

Effect of Human Capacity Building on the Performance of Small and Micro Enterprises in Kisumu City, Kenya

Dr. Francis Ofunya Afande, PhD., FCIM (UK).
Dedan Kimathi University of Technology, P.O. Box 657,10100, Nyeri Kenya
offunya@gmail.com

Abstract

Aims: The overall objective of the study was to evaluate the impact of human capacity building on performance of Small and Medium Enterprises. The study was guided by the following specific objectives: to examine the current human capacity building approaches used by SMEs in Kisumu; and to assess the impact of human capacity building on the performance of SMEs in Kisumu.

Study design: a descriptive survey design was used to undertake the study.

Place and duration of the study: The target population was drawn from the 7012 businesses that are licensed by the Municipal Council of Kisumu of which 80 percent are SME's (Kisumu Municipal Office, June 2013, 2010). The study took a period of one month.

Methodology applied: The sample consisted of 320 respondents selected from owners and staff of SMEs in Kisumu municipality. Primary data was collected from the proprietors/managers of the SMEs with the aid of semi-structured structured questionnaires. Data pertaining to the objectives of the study was analyzed using descriptive statistics, which includes measures of central tendency, measures of variability and measures of frequency among others. In order to determine the relationship between human capacity building and SMEs performance, correlation and regression analyses were undertaken. In addition, bar charts, pie charts and graphs were used. The information was presented and discussed as per the objectives.

Results: Findings of the study show that the main training approaches were used by the SMES include the following: formal training approaches only, on-the job-training approaches only; job-specific training approaches only; a combination of formal training approaches and on-the job-training approaches; and a combination of formal training approaches, on-the job-training approaches and job-specific training approaches.

Conclusions: Based on findings of the study, the following conclusions were made: Research, management, and policy development of training in the SME sector needs to be more open and flexible in order to address the idiosyncratic nature of SME requirements; research, management and policy instruments of training support will need to interact with, and be responsive to, the subtle distinctions of context that will moderate what is more appropriate, and more likely to be welcomed, in the small business sector; and if training is to be offered to SMEs it should encourage as little time away from the workplace; it should be flexible and inexpensive.

Keywords: Human Capacity Building, performance, small and micro enterprises.

ABBREVIATIONS AND ACCRONYMS

<i>CBS</i>	<i>Central Bureau of Statistics</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>HRM</i>	<i>Human Resources Management</i>
<i>IIED</i>	<i>International Institute for Environment and Development</i>
<i>NGOs</i>	<i>Non Governmental Organizations</i>
<i>OECD</i>	<i>Organization for Economic Co-operation and Development</i>
<i>OJT</i>	<i>On the Job Training</i>
<i>SMEs</i>	<i>Small and Micro-sized enterprises</i>
<i>SPSS</i>	<i>Statistical Package for Social Sciences</i>
<i>TQM</i>	<i>Total Quality Management</i>
<i>UNDP</i>	<i>United Nations Development Programme</i>

1.0 INTRODUCTION

1.1 Background of the Study

The importance and contribution made by small and micro-sized enterprises (SMEs) in an economy has attracted widespread attention from researchers from the time small business research gained significant momentum in the early 1970's (Rutherford and Weller, 2002). Work undertaken by Birch (1979) and Storey (1994), which gathered together the evidence from a wide range of studies, has provided policy makers and commentators with evidence of the contribution that small firms make, the difficulties they experience and various attempts and reasoning for government intervention in the sector.

According to Beaver (2002), SMEs have an important role to play in a country's economy, and globally they contribute eighty per cent to a country's economic growth. For instance, "of the 3.7 million

businesses in the UK, 99.2 per cent are defined as small businesses, employing fifty seven per cent of the workforce” (Denby, 2001). For many countries in Africa, SMEs and the informal sector represent over 90% of business and account for 60% of employment (International Institute for Environment and Development (IIED), 2005). For African countries to achieve long-term, sustainable growth, it is critical that they encourage and enable small and medium-sized entrepreneurs to launch and expand businesses, and enter the formal economy, thus helping SMEs to serve as an engine of growth.

The common definition in OECD (Organization for Economic Co-operation and Development) countries is based on employment figures; correspondingly an SME has less than 500 employees (OECD, 1997A). In Kenya, "Micro-enterprises" are those with 10 or fewer workers, "small enterprises" have from 11 to 50 workers, and "medium enterprises" have from 51 to 100 workers. Censuses indicate that micro-enterprises comprise the lion's share of enterprises in Kenya while there are a few medium enterprises (Parker and Torres, 1994). Small enterprises are almost non-existent. As well, micro-enterprises are indigenous while the medium-scale and larger manufacturing enterprises are dominated by Asian (Indian) capital.

