FACTORS CONTRIBUTING TO SUSTAINABLE COMPETITIVE ADVANTAGE AMONG SMALL AND MEDIUM-SIZED ENTERPRISES

BY

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UNITED STATES INTERNATIONAL UNIVERSITY- AFRICA

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

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DECLARATION

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

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

Signed: ___________________________  Date: ___________________________

Dr. Joseph Ngugi Kamau

Signed: ___________________________  Date: ___________________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of the study was to investigate the factors that contribute to sustainable competitive advantage among SMEs in Nairobi. This was guided by the following specific research questions; how does managerial competency affect sustainable competitive advantage of SMEs? How does intellectual capital affect sustainable competitive advantage of SMEs? And lastly, how does financial capital affect the sustainable competitive advantage of SMEs? The research was significant to the policy makers on SMEs, academics as reference and entrepreneurs on business development. This study used descriptive research design in order to draw conclusions about the population characteristics or phenomenon being studied. The phenomenon being the factors that contributes to sustainable competitive advantage among SMEs in Nairobi. The population of study was 2019 Small and Medium Enterprises in trading, service and manufacturing sectors registered in Nairobi County. A sample of 135 was taken randomly and 102 respondents participated in the study giving 72% response rate. Questionnaire was the main data collection tool while the analysis conducted was both descriptive and inferential statistics based on each study objectives.

On objective one, the SEM output showed positive and significant path coefficient for the relationship between MC and CA of SMEs in Nairobi at 0.05 level (βeta=0.328, T-value =2.894, p<0.05). The positive relationship indicates that one unit increase in MC will result in 0.328 increases in CA of SMEs in Nairobi County. For objective two, the path coefficient for the relationship between IC and CA of SMEs in Nairobi was positive and significant at the 0.05 level (βeta=0.496, T-value =3.637, p<0.05). The positive relationship indicates that one unit increase in IC will result in 0.496 increase in CA of SMEs in Nairobi County. The last objective, the path coefficient for the relationship between FC and CA of SMEs in Nairobi was positive but not significant at the 0.05 level (βeta=0.084, T-value =0.066, p>0.05). The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County.

The study concludes, MC and IC positively and significantly affects the CA of SMEs in Nairobi County. While FC does not influence CA of SMEs in Nairobi County. The researcher recommends the following thematically. On MC, SMEs to ensure the management are competent based on the business skills, communication skills and lastly based on the resource
and organization knowledge. The policy makes should also make this as requirement to protect the investors and start-ups from failures. On IC, it recommends SMEs founders, investors and owners to ensure there is presence of human capital, rational capital, and structural capital in order to attain competitive advantage. While on FC, study recommends it should not be considered as the determining factor on the CA. Further, the policy makers should protect the financial institutions from losing their money because the accessibility and availability of finance does not determine the CA.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study
Small and Medium Scale Enterprises have been acknowledged to have a prodigious potential for sustainable Development. It is primarily through the growth of SMEs that employees made redundant by large firms have been absorbed back into the work force (Frank & Landstrom, 1998). Through the multiplier effect, this employment provides income to regions which stimulate local economic activity, in results, drives wealth and further employment generation (Walker & Webster 2004). In order to compete and sustain successfully, locally, and globally, micro, small and medium enterprises must not only be perfect in their area, but also conserve eventually. As a result, SMEs performances act as a significant part that is linked to the strengthening and enhancement of the development of the country. The SME performance and growth in manufacturing, agriculture, services, and so on, has been considered as the engine drive and has contributed to economic growth of developing countries.

Despite the useful role SMEs play towards contribution of developing economies and societal welfare, SMEs are still exposed to dynamic business environment which threatens their survival. Gbolagade, Adesola, and Oyewale (2013) posit that due to globalization, competition amongst firms is on the rise and SMEs in Nigeria are struggling under this intense competitive environment both at the domestic and international terrain. The highly competitive environment for small scale businesses in Kenya has necessitated the need for SMEs to develop strategi- c means of survival. Thus it becomes imperative to find out whether implementing effective strategies could help the SME sail through the unpredictable market of today(Uchegbulam, Akinyele, Ibitunni,& Ayodotun, 2015).

Ylvije Kraja and Elez Osmani titled “Competitive Advantage and Its Impact in Small and Medium Enterprises (SMEs) (Case of Albania)” focuses on examining how SMEs in Albania achieve sustainable competitive advantage. The authors argue that the growth of SMEs in sectors such as construction, agriculture, and service industry has contributed to the growth of the Albanian economy. The study relies on secondary data to examine some of the elements that contribute to a sustainable competitive advantage for SMEs. Kraja and Osmani
(2013), asserts that SMEs rely on tangible and intangible assets to gain competitiveness. The tangible assets include finances, physical assets such as buildings and land, and technology. The intangible assets include human resource, good reputation, and innovation and creativity. The management of the SMEs has to include good organizational skills to optimize on the assets (Kraja & Osmani, 2013). In conclusion, the research by Kraja and Osmani (2013), recommends SMEs to focus on good management strategies and adaptation to the market environment as the best way to remain competitive. The authors recommend SMEs owners to hire professional managers as opposed to relying on family members who are untrained to operate businesses.

Gunasekaran, Raia, and Griffin (2011), article titled “Resilience and competitiveness of small and medium size enterprises: an empirical research” examines how SMEs the strategies and characteristics of SMEs that can offer them a competitive advantage and sustainability in the global market. The authors argue that SMEs from across the world face diverse challenges including competition from other SMEs and large corporations. Their ability to gain a competitive edge and show resilience determines their sustainability and growth. The objective of the paper is to investigate the parameters that determine the competiveness and resilience of an SME in Massachusetts, United States. From the literature review, Gunasekaran, Raia, and Griffin (2011), established that resilience and competiveness of an SME are determined by internal factors, external factors, and enabling factors. The findings of the study indicated that internal factors such as managerial characteristics and organizational behavior were the most critical in developing the competiveness of an SME in the global market. Whereas proper alignment of enabling factors such as technology, capital, marketing, and strategic location helps the business achieve sustainability or resilience. In conclusion, the article asserts that SMEs should not be intimidated by the external factors brought about by globalization. The internal strength of a business call helps it remain sustainable in a competitive market.

Aziz and Samad (2016) examined the influence of innovation on competitive advantage in foods manufacturing SMEs in Malaysia and the moderating effects of firm age on innovation-competitive advantage relationship. Given the correlational nature of research, the researchers adopted a random sampling technique in Malaysian foods manufacturing SMEs.
Mailed structured questionnaires were employed for the collected 220 foods manufacturing SMEs. Both descriptive and inferential statistics were used to answer the objectives and hypotheses of the study. Finding of the study revealed that innovation has a strong positive impact on the competitive advantage, in which innovation contributes 73.5 percent variance in competitive advantage. The results indicate that SMEs should invest in innovation to gain competitive advantage. The study also found the moderating effect of firm age on the influence of innovation on competitive advantage. The study suggests a framework for analyzing the impact of innovation on competitive advantage to be applied in other settings of Malaysian SMEs.

Nasir, Mamoon and Breen (2017) did a study is to critically examine the effect of strategic orientation on the performance of small and medium enterprises (SMEs) in Malaysia. Three most comprehensive constructs, namely, entrepreneurial orientation, market orientation, and interaction orientation were adopted to present a holistic picture of the effect of strategic orientation on firm performance. This study adopts a cross-sectional design and uses the stratified random sampling method to select the potential respondents. The complete data were collected from 473 entrepreneurs who operate in the service sector in Malaysia. Findings of this study show that entrepreneurial and market orientations have a positive effect on superior firm performance. As entrepreneurial orientation is shown to be the construct sharing a positive relationship with all the other constructs in the model, it has been identified as the most significant strategic orientation. SMEs in Malaysia should therefore focus on adopting strategies in market orientation by appropriate marketing efforts, and in entrepreneurial orientation where the entrepreneur needs to adopt a proactive stance to counter challenges in the market of new products and changing customer preferences.

D.Souza and Taghian (2016) study explored Small and Medium Size Enterprises (SMEs) in Saudi Arabia within the context of environmental sustainability. The objective of the study is to examine whether SME’s sustainable marketing competitive advantage through environmental initiatives can positively associate to a firm’s environmental (green) best practices and stakeholder influences; similarly, it also identifies if best practices mediate environmental costs and competitive advantage. A sample of 181 responses was obtained and analyzed using factor analysis, multiple regression and their interaction effects. The findings
showed that the association between firms that have competitive advantage due to environmental initiatives were found to be significant for best practices and indirect stakeholder influences. Furthermore, the results identified that by using environmental best practices, SMEs can lower their environmental costs to gain marketing competitive advantage. These findings highlighted the function of environmentalism and how it can influence practitioners.

The research report by Adeniyi, Aboaba, and Otokiti (2015), investigates variables that help SMEs have competitive advantage. In particular, the study’s objective is establishing the correlation between Employee Social Interaction and Helping Behaviors as some of the factors contributing to sustainable competitive advantage in SMEs in Nigeria. The research’s findings established that SMEs that created a working environment conducive for employee interaction and team work gained a competitive advantage. According to Adeniyi, Aboaba, and Otokiti (2015), social interactions at the workplace allows employees to share information and support each other emotionally. It ensures that workers have a friendly workplace where they feel motivated to work because of the social interaction and helping behavior that exists. This culture is particularly essential for SMEs because of their small-sized workforce. The study concludes by emphasizing on the need for SMEs to have HR practitioners that acknowledge the input of employees to the growth and sustainability of the business.

Wiese (2013) sought to identify the factors that determine the sustainability of SMEs in South Africa. The study finds that some of the factors that help SMEs remain sustainable include experience, excellent service delivery, relationship building, integrity and availability of capital to sustain growth. Wiese (2013) also notes that good communication between the management of an SME with key stakeholders such as employees, customers, and suppliers also help in keeping the business afloat. However, the study noted that the most critical factor for SMEs is to have reliable and efficient service delivery mechanism that will guarantee customers’ satisfaction. In conclusion, this asserts that SMEs should endeavor to have qualified and motivated workforce that will ensure the best products and services are offered to the customers. This is in addition to an experienced management team that will make good use of the available resources.
Bashor and Purnama (2017) study analyze the factors which affect the performance of managers consisting of entrepreneurial orientation and creativity factors and their impact on competitive advantage. Apart from that in this study also seeks to want to know how big the impact is directly entrepreneurial orientation and creativity to competitive advantage and influence indirectly through manager performance. The research was conducted on a sample of 170 manager’s small medium enterprises (SMEs) in the shoe industry Mojokerto East Java Province, sampling using random sampling techniques. Through the analysis of the results of structural equation modeling (SEM) found that the first-factor entrepreneurial orientation and creativity positive effect on manager performance. Second, the factors of entrepreneurial orientation and creativity direct positive effect on the competitive advantage. Third, through manager performance, factors of entrepreneurial orientation and creativity indirectly positively effects on the competitive advantage. Fourth, manager performance positively affects competitive advantage.

The article by John Karanja Ngugi titled “Influence of Intellectual Capital On the Growth of Small and Medium Enterprises in Kenya” looks at how intellectual capital assist SMEs in growing. The objectives of the research include examining the influence of managerial skills, innovativeness, entrepreneurial skills and structural capital on the sustainability or growth of SMEs in Kenya. Ngugi (2013), argues that the four variables are elements of intellectual capital that are necessary for the growth of businesses. The finding of the study established that all the four elements that comprise intellectual capital are needed for SMEs in Kenya to grow. However, managerial skills stood out as the influential factor with a correlation coefficient of 78.9%. Ngugi (2013), concludes by explaining that SMEs should have all the factors of intellectual capital to be sustainable in the competitive Kenyan market. SMEs should be ready to invest in personnel that would stimulate growth.

The research report by Namusonge (2014) titled “Linking Competencies with Strategies: The Case of Small and Medium- Sized Exporting Firms in Kenya” seeks to establish the relation between managerial competencies and competitive strategies of exporting SMEs in Kenya. The objectives of the study included identifying the managerial competencies and competitive strategies engaged by the businesses and establishing a link between them. The
managerial competencies identified by the study included strategic thinking, administrative skills, leadership skills, communication skills, interpersonal skills, motivation, self-management, and organizational knowledge. The strategies studies include differentiation, low-cost, focusing and between groups strategies. The findings established that managers with strategic thinking skills have the highest tendencies to engage flexible strategic plans in the business. The study concludes that it is not possible to determine the specific strategies engaged in the exporting SMEs because they operate in different context. The study also points that there are core competencies required by all business managers and sector competencies that are specific to given industries.

According to Kamunge, Njeru and Tirimba (2014), 50% of all employment opportunities in Africa are from the SMEs. Any quest to improve the number and stability of SMEs in the economy would have a direct effect on improving the livelihoods of millions of people. With a majority of businesses in the world operating as SMEs implies that there is stiff competition for the businesses to remain profitable. Several studies have been conducted to investigate the competitive strategies used by SMEs. However, the aspect of sustainability is equally imperative in the competitive strategy has been explained by Kimando, Njogu, and Kihoro (2012) SMEs compete with both the large corporations and other smaller businesses operating in a given industry. Apparently, many of the research studies conducted on SMEs and their competitiveness have focused on the issues of internal and external marker forces. Therefore, it is important to examine the factors that contribute to the sustainable competitive advantage amongst SMEs operating in Kenya.

Given the information available from previous studies, the quest to establish the strategies used by SMEs to remain sustainably competitive ought to focus more on the internal components of a business. Based on the studies of Ochanda (2014) and Muraga (2013), the aspects of managerial skills and human capital amount to the core factors required by SMEs to remain competitive. Ochanda (2014) points on the need to empower the intellectual capital of SMEs while Muraga (2013) stresses on the need for owners of SMEs to invest in competent business administrators. Other areas of business organization and culture such as communication, planning, structural capital, and adaptation remain key factors in achieving
competitive advantage. Therefore, the study would seek to investigate this factors in relation to the Kenyan SMEs market.

