

# **THE EFFECT OF EDUCATION AND SOCIO-CULTURAL FACTORS ON THE GROWTH OF SMALL AND MICRO- ENTERPRISES GROWTH IN KENYA**

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## **Abstract**

*Despite the many startups and government effort to improve the regulatory and institutional framework in Kenya, most Small and Micro Enterprises (SMEs) do not evolve into medium enterprises. This paper sought to determine effect of education and socio-cultural factors on the growth of SMEs in Kenya. The research design employed in this study was the descriptive cross sectional design. The study targeted SMEs situated in Nairobi City and operating in four sub-sectors of the economy namely: transportation and storage; accommodation and services activities; information and communication; financial and insurance activities; and professional, scientific and technical activities. A total of 395 SMEs were sampled using stratified technique and response rate registered was 88.1%. Primary data were collected through questionnaires administered on owners and managers of SMEs by the researcher by way of structured interviews. Data analysis procedures were carried out and the data coded before running the initial summaries in the SPSS. For the qualitative data, simple listing of suggestions, factors and other itemized variables was adopted. Chi-square test of association at a 5% level of*

*significance was used to explore the relationship between variables. The study established a direct correlation between training and education with SME's growth and sustainability, suggesting that training and education influences the growth of SMEs in Kenya to a very significant extent. Socio-cultural factors not only influence significantly the profitability but also the work force. Entrepreneurial training programs should be developed as part of the national school curriculum as well as development of training programs for SMEs which should include awareness on business ethics and tendering procedures.*

*Keywords: SME, education, training, socio-cultural, growth*

## **INTRODUCTION**

It has been widely acknowledged that Small and Micro Enterprises (SMEs) play a very crucial role in most world economies but particularly in emerging and developing economies with major employment and poverty challenges (Kongolo 2010). The establishment and development of SMEs are vital to the well-being of economies of developing countries and failure to nurture the growth of SMEs can pose a serious risk to governments' poverty reduction strategies (Fatoki and Garwe 2010). One of the most defining characteristics of a growing economy is successful and thriving Small and Micro Enterprise sector. With the advent of the developing countries and their integration to the world economy, it is now generally accepted that the next wave of globalization and economic growth will be driven by SMEs (Eriksson et al. 1997).

SMEs contribute to economic development and prosperity of a country in many distinguished ways: job creation and employment for both rural and urban populations, by stimulating innovation and inspiring entrepreneurship especially in the emerging market countries. Further a large proportion of populations in emerging economies depend on SMEs either directly or indirectly. SMEs have a significant impact on the socio-economic situation of any country and play an important role on social income distribution, widening of tax revenue base, stability of family income by supporting job creation (McPherson 1996). Further, (Advani 1997) agrees that from a growth economic perspective, SMEs provide the stimulus that is needed to accelerate economic growth confirming that a well-structured and developed SME sector is likely to support economic growth in the same manner as large corporations (Abraham 2003).

Although precise information on the number of SMEs is hard to ascertain, it was estimated that 95% of business enterprise are SMEs accounting for over 65% of all jobs in the private sector (Ayyagari, T and Dermiguc-Kunt 2007). Japan is considered as the country with

the highest number of SMEs with over 95% of all businesses being SMEs whilst India had more than 13 Million SMEs in 2008 which constituted 80% of the total businesses. This trend is repeated in all major emerging markets of China, Malaysia and Brazil. In these large emerging market economies, SMEs dominate the economic activity (Tang, Paul and Yuli 2007). In EU, it is estimated that SMEs make up 99% of all companies and employ well over 65% of all the labour force.

Many developing countries in Africa are known to have a large and growing SME sector. In Kenya, the SME sector plays a key role in the national economic development. As a key engine for growth, SME sector is acknowledged as the biggest employer outside the traditional agriculture sector. According to Economic Survey (Economic Survey 2014), SME share of total employment has increased from 48% a decade ago to more than 68% currently. Another study by (Bowen, Morara and Mureithi 2009) showed that this sector contributed 50% of all new jobs in 2005, and grew to over 65% of job creation in 2012 with overall contribution of 20% of the country's GDP. This phenomenal growth in the share of job creation by SME sector has increased government focus on the development of this sector as a key driver for economic growth, new job creation and poverty reduction. This is in line with the government's focus of prioritizing the private sector as the key enabler in future growth and poverty reduction strategy.

