A STUDY OF CRITICAL SUCCESS FACTORS AFFECTING SMALL AND MEDIUM ENTREPRISES IN NAIROBI COUNTY: A CASE STUDY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN NAIROBI CITY CENTRAL BUSINESS DISTRICT

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Report Submitted to Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA) – Strategic Management

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017
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 United States International University in Nairobi for academic credit.

Signed: ___________________________ Date: ___________________________

Elizabeth Waithaka (ID No: 649338)

This project has been presented for examination with my approval as the appointed supervisor

Signed: Date: ___________________________

Dr. Peter Lewa

Signed: Date: ___________________________

Dean Chandaria School Of Business
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ABSTRACT

Modern day business operating environment is characterized by dynamism that calls for constant adjustments of all business functions, strategies and alignment of the same to ensure sustainable growth of these organizations. Despite these changes, SMEs, in an attempt to remain competitive in this kind of environment have opted to applying various competitive strategies to ensure that they are not pushed out of business by their competitors and larger-sized firms. This study sought to reveal what constitute critical success factors which are central to the success of SME’s in Nairobi County. SME businesses are a dominant form of ownership in majority of the world economies. Small and micro family owned businesses contributed over 50% of new jobs created in the year 2005 in Kenya (Mumbua, 2013). The study sought to assess the influence of critical factors notably; innovation, access to finances, and effective leadership on the success of SME’s.

The study adopted descriptive research design methodology as the main approach for conducting the field survey. This approach allowed the study to gather quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. This study brought out the critical factors that have been central to the success of SME’s within Nairobi City. The greater Nairobi county, has over 90,000 SME’s, with at least 21,100 located in the Central Business District. Stratified random sampling was used in the identification of respondents for this study. A total of 70 respondents agreed to participate in the study. A structured, closed-ended questionnaire was used as the primary data collection tool. A 5-point scale was used to assess the respondent’s level of satisfaction from the list of questions contained in the tool. Upon completion the field exercise, the data was inspected for correctness then coded using SPSS version 20. The results were presented using charts and tables.

The study found that innovation plays a crucial role in the success of SME’s with a cumulative average of 4.35 for all innovation factors which translates to 87% approval. Further, the study established that access to financing is a fundamental factor that influences the potential of success among SME ventures with a overall mean of 4.01 which translates to 80.2%. The study also found that leadership effectiveness has a significant influence on the success of SME’s with an average mean of 4.16, which translates to 83.2% approval.

The study concludes that the most critical factor in implementing innovation is the acknowledgement of its importance by the SME managers, through setting aside a portion of operational capital to fund innovation initiatives. The study concludes that interest rates are the biggest impediments facing numerous borrowers running SME ventures. Numerous
borrowers cite high interest rates as the biggest deterrent in pursuing credit facilities with established lenders such as the commercial banks. The study makes a conclusion that effective leadership is critical in the success of any business establishment whether small or big. The study concludes that business owners and managers understanding of rapid changes in the business scene require continuous skill upgrade and training.

The study makes a recommendation that small business should strive to pursue a policy of allocating a significant amount of business returns towards innovation initiatives. The study recommends that, SME’s should clearly set-up financial priorities at the in stage when setting up the business. The SME should have a concrete business plan that lays down the financial projections for a minimum period of three financial years. Finally, the study recommends business leaders to continuously upgrade their skills to remain dynamic and informed of the changes in the business administration scene.
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I owe a special thanks to my family, my mom and dad, who supported me and helped me throughout my life and during this study. This work would not have been possible without your love and support. Mom, dad I do not know how to thank you enough for providing me with the opportunity to be where I am today. I love you so much.
DEDICATION

I dedicate this research project to God Almighty my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding. He has been the source of my strength throughout this program and on His wings only have I soared. I also dedicate this project to my family for their love, inspiration and encouragement throughout my academic life. Thank you. My love for you all can never be quantified. God bless you.
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ABBREVIATIONS

GDP – Growth Domestic Product
ICT – Information Communication and Technology
KNBS – Kenya National Bureau of Statistics
SME – Small and Medium Enterprises
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem
Modern day business scene is has significantly becoming dynamic with Small and Medium enterprises (SME’s) exerting presence indicating their increasing importance (Wasim and Khan, 2014). Data from the European Union, indicate that 99% of businesses in the greater Europe are SME ventures, and have accounted for about 84% of new jobs created between 2002 – 2012 (European Commission, 2013). Across the Asian Pacific region, report from the Asia-Pacific Co-operation (APEC), indicate that SMEs businesses account for over 90% of all enterprises (Mohammad, 2012). For economies of most nations of the world, the demand of the SMEs is increasing and has become their recognized feature (Omar et al., 2009). In the continental North America, SMEs represent the larger percentage of all businesses and their contribution totaling to about half of the GDP returns in both the United States and Canada (Al-mahrouq, 2010). Across the Asian continent SME’s have been an economic driver, for instance in Thailand the SME’s represent over 90 percent of the total number of entrepreneurs in nearly all business sectors, and in turn account for about two thirds of the labor force (Veskaisri et al., 2010). The SMEs form the backbone of the private sector all over the world and accounting for around 60% of the total labor force in the entire working population in the globe (Al-mahrouq, 2010).

Report published by Ndagijimana, & Okech (2014) indicate that about 25 percent of the employed people outside agriculture in the African continent depend on SME sector for their livelihood. An economic report presented by the World Bank (2015) indicates that SME’s play an important role in most economies, especially in developing countries. Formal SMEs contribute up to 45 % of total employment and up to 33 % of Growth Domestic Product in developing countries. Economic projections estimate that over 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa (World Bank, 2015).

Data for the Kenya National Bureau of Statistics (KNBS, 2016), indicate that SME’s in Kenya contribute about 22.8% of total GDP output. In terms of gross value added, the SMEs are estimated to have contributed KSh 1,780.0 billion compared to KSh 5,668.2 billion for the whole economy. The recent annual publications of the Economic Survey of Kenya (2016)
indicate that the informal sector continues to provide the majority of additional jobs thus making the informal sector critical to the economy. The report indicates that informal sector created over 700,000 new jobs in 2015 which totaled to about 85% of all new jobs in the country. These numbers, though not limited to establishments (includes laborers engaged by households, farms and transport sectors) provide an indication of the magnitude of the sector.

According to Olabisi (2014), SME’s are very dynamic making it difficult to categorize them in a broader approach across different sectors in the entire world. The International Labour Organization (2005), indicated that there exists over 50 definitions were identified in 75 different countries. The term SME is commonly used in international organizations and in European Union Countries, such as the United Nations (UN) and the World Bank. It is also prevailing in other countries of the world as a growing phenomenon (Syed et al., 2012). The specific definition of SMEs, used by each country in the world is usually based on several different criteria. This typically includes sales or assets, number of employees and levels of capital (Mohammad, 2012). In USA, businesses having fewer than five hundred employees are considered as SMEs. While in the European Union, SMEs employee less than 250 employees (Khalique et al., 2011).

The Micro and Small Enterprises Act No. 55 of 2012, state that “small enterprise” means a firm, trade, service, industry or a business activity— whose annual turnover ranges between five hundred and five million shillings, employs between ten and fifty people; and whose total assets and financial investment for the manufacturing sector is between ten million and fifty million shillings; and for Service and farming enterprises, between five million and twenty million shillings.

According to Micro, Small and Medium Enterprises (MSME) Survey of 2016, medium enterprises are ventures that employee between 51-99 employees. The survey listed that there existed about 1.56 million MSMEs licensed by the county governments across the country while about 5.85 Million MSME, ventures were found to be unlicensed. Majority of these MSMEs are in the service sector, with most operating in wholesale and retail trade, repair of motor vehicles and motorcycles followed by accommodation and food service activities and other service activities.

The SME sector in Kenya has taken the lead in the provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, being key
components of poverty eradication. The SME’s will play a central role in Kenya’s Vision 2030 which is a development blueprint seeks to transform the country into an industrialized middle-income country that has a high quality life to all its citizens by the year 2030. The SME sector has been identified as a critical economic driver for achievement of the development blue print (GoK, 2008).

There exist extensive literature on SMEs with keen focus on factors that facilitate or constrain their success and how such success contributes to economic development (Mwangi, R. M., Sejjaaka, P. S., Maina, P. R., Kairo, D., Rotich, A., Owino, E. & Mindra, R., 2013). Past studies have been central in identifying a multiplicity of factors that influence success/failure of SMEs, which can be categorized into internal and external factors. The internal factors refer to enterprise-specific issues such as management skills, human capital, financial management, and organizational demographics and innovation while internal factors refer to firm-specific factors such as management skills, human capital, financial management, and organizational demographics while external factors include macroeconomic factors, political and institutional forces, market opportunities, and socio-cultural factors (Olawale & Garwe, 2010; Thandeka, 2008).

Numerous studies on SMEs across developing countries have focused on the identification of specific factors that affect their success and sustainability (Mwangi, et. al, 2013). According to Al-Mahrouq (2010), the significance of these factors are specific for different countries. For example, Al-Mahrouq (ibid) listed five factors that were central to the success of SMEs in Jordan, and among them included; the technical procedures and technology, firm structure, financial structure, marketing, productivity and human resource structure. A similar study in different context was aimed at underscoring the success factors for SME’s in Malaysia and found that success for SME’s in these jurisdiction was driven by factors such as; personal initiative, education, working experience, managerial and technical skills, and parents’ involvement in business are critical in business success (Rose, Kumar & Yen, 2006).

Continently, studies on African SMEs have largely focused on the causes of business failures. A study by Bowen et al (2009) focused on the challenges of micro and small businesses in Kenya where an explanatory approach was used. They study established that micro and small enterprises were faced with numerous challenges among them including; ferocious competition across different sectors, security uncertainties, debt management issues, inadequate capital, and lack of innovation. In Uganda, a study on SME’s was
spearheaded by Tushabomwe-Kazooba (2006). The study found that political, social and economic issues coupled with poor management were the main factors that led to the collapse of SME’s. Studies across African continent on SMEs have largely focused on the causes of business failure and little data is published on success or the successfully run enterprises, an observation that has been attributed to the rampant mortality of SMEs in many African countries (Mwangi et al, 2013).

Whereas there exist various reasons listed from studies on the success and failure of small business enterprises, there is need to calibrate the critical success factors for SME’s in particular within a Kenyan context noting specifically in Nairobi central business district.

1.2 Statement of the Problem
According to Kenya National Bureau of Statistics (KNBS, 2016), a total of 2.2 million MSMEs were closed in a 5 year period including the year 2016. Businesses that have taken brunt of collapse are in sectors such wholesale & retail trade, motor vehicle and motorcycles repair sector, which accounted for about 73.5% of the total closures. The study established that these business were surviving for an average period of 3 years and 8 months. Business ventures that were started or acquired within a period of the last two years were more vulnerable to closures and they accounted for 61.3 per cent of the total businesses closed.

A study conducted by Wasim and Khan (2014) on the Small and Medium Enterprises in Malaysia and Pakistan: Past, Present and Future Scenario” established that factors including; the lack of intellectual capital and infrastructure, political instability, and energy crises are the general and serious threats to survival and stability of SMEs in Pakistan. The lack of competencies renders the SMEs unable to match and compete at national as well as international level. Thus insufficient intellectual capacity condemned the SMEs towards fierce challenge of survival in competitive environment (Khalique et al., 2011c).

The top reason cited by entrepreneurs as the leading trigger to closure of their businesses was shortage of operating funds, and has been reported by about 29.6 % of the businesses (Rose, et al., 2006). Other factors include; increased operating expenses, declining income and losses incurred from the businesses, were the main causes of business closure. In addition, the diversion of returns and operating capital from the business to other uses also led to business closures. Other SME venture were listed to have closed due to personal issues, which ranged from social and biological obligations especially prenatal and postnatal care of children especially for women (Kenya National Bureau of Statistics [KNBS], 2016)
Generally, factors central to the success of SMEs include demographic traits of the organization and founder (Rose, et al., 2006; Thandeka, 2008), social capital (Khayesi, 2011), personality traits of the founder (Frese et al., 2000), and firm specific factors like human capital, innovation, management and technical skills (Olawale & Garwe, 2010; Thandeka, 2008).

This research will address the existing contextual gaps by highlighting the Kenyan context having in mind that cultural differences may have an impact on research findings from a different contextual background. The current research will focus on critical success factors for SME’s with comparison to past studies to evaluate whether the findings can be collaborated.

1.3 Purpose of the Study
The purpose of the study is to analyze the critical success factors of small and medium enterprises in Nairobi City County that can be emulated by similar enterprises to ensure business survival.

