Determinants of Performance of Small Firms within Four Peri-Urban Centres of Eldoret Town

Lelei Joy Chelagat[1] Magdalyn J. Ruto[2]
[1]MBM Student, Department of Accounting And Finance, School of Business and Economics, Moi University, P.O. Box 3900, post code 30100, ELDORET, Kenya, Tel +254725927552, Email: joychela82@yahoo.com
[2]MBM Student, Department of Accounting And Finance, School of Business and Economics, Moi University, P.O. Box 3900, post code 30100, ELDORET, Kenya, Tel +254722604519, Email: madelineruto@gmail.com

ABSTRACT
Small and Micro Enterprises (SMEs) are important vehicles in generating employment and alleviating poverty in the country. However, three out of five SMEs which are established fail within the first few months of operation while many of them remain small-sized affairs. The purpose of the study was therefore to investigate the factors which affect the growth of SMEs located within four Peri -urban centres of Eldoret Town. The study employed an explanatory research design to collect data from owners/managers of SMEs within the Peri -urban centres of Chepkanga, Cheptiret, Juakali and Mlango. The study collected data, which is both primary and secondary in nature. Primary data was collected using structured likert scale type of questionnaires while secondary data was collected through analysis of documents. Quantitative data was summarized using a variety of descriptive statistics such as the mean, the mode and standard deviation. A Multiple Linear Regression (MLR) was used to to test hypothesis. The study findings showed that customers of the business highly affect the growth of SMEs. Business environment was observed in the findings to affect the growth of SMEs positively More findings showed that both business and entrepreneurial characteristics (positively affect the growth of SMEs. Thus the study concluded that customers of the business, business environment, and entrepreneur characteristics affect SME growth positively. Thus, the study recommends that entrepreneurs should understand their customers and improve their characteristics so as to improve the growth of their SMEs. In addition, government should support the SMEs particularly by improving the SMEs operating environment.
Keyword; Entrepreneurship, Performance, SME, Business, Characteristics

Introduction

Small and Micro enterprises are crucial drivers of Kenya's economic development, contributing to at least 18.4 percent of the country's Gross Domestic Product (GDP), 25 percent of non-agricultural GDP and employing approximately 17 percent of the total labour force (Karekezi and Majoro) (2002). SMEs are also credited with providing employment opportunities to Kenyans, with the sector estimated to have contributed to over 50 percent of new jobs created in the year 2005 (Economic Survey, 2006). While employment creation in the formal private sector contracted from 74 thousand new jobs in 2007 to 23.8 thousand new jobs in 2008, employment in the informal private sector is estimated to have expanded from 7.5 million in 2007 to 7.9 million in 2008 (G.o.K, 2008).

Despite the significant role played by the SMEs in the country, they continue to face important hurdles, with statistics indicating that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). In addition, many of the SMEs stagnate, failing to grow and graduate to medium – sized firms (Ferrand, 1999; GEMINI, 1991). Therefore, to promote the performance of the SMEs in the country, it is germane to understand the factors which influence their performance. A survey of the literature reveals a disparate array of factors that have been cited to explain why certain firms grow while others do not. King and McGrath (2002) found education of the entrepreneurs to have a positive impact on performance of firms. Entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, were found to be better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 1998). SMEs which lacked access to credit were found not to be able to grow compared to those which had adequate credit (Oketch, 2000; Tomecko and Dondo, 1992; Kiiru, 1991). In a study by Longenecker *et al.* (2006), they found that lack of planning, improper financing and poor management were the main causes of failure of small enterprises.

Makutsa (1998) found that motivation of workers, by providing good working conditions, formal signing of job contracts by workers, and simple appreciation, was the single most important factor affecting the success of small enterprises in Nairobi. For Malenya (1998), entrepreneurial factors, present among the owners of SMEs, were responsible for the observed variations in performance rates of micro enterprises in four manufacturing sub sectors of carpentry, tailoring, welding and metal work. On the other hand, Namusonge (1998) found that personal characteristics of entrepreneurs, entrepreneurs' background, and strategies used by entrepreneurs including the type of finance utilized by small and medium enterprises were crucial in determining performance of small and medium enterprises in Nairobi, Kenya.