1.1.1 Human Capacity Building for SMEs

Human capacity building is the “process of equipping individuals with the understanding, skills, and access to information, knowledge, and training that enables them to perform effectively” (UNDP 1992) in a society. Berg (1993) elaborates on this definition to highlight three main activities: (i) Organization strengthening: the process of institutional development; (ii) Procedural improvements: general functional changes or system reforms; and (iii) Skill enhancement, general education, OJT, and professional deepening in crosscutting skills.

Following Argenti's (1976) argument, the authors claim that most problems affecting SMEs are related to lack of managerial capability in owner-managers of SMEs. Though it is difficult to determine what constitutes poor management, all problems of SMEs, be it marketing, operations, finance, personnel or distribution, are all essentially managerial problems. No matter what happened to these functions, managerial effectiveness could by definition have avoided or at least minimized their impact on the firm survival. Managers require basic skills to establish organizational goals and determine appropriate strategies to achieve these goals. The success of SMEs in today's turbulent markets depends largely on their ability to engage in environmental scanning activities in order to understand the behavior of and trends in their environment (Temtime, 2001).

The processing, gathering and analysis of interoperating environmental data requires managerial competence and expertise. A previous study (Temtime, 2002) showed that most SMEs do not engage in actual strategic planning as they put too much emphasis on operational bits and pieces. Some prepare business plans just for external validation by banks and creditors rather than coordinating organizational activities. It is not uncommon that owner-managers often spend too much time fire-fighting rather than leading the firm. As the environment of SMEs is dynamic rather than static, turbulent rather than stable, and requires managerial agility and capability, SMEs should be assisted to think and act strategically.

Hitt *et al.* (1996) found that management decision-making and organizational structure in SMEs revolves around the preferences and interests of owner-managers, who take all the major decisions and monitor all activities. While such approaches and structures enable strong control over the firm, organizational success or failure in SMEs is seriously affected by the managerial competencies of owner-managers. Al-Madhoun and Analoui (2003) studied 106 managers in Palestine and found an important relationship between managerial skills and small business development. Enhancing capacity of SMEs has a very great potential to spur economic growth.

1.1.2 Performance and Human Capacity Building for SMEs

The relationship between HRM activities and performance, in some senses, is problematic. It has been argued that the relationship between HRM and firm performance remains fuzzy and results depend on the population samples and the measures used (Sels *et al.*, 2006). Notwithstanding this, there seems a general consensus that best practice HRM activities can enhance business profitability, life span, sales volumes and infrastructural improvement especially where the more sophisticated forms of HRM have been introduced (Way, 2002; Hayton, 2003). However, we would also argue that it is important to look at variations within the SME sector. Each of these variables may differ in their effects on firms of different sizes within the SME category. As Kieser and Ebers (2006) observe, the size of an organization is a critical influence on its internal structure. Motivating, communicating, provision of training and the development of skills present very different problems for the micro firm of two or three employees as compared with the medium sized firm with perhaps 200 employees.

Analyses of the links between management training and firm performance in smaller firms have certain methodological weaknesses: the influence of training falls when more “controls” are introduced or when other non-training managerial practices are included. These are shown to have a stronger link to performance than training; no link between training and productivity trends is apparent and, even if a positive correlation were to exist, the methodology is unable to disentangle whether small firms that train perform better or whether small firms that perform better can afford to train. Recent analysis in the United Kingdom found a positive association between current training measures and historic performance, but no clear association between current training

and subsequent performance. The implication is that prior performance may generate the resources to undertake training, but that it is difficult to assert that training expenditure enhances future performance (Cosh *et al.*, 1998). Further data and analysis are needed to confirm empirically the link between management training and enhanced performance of SMEs.

1.1.3 SME's in Kenya

In Kenya, SMEs are defined as businesses in both formal and informal sectors, classified into farm and non-farm categories employing 1-50 workers (Republic of Kenya, 2005). The sector is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population (Moyi *et al.*, 2006). Since Independence, the Government has recognized the potential of the SME sector in employment creation and poverty reduction in its numerous policy documents. The *Sessional Paper No. 1 of 1986 on Economic Management for renewed growth* was the first to give explicit recognition of the sector's role in economic growth and development. Its recommendations led to the publication of *Sessional Paper No. 2 of 1992, Small Enterprises and Jua Kali Development in Kenya*, that identified the small-scale and Jua Kali enterprise sector for support to assist it to "graduate into the formal sector" and to become a major player in the creation of new jobs and economic growth. This was followed by Sessional Paper No. 2 of 2005 on *Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*.