1.4 Research Questions
1.4.1 To determine the impact of innovation a critical success factor of small and medium enterprises?

1.4.2 To determine the impact of having access to finances a critical success factor of small and medium enterprises?

1.4.3. To what extent is effective leadership a critical success factor of small and medium enterprises?

1.5 Significance of the Study

1.5.1 Small and Medium Enterprises
The study could be beneficial to small and medium enterprises on the critical success factors that need to be employed to spur their success in a fiercely competitive business environment. The success factors can be used by like-minded organizations to ensure success of their organizations.

1.5.2 Economic Development Policy Makers
The study could also assist the economic policy developers to gain insight into the operations
of small and medium enterprises and offer a concrete reference for the formulation of new wide reaching policies that could enhance the financial performance of SME ventures. This will assist them in defining or determining policy regulation and guidelines for small and medium enterprises in general.

1.5.3 Researchers and Academicians
The findings in this study will make contributions to existing knowledge on SME sector and further studies in the subject of critical success factors for small and medium enterprises. Future researchers will benefit from the findings of this study, as they can use it as a reference for their own studies.

1.6 Scope of the Study
The population will comprise of Small and Medium Enterprises in Nairobi City County. The respondents will be owner and managers of the SME’s operating in the CBD area of Nairobi County. It’s estimated that, about 21,100 SME’s operate from the CBD. The data collection will be carried out in the month of May.

1.7 Definition of Terms

1.7.1 MSME/SME- Micro, Small and Medium Enterprises/ Small and Medium Enterprises
KNBS (2016) defined Micro, Small and Medium Enterprises as organizations that employee between 1-99 employees with an average annual turnover that doesn’t exceed 5 million shillings.

1.7.2 Critical Success Factors (CSF)
Bruno and Leidecker (1990) have defined CSFs as “those characteristics, conditions or variables that, when properly sustained, maintained, or managed, can have a significant impact on the success of a firm competing in particular industry”.

1.8 Chapter Summary
On average, small and medium businesses are closed at the age of 3.8 years. Establishments that were started or acquired within the last two years were more vulnerable to closures and they accounted for 61.3 per cent of the total businesses closed (KNBS, 2016). The purpose of this research therefore is to analyze the critical success factors of small and medium
enterprises in the Kenyan context. The research questions will seek to understand the extent to which innovation, access to finances and effective leadership leads to success of small and medium sized enterprises.

Chapter two will cover the review of literature related to critical success factors of small and medium enterprises. Chapter three will describe the methods and procedures used to carry out the study. Chapter four will be a presentation and explanation of data and findings will be analyzed on the basis of the research questions, specific objectives. Chapter five will give a conclusion to the research with recommendations of further studies.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter presents a review of the literature related to the research questions and purpose of the study. The research questions being answered are to what extent innovation, having access to finance and effective leadership are critical success factors of small and medium enterprises.

2.2 Critical Success Factors
The Critical Success Factors (CSFs) are the limited number of areas through which satisfactory results will ensure successful competitive performance for the individual, department or organization. The CSFs centralize on the few key areas where it can be said that, ‘the things must go right’ in order for the business to succeed and for the manager’s goals to be attained (Dess, Lumpkin and Eisner, 2009). Rockart (1979) stressed that a business should attempt to constantly and carefully manage these particular areas of activity. Rockart (1979) also defines a specific hierarchy where CSF is primarily based on organizational level through which the specific individual strategic issues are conveyed. In view of this particular approach, CSF can be addressed on either an industry, corporate or sub-organizational level, thereby forming a certain type of CSF hierarchy within the organization.

Levels of management introduce different types of operating environments and thus different levels of CSFs. Rockart (1979) provide a thorough discussion of the hierarchical nature of CSFs and identify four specific levels of CSFs: industry, organizational, division, and individual. Caralli (2006) introduces the concept of operational-unit CSFs, which focus on the contributions that an entity makes to support the organization’s overall goals and mission, and supports the concept of operational units in the IT strategy context. Caralli also draws an explicit parallel between CSF hierarchy and planning hierarchy by pointing out the similar way in which both hierarchies are interdependent. He notes, however, that CSFs do not necessarily cascade through the layers of an organization in simple one-to-one relationships.
According to a study conducted by Kronbichler, Ostermann, & Staudinger (2009), established that business environment are changing and the effort to remain competitive appears to be a major challenge for many companies. Organizations must improve their business practices and procedures because of the influence of the competitive market. Relaxation of stiff regulatory policies that limit operational spectrum of SME’s should be given special consideration by policy makers. Evidence from South East Asia indicates that, removal of regulatory impediments that constrained SME’s significantly contributed to the growth of SME businesses (Darus, Yunus and Rahman, 2017). The growth of SME’s benefit from favorable operational environment which in turn triggers a chain reaction in the business processes. Othman, Vandenbempt and Hendrickx (2010), opined that favorable business policies enabled SME’s to learn from bigger and established ventures in many fronts such as cutting down on costly bureaucracy, observing global benchmark standards and pursuing expansion initiatives to reach a bigger market. In addition, SM’s operating in a friendly environment, are more pro-active which enables them to take risks and value innovation as a contributor to enhanced performance (Lisboa, Skarmeas, and Lages, 2011).

The quality of human capital influences the quality of products available in the market and consequently impacts on consumer choices (Kumar and Singh, 2012). SME’s are compounded by the human resources quality factor as a key success driver since it yields significant influence on marketing, competition, profit margins and customer satisfaction (Talib, Ali and Idris, 2013; Kumar, 2013). Darus et al (2017), highlighted the link between human capital and the success of SME’s. They detailed that numerous components of effective SME administration lies with having the right combination of talents and skills to guarantee progress. In addition, human capital is highly dynamic and mobile, which means that little dissatisfaction makes it impossible to retain human capital. This underscores the importance of investing in human capital as a component of SME business success.

2.2.1 Importance of Critical Success Factors

The critical Success factors are vital for running of business due for many reasons. It’s important for the manager to identify and understand those factors on which he or she should focus their business administration efforts. It also helps to ensure that those significant factors will receive careful and continuous management scrutiny (Wong, 2014).
CSFs serve a role of compelling the manager to consolidate positive measures for those factors and to seek reports on each of the measures. The recognition of CSFs makes it possible to define the amount of information that must be collected by the organization and limits the costly collection of more data than necessary. The identification of CSF moves an organization away from the trap of building its reporting and information system primarily around data that are “easy to collect”. Rather, it focuses attention to those data that might otherwise not be collected but are significant for the success of the particular management level involved.

The process acknowledges that some of the critical factors are dynamic and environment specific. This suggests that there’s need for a consistent and constant inquisition for new reports being developed as needed to understand and keep up with the pace of changes in areas such as organization’s strategy and environment or organization structure. Rather than changes in the institutional system being viewed as an indicator of insufficient design, they must be observed as inevitable and productive part of IS development (Andries and Debackere, 2007).

### 2.3 Innovation

Innovation can be defined as the application of new ideas to the products, processes, or other aspects of the activities of a firm that lead to increased value. The value in this context covers broad way to incorporate higher value derived for the firm and also the benefits to consumers or other firms (Nieto and Santamaria, 2010).

Numerous studies have attempted to make an understanding on the role of innovation within the small and medium sized enterprises around the world. Madrid-guijarro (2013), observed that innovation is a critical driver of competitive advantage (Madrid, Garcia and Van, 2009). A study on SME’s across Spain found that, innovation played a critical role to in changing fortunes of many businesses among them including; an increase to the market share, realization of greater production efficiency, higher productivity and higher revenues (Madrid, et. al., 2009). In a report by Tan, Fischer, Mitchell and Phan (2009), they postulated that innovation contributed to economic growth and is one of the most critical ways through which small and medium sized enterprises (SMEs) can be able to be competitive and ensure business survival. Understanding of the value innovation brings to the business scene, it can assist firms to embrace diversity in market place by introducing or improving their products which eventually results to an improvement in their financial performance (Madrid-guijarro, 2009).
Besides the literary spectrum in business environment the concept of innovation is heterogeneous and broad. According to the European Commission (COM, 2003), innovation can be viewed as the renewal and enlargement for the “range of products and services and the associated markets” and also the establishment of new methods of production, supply and distribution; the introduction in changes in management, work organization, and the working conditions and skills of workforce. The fundamental role of innovation as a driver of sustainable competitive advantage has guided managers and policymakers to strongly commit to developing and implementing initiatives that encourage innovation among SMEs (Nieto and Santamaria, 2010).

2.3.1 Product Innovation
Burton (2011) postulated that, innovation can be categorized in two ways; product and process innovation. In a business context, product innovation explains the form in which products or services are offered. Product innovation can be defined as the transformations pursued in an organization's production line, introduction of new products in the market or use of new and better materials in the production process (Wong, 2014).

Further, product innovation could be tangible manufactured goods, intangible services, or a combination of the two. Some of the examples for recent tangible product innovations that have had a very significant impact on the way people live and work are personal computers, mobile phones, and microwave ovens. Intangible products that complement these types of physical equipment include the various pieces of computer software needed to control flows of information through these devices, leading to the delivery of information, the supply of communication services, or the arrival of a correctly heated dinner.

Product innovation will involve the following; technical design of the products features, research and development and eventually marketing of the new product through commercial activities (Alegre, 2006).

2.3.1.1 Significance of Product Innovation as a Critical Success Factor
Comison and Lopez (2010) in their study established that product innovation was important for an organization to be able to create a competitive edge in the changing environment. Comison et al., (2010) argued that through product innovation the organization was able to
introduce new products into the market and the quality of the products was also improved and therefore in the organization gains competitive advantage over the competitors in the same industry.

In agreement to this argument Hult, Hurley and Knight (2014) stated that product innovation enabled the organization to protect itself against threats from the competitors. Studies have also proved that there is positive correlation between the performance of the organization and positive product innovation (Buyus, Erickson and Jacobson, 2013). Espallardo and Ballester (2009) in a study carried out in an organization established that product innovation had a positive impact on the organization’s performance in its industry. Varis and Littunen (2010) established that the more an organization was able to introduce new products into the market the more customers associated with that organization as it is assumed the organization is performing well. SMEs have a number of drawbacks when it comes to innovation process as compared to large organizations (Rhee, Park, & Lee, 2010).

However the SMEs have the advantage of being close to the customers and therefore have the knowledge of the customers’ tastes and preferences as opposed to the larger organizations (Rhee, Park, & Lee, 2010). Besides having the knowledge of the customers changing tastes and preferences the SMESs have the advantage being able to learn and adjust accordingly faster than the larger organizations (Garcia-morale, Llorens-Montes and Verdu-Jover, 2007).

2.3.2 Process Innovation
According to Nieto and Santamaria (2010), the term process innovation can mean the idea for the development process that ultimately results to the introduction of new products and services to the market. It is believed that innovation is a key element in the development of the economy in a country and the industry in which that the innovation is carried out in (Beaver, 2012).

For process innovation to be a success, the organization has to tap on the knowledge available in the organization, which can inform kind of institutional understanding gained through the learning process and finally the need of the customers in the market (Berg, Johnson, Lorenz and Lundvall, 2007).

Calantone, Cavusgil and Zhao (2009), observed that process innovation is process that is adapted by the organization in order to adapt itself to the changes in the environment. The process of innovation will therefore involve building on the capabilities of the organization in order to create new products and services (Yang and Choi, 2009).
Romijin and Albaladejo (2012) argued that innovation is created in social network interactions by the different people that are involved in the formulation of the process. This interaction may involve the organization suppliers, its customers, the members of the public and the corporation. It has been argued that an organization that has a closer relationship to the potential customers than the competitors will have the advantage of being more creative than the competitors hence being more innovate (Lawson and Samson, 2008). This is because the organization will have new ideas and will be the first to introduce a new and unique product in the market.

2.3.2.1. Significance of Process Innovation as a Critical Success Factor

Anderson, Wahab, Amin and Chong (2009) postulated that process innovation is one of the ways through which a business corporation can gain competitive advantage. Process innovation is the way through which the organization can improve its productivity (Bakar and Ahmad, 2010). Process innovation is about changes in technology and science with the aim of coming up with a superior product or service that will compete favorable in the market (Harmaakorpi and Melkas, 2008).

Innovation implemented through adoption of information technology (IT) has been seen to increase SMEs performance substantially (Andries and Debackere, 2007). According to Nguyen, Newby and Macaulay (2015), there have been a number of research studies on the determinants of IT adoption in small businesses such as those by Bharadwaj and Soni (2007) and Irvine and Anderson (2008), all of which had a focus on searching for factors that affect the decision and intention to adopt IT. These factors include cost benefits, management innovativeness, perception, knowledge and skills, employee attitudes, IT skills and knowledge of management and employees, and IT infrastructure. The decision to adopt is also influenced by external factors such as consultants, business partners, suppliers, and customers.