From the foregoing, it is clear that there are many determinants of business success and performance. However, the studies cited above have investigated only some aspects of business success, giving a picture of incongruent and disjointed factors that are not intuitively useful in formulating policy. There is therefore a need for a study that comprehensively and simultaneously investigates all of these major factors, evaluate their relative importance and possibly, their interactions on firm performance. The paucity in such comprehensive studies has been pointed out by authors, notably Nichter and Goldmark (2009). Moreover, even studies looking at only some aspects of the factors responsible for firm performance have not been investigated among the SMEs located within Peri -urban centres of Eldoret Town. In addition, some of the factors that were found to affect firm performance might no longer be relevant, due to the changing dynamics of world and national politics and economics. For instance, in a study of the challenges facing SMEs in Nairobi Municipality, Bowen *et al*. (2009), found that unlike in past studies, access to credit was relegated to fourth place with competition and poor security ranking first and second respectively. In the same study, the authors pointed out that like in many other developing countries, there is limited research and scholarly studies about the SME sector in Kenya.

A survey of the literature suggests that the major determinants of the performance of SMEs may be decomposed into four broad groups: individual entrepreneur characteristics, characteristics of the business, business environment and the business customers (Brown *et al*., 2004; Nichter and Goldmark, 2009). Individual entrepreneur characteristics, which relate to capacities, that have been investigated include education (Burki and Terrell, 1998; Tan and Batra, 1995), gender (Downing and Daniels, 1992) and work experience (Parker, 1995). Certain firm characteristics, such as firm age, formality (or informality), access to finance, technology and location, have also been found to be associated with MSE performance (Mead and Liedholm, 1998, Parker, 1995). The business environment, which refers to opportunities and incentives/disincentives or obstacles to performance, have included factors such as red tape, contract enforcement, and property rights while business customer variables that might affect firm performance include lifestyle or consumption patterns, purchase behavior, and demographic characteristics (Liedholm, 2002; Pisani and Pagan, 2004).

SMEs are important vehicles in generating employment and alleviating poverty in the country. However, three out of five SMEs which are established fail within the first few months of operation(KNBS,2007) while many of them remain small-sized affairs, failing to grow and leading to a 'missing middle' of indigenous middle scale enterprises. For the government and other relevant bodies to enact policies that will engender the performance of SMEs, it will be pertinent to understand the factors that affect the performance of business enterprises. A review of the literature suggests that there are many determinants of business success and performance among firms. Business performance is undoubtedly a complex phenomenon and both internal and external factors impact on business performance. However, many studies that have been conducted to investigate these factors have looked at only some aspects of business success at any given time, leading to an incomplete understanding on how these factors might interact to affect business success. Secondly, these studies have not been investigated among the SMEs located within Peri -urban centres of Eldoret Town. Thirdly, the factors that affect business success might not be static (Bowen *et al*. (2009), being dependent upon external influences such as the change in world and national politics, technology and economics. There is therefore a need for a study that will comprehensively and simultaneously investigate all of these major factors and evaluate their relative importance on firm performance.

A careful review of the literature suggests that the major determinants of the performance of SMEs may be conceptualized to form four broad groups namely, individual entrepreneur characteristics and capabilities, characteristics of the business, business environment and the business customers. Each of this group consists of other sub-factors. This study proposed to investigate how these factors affected the performance of SMEs located within four Peri -urban centres of Eldoret Town and their relative importance. The research gap is that as peri-urban centres expand SMEs are coming and thus the need to have a document to inform their operation and survival.The general objective of this study was investigate the factors which affect the performance Town of Kenya.

LITERATURE REVIEW

Theory of the Firm

Ronald Coase (1937) who pioneered in neoclassical theory of the firm set out the transaction cost theory of the firm to define the firm theoretically in relation to the market. It presents an explanation of the firm consistent with constant returns to scale, rather than increasing returns to scale. He also notes that firm's interactions with the market may not be under its control (example because of sales taxes), but their internal allocations of resources are:-