Despite government effort to improve the regulatory and institutional framework in Kenya, much more work needs to be done especially in the areas of coordination of government implementing agencies. Equipping SME owners and managers with management and entrepreneurial skills will enhance their ability to surmount the barriers to growth and this will lead to sustainable development. A combination of formal entrepreneurial on-job training, coaching and support is a crucial undertaking that lays the solid foundation for success (Ladzani and Van Vuuren 2002).

Various definitions and explanations of economic (Schumpeter 1942), social cultural (Hofstede 1991) and educational incubation theories have been discussed by the above authors since early 20th century. Both classical and neo classical economics theorists attempted to define entrepreneurship but found no consensus on the definition.

The educational incubation theory is premised on the fact that educational development influences entrepreneurial emergence through awareness, new thinking and knowledge (Buys and Mbewana 2007). It is generally accepted that societies with high level of educated individuals are inclined to producing more entrepreneurs than societies with less educated people.

In the past, behavioral theories; such as leadership theory (Lord and Maher 1991), value belief theory (Hofstede 1991), were used to examine the influence of cultural behaviours on emergence of entrepreneurial activity. The theories attempted to explain how social cultural characteristics determine whether an individual becomes an entrepreneur or not. The earliest proponent of this theory was Max Weber a German Sociologist who argued that society influence plays a crucial role in the emergence of entrepreneurial behaviour of individuals within that society.

## METHODOLOGY

The research design employed qualitative and descriptive cross sectional design that used a discriminative/purposive survey to obtain the empirical data to determine the linkages between variables. A cross-sectional survey design collects data from a target population at a point in time. Data was collected from various cases at the same time - although the time taken to collect the data span over more than one month.

The total population consisted of 113,034 registered SMEs in Nairobi city, Kenya, cutting across the following sub-sectors: Agriculture, forestry and fishing; Mining and quarrying; Manufacturing; Wholesale and retail trade, repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities; Information and communication; Financial and insurance activities; Professional, scientific and technical activities; Education; Human health and social work activities; and Arts, entertainment and recreation sectors.

The Study targeted the following sub-sectors due to their accessibility and ease of data collection: Transportation and Storage; Accommodation and services activities; Information and communication; Financial and insurance activities; Professional, Scientific and technical activities. The SMEs in these sub-sectors were a total of 31,943 (see Table 1 for details).

The study categorized the SMEs into various sectors under the target population. Due to the differences in the various sectors, total representation was determined by the use of stratified random sampling procedure where proportional allocation was employed to draw samples in the different SME sectors. The sample size was determined by the Yamane (1967) formula:

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

Where, N is the size of the target population and e is the allowable error (in our case e = 5%).

This gives:

This was shared across the sectors as follows:

$$n = \frac{31,943}{1 + 31,943(0.05^2)} = 395$$

Table 1: Distribution of the samples

SN	SME Sector	Total number	Sample
1	Transportation and storage	5,566	69
2	Accommodation and food service activities	8,804	109
3	Information and communication	668	8
4	Financial and insurance activities	1,468	18
5	Professional, scientific and technical activities	15,437	191
	Total	31,943	395

The validity of the information collected by the questionnaire was checked by running a pilot study. According to (Baker, 1994), pilot study can be the pre-testing or 'trying out' of a particular research instrument. The merit underpinning the pilot study is that the pilot study may highlight the weakness in the data collection instrument before embarking into the actual data collection, thereby giving an opportunity to revise the tool. The anomalies pointed out were corrected before the actual data collection exercise and they aided in reducing the ambiguities in the questionnaire which resulted in a very low degree of non-response.

Associations between the above statements and the growth variables were tested using the Chi-square test (of association at 5% level of significance). Again the Chi-square test which is a non-parametric test was preferred to its parametric counterparts due to the nature of the data. The Chi-square was preferred because it dealt with categorical data and the aim was to arrive at the associations between the dependent variable, that is, SME growth, and the independent variables.

The collected data was a mix between the categorical and narratives from the closed and open-ended questions, respectively. Data analysis procedures started by examination of the collected data in order to check for data collection and entry errors; that included entries that were miss-spelt, and not captured from the question detail etc. The data was then coded before running the initial summaries. For the five-point Likert scale questions that were grouped into each of the variables under study, modes were obtained in order to arrive at a single observation per respondent. This is a highly-recommended measure, together with medians, than the counterpart, the mean, that is applied for quantitative continuous data. The modes gave a general pattern from the sections and so the following statements were drafted for each

of the variables: Education and training is an important component to a sustainable SME business; and Social-cultural factors determine destiny of the SME business venture.