Studies suggest that for many firms, the most common objectives for IT adoption are to enhance organizational survival and/or growth and to remain competitive and/or enhance innovative capacity (Bruque and Moyano 2011; Búrca, Fynes, and Marshall 2010). These can be the result of pressure from both the internal and external environment from either an emphasis on improving efficiency and business expansion or a pressure to meet certain requirements from customers and industry standards (Andries and Debackere 2007).
2.3.2.2 Significance of Process Innovation

According to Oduori (2016), an innovation generates long-term advantage to the firm when customers feel that the enhanced performance has value for them. Service and service delivery can be, and increasingly are, a competitive weapon. Some firms in the same industry anchor their reactions to environmental changes to the behavior of other firms that are strategically similar to themselves, while others may adopt a more independent stance by emphasizing new product or market innovations (Kamalesh, Boesso, Favotto, & Menini, 2012). Technology innovation has the power to transform consumer expectations, disrupt competitive dynamics, and reshape the travel distribution chain. The most innovative firms are those that actively deploy emerging technologies to gain competitive advantage.

The study done by Oduori (2016), found out that a higher level of innovation was found among firms that strived to improve customer service and existing organizational competency (knowledge, skills and attitude). Most firms are compelled to respond and adapt to the ever-changing business environment through innovation in order to survive the competitive pressure. It was then concluded that anticipating and satisfying customer needs as well as continuously improving employee skills was critical to small and medium enterprises in Kenya. Al-mahrouq (2010), conducted a study to determine success factors of small and medium sized enterprises in Jordan. In his findings, he ranked technical procedures and level of technology as the most important factor. Five variables that were analyzed in the study were: high technology of equipments, use of planning and engineering of the production operation, research and development systems, operating methods and new technology and automation.

According to a report conducted by Oxford Economics (2013), SMEs are facing various challenges including economic uncertainty, shifting customer demands and expectations, increased labour costs and increased global competition. SMEs are responding to these challenges with several strategic initiatives. More than half cite driving innovation, cost reduction, and efficiencies as the most important of these efforts, with emerging markets and Latin American companies placing an especially high emphasis on these areas.

2.4 Financial Access

Report published by the World Bank (2011), highlighted that financial access informed the capacity for financial institutions to extend financial services and products that are linked to
the regulatory, market, and technology environments. To explore the concept of access it was tentative to identify the potential barriers that institutions face in providing their services and products or those clients encounter in using them. MSCs face a variety of problems in regard to finances, this include:

2.4.1. Unavailability of Financing

To have a broad understanding in the indicators of financial access the critical indicators show the depth of outreach for financial services, including factors such as the penetration of bank branches or point of sale (POS) devices in rural areas (information that can be obtained from supply-side data) or demand-side barriers that customers face to access financial institutions, such as cost or information.

It’s a well explored fact that the lack of capital investment is one of the main constraints plaguing small and medium enterprises (Al-Mahrouq, 2010). In his study, Al-Mahrouq (2010) identified the financial structure of the firm as the third overall critical factor of SMEs success. The variables looked into include sources of funds used in the start-up stage if it is funding or through the commercial banks or financial institutions and sources of funds for expansion of the business. Griffin (2012) observed that, business failure can be accredited to a number of critical factors which include; managerial incompetence, insufficient capitals, neglect and weak control systems.

The major challenge faced by ventures in the SME spectrum is not just access but rather, the ready access to finance. Each business requires financial resources as a working capital in order to exist. However, small enterprises in Ghana do not have such an opportunity. Access to credit has remained a major block for the SME sector in the country. About 38% of respondents in an SME survey mentioned lack of credit as a major constraint to their development (Avevor, 2016).

According to the Organization for Economic Co-operation and Development (OECD, 2010), the funding gaps for the SMEs are a major impediment to growth of the SME sector. The huge difference between profitability, survival and growth of the SMEs compared to the large firms bring in the financing problem. Owners of the SMEs face the lack of commercial experience as entrepreneurs. The early stages for the SME are characterized by uncertainty in both production and the marketing of products or services. The firms operate in the highly uncertain environments and rapid change and rely more on intangible assets. SMES find it
hard to obtain financing because banks and lending institutions are risk averse to the risky ventures (Nyokabi, 2014).

According to Nyokabi (2014), a survey carried out in 2011 of 246 SMEs, revealed that founders savings were the most common source of capital at 71% with loans from banks second and loans from family third at 26% and 18% respectively. When the SMEs are seeking to expand, 72% of the companies rely on loans.

2.4.2 Lack of Collateral

According to Averor (2016), it is an established fact that the majority of the SMEs do not apply credit facilities from banks. This study conducted among SMEs has provided concrete evidence to this fact. Out of the total of twenty small enterprises surveyed, only two representing 10%, utilizes credit facilities from banks in the country. The causes of SMEs turning away from one financial institution to another or none at all are, among others, unfavorable terms, high interest rates and collateral. The study shows that the various requirements/criteria used in accessing loan from financial institutions by the SMEs include collateral, turnover, balance sheet balances, guarantors, business registration certificate, management team and credibility of the entrepreneur/borrower.

According to Steivjers & Voordeckers (2006) they conclude that the firm characteristics are more important determinants of collateral/commitment protection than the loan and the lender characteristics. The SMEs borrow funds through the informal market, while larger ones through the formal market. Therefore reducing the financing gap in the Sub Saharan African countries will be an incentive to create more SMEs and in-turn they will improve the economic growth of the resident country and increase job creation. Improving SMEs access to finance is equally important in enabling innovation and entrepreneurship skills in a country.

In case a firm engages in debt financing, collateral is requested by the lenders in order to reduce the risks associated with moral hazard. The lack of collateral is most widely cited obstacle that is encountered by MSCs in accessing finance. The amount of collateral provided and the loan size is a measure that is frequently adopted by to assess the severity of the financing gap. The lack of collateral may in some cases mean the firm is at a young age and is not well established. In other cases the collateral that MSCs can put up may be deemed insufficient compared with the size of the loan sought, which in-turn means that the
expansion project is large compared with the current size of the firm. The issue of collateral is more prevalent and much more severe in developing countries this may be due to the undeveloped state of the institutional and legal framework; functioning or nonexistent registrars of movable assets, ill-defined property rights which prevent the possibility of one pledging own assets as collateral (Kauffmann, 2005).

According to Dr. Nyamweya in an interview for an article in the Kenya Top 100 Survey 2011, she cites that banks have the tendency to ask SMEs for security as a major obstacle to business success. Although her company has had financing from its partners over the years it still depends on them as it expands. She cites that there is need for financial institutions to give loans without emphasis on security but rather based on the viability of the project (Irungu, 2011).

2.4.3. Lengthy Finance Sourcing Procedures

According to El-Said, Al-Said, & Zaki (2013) it is more difficult for SMEs to obtain financing from banks; the governments and international developing communities focus more on the micro businesses; banks prefer to give credit to large corporate clients and towards individuals who are considered to be less risky. The SMEs believe that bank sources are more trustworthy than other sources of finance. For banks they consider it less risky to provide loans to large corporate clients since they are seen to be more stable and are less prone to risk, they have the sufficient documentation and records; their information is well structured and are easily accessible and more profitable than SMEs.

For the SMEs they are less stable, more prone to risk, do not have sufficient records, do not have the sufficient information required to assess a loan, they are difficult to access and are less profitable. They also face various other challenges, which include: lack of business documents, reliable financial statements, weaknesses of management and lack of business plans. With this challenges facing the SMEs, In Egypt only 47% of the SMEs deal with banks and only 22.4% have access to banking facilities.

2.4.4 High Cost of Raw Materials and Equipment

According to Nixson & Cook (2010) small organizations face higher costs than large companies as their economies of scale are reduced. Due to the increased costs of imported raw materials in Nigeria, this has seen increased competition from large-scale enterprises on
local raw materials and recycled raw materials that in turn increase the costs of raw materials. Before the recycled raw materials would entirely be taken up by the small-scale enterprises before the large organizations entered the fray.

The large-scale organizations realized that when the import costs of imported materials increased the recycled materials became cheaper. Recycled materials like rubber, metals and plastics have become more expensive. Some of these materials like steel have increased by 1000%, aluminum by 500% and plastics by 700% between the year 1986 and 1993. This has resulted to low quality goods and very high competition for raw materials leading to increased demand and thus high costs of the raw materials.

Challenges like obsolete technology and technological equipment continue to face the African textile industry especially the Kenyan textile industry hence leading to increased costs of doing business in Kenya. For the small-scale farmers who grow cotton in Kenya, they lack ginners and spinners who have the right technology which in turn will add value to the products and enable them compete in the world market with other players (Small Business Matter [SBM], 2014).

2.4.5 Interest on Bank Loan

Irrespective of the risk profile of MSCs, the handling of the MSCs financing is an expensive matter. The appraisal of a loan involves costs or even worse the conducting of a due diligence exercise in view of a possible investment is largely independent from the size of financing that is being considered. The various costs involved include administrative costs, legal fees and the costs involved in the acquisition of information e.g. purchase of a credit profile from the credit raters which can be regarded as fixed costs and they are more difficult to recoup in case of small loans or investments. For the outside financiers similar costs may apply which include costs after disbursement of the loan, field surveys/inspections or attending board meetings. The problem becomes more severe in developing countries where there is lack of adequate management information systems in the country’s financial institutions, the economic state of the country is undeveloped and the poor state of public services e.g. documents registry of titles and collateral which in turn contribute to the escalation of the financing costs for the MSCs (Kauffmann, 2006).

According to Andrea Moro (2012) financial institutions especially banks are essential towards the small and medium enterprises as they do not have access to the capital market.
The lending process is complicated and requires risk assessment of the firm being lend the money. The relationship between the banks and the MSCs plays a major role in lending. The banks will assess the information given by the firms to assess the firm for credit worthiness.

2.5 Effective Leadership

Effective leadership is a critical component for organizational success and more importantly in the sustainability and success of SMEs. While existing studies have shown that the possession and practice of certain traits alone does not guarantee leadership success, there exist evidence, to the effect that, effective leaders are different from other people in particular key aspects (Mwangi, et.al, 2013).

Jackson, Amaeshi and Yavuz (2008) observed that, the SMEs’ success is intertwined with management practices to the local context. Jackson and colleagues argue that organizations, SMEs included, are mirrors of societal values of the localities they are domiciled. Value addition to the bottom line and enhancement of shareholders wealth is seen as the constraints of success in the western context (Jackson, 2012). SMEs represent a unique cluster of organizations normally dominated by founders, with limited resources and operating in highly volatile and competitive environments. Success and sustainability therefore requires exceptional effort from the role players creating a great amount of need for extra-ordinary leadership capability (Mwangi, R.M. et.al, 2013).

Developments in the fields of entrepreneurship and leadership have seen the development of the concept of entrepreneurial leadership. The concepts of entrepreneurial orientation and transformational leadership define the entrepreneurial orientation (Engelen, Gupta, Strenger & Brettel, 2010). It emphasizes opportunity – and advantage-seeking behaviors by embracing higher tolerance to risk, being proactive and encouraging innovation (Wang, 2012). The study carried out by Mwangi, et.al (2013), found out that successful SMEs leaders in the targeted East African nations (Kenya and Uganda), deliberately and continually sought to inspire their employees to higher levels of commitment, had a clear vision of the future, anticipated uncertainties and threats and learnt to take lessons from failures and were very resourceful.

According to Avevor (2016), most SMEs in Ghana were either managed by owners or part-owners which mainly were actually family businesses. A good number of these owners do not have the intellectual and technical capital to successful run the establishments (Abor,
Even though some of the SME owners would wish to acquire the services of experienced managers to run their businesses, most indications is that they either lack the capital resources to cover the hefty remuneration packages demanded by the prospective employees or the uncertainty in the SMEs sector discourages the candidates to take up the jobs for the fear of job security. This is thus seen as a critical impediment to the success of SMEs due to lack of technical and people management know-how. Chittithaworn, Islam, Keawchana, & Yusuf (2011) indicated that, the success of SMEs in Thailand is plagued by the lack of technical knowhow that is critically needed for the employees and also required for the management. For SMEs in Thailand to be successful the right technically skilled personnel should be hired. SMEs have to ensure they continually update their employees’ and management skills and move with technology.