1.2 Statement of the Problem

According to Kamunge, Njeru and Tirimba (2014), 50% of all employment opportunities in Africa are from the SMEs. Any quest to improve the number and stability of SMEs in the economy would have a direct effect on improving the livelihoods of millions of people. With a majority of businesses in the world operating as SMEs implies that there is stiff competition for the businesses to remain profitable. Chege (2016) sought to establish the competitive strategies adopted by small medium enterprises in Kenya. It was revealed that that cost plays a critical part in SMEs competitive strategy as most of them maintain a low cost and lower price to attract more customers. The study further revealed that the benefit of differentiation is that perceived quality and brand loyalty leads to protection of the company from competitors while at the same time limits the threats of substitutes. It was also noted that SMEs segment their customers to be able to manipulate cost as they deem fit this aided SMEs grow their market share in new markets.

Mumbua (2013) study to investigate competitive strategies applied by small and medium sized firms in Mombasa county, Kenya. It was revealed that majority of SMEs the county adopts differentiation and cost leadership strategies. Most of the SMEs however, emphasize on applying differentiation and innovative cost-effective strategies as means of mitigating high competition. Kimando, Njogu and Kiboro (2012) investigated the factors affecting success of projects funded by youth enterprises development fund in Kigumo District in Kenya. Results indicated that trained entrepreneurs succeed more. From the findings, the study concluded that skills in entrepreneurship, business planning and financial management are considered necessary for funds disbursed by the board.

Many of the research studies conducted on SMEs and their competitiveness have focused on the issues of internal and external market forces. For instance, Owino (2017) study sought to determine factors affecting the success of tailoring SMES at Uhuru market in Nairobi area. The research findings revealed that majority of the respondents agreed that the entrepreneurs characteristics such as the; age, gender, and education had no significant influence while legal and regulatory framework, access to external financing and human resource capacity
greatly influenced the success of the businesses. It was also noted that internal factors such as marketing skills, innovation, and entrepreneurial readiness had a positive correlation to the SMEs’ success. Therefore, it is important to examine the factors that contribute to the sustainable competitive advantage amongst SMEs operating in Kenya. Based on the studies of Ochanda (2014) and Muraga (2013), the aspects of managerial skills and human capital amount to the core factors required by SMEs remain competitive. Ochanda (2014) points on the need to empower the intellectual capital of SMEs while Muraga (2013) stresses on the need for owners of SMEs to invest in competent business administrators. Other areas of business organization and culture such as communication, planning, structural capital, and adaptation remain key factors in achieving competitive advantage. Given the information available from the above literature, the quest to establish the strategies used by SMEs to remain sustainably competitive are more on the internal components of a business. Therefore, the study would seek to investigate these factors in relation to the Kenyan SMEs market.

1.3 Purpose of the Study
The purpose of the study was to investigate the factors that contribute to sustainable competitive advantage among SMEs in Nairobi.

1.4 Research Questions
1.4.1 How does managerial competency affect sustainable competitive advantage of SMEs?
1.4.2 How does intellectual capital affect sustainable competitive advantage of SMEs?
1.4.3 How does financial capital affect the sustainable competitive advantage of SMEs?

1.5 Significance of the Study
1.5.1 Policy Makers
Decision makers will benefit from the findings of this research by utilizing its findings to guide and develop policies that will promote sustainable growth of SMEs. The findings of this study will also inform decision-making personnel on the best approach to empower SMEs.
1.5.2 Academics

Academics and business researchers will be able to borrow from the findings of this research to support literary citations as well as develop themes for further research. The study will also inform them on the issues affecting SMEs operating in Nairobi County.

1.5.3 Entrepreneurs

People operating SMES can use the study to identify the best strategies to use in the process of gaining sustainable competitive advantage. The same applies to SMEs start-ups that need to remain competitive in their respective markets.

1.6 Scope of the Study

The research will focus on the SMEs based in Nairobi. An adequate sample shall be selected from the population in the managerial levels to ensure that the information acquired is not biased as well as a few team leaders from various departments. Part of the information to be provided will be confidential but discretion will be adhered to by assuring the respondents that this information will only be used for research purposes. Questionnaires will be part of the research tools used for this study to gather information. The study is to be conducted between January and April 2018. A major limitation will be in the willingness of respondents to take part and as mitigation; the researcher will introduce themselves and communicate to the respondents the purpose of the study which is purely for academic purposes.

1.7 Definition of Terms

1.7.1 Competitive Advantage

It refers to the ability of a business to have an edge over rivals and an ability to generate greater value for a firm and its customers (Ranjitha, 2016).

1.7.2 Intangible Assets

These are the non-physical property owned by a business entity such as patents, copyrights, and trademarks. They contribute to the brand value of the business (Wasserman, 2015).

1.7.3 Tangible Assets

These are the physical property of a business that can be included in an inventory. The value of the physical assets is included in the financial accounts of a business (Kraja and Osmani 2013).
1.7.4 Sustainability
This is the ability of business to maintain a certain level of growth, profitability and competitive advantage over a long period (Owino, 2017).

1.8 Chapter Summary
This first chapter outlines the background and statement of the problem. It provides a clear and brief statement representing the purpose of the study and states the objectives of the study in research questions format that are to guide the study. The significance and scope of study are also described in this chapter as well as key terms to be applied are also defined. Finally, a summary of the remaining chapters of this study is provided. The chapter expounds on the intention of the researcher to investigate the factors contributing to sustainable competitive advantage in SMEs. From the objectives identified, the study will focus on both the tangible and intangible assets of a business that may be contributing to growth. They include managerial competency, financial capital, human capital, and innovation. The second chapter will outline the literature review in which information established in literature related to the purpose of study is evaluated.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
The first section presents literature on the impact of managerial competencies on sustainability of small and medium enterprises. The second section provides literature on the impact of intellectual capital on sustainability of small and medium enterprises while the third section reviews literature on the impact of financial capital on sustainability of small and medium sized businesses enterprises.

2.2 Impact of Managerial Competencies on SME Sustainability
In this section, the study reviews exiting literature that is related to the impact of managerial competencies on the sustainability of small scale enterprises. Specifically, the subsections look at: definition of managerial competencies, human business skills, and lastly, thereafter technical skills.

2.2.1 Definition of Managerial Competencies
The multi-ethnic and the multidimensional idea of competency, provides complications in establishing the accurate definition of managerial competencies. Hence, it is challenging to define competencies and distinguish what constitutes an individual competent skill. Managerial competencies are a cluster of correlated skills, attitudes and knowledge that affect ones job which links to performance on the job (Kanungo & Menon, 2008; Mitchelmore & Rowley, 2010; Nieman & Nieuwenhuizen, 2009). Darrol, (2013) defines the concept of managerial competencies as “A set of individual behaviors that must be adopted for the position that the tasks arising from this position competently mastered” as cited in Machirori (2012). Managerial competency is a distinct characteristic, that which can be measured reliably to demonstrate significant distinction between effective and ineffective performance (Willemse, 2010). The definitions indicate that there is no agreed definition as to managerial competency. The common analysis of what constitutes management competency is the flexibility of a person to execute a task to the required extent and desired quality.
For the sake of this study, a definition proposed by Hellriegel, Jackson and Slocum, (2008) will be used as a basis for departure, namely: managerial competencies are a collection pool of knowledge, attitudes and skills that contribute to individual efficiency. Consistent with this definition is Henderson (2000) who describes a competency as a mix of knowledge and skills essential in effectively accomplishing a project. Therefore, a general consensus for the purpose of this study was on the notion that managerial competencies include Skills (acquired competencies), Knowledge (acquired mental processing skills) and Experience (skills acquired from repetition).

2.2.2 Business Skills

Business skill is the ability to manage time and human capital successfully. This is the ability or capacity acquired through systematic, deliberate and sustained effort. Indicators of skills include production skills, communication, teamwork and organization, supervision, finance, administration and accounting (Ardiana et al., 2010). According to Weihrich, Cannice and Koontz (2010), these are a cluster of connected abilities, knowledge, skills and commitment that enable an individual to respond effectively in any organizational situation. These are management job functions carried out smoothly and adaptively, involving ideas or people (Lloyd, 2010). Business skills are also known as management skills which identify specific qualities and proficiencies. These skills illustrate a person’s future management potential. Business (management) skills are different from leadership characteristics. This is so because, given the correct mix of resources, business skills can be learned and developed with sufficient training (Lloyd, 2010). Competencies in the business/management skill category should demonstrate individual behavior for effective management (Cizel et al., 2007).

Nenzhelele (2009) reveals that the visible managerial competencies (hard skills) are one major assessment criteria for banks to grant financial assistance. Access to capital is critical to SME performance. Typically, a bank or financial institution is interested in the hard and soft skills of the SME owner/manager. Studies by Zindiye (2008) and Martin and Staines (2008) positively link managerial competencies to start-up venture performance. The higher the level of the intellectual quotient (IQ), technical ability and professional knowledge
exhibited by SME managers/owners of a start-up firm, the greater the feasibility and survival of the new SME. Hence, the more successful the managers/owners are in accessing credit.

Sembiring(2015) sought to explore the influence of knowledge and skills of human resources on the culinary small scale businesses in Indonesia. Using quantitative research design, data were collected from 120 culinary SMEs located in Medan City. Multiple regression, t-test and f-ratio were used to estimate the significant effect of human knowledge and skills partially or not, whereas F test was applied to test whether the effect will be simultaneous. Findings indicated that knowledge and skills of human resources have significant and simultaneous effect on the performance of SMEs. It was also found out that knowledge and skills of human resources have a partial significant influence on performance of SMEs.

A study by Abaho, Ntayi, Aarakit and Kisubi (2016) examined the relationship between the firms’ capabilities, entrepreneurial competency and performance of Small and Medium Enterprises (SMEs) in Uganda. The study used stratified random sampling to derive a sample of 314 SMEs and a cross-sectional research design. Data was collected using self-administered questionnaires that were filled out by firm owners and managers as units of enquiry whereas a firm was the unit of analysis. As entrepreneurial competences and firm capabilities predict 30.4 percent of the variance in SME performance, SME owners and managers, through their entrepreneurial competences, can use firm capabilities as tools to influence their firms’ operations to enhance their performance. The study findings indicated that an increase in the level of a firm’s capabilities through competent management, market linkages and marketing capabilities leads to enhanced SME performance.

2.2.3 Human Skills

Human capital is the ability of performing a given task efficiently and effectively. Human skills are a measure of the economic value of an employee’s skill set. A stock of knowledge, creativity and personal attributes embodied in an individual so as to produce economic value (Investopedia, 2013). These are individual competencies and are more specific than organizational competencies. According to Cizel et al., (2007), competencies in the human skill category should be defined in a measurable behavior to validate applicability and degree of expertise of the individual.
The concept of human skill competencies is that not all labor is equal and that employee quality can be improved by investing in them. Prior nosiness experience is the accumulated knowledge and wisdom gained by working in a similar position or industry. Education and experience of an employee have an economic value for employers, the firm and the economy. Studies that have been done to date established start-up experience as an important source of entrepreneurial learning (Cohen, 2006; Chiliya et al., 2012; Fatoki, 2012; Fatoki 2014). These studies did not explain how prior business experience influences individual and firm performance.

Mubarik (2015) examined the human capital and performance of small & medium manufacturing enterprises in Pakistan. The core findings of the study are summarized as follows: First, the relative prioritization among the HC dimensions rank education at the top, followed by experience, skills, personal abilities, training, employee stability, attitude, health and compliance. Second, the results on the inter-industry differences in HC indicate that HC is highest in textiles, and lowest in furniture and sports industries. Further, the results show that the levels of HC differ by size and ownership. The analysis reveals that the levels of HC are significantly higher in medium firms relative to small firms; and in foreign firms relative to local firms. Finally, the results reveal the significant positive impact of HC on firm performance. Absorptive capacity is also found to mediate the relationship between HC and the five performance cords of firms’.

Staines and Martin (2016) observed the role of human competence in SME success and established that the distinguishing feature of high performance growth and low performance growth SMEs is the knowledge, training and education of managers. On the other hand, Mazzarol (2015) augments that, most SME owner-managers are indistinguishable as far as knowledge and skills are concerned. This is observed through the Degrees, Diploma certificates and work experience of the investigated individuals. The argument provided above indicates that there is an association between a manager’s educational, prior business experience and SME performance. Health and wellness has relation to the employee enterprise too. Employee good health and wellness can give benefit to the enterprise.
Wellness program can prevent employees from disease. The employee who has less sick days reduces the healthcare cost and work injuries (Khalil, Membree, & Brooks, 2013).

2.2.5 Technical Skills

Technical skill is the expertise in a specific field. This is the knowledge and ability to challenge conventional practices in any firm. An individual is able to choose the appropriate mix of tools/technology and opportunities to determine applicability to improved performance of enterprise (Investopedia, 2013). Competencies in the technical/functional skill category are job specific competencies that drive proven high performance through quality results for a given responsibility. The competencies are often technical or operational in nature.

Using matched establishment and workforce data Haskel, Hawkes and Pereira (2003) showed that more productive UK firms hired more skilled workers (the establishments in the top decile had workers with an average of two years extra schooling compared to those in the bottom decile). Both hard and soft skills were positively related to total factor productivity (TFP) and the skill gap between the top- and bottom-performing firms explained some eight per cent of the productivity gap. In addition, Lynch and Black (1995) found in the US, that an extra year of education raised productivity by between 4.9 and 8.5 per cent in the manufacturing sector and between 5.9 and 12.7 per cent in services. These results have been supported by Mason et al. in 2003 for the UK.

