Medium Enterprises**

	NSE Participation	Board performance	Board Knowledge
NSE Participation	1		
Board performance	-.153 .438	1	
Board Knowledge	.132 .504	.696** .000	1

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

Table 4.11 shows that board performance was an insignificant factor for NSE participation ( $r=-0.153$ ,  $p>0.05$ ). Board knowledge was an insignificant factor for NSE participation ( $r=0.132$ ,  $p>0.05$ ). The researcher did not carry out a regression analysis for the corporate governance variables since none of the factors was significant to SMEs' participation in the NSE.

#### 4.6.3 Regressions for Corporate Governance in Small and Medium Enterprises

The researcher used the transformed variables: Board Performance and Board Knowledge, to carry out a regression analysis, and the results were as shown:

**Table 4.12 Model Summary for Corporate Governance in SMEs**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.365	.133	.064	.46254

a. Predictors (Constant): Board Performance, and Board Knowledge

Table 4.12 shows the results of the regression model summary for board performance, and board knowledge (independent variables), and the dependent variable which was NSE participation. The adjusted R square value for the model shows that 6.4% of the variance in NSE participation by SMEs could be explained by board performance and board knowledge.

**Table 4.13 Regression Coefficients of Corporate Governance in SMEs**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	3.575	.774		4.617	.000
Board Performance	-.334	.183	-.474	-1.827	.080
Board Knowledge	.486	.273	.462	1.780	.087

a. Dependent Variable: NSE Participation

The regression coefficients in Table 4.13 predicts the relationship between the variables (board performance and board knowledge) and NSE participation. The regression coefficient indicates that board performance had a negative, and insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' board performance, there would be a 33.4% decrease in NSE participation if all factors are held constant because of the inverse relationship between the variables. Board knowledge had a positive, but insignificant influence on SMEs' participation in the NSE since its precision level was  $>0.05$ . This indicates that for every increase in SMEs' board knowledge, there would be a 48.6% increase in NSE participation if all factors are held constant.

#### 4.7 Chapter Summary

This section has presented the study findings in the form of figures and tables. The section was guided by analyzed questionnaires that were handed out to the target population. Statistical inferences were used in the presentation. Percentages were used to show the level of rating, means and standard deviations were used to show the strengths of factors and the difference in responses respectively. Inferential statistics of correlations was used to show significant variables and regression analysis to show the relationship between the study variables. The next chapter presents the study discussion, conclusion, and recommendations.

## **CHAPTER FIVE**

### **5.0 DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS**

#### **5.1 Introduction**

This section concludes the study. The chapter offers readers the study's summary of findings, discussions, conclusions, and recommendations for improvement and for further studies. These have all been guided by the study objectives that were discussed in Chapter One of the study.

#### **5.2 Summary of Findings**

The objective of this study was to find out the key strategic factors influencing SMEs participation in the NSE with specific focus on the top one hundred in Nairobi Kenya. This study was aimed at investigating the following issues: to establish the scope of operation of small and medium size enterprises necessary for their participation on the bourse; to assess the systems and processes in small and medium enterprises; and to determine the effect of corporate governance requirements on participation of small and medium enterprises on the bourse.

The study adopted a descriptive research design. The approach was deemed appropriate and useful towards assessing of the elements influencing listing of SME firms on the securities exchange. The population of the study included both the Top one hundred Small and Medium Enterprises in Nairobi County and thirteen SMEs listed on the Nairobi Securities Exchange (NSE). The sampling frame included a list of eligible SMEs listed on the NSE. Stratified sampling technique was used for the study where random sampled quotas were selected from both listed and non-listed SME's. The sample size of SMEs was determined based on Yamen's formula (Yamane, 1967) that derived 50 companies and all the 13 listed SMEs were considered for sampling. Primary data was used to obtain information in this study using questionnaires. The questionnaires were pretested by the researcher to ascertain suitability of the tool before actual administration. The researcher used quantitative analysis. Correlation and regression analysis was used to examine existing relationships between the variables.

The study revealed that, SME firms developed and exploited new products, technologies, and services that brought changes in the economy, and to increase the size of the SME firms, financial support was obtained from outside the business to cover the additional investment required. Innovation potential of SMEs was hampered by scarcity of internal finance, manpower resources, and the generally excessive influence of founding management. Innovation in these firms usually stressed customization, and flexibility which required substantial knowledge resources, capabilities, and networks. The study also showed that, family members of SME owners do not have advantages with regard to firm specific knowledge, lack outside experience, and general business knowledge.