market transactions are eliminated and in place of the complicated market structure is substituted the entrepreneur who directs production. Coase asserts that markets could in theory carry out all production and that what needs to be explained is the existence of the firm, with its supersession of the price mechanism.
These include discovering relevant prices (which can be reduced but not eliminated by purchasing this information from specialists), as well as the cost of negotiating and writing enforceable contracts for each transaction (which can be large in case of uncertainty). However there is the element of incompleteness in contracts thus calling for renegotiation.
Ronald Coase (1937) identifies some reasons why firms arise and dismisses them at the same time, he says if some people prefer to work under direction and are prepared to pay for this (but this is unlikely). If some people prefer to pay for this (but people are paid more to direct others). If purchasers prefer goods produced by firms.
The neo-classical market is instantaneous, forbidding the development of extended agent-principal (employee-manager) relationships, of planning and trust. Coase (1987) concludes that "a firm is likely therefore to emerge in cases, where a very short-term contract would be unsatisfactory" and that firms emerge where there is existence of uncertainty. He notes that government measures relating to the market like sales taxes, rationing, price controls tend to increase the size of firms, since firms are internally not subject to such transaction costs.
Coase (2007) defines a firm as "the system of relationships which comes into existence when the direction of resources is dependent on the entrepreneur". Concludes that the size of the firm is dependent on the costs of using the price mechanism, and cost of organization of other entrepreneurs. These determine amount of products produced.
However, Putterman (1996) says that most economists accept distinction between intra-firm and inter-firm transaction but also that the two shade into each other. The extent of a firm is not simply defined by its capital stock.
.Alchiaun and Demsetz (1972) on team production aver that the firm emerges because extra output is provided by team production, but the success of this depends on being able to manage the team so that metering problems and attendant shirking (moral hazard) can be overcome by estimating marginal productivity by observing or specifying input behavior.
Such monitoring can only be effective if the monitor is the recipient of the activity's residual income (otherwise he should be monitored also). Williamson (2002) differs with this in that he sees team production as a narrow range of application, as it overcomes outputs and cannot be related to individual inputs.
In Criticizing the theory of the firms Milgrom and Roberts (1988) page 450 "said the incentive –based transaction costs theory has been made to carry too much of the weight of explanation in theory of organizations. We expect competing and complementary theories to emerge-theories that are founded on economizing on bounded rationality and that pay more attention to changing technology and evolutionary considerations".

The Concept of Firm Performance

Performance has to be fairly permanent (Nichter and Goldmark, 2009). A firm would not be classified as a performance firm on the basis of a one-time surge in performance; rather, performance has to be demonstrated over a number of years. A survey of past studies shows that many variables have been used to indicate the performance of SMEs. Some of these include changes in the number of employees, financial or stock market value, sales and revenues, productive capacity, value of production and added value of production (Ardishvili et al., 1998; Delmar (1997). Thus, a SME whose number of employees or sales volumes and revenues are continually expanding over the years can be said to be growing. Sun (2004) attempts a definition of firm performance by incorporating the indicators of performance he thinks important, by conceptualizing enterprise performance as, "the development process that enterprise keeps the tendencies of balanced and stable performance of total performance level (including output, sales volume, profit and asset gross) or keeps realizing the large enhancement of total performance and the stage spanning of development quality and level".
Mao (2004) gives three connotations of the word enterprise performance, which may be considered as being important properties that characterize enterprise performance. These are the time and dynamic properties of performance and the view that enterprise performance is both an amalgamation of both quality and quantity. The time property of enterprise performance premises that performance is only analyzable over a long period in which the long-term development tendency and process of enterprise are observed, and it is not the status of enterprise in certain time point. This property is further support for the contention that enterprise performance is fairly permanent. The dynamic property of enterprise performance views performance as not being a stable process without troubles. In the performance process, enterprise always transits from balance to unbalance, and the result is to transit from unbalance to balance and from lower balance to higher balancer through unbalance. Thus, enterprise performance is not linear, or like a ratchet, but rather that it can go into long periods of ruinous reversal. Lastly, enterprise performance is a unification of quantity (exemplified by increases of sales volume, market share, production value, profit and employees) and quality (embodied in the enhancement of enterprise quality, which includes the technological innovation ability from immature to mature production technology, the optimal efficiency of investment and output, the organizational innovation and reform).

Individual Entrepreneur Characteristics/capabilities and performance

Some of the individual entrepreneurial characteristics that have been implicated as determining firm performance have been education, work experience, and gender. Intuitively, it might be expected that SMEs led by better educated people will have faster performance compared to those that are led by people with inferior education. After all, better educated individuals could be expected to have better technical knowledge and even foresight. Empirical evidence appears to support this conclusion, notably studies by Burki and Terrell (1998) and Tan and Batra (1995).

However, in developing countries such as Kenya, the situation is more complex as it has been observed that most people who run SMEs generally have low levels of education. For instance, in a study conducted by Bowen *et al*. (2009) on 198 SMEs within Nairobi Municipality, they found that 47 percent of the respondents had post secondary or vocational training, followed by 28.8 percent. Only 4.5 percent had reached university level or above. Indeed,the study found no significant relationship between the level of education and business performance. However, the study found out that respondents who had received training in their line of business were better performers compared to those who had not, suggesting that specialized training could spur performance of SMEs.