### 2.5.1 Leadership Influence on Employee Performance in an Organization

Bolden, Gosling, Marturano and Dennison, (2003) postulated that organization team is strongly inspired through the use of reward and punishment. Transactional leaders would have the greatest effect on the implementation of this strategy in the organization as the leader can set specific targets through the implementation of easily monitored, and rewards and discipline are administered according to adherence or deviation from instructions (Engel and Worden, 2003).

Transactional leaders clarify expectations, specify standards for compliance, define what constitutes ineffective performance looks for mistake, exceptions, divergence from standards, complaints, infractions of policy and regulations, and failures and he or she takes corrective action before or when these occur (Murphy, 2004).

Leaders using transactional style in the implementation of strategy rewards engagement because it motivates employees based on their accomplishment of the implementation of strategy (Murphy, 2004). David (2009) acknowledge that transformational leadership is well suited to the implementation of new organizational strategies as by trait the transformational leader is pioneering and less likely to support the current situation, seeks opportunities in the face of risk, and attempts to mould and create rather than react to environmental conditions.

Transformational leaders lead changes in mission, strategy, structure and culture, in part through a focus on intangible qualities like vision, shared values and ideas, and relationship
building (Griffin, 2004). Taylor (2009) reasoned that transformational leaders place an emphasis on team building, and empowering and developing potential in order to reach long-term strategic goals.

Thyer (2003) reported a transformational leader creates a collaborative learning environment, improves morale, embraces accountability and conflict resolution, proactive towards the implementation of strategy and its outcomes, ignites communication and supports empowerment. Taylor (2009) pointed out that if a leader effectively empowers employees, it develops an atmosphere of joint trust, increases job contentment, and promotes dedication to the implementation of organizational strategies.

Democratic leadership as emphases group participation thus, participation is the major characteristic of democratic leadership (Steinheider and Wuestewald, 2008). Democratic leadership is associated with increased follower productivity, satisfaction, involvement, and commitment. In the implementation of strategy democratic leaders empower their employees in the decision-making process by meeting with them periodically and listening and trusting them and forging consensus through collaboration (Murphy, 2008).

Skogan (2006) noted that leaders who allow employees to participate in decision-making, encourage employee commitment, and diminished employee rejections of changes brought about by the implementation of new strategies in the organization (Steinheider and Wuestewald, 2008).

The democratic leadership style enforces a work environment where everyone is allowed to contribute to the implementation of strategy. This not only gives a certain amount of importance and authority to the organization members, but also makes them more responsible as the burden of executing the choices they have made rests on their own shoulders (Webb, 2007). In the implementation of organizational strategy consultation is sought from members throughout the company before decisions are reached. Managers delegate responsibilities and, in so doing, give full control to those responsible for task completion (Marquis and Huston, 2000). By allowing employees to take full responsibility for delegated tasks, the employee is able to take “ownership” and, in so doing, becomes invigorated and motivated by the project or task at hand. Motivated, fulfilled employees are happier, eager to work, and have a better perspective about their work environment and managerial team. The process of consultation and feedback tends to result in better decision-making.
The reason for this is all persons involved are able to participate and provide feedback in a decision. In this way, a decision proposed by management can be changed to provide a benefit to all departments. In that sense, democratic leadership has a positive impact on the organization performance (Kouzes and Posner, 2007).

In driving organization performance effective leaders clearly specify the task, reduce roadblocks to task achievement, and increase opportunities for task-related satisfaction and improve performance (Dessler, 2008). The leader’s responsibility is to increase subordinates’ motivation to attain personal and organizational goals. The leader increases follower motivation by either: clarifying the follower’s path to the rewards that are available or, increasing the rewards that the follower values and desires. Path clarification means that the leader works with subordinates to help them identify and learn the behaviors that will lead to successful task accomplishment and organizational rewards (Kouzes and Posner, 2007).

2.5.2 Leadership Influence on Organizational Strategic performance

Effective leadership involves restructuring organizational architecture in a manner that motivates employees to initiate value-enhancing organization performance (Schaap, 2006). Leadership is defined as the process of persuasion, where an individual induces a group to pursue certain objectives. Guangrong, King and Kenneth (2010) argues that differentiation is an expression of creativity of individuals and groups within firms and is limited only to opportunities that exist, or that can be created, in a particular industry and ability of firms to creatively explore ways to take advantage of those opportunities.

This ability can only be achieved if we have an enabling leadership that empowers their followers to go for exemptions on aspects such as being visionary and a team player in all that takes place. Strategic leadership should ensure that values and culture within an organization are appropriate for satisfying key success factors (Hakan, Nancy and Howard, 2008).

2.6 Chapter Summary

The literature review discusses some of the key factors attributed to the success of small and medium enterprises and compares arguments and findings from various research studies. The key success factors have been summarized as innovation, financial access and effective leadership. These shall form the focus of the current research to determine whether these hold true in the Kenyan context and in specific Nairobi City County and the extent to which these
influence the success of the small and medium enterprises.

The next chapter is chapter three which explains the research methodology. The chapter covers research design, population and sampling design, data collection methods, research procedures and data analysis methods. This section reviews the various steps to collect and analyse data to respond to the research questions of this study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
Research methodology lays down the approach to inquiry in a particular field of study. This section covers critical components amongst which include; research design, population & sample design, data collection methods, research procedure, and data analysis method.

3.2 Research Design
Research design entails the preparation of conditions necessary for collection and analysis of field data in a way that seeks to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study adopted a descriptive research design. Descriptive study approach focuses on finding out the what, where and how of a study phenomena (Mugenda and Mugenda, 2008). This approach was found appropriate because this study sought to assess the critical factors affecting success of Small and Medium Sized Enterprises in Nairobi County. The study adopted descriptive research design because it made it possible to generalize the findings to a larger population. In addition, this approach allowed the study to gather quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. This study brought out the critical factors that have been central to the success of SME’s within Nairobi City.

3.3 Population and Sample Design
3.3.1 Population
Population is the collection of observable elements that have similar characteristics from which inferences can be derived from (Cooper and Schindler, 2006). Population also refers to an entire group of people, items, events or objects that posses a common observable characteristic (Mugenda and Mugenda, 2003). The target population is the section of population through which a researcher observes and afterwards draws conclusion which can be generalized for the whole population. This study targeted SME’s that are located at the Central Business District of Nairobi City County. The delimitation used is the consideration of Nairobi City County (NCC) trading licenses and only the SME’s that have this certification were captured in this study. The researcher targeted owners and managers of SME’s in the CBD across all sectors as listed in the Nairobi city county licensing department in the year 2017.
Nairobi county has about 98,600 business that have NCC trading licenses (Nairobi County, 2017). There are about 8 clusters of different sub-sectors in Nairobi CDB, which are clustered by NCC using business codes across different sectors. These main sectors targeted in this study include; Retail sector, Transport, Hospitality, catering, entertainment, pharmaceuticals & health services, technology and Real Estate. Nairobi business licensing department estimate that, from the above main sectors, there are about 21,100 in CBD area.

3.3.2 Sampling Design

3.3.2.1 Sample Frame
Sampling frame is the actual list of elements through which the sample that forms the units of observation is drawn (Cooper and Schindler, 2006). This sample frame in this study comprised of managers and owners of the 21,100 SME businesses operating from the central business district in Nairobi city. In addition, the SME’s through which the sample is drawn from, were required to at least possess the Nairobi City County business trading license.

3.3.2.2 Sampling Technique
Sampling technique is the process through which the entities in a sample are identified and selected (OECD, 2004). This study relied on stratified sampling through which 8 clusters of categories were used to classify the businesses. According to Kothari (2004), stratified sampling enables the participation of all components that make up a study population. From these clusters, it was possible to get a representative sample from each individual cluster and enabled to cover all the business that operate within the city of Nairobi.

3.3.2.3 Sample Size
A sample size is the sub-set of the large population (Cooper and Schindler, 2006). All SME’s operating in Nairobi City central business district that are licensed by the Nairobi city county government were included in this study.

The size of the sample was determined using the Fisher’s et al. (2007) formula
\[ n = \frac{Z^2 pq}{d^2} \]

Where \( n \) is the desired sample size
\( Z \) is the standard normal deviation at required confidence level 95% or 1.96
P= Business owners and managers, 0.214 of the entire population of SME’s.

\[ \text{Calculation } \Rightarrow \frac{\text{SME in CBD}}{\text{SME in Nairobi County}} \times 100\% = \frac{21,100}{98,600} \times 100\% = 21.4\% (0.214) \]

q=1-p (the proportion without characteristics)
d=level of statistical significance (degree of freedom=0.05)
n =1.96^2(0.214)(0.214)/(0.05)^2

n=70 respondents

Table 3.1 Category of SME, Target population and Sample size

<table>
<thead>
<tr>
<th>Category of SME</th>
<th>Number in CBD</th>
<th>percentage</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Sector (Jua Kali)</td>
<td>254</td>
<td>1%</td>
<td>4</td>
</tr>
<tr>
<td>General Trade, Wholesale, Retails, Stores</td>
<td>11,353</td>
<td>54%</td>
<td>8</td>
</tr>
<tr>
<td>Agriculture, Forestry and Natural Resources</td>
<td>1,025</td>
<td>6%</td>
<td>2</td>
</tr>
<tr>
<td>Accommodation and Catering (Hospitality)</td>
<td>1,750</td>
<td>8%</td>
<td>12</td>
</tr>
<tr>
<td>Professional and Technical Services</td>
<td>3,242</td>
<td>15%</td>
<td>10</td>
</tr>
<tr>
<td>Private Education, Health and Entertainment</td>
<td>934</td>
<td>4%</td>
<td>8</td>
</tr>
<tr>
<td>Transport, Storage and Communications</td>
<td>1,200</td>
<td>5%</td>
<td>12</td>
</tr>
<tr>
<td>Industrial Plants, Factories and Workshops</td>
<td>1,342</td>
<td>7%</td>
<td>16</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>21,100</strong></td>
<td><strong>100%</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>

Source: Nairobi City County, Licensing Department (2017)

3.4 Data collection Methods

Data collection is the procedure involving gathering and measuring information on targeted variables in an established systematic fashion, which then enables one to answer relevant questions and evaluate outcomes (Lescroel et al, 2015). Data collection instrument is the tool adopted in data collection process collect for the purpose of the research (Orodho, 2009). The study used questionnaires to collect primary data for the field survey. The questionnaires were structure with close-ended questionnaires, which was useful in ensuring efficient and faster response time from the respondents. A 5 point likert scale was used to gather data, where the 1 was the least level of satisfaction and 5 the highest level of satisfaction. The questionnaire was divided into several sections where the first section comprised
demographic data and the subsequent sections were organized across the research objectives. Secondary data, will be gathered through desk research by reviewing published academic material on the critical factors that influence the success of SME’s.

3.5 Research procedure

The researcher initially sought the permission letter that was used to convince the correspondence and participants on the validity that the field survey was an academic exercise. Before handing out the questionnaires, 5 questionnaires were piloted to select respondents. This Pre-testing was also done to ascertain the validity and suitability of the questionnaires. To carry out the study, structured questionnaires were used. The questionnaires were designed using the research questions. Structured questions, well designed were easy to administer and collect a wider section of respondents since it was cheaper and takes shorter time. Approximately 70 questionnaires were issued to the business owners and managers in Nairobi CBD who run SME businesses registered in the Nairobi County government.

The respondents were to mark where appropriate in the questionnaire. The questionnaire was distributed in person to all the respondents. The respondents who were willing to answer the questionnaire instantly were expected to take about ten minutes to complete filling the questionnaire. However, a good number of respondents opted to fill the questionnaires at their own free time. Hand delivery to the business owners and managers enabled the sample to be as representative of the population since everyone in the sample had an equal chance of being selected. The researcher made follow-up on the issued questionnaires by phone calls and text messages, to encourage the respondents fill the questionnaires in time for data analysis.

3.6 Data Analysis Method

Upon conclusion of the field survey, the questionnaires were organized and prepared for data analysis. Before analysis, data collected from questionnaires obtained from respondents was reviewed carefully and checked for completeness and consistencies. Data was analyzed using frequency tables and multiple regressions. Descriptive statistics was presented using tables and figures. Regression Analysis was used to establish the existence, nature and strength of the relationships between critical SME factors, on the success of SME’s in Nairobi city. Coefficient analysis was used to assess the statistical effect of critical SME factors on the success of SME’s in Nairobi. The data analysis was done using the SPSS version 20. Doing
statistics with SPSS is ideal for those who need to interpret and analyze quantitative data in their research.