Dearden, Reed and Van Reenen (2000) analyzed the impact of training on performance for a variety of measures including value-added output, profits and wages for a group of British industries between 1983 and 1996. They found connections between more training and higher labor productivity across a number of sectors. In essence, manufacturing firms undertaking training were found to be more productive, to have higher capital intensity, to conduct more research and development and have a more highly qualified workforce. A study in France (d’Arcimoles, 1997) found that the more training given, the better the economic performance. Training was permanently and clearly associated with an increase in profitability and productivity.
In Kenya, Ochola (2015) studied implementation of strategy by smes in the pharmaceutical industry in Nairobi city county, Kenya. This research was conducted through a survey method. The target population included all the 600 SMES in Kenya in Pharmaceutical sector in Nairobi City County. The study sampled 60 respondents who were interviewed by the researcher. A structured questionnaire was used to collect the primary data which was administered using droppick-later method. Descriptive and correlation analysis was employed to analyze data. It revealed that the training allowed employee participation in making job-related decisions, encouraging creativeness, providing support for employees, training is the process of imparting knowledge and skills and presents employees or beneficiaries with the skills they need to perform their jobs better.

2.3 Impact of Intellectual Capital on SME Sustainability

In this section, the study reviews exiting literature that is related to the impact of intellectual on the sustainability of small scale enterprises. This section is further subdivided into the following subsections: Human, Structural, and Relational with the last subsection assessing the impact of intellectual capital on the sustainability of small scale business enterprises.

2.3.1 Human Capital

Bontis (2001), describes that human capital is much more important to the organization because it brings innovation and becomes the main source of sustainable competitive advantage. Despite its importance, there is no universal definition for it. Kim et al., (2010) stated that every organization generate its economic value by utilizing capabilities, skills and education of their employees. Human capital is possessed by the employees, making its management relatively challenging, whereas structural capital is more controlled and possessed and managed by the company (Martín-de-Castro 2011).

Ahmad et al. (2010) point out that for SMEs, the critical resources are likely to be held by the individual entrepreneurs that are likely to be reflected in their skills, knowledge, experience and education. The lack of separation between owner ship and control in SMEs suggests that business owners themselves are responsible for the direction and development of their firms. Hence, the success or failure of the SMEs is largely influenced by the skills and abilities of the owners. Marshall and Oliver (2005) observe
that the hardships encountered by entrepreneurs often stem from a lack of knowledge or skill, a lack of finances, or the lack of a supportive social network. In the entrepreneurial process, there are three basic categories of capital that contribute to a successful venture: human, financial, and social.

The SME Financing Data Initiative (2009) examines the role of experience in SME growth using the Managerial Capacity Index (MCI). The MCI presents a composite measure of managerial experience and activity. The study finds that a high score in the managerial capacity index is positively associated with both strategic planning practices and high firm performance and growth port performance and firm growth. Martin and Staines (2008) find that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail.

Other studies also suggest that human capital traits (education, experience, and skills) affect firm outcomes (Finkelstein, Hambrick & Cannella, 2009; Wright, Smart & McMahan 1995). For example, a Canadian study in the manufacturing industry found a significant relationship between knowledge asset (possessed by employees) and firm performance (Thornhill 2006). Hitt et al. (2010) based on a study of professional service firms, concluded that human capital contributes to better firm performance. However, a review by Newbert (2007) reported that the human capital– performance relationship is still unclear when only 33 percent of the respondents supported the notion that human capital is significantly related to firm performance (Newbert 2007). Clarke et al. (2010) acknowledge that the inconsistent empirical evidence does not lead to a compelling conclusion regarding the relationship between human capital and firm performance.

**2.3.2 Structural Capital**

Structural capital is also one of the critical components of intellectual capital. It mainly discussed as systems, procedures, communication network and channels, internal settings of offices and staff positioning (Khalique et al., 2011). Ethics, CSR, honesty and fairness in decision making, transparency of data and decisions, relationships among employees and employee-employer relations are discussed under social capital. Cohen and Kaimenakis
(2007) argue that structural capital as a whole owned to the firm and stay in it. This can be reproduced and shared with people. Structural capital provides better working conditions, increase knowledge and sharing, it also helpful in increasing productivity of the organization and people. Subramaniam and Youndt (2005) simplifies Structural capital as the conversion of knowledge from private and tacit knowledge to public and codified knowledge captured in databases, patents, manuals, organizational structures, processes, and information systems.

A study by Rodrigues, Figueroa and Jardon (2011) focused on the influence of the structural capital on the product-process and management innovativeness of the firm. A global model including the variables used in the previous literature was used and the researchers established hypotheses for testing this model and use statistic technique to estimate the parameters of the model in a sample. To do so, a survey from 68 firms working on the auto components sector, established in the Northern Spain and Northern Portugal was used. It was found firstly, that innovativeness has two main dimensions, perfectly differentiated, the product-process innovation and the management innovation; secondly that the structural capital dimensions influences differently each type of innovation capacity (innovativeness). It was concluded that the structural capital of the automotive firms based on the euro region Galicia (Spain) Northern Portugal influences positive and directly the management innovativeness.

Bougrain and Haudeville (2002) studied the relationship between collaboration activities and SMEs internal research capacities and found that over time, SMEs need to depend on external collaboration. Asakawa, Nakamura and Sawada, (2010) found that the effects of collaboration on performance in large high tech firms depended on the R&D activities. A well-established collaborative arrangement between supply chain parties would improve firm performance (Cao and Zhang 2011). However, Rosenbusch, Brinckmann and Bausch (2011) challenge the finding that collaboration with external partners tends to have a positive effect on SME performance. On the other hand, there are several studies in the literature that acknowledge the relationship between collaboration and innovation. For example, Nieto and Santamaría (2010) and Zeng, Xie and Tam (2010) found that collaboration in SMEs plays an important role in generating innovation.
2.3.3 Relational Capital

Edvins son and Malone (1997) described that relational capital is the part of structural capital. However, Bozbura (2004) argued that structural capital and relational capital are entirely different to each other. Chen et al. (2005) defines relational capital as the main component of intellectual capital which help organization in creating market value. They also stated that relational capital has high significant effect on organizational performance. Chang and Tseng (2005) argued that relational capital provides a foundation for value creation through internal and external relations which are developed by the organization with their stakeholders. Raza (2011) posits that the main focus of relational capital is the level of mutual understandings, trust and respect, the friendship that arises out of close interactions between external and internal factors.

Andriessen (2004), opine that not all businesses can set up relation with their environment and this is mostly the case for newer business ventures which do not have any history and so cannot recognize and manage the relational assets. On the other hand, established firms/entrepreneurs do not usually falter in comprehending the strength of relational capital due to their long experience in business dealings. In the context of an industrial cluster however, the relatively new firms because of close proximity and coordination with established older firms, are likely to realize early the importance of relational capital. For successful handling of relational capital, firms should recognize that it is a very important component of intangible asset apart from financial and physical assets.

In his study, Raza (2011) evaluated the influence of relational capital management on organizational performance. Data was collected from SME’s based in Khyber Pakhtunkhwa Province through questionnaires. Data Collected was subjected to analysis using SPSS. Correlation and Regression analysis was utilized to test the hypothesis. The results indicated a significant influence of relational capital on firm performance. Fitzpatrick (2009) analyzed the importance of business relationships in recession. According to him, business relationships can be viewed as the businessmen’s relational capital that has an intrinsic value. According to him business flourishes on the basis of dynamic forces which are powered by twin drivers like people and relationships.
Okten and Osili (2004) examined the impact of social capital on the growth of SMEs. The results suggest that social capital has an influence on the growth of an SME, especially through contacts with other entrepreneurs. Social capital helps SMEs to tap resources in external environment successfully and pave the way to new markets. Ngoc et al. (2009) agree that networks also help a firm learn appropriate behavior and therefore obtain needed support from key stakeholders and the general public. Robb and Fairlie (2008) examine the reasons why Chinese, Indians and Korean SMEs are successful in the diaspora. Hayer and Ibeh (2006) find that social capital helps SMEs to internationalize.

2.3.4 Impact of Intellectual Capital on organizational Performance

Businesses can use frameworks like Balanced Score Card, Performance prism and IC Index as guider for practices of IC. IC is closely associated with epistemological viewpoint of individual and groups as well (Thomas A. Stewart). Optimum level of Value Creation and competitive advantage can be attained if human resources, stakeholders’ relationship and organizational resources are mixed correctly (Ali & Fatima, 2013). Experts will now visualize impact of IC upon strategic objectives of the organization. On the basis of this vision, corporates level managers will move to path designing for achieving targeted level of IC (Nahapiet, Sumantra & Ghosha, 1998).

Sadaghiiani and Jamali (2012) examined the impact of intellectual capital and its components on performance in accounting parts of hospitals. The results show a positive relationship between them. The regression analysis indicates that a unit increase in intellectual capital can increase 1.62 units increase in the performance of the medical university. Similarly a unit increase in human capital, relational capital, and structural capital will affect an increase of 1.278, 1.21, and 1.415 units increase in financial performance, respectively.

A study by Ferreira and Franco (2017) aimed to analyze the relationship between strategic alliances and organizational performance and determine whether intellectual capital plays a mediating role in that relationship. To do so, a quantitative study was chosen, with data being gathered through questionnaires directed to the management organs of Portuguese industrial
technology-based small and medium-sized enterprises, from which 257 valid responses were received. The results obtained based on a structural model show that strategic alliances and intellectual capital stimulate the organizational performance of the SMEs studied.

2.4 Impact of Financial Capital on SME Sustainability

In this section, the study reviews exiting literature that is related to the impact of financial capital on the sustainability of small scale enterprises. The subsections under this research question include: accessibility to financing by SMEs, sound finance management practices and lastly, financial capability and financial performance.

2.4.1 Financial Access in SMEs

The importance for SMEs to have access to financing is widely recognised among academics and policymakers. Ayyagari, Beck, and Demigurc-Kunt (2007) show that SMEs play a key role in economic development, diversification, and employment creation, and that they contribute 49 per cent of GDP on average in high-income countries and 29 per cent in low-income countries. However, SMEs are more credit constrained than large firms, severely affecting their possibilities to grow and innovate (Beck & Demigurc-Kunt, 2006; Beck et al., 2006). In the Kenyan context, there is widespread agreement among financial sector stakeholders that the small business sector is at the heart of a vibrant private sector. Increasing access to financial services for SMEs is a key pillar of the Comprehensive Financial Sector Reform and Development Strategy (Kenya Treasury, 2011).

As Kung’u (2015) notes, improving access to funding for small and medium-sized enterprises is crucial in fostering entrepreneurship, competition, innovation and growth in Kenya. Access to sufficient and adequate capital to grow and further develop their activities is a difficulty faced by many Kenyan SMEs. This situation is compounded by the difficulties in accessing finance as SME financing is considered by many financial providers as a high risk activity that generates high transaction costs and/or low returns on investment. Moreover, SMEs need to meet the challenge of adapting to the changing financial environment and the increasing complexity and extent of financial acquisition (Wajohi 2009).
As further observed by Kung’u (2015), Entrepreneur related factors take a priority position in all credit assessments by the borrowers. The entrepreneur related factors are educational background, experience and networks. Past research found a positive relationship between higher educational qualifications and business growth (Kozan, Oksoy, & Ozsoy, 2006). Education affects entrepreneurs’ motivation (Smallbone & Wyer, 2000). Furthermore, education helps to enhance the exploratory skills, improves communication abilities and foresight. These enhanced skills are positively related to presenting a plausible case for a loan to a banker at the time of preparing a loan proposal and hence convincing the banker during the client interview.

Previous research, in particular has explored how the managerial education affects the access to credit. For example, Kumar & Francisco (2005), found a strong education effect in explaining access to financial services in Brazil. They also found that graduates had the least difficulties raising finance from banks. The researchers have given three interpretations for this finding. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated managers/owners have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business which helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion.

Researchers such as Atieno (2009) have acknowledged that networks can be used as the solutions to overcome the problems of access to limited resources and markets. It is also argued that networks help to provide advice, information and capital to small firms. Applying this idea in the context of banking, it can also be argued that, being associated with a professional, trade or social associations such as clubs, societies or associations may also lead to having access to bank loans. Alternatively, Etemesi (2017) suggests for formulation of repayment schedules that are flexible and highly adjusted to accommodate SME cash flow pattern.
2.4.2 Financial Management Practices

Suryani, Iramani and Lindiawati (2015) posit that literature on financial management of firms identifies the components of financial management practices crucial to the performance of small firms as financial planning and control, financial analysis, accounting information, management accounting (pricing and costing), capital budgeting and working capital management (Osman 2007; Azhar et al. 2010; Agyei-Mensah 2011). In this case, the study is limited to financial planning and financial reporting.

Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. So, naturally planning over such horizon tends to be fairly in aggregative terms. While there are considerable variations in the scope, degree of formality and level of sophistication in financial planning across firms, we need to focus on common elements which include Economic assumptions, Sales forecast, Pro forma statements, Asset requirements and the mode of financing the investments (Chandra, 2007). In general usage, a financial plan can be a budget, a plan for spending and saving future income. Peel and Bridge (1998) note that capital budgeting and planning positively impact on the performance of small businesses. SMEs engaged in detailed strategic planning are more likely to use formal capital budgeting techniques, including the net present value method, which is consistent with maximization of firm value.

Failure to plan for strategic undertakings, lack of participation in the stock market, and poor borrowing behavior can all be linked to ignorance of basic financial concepts (Lusardi 2008). Most importantly, Lusardi and Mitchell (2011) showed that those who are financially illiterate are less likely to accumulate wealth. Using a rich data set of subprime mortgage borrowers, Gerardi et al. (2010) found that lower financial literacy is associated with greater chance of delinquency and default in the subprime housing market. Those with low financial skills are less likely to access financial markets and invest in stocks (Van Rooij et al. 2011).