The statements aided in achieving the main aim of the research. These general statements were then cross tabulated together with the variables measuring the growth of SMEs, that is, production/output/volumes, profitability and workforce. Associations between the above statements and the growth variables were tested using the Chi-square test (of association at 5% level of significance. The Chi-square was preferred because it dealt with categorical data and the aim was to arrive at the associations between the dependent variable, that is, SME growth, and the independent variables, that constituted the different variables from the hypothesized constructs. It was the most suitable test for this kind of data given that it used the Chi-square, a non-parametric test that does not make any strict distributional assumptions but it can give a concrete measure of association.

## RESULTS AND DISCUSSION

### Education and SMEs Growth

The response rate for the study was 88.1%. Exploration of education as a variable was done where the distribution of the different education levels in Table 2 were found not to differ significantly (Chi-square value=19.015, df=16, p-value 0.268) with the age groups. This meant that the information given by the different age group was not affected by education bias in certain groups.

Table 2: The proportions of different age groups with respect to their level of education and training

Respondents	Level of education and training					Total
	Informal	Primary	Secondary	College	University	
below 21 years	9.10%	9.10%	27.30%	36.40%	18.20%	100.00%
21-30 years	4.70%	4.10%	26.50%	36.50%	28.20%	100.00%
31-40 years	2.70%	2.70%	24.10%	50.90%	19.60%	100.00%
41-50 years	0.00%	4.20%	20.80%	54.20%	20.80%	100.00%
Above 50 years	0.00%	15.40%	15.40%	23.10%	46.20%	100.00%
Count	12	14	82	139	83	330
% within the group	3.60%	4.20%	24.80%	42.10%	25.20%	100.00%

The relationship between education and production/volume/output was summarized in Table 3 with 84.3% of all the respondents whose output increased supporting that education and

training is an important component to a sustainable SME business. Their appreciation of skilled labour saw their production and output grow. Out of those whose production and output reduced, 82.4%, and 79.5% of those who stagnated hold the same view that education and training is important. The direct implication is that these are not using skilled or trained manpower.

Table 3: Relationship between Education and production/volume/output

Over the last one year, your production/volume/output has	Education and training is an important component to a sustainable SME business					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	37.20%	47.10%	4.70%	6.90%	4.00%	100.00%
Decreased	0.00%	82.40%	5.90%	5.90%	5.90%	100.00%
Remained constant	33.30%	46.20%	12.80%	5.10%	2.60%	100.00%
Total Count	115	161	19	22	13	330
% within the group	34.80%	48.80%	5.80%	6.70%	3.90%	100.00%

From Tables 4 and 5, 84.4% and 85.8% among those whose profits and workforce increased respectively, appreciated that education and training is an important component to a sustainable SME business.

Table 4: Relationship between Education and profitability

Over the last one year, your profit has	Education and training is an important component to a sustainable SME business					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	38.10%	46.30%	5.30%	6.80%	3.60%	100.00%
decreased	12.50%	79.20%	0.00%	4.20%	4.20%	100.00%
remained constant	20.00%	52.00%	16.00%	4.00%	8.00%	100.00%
Total Count	115	162	19	21	13	330
% within the group	34.80%	49.10%	5.80%	6.40%	3.90%	100.00%

Table 5: Relationship between Education and workforce

Over the last one year, your workforce has	Education and training is an important component to a sustainable SME business					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	41.50%	44.30%	4.40%	6.60%	3.30%	100.00%
Decreased	29.60%	44.40%	14.80%	7.40%	3.70%	100.00%
Remained constant	24.60%	58.50%	5.90%	5.90%	5.10%	100.00%
Total Count	113	162	19	21	13	328
% within the group	34.50%	49.40%	5.80%	6.40%	4.00%	100.00%

Education and training significantly (Chi-square value = 18.433, df = 8, p-value 0.018) affect profitability in the SMEs which was the most noteworthy variable followed by production/volume/output, Table 6. Workforce growth did not have a significant association with education and training. This was because as the SMEs progressed they have less and less workforce due to mechanization.

Table 6: Test of association between education and SMEs growth aspect

Aspect of SMEs growth	Chi-Square value	Df	p-value
Production/volume/output	14.945	8	0.06
Profit	18.433	8	0.018
workforce	14.385	8	0.072

### Social-Cultural Factors and SMEs Growth

Social-cultural factors were examined by first looking at those who were members of business organizations, their benefits and later Likert-type of questions that were summarized to measure the same. There was an association (Chi-square value = 9.382, df = 4, p-value 0.05) between the age groups as given in Table 7 and their membership to business organizations. Only 18.2% of the below 21years are in these organizations.