The study showed that the decision-making process in SMEs goes through the manager, and through trusted assistants. Urgent managerial actions are taken when firms miss deadlines, experience high labor turnover, increase in production costs, and decrease in sales volume. The study revealed that, formalized strategic planning, human resource management, marketing research, financial planning and control do guarantee market success, and human resource development is driven by operational needs and priorities. The focus of human resource development is on addressing performance deficits, managing skill shortages, and creating a mobile and flexible workforce. The study showed that informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies in SMEs.

The study showed that outside director(s) of the firm had resources that were complementary to those of inside directors. The role of the firm's board members was to provide legitimacy, to administer advice and counsel, to act as a link to important stakeholders or other significant bodies, and to facilitate access to resources such as capital and building external relations. The board's service role of co-opting external influences relied on the status of the board membership of the firm. The study revealed that, appointments are beneficial to the firm in terms of enhancing external resources, and trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange.

## **5.3 Discussions**

### **5.3.1 SMEs' Scope of Operation Necessary for Bourse Participation**

The study showed that developing new and differentiated products is considered important in the SME firms. These results are in agreement with Branzei and Vertinsky (2012) who state that, an important issue facing SMEs worldwide is continuous improvement. In today's markets the inputs of customers and their fast changing needs makes it imperative that enterprises continuously improve the way business is conducted.

The study showed that failing to invest in any form of innovation may lower the firm's responsiveness to new or enhanced products, may lower the firm's responsiveness to new processes by competitors, and may lead the firm to miss out on advantages associated with technological leadership. These results are in agreement with Dibrell, Davis and Craig (2016) who state that, developing new and differentiated products is important and failing to invest in any form of innovation may lower the SME's responsiveness to new or enhanced products or processes by competitors and may lead the firm to miss out on advantages associated with technological leadership and first mover advantages.

The study showed that SME firms develop and exploit new products, technologies, and services that may bring changes in the economy. These results are in agreement with Baumol (2012), radically innovating SMEs also play a key role in the dynamics in any economy by developing and exploiting new products, technologies, and services that may alter the structures of that economy.

The study showed that, to increase the size of the firm beyond this point, financial support must be obtained from outside to cover the additional investment required. These results are in agreement with Acemoglu (2013) who state that, to increase the size of the firm beyond this point, the owner must obtain outside financing to cover the additional investment required, and this means reducing his fractional ownership. The study showed that firm size influences access to finance. These results are in agreement with Psillaki and Daskalakis (2009) who state that, firm size influences access to finance by SMEs due to information

asymmetry between insiders and outsiders being more severe in small firms because there is less information available in the market.

The study showed that the innovation potential of the firm is hampered by scarcity of internal finance, manpower resources and the generally excessive influence of founding management. These results are in agreement with Liao, Kickul and Ma (2009) who state that, innovation potential is hampered by scarcity of internal finance and manpower resources, and the generally excessive influence of founding management. The study showed that innovation in the firm usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks. These results are in agreement with Volberda, Foss and Lyles (2014) who state that, compared with larger firms, innovation in larger firms usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks.

The study showed that family members did not have advantages with regard to firm specific knowledge, and lack outside experience and general business knowledge. These results disagree with Bammens, Voordeckers and van Gils (2011) who state that, research suggests that family members have advantages with regard to firm specific knowledge, but at the same time, they may lack outside experience and general business knowledge. The study showed that search for and access to finance are impeded by business characteristics such as; size, age, and profitability and growth objectives. These results are in tandem with Fama and French (2015) and Bulan and Yan (2015) who state that, the search for and access to finance are impeded by business characteristics such as; size, age, profitability and growth objectives.

The study showed that IPO minimizes the firm's cost of capital, and improves a firm's borrowing capacity. These results are in tandem with Brau and Fawcett (2012) who state that, the benefits of an IPO extend beyond access to capital; it minimizes the firm's cost of capital and maximizes its value, and Pagano et al. (2008) who state that, IPO improves a firm's borrowing capacity.