Financial reporting is the process of preparing and distributing financial information to users of such information in various forms. Notes and supplementary schedules may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement, such as disclosures about the risks and uncertainties affecting
the enterprise and any resources and obligations not recognized in the balance sheet (IASC, 1989). Flint (2002) states that fundamental questions in financial reporting are from which users’ standpoint have the accounts to be considered and what level of understanding is to be assumed on the part of those who have to form opinions and take decisions. The most common format of formal financial reporting is financial statements. Financial statements are prepared in accordance with rigorously applied standards defined by professional accounting bodies developed according to the legal and professional framework of a specific locale.

Financial statements provide an overview of a business or person's financial condition in both short and long term. All the relevant financial information of a business enterprise presented in a structured manner and in a form easy to understand, is called the financial statements. For public institutions like primary schools, these statements are often complex and may include an extensive set of notes to the financial statements and management discussion and analysis. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements (Zadek, 2004).

2.4.3 Financial Capability and Financial Management Performance

Financial capability of SME managers or owners will affect their behavior in managing business finances. In financial management, there are three important activities that is related to the financial aspect, profits, and investment, three activities is an important policy in the management of the company. Funding policy is an important policy for the company, because it involves the acquisition of resources for the company's operations. This policy will affect the capital structure and leverage factor for the company, both operating and financial leverage. Financial leverage occurs when companies use the resources which have fixed costs. It is used to provide an additional benefit that is greater than its fixed costs to improve the profit for the stakeholders. If the company determines the policy to use the resources of the debt, meaning the company's financial leverage increased, and the company will bear the fixed costs in the form of interest (Riyanto, 1995).

There are several sources of funds which can be used by entrepreneurs. To fund its short-term financial needs, the company can lend from the banks, while for their long term and
large quantities funding can be obtained from a capital market. Seeking funding from a capital market is greater for long term growth because there are many investors in the capital market, and there is no specific limit in which the company should lend. Other than that, the company can also seek internal funding sources.

There are several studies which attempt to link financial capital with firm’s performance. For instance, the objective of Suryani and Lindiawat’s (2015) research was to identify financial capability within SME’s and design application tools to facilitate their financial management. Using qualitative methods, this research interviewed 60 entrepreneurs in Eat Java producing local prominent products. It was identified the lack of SME knowledge and management on preparing financial record, loss-profit report, cash report, and assets. Robe and Coleman (2009) researched on the Impact of Financial Capital on Business Performance: A Comparison of Women- and Men-Owned Firms in Kauffman. The results revealed that, even controlling for firm size and the amount of capital at start-up, women-owned firms still underperformed firms owned by men in measures of size, profitability, employment, and survival over time.

Nassa (2016) examined the impact of capital structure on the financial firm performance of industrial companies in Turkey. The annual financial statements of 136 industrial companies listed on Istanbul Stock Exchange (ISE) were used for this study which covers a period of 8 years from 2005-2012. The results showed that there is a negative significant relationship between capital structure and firm performance. Riding et al. (2012) also examine different sources of financing which includes external financing, external equity capital, external debt capital and trade credit, and their findings indicate that growth-oriented enterprises are more likely to apply for financial capital.

Rahim and Bakar (2014) assessed the Impact of Financial Resources Management on SME Performance. It was concluded that financial resources management is another aspect of a person’s human capital that may be valuable in the discovery and exploitation of opportunities. Prudent financial resources management will increases a person’s stock of information and skills, including those needed to recognize and pursue an entrepreneurial opportunity successfully. Fatoki (2011) studied impact of human, social and financial capital
on the performance of Small and Medium-Sized Enterprises (SMEs) in South Africa. The results indicated that there is a significant positive relationship between human, social and financial capital and the performance of SME. Mwithiga (2016) looked at the relationship between financial literacy and enterprise performance among owner-managed ICT SMES in Nairobi County. The study found that 46 percent of ICT SME owner-managers demonstrated what was described as a high level of financial literacy. Lastly, Nakhaima (2016) sought to determine factors that affect financial performance of small and medium enterprises (SMEs) in Kenya. Results led to the conclusion that corporate governance is a key determinant of financial. Results also led to conclusion that the SMEs had embraced and put into practice the structures of corporate governance and it worked for their good performance.

2.5 Chapter Summary

The Chapter has presented a review of empirical studies and previous findings on the factors affecting the sustainability levels of small scale business enterprises. Specifically, the review of literature was based on the research questions which were broken down into three subsections: Managerial Competencies, Intellectual Capital, and Financial Capital. The next Chapter discusses the methodological approach and designs that will be employed by the researcher.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the methods and procedures that were used in conducting the research. Basically, the chapter discusses and presents the Research design, Description of the study
area and population, Sampling frame, Sample size, Sampling techniques, Types and sources of data, Data collection methods, and Data presentation and analysis.

3.2 Research Design

According to Kothari and Garg (2014) a research design is “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. It is the conceptual structure within which research is conducted; it constitutes the blue print for collection, measurement and analysis of data. The function of a research design is to provide a plan of how important data can be amassed with smallest expenditure of time, efforts and money. Collis and Hussey (2014) identify four major research designs in business research. These are: Exploratory, correlational, causal, and descriptive designs.

The researcher employed descriptive design to describe the phenomenon and to draw conclusions about the population characteristics or phenomenon being studied (Kothari, 2012). Descriptive research is unique in the number of variables employed. Like other types of research, descriptive research can include multiple variables for analysis, yet unlike other methods, it requires only one variable (Borg & Gall, 2007). For example, a descriptive study might employ methods of analyzing correlations between multiple variables by using tests such as Pearson's Product Moment correlation, regression, or multiple regression analysis.

3.3 Population and Sampling Design

3.3.1 Population

Population can be defined as all people or items that one wishes to understand while sampling is the process of selecting segment of the population for investigation (Rahi, 2017). It is a process of selecting a sample of units from a data set in order to measure the characteristics, beliefs and attitudes of the people (Hair, 2003). The population of this study comprises of 2019 SMEs currently registered and engaging operating within Nairobi County Central Business District, CBD (City Council of Nairobi, 2017). The firms have been classified into the following sub-sectors namely: Trading, Service and Manufacturing.
3.3.2 Sampling Design

The sampling design comprises of the sampling frame, sampling technique and the sample size that was used in the study.

3.3.2.1 Sampling Frame

According Rahi (2017), sampling frame defines a frame where a sample of target population can be drawn. Similar to this assertion, Creswell (2014) states that, a sample frame can be defined as a list of all units in the population from which research sample will be selected. In this study, the sample frame was obtained from City Council of Nairobi (2017). The SMEs were categorized based on their area of business as depicted on table 3.1.

Table 3.1 Small and Medium Enterprises in Nairobi County

<table>
<thead>
<tr>
<th>Category of SME</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>878</td>
</tr>
<tr>
<td>Service</td>
<td>694</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>447</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2019</strong></td>
</tr>
</tbody>
</table>

*Adopted from the City Council of Nairobi (May 2017)*

3.3.2.2 Sampling Technique

A simple random sampling technique will be adopted to select SMEs and respondents. In simple random sampling, one unit of element is randomly selected from population Banerjee (2012) states that the goal is to estimate the mean and the variance of a variable of interest in a finite population by collecting a random sample from it. Thompson (2012) notes that one benefit of simple random sampling is that every element has equal chances of being selected hence limited bias in sample selection.

3.3.2.3 Sample Size

Sample size determination is the act of choosing the number of observations or replicates to include in a statistical sample. The sample size is an important feature of any empirical study
in which the goal is to make inferences about a population from a sample. In practice, the sample size used in a study is determined based on the expense of data collection, and the need to have sufficient statistical power. In this research, Yamene (1973), formulae was used. However the confidence level was 92% with error term of 8%.

The calculation formula is as provided below:

\[
n = \frac{N}{1 + N(e^2)}
\]

Where;
\( n = \) Sample size;
\( N = \) Known population size, and;
\( e = \) error level or \% percent confidence interval or alpha level;

For 0.917 confidence interval, \( e = 0.083 \).

Therefore;
\[
 n = \frac{N}{1 + Ne^2} \\
 n = \frac{2019}{1 + 2019*(0.083)^2} \\
 = 135.4
\]

3.4 Data Collection Methods

The major or primary instrument of data collection was semistructured questionnaires developed by the researcher. The structure of the questionnaire shall follow the parameters of the objectives set to be achieved by this study mainly by examining the factors influencing sustainability of SMEs in Kenya. The questionnaires was administered personally to the respondents in a bid to ensure that copies get to the right respondents at the right time and also to be able to ask follow-up questions. The questions were structured with the aid of the Likert Scale. The Likert Scale has been adopted because it is regarded to be mostly suitable for measuring people’s views, opinions and perceptions. Hair et al. (2010) state that if the focus of the research is on individual’s behavior then five to seven-point Likert can be selected to measure the items. The statements on the Likert Scale will be expressed on a five-point scale which seek to ask respondents to indicate the extent to which they agreed with the
statements ranging from 1 = Not at all, 2 = Very Slightly, 3 = Slightly, 4 = Moderately and 5 = Extremely.

3.5 Research Procedures
The researcher developed a data collection instrument as has been mentioned. An introductory letter stamped at the United States International University School of Business office was obtained as authorization to conduct the study. Once authorization has been received, the researcher first conducted a pilot study to establish the validity of the data collection instrument and test the feasibility of the actual study.

The results of the pilot study was not included in the final data since the purpose of the pilot study is to test the consistency of the questionnaire with an aim of addressing any challenges that may occur in the actual survey. After ascertaining the possibility of the survey and appropriateness of the data collection instrument, the researcher proceeded to collect the actual data from the research participants. The researcher administered the questionnaire on hand delivering to the respondent. Questions were consistent to minimize intrusion from interpersonal factors. A period of ten working days’ time was given for respondents to fill in the questionnaires. To ensure high response rate, telephone follow-ups was made after every four days.

3.6 Data Analysis Methods
Data collected from this research was summarized and analyzed using descriptive statistics as a method of analysis. This entailsthe distribution based on the mean, mode and standard deviation of variables. The data collected wasanalyzed using Statistical Package for Social Studies (SPSS) software. Additionally, inferentialstatisticswasused for deeper analysis to answer the influence of the independent variables to the dependent variables. The inferential analysis output informed the conclusions from the findings. The study applied Structural Equation Model (SEM) to establish the path relationship between independent variables; managerial competencies, intellectual capital and financial capitalon the dependent variable (SME Sustainability).

3.7 Chapter Summary
This chapter has described the methodology which will be used to conduct the study. The chapter has discussed the research design, population and sampling design, data
collection instrument, the research procedure as well as the data analysis methods that were used. Chapter four outlines the results and findings of the study.

CHAPTER FOUR

4.0. RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the data analysis results of the questionnaires collected as outlined on chapter three. The presentation of the analysis has been done thematically based the research questions of the study. The purpose of this study was to investigate the factors that contribute to sustainable competitive advantage among SMEs in Nairobi.
4.2 Response Rate
Table 4.1 indicates the response rate. The total sample size was 135 the number of questionnaire distributed was 135. The total number filled and collected for analysis was 102 representing 72% this was above 50% and thus was sufficient to perform data analysis.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>102</td>
<td>72</td>
</tr>
<tr>
<td>Not Responded</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>135</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Demographic Characteristics
The demographic information of the respondents captured were; the gender, education qualifications, nature of business, number of employees and the duration in years that the organization has been operating. The descriptive presentation of the response in graphics was as follow:

4.3.1 Gender of the Respondents
Figure 4.1 presents the gender of the respondents. Female were 53.9% and male were 46.1%. This shows female who participated in the study were more than the male.
4.3.2 Education Qualification of Respondents

Figure 4.2 presents the education qualifications of the respondents. The result shows the graduates presents more than three quota of the respondents at 79.2% while the post-graduates were 20.8%.
4.3.3 **Nature of Business**

The respondents were asked to identify the nature of business that their organization was involved in. As shows on figure 4.3, the nature of business was diverse. Professional and technical area had the highest number presenting 25.3% followed by those in education and health sector at 12.1%. General trading was also at 12.1% while transport and communication at 9.1%, manufacturing at 8.1%, similar to hospitality at 8.1%. Lastly, agriculture was at 4.0%. Those who identified their nature of business as ‘other vast areas/diverse’ were 19.2% of the respondents. The vast area included but not limited to social entrepreneurship, banking, micro-lending, entertainment among others.

![Figure 4.3 Nature of Business](image)

4.3.4 **Number of Employees in your Organization**

Figure 4.4 presents the number of employees in the organization. The result shows most organization had more than 20 employees at 46.5% followed by those with less than 5
employees at 27.7%, and 5-10 employees at 15.8%. Those with 11-15 employees were less than 10% at 9.9%.

Figure 4. Number of Employees in the Organization

4.3.5 Duration of Operation

The last question on the demographics shows the duration of organization operation. Figure 4.5 presents the response. In a descending order, organizations that had operated for less than five years were 44.3%, followed by those which had operated for over 20 years at 24.7%, and those between 5 and 10 years at 17.3%. Others had less than 10% as follow: between 11 and 15 years at 8.2% and between 16 and 20 years at 5.2%.
4.4. Descriptive Statistics

On the descriptive statistics, mean and standard deviation were the key types of analysis conducted on each of the study variables; dependent and the independent variables as follow.