Table 7: Respondents age groups disaggregated by business organizations membership

Respondents	Do you belong to any business organization?		Total
	Yes	No	
below 21 years	18.20%	81.80%	100.00%
21-30 years	38.70%	61.30%	100.00%
31-40 years	52.80%	47.20%	100.00%



41-50 years	54.50%	45.50%	100.00%
Above 50 years	38.50%	61.50%	100.00%
Total Count	138	177	315
% within the group	43.80%	56.20%	100.00%

Table 7...

The reported business organisation members' benefits include bargaining power, mentorship, financial support, and collectively addressing of challenges. From Table 8, all the respondents whose production/volume/output decreased supported that social-cultural factors determine the destiny of the SME business venture. This shows the high influence of cultural affiliations which do not necessarily translate into SMEs growth in production/volume/output.

Table 8: Relationship between Social-cultural factors and production/volume/output

Over the last one year, your production/volume/output has	Social-cultural factors determine the destiny of the SME business venture					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	35.00%	47.80%	4.00%	9.90%	3.30%	100.00%
Decreased	6.20%	93.80%	0.00%	0.00%	0.00%	100.00%
Remained constant	30.80%	53.80%	5.10%	10.30%	0.00%	100.00%
Total Count	109	167	13	31	9	329
% within the group	33.10%	50.80%	4.00%	9.40%	2.70%	100.00%

Tables 9 and 10 support the social-cultural factors influence on SMEs growth (profitability and workforce) with over 83% of the respondents being in agreement. Social-cultural factors significantly influence the profitability of SMEs followed by workforce, Table 11. There is no significant association between the social-cultural factors and production/volume/output of SMEs.

Table 9: Relationship between Social-cultural factors and profitability

Over the last one year, your profit has	Social-cultural factors determine the destiny of the SME business venture					Total
	strongly agree	agree	Undecided	disagree	strongly disagree	
Increased	35.20%	48.40%	3.60%	10.30%	2.50%	100.00%
Decreased	4.30%	82.60%	8.70%	4.30%	0.00%	100.00%
Remained constant	36.00%	44.00%	4.00%	8.00%	8.00%	100.00%

Total Count	109	166	13	32	9	329
% within the group	33.10%	50.50%	4.00%	9.70%	2.70%	100.00%

Table 9...

Table 10: Relationship between Social –cultural factors and workforce

Over the last one year, your work force has	Social-cultural factors determine the destiny of the SME business venture					Total
	strongly agree	agree	undecided	disagree	strongly disagree	
Increased	39.90%	43.70%	4.40%	9.80%	2.20%	100.00%
Decreased	25.90%	66.70%	7.40%	0.00%	0.00%	100.00%
Remained constant	23.90%	58.10%	2.60%	11.10%	4.30%	100.00%
Total Count	108	166	13	31	9	327
% within the group	33.00%	50.80%	4.00%	9.50%	2.80%	100.00%

Table 11: Test of relationship between social-cultural factors and SMEs growth aspects

Aspect of SMEs growth	Chi-Square value	df	p-value
Production/volume/output	14.393	8	0.072
Profit	16.848	8	0.032
workforce	16.647	8	0.034

## CONCLUSION

The study also found direct correlation between training and education with SME's growth and sustainability, suggesting that training and education influences the growth of SMEs in Kenya to a very significant extent. In most developing countries such as Kenya, there has been a dramatic shift in the economic environment where more and more young people are opting for self-employment and entrepreneurship. This shift is primarily driven by lack of blue-color jobs and diminishing opportunities of employment in the public sector. With millions of young people leaving schools, most developing economies are unable to provide job opportunities. This phenomenon has seen a high increase of new SMEs emerging but with limited business skills causing most of these nascent SMEs to fail at an alarming rate. A study by (Gichuki, Njeru and Tirimba 2014), found that for entrepreneurship culture to take root in Africa, governments and all stakeholders must embrace specialized curriculum on education and entrepreneurship. The study further shows that one of the limiting factors to economic growth is the absence of entrepreneurs. Africa lags behind developed countries in the number of entrepreneurs. With a ratio of 1 entrepreneur to 54 full time employees compared to developed countries which have an average of 1 entrepreneur to 10 workers (Luiz 2006). The role of education in

entrepreneurship has now been recognized by most policy makers in Africa with entrepreneurship training and education being acknowledged as a key enabler in the growth of small enterprises (Tushabomwe-Kazooba 2006). Lack of entrepreneurship training has been blamed on the inability of SME's owners and managers to grow their business to full potential. These findings support studies carried out by (Wangeci and Gathungu 2013) which observed that training and education is an important element in increasing efficiency and productivity of employees. The study further found that as SMEs progressed and grew; the workforce reduced confirming that when SMEs embrace training and technology they become more efficient and productivity increases hence less and less manpower.