### **5.3.2 Systems and Processes in Small and Medium Enterprises**

The study showed that the decision-making process in the firm goes through the manager and their trusted assistants. These results are in agreement with Fatoki (2014) who states that, the decision-making process followed in these companies (SMEs) are usually of the centralized kind, where almost every decision goes through the owner manager or their trusted assistants.

The study showed that urgent managerial action are taken when the firm misses deadlines, and experiences high labor turnover. These results are in agreement with Temtime (2016) who state that, urgent managerial action must be taken when the firm misses deadlines, experiences high labor turnover, increased production costs, and decreased sales volume.

The study showed that urgent managerial action are taken when the firm experiences increase in production costs, and decrease in sales volume. These results are in agreement with Temtime (2016) who state that, urgent managerial action must be taken when the firm misses deadlines, experiences high labor turnover, increased production costs, and decreased sales volume.

The study showed that formalized strategic planning, human resource management, marketing research, financial planning and control do guarantee market success. These results differ with Haswel and Holmes (2009) who state that, formalized strategic planning, human resource management, marketing research, financial planning and control all do not necessarily guarantee market success.

The study showed that human resource development is driven by operational needs and priorities. These results are in agreement with Hirshsohn (2008) who states that, SMEs adopt ad hoc and reactive approaches to day to day operations and Human Resource Development (HRD) is driven by operational needs and priorities.

The study showed that the focus of human resource development is on addressing performance deficits, managing skill shortages, and creating a mobile and flexible workforce. These results are in agreement with Kortey and Folker (2014) who state that, the focus of

human resource development is on addressing pragmatic concerns such as; performance deficits, managing skill shortages, and creating a mobile and flexible workforce.

The study showed that informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies. These results are in agreement with Massey (2014) who states that, informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies, hence it is assumed that HRD in SMEs is inferior and unorganized, if not non-existent.

### **5.3.3 Rating of Corporate Governance in Small and Medium Enterprises**

The study showed that outside director(s) of the firm have resources that are complementary to those of inside directors. These results are in agreement with Kellermans and Eddleston (2014) who state that, outside directors (all non-employed members of the board) may also help to improve managerial decisions, provide an independent view on corporate strategy, and provide resources and expertise to boards.

The study showed that it is the role of the firm's board members to provide legitimacy, administer advice and counsel, to act as a link to important stakeholders or other significant bodies, and to facilitate access to resources such as capital and building external relations. These results are in agreement with Pfeffer and Salancik (1978) who state that, the board's service role includes providing legitimacy, administering advice and counsel, acting as a link to important stakeholders or other significant bodies and facilitating access to resources such as capital and building external relations.

The study showed that the board's service role of co-opting external influences relies on the status of the board membership of the firm. These results are in agreement with Luan and Tang (2014) who state that, the board's service role of co-opting external influences relies on the status of the board membership of the firm, and the board is thus seen as a device to secure inter-organizational linkages.

The study showed that appointments are beneficial to the firm in terms of enhancing external resources. These results are in agreement with Luan and Tang (2014) who state that, outside director appointments can be viewed as a way to increase the firm's ambit and should be beneficial to the firm in terms of enhancing external resources. The study showed that trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange. These results are in agreement with Hoang and Antocic (2015) who state that, trust is a critical element in enhancing the quality of information and enhancing other types of network exchange.

The study showed that board leadership is a major determinant of board strategy involvement. These results are in agreement with Gabrielsson et al. (2014) and Leblanc (2015) who state that, board leadership is a major determinant of board strategy involvement, and a central mechanism to bring out the board's value-creating potential.

The study showed that board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions. These results are in agreement with Arthurs et al. (2009); Fiegenger (2015), and West (2007) who state that, board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions.

## **5.4 Conclusions**

### **5.4.1 SMEs' Scope of Operation Necessary for Bourse Participation**

The study concludes that developing new and differentiated products was considered important in SME firms, and failing to invest in any form of innovation lowers the firm's responsiveness to new or enhanced products, lowers its responsiveness to new processes by competitors, and it may lead to firms missing out on advantages associated with technological leadership. The study concludes that SME firms developed and exploited new products, technologies, and services that brought changes in the economy, and to increase the size of the SME firms, financial support was obtained from outside the business to cover the additional investment required. Innovation potential of SMEs was hampered by scarcity of internal finance, manpower resources, and the generally excessive influence of founding

management. Innovation in these firms usually stressed customization, and flexibility which required substantial knowledge resources, capabilities, and networks. It can be concluded that family members of SME owners do not have advantages with regard to firm specific knowledge, lack outside experience, and general business knowledge.