3.7 Chapter Summary
The chapter of the study covered the methodology that was adopted conducting the research process. The sectioned explained the research design and justified the choice of the methods. The chapter also discussed population and sampling design which includes the sampling frame, sampling technique and sample size along with how the sample is calculated. The chapter defined and specified the data collection instrument, the research procedures to be followed as well as the analytical techniques and tools to be used. The next chapter presents the analysis of findings of the study.
CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Introduction
This section of the study presents the data gathered from the field survey. The data presentation is organized in accordance to the objectives this study sought to accomplish. The main purpose of this study was to assess the critical factors that are required for the realization of success of SME’s within Nairobi County. The study focused on small businesses that are registered and licensed to operate in the confines of the Nairobi city central business district. The study identified success indicators which were presented to the respondents and asked whether they were valid representation for the SME’s. In addition, the study was well distributed across different economic sectors, which fit within the spectrum of SME’s.

4.2 Response Rate
The data in figure 4.1 presents the response rate which is an estimate on the number of the people who actually participated in the study in comparison to the number of employees who expressed interest to participate.

Figure 4.1 Response rate

A total of 70 questionnaires were distributed to the respondents who were identified to participate in the study. About 65 respondents filled the questionnaires are returned them in time for data analysis. However, 5 of the respondents went quite and never committed to filling the questionnaires even though they agreed to participate in the study. The returned questionnaires were all filled in all questions. Since 70 questionnaires were issued out and 65
were successfully returned, this represents about 92.9% response rate. According to Mugenda and Mugenda (2008), a response rate of 70% and above is convenient for computing statistical inferences.

4.3 Demographic Data

The demographic variables considered in this study include; gender distribution, duration in SME sector, job designation, level of education and the estimate number of employees in the organization.

4.3.1 Gender

Table 4.1 presents the data on gender distribution among the respondents with percentages computed from a relative frequency computation.

<table>
<thead>
<tr>
<th>Gender of Respondent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>33</td>
<td>50.8%</td>
</tr>
<tr>
<td>Female</td>
<td>32</td>
<td>49.2%</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100%</td>
</tr>
</tbody>
</table>

The findings in table 4.1 indicate that majority of the respondents were men, accounting to 50.8% of the representation, whereas the female representation was computed to 49.2%. The findings indicated that there is a near-balance in the participation of both genders in the Nairobi CBD. Further, Nairobi city is an urban metropolis with high literacy levels and access to opportunities for all, thus giving an equal chance to succeed for both genders.

4.3.2 Duration in Business

The data in table 4.2 presents the duration with which the respondent has been active with the business with the lowest limit being the below 5 years.

<table>
<thead>
<tr>
<th>Duration in Business</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5 years</td>
<td>22</td>
<td>33.8%</td>
</tr>
<tr>
<td>6 - 10 years</td>
<td>29</td>
<td>44.6%</td>
</tr>
<tr>
<td>11 - 15 years</td>
<td>10</td>
<td>15.4%</td>
</tr>
<tr>
<td>Over 15 years</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100%</td>
</tr>
</tbody>
</table>

The findings in table 4.2 indicate that majority of the respondents; about 44.6% had been active with the business for period of 6 – 10 years. About, 33.8% of the respondents indicated
that they have been active with the business for less than 5 years, 15.4% have been in the business for about 11 – 15 years. Finally about 6.2% of the respondents indicated that they have been active in the business for over 15 years. The findings indicated that a big chunk of the SME’s have been active for about 6 – 10 years. This is an indicative that, if this SME’s have been able to survive for over 5 years they have a growth potential even breaking into a Large Scale venture.

4.3.3 Job Designation

The data in table 4.3 presents the job description among the respondents with regard to the SME’s in Nairobi County.

Table 4.3 Job designation of respondents

<table>
<thead>
<tr>
<th>Job Description among Respondents</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Owner</td>
<td>34</td>
<td>52.3%</td>
</tr>
<tr>
<td>Business Manager</td>
<td>6</td>
<td>9.2%</td>
</tr>
<tr>
<td>Consultant/Expat</td>
<td>3</td>
<td>4.6%</td>
</tr>
<tr>
<td>Venture capitalists in SME’s</td>
<td>22</td>
<td>33.8%</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100%</td>
</tr>
</tbody>
</table>

The findings in table 4.3 indicate that majority of the respondents who took part in the study; about 52.3% are SME owners. In addition, about 33.8% of the respondents indicated that they are capital funders who have a huge portfolio among the SME’s within the city. These are the kind of people who offer capital in exchange for equity in small scale business ventures, thus they can also be recognized as business owners. About 9.2% of the respondents indicated that they are business managers whereas about 4.6% of the respondents indicated that they are consultants/expats. Many SME owners serve double roles of being the owners and also the managers, which explains why the demographic on managers are significantly low and owners way high.

4.3.4 Level of Education

The data in table 4.4 presents the level of academic attainment among the participants in the study.
Table 4.4 Respondents education level

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>5</td>
<td>7.7%</td>
</tr>
<tr>
<td>Diploma</td>
<td>23</td>
<td>35.4%</td>
</tr>
<tr>
<td>Degree</td>
<td>34</td>
<td>52.3%</td>
</tr>
<tr>
<td>Post-Graduate</td>
<td>3</td>
<td>4.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The findings presented in table 4.4 indicate that majority of the respondents; about 52.3% had attained an undergraduate degree. Further, about 35.4% of the respondents indicated that, they have attained a College Diploma. About, 7.6% of the respondents indicated that, they have attained certificate and finally about 4.6% of the respondents, indicated that, they had attained post-graduate education. The significant number of participants indicates that they have attained decent education, which indicates high literacy levels. The fact that the study was undertaken within an urban region that has numerous institutions of higher learning is deemed to be the factor that gives city residents easy access to education institutions.

4.3.5 Number of Employees in the Business

The data in table 4.5 presents the distribution in the number of employees among SME’s within Nairobi CBD.

Table 4.5 Number of Employees in the businesses

<table>
<thead>
<tr>
<th>No. of Employee</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 employees</td>
<td>13</td>
<td>20.0%</td>
</tr>
<tr>
<td>5 - 10 employees</td>
<td>20</td>
<td>30.8%</td>
</tr>
<tr>
<td>10 - 20 employees</td>
<td>21</td>
<td>32.3%</td>
</tr>
<tr>
<td>Over 20 employees</td>
<td>11</td>
<td>16.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The findings in table 4.5 indicate majority of the SME’s in the city have about, 10 – 20 employees, representing 32.3% of the respondents. Further, about 30.8% of SME ventures have about 5 – 10 employees, 20% have 5 or less number of employees, and about 16.9% of the SME’s have over 20 employees. The data indicates that the distribution of employees working in SME’s is evenly distributed and overwhelming majority of SME’s have less than 20 employees.
4.4 Innovation Factor on the Success of SME’s in Nairobi County

The data in table 4.6 present the Means and Standard deviation of respondents opinions on the statements raised on SME factors.

<table>
<thead>
<tr>
<th>Innovation Factors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME’s should set aside funds for product development</td>
<td>65</td>
<td>4.74</td>
<td>.443</td>
</tr>
<tr>
<td>SME’s with product diversity have a strong competitive edge</td>
<td>65</td>
<td>4.68</td>
<td>.503</td>
</tr>
<tr>
<td>SME’s should rely on innovation as a source of value addition for their products</td>
<td>65</td>
<td>4.65</td>
<td>.543</td>
</tr>
<tr>
<td>Product uniqueness is vital for competitiveness</td>
<td>65</td>
<td>4.58</td>
<td>.527</td>
</tr>
<tr>
<td>SME’s should introduce new product every year</td>
<td>65</td>
<td>4.57</td>
<td>.499</td>
</tr>
<tr>
<td>The business relies on research to improve its products</td>
<td>65</td>
<td>4.52</td>
<td>.589</td>
</tr>
<tr>
<td>SME’s should tap into creative talent when employing new staff</td>
<td>65</td>
<td>4.38</td>
<td>.604</td>
</tr>
<tr>
<td>SME’s should employ reward scheme for creative employees who pitch new ideas</td>
<td>65</td>
<td>4.15</td>
<td>.565</td>
</tr>
<tr>
<td>SME’s should seek feedback from customers on products and improve where necessary</td>
<td>65</td>
<td>4.12</td>
<td>.484</td>
</tr>
<tr>
<td>SME’s should strive to secure patents for products they develop to prevent imitation</td>
<td>65</td>
<td>3.06</td>
<td>.827</td>
</tr>
</tbody>
</table>

The findings presented in table 4.6, cover the respondents opinions on the innovation factors influence on the success of SME’s in Nairobi County. A scale of 1 – 5 was used, where 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, and 5 = Strongly Agree. The respondents were in agreement that; SME’s should set aside funds for new product development registering a mean of 4.74, SME’s with product diversity have a strong competitive edge which registered a mean of 4.68, SME’s should rely on innovation as a source of value addition for their products with a mean of 4.65, Product uniqueness is vital for competitiveness with a mean of 4.58, SME’s should introduce new product every year with a mean of 4.57, The business relies on research to improve its products which recorded a
mean of 4.52, SME’s should tap into creative talent when employing new staff with a mean of 4.38, SME’s should employ reward scheme for creative employees who pitch new ideas with a mean of 4.15, SME’s should seek feedback from customers on products and improve where necessary which recorded a mean of 4.12 and SME’s should strive to secure patents for products they develop to prevent imitation which recorded a mean of 3.06.

The findings indicate that many players in the SME scene understand the importance allocating budget for product development and research. Research is key to creation of new products and also diversification.

4.5 Access to Financing on the Success of SME’s Nairobi County

The data in table 4.7 presents the findings on the respondent’s opinions on the issue of access to financing on the success of SME’s in Nairobi County.

<table>
<thead>
<tr>
<th>Financial access factors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rates changed by lenders are inconsiderate for SME’s</td>
<td>65</td>
<td>4.66</td>
<td>.509</td>
</tr>
<tr>
<td>Financial institutions requirement for collateral security is beyond capacity of many SME’s</td>
<td>65</td>
<td>4.58</td>
<td>.497</td>
</tr>
<tr>
<td>Financial lenders prioritize large business over SME’s in credits allocation</td>
<td>65</td>
<td>4.54</td>
<td>.502</td>
</tr>
<tr>
<td>Length processes in application for loans demoralize the SME’s</td>
<td>65</td>
<td>4.43</td>
<td>.585</td>
</tr>
<tr>
<td>SME’s experience challenges in fulfilling credit responsibilities</td>
<td>65</td>
<td>4.20</td>
<td>.712</td>
</tr>
<tr>
<td>Financial conditions in the country are harsh for SME’s profitability margins</td>
<td>65</td>
<td>3.89</td>
<td>.753</td>
</tr>
<tr>
<td>Lender’s evaluated SME’s growth potential as basis for loan allocation</td>
<td>65</td>
<td>3.85</td>
<td>.667</td>
</tr>
<tr>
<td>SME’s have challenges in raising expansion capital</td>
<td>65</td>
<td>3.54</td>
<td>.663</td>
</tr>
<tr>
<td>SME’s should rely grants for expansion</td>
<td>65</td>
<td>3.28</td>
<td>.650</td>
</tr>
<tr>
<td>SME’s have Poor financial planning</td>
<td>65</td>
<td>3.06</td>
<td>.808</td>
</tr>
</tbody>
</table>

The findings in table 4.7, present the respondents opinions on the influence of access to finance factors on the success of SME’s. A scale of 1- 5 was used where, where 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, and 5 = Strongly Agree. The respondents were in agreement that; Interest rates charged by lenders are inconsiderate for SME’s with a mean of 4.66. The respondents were also convinced that, Financial institutions requirement
for collateral security is beyond capacity of many SME’s with a mean of 4.58. The respondents expressed support that, financial lenders prioritize large business over SME’s in credits allocation with a mean of 4.54. Further, the respondents were in agreement that, length processes in application for loans demoralize the SME’s with a mean of 4.43. The respondents were in agreement that SME’s experience challenges in fulfilling credit responsibilities with a mean of 4.20. The respondent was convinced that, financial conditions in the country are harsh for SME’s profitability margins, with a mean of 3.89. The respondents indicated that, SME’s have challenges in raising expansion capital with a mean of 3.54. However, there was mixed feedback on the suggestion that SME’s should rely of grants of expansion with a mean of 3.28. Similarly, there was a split on the suggestion that SME’s have poor financial planning with a mean of 3.06.

4.6 Effective Leadership on the Success of SME’s in Nairobi County

The data in table 4.8 presents the respondents opinions on the subject of effective leadership towards the success of SME’s.