4.4.1 Managerial Competency (MC)

The first independent variable sought to identify the managerial competency. Based on five likert scale, respondents were asked to rate extent to which components of managerial competencies were applied in their organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed. The components were divided into three categories; managerial competency based on business skills, managerial competency based on resource and organization knowledge and lastly, the managerial competency based on communication skills. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Conversely, all the items were ranked as ‘agreed’ as presented on table 4.2.
On the business skills category, items were ranked as ‘agreed’. The presentation of each item on descending order based on mean value were; ‘Our management has emphasized on skills focusing on efficiency of our products or services’ ($M= 4.00, SD = .899$), ‘Our organization is flexible based on the market needs’ ($M= 3.88, SD = .973$), ‘We are frequently involved in giving feedback used for decision making’ ($M= 3.69, SD = 1.08$), ‘We have research skills that allows us to research new products required by customers’ ($M= 3.66, SD = 1.03$) and lastly ‘There is clear production process for each department’ ($M= 3.64, SD = 1.03$).

On resource and organization knowledge categories of questions, all the items were ranked as ‘agreed’ with mean value of 4 as follow: ‘We are capable of performing our duties with minimal supervision’ ($M= 4.07, SD = 0.98$), ‘The leaders focus on mission and vision of the organization’ ($M= 3.72, SD = 1.16$), ‘We are involved in budgeting of our department’ ($M= 3.61, SD = 1.23$), ‘In our organization there is planning meeting based on strategy that we are involved’ ($M= 3.59, SD = 1.62$) and ‘Our organization invests in Operations and systems to enhance project delivery’ ($M= 3.58, SD = 1.14$).

The communication skills questions were also ranked as ‘agreed’ with mean values of 4. ‘The management operated open office system where I can freely communicate to the managers’ ($M= 4.01, SD = 1.05$), ‘The managers listen to the employees freely’ ($M= 3.90, SD = 1.10$), ‘There is feedback from the supervisors based on performance’ ($M= 3.90, SD = 1.00$), ‘The customers complain and feedback are taken seriously’ ($M= 3.93, SD = 1.02$) and lastly, ‘There is clear written communication strategy to be used’ ($M= 3.57, SD = 1.08$).
Table 4. 2 Managerial Competency

<table>
<thead>
<tr>
<th>Business Skills</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC1 We have research skills that allows us to research new products required by customers</td>
<td>3.6600</td>
<td>1.10928</td>
</tr>
<tr>
<td>MC2 There is clear production process for each department.</td>
<td>3.6400</td>
<td>1.03005</td>
</tr>
<tr>
<td>MC3 We Our organization is flexible based on the market needs.</td>
<td>3.8840</td>
<td>0.97300</td>
</tr>
<tr>
<td>MC4 Our management has emphasized on skills focusing on efficiency of our products or services.</td>
<td>4.0000</td>
<td>0.89893</td>
</tr>
<tr>
<td>MC5 We are frequently involved in giving feedback used for decision making.</td>
<td>3.6900</td>
<td>1.07961</td>
</tr>
</tbody>
</table>

Resource and organization knowledge

<table>
<thead>
<tr>
<th>Resource and organization knowledge</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC6 Our organization invests in Operations and systems to enhance project delivery.</td>
<td>3.5760</td>
<td>1.13788</td>
</tr>
<tr>
<td>MC7 We are capable of performing our duties with minimal supervision.</td>
<td>4.0700</td>
<td>0.98734</td>
</tr>
<tr>
<td>MC8 We are involved in budgeting of our department.</td>
<td>3.6100</td>
<td>1.23005</td>
</tr>
<tr>
<td>MC9 The leaders focus on mission and vision of the organization.</td>
<td>3.7210</td>
<td>1.15569</td>
</tr>
<tr>
<td>MC10 In our organization there is planning meeting based on strategy that we are involved.</td>
<td>3.5920</td>
<td>1.16200</td>
</tr>
</tbody>
</table>

Communication Skills

<table>
<thead>
<tr>
<th>Communication Skills</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC11 The management operated open office system where I can freely communicate to the managers</td>
<td>4.0100</td>
<td>1.04924</td>
</tr>
<tr>
<td>MC12 The managers listen to the employees freely.</td>
<td>3.9000</td>
<td>1.09637</td>
</tr>
<tr>
<td>MC13 There is feedback from the supervisors based on performance.</td>
<td>3.8970</td>
<td>0.99984</td>
</tr>
<tr>
<td>MC14 The customers complain and feedback are taken seriously.</td>
<td>3.9280</td>
<td>1.01753</td>
</tr>
<tr>
<td>MC15 There is clear written communication strategy to be used.</td>
<td>3.5700</td>
<td>1.07548</td>
</tr>
</tbody>
</table>

4.4.2 Intellectual Capital (IC)

The second independent variable sought to identify the intellectual capital competency. Based on five likert scale, respondents were asked to rate extent to which intellectual capital were applied in their organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed. The components were divided into
three categories; Human capital, rational capital, and structural capital. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Most items were ranked as ‘agreed’ with few as ‘neutral’ as presented on table 4.3.

Items ranked as ‘agreed’ on human capital categories of questions were: ‘The manager are competent on day to day operation of the organization’ ($M= 3.88$, $SD = .924$), ‘Managers are hired based on their education and experience qualifications’ ($M= 3.84$, $SD = 1.04$), ‘Employees are competent on their job based on their education and experience’ ($M= 3.86$, $SD = .974$), and ‘Our management is able to identify employee needs and motivation’ ($M= 3.46$, $SD = 1.086$). One question was ranked as neutral with mean value of 3; ‘Employees are frequently trained on emerging industry skills’ ($M= 3.28$, $SD = 1.17$).

On the relational capital questions, items ranked as ‘agreed’ with mean value of 4 were: ‘Our organization significantly values the relationships with our customers’ ($M= 4.27$, $SD = .86$), ‘Our organization significantly values the relationships with our suppliers’ ($M= 4.21$, $SD = .829$), and ‘Our organization develops new business through networks of our customers or business partners’ ($M= 3.87$, $SD = 1.08$). Two items were ranked as neutral with mean value of 3; ‘Our organization has maintained close relationships with competitors’ ($M= 3.28$, $SD = 1.30$), and ‘Our organization established close relationships with government agencies (MSEA, AFBE, and Business Partners)’ ($M= 3.41$, $SD = 1.30$).

On the structural capital questions, items ranked as agreed with mean value of 4 were: ‘There is clear job description of each employee’ ($M= 3.71$, $SD = 1.17$), ‘There is documentation/recording of all the organizations events over the year’ ($M= 3.58$, $SD = 1.18$), ‘There is clear written system/procedure on how things are done in our organization’ ($M= 3.53$, $SD = 1.23$) and ‘We have product innovation for new product development in our organization’ ($M= 3.50$, $SD = 1.20$). one item was ranked as neutral with mean value of 3: ‘The owners are not the managers who oversee day to day activity of the company’ ($M= 3.42$, $SD = 1.50$).
<table>
<thead>
<tr>
<th>IC</th>
<th>Description</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC1</td>
<td>Employees are frequently trained on emerging industry skills.</td>
<td>3.2800</td>
<td>1.1727</td>
</tr>
<tr>
<td>IC2</td>
<td>Managers are hired based on their education and experience qualifications.</td>
<td>3.8400</td>
<td>1.0417</td>
</tr>
<tr>
<td>IC3</td>
<td>Employees are competent on their job based on their education and experience</td>
<td>3.8590</td>
<td>.97453</td>
</tr>
<tr>
<td>IC4</td>
<td>Our management is able to identify employee needs and motivation.</td>
<td>3.4600</td>
<td>1.0863</td>
</tr>
<tr>
<td>IC5</td>
<td>The manager are competent on day to day operation of the organization</td>
<td>3.8800</td>
<td>.92420</td>
</tr>
<tr>
<td>IC6</td>
<td>Our organization established close relationships with government agencies (MSEA, AFBE, and Business Partners)</td>
<td>3.4100</td>
<td>1.2956</td>
</tr>
<tr>
<td>IC7</td>
<td>Our organization significantly values the relationships with our customers</td>
<td>4.2700</td>
<td>.86287</td>
</tr>
<tr>
<td>IC8</td>
<td>Our organization significantly values the relationships with our suppliers</td>
<td>4.2140</td>
<td>.82939</td>
</tr>
<tr>
<td>IC9</td>
<td>Our organization develops new business through networks of our customers or business partners.</td>
<td>3.8680</td>
<td>1.0790</td>
</tr>
<tr>
<td>IC10</td>
<td>Our organization has maintained close relationships with competitors.</td>
<td>3.2830</td>
<td>1.3029</td>
</tr>
<tr>
<td>IC11</td>
<td>There is clear written system/procedure on how things are done in our organization</td>
<td>3.5300</td>
<td>1.2264</td>
</tr>
<tr>
<td>IC12</td>
<td>There is clear job description of each employee</td>
<td>3.7070</td>
<td>1.1656</td>
</tr>
<tr>
<td>IC13</td>
<td>There is documentation/recording of all the organizations events over the year</td>
<td>3.5760</td>
<td>1.1814</td>
</tr>
<tr>
<td>IC14</td>
<td>The owners are not the managers who oversee day to day activity of the company</td>
<td>3.4240</td>
<td>1.4980</td>
</tr>
<tr>
<td>IC15</td>
<td>We have product innovation for new product development in our organization.</td>
<td>3.5000</td>
<td>1.1997</td>
</tr>
</tbody>
</table>
4.4.3 Financial Capital (FC)

The last independent variable sought to identify the financial capital competency. Based on five likert scale, respondents were asked to rate extent to which financial capital were applied in their organization: where: 1 = strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed. The components were divided into two categories; financial capital and Financial Accessibility and capabilities. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Most items were ranked as ‘agreed’ with few as ‘neutral’ as presented on table 4.4. On financial accessibility and capabilities questions, the response ranked as agreed with mean value of 4 was only ‘Our organization has security required to access credit facility’ ($M= 3.76$, $SD = 1.17$). others were ranked as neutral with mean value of 3 as follow: ‘Reduction on the cost of finance and interest rate has made it easy for SMES to access financing’ ($M= 3.42$, $SD = 1.34$), ‘We apply and access bank loans for our organizations’ ($M= 3.36$, $SD = 1.27$) and ‘Our organization can access credit finance through semiformal market sector’ ($M= 3.13$, $SD = 1.25$).

All the questions on the financial knowledge were ranked as agreed with mean value of 4. They included; ‘Our organization is usually knowledgeable about ethical accounting and financial reporting practices’ ($M= 4.06$, $SD = 1.07$), ‘Access to financing is important for growth of our organization’ ($M= 4.00$, $SD = 1.22$), ‘Based on my perception, our organization is knowledgeable about its overall financial needs and goals’ ($M= 4.16$, $SD = .99$), ‘Our organization has equipped employees with skills to ensure that financial records are maintained’ ($M= 3.85$, $SD = 1.04$), ‘Our organization is well informed on its investment prospects and capital acquisition procedures’ ($M= 3.68$, $SD = 1.06$) and ‘Our organization is usually knowledgeable about the rate of return associated with each investment’ ($M= 3.74$, $SD = 1.18$).
Table 4.4 Financial Capital

<table>
<thead>
<tr>
<th>Financial Accessibility and capabilities</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>FC1 We apply and access bank loans for our organizations.</td>
<td>3.3640</td>
<td>1.27418</td>
</tr>
<tr>
<td>FC2 Our organization can access credit finance through semiformal market sector.</td>
<td>3.1340</td>
<td>1.25201</td>
</tr>
<tr>
<td>FC3 Our organization has security required to access credit facility.</td>
<td>3.7580</td>
<td>1.16992</td>
</tr>
<tr>
<td>FC4 Reduction on the cost of finance and interest rate has made it easy for SMES to access financing.</td>
<td>3.4160</td>
<td>1.33838</td>
</tr>
</tbody>
</table>

Financial Knowledge

<table>
<thead>
<tr>
<th>Financial Knowledge</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>FC5 Access to financing is important for growth of our organization.</td>
<td>4.0000</td>
<td>1.22268</td>
</tr>
<tr>
<td>FC6 Based on my perception, our organization is knowledgeable about its overall financial needs and goals.</td>
<td>4.1610</td>
<td>.99198</td>
</tr>
<tr>
<td>FC7 Our organization has equipped employees with skills to ensure that financial records are maintained.</td>
<td>3.8480</td>
<td>1.03830</td>
</tr>
<tr>
<td>FC8 Our organization is well informed on its investment prospects and capital acquisition procedures.</td>
<td>3.6840</td>
<td>1.05980</td>
</tr>
<tr>
<td>FC9 Our organization is usually knowledgeable about the rate of return associated with each investment.</td>
<td>3.7370</td>
<td>1.17711</td>
</tr>
<tr>
<td>FC10 Our organization is usually knowledgeable about ethical accounting and financial reporting practices.</td>
<td>4.0600</td>
<td>1.07139</td>
</tr>
</tbody>
</table>

4.4.4 Competitive Advantage (CA)

The dependent variable was competitive advantage of the firms. This was also measured on five likert scale where respondents were asked to rate extent to which competitive advantage were applied in their organization: where: 1 = strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Most items were ranked as ‘agreed’ with one item ranked as ‘neutral’. Table 4.5 presents the findings.

Item ranked as agreed with mean value of 4 were: ‘Our products/services are very specific that meets out specific customers’ needs compared to our competitors’ \((M= 3.83, SD = .95)\), ‘Our products/services are very unique in the market’ \((M= 3.68, SD = 1.05)\), ‘Compared to
our major competitors, our organization is very competitive in the market’ ($M = 3.67, SD = 1.04$), ‘We have advantage on the way we cost our products compared to our competitors’ ($M = 3.73, SD = 1.07$) and ‘Our turnover has been increasing for the last two years’ ($M = 3.76, SD = 1.09$) the item ranked as neutral was ‘Our market share is very high relative to our major competitors’ ($M = 3.36, SD = 1.11$).