#### **5.4.2 Systems and Processes in Small and Medium Enterprises**

The study concludes that the decision-making process in SMEs goes through the manager, and through trusted assistants. Urgent managerial actions are taken when firms miss deadlines, experience high labor turnover, increase in production costs, and decrease in sales volume. It can be concluded that formalized strategic planning, human resource management, marketing research, financial planning and control do guarantee market success, and human resource development is driven by operational needs and priorities. The focus of human resource development is on addressing performance deficits, managing skill shortages, and creating a mobile and flexible workforce. It can be concluded that informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies in SMEs.

#### **5.4.3 Corporate Governance in Small and Medium Enterprises**

The study concludes that outside director(s) of the firm had resources that were complementary to those of inside directors. The role of the firm's board members was to provide legitimacy, to administer advice and counsel, to act as a link to important stakeholders or other significant bodies, and to facilitate access to resources such as capital and building external relations. The board's service role of co-opting external influences relied on the status of the board membership of the firm. It can be concluded that, appointments are beneficial to the firm in terms of enhancing external resources, and trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange. It can be concluded that board leadership is a major determinant of board strategy involvement, and board development processes are essential to transform a collection of individuals into a team that is collectively involved in strategic decisions.

## **5.5 Recommendations**

### **5.5.1 Recommendations for Improvement**

#### **5.5.1.1 SMEs' Scope of Operation Necessary for Bourse Participation**

This study recommends SMEs to explore supplementing their public securities exchanges with private securities exchanges similar to those that exist in Taiwan and the United States (US) because these can provide more platforms for enterprises and entrepreneurs to raise capital and allow investors with different risk appetites to participate. These can also provide more platforms for enterprises to raise risk capital for business innovation.

#### **5.5.1.2 Systems and Processes in Small and Medium Enterprises**

SMEs can improve their systems and processes through the adoption of Business Process Management (BPM). The study recommends the government and SME policy makers to focus on raising BPM awareness in the sector and tailoring standards, tools, techniques and templates to enable more efficient application of BPM within SMEs. Further consideration needs to be given to the development of SME specific implementation and delivery methodologies as well as supporting practitioner skillsets in order for the discipline to better meet the demands of the sector.

#### **5.5.1.3 Corporate Governance in Small and Medium Enterprises**

When it comes to advising SMEs on corporate governance, there is no one size-fits-all solution because SMEs are highly diverse, and this diversity needs to be taken into account. This study therefore recommends training to be offered to SME owners/ managers. This will facilitate intensive in-house support especially when dealing with larger entities. Necessary/ required changes will need to be explained in some detail to owners and managers within SMEs, as well as their implications for the business and the benefits that implementing them should bring.

### **5.5.2 Recommendations for Further Studies**

This study focused on determining the key strategic factors influencing SMEs participation in the NSE with specific focus on the top one hundred in Nairobi Kenya. The study focused on SMEs' scope of operation, systems and processes, and corporate governance. Future scholars

need to address other factors that influence SMEs' participation in the NSE, as well as highlight the existing relationships between these factors. Further studies also need to be conducted on factors that hinder SMEs' from participating in the NSE in order to avert these challenges and encourage SMEs' participation.

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**APPENDICES**  
**APPENDIX I: QUESTIONNAIRE**

**SECTION A: BACKGROUND INFORMATION**

Kindly, fill all the questions either by ticking (✓) in the boxes or writing in the spaces provided.

1. Gender

Male ( )      Female ( )

2. Age

18-25 years ( )

26-35 years ( )

36-45 years ( )

45-50 years ( )

Above 50 years ( )

3. Highest level of Education

Certificate ( )      Diploma ( )      Bachelors ( )      Master's Degree ( )      PhD

( )

4. Years of experience in the firm

0-2 years ( )

3-5years ( )

6-8 years ( )

8-10 years ( )

Above 10 years ( )

5. Current Position in the firm \_\_\_\_\_

**SECTION B: SCOPE OF OPERATION OF SMALL AND MEDIUM SIZE ENTERPRISES ON THE BOURSE.**

In the table below, tick appropriately. Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Agree 2-Agree 3-Not Sure 4-Disagree 5- Strongly Disagree.