<table>
<thead>
<tr>
<th>Effective Leadership factors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
</table>
The findings in table 4.8 indicate the feedback obtained from the respondents feedback on the subject of effective leadership on the success of SME’s in Nairobi County. A scale of 1 – 5 was used where, 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, and 5 = Strongly Agree. The respondents were in agreement that, business managers are well updated on ICT advances with a mean of 4.67. The respondents were equally in agreement that, SME’s should continuously train its managers on new approaches and techniques in business administration with a mean of 4.62. The respondents were convinced that, The SME owners regularly employ consultancy services on business improvement with a mean of 4.49. The respondents were in agreement that, business managers often consult with employees on ideas for improvement with a mean of 4.45. The respondents also indicated support that, the SME’s has employed managers who are certified in financial skills with a mean of 4.40. The respondents were also convinced that the SME’s have structured communication model with a mean of 4.12. The respondents indicate that SME ventures employ managers who have technical knowledge on executing administrative roles with a mean of 3.94. The respondents expressed support that, owners of SME’s often delegate duties to junior employees, with a mean 3.85. The respondents were convinced that SME managers bond with employees beyond the confines of workplace with a mean of 3.60. The respondents were split on the issue of remuneration for managers on the basis of performance, with a mean of 3.48.

4.7 Indicators of SME’s Success

The data in table 4.9 present respondents opinions on the indicators of SME’s success.
Table 4.9 SME success indicators Mean and Std. Deviation

<table>
<thead>
<tr>
<th>SME Success factors</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The business reviews its financial performance regularly</td>
<td>65</td>
<td>4.62</td>
<td>.490</td>
</tr>
<tr>
<td>The business has daily profit targets</td>
<td>65</td>
<td>4.51</td>
<td>.504</td>
</tr>
<tr>
<td>The business ploughs-back its profits on expansion</td>
<td>65</td>
<td>4.35</td>
<td>.623</td>
</tr>
<tr>
<td>The business has recorded growth in number of customers</td>
<td>65</td>
<td>4.11</td>
<td>.773</td>
</tr>
<tr>
<td>The business has standard employee retention rate</td>
<td>65</td>
<td>4.03</td>
<td>.770</td>
</tr>
<tr>
<td>The business has regularly diversified its products</td>
<td>65</td>
<td>4.02</td>
<td>.718</td>
</tr>
<tr>
<td>The business has regular reviews for employee remuneration</td>
<td>65</td>
<td>3.97</td>
<td>.728</td>
</tr>
<tr>
<td>The business has fulfilled its credit responsibility in time</td>
<td>65</td>
<td>3.86</td>
<td>.726</td>
</tr>
<tr>
<td>The business has been growing in the regularly years</td>
<td>65</td>
<td>3.63</td>
<td>.698</td>
</tr>
<tr>
<td>SME has a strong financial reporting strategy</td>
<td>65</td>
<td>3.57</td>
<td>.558</td>
</tr>
</tbody>
</table>

The findings in table 4.9 present the respondents' opinions on what should constitute success within the SME businesses. A scale of 1 - 5 was used, where 1 = Strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree, and 5 = Strongly Agree. The respondents were in agreement that, SME’s should regularly reviews of its financial performance is an indicator of success with a mean of 4.62. The respondents were in agreement that indicators of success include; setting daily profit targets with a mean of 4.51, business ploughs back its profits on expansion with a mean of 4.35, registering a growth in number of employees with a mean 4.11, recording a standard employee retention rate with a mean of 4.01, regular review of employee remuneration with a mean of 3.97, fulfilling credit responsibilities in time with a mean of 3.86, regular business growth with a mean of 3.63 and a strong financial reporting strategy with a mean of 3.57.

4.8 Regression Analysis on the impact of SME factors on the Success of SME’s

The study carried out a regression analysis to analyze the existing relationship between the independent and dependent variables. From the linear regression tests the results capture were
presented in the model summary table and coefficients table. The model summary table was used to help in assessing the variability factor on the influence of independent variable on the shift in the dependent variable. The coefficients table was useful in constructing the regression system equation.

4.8.1 Innovation
The data in table 4.10 presents the model summary for the influence of innovation on the success of an SME.

**Table 4.10 Model summary for innovation variable**

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>R</td>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error of the Estimate</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.278</td>
<td>.314</td>
<td>.281</td>
<td>.5432</td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), innovation

The findings in table 4.10 above present the R value and the R square ($R^2$) factor on the influence of innovation on the success of SME ventures. The R value deduced in table 4.10, is .314 ($R^2 = 0.314$). This indicates that innovation accounts for 31.4% in the variability for success of SME ventures, therefore 68.6% of the variation in the success of SME can be attributed to other factors.

**Table 4.11 Coefficients for influence of innovation on success of SME’s**

<table>
<thead>
<tr>
<th>Coefficientsa</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Unstandardized Coefficients</td>
<td>Standardized Coefficients</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-1.121</td>
<td>1.568</td>
<td>-2.201</td>
</tr>
<tr>
<td>innovation</td>
<td>.280</td>
<td>.028</td>
<td>.381</td>
<td>2.425</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME success

The findings in table 4.11 present the coefficient obtained for the regression test on the influence of innovation on the realization of SME success. The analysis records t-statistic value for the independent variable as, $t$ (65) = 2.425. This indicates that innovation factors wield a significant statistical on the success of SME ventures.

Regression equation:

$$ Y(\text{SME success}) = a(\text{constant}) + \beta_1 X_1(\text{Innovation}) $$
Therefore, SME success = 0.28 (innovation) – 1.121

From the coefficient table, the study establishes that for every change that occurs in innovation, there will be a 0.318 unit’s change in the success of an SME venture.

4.8.2 Access to finances

The data in table 4.12 presents the model summary for the analysis on the existing relationship between access to finances and the success of SME ventures.

Table 4.12 Model summary of access to finances influence on success of SME’s

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), access to finance

The findings in table 4.12 indicate the R Value and R Square values of the relationship between access to finances and the success of SME venture. The R value obtained is 0.243, whereas the R Square figure is 0.286 ($R^2 = 0.286$). The study makes a finding that, access to finances accounts for 28.6% in the variation in the success of SME venture, and therefore 71.4% variation in success of SME’s can be attributed to other factors.

Table 4.13 Coefficients in access to finance factor on success of SME

<table>
<thead>
<tr>
<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
</tr>
<tr>
<td>Access to finance</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME success

The findings in table 4.13 indicate the coefficients table obtained from regression analysis on the effect of access to finances on the success of SME’s. The table records a t-static value,
t(65) = 4.680, at 90% confidence level. The study thus makes a finding that; access to finance yields a significant statistical effect on the success of SME venture. The regression equation for the second study variable \((X_2 = \text{Access to finance})\), is as follows:

\[
Y (\text{Success of SME}) = a (\text{constant}) + B_2 * X_2 (\text{Access to finances})
\]

Therefore, \(\text{Success of SME} = 1.098 + 0.149 (\text{Access to finances})\)

The study establishes that for every change in access to finances, there will be 0.829 unit’s change in access to finances.

### 4.8.3 Effective Leadership

The data in table 4.14 presents the model summary on the regression test for the influence of effective leadership on the success of SME ventures.

**Table 4.14 Model summary for the influence of effective leadership on SME success**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.215</td>
<td>.247</td>
<td>.228</td>
<td>.6442</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), effective leadership

The findings in table 4.14 present the R Value and R Square value for the influence of effective leadership on the success of SME ventures. The computation obtains R value as 0.215, whereas the R square value is 0.247, \((R^2 = 0.247)\). The study establishes that, effective leadership accounts for 24.7 in the variation of success of SME’s. Therefore, 75.3% variation in SME success can be attributed to other factors.

**Table 4.15 Coefficients of Effective leadership impact on success of SME’s**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td></td>
<td></td>
<td></td>
<td>.425</td>
</tr>
<tr>
<td>effective leadership</td>
<td>.126</td>
<td>.029</td>
<td>.916</td>
<td>5.124</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME success
The findings in table 4.15 indicate that, the t-static value for the system is, \( t (65) = 5.124 \), at confidence interval of 90%. The study makes a finding that; effective leadership yields a significant statistical effect on the success of SME ventures.

The Regression equation for the third variable is;

\[
Y \text{ (SME success)} = a \text{ (Constant)} + B_3 \text{ (slope)} \times X_3 \text{ (effective leadership)}
\]

Therefore; SME success = 1.067 + 0.126 (Effective leadership)

The study establishes that, for every change in effective leadership, a 0.916 unit’s change is realized in the success of an SME venture.

4.8.4 Multivariate Regression of Critical SME success factors

The data in table 4.16 presents the model summary for combined critical SME factors on the success of SME venture.

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), innovation, access to finances, effective leadership

The findings in table 4.16, presents the model summary of combined SME success critical factors, which include; innovation, access to finance and effective leadership. The analysis computes an R square value of 0.882 \( (R^2 = 0.882) \). This indicates that SME critical success factors, notably; innovation, access to finances and effective leadership account for 88.2% in the variability in success of SME ventures. The study further deduces that, 11.8% in variability for the success of SME ventures can be attributed to other factors.
The findings in table 4.17 present the coefficients computation of SME success critical factors while executing a combined regression analysis. The main purpose of this study was to establish the effect of SME critical success factors on the success of SME’s in Nairobi County. To help prove the relationship that links the effect of independent variables on the dependent variables, the study adopted the regression formula as a basis in construction of a system relationship.

The regression formula adopted for the combine study variables is:

\[
Y = a + B_1 X_1 + B_2 X_2 + B_3 X_3 + e
\]

where:

- \( Y \) = Dependent variable (SME success),
- \( X_1 \) = innovation
- \( X_2 \) = access to finances
- \( X_3 \) = effective leadership,
- \( e \) = error margin

From the coefficients table we are able to deduce the regression equation for the System as:

\[
Y = 1.125 + 0.284X_1 + 0.244 X_2 + 0.212X_3
\]

The study makes a finding that, all the combined critical success factors for SME, notably; innovation, access to finances and effective leadership wield a significant statistical effect on the dependent variable which is the success of SME ventures.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the final section of the study where areas covered include; summary of the findings, discussion, conclusions and recommendations. The chapters offer the researcher a platform to put forward the conclusion remarks. The summary of the findings presents the short presentation on the main findings. The discussion covers a detailed explanation of the field findings in relevance to the literature presented in this study. The conclusion will highlight the main lessons derived from the study and finally close with recommendations based on the main findings.

5.2 Summary of the findings
The main purpose of this study was to evaluate the critical success factors for Small and Medium Enterprises operating within Nairobi City County. The study sought to accomplish this by analyzing three critical factors notably; innovation, access to finance and effective leadership. The study intended to answer the following questions; what is the impact of innovation as a critical success factor for SME’s? , what is the influence of access to finance as a critical success factor for SME’s? And finally, In which way does effective leadership a critical success factor impact SME’s? The study relied on descriptive research design as the field survey methodology. The researcher crafted a structured questionnaire, that was distributed the participants of the study who comprised of SME venture’s owners, SME managers, and SME venture capitalists. The study makes a finding that majority of the SME’s within the City of Nairobi are owned or administered by highly educated people, and further there is virtual semblance of balance in gender distribution across the SME spectrum.

The study makes a finding that innovation plays a crucial role in the success of SME’s with a cumulative average of 4.35 for all innovation factors which translates to 87% approval. The study makes a finding that SME’s need set aside funds for new product development registering a mean of 4.74. The study makes a finding that, financing development of new product is never a considerate factor among numerous SME’s, even though they recognize its importance in enhancing the SME’s success. The study makes a finding that product diversity was a contributing factor to enhancing competitive edge with a mean of 4.68.
The study further makes a finding that innovation contributes to; value addition on existing products, enhances on the uniqueness of products and makes it possible for development and introduction of new products annually. Further, the study makes a finding that innovation can be well enhanced if a business has talented employees. The study also makes a finding that, reward schemes for ideas spur up morale among staff members. Finally the study makes a finding that; innovation and product improvement can be enhanced through, seeking feedback from customers and securing of patents for new products developed and those conceptualized.

The study makes a finding that access to financing is a fundamental factor that influences the potential of success among SME ventures with a overall mean of 4.01 which translates to 80.2%. The study makes a finding that the major impediment to access to financing for SME’s is the interest rates that are charged by different lenders with a mean of 4.66. The study further makes a finding that, the requirements for collateral security in securing credit facilities by financial institutions is beyond the capacity of many SME’s. The study makes a finding that many lenders make lending preferences for bigger businesses as compared to SME’s.