The Government of Kenya spelt out its policies towards the small and "Jua Kali" enterprises in two sessional papers and three development plans. In these documents, the government stressed the critical role of small enterprises in the national economy and outlined the policy interventions needed to enhance their growth. The first Sessional paper, Sessional Paper No.1 of 1986 on Economic Management for Renewed Growth, singled out the small enterprise sector and rural economy as future generators of employment (Republic of Kenya, 1992). Three years later, in 1989, the Government prepared a paper, "A Strategy for Small Enterprise Development in Kenya: Toward the Year 2000," in which it documented the major impediments to small enterprise development and enunciated policies for improving the performance of the sector. Critical barriers identified were: difficulty in raising capital; limited managerial skills; regulatory constraints; low marketing skills; limited extension services; and difficulty in getting access to technology.

1.1.4 SMEs in Kisumu Municipality

The performance and growth of SMEs in Kisumu city is rather low as compared to other SMEs in other towns in Kenya like Kericho and Eldoret (Abuodha and King, 1992). The average lifespan of SMEs in Kisumu city is six months (GOK, 1999, 2000); the averages of Kericho and Eldoret towns are 16 and 14 months respectively (GOK, 2000), in comparison this is very low and hence needs to be investigated. The average profits per annum for SMEs in Kisumu have remained at about 2 percent since 2005 (GOK, 2008; Otunga, Opata and Nafukho-Muhia, 2001) while the averages of the profits of SMEs in Kericho and Eldoret grew at 32 percent and 38 percent respectively over the same period (GOK, 2008). The sales volumes of SMEs in Kisumu town grew at 6 percent (GOK, 2008) while the growth rates in the sales volumes of SMEs in Kericho and Eldoret were 24 percent and 28 percent over the same period (GOK, 2008). The growth rates of SMEs in Kisumu is lower than the national figures of 61 percent and also lower than the rates of its neighboring towns such as Kericho and Eldoret (Kibas, 2004). These are evidence of low growth and development. There is therefore need to understand the correlation of the different human capacity building approaches used by SMEs in Kisumu city with a view of identify the impact it has in improving the performance and growth of the SMEs in the city. Otherwise, the SMEs may not effectively play their role as alternative employment for majority of Kenyans. This will lead to unemployment and retard the overall development of the country.

1.2 Statement of the problem

Proper management of a company's human resources is key to business survival in today's world. Human capacity building can be particularly important for small firms (Marlow and Patton, 1993) since they tend to be so dependent on human capital. The need for human capacity building for SMEs in Kenya is of great significance if we are to increase the performance and growth of SME's and at the same time reduce inefficiency, low productivity (Mathis and Jackson, 1991) and the rate of failures of small firm (McEvoy, 1984). In Kenya SMEs employ about 7.5 million people, or 80 percent of the country's total employment outside the small-scale agriculture. SMEs therefore are a crucial sector and an important player in national development (Kibas, 2004; King, 1991). The challenges they face which affect their growth and profitability and diminish their ability to contribute effectively to sustainable development need to be determined and addressed (ILO, 2003; Keats and Bracker, 1988). Unless this is done, success will continue to elude them and their growth will continue fall leading to loss of employment (Kibas, 2004).

SMEs have been recognized as the engine of economic growth and have been put in the development agenda and strategy of many developing African countries. Recognizing the great contributions of SMEs to economic diversification, employment creation, income generation, and poverty alleviation, the government of Kenya has been putting much effort and resources to promote the development of entrepreneurship and SMEs. However,

most business support policies and programmes focus on financial assistance for start-up firms and very little has been done to develop entrepreneurial and managerial capability of citizens who start business with little or no management skills. It is not only access to finance or the availability of capital that leads to competitiveness: it is how SMEs manage their scarce resources (financial, human and material), market complexities and changes, as well as opportunities and threats in the environment (Temtime, 2002). As argenti (1976) has argued, the most commonly cited cause of business failure is “poor management”. As every business operation or activity is directly or indirectly related to management, it is essential to identify and assess the critical managerial factors affecting the performance of SMEs. With these studies in mind there is a need to determine how human capacity building will enhance the performance of SMEs in Kisumu city with a view of identify the strategies that will mitigate them and improve the growth of the SMEs in the city. SMEs will thus effectively play their role as alternative employment for majority of Kenyans and help reduce unemployment. This study thus focused on the human capacity building for SMEs in Kisumu with an attempt to bridge the existing gap from other studies by seeking answers to the following research questions: (i) What are the current capacity building approaches used by SMEs in Kisumu?; and (ii) How does the human capacity building affect the performance of SMEs in Kisumu?

1.3 Objectives of the study

The overall objective of the study was to evaluate the impact of human capacity building on performance of Small and Medium Enterprises.