The business environment in Africa is a complex web of social cultural, economic and technological factors resulting in challenges for owners of SMEs (Johnson et al. 2014). Operating in such socio-cultural realities remains a big challenge for SMEs in Kenya. Typically, most of the entrepreneurs are also the owners of their own businesses and are therefore confronted by the challenges of setting up and growing their businesses. Most SMEs in Africa operate in informal structures and are often managed in a family set up consisting of family members, close friends and relatives. Typically, it may be hard to distinguish private family interests and those of the business as family members handle most of the decisions. The study for example found that, socio-cultural factors not only influence significantly the profit but also the work force. There is a trend in Africa especially at the formative stages that SMEs tend to rely more on informal networks which limits them from expanding and embracing modern business practices. This approach can if not managed properly negatively affect the performance of SMEs. It is also indicative of the lack of awareness or the lack of SME induction programs to guide SME owners at formative stage.

SMEs investment in technology is not just about improving on their profitability but it's also about driving efficiencies and productivity. In this modern age the investment in ICT is a competitive enabler regardless of size of the business. According to (Onyango et al. 2014), SMEs that adopt technology grow much faster than those which do not.

The following limitations were encountered: Cultural ties barring ownership of property to females was a major limitation as this could not present an even play field for both gender. Measuring experience of the owners of SMEs was not possible. Use of technology in the data collection, like online questionnaires' administration, was not possible hence putting more strain on time. The study was also limited to Nairobi, when ideally it should have covered more than one region of the country. This was not possible due to limited financial resources available to conduct the research. But due to time constraint, we could not have travelled to those areas. It was also very difficult in getting information from the selected SMEs because of fear that the

information given would one way or the other get to the tax authorities as most of them do not fulfill their tax obligation despite the assurance the researchers have given them. The researcher, however, worked within the budget allocation to achieve the objective of the study and also ensured that the study focused on training and growth of the SME sector. It was also possible that some respondents were biased in their response. However, triangulation of the research methods assisted to overcome this limitation. Data on the sub-sector is scanty in Kenya due to the nature of the sector's activities. The researcher, however, did everything possible to mitigate the limitation by sourcing for data from the latest professional journals on the subject matters from well stocked libraries.

## RECOMMENDATIONS

- i) Education and Training have been identified as the key drivers of establishing entrepreneurial culture in Africa. An entrepreneurial culture is an important enabler in the creation of entrepreneurship mindset. In Kenya for example entrepreneurs have led the way in bringing new innovations to the market. The Safaricom MPESA money transfer platform was created by a group of young and ambitious innovators who saw the opportunity brought about by the large population of unbanked people in Kenya (Kesenwa, Oima and Oginda 2013). Education and training has been the key source of entrepreneurial culture in many countries. Those countries that have been successful in driving entrepreneurship are known to have specialized government supported programs that encourage its young citizens to adopt positive mindset and desire to venture in businesses. Increased focus on the importance of entrepreneurship has seen the emergence of many colleges and institutions offering entrepreneurship programs worldwide (Ita and Briga 2008). In Kenya the government recognizes the importance of entrepreneurial training where SME programs are offered through vocational training but these programs were limited in their scope (Wangechi and Gathungu 2013). Based on the response and the findings, on the influence of education on SMEs performance, the study recommends the government and all other key stakeholders develop entrepreneurial training programs as part of the national school curriculum. The study further recommends the setup of business development centres within key institutions that will provide forum for innovation incubation. These business centres should be funded via the Ministry of Industry and should have a clear focus on SME development training programs. And finally the study recommends a National SME Development Centre which should provide policy and direction to the SME sector across the entire country.

- ii) Socio cultural complexities can consist of traditional beliefs which can be accepted as the norm or standard way of doing business. As mostly family oriented businesses, most SMEs values and ways of doing business are tied to the traditions and beliefs of the owners/managers. Based on the findings that social cultural factors significantly influence the profit and the work force, the study recommends that training programs for SMEs should include awareness on the fact that SME as a business requires strict observance of business ethics. Most of the SMEs in Kenya tend to employ relative and family members on the belief that family members as key stakeholders have the best commercial interests for the wellbeing of the SME. The obvious downside risk to this approach is the lack of transparency and often can lead to ethical issues. Education and training programs will help expose the need to employ competent managers who understand the value of business ethics.

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