The study also makes a finding that, lengthy loan applications, often turn frustrate and turn away SME borrowers. The study makes a finding that a sizeable number of SME’s experience difficulty in fulfilling their credit responsibilities. The study makes a finding that, tough economic challenges like high rates of inflation, significantly impact on their margin profits making it difficult to secure loan facilities due to economic uncertainties. The study makes a finding that only a handful of SME entrepreneurs would welcome an idea for business grants. Finally the study makes a finding that a number of SME’s have poor financial reporting strategy.

The study makes a finding that leadership effectiveness has a significant influence on the success of SME’s with an average mean of 4.16, which translates to 83.2% approval. The study makes a finding that; leadership effectiveness had a direct correlation with the success potential of any SME venture. The study makes a finding that an overwhelming majority of SME owners and managers are well informed on technology advances with a mean of 4.67. The study makes a finding that SME managers should regularly expand their knowledge on
business administration. The study makes a finding that; SME’s improve performance by tapping into consultancy services regularly with a mean of 4.49.

The study makes a finding that, an employee input is important when making executive decisions. The study makes a finding that, SME managers with certified financial skills are critical in the success of the business. The study makes a finding that, structured communication model, whether vertical or horizontal is critical to the success of a business. The study makes a finding that; SME managers should have technical skills in business administration, SME managers should practice duty delegation and finally remuneration model has direct impact on the success of a SME venture.

5.3 Discussion

5.3.1 Does Innovation influence the success of an SME venture?

The study establishes that innovation is a critical component in the success of an SME venture. The study establishes that innovation is central to the development of new products. The findings of this study support the observation by Madrid, Garcia and Van (2009) that innovation is as a critical component of competitive advantage. Competitive edge is the single most important factor that has a significant influence on the survival, progress and success of a small business. Businesses that is unable to fund innovation or pursue mechanisms to integrate innovation in their operation strategy, faces a likelihood of stalling or facing strong market competition with slim chances of excelling (Madrid, Garcia and Van, 2009). The findings of this study support the postulation by Tan, Fischer, Mitchell and Phan (2009) that innovation is a critical determinant of business economic growth. This study supports the suggestion that innovation contributes to the growth in market share, as an improvement in product whether in quality and effectiveness would attract more customers thus directly contributing to an increase in demand thereby growing the market.

The findings of this study support the conclusions made by Madrid-guijarro (2013), where he stated that, innovation contributed to the diversification of products and expanded the variety that can be availed in the market. Through diversification, it was possible to expand the market reach which contributed to improved financial performance. The study supports the impact on financial performance as a direct correlation with product diversification. In a diverse market, where buyers have different purchase strength it’s possible to target different social classes by developing products fit for different classes thereby attracting all classes
and retaining the returns. This would directly contribute to positive financial performance. In addition the study supports the suggestion that, diversification of products through innovation, signifies the strength of brand in the market which many customers would like to associate with, thereby directly attracting a bigger market share (Varis and Littunen, 2010).

The findings of this study support the study by Hult, Hurley and Knight (2014) who postulated that, innovation was not only a platform for product development, but an important tool that shielded the company from brutal market competition. This is achieved through identifying a niche that is impossible to match and challenge and using it as a basis for attracting it core customers. The study findings support the assessment by Rhee, Park, & Lee (2010) that, innovation encouraged businesses to research on customer’s preferences and tastes thus implementing them through product improvement and design of new products. The study support the approach of seeking customer feedback as it brings them closer and makes them feel the personal touch with the business thus chatting a long-term partnership which will be useful in growth of the business. The findings support the observations by Garcia-morale, Llorens-Montes and Verdu-Jover, (2007) that seeking a close touch with customers makes it possible for the organization to effectively adjust in accordance with their customers changing tastes and preferences which even bigger business are not able to do it.

The findings in this study agree with Beaver (2012), that innovation not only benefits the company, it also benefits the national economy. The study supports these findings in the line of product diversification and brand expansion. An economy will effectively grow is there is more foreign exchange which is brought by more exports. More exports will only be achieved if there is more demand for a particular product in the foreign market. The findings in this study support the analysis by Calantone, Cavusgil and Zhao (2009), who found that innovation encouraged the company to be more dynamic with changes in the environment. This will be achieved through dedication to research on potential changes and ensure that, they are able to adjust to it effectively as it will impact on the company’s operational policy.

The findings of this study support the observation by Bakar and Ahmad (2010), that innovation was contributed to the improvement in productivity. The findings in this study also support the assessment presented by Harmaakorpi and Melkas (2008), that innovation enabled companies develop superior products thus giving them the edge of exerting market ‘comfort’ in the face of strong competition. The findings in this study support the postulation
by Andries and Debackere (2007), that innovation was vital in improving the organization capacity to enhance the levels of efficiency within the organization and also enable it meet industry standards.

5.3.2 Is access to financing a critical success factor for SME’s?

The findings in this study support the observation by Al-Mahrouq (2010), which the biggest challenge that SME’s face is the access to financing whether as a startup capital or capital for expansion. The findings support the assessment by Griffith (2012), that the most critical factor that contributes to the failure of any business is the lack capital to run the business. Access to funds can be attributed in different contexts for small businesses. SME’s could face a shortfall in securing restocking needed to continue the flow of business, also SME’s are susceptible to low returns which can significantly deplete its finances even the critical one needed to pay employee salaries. These are some of the factors that can easily cause the collapse of a business.

The findings in this study, support the postulation by Nyokabi (2014), who explained that lenders find it difficult to extend credit facilities for small business because of the high risk factor it possess. The study findings are in line with the view that, numerous financial institutions consider small businesses or new SME ventures as high risk components that have a huge likelihood for defaulting which is likely to contribute to the common problem of nonperforming loans. In such a situation, lenders would createimaginable hurdles and preconditions that eventually frustrate the SME borrowers forcing them to either quit or opt for other option which may yield fewer benefits as compared to the facility extended by commercial banks. The findings in this study support the assessment of OECD (2010), that financial challenges experienced by SME’s are largely attributed by the fact the entrepreneurs of these ventures have little business experience and operate in conditions of high uncertainties making it difficult for them to project stable financial performance thus difficulty to secure financing from lenders.

The findings in this study support the assessment by Averor (2016) that only a small number of SME’s would be willing to pursue a credit facility from an established financial institution like commercial banks. The top factors that turn away SME entrepreneurs from established lenders are the unfavorable terms. These include; high interest rates, balance sheet records, guarantors, collateral and business credibility. The study support the position that some of these requirements for securing credit are pointless and unnecessary more so for new SME
venture. For example, a new SME venture will less likely have assets that can be used as collateral, or balance sheet may not be favorable and also unstable borrowing rate may be complicated. In addition, there have been instances to which, new SME’s used the business equipment as collateral. This has a disastrous ending just in case the borrower struggles to honor the credit terms and eventually losing the equipment. This would mean that the business owner would have incurred credit losses, for the period of honoring the terms, incurred asset losses for losing the equipment and eventually losing the business all together.

The findings in this study support the observation by Steivjers & Voordeckers (2006), that SME characteristics are vital in securing a credit facility. This fact indicates that, the credit facility would be highly influenced by the financial management practices that are undertaken by the SME for the period of its existence. This means that, the lenders would certainly request for a financial records for the business and make it a component of requirement for securing a loan. The study findings agree with the observation that for newer SME ventures, the only financial records that they possess would be the capital investment on equipment. This certainly would be ruled as uncertain and possibly could be disqualified for lending since there is no indication of an economic activity after set-up. Further, it should be noted that in the early stages of an SME operation, the business experienced mixed fortunes with many pitfalls triggered by business inexperience. At this point the financial records post poor performance and incase the business is yet to break even, the profit and loss account will be registering losses till stability and break even is achieved. Asking for financial records at such a stage of an SME would definitely be precursor to a pending credit disqualification.

The study findings in this study are in agreement with observation by El-Said, Al-Said, & Zaki (2013) that a good number of lender’s would prefer to lend bigger business than SME’s. This is because the big businesses are considered less risky as compared to the SME’s. The other aspect established to hinder financing for SME’s is the lengthy processes for credit application which could frustrate a borrower and eventually causing them to quit.

5.3.3 Is Effective Leadership a critical success factor for SME’s?
The findings in this study support the assessment by Wang (2012) that the unique characteristics that identify a business leader or an entrepreneur include the opportunity seekers, proactive, risk takers and innovative. The findings in this study further support the observation by Mwangi, et.al (2013) that basic leadership qualities for entrepreneurs include personal drive to motivate and encourage their employees to deliver on their commitments.
These entrepreneurs also have a clear vision on where they want to take their business in a particular period of time and also possess the trait of learning from mistakes.

The findings in this study agree with postulation by Avevor (2016), who underscored the importance of technical skills, experience and continuous skills upgrade as necessary for success of new small and also large enterprises. The study agrees with Avevor (ibid) that one critical determinant for the success of a business is the personal commitment of the entrepreneur and the business skills that they possess. Numerous SME’s that collapses within a short period of commencement are largely run as family businesses where the component of professionalism in vital business administration matters are given a wide berth. Many examples have been cited where the owners of new venture’s attempt to run the businesses on a part-time basis which makes it less likely to breakthrough in the long run (Avevor, 2016). The study supports the observation by Yusuf (2011), that in light of technological advances, it’s incumbent upon business managers to pursue a strategy of continuously upgrading their skills to match to the modern day administrative requirements.

The findings in this study support the observations by Murphy (2004), to the transactional approach in enterprise management. The findings in this study support the idea of leadership that regularly changes its operational strategies in order to be compatible with rapid environmental changes. The findings agree with Murphy (2004), that transitional approach is passion driven, where leadership continuously pursues remedies for different operational components that limit realization of optimal productivity in performance. If an operational policy is determined that, its ineffective in some situations, transactional leadership would make conditions to enable changes be executed. The study findings support observation by David (2009), who assessed that, transactional approach enabled a leader to effectively mould a team together and guide it towards the realization of set goals. Similarly, David (Ibid) cited numerous scenarios through which transactional leadership was vital for realization of dynamism in change which enhances the business to effectively adjust across different environments.

The findings in this study support the analysis by Steinheider and Wuestewald, (2008), which liked leadership approach to the creation of participatory environment. This study is strongly in agreement with Steinheider and Wuestewald (2008), that a sizeable participatory space was vital in strengthening the team unity and commitment to organizational objectives.
Participatory approach seeks input from team members, in this way they feel appreciated and valued for their ideas. The business is well placed if the leadership learns to work with its staff members and seek their opinions on operational executive decisions. Through, participation approach, it’s possible to practice responsibility delegation, as the staff members are well prepared for bigger roles and will also motivate them.

5.4 Conclusion
5.4.1 Innovation a critical success factor for SME’s
The study makes a conclusion that innovation is central critical component that can serve as determinant in the success of an SME venture. The study makes a conclusion that the most critical factor in implementing innovation, commences with the acknowledgement of its importance by the SME managers, by setting aside a portion of operational capital to fund innovation initiatives. The study makes a conclusion that innovation was central to the implementation of diversification. Product diversification is achieved when a business introduces new products and services. The study also makes a conclusion that, not only does innovation makes it possible for the business to develop new products it also enables the improvement of existing products, to reach a broad market.

The study makes a conclusion that innovation is a determinant factor in a business ability to remain competitive in a rough market competition. The approach to tap into innovation enables a business to research on the market and the changing dynamics, upon which they implement modifications that will be superior to their competitors giving them an edge. The study further makes a conclusion that, innovation helps the business detect changing customer tastes and preferences upon which they are implemented to enable the business will pursue mechanisms to ensure that, they produce products that are consistent with the present needs in the market. Finally the study makes a conclusion that innovation enhances the business ability to grow its market share and potentially positioning it in the path of economic success.

5.4.2 Access to finances a critical success factor for SME’s
The study makes a conclusion that financial component is a fundamental determinant in the success of an SME venture. The study makes a conclusion that, interest rates are the biggest impediments facing numerous borrowers running SME ventures. Numerous borrowers cite high interest rates as the biggest deterrent in pursuing credit facilities with established lenders such as the commercial banks. The study makes a conclusion that SME ventures lack of
adequate collateral security complicates the process of securing a loan facility as the lenders risk indicators tips to a higher scale a reasonable factor for disqualification.

The study makes a conclusion that, lenders are faced to undergo lengthy loan application processes for SME applicants. This lengthy process eventually ends up demoralizing them hence in many instances opting to pursue other capital financing avenues that are potentially unreliable and could turn out to be catastrophic for the business in the long run. The study makes a conclusion that, even though a number of SME’s are able to secure credit facilities there exist significant evidence that a significant number of these SME’s experience difficulties in fulfilling their loan responsibilities. The study makes a conclusion that, volatile financial conditions such as fluctuations in exchange rates trigger volatility in inflation which negatively affects the financial performance of small business, with significant reductions in profit margins weakening their credit valuation. This eventually complicates their ability to secure credit facilities.