It has been postulated that greater work experience may lead to faster performance of SMEs because of the expanded capabilities of SMEs owners and employees through the acquisition of skills and knowledge and also by expanding the entrepreneurs' social networks (Nichter and Goldmark, 2009). For example, Parker (1995) found that Kenyan entrepreneurs with at least 7 years of work experience expanded their firms more rapidly than those without such experience.

Studies suggest that women own and operate the majority of MSEs in many developing countries because of the ease of entry and their limited access to alternative opportunities (Rubio, 1991). It has also been suggested that women face special problems and challenges, such as disproportionate household duties, limited rights and unequal access to markets (Downing and Daniels, 1992). Consequently, some empirical evidence such as that of Mead and Liedholm (1998) suggests that women's MSEs tend to grow more slowly compared to those owned by men, even when controlling for the placement of more women in slow-growing MSEs.

Characteristics of the Business and performance

The resource-based view is away that a firm can be mirrored and in the process approach strategy for it. Hamel and Prahalad (1994), look at the firm as a bundle of resources. These resources and their combination make firms to deliver products and services in the market.

An example of a firm using a resource based strategy is Honda. Honda built its strategy around its strength in building petrol-based engines. It started with small chip-on engines for bicycles, moved to motorbikes, marine engines, generators and cars. Each of these products competes in quite different product markets, but leverages a common resource in the ability to build quality petrol based engines

Resource-based view has been popularized by research done by Rumelt (1991). Rumelt s research investigated firm profit differentials within and across industries. He found that there were greater differentials within industries than across industries. This implied that firm specific differences must be contributing to these differences.

Firm resources are listed by Barney (1986) as all assets, capabilities, organizational processes, firm attributes, information, knowledge e.t.c. So if resources can be anything inside the firm, which ones are more strategically important? Barney (1991) put forward a checklist for this.

He singled out the following as key characteristics for a resource to be strategically important for a firm: valuable (has to deliver value) , rare-that owned by many firms cannot deliver any competitive advantage, inimitable meaning that firms which don't have the resource cannot obtain it, and lastly non-substitutable (no equivalent substitute).

He observes that while resources can be purchased, to achieve strategic advantage from a resource it needs to be developed internally. Internal development of resources however, can take long periods of time and is often unclear how to proceed. This uncertainty and long periods adds to its value and performance once developed.

Since business markets change, firm resources also need to change over time. This is addressed by the dynamic capabilities perspective (Teece, Pisano & Shuen, 1997). This perspective which is an offshort of the resource-based view focuses on how these resources need to change overtime to maintain their market relevance. These resources are what differentiate a business from its competitor.

There are three firm characteristics that have also been widely investigated. They include firm age, formality (informality) and access to finance (Nichter and Goldmark, 2009). Literature suggests that generally younger SMEs grow more significantly quickly than older firms (Mead and Liedholm, 1998),(Parker, 1995). This seems to mirror Hanks *et al*. (1993) life cycle of the firm, in which the younger, faster growing firms might be postulated to be in the second stage of expansion while the older, slower growing firms could be in the third (maturity), fourth (diversification), or arrested development stages. This is borne out by studies which suggest that rapid expansion occurs during the third year of operation (Kantis *et al.*, 2004), implying that firms in the first stage (start up) do not expand rapidly.

Informality refers to businesses that are unregistered but derive income from the production of legal goods and services (Nichter and Goldmark, 2009). It has been observed that informal firms may need to "keep their heads down", ruling out large size and rapid performance as well as close relations with formal firms (Winter, 1995). Studies suggest that firms with credit constraints grow more slowly compared to those with easy access to credit (Schiffer and Weder, 2001).

HO_1: Individual entrepreneur characteristics have no significant influence on the performance of SMEs located within four Peri -urban centres of Eldoret Town.

Business Environment and performance

The Political, Economic, Social, Technological and Environment (PESTEL) analysis of the macro environment helps to categories factors affecting the environment; such include tax changes, new laws, trade barriers, demographic change and government policy changes.

Gillepsie, (2007) distinguishes these factors thus coming up with: political, economic, social, technological, environmental and legal factors. Political factors refer to government policy such as the degree of intervention in the economy. They include goods and services the government intends to provide, subsidies to firms, priorities in business support, education of the workforce, health and quality of infrastructure like roads.