Please show your level of agreement to indicate the extent to which the following statements have been applying to you by ticking your response corresponding to the number in the scale given above in box against statement.

	Statement	1	2	3	4	5
NO						
1	Developing new and differentiated products is considered important in my firm.					
2	Failing to invest in any form of innovation may lower the firm's responsiveness to new or enhanced products.					
3	Failing to invest in any form of innovation may lower the firm's responsiveness to new processes by competitors.					
4	Failing to invest in any form of innovation may lead the firm to miss out on advantages associated with technological leadership.					
5	My firm develops and exploits new products, technologies, and services that may bring changes in the economy.					
6	To increase the size of the firm beyond this point, financial support must be obtained from outside to cover the additional investment required.					
7	Firm size influences access to finance.					
9	The innovation potential of the firm is hampered by scarcity of internal finance, manpower resources and the generally excessive influence of founding management.					

10	Innovation in the firm usually stresses customization, and flexibility which requires substantial knowledge resources, capabilities and networks.					
11	Family members have advantages with regard to firm specific knowledge					
12	Family members may lack outside experience and general business knowledge					
13	Search for and access to finance are impeded by business characteristics such as; size, age, profitability and growth objectives					
14	IPO minimizes the firm's cost of capital					
15	IPOs Improves firm's borrowing capacity					

What problems are faced by the firm when looking for the knowledge sources needed?

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**SECTION C: THE SYSTEMS AND PROCESSES IN SMALL AND MEDIUM ENTERPRISES.**

In the table below, tick appropriately. Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Agree 2-Agree 3-Not Sure 4-Disagree 5- Strongly Disagree.

Please show your level of agreement to indicate the extent to which the following statements have been applying to you by ticking your response corresponding to the number in the scale given above in box against statement.

No	Statement	1	2	3	4	5
1	The decision-making process in my firm goes through the manager					

2	The decision-making process in my firm goes through the trusted assistants.						
3	Urgent managerial action are taken when the firm misses deadlines.						
4	Urgent managerial action are taken when the firm experiences high labor turnover						
5	Urgent managerial action are taken when the firm experiences increase in production costs.						
6	Urgent managerial actions are taken when the firm experiences decrease in sales volume.						
7	Formalized strategic planning, human resource management, marketing research, financial planning and control do not necessarily guarantee market success						
8	Human resource development is driven by operational needs and priorities						
9	The focus of human resource development is on addressing performance deficits						
10	The focus of human resource development is on addressing managing skill shortages						
11	The focus of human resource development is on creating a mobile and flexible workforce.						
12	Informality is considered a function of lack of managerial resources and expertise to identify skill deficiencies.						

What are some of the challenges faced by the management in the firm when taking an urgent action?

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**SECTION D: CORPORATE GOVERNANCE REQUIREMENTS.**

In the table below, tick appropriately. Using a scale of 1-5 tick the appropriate answer from the alternatives, 1- Strongly Agree 2-Agree 3-Not Sure 4-Disagree 5- Strongly Disagree.

Please show your level of agreement to indicate the extent to which the following statements have been applying to you by ticking your response corresponding to the number in the scale given above in box against statement.

NO	Statement	1	2	3	4	5
1	Outside director(s) of the firm have resources that are complementary to those of inside directors.					
2	It's the role of the firm's board members to provide legitimacy					
3	It's the role of the firm's board members to administer advice and counsel					
4	It's the role of the firm's board members to act as a link to important stakeholders or other significant bodies					
5	It's the role of the firm's board members to facilitate access to resources such as capital and building external relations					
6	The board's service role of co-opting external influences relies on the status of the board membership of the firm.					
7	Appointments are beneficial to the firm in terms of enhancing external resources					
8	Trust in the firm is considered a critical element in enhancing the quality of information and enhancing various types of network exchange.					
9	Board leadership is a major determinant of board strategy involvement.					
10	Board development processes are essential to transform a collection of individuals into a team that is collectively involved in					

strategic decisions.

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What are some of the challenges faced by the board members in the firm?

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