5.4.3 Effective leadership a critical success factor for SME’s

The study makes a conclusion that effective leadership is critical in the success of any business establishment whether small or big. The study makes a conclusion that business owners understanding of rapid changes in the business scene requires continuous skill upgrade and training. The advances in technology will require business managers be well informed on the technology advances in their field of interest as it could be relative to changing operational environment. The study makes a conclusion that, business managers have varied approach to operational strategies, for instance preferences for either transactional leadership or democratic leadership. The study makes a conclusion that, either approach is utilized in instances deemed convenient by the manager and is consistent with personal characteristics.

The study makes a conclusion that SME administration requires financial management skills like accountancy. The study further makes a conclusion that participatory approach in business leadership is vital to business success. Participatory approach is made possible through the incorporating employee input when making executive decisions.
5.5 Recommendations

5.5.1 Innovation
The study recommends that small business pursue a policy of allocating a significant amount of business returns towards innovation initiatives. This approach should be viewed a critical contributor to the realization of business objectives of the organization. The study recommends that businesses craft a strategy through which they can obtain customer feedback on their products and use these responses to develop superior tastes for their products. The study recommends for product diversification as a critical component of market expansion and this can only be realized through research on the market requirements.

5.5.2 Access to financing
The study recommends that, SME’s should clearly set-up financial priorities at commencement stage. The SME should have a concrete business plan that lays down the projections for a minimum period of three financial years. Through this period the business should identify potential funding models that would be comfortable for the running of the business. Beyond the large commercial banks, there are numerous credit lenders such as SACCO’s and government agencies. The study also recommends that, small businesses should employ the services of financial advisors to identify gaps in running business finances and fulfilling credit responsibilities.

5.5.3 Effective leadership
The study recommends that business leaders should pursue a policy of continuously upgrading their skills to ensure they remain dynamic to the changes in the business administration. The study recommends that, business managers tap into consultancy services and ensure that critical organization processes are certified by experts in the field. For instance, marketing strategy should be conceptualized by a certified marketing consultant to ensure the business upholds professionalism in its operations. The study recommends that SME business managers acquire financial certification skills such as accountancy as it significantly influences their understanding and interpretation of financial reports thus enhancing their capacity in making financial decisions.

5.6 Suggestions for further studies
This study was limited on three critical factors that are central to the success of SME’s. Through the study, numerous issues related to the execution of effective SME businesses
came up, among them the place of technology in modern-day business scene. Therefore the researcher put across the following suggestions for future studies;

i) The effects of technological changes in implementation of SME operational strategies.
ii) The influence of leadership approaches towards the success of SME’s in dynamic business environment.
REFERENCES

Abor, J. (2010). Issues In Sme Development In Ghana And South Africa.


Research, 40 (2), 219–35.


APPENDIX I: COVER LETTER

Elizabeth Waithaka
United States International University
P.O.BOX 14634-00800
NAIROBI

Dear Respondent,

REF: REQUEST FOR YOUR PARTICIPATION

I am a Master of Business administration student at the United States International University Africa, majoring in Human Resource. As a requirement before graduation, is to write a thesis, which I chose the topic, “A Study on the Critical Factor affecting Small and Medium Enterprises in Nairobi County.”

You have been selected to take part in the study. This is to kindly request you to help me in collecting the required data by filling the questionnaire. The information you will provide will only be used for the academic purposes, thus it will be treated with utmost confidentiality. If you would like to receive a copy of this report, please indicate so by writing your email address on the back of the questionnaire.

Yours sincerely,

Elizabeth Waithaka
APPENDIX II: QUESTIONNAIRE

Section A: GENERAL INFORMATION

1. Kindly indicate your gender
   a. Male □
   b. Female □

2. How long have you worked in this business
   a. 0-5 years □
   b. 6-10 years □
   c. 11-15 years □
   d. Over 15 years □

3. Please indicate your job designation
   a. Business owner □
   b. Business Manager □
   c. Consult/ Expat □
   d. Other (Specify)........

4. Indicate the level of education
   a. Certificate □
   b. Diploma □
   c. Degree □
   d. Post- Graduate □
   e. Other (Please Specify).................................................................

5. How many employees are there in your business?
   a. Below 5 employees □
   b. 5 – 10 employees □
   c. 10 – 20 employees □
   d. over 20 employees □
SECTION B: INNOVATION

To what extent do you agree with the following statements with regard to innovation?
Use: 1- Strongly Disagree, 2- Disagree, 3- Undecided, 4- Agree and 5- Strongly Agree

<table>
<thead>
<tr>
<th>Innovation factors on success of SME’s in Nairobi</th>
<th>1- SD</th>
<th>2- D</th>
<th>3- U</th>
<th>4- A</th>
<th>5- SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. The business relies on research to improve its products</td>
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<tr>
<td>ii. SME’s should set aside funds for product development</td>
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<td>iii. SME’s should tap into creative talent when employing new staff</td>
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<tr>
<td>iv. Product uniqueness is vital for competitiveness</td>
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<tr>
<td>v. SME’s with product diversity have a strong competitive edge</td>
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<td>vi. SME’s should introduce new product every year</td>
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<tr>
<td>vii. SME’s should seek feedback from customers on products and improve where necessary</td>
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<tr>
<td>viii. SME’s should employ reward scheme for creative employees who pitch new ideas</td>
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<td>ix. SME’s should strive to secure patents for products they develop to prevent imitation</td>
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<tr>
<td>x. SME’s should rely on innovation as a source of value addition for their products</td>
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</tr>
</tbody>
</table>
SECTION C: FINANCIAL ACCESS
To what extent do you agree with the following statements with regard to financial access?
Use: 1- Strongly Disagree, 2- Disagree, 3- Undecided, 4- Agree and 5- Strongly Agree

<table>
<thead>
<tr>
<th>Financial access factors on success of SME’s in Nairobi city</th>
<th>1- SD</th>
<th>2- D</th>
<th>3- U</th>
<th>4- A</th>
<th>5 -SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. SME’s have challenges in raising expansion capital</td>
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</tr>
<tr>
<td>ii. Interest rates changed by lenders are inconsiderate for SME’s</td>
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<tr>
<td>iii. SME’s should rely grants for expansion</td>
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<tr>
<td>iv. Length processes in application for loans demoralize the SME’s</td>
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<tr>
<td>v. SME’s have Poor financial planning</td>
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<tr>
<td>vi. Financial lenders prioritize large business over SME’s in credits allocation</td>
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<tr>
<td>vii. SME’s experience challenges in fulfilling credit responsibilities</td>
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<tr>
<td>viii. Financial institutions requirement for collateral security is beyond capacity of many SME’s</td>
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<tr>
<td>ix. Financial conditions in the country are harsh for SME’s profitability margins</td>
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<tr>
<td>x. Lender’s evaluated SME’s growth potential as basis for loan allocation</td>
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</tbody>
</table>
### SECTION D: LEADERSHIP EFFECTIVENESS

To what extent do you agree with the following statements with regard to leadership effectiveness?

Use: 1- Strongly Disagree, 2- Disagree, 3- Undecided, 4- Agree and 5- Strongly Agree

<table>
<thead>
<tr>
<th>Leadership effectiveness factors on success of SME’s in Nairobi</th>
<th>1- SD</th>
<th>2- D</th>
<th>3- U</th>
<th>4- A</th>
<th>5- SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. SME’s employ managers with technical knowhow in administrative roles</td>
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<tr>
<td>ii. SME’s should continuously train its managers on new approaches and techniques in business administration</td>
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<tr>
<td>iii. SME’s should offer remuneration package’s for managers in accordance to performance</td>
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<tr>
<td>iv. The business has employed manager certified in financial skills</td>
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<tr>
<td>v. The SME owners regularly employs consultancy services on business improvement</td>
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<tr>
<td>vi. The business managers often consult with employees on ideas for improvement</td>
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<tr>
<td>vii. The owner often delegates duties to junior staff</td>
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<tr>
<td>viii. The business managers often bonds with employees outside work place</td>
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<td>ix. The business has structured communication model</td>
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<tr>
<td>x. The business manager is well updated on ICT progress</td>
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</tbody>
</table>
SECTION E: CRITICAL BUSINESS SUCCESS FACTORS

To what extent do you agree with the following with statements as indicators of business success?
Use: 1- Strongly Disagree, 2- Disagree, 3- Undecided, 4- Agree and 5- Strongly Agree

<table>
<thead>
<tr>
<th>Business success indicator factors</th>
<th>1- SD</th>
<th>2- D</th>
<th>3- U</th>
<th>4- A</th>
<th>5 -SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. The business has daily profit targets</td>
<td></td>
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<tr>
<td>ii. The business recoups its profits on expansion</td>
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<tr>
<td>iii. SME has a strong financial reporting strategy</td>
<td></td>
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<tr>
<td>iv. The business reviews its financial performance regularly</td>
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<tr>
<td>v. The business has recorded growth in number of customers</td>
<td></td>
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<tr>
<td>vi. The business has fulfilled its credit responsibility in time</td>
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<tr>
<td>vii. The business has been growing in the regularly years</td>
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<tr>
<td>viii. The business has regularly reviews employee remuneration</td>
<td></td>
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<tr>
<td>ix. The business has standard employee retention rate</td>
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<tr>
<td>x. The business has regularly diversified its products</td>
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</tr>
</tbody>
</table>

End
Thank you for your participation
APPENDIX III: LIST OF SME SECTORS TARGETED IN CBD NAIROBI

<table>
<thead>
<tr>
<th>SME Category</th>
<th>Business Code in Nairobi Area</th>
<th>Number of SME’s in Nairobi County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Trader Shop or Retail Services</td>
<td>110</td>
<td>16,804</td>
</tr>
<tr>
<td>Small Trader, Shop or Retail Service</td>
<td>115</td>
<td>55,194</td>
</tr>
<tr>
<td>Small Transportation Co.</td>
<td>315</td>
<td>2,844</td>
</tr>
<tr>
<td>Small Petrol Filling</td>
<td>335</td>
<td>895</td>
</tr>
<tr>
<td>Small Storage Facility</td>
<td>365</td>
<td>945</td>
</tr>
<tr>
<td>Small Communications Co.</td>
<td>380</td>
<td>175</td>
</tr>
<tr>
<td>Small agric. Producer/Processor/Dealer</td>
<td>415</td>
<td>2,452</td>
</tr>
<tr>
<td>Medium Lodging House With Restaurant Or bar</td>
<td>515</td>
<td>274</td>
</tr>
<tr>
<td>Small Lodging House With Restaurant/Bar</td>
<td>518</td>
<td>236</td>
</tr>
<tr>
<td>Medium Lodging House</td>
<td>524</td>
<td>328</td>
</tr>
<tr>
<td>Small Lodging House Basic Standard</td>
<td>527</td>
<td>415</td>
</tr>
<tr>
<td>Small Restaurant With Bar</td>
<td>546</td>
<td>956</td>
</tr>
<tr>
<td>Large Eating House; Snack Bar; Tea House</td>
<td>549</td>
<td>612</td>
</tr>
<tr>
<td>Medium Eating House; Snack Bar; Tea House</td>
<td>552</td>
<td>1,054</td>
</tr>
<tr>
<td>Medium professional services firm</td>
<td>610</td>
<td>508</td>
</tr>
<tr>
<td>Small professional services firm</td>
<td>615</td>
<td>5,235</td>
</tr>
<tr>
<td>Medium financial services</td>
<td>630</td>
<td>512</td>
</tr>
<tr>
<td>Small financial services</td>
<td>635</td>
<td>478</td>
</tr>
<tr>
<td>Small private health facility</td>
<td>735</td>
<td>65</td>
</tr>
<tr>
<td>Doctor/Dentist/Physiotherapist</td>
<td>740</td>
<td>912</td>
</tr>
<tr>
<td>Small Entertainment Facility</td>
<td>760</td>
<td>75</td>
</tr>
<tr>
<td>Small Industrial Plant</td>
<td>815</td>
<td>704</td>
</tr>
<tr>
<td>Medium Workshop, Services-Repair Contractor</td>
<td>825</td>
<td>3,124</td>
</tr>
<tr>
<td>Small Workshop Service Repair Contractor</td>
<td>830</td>
<td>9,124</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>NA</strong></td>
<td><strong>103,921</strong></td>
</tr>
</tbody>
</table>

Nairobi County, Trade and Licensing Department (2017)