Economic factors include interest rates, tax changes, economic performance, e.t.c. These can impact in that higher interest and inflation may trigger higher wage demands from employees raising costs. Higher income performance may boost demand for products thus with people who have income business can sell more.

Social factors impact on demand for firm's products and the availability and willingness of individuals to work. In some countries like U.K the population is ageing thus triggering costs for firms who deal in pension payments. This kind of population raises demand for medicines and other related services for the old. Thus where SMEs are located their goods are supposed to take into consideration the target customers. Technological factors mean new technologies create new products and new processes. Mp 3 players, computer games, online shopping, bar coding, computer aided design have come up as a result of better technology.

Technology like mobile money transfer (M-pesa) can reduce costs, improve quality and lead to innovation. These can benefit customers as well as firms which provide products. Environmental factors include weather and climate change. Changes in weather can affect farming, tourism and insurance thus impacting on firm performance. The growing demand for protecting the environment and move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities.

Legal factors are those that are related to the legal environment where firms operate. Introduction of age discrimination and disability discrimination legislation in the UK, an increase in minimum wage and requirements for firms to recycle are examples that affect a firm's actions. Legal changes can affect a firm's costs and demand, for example if the law affects likelihood of customers buying the item or using the service.

The business environment, labeled contextual factors, by others, act as a determinant of enterprise performance because it influences the opportunities available to SMEs (Nichter and Goldmark, 2009). Evidence suggests that SMEs tend to grow more quickly during periods of overall economic performance while they tend to do poorly during economic downturns (Liedholm, 2002). A survey of 500 SMEs in Ghana found that entrepreneurs perceived their greatest challenges to be inflation, high interest rates, and the depreciation of the local currency (Robson and Obeng, 2008). This suggests that the business environment could be a determinant of firm performance. When inflation is high, MSEs could expand slowly because of the reduced purchasing power of both the owners and the potential customers. High interest rates reduce the ability of the SMEs and their customers to borrow loans. This reduces the ability of SMEs to expand and of the customers to buy. Depreciation of the local currency makes imports, the source of raw materials for most SMEs, to be expensive.

It has also been found that the notoriously burdensome regulatory and institutional environment in developing countries might stifle business performance (World Bank, 2006). An econometric analysis of firm level data in 54 countries suggests that financial, legal and corruption challenges constrain the performance of SMEs (Beck *et al*., 2005).

HO_3: The business environment has no significant relationship with the performance of SMEs situated within four Peri -urban centres of Eldoret Town

Characteristics of the Business Customer and performance

It has been observed that without demanding consumers, especially the local ones, MSEs may have difficulties in expanding (Nichter and Goldmark, 2009). Thus, a strong demand for the goods and services produced by SMEs could be an important factor in their performance. For Kenya's SMEs, local consumers are especially important, as it has been observed that they are less likely to interact with developed country firms. Although exports are significant, one of the reasons that have been provided for the rapid expansion of firms in countries like China and USA is because of huge populations with a lot of disposable income, spurring demand for goods produced locally.

Studies suggest that the consumer lifestyle/consumption patterns, purchase behavior, demographic and geographic characteristics, and whether the customer is a business or an end consumer might affect the performance of firms (Nichter and Goldmark, 2009). Customers with high end lifestyles and liberal purchase behaviours are likely to spur more SME performance than those who are more conservative. Customers living in urban areas and rich areas may cause stronger MSE performance compared to those living in more Spartan neighborhoods. The age of the consumer might affect their spending patterns, which might influence performance of SMEs (Parker, 1995).

The Four Ps (Product, Price, Promotion and Place) model was proposed by Jerome McCarthy in 1960 and is used widely by marketers. They consist of product, price, promotion and place. On product this model says a product is seen as an item which satisfies customer needs, it consists of tangibles or intangibles like service.

Mccarthy (1995) says every product is subject to a life cycle of performance, maturity and decline phase. Marketers must carefully research on how long the lifecycle of the product they are marketing is likely to be and focus on different challenges that arise as it goes through the stages. He [marketer] must consider the product mix. Marketers should consider how to position the product, exploit the brand, and exploit company resources so that each product complements the other. Product development strategies should be considered.

The price is very important as it determines the company's profit hence survival. Adjusting the price has an impact on the market and depending on the products price elasticity, it affects demand and sales. The marketer has to set a price that covers other elements of the marketing mix. When setting price the businessman must be aware of the customer perceived value for the product. Customers also compare the prices and values of competing products.