**Table 4.5 Competitive Advantage**

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA1 Our market share is very high relative to our major competitors</td>
<td>3.3640</td>
<td>1.10513</td>
</tr>
<tr>
<td>CA2 Our products/services are very specific that meets out specific customers’ needs compared to our competitors</td>
<td>3.8280</td>
<td>.95389</td>
</tr>
<tr>
<td>CA3 Our products/services are very unique in the market</td>
<td>3.6840</td>
<td>1.05023</td>
</tr>
<tr>
<td>CA4 Compared to our major competitors, our organization is very competitive in the market.</td>
<td>3.6730</td>
<td>1.04232</td>
</tr>
<tr>
<td>CA5 We have advantage on the way we cost our products compared to our competitors</td>
<td>3.7340</td>
<td>1.06886</td>
</tr>
<tr>
<td>CA6 Our turnover has been increasing for the last two years</td>
<td>3.7630</td>
<td>1.08968</td>
</tr>
</tbody>
</table>

**4.5 Inferential Analysis**

The inferential analysis was the second type of analysis conducted after the descriptive. It was divided into three; the first covers the exploratory factor analysis (EFA), second covers the Confirmatory factor analysis (CFA) and statistical assumption that tests the model fit. The last section covers the Structure equation model (SEM) that answered the hypothesis in the study. The analyses were done using SPSS version 20 and AMOS version 24.

**4.5.1 Exploratory Factor Analysis (EFA)**

EFA was used to reduce the number of variable based on emerging factors. It covers the KMO measurement, the factor loading matrix, communalities and total variance extracted by principal components analysis (PCA) method. The KMO and Bartlett’s test the sampling adequacy of the factor reduction. The standard measure for KMO output is 0 to 1 and the values closer to 1 have stronger sampling adequacy. As indicated on table 4.6, the KMO output value was .783 which shows the sample was adequate for factor analysis. Bartlett’s test of Sphericity was significant with Chi-Square value of 1102.361 with associated
significant P-value of <0.05. The Kaiser Meyer-Olkin Measure of Sampling Adequacy, Bartlett’s Test of Sphericity and communalities tests shows the data collected was adequate for factorability.

Table 4.6 KMO and Bartlett's Test

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>.783</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. Chi-Square</td>
<td>1102.361</td>
</tr>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Df</td>
<td>276</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

4.5.2 Total Variance Explained

Table 4.7 presents the total variance explained on the factor. There were four factors extracted with the Eigen values greater than 1. The cumulative sample of square loading was 58.45%. PCA was the main extraction method used.
### Table 4. Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>1</td>
<td>6.723</td>
<td>30.559</td>
<td>30.559</td>
</tr>
<tr>
<td>2</td>
<td>2.589</td>
<td>11.769</td>
<td>42.329</td>
</tr>
<tr>
<td>3</td>
<td>1.907</td>
<td>8.666</td>
<td>50.995</td>
</tr>
<tr>
<td>4</td>
<td>1.640</td>
<td>7.454</td>
<td>58.450</td>
</tr>
<tr>
<td>5</td>
<td>1.213</td>
<td>5.512</td>
<td>63.962</td>
</tr>
<tr>
<td>6</td>
<td>.938</td>
<td>4.261</td>
<td>68.223</td>
</tr>
<tr>
<td>7</td>
<td>.789</td>
<td>3.587</td>
<td>71.810</td>
</tr>
<tr>
<td>8</td>
<td>.701</td>
<td>3.186</td>
<td>74.996</td>
</tr>
<tr>
<td>9</td>
<td>.682</td>
<td>3.101</td>
<td>78.096</td>
</tr>
<tr>
<td>10</td>
<td>.628</td>
<td>2.853</td>
<td>80.949</td>
</tr>
<tr>
<td>11</td>
<td>.596</td>
<td>2.709</td>
<td>83.659</td>
</tr>
<tr>
<td>12</td>
<td>.559</td>
<td>2.539</td>
<td>86.198</td>
</tr>
<tr>
<td>13</td>
<td>.476</td>
<td>2.164</td>
<td>88.362</td>
</tr>
<tr>
<td>14</td>
<td>.449</td>
<td>2.039</td>
<td>90.402</td>
</tr>
<tr>
<td>15</td>
<td>.394</td>
<td>1.790</td>
<td>92.192</td>
</tr>
<tr>
<td>16</td>
<td>.377</td>
<td>1.712</td>
<td>93.904</td>
</tr>
<tr>
<td>17</td>
<td>.330</td>
<td>1.498</td>
<td>95.401</td>
</tr>
<tr>
<td>18</td>
<td>.300</td>
<td>1.364</td>
<td>96.766</td>
</tr>
<tr>
<td>19</td>
<td>.226</td>
<td>1.028</td>
<td>97.794</td>
</tr>
<tr>
<td>20</td>
<td>.183</td>
<td>.831</td>
<td>98.624</td>
</tr>
<tr>
<td>21</td>
<td>.170</td>
<td>.773</td>
<td>99.397</td>
</tr>
<tr>
<td>22</td>
<td>.133</td>
<td>.603</td>
<td>100.000</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

### 4.5.3 Pattern Matrix

From the total variance extracted, pattern matrix was developed based on specific factors. The communality tests the percent of variance in a specified variable explained by all the combined factors. It is also the main reliability of the indicator. Communality with lower value than 0.32 shows that the specific variable does not fit well with other variables hence extracted. In this study, all the factors had a higher loading value of more than .32. From the
pattern matrix, all four factors of study were extracted as indicated on table 4.8. The factors were; MC, IC, CA and FC with loading of more than 0.50.

<table>
<thead>
<tr>
<th></th>
<th>MC</th>
<th>IC</th>
<th>CA</th>
<th>FC</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC3</td>
<td>.703</td>
<td></td>
<td></td>
<td></td>
<td>.561</td>
</tr>
<tr>
<td>MC4</td>
<td>.757</td>
<td></td>
<td></td>
<td></td>
<td>.593</td>
</tr>
<tr>
<td>MC5</td>
<td>.545</td>
<td></td>
<td></td>
<td></td>
<td>.508</td>
</tr>
<tr>
<td>MC7</td>
<td>.719</td>
<td></td>
<td></td>
<td></td>
<td>.489</td>
</tr>
<tr>
<td>MC11</td>
<td>.683</td>
<td></td>
<td></td>
<td></td>
<td>.530</td>
</tr>
<tr>
<td>MC12</td>
<td>.829</td>
<td></td>
<td></td>
<td></td>
<td>.713</td>
</tr>
<tr>
<td>MC13</td>
<td>.774</td>
<td></td>
<td></td>
<td></td>
<td>.669</td>
</tr>
<tr>
<td>IC6</td>
<td></td>
<td>.574</td>
<td></td>
<td></td>
<td>.503</td>
</tr>
<tr>
<td>IC11</td>
<td></td>
<td>.834</td>
<td></td>
<td></td>
<td>.616</td>
</tr>
<tr>
<td>IC12</td>
<td></td>
<td>.694</td>
<td></td>
<td></td>
<td>.551</td>
</tr>
<tr>
<td>IC13</td>
<td></td>
<td>.714</td>
<td></td>
<td></td>
<td>.575</td>
</tr>
<tr>
<td>IC14</td>
<td></td>
<td>.759</td>
<td></td>
<td></td>
<td>.492</td>
</tr>
<tr>
<td>IC15</td>
<td></td>
<td>.636</td>
<td></td>
<td></td>
<td>.484</td>
</tr>
<tr>
<td>FC1</td>
<td></td>
<td></td>
<td></td>
<td>.807</td>
<td>.622</td>
</tr>
<tr>
<td>FC3</td>
<td></td>
<td></td>
<td></td>
<td>.842</td>
<td>.710</td>
</tr>
<tr>
<td>FC4</td>
<td></td>
<td></td>
<td></td>
<td>.569</td>
<td>.469</td>
</tr>
<tr>
<td>FC8</td>
<td></td>
<td></td>
<td></td>
<td>.599</td>
<td>.609</td>
</tr>
<tr>
<td>CA1</td>
<td></td>
<td></td>
<td>.603</td>
<td></td>
<td>.513</td>
</tr>
<tr>
<td>CA2</td>
<td></td>
<td></td>
<td>.869</td>
<td></td>
<td>.690</td>
</tr>
<tr>
<td>CA3</td>
<td></td>
<td></td>
<td>.660</td>
<td></td>
<td>.647</td>
</tr>
<tr>
<td>CA4</td>
<td></td>
<td></td>
<td>.764</td>
<td></td>
<td>.777</td>
</tr>
<tr>
<td>CA5</td>
<td></td>
<td></td>
<td>.765</td>
<td></td>
<td>.537</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
Rotation Method: Promax with Kaiser Normalization.

4.5.4 Confirmatory Factor Analysis (CFA)

Confirmatory factor analysis (CFA) was done to measure the model fit based on the pattern matrix output. The output also measured the reliability and validity of the item developed from the EFA. Figure 4.6 shows the CFA model.
Figure 4. 6 Confirmatory Factor Analysis Model for Study Variables
4.5.5 Model fits for CFA Model

Table 4.9 presents the model fit measurement of the CFA based on CMIN/DF, GFI, CFI, RMSEA and PCLOSE. The fit statistics indices were within the satisfactory range therefore the CFA model fit the data adequately.

<table>
<thead>
<tr>
<th>Measure</th>
<th>CMIN</th>
<th>DF</th>
<th>CMIN/DF</th>
<th>GFI</th>
<th>CFI</th>
<th>RMSEA</th>
<th>PCLOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>186.89</td>
<td>128</td>
<td>1.460</td>
<td>0.838</td>
<td>0.915</td>
<td>0.068</td>
<td>0.087</td>
</tr>
<tr>
<td>Threshold</td>
<td>--</td>
<td>--</td>
<td>Between 1 and 3</td>
<td>&gt;0.90</td>
<td>&gt;0.90</td>
<td>&lt;0.08</td>
<td>&gt;0.05</td>
</tr>
<tr>
<td>Interpretation</td>
<td>--</td>
<td>--</td>
<td>Excellent</td>
<td>Good</td>
<td>Excellent</td>
<td>Excellent</td>
<td>Excellent</td>
</tr>
</tbody>
</table>

4.5.6 Construct Reliability

Construct reliability was assessed using the composite reliability calculated from the EFA values and the Cronbach’s alpha reliability. The composite reliability was greater than .8 similar to cronbach’s alphas. This show the variables in the study were reliable as indicated in table 4.10.

<table>
<thead>
<tr>
<th>Composite Reliability</th>
<th>Cronbach’s alphas</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC</td>
<td>0.882</td>
</tr>
<tr>
<td>IC</td>
<td>0.855</td>
</tr>
<tr>
<td>FC</td>
<td>0.803</td>
</tr>
<tr>
<td>CA</td>
<td>0.855</td>
</tr>
</tbody>
</table>

4.5.7 Convergent Validity

To evaluate convergent validity, the AVE was used as indicated on table 4.11. In all the values, the matrix was more than .5 indicating the measurement scales revealed satisfactory measurement of convergent validity.
Table 4.11. Convergent Validity

<table>
<thead>
<tr>
<th>Factor Sum</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC</td>
<td>5.01</td>
</tr>
<tr>
<td>IC</td>
<td>4.21</td>
</tr>
<tr>
<td>FC</td>
<td>2.82</td>
</tr>
<tr>
<td>CA</td>
<td>3.66</td>
</tr>
</tbody>
</table>

4.5.8 Correlation Coefficient

Table 4.12 indicates the correlation coefficients. CA was positively correlated with other independent variables. CA correlation results with MC was \( r=0.419, p<0.05 \), with IC was \( r=0.497, p<0.05 \), and with FC was \( r=0.297, p<0.05 \). This shows the strength of the correlation between CA and the independent variables.

Table 4.12 Correlation Coefficient

<table>
<thead>
<tr>
<th></th>
<th>MC</th>
<th>IC</th>
<th>FC</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC</td>
<td>Pearson Correlation</td>
<td>.403**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FC</td>
<td>Pearson Correlation</td>
<td>.279**</td>
<td>.311**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.005</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>CA</td>
<td>Pearson Correlation</td>
<td>.419**</td>
<td>.497**</td>
<td>.297**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
<td>0.003</td>
</tr>
</tbody>
</table>

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

4.6 Structural Equation Model (SEM)

This was conducted to test the hypothesis of the study based on the model fitness of the dependent variables to independent variables,
Figure 4. Structural Model for the Relationship of the Study Variables

4.6.1 Model Fits for Structural Model

Table 4.13 presents the model fit measurement statistics for the overall structural model for the study variables. The measurements were CMIN/DF, CFI, RMEA and PLOSE. The fit statistics indices were within the satisfactory range therefore the structural model fit the data adequately.
Table 4. 13 Model Fits for Structural Model

<table>
<thead>
<tr>
<th>Measure</th>
<th>CMIN</th>
<th>DF</th>
<th>CMIN/DF</th>
<th>CFI</th>
<th>RMSEA</th>
<th>PCLOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>212.221</td>
<td>131</td>
<td>1.620</td>
<td>0.898</td>
<td>0.071</td>
<td>0.011</td>
</tr>
<tr>
<td>Threshold</td>
<td>--</td>
<td>--</td>
<td>Between and 3</td>
<td>1 &gt;0.90</td>
<td>&lt;0.08</td>
<td>&gt;0.05</td>
</tr>
<tr>
<td>Interpretation</td>
<td>--</td>
<td>--</td>
<td>Excellent</td>
<td>Excellent</td>
<td>Excellent</td>
<td>Excellent</td>
</tr>
</tbody>
</table>

4.8 Regression Weights

4.8.1 Effect of Managerial Competency on Sustainable Competitive Advantage of SMEs

The path coefficient for the relationship between MC and CA of SMEs in Nairobi was positive and significant at the 0.05 level (β=0.328, T-value =2.894, p<0.05) as indicated on Table 4.16 and Figure 4.7. The positive relationship indicates that one unit increase in MC will result in 0.328 increase in CA of SMEs in Nairobi County.