The study was guided by the following specific objectives:

- (i) To examine the current human capacity building approaches used by SMEs in Kisumu.
- (ii) To assess the impact of human capacity building on the performance of SMEs in Kisumu.

1.4 Importance of the Study

The current study seeks to raise ideas and issues in the hope that the various stakeholders and persons directly addressing issues related to human capacity building for small and micro enterprises in Kenya will continue the discussion. Specifically, the findings of this study, it is hoped, will be beneficial to various key stakeholders as discussed below:

The management of SME’s in Kisumu and in Kenya will gain a better understanding of the current human capacity building approaches to support Small and Micro sized Enterprises and the impact it has on the performance of SMEs. On the basis of the findings of the study, the management of these small and micro enterprises will implement decisions on HRM from an informed position.

Policy Makers will acquire insight into the critical areas of support mechanisms for small and micro sized enterprises and accommodate them in their policies where applicable.

Academicians and scholars will use the findings from the study as a source of reference for other researches. In addition, academic researchers may need the study findings to stimulate further research and like any other research, it will yield new information and act as a resource material for other readers.

Financial institutions will use the information to offer human capacity building support for their customers so that they can service the credit extended by the bank and grow to be profitable and continue contributing to the economy.

The Municipality will find the data and information useful for proper planning and decision-making at the municipal council, and for institutionalization of a framework for the management and development of profitable SMEs in the town. The sustainability of SMEs should be an important area of economic policy. This study will yield data and information that will be useful in restructuring SMEs and making them more stable and better performers, thus enhancing the economic growth of the town and the country.

2.0 LITERATURE REVIEW

2.1 Human capacity building needs and approaches for SMEs

The organizational effectiveness of the firm (Perry, 1993; Huselid, 1995; Terpstra and Rozell, 1993) and its ability to create a sustainable competitive advantage (Pralhad, 1983; Pfeffer, 1994) can hinge on whether HRM practices are properly thought out and successfully implemented. The human potential in a company is generally much more difficult for competitors to duplicate than the plant, equipment or even products that a company produces (Flanagan and Despande, 1996). Consequently, the nature and well-being of a company’s employees can become its main strength in carving out a profitable existence in the industry

SMEs tend not to have a strong record in providing training for their employees (see for example, Matlay, 1997). Indeed, there is strong evidence that the smaller the firm, the less the provision of structured training (Storey and Westhead, 1996). However, the lack of formalized training structures may, to some extent be compensated for by informal training activities. Nevertheless, the lack of formal training in SMEs has been highlighted by Johnston and Loader (2003) who provide a full discussion of why such provision is limited.

According to the Ministry of Trade and Industry (SME Barometer, 2/1998), the most important training needs of SMEs in 1998 were: Marketing and dissemination of information; Product development; Staff development and training; Management/leadership; Information technology; Taxation, legislation; Production and materials; Quality, quality control; Financing, economy and accounting; Exports and internationalization; Sales; and Co-operation and networking.

The contribution of Small and Micro Enterprises (SMEs) to a healthy economy has long been recognized and capability development of small firms remains critical to economic prosperity (Matlay, 1999). This concern for SME development is not new. Since the early 1970s in the UK, both academics and policy makers alike have started to pay attention to the role played by SMEs in economic growth, employment, and technological change (see for example, Gibb and Scott, 1985; Storey, 1994). Despite this concern, and many initiatives to encourage small firms to grow, it is suggested that “one of the key reasons for low-levels of UK productivity is the “long-tail” of badly-managed and under-performing small firms” (Jones, 2003). Management skill shortages still exist in the SME sector and management development and training in the sector remains a policy priority.

Research has also shown that, because of the habit of promoting informal training over formal training, SMEs operating in the manufacturing sector are in a relatively disadvantaged position (Matlay, 1999). Both demand and supply factors provide explanations as to why SMEs are reluctant to invest in training. From the demand side, it is believed that one of the difficulties is the lack of quantifiable evidence that shows a link between training and performance (Marshall *et al.*, 1993, 1995; Patton *et al.*, 2000). It is suggested that by making such a link more explicit and informing managers of the benefits, demand and interest for training and management development within SMEs could be improved. It is also considered that the demand for training may be determined by the context of a business. Characteristics such as age, size, ownership and main industrial activities may ultimately determine the nature and extent of training demand (Hendry *et al.*, 1991). Alternatively, from the supply side, training policy and delivery systems fail to understand and address the specific needs of SMEs. SME managers are thus making an informed choice and deciding not to invest in the training offered (Storey and Westhead, 1997).