Promotion refers to all methods of communication that a marketer uses to provide information about the product. This comprises elements like advertising, public relations, personal selling and sales promotion. Sales staff are important in convincing customers and publicizing the product and services

Place which refers to convenience of the location where consumers have access to products is very important. Is the location convenient for distributing the goods or can franchising be used to market and sell the products? This can be considered in order to penetrate the market successfully

The literature review presented above suggests that the conceptualized determinants of firm performance: individual entrepreneur characteristics and capabilities, characteristics of the business, the business environment and the characteristics of the business customers could affect firm performance. However, there is a dearth in studies that have simultaneously investigated all the factors, and hence, their relative importance is not easily discernible .Further to that SMEs in the subject peri-urban centres have not been researched on . This study proposes to fill this gap in knowledge.

RESEARCH METHODOLOGY

The study was undertaken on SMEs located within Peri -urban centres of Eldoret Town. This study employed an explanatory research design that would enable it collect requisite information about the factors that influence the performance of SMEs within Peri -urban centres of Eldoret Town, as they exist within the population. The target population consisted of all the SMES located within Peri -urban centres of Eldoret Town during the study period. The study sought information from the owner/manager of each SME. According to Wareng county council records there are 450 registered SMEs in Chepkanga, Cheptiret, Mlango and Jua Kali The study purposively selected 4 Peri-urban centres of Eldoret. The study used Yama (1967:886) simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes of 222 in the study as shown in appendices. The study then employed systematic random sampling techniques in the selection of the SMEs to be included in the study. Since random sampling technique is probabilistic in nature, it implies that the results were reliable since each SMEs in each cluster had an equal chance of being included in the study. As a result, selection bias was reduced. This study used both primary and secondary data. Information obtained from the SMEs owners/managers using questionnaires and observation generated primary data, while the secondary data was obtained from existing databases. Reliability of the test items in the questionnaire were tested by calculating a Cronbach alpha during piloting. Where the Cronbach alpha value was found to be above the threshold of 0.7, the items were judged as being reliable.

Data Analysis and Presentation

Both descriptive and inferential tests were used in the analysis. Data was described or summarized using descriptive statistics such as mean and frequencies, which helped in meaningfully describing the distribution of responses. Various inferential statistics were used to infer population characteristics from the sample. Pearson's correlation coefficient was used to establish relationships between variables.

A Multiple linear regression model was used to predict firm performance using the four independent variables in the study: individual entrepreneur characteristics, characteristics of the business, the business environment and the characteristics of the business customers. In The regression model used to test is shown below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + €$$

Where;

Where;	Y	- Firm performance
	α	- Constant
	$\beta_1, \beta_2, \beta_3$ and β_4	- Coefficient indicating effect of individual entrepreneur characteristics, characteristics of the business, the business environment and the characteristics of the business customers
	X1	- Individual entrepreneur characteristics
	X2	- Characteristics of the business
	X3	- Business environment
	X4	- Characteristics of the business customers
	€	- Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 18. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$.

RESULTS

majority of the respondents were males, 106 (60%) while the females were represented by 70 (40%). , while 91(51.7%) of the respondents were single while 78 (44.3%) of them were married. majority of the respondents in this study were between the age of 21 – 30 years, 80 (45.5%) while 40.3% of them were in the 31 – 40 years age bracket. majority of the respondents, 102 (58%) are businessmen/ business ladies i.e. they are involved in general businesses.

Descriptive statistics and correlation results

The study also came up with an analysis of the correlation between the dependent variable and the independent variables. The results of the analysis were presented in table 1. This was important in determining the extent of the relationship between the variables as indicated by the Pearson correlation coefficient r.