4.8.2 Effect of Intellectual Capital on Sustainable Competitive Advantage of SMEs

The path coefficient for the relationship between IC and CA of SMEs in Nairobi was positive and significant at the 0.05 level (β=0.496, T-value =3.637, p<0.05) as indicated on Table 4.16 and Figure 4.7. The positive relationship indicates that one unit increase in IC will result in 0.496 increase in CA of SMEs in Nairobi County.

4.8.3 Effect of Financial Capital on Sustainable Competitive Advantage of SMEs

The path coefficient for the relationship between FC and CA of SMEs in Nairobi was positive but not significant at the 0.05 level (β=0.084, T-value =0.066, p>0.05) as indicated on Table 4.16 and Figure 4.7. The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County.
Table 4. 14 Regression Weights

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Estimate</th>
<th>Standardized Estimates</th>
<th>S.E.</th>
<th>T-test</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>MC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.302</td>
<td>.328</td>
<td>.104</td>
<td>2.894</td>
<td>.004</td>
</tr>
<tr>
<td>CA</td>
<td>IC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.476</td>
<td>.496</td>
<td>.131</td>
<td>3.637</td>
<td>***</td>
</tr>
<tr>
<td>CA</td>
<td>FC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.055</td>
<td>.084</td>
<td>.066</td>
<td>.834</td>
<td>.404</td>
</tr>
</tbody>
</table>

4.9 Predictive Relevance of the Model

To quantify the degree of influence of the independent variable on the dependent variable, $R^2$ was used. The $R^2$ shows the degree of influence on the DV explained by the IV. From the SEM model depicted on Figure 4.7, the $R^2$ value was .36. This means 36% of CA is determined by MC, IC and FC while the remaining, 64% can be determined by other factors not in this study.

4.10 Chapter Summary

The study covered the research findings. The first section presented the demographic information of the respondents. The second presented the descriptive of the research objectives with mean and standard deviation as the key tests while the last section covered the inferential statistics with EFA, CFA and SEM as key tests. On objective one, the regression path had a positive relationship indicating that one unit increase in MC will result in 0.328 increase in CA of SMEs in Nairobi County. Similarly, the second objective had positive path indicating that one unit increase in IC will result in 0.496 increase in CA of SMEs in Nairobi County. Lastly, the last objective showed non-significant path analysis. The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS.

5.1 Introduction
This chapter covers the discussion of the findings based on the statistical findings on chapter four and the literature review on chapter two. It also presents the conclusion of the study and recommendation. The recommendations are in two folds; recommendation on area of improvement and recommendation for further research based on the findings.

5.2 Summary of the Study
The purpose of the study was to investigate the factors that contribute to sustainable competitive advantage among SMEs in Nairobi. This was guided by the following specific research questions; how does managerial competency affect sustainable competitive advantage of SMEs? How does intellectual capital affect sustainable competitive advantage of SMEs? And lastly, how does financial capital affect the sustainable competitive advantage of SMEs? The research was significant to the policy makers on SMEs, academics as reference and entrepreneurs on business development.

This study used descriptive research design in order to draw conclusions about the population characteristics or phenomenon being studied. The phenomenon being the factors that contribute to sustainable competitive advantage among SMEs in Nairobi. The population of study was 2019 Small and Medium Enterprises in trading, service and manufacturing sectors registered in Nairobi County. A sample of 135 was taken randomly and 102 respondents participated in the study giving 72% response rate. Questionnaire was the main data collection tool while the analysis conducted was both descriptive and inferential statistics based on each study objectives.

On objective one, managerial competency (MC) was the independent variable. The MC was divided into three categories; managerial competency based on business skills, managerial competency based on resource and organization knowledge and lastly, the managerial competency based on communication skills. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. All the items were ranked as ‘agree’ with mean value of 4. On the inferential analysis, the SEM output showed positive and significant
path coefficient for the relationship between MC and CA of SMEs in Nairobi at 0.05 level ($\beta = 0.328$, $T$-value = 2.894, $p < 0.05$). The positive relationship indicates that one unit increase in MC will result in 0.328 increase in CA of SMEs in Nairobi County.

For objective two, second independent variable sought to identify the intellectual capital (IC) competency. The IC questions was categorized into three, human capital, rational capital, and structural capital. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Most items were ranked as ‘agreed’ with mean value of 4 and a few were ranked as ‘neutral’ with mean value of 3. On the inferential analysis, the path coefficient for the relationship between IC and CA of SMEs in Nairobi was positive and significant at the 0.05 level ($\beta = 0.496$, $T$-value = 3.637, $p < 0.05$). The positive relationship indicates that one unit increase in IC will result in 0.496 increase in CA of SMEs in Nairobi County.

The last objective looked at the financial capital competency. The components were divided into two categories; financial capital and Financial Accessibility and capabilities. In all the categories, there was no item which was ranked as ‘strongly agreed’ with mean of 5. Most items were ranked as ‘agreed’ with mean value of 4 and few as ‘neutral’ with mean value of 3. On the inferential analysis, the path coefficient for the relationship between FC and CA of SMEs in Nairobi was positive but not significant at the 0.05 level ($\beta = 0.084$, $T$-value = 0.066, $p > 0.05$). The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County.

The dependent variable measurement was competitive advantage for the firms. Most items were ranked as ‘agreed’ with mean value of 4 and only one item ranked as ‘neutral’ with mean value of 3. Item ranked as agreed with mean value of 4 were: ‘Our products/services are very specific that meets out specific customers’ needs compared to our competitors’ ($M = 3.83$, $SD = .95$), ‘Our products/services are very unique in the market’ ($M = 3.68$, $SD = 1.05$), ‘Compared to our major competitors, our organization is very competitive in the market’ ($M = 3.67$, $SD = 1.04$), ‘We have advantage on the way we cost our products compared to our competitors’ ($M = 3.73$, $SD = 1.07$) and ‘Our turnover has been increasing for the last two
years’ ($M_1 = 3.76, SD = 1.09$). The item ranked as neutral was ‘Our market share is very high relative to our major competitors’ ($M_1 = 3.36, SD = 1.11$).

5.3. Discussion of the Results

5.3.1. Effect of Managerial Competency on Sustainable Competitive Advantage of SMEs

The path coefficient for the relationship between MC and CA of SMEs in Nairobi was positive and significant with acceptable model fit. The coefficient measurement was at the 0.05 level ($\beta = 0.328$, $T$-value = 2.894, $p < 0.05$). The positive relationship indicates that one unit increase in MC will result in 0.328 increase in CA of SMEs in Nairobi County.

The result of the finding on the relation between MC and CA has been discussed variedly by different researchers. From the definition that supports the research findings, managerial competency is a distinct characteristic, that which can be measured reliably to demonstrate significant distinction between effective and ineffective performance (Willemse, 2010). MC has also been defined in terms of skills and competency as a collection pool of knowledge, attitudes and skills that contribute to individual efficiency (Henderson, 2000). These definitions explain the importance of MC on competency based on the mix of knowledge and skills essential in effectively accomplishing a project. Such skills and competency narrows to the flexibility of a person to execute a task to the required extent and desired quality hence determines the CA of SMEs.

The aspect of the MC was covered on different aspect. First, it was the management business skills on the organization. Research shows the management ability to develop an understanding of a firm’s operational techniques and current policies ensure specific units are aligned and productive which boost efficiency in the organization. The business skills discussed by researchers that enhance CA include production skills, communication, teamwork and organization, supervision, finance, administration and accounting (Ardiana et al., 2010).

The second aspect was the management competency to managing resources. Research shows the manager’s ability to use the available business tools and understand the production
process ensure the specific goals are met. The last aspect of the competency looked at the management efficiency in communication. Communication in business enhances several factors including internal and external and involves the managers’ ability to listen, give feedback, effective presentation and supervision of written communication. This foster smooth and provide satisfying interactions with stakeholders. Senge (2012) and Balunywa (2003) observed that the existing gap on the managerial competencies such as business skills, communication skills and resource management skills affects the networking, mentoring and innovativeness of SME managers hence SMEs competency are poor.

According to Weihrich, Cannice and Koontz (2010), the business skills that influence CA are a cluster of connected abilities, knowledge, skills and commitment that enable an individual to respond effectively in any organizational situation such as the aspects that improves the firms competitive advantage. Other research have also proved, the higher the level of the intellectual quotient (IQ), technical ability and professional knowledge exhibited by SME managers/owners of a start-up firm, the greater the feasibility and survival of the new SME by overcoming competition on crowded market. This gives the start-up a more competitive advantage on the market (Zindiye, 2008; Martin & Staines, 2008).

Studies carried out on the importance of managerial competencies also outlined that lack experience, poorly constructed business plans, omission of feasibility study and below average personal qualities on the part of the managers or owner manager of the serving SMEs affect performance based on the (Adcorp, 2012; Fatoki, 2012; Sekyewa, 2009). Sembiring (2015) research found out that knowledge and skills of human resources have significant and simultaneous effect on the performance of SMEs. It was also found out that knowledge and skills of human resources have a partial significant influence on performance of SMEs.

Another study in Uganda by Abaho, Ntayi, Aarakit and Kisubi (2016) entrepreneurial competences and firm capabilities predicted 30.4% of the variance in SME performance. The study findings indicated that an increase in the level of a firm’s capabilities through competent management, market linkages and marketing capabilities leads to enhanced SME
performance. With the changes in the business environment, key MC skills are asset for the performance and CA of SMEs in the business environment.

5.3.2. Effect of Intellectual Capital on Sustainable Competitive Advantage of SMEs.

The path coefficient for the relationship between IC and CA of SMEs in Nairobi was positive and significant with acceptable model fit. The coefficient measurement was at the 0.05 level (βeta=0.496, T-value =3.637, p<0.05). The positive relationship indicates that one unit increase in IC will result in 0.496 increase in CA of SMEs in Nairobi County.

IC based on human capital reveals positive relation on the CA. Bontis (2001), describes that human capital is much more important to the organization because it brings innovation and becomes the main source of sustainable competitive advantage. Kim et al. (2010) stated that every organization generate its economic value by utilizing capabilities, skills and education of their employees. Research conducted in Canada on the manufacturing industry found a significant relationship between knowledge asset (possessed by employees) and firm performance (Thornhill 2006). Hitt et al. (2010) based on a study of professional service firms, concluded that human capital contributes to better firm performance. Other studies supporting these findings on importance of human capital on CA suggest that human capital traits (education, experience, and skills) affect firm competitiveness and outcomes (Finkelstein, Hambrick & Cannella 2009; Wright, Smart & McMahan, 1995).

Structural capital is also one of the critical components of intellectual capital. It mainly discussed as systems, procedures, communication network and channels, internal settings of offices and staff positioning (Khaliqueet al., 2011). Subramaniam and Youndt (2005) simplifies Structural capital as the conversion of knowledge from private and tacit knowledge to public and codified knowledge captured in databases, patents, manuals, organizational structures, processes, and information systems. Rahim, Kamal, and Mat (2011) study on influence of the structural capital on organizational performance conducted at Telekom Malaysia found out structural capital do matters and have a significant influence on organizational performance of TM. While Merhej and Deeb (2016) study in Tishreen
University on structural capital found out there was a positive significant relationship between the Structural capital and innovation performance which improves competency in the market. From these research findings and discussions, structural capital provides better working conditions, increase knowledge and sharing, it also helpful in increasing productivity of the organization and people which in turn improves performance and competency. In a competitive market, structural capital is key to enhance competency.

Experts have visualized impact of IC upon strategic objectives of the organization. On the basis of this vision, corporates level managers will move to path designing for achieving targeted level of IC (Nahapiet, Sumantra & Ghosha, 1998). In present scenario of fierce competition, strategic activities are shifting toward identification and implementation of internal superior assets (tangible or intangible) for leading in the market (Wuet al; 2012). Further, history proves that business has evolved from internal intangible assets consideration as key competitive advantage to acquisition of the external resources, capabilities, and innovations for becoming the market leader.

Different studies confirm that intellectual capital has a significant and substantial impact on organizational performance. Min (2012), examined the role of intellectual capital in Higher Education Institutions. The results confirms that the Higher Education Institutions are more efficient in cost handling in teaching and better research efficient than any other organization. The results of regression analysis indicate that intellectual capital can positively influence the teaching efficiency and research activities. Another research that affirms the findings on importance of IC on MC was conducted by Sadaghiani and Jamali,(2012) in hospitals. The regression analysis indicates that a unit increase in intellectual capital can increase 1.62 units in the performance of the medical university. A study byFerreira and Franco (2017) aimed to analyze the relationship between strategic alliances and organizational performance and determine whether intellectual capital plays a mediating role in that relationship. The result based on SEM showed that strategic alliances and intellectual capital stimulate the organizational performance of the SMEs studied. Jameelah, Hashima, Osman, and Alhabshia (2015) research on IC in Malaysia found out intellectual capital has significant influence on the organizational performance in Malaysian.Cohen and Kaimenakis (2007) undertook an exploratory study of how the use
of cloud-based accounting/finance infrastructure affects the business performance of small and medium-sized enterprises (SMEs).

The results found out positive and significant relation with the human capital, relational capital, and structural capital which were the measurement of the IC on organization performance which is determined by the competitive aggressiveness in the market. The empirical data provides supportive evidence that certain categories of intellectual capital positively contribute to CA as an aspect of performance. They support this research findings that IC is an important factor that determines CA based on human capital, structural capital and relational capital.