Researchers in the field unanimously agree that SME training is essentially informal and reactive response to short-term issues (Hill and Stewart, 2000). To face external uncertainty, small firms prefer to take flexible routes (Westhead and Storey, 1996). Further, the Skill Assessment Report (2002) noted that resource-scarce SME managers believe informal approaches provide cost-effective solutions. Given the importance of informal training to the SME sector, it is perhaps surprising that existing research focuses almost exclusively on the effects and outcomes of formal training programmes. While highlighting the critical need for proper measures for training constructs, Kitching and Blackburn (2002) noted that the mismatch between firm practice and research focus is something that needs immediate attention. A broad definition of training includes any attempt, within or outside the organization, to increase job-related knowledge and skills of either managers or employees (Kitching and Blackburn, 2002). Although this definition captures important parameters, the Skills Assessment Report (2002) also emphasizes specifically the need to distinguish between formal and informal training approaches. Training in itself is a difficult concept to quantify, but Westhead (1998) believes that the practice of providing sweeping generalizations to cover a variety of cases that are in many ways dissimilar makes things even more confusing. Thus, unlike previous research, this study makes a clear distinction between formal and informal training practices.

SME training research often considers the provision of training at individual level with staff/employee education and training receiving attention over management training and development. O’Dwyer and Ryan (2000) argue that SME training researchers should focus on management training and education, as it is an area that is critical for firm success, but receives no special attention. Therefore, this study considers management training at the firm level. However, in contrast to other firm level studies, this study does not take the amount of time or money spent on training as measures for training commitment. Reflecting the need to identify actual patterns of behavior, we use the number and type of practical interventions undertaken by a firm as indicators for training investment.

2.2 The Conceptual Framework

The conceptual framework will help provide clear links from the literature to the research goals and questions. This will also help in contributing to the formulation of the research design.