The correlation table 1 shows that, there is a positive and significant relationship between the entrepreneur characteristics and performance of SMEs (r= 0.327) which is significant as explained by a p-value = 0.000 at α = 0.01.This result implies that with 1 % increase in the positive effect of the entrepreneur characteristics, there is approximately 32.7% increase in performance of SMEs The table also shows that there is a positive and significant relationship between business characteristics and performance of SMEs (r = 0.532) which is significant as explained by a p-value = 0.000 at α = 0.01 which indicates that there would be 53.2% increase in performance of SMEs with 1% increase in the positive effect of business characteristics. The table also revealed that there is a significant positive relationship between performance of SMEs and the business environment (r = 0.356) which is significant with a p-value = 0.000 at α = 0.01 which indicates that there would be a 35.6% increase in performance of SMEs with 1% increase in the positive effects of the business environment. The table also revealed that the performance of SMEs had a positive relationship with the business customers (r = 0.513) which was significant as shown by the p-value = 0.000 at α = 0.01 which implies that there would be 51.3% increase in the performance of SMEs with 1% increase in business customers. From the above findings we conclude there is a general positive and significant relationship between the dependent variable and the independent variables, the most significant ones among them being business characteristics and business customers. The table above showed that there was significant positive relationship between the entrepreneur characteristics and the business characteristics (r = 0.468) which indicates that entrepreneurial characteristics influence the business characteristics. Also, the business characteristics are also determined by the business environment (r = 0.313), business customers determine the entrepreneur characteristics (r = 0.207) and the business characteristics (r = 0.426).

	Mean	Std	Skewness	Performance Of Smes	Entrepreneur Characteristics	Business Characteristics	Business Environment	Business Customers
Performance of SMEs	2.2756	0.65947	1.168	1				
Entrepreneur Characteristics	2.608	0.62182	-0.551	0.327**	1			
Business Characteristics	2.481	0.54477	1.029	0.532**	0.468**	1		
				0	0	0		
Business Environment	2.2957	0.42124	0.309	0.356**	0.092	0.313**	1	
Business customers	2.4467	0.57118	-0.066	0.513**	0.207**	0.426**	-0.011	1

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

Source: Survey Data, 2012

Hypothesis testing

The regression results in the table show that each of the predicted parameters in relation to the independent factors were significant; β_1= 0.143 (p-value = 0.027 which is less than α = 0.05) which implies that we reject the null hypothesis stating that there is no significant relationship between entrepreneur characteristics and performance of SMEs. This indicates that for each unit increase in the entrepreneur characteristics, there is 14.3 units increase in performance of SMEs. this implies that improving on entrepreneur characteristics such as education background, work experience among others will improve the performance pattern on SMEs. The study results were supported by Nichter and Goldmark (2009) who postulated that greater work experience may lead to faster performance of SMEs because of the expanded capabilities of SME owners and employees through the acquisition of skills and knowledge and also by expanding the entrepreneurs' social networks. The study results further supports Parker (1995) findings that Kenyan entrepreneurs with at least 7 years of work experience expanded their firms more rapidly than those without such experience

The table also shows that β_2 = 0.225 (p-value = 0.003 which is less than α = 0.05) which indicates that we reject the null hypothesis stating that there is no significant relationship between the business characteristics and performance of SMEs. This implies that for each unit increase in business characteristics, there is upto 22.5 units increase in performance of SMEs. The results are consistent with Schiffer and Weder (2001) study that firms with credit constraints grow more slowly compared to those with easy access to credit. The results mirror Hanks *et al.* (1993) life cycle of the firm, in which the younger, faster growing firms might be postulated to be in the second stage of expansion while the older, slower growing firms could be in the third (maturity), fourth (diversification), or arrested development stages. This is borne out by studies which suggest that rapid expansion occurs during the third year of operation (Kantis *et al.,* 2004), implying that firms in the first stage (start up) do not expand rapidly.

The value of β_3 = 0.281 (p-value = 0.000 which is less than α = 0.05) which implies that we reject the null hypothesis stating that there is no significant relationship between business environment and performance of SMEs. This indicates that with each unit increase in business environment, there is upto 28.1 units increase in performance of SMEs. this suggests improving business environment such as government support, transport cost, interest rate, inflation rate among others, will improve performance SMEs. The study results are supported by Nichter and Goldmark (2009) that the business environment, labeled contextual factors, by others, act as a determinant of enterprise performance because it influences the opportunities available to SMEs. Evidence suggests that SMEs tend to grow more quickly during periods of overall economic performance while they tend to do poorly during economic downturns (Liedholm, 2002). The findings further coincide with Robson and Obeng (2008) findings that entrepreneurs perceived their greatest challenges to be inflation, high interest rates, and the depreciation of the local currency. This suggests that the business environment could be a determinant of firm performance. When inflation is high, MSEs could expand slowly because of the reduced purchasing power of both the owners and the potential customers. High interest rates reduce the ability of the SMEs and their customers to borrow loans. This reduces the ability of SMEs to expand and of the customers to buy. Depreciation of the local currency makes imports, the source of raw materials for most SMEs, to be expensive.