5.3.3. Effect of Financial Capital on Sustainable Competitive Advantage of SMEs.

The path coefficient for the relationship between FC and CA of SMEs in Nairobi was positive but not significant P>.05. From the SEM model, the path coefficient was at p=.404 which was > 0.05; level (βeta=0.084, T-value =0.066, p>0.05). The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County.

The importance for SMEs to have access to financing is widely recognized among academics and policymakers. While this agreement holds, there is another consensus that SMEs are more credit constrained than large firms, severely affecting their possibilities to grow and innovate (Beck & Demigurc-Kunt, 2006; Beck et al., 2006). Kung’u (2015) notes, improving access to funding for small and medium-sized enterprises is crucial in fostering entrepreneurship, competition, innovation and growth in Kenya. Access to sufficient and adequate capital to grow and further develop their activities is a difficulty faced by many Kenyan SMEs. Similarly in Kenya, increasing access to financial services for SMEs has been outlined at the key pillar of the Comprehensive Financial Sector Reform and Development Strategy (Kenya Treasury, 2011). In this discussion among others, there is consensus that accessibility to finance is key for the development of the SMEs. However, the research findings on this research revealed there is no relationship between financial capital on sustainable competitive advantage of the SMES.
Researchers have outlined several factors that play when it comes to financial capital accessibility. According to Kumar and Francisco (2005), strong education effect in explaining access to financial services in Brazil; more educated entrepreneurs have the ability to present positive financial information, strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated managers/owners have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business which helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion. These factors are narrowed to management competency and skills hence it can be concluded that accessibility of financial capital and the growth of it is a component of the management competency and skills.

Another researcher had similar view. According to Atieno (2009), networks can be used as the solutions to overcome the problems of access to limited resources and markets. Such networks help to provide advice, information and capital to small firms for positive development. Further, Suryani, Iramani and Lindiawati (2015) posit that literature on financial management of firms identifies the components of financial management practices crucial to the performance of small firms as financial planning and control, financial analysis, accounting information, management accounting (pricing and costing), capital budgeting and working capital management (Osman 2007; Azhar et al. 2010; Agyei-Mensah 2011). The business knowledge and networking as a platform to enhance knowledge indicates when it comes to financial capital accessibility, the business knowledge is more important. Perceived profitability and success in achieving organizational objectives are positively associated with knowledge to plan. Planning is very important because of the constantly changing and volatile business environment.

Research on competitive advantage on the market based on financial capital has proved other factors are the determinant rather than the financial availability. Lusardi and Mitchell (2011) research showed that those who are financially illiterate are less likely to accumulate wealth. Further, by use of secondary data set of subprime mortgage borrowers, Gerardi et al. (2010)
found that lower financial literacy is associated with greater chance of delinquency and default in the subprime housing market. Those with low financial skills are less likely to access financial markets and invest in stocks (Van Rooij et al. 2011). These researchers proved that financial capability of SME managers or owners’ affects affect their behavior in managing business finances and competition in the market.

Several studies which attempt to link financial capital with firm’s performance. Suryani and Lindiawat’s (2015) research found out lack of SME knowledge and management on preparing financial record, loss-profit report, cash report, and assets affect the business growth. Robe and Coleman (2009) researched on the Impact of Financial Capital on Business Performance: A Comparison of Women- and Men-Owned Firms in Kauffman. The results revealed that, even controlling for firm size and the amount of capital at start-up, women-owned firms still underperformed firms owned by men in measures of size, profitability, employment, and survival over time. Nassa (2016) examined the impact of capital structure on the financial firm performance of industrial companies in Turkey. the annual financial statements of 136 industrial companies listed on Istanbul Stock Exchange (ISE) were used for this study which covers a period of 8 years from 2005-2012. The results showed a negative significant relationship between capital structure and firm performance. Such results has proved the FC does not affect the competitive advantage of the firm but other factors such as management competency and human capital are key than influence the financial capital. This supports the research result that FC does not influence the CA of SMEs.

5.4. Conclusions

5.4.1. Effect of Managerial Competency on Sustainable Competitive Advantage of SMEs

The SEM output showed a positive and significant path coefficient for the relationship between MC and CA of SMEs in Nairobi County. The positive relationship indicates that one unit increase in MC will result in increase in CA of SMEs in Nairobi County. The study concludes MC is an important factor that affects CA of SMES in Nairobi County.
5.4.2. Effect of Intellectual Capital on Sustainable Competitive Advantage of SMEs.

The SEM output had a positive and significant path coefficient on the relationship between IC and CA of SMEs in Nairobi County. The positive relationship indicates that one unit increase in IC will result in increase in CA of SMEs in Nairobi County. The study concludes IC is an important factor that affects CA of SMES in Nairobi County.

5.4.3. Effect of Financial Capital on Sustainable Competitive Advantage of SMEs.

The path coefficient for the relationship between FC and CA of SMEs in Nairobi was positive but not significant. The non-significant relationship indicates that FC does not influence CA of SMEs in Nairobi County. The study concludes FC is not an important factor that affects SMEs in Nairobi County.

5.5 Recommendations

5.5.1. Suggestions for Improvement

5.5.1.1 Effect of Managerial Competency on Sustainable Competitive Advantage of SMEs

The study concluded MC is an important factor that affects CA of SMES in Nairobi County. The researcher recommends the SMEs to ensure the management is competent based on the business skills, communication skills and lastly based on the resource and organization knowledge. Presence of MC will also project the consumers on the value for their money. The policy makes should also make this as requirement to protect the investors and start-ups from failures. Such policies should be used by external decision makers such as lending facilities and government entities.

5.5.1.2. Effect of Intellectual Capital on Sustainable Competitive Advantage of SMEs.

The study concluded IC is an important factor that affects CA of SMES in Nairobi County. It recommends SMEs founders, investors and owners to ensure there is presence of human capital, rational capital, and structural capital in order to attain competitive advantage. To ensure a fair ground for CA, the policy makes should ensure IC is considered and leveraged for the entire SMEs business environment.
5.5.1.3. Effect of Financial Capital on Sustainable Competitive Advantage of SMEs.

The study concluded FC is not an important factor that affects SMEs in Nairobi County. This is a revelation to the SMEs owners, founders and investors that financial capital and Financial Accessibility and capabilities do not determine CA of SMEs in Nairobi country. FC should not be considered as the determining factor on the CA. Further, the policy makers should protect the financial institutions from losing their money because the accessibility and availability of finance does not determine the CA.

5.5.2. Suggestions for Further Research

This study found out MC and IC affects CA of SMEs in Nairobi country but not FC. Further research should be conducted to determine how and why FC is not determining factor on the CA. Such study should include qualitative aspects by interviews of the managers. Also, the financial institutions should be included in the sample. The study population was SMEs in Nairobi County. Similar study should be conducted in other counties.
REFERENCES


Tarwirei (2015). The Impact of Managerial Competencies on The Perfromance of SMES In the Buffalo City Municipality. *MBA Thesis*. University Of Fort Hare.

Thompson, S. (2012). *Simple Random Sampling*. Wiley Online Library. [https://doi.org/10.1002/9781118162934.ch2](https://doi.org/10.1002/9781118162934.ch2)


Dear Sir/Madam,

I am a graduate student pursuing MBA at the Faculty of Business Management, at United States International University – Africa (USIU-Africa).

I am currently conducting an Academic Research on *The Factors Contributing to Sustainable Competitive Advantage among SMEs: The Case Study of Nairobi County.*

The study is part of our academic dissertation. Therefore, I wish to assure you that the research is purely academic and all information given and views expressed shall be treated with maximum confidential treatment.

It is hoped that the findings will be useful for both academicians and other stakeholders.

I kindly request your cooperation in filling this questionnaire.

Thank you
Yours sincerely,

Mburu Rachel Wanjunu
Phone- 0711460459 Email - wanjunumburu@gmail.com
SECTION 1: DEMOGRAPHIC INFORMATION

Kindly tick the responds to your answer where applicable.

1. What is your gender? Male ( ) Female ( )

2. Highest level of education qualification?
Post-graduate ( ) Graduate ( ) Diploma/Certificate ( ) Primary/Secondary ( )

3. What is the nature of your business?
General Trade ( ) Agriculture ( )
Manufacturing ( ) Education/Health/Entertainment ( )
Transport/Communication ( ) Other
Hospitality ( )
Professional and Technical ( )
If others which one……………………………

4. How many employees are in your organization have?
Less than 5 ( ) 5-10 ( ) 11-15 ( ) More than 20 ( )

5. How long have you been operating (please tick as appropriate)
Less than five (5) years ( ) Between 16 and 20 years ( )
Between 5 and 10 years ( ) Over 20 years ( )
Between 11 and 15 years ( )

SECTION 2: MANAGERIAL COMPETENCY ON SME SUSTAINABILITY

Kindly rate by ticking (√) the extent to which the following components of Managerial Competencies are applied in your organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed.

<table>
<thead>
<tr>
<th>Business Skills</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC1 We have research skills that allows us to research new products required by customers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>MC2 There is clear production process for each department.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>MC3 We Our organization is flexible based on the market needs.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>MC4</td>
<td>Our management has emphasized on skills focusing on efficiency of our products or services.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>MC5</td>
<td>We are frequently involved in giving feedback used for decision making.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

**Resource and organization knowledge**

| MC6 | Our organization invests in Operations and systems to enhance project delivery. | 1 | 2 | 3 | 4 | 5 |
| MC7 | We are capable of performing our duties with minimal supervision. | 1 | 2 | 3 | 4 | 5 |
| MC8 | We are involved in budgeting of our department. | 1 | 2 | 3 | 4 | 5 |
| MC9 | The leaders focus on mission and vision of the organization. | 1 | 2 | 3 | 4 | 5 |
| MC10 | In our organization there is planning meeting based on strategy that we are involved. | 1 | 2 | 3 | 4 | 5 |

**Communication Skills**

| MC11 | The management operated open office system where I can freely communicate to the managers | 1 | 2 | 3 | 4 | 5 |
| MC12 | The managers listen to the employees freely. | 1 | 2 | 3 | 4 | 5 |
| MC13 | There is feedback from the supervisors based on performance. | 1 | 2 | 3 | 4 | 5 |
| MC14 | The customers complain and feedback are taken seriously. | 1 | 2 | 3 | 4 | 5 |
| MC15 | There is clear written communication strategy to be used. | 1 | 2 | 3 | 4 | 5 |

### SECTION 3: INTELLECTUAL CAPITAL ON SME SUSTAINABILITY

Kindly rate by ticking (√) the extent to which the following components of Intellectual Capital are applied in your organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed.

<table>
<thead>
<tr>
<th>Human Capital</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC1</td>
<td>Employees are frequently trained on emerging industry skills.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC2</td>
<td>Managers are hired based on their education and experience qualifications.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC3</td>
<td>Employees are competent on their job based on their education and experience</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC4</td>
<td>Our management is able to identify employee needs and motivation.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC5</td>
<td>The manager are competent on day to day operation of the organization</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relational Capital</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC6</td>
<td>Our organization established close relationships with government agencies (MSEA, AFBE, and Business Partners)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC7</td>
<td>Our organization significantly values the relationships with</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC8</td>
<td>Our organization significantly values the relationships with our suppliers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------------------------------------</td>
<td>---</td>
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<td>---</td>
<td>---</td>
</tr>
<tr>
<td>IC9</td>
<td>Our organization develops new business through networks of our customers or business partners.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC10</td>
<td>Our organization has maintained close relationships with competitors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Structural Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC11</td>
<td>There is clear written system/procedure on how things are done in our organization</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC12</td>
<td>There is clear job description of each employee</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC13</td>
<td>There is documentation/recording of all the organizations events over the year</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC14</td>
<td>The owners are not the managers who oversee day to day activity of the company</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IC15</td>
<td>We have product innovation for new product development in our organization.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

### SECTION 4: FINANCIAL CAPITAL ON SME SUSTAINABILITY

Kindly rate by ticking (√) the extent to which the following components of Financial Capital are applied in your organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed.

<table>
<thead>
<tr>
<th>Financial Accessibility and capabilities</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FC1</td>
<td>We apply and access bank loans for our organizations.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC2</td>
<td>Our organization can access credit finance through semiformal market sector.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC3</td>
<td>Our organization has security required to access credit facility.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC4</td>
<td>Reduction on the cost of finance and interest rate has made it easy for SMES to access financing.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Financial Knowledge</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FC5</td>
<td>Access to financing is important for growth of our organization.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC6</td>
<td>Based on my perception, our organization is knowledgeable about its overall financial needs and goals.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC7</td>
<td>Our organization has equipped employees with skills to ensure that financial records are maintained.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC8</td>
<td>Our organization is well informed on its investment prospects and capital acquisition procedures.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC9</td>
<td>Our organization is usually knowledgeable about the rate of return associated with each investment.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>FC1</td>
<td>Our organization is usually knowledgeable about ethical</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
SECTION 5: COMPETITIVE ADVANTAGE

Kindly rate by ticking (✓) the extent to which the following components of Financial Capital are applied in your organization: where: 1 = Strongly disagreed, 2 = Disagreed, 3 = Neutral/Slightly, 4 = Agreed and 5 = Strongly Agreed.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA1</td>
<td>Our market share is very high relative to our major competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA2</td>
<td>Our products/services are very specific that meets out specific customers’ needs compared to our competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA3</td>
<td>Our products/services are very unique in the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA4</td>
<td>Compared to our major competitors, our organisation is very competitive in the market.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA5</td>
<td>We have advantage on the way we cost our products compared to our competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA6</td>
<td>Our turnover has been increasing for the last two years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for the participation