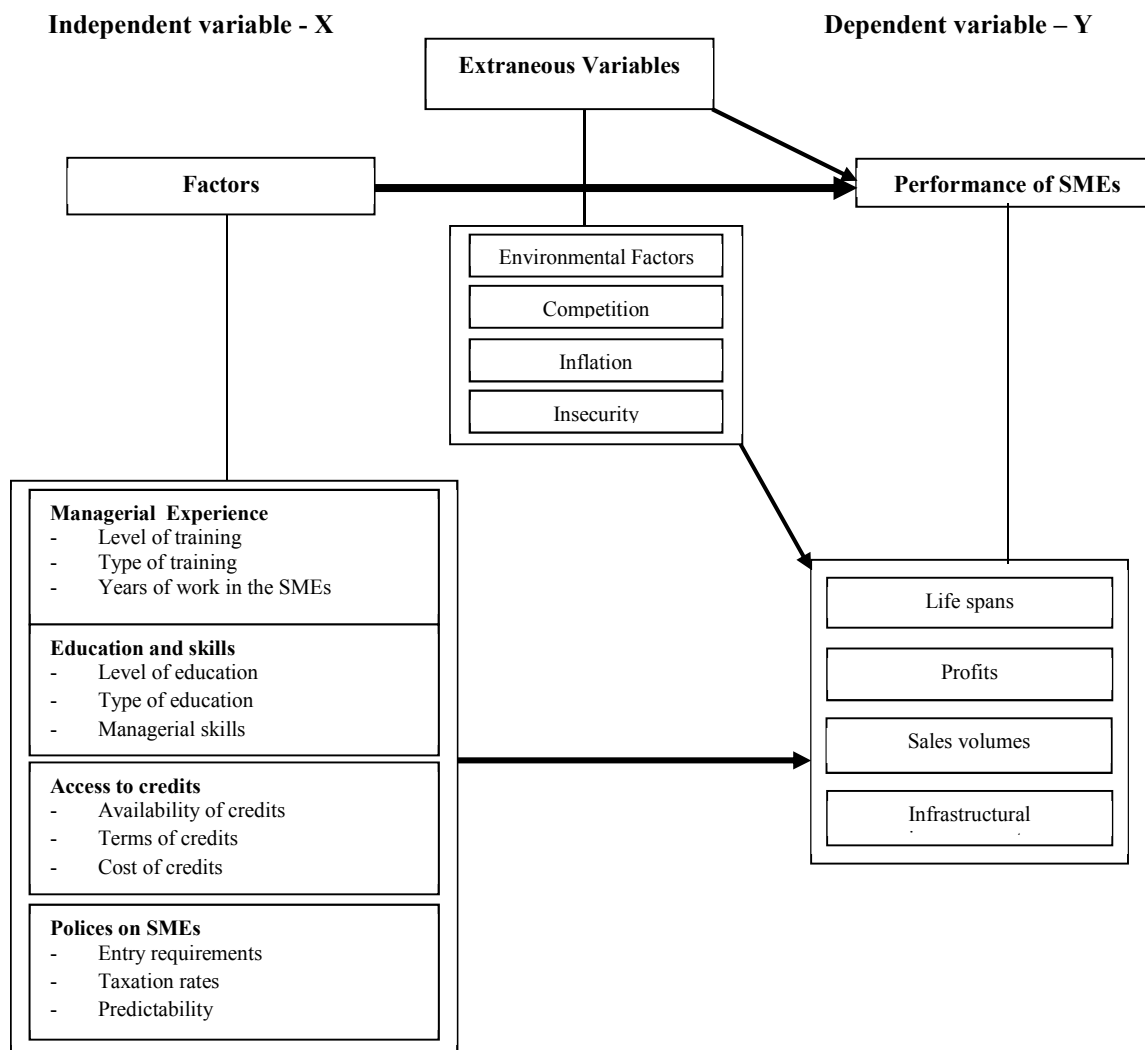


Figure 2.1: Conceptual Framework

Source: Adapted from A general guide to writing research proposal and report. A handbook for beginning researchers (2nd ed.), (72), By Oso and Onen, (2008). Kampala; Uganda: Makerere University Printers.

The arrows indicate cause – effect relationships, with the heads pointing at the effect from the cause. The sizes of the arrows indicate their strengths. A line indicates a division. Arrows of the same size have the same valence. This framework postulates that managerial training and experience (and particularly the level of training, type of training undertaken and years of work in SMEs by the managers); education and skill (and specifically level of education of managers of SMES, type of education and managerial skills) of the managers of SMEs; access to credits (availability of credits, terms of credit and cost of credits) and policies on SMEs (and particularly the entry requirements, taxation rates and predictability of the policies) will affect the performance of SMEs. That if there is adequate managerial training and experience; if there is sufficient education and among managers of SMES; if there easy access to credits; and if there are policies on SMEs; then they will have long life spans, make profits, have large sales volumes and improve their infrastructure. In other words, life span, profits, sales volumes and infrastructural improvement are dependent on managerial training and experience, education and skills, access to credit and policies on SMEs for growth to occur. But this performance can be influence by environmental factors, unethical competition, inflation and insecurity, which may lower the performance levels even if other factors are all appropriate.

2.3 Impact of human capacity building on the performance of SMEs

According to Bacon *et al.* (1996), Human capacity building enhances an employee's productivity and reduce their probability of quitting (as increased wages and other benefits accrue from increased productivity) Thus the Ease of access to business skills by SMEs owners/managers. Booth and Snower (1996) argued that on-the-job training works for most small firms: employees learn in the context in which their skills are used and maintained. However, maintaining competitiveness relies not only on on-the-job or job-specific training, but also on a greater degree of formal training. The advantage of formal training is the gain of accredited experience and knowledge

from sources out with their own organization. Surveyed SMEs have called on training providers to offer bite-size training, tailoring courses to the needs of small businesses (Godfrey, 1997). Training providers will need to be more flexible if they wish SMEs to take formal training more seriously. Identifying and clarifying these barriers to skills development in SMEs in more detail is essential if their full productive potential is to be realized.

Studies of the impact of human resource management practices on firm performance in North America corroborate these findings. Huselid pioneered the US studies which found that the heavy use of a number of specified management practices was associated with an increase in company profits of nearly USD 4 000 per employee per year (Huselid, 1995). A study of formal training provision in Canadian workplaces also found positive outcomes for firms which trained: “Organizations with training programmes had more favorable performance trends in a number of areas including revenues, profitability, employee relations, quality and productivity and their business viability and outlook”.

However, there is a case for caution in hypothesizing a direct link between management training and firm performance. In the case of the Huselid analysis, this is based entirely on large firms which are known to be much more likely than small firms to provide training for their workers. Such firms are also unlikely to fail so the impact of training on survival cannot be assessed. The main Huselid result is that it is the combination of management measures which influences performance. These measures include not only training but also recruitment, employment security, use of self-managed teams, wages linked to performance and information-sharing. Moreover, this combination of managerial practices which fosters enhanced performance in larger firms parallels the managerial approaches (*e.g.* flexibility, decentralization, teamwork) practiced in the majority of high-growth SMEs (OECD, 2000a).

Existing work rarely considers the factors that determine the level and provision of training. Hannon (1999) in a summary of the literature on training and management development processes in small businesses, refers to management within SMEs as situationally specific, and dependent on a variety of factors such as leadership roles, product or market conditions, business ownership and management structures. While much research in SME training has focused on claiming a relationship between training and firm performance, far less attention has been directed to understanding the association within the context of the organization, its operating infrastructure and target market. Studies do not explain why some firms are more likely than others to invest in training. Some of the studies establish that organizational characteristics influence the training performance relationship, but they fail to elucidate the contextual factors that influence the decision on training approach. The research studies that claim a mediating effect from sets of variables have not presented statistical interpretations of the significance of these moderating effects.

Whether the problem is in either supply or demand, the Labour Market Survey (2001) showed a clear relationship between business failure and a lack of planning or training by SMEs. Moreover, given that knowledge resources and their renewal are considered to be essential to the growth of firms (Penrose, 1959), it is clearly important to understand the links between training and performance. There are a multitude of other external and internal variables that put weight into the training-performance relationship (Storey, 2004). In this paper we investigate the training-performance link by exploring theoretical gaps in the SME training-performance literature. Matlay and Hyland (1997) and Storey (2004) noted that the contribution of different approaches to training may be particularly relevant given the diversity in the sector, and the fact that smaller firms are considered to prefer informal rather than formal training approaches.

The general assumption is that those businesses that pay more attention to training and development will be more successful in the long run. This premise underpins a significant investment in SME training through European Social Funds (Devins and Johnson, 2003) and by national governments in many OECD countries (Storey, 2004). Although this claim is widely established, evidence to show that training and management development enhances SME performance is equivocal (Storey and Westhead, 1994; Storey, 2004). A large body of the SME training literature has attempted to address this issue by empirically testing the relationship between training investments – both in terms of resources and time – and firm performance through individual and firm level data. Several recent reviews, however, have shown that the empirical evidence for training influence on firm performance is generally inconsistent and inconclusive (see, for example, Storey, 1994; Morgan *et al.*, 2002; Heraty and Morley, 2003; Storey, 2004).

On the other hand, those who provide a more positive link to the relationship found that training could facilitate a firm’s expansion (Cosh *et al.*, 1998), existence (Marshall *et al.*, 1995), profitability and productivity (Betcherman *et al.*, 1997) and competitive advantage (Huang, 2001; Smith and Whittaker, 1999). Jennings and Banfield (1993) claimed that “training can, and should be a powerful agent of change, facilitating and enabling a company to grow, expand and develop its capabilities thus enhancing profitability”. Huang (2001) suggests that firms with sophisticated training systems and strong management support for training have effective training programmes and are more successful in delivering training. For Hallier and Butts (1999) “organizational performance can be held back through a neglect of training activity”.

In their impact assessment study, Marshall *et al.* (1993) found that government funded training

investments in SMEs have significant influence in setting proactive strategies to combat recession; 50 per cent of receiving companies as compared to 12 per cent of the control group increased employment opportunities, increased investments and had a perception of resultant increased profit. Therefore, the SME training literature has provided contradictory evidence. Although there are some clear examples of how training influences firm success, it is suggested that this contradictory evidence discourages both policy makers and SME managers in their attempts to be more proactive within the area of management development and training (Marshall *et al.*, 1993; 1995; Patton *et al.*, 2000). Cushion (1995; 1996) link this problem to the lack of effective evaluation of management training in SMEs.

Issues such as short time horizons (Westhead and Storey, 1996), lack of appropriate and holistic measures for SMEs (Hannon, 1999; Cushion, 1995; 1996) and the difficulties in establishing causal links between training and performance (Storey, 1994) mitigate against effective evaluation of training outcomes. However, it is argued that checking correlations between key variables to establish patterns of behavior is more important than determining causal relationship between training and performance. One of the primary focuses of this paper, therefore, is filling this gap through an in-depth analysis that uses practical measures to establish patterns of the training-performance relationship.

Studies have shown training to be important in enhancing competitive advantage, facilitating firm growth, and improving profitability (Bartel, 1994; Knoke and Kalleberg, 1994). In addition, training is seen as a useful means of coping with changes fostered by technological innovation, market competition, organizational structuring, and demographic shifts (Knoke and Kalleberg, 1994).

3 METHODOLOGY

3.1 Research Design

A survey was undertaken. Surveys based on a carefully selected representative sample can produce results that are broad, credible and generalisable to the whole population. The researcher preferred the survey since it focus on data rather than theory. In this case, it was possible for the researcher to administer the data collection tools to the respondents in their business premises with relative ease, and this played a great role in increasing the response rate.

3.2 Population

The target population was drawn from the 7012 businesses that are licensed by the Municipal Council of Kisumu of which 80 percent are SME's (Kisumu Municipal Office, June 2013). They are distributed in different clusters: which include the Lake Market cluster, the Stage Market, KNA stalls Oile Market Cluster, the Oginga Odinga Road cluster, the Kibuye Market cluster, the Kondele cluster among others (Kisumu Municipal Office, 2010). These SMEs are involved in a variety of business ventures as listed in the Municipality Business Activity Description sheet and include: General traders, wholesalers, retailers, transporters, saloons, fruit vending, computer bureaus, restaurants and many others.

3.3 Sampling Design

The sample consisted of 320 respondents selected from owners and staff of SMEs in Kisumu municipality. The sample size was determined based on the recommendations of Kathuri and Palls (1993), who recommends a sample size of at least 150 for major strata. The study used quota and convenience sampling techniques to select the sample. Quota sampling was used to determine the sizes of each cluster of SME to be included in the sample. Oso and Onen (2008) define quota sampling as sampling technique that identifies the clusters within the main population and then selects from each cluster - but not at random - to form the sample. Amin (2005) points out that in quota sampling, the sizes of each cluster are determined by non conventional methods. Each cluster was assigned a quota proportional to the size of the business customers to give a total of 320 SMEs from 7 clusters. Convenience sampling technique was used to select the SMEs and the two staff from each SME. Oso and Onen (2008) define convenience sampling as a technique where a sample is selected from the subjects who happen to be available, on first-come-first-served basis, until the desired number is achieved. Amin (2005) points out that convenience sampling technique is used to simplify data collection procedures and to avoid the complications of simple random method since the researcher just picks on those who happen to be available and are willing, until the desired size is attained. This means that the researcher did not have to trace respondents from their abodes since anybody available can be selected to complete the questionnaires.

3.4 Data collection

Primary data was collected from the proprietors/managers of the SMEs with the aid of semi-structured structured questionnaires. The questionnaire was structured in two main parts. Part A captures the background information of the respondents and their respective organizations whereas part B captured information on pertinent issues touching on the objectives of the study. The researcher administered the questionnaires by drop-and-pick method

after explaining the purpose of the study and agreeing the time frame for the completion of the questionnaires.

3.5 Data Analysis and presentation

The Statistical Package for Social Sciences (SPSS) was used as an aid in the analysis. The researcher preferred SPSS because of its ability to cover a wide range of the most common statistical and graphical data analysis. Data pertaining to the objectives of the study was analyzed using descriptive statistics, which includes measures of central tendency, measures of variability and measures of frequency among others. According to Mugenda and Mugenda (1999) descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. In order to determine the relationship between human capacity building and SMEs performance, correlation and regression analyses were undertaken. In addition, bar charts, pie charts and graphs were used. The information was presented and discussed as per the objectives.

4.0 RESULTS AND DISCUSSIONS

4.1 Introduction

This study sought to evaluate the impact of human capacity building on performance of Small and Medium Enterprises in Kisumu Municipality. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 320 questionnaires that distributed to the respondents, 307 of them, representing 95.94% of the questionnaires were returned completed. The high response rate could be attributed to the personal efforts of the researcher, who made a follow up of every questionnaire sent out. The data pertaining to the profile of respondents was analyzed by employing content analysis while descriptive statistics were used in analysis of data pertaining to the second objective of the study. Computation of frequencies and percentages, standard deviations and mean scores were used in data presentation. The information is presented and discussed as per the objectives and research objectives of the study.

4.2 Background information

This section presents a summary of responses with respect to the background information of respondents.

Types of business: The respondents were asked to indicate the types of businesses they operated. The responses are summarized and presented in table 4.1 below.

Table 4.1: Types of businesses operated by SMEs in Kisumu

Type of business	Frequency	Valid percent
Pharmaceutical outlets	5	1.6
Fast foods restaurant	18	5.9
Bakery	1	0.3
Fish outlets	8	2.6
Green groceries	11	3.6
Posho mills	4	1.3
Fresh fruits and juices outlets	3	1
M-pesa (money transfer service)	11	3.6
Charcoal dealers	3	1
Barber shops	12	3.9
Retail shops	17	5.5
Water vendor “kiosks”	4	1.3
Second hand clothes dealers	9	2.9
Stationery outlets	29	9.4
Wines & spirits outlets	3	1
Electrical appliances outlets	3	1
Electronics equipment & accessories outlets	7	2.3
Butcheries	7	2.3
Motor vehicle spares outlets	5	1.6

Type of business	Frequency	Valid percent
Cyber cafes	24	7.8
Beauty and cosmetics outlets	21	6.8
Bar & Restaurants	9	2.9
Sale of mobile phones and accessories outlets	5	1.6
Fashion outlets	1	0.3
Computer maintenance and accessories	2	0.7
Office equipment accessories