$\beta_4 = 0.391$ (p-value = 0.000 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis that states that there is no significant relationship between business customers and performance of SMEs. This implies that there is upto 39.1 unit increase in performance of SMEs for each unit increase in business customers. Nichter and Goldmark (2009) argued that it has been observed that without demanding consumers, especially the local ones, MSEs may have difficulties in expanding. The price is very important as it determines the company's profit hence survival. Adjusting the price has an impact on the market and depending on the products price elasticity, it affects demand and sales. The marketer has to set a price that covers other elements of the marketing mix. When setting price the businessman must be aware of the customer perceived value for the product. Customers also compare the prices and values of competing products.

The R-square value = 0.48 shows that the model parameters account for 48% in the change of performance of SMEs while the adjusted R-square = 0.468 indicates about 47%. The analysis of variance attributed to the model parameters is significant as indicated by the F-ratio = 37.682 with a p-value = 0.000 which implies that the variation accounted for by the model parameters on performance of SMEs is significant.

Table 2: Regression Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	**Std. Error**	**Beta**	**t**	**Sig.**	**Tolerance**	**VIF**
(Constant)	-0.862	0.264		-3.263	0.001		
Entrepreneur Characteristics	0.166	0.074	0.143	2.231	0.027	0.779	1.284
Business Characteristics	0.348	0.114	0.225	3.056	0.003	0.588	1.7
Business Environment	0.337	0.072	0.281	4.666	0.000	0.876	1.141
Business customers	0.412	0.067	0.391	6.169	0.000	0.795	1.258
R Square		0.48					
Adjusted R Square		0.468					
ANOVA (F Ratio)		37.682					
ANOVA (Prob)		0.000					

Dependent Variable: Performance of SMEs
Source: Survey Data, 2012

CONCLUSION AND RECOMMENDATIONS

In conclusion, entrepreneur characteristics influence SME performance, basic education enhances the overall quality of the owner/manager by providing him/her with basic numeric and literacy skills, thus increasing the chance of performance of the business. Some studies (Darikson,1991; Davidson, 1991 and Davidson,1989) state that the fact that a manager has a higher education degree or even a postgraduate degree seems to stimulate the performance of the firm, thus having an impact on both survival and performance. The converse argument is that owner/managers of SMEs who had degrees generally achieved lower rates of performance than those less well educated.SME owner/managers with more managerial, sector experience or prior SME experiences as owner/manager tend to correlate with greater performance. Based on the study findings the study further concludes that SME characteristics, business customer and business environment affect performance of SMEs.
Based on the study findings the study concludes that SME characteristics, such as improving SME funding, access to loans, increasing sources of loans, training the SME manpower, motivating employees, improved use of ICT, increasing business size improves the performance of SMEs. Moreover business environment like government support and stabilizing the country economy enhances the performance of SMEs.

Recommendations

Implication to Theory

In stochastic theory Gibrat's law, argues that the size and age of firms has no effect on the performance of small enterprises (O'Farrell and Hitchens (1988). However, the study shows that business characteristics such as firm size would be important in performance of SMEs, thus would lead to graduation from micro, small, medium and eventually to large enterprises, along which infrastructure improvement and technology up performance would be expected by then, SMEs would have developed their own muscles and capability to innovate and develop their own competitive strategies.

Implication to Practice

The study recommends that resources should be invested more into marketing and innovation. At the moment the biggest investments have been done in new technology. The technology investments had improved productivity and quality, but marketing and knowledge of new markets was poor.

Our results are relevant for policy makers and firm managers of SMEs. The evidence shows that small- and medium-sized firms in these centres still rely on internally generated sources to support their performance and find it very difficult to obtain external finance. Thus, the government needs to pay increased attention to small- and medium-sized enterprises and try to create an environment that will be beneficial for SME development. Further, a better understanding of how firm-specific characteristics impact on local firms' performance can help managers engage in more efficient decisions related to their capital structure in order to lower the cost of capital.

Implication to Further Study

This project has studied four locations in Peri-Urban Centres of Eldoret Town during a certain period and their internal and external factors influencing their performance. To have clear understanding for the SME current situation the managers were interviewed through questionnaires. During this study the author came across various areas influencing SME performance in Peri-Urban Centres of Eldoret. Comparing towns would give us more clear understanding of the performance factors in Kenya. The potential could also be investigated in the future. Moreover, the study use of questionnaire was limited to likert scale only, it is therefore important to use secondary data like debt ratios and their effect on performance of SME using return on asset as a measure of firm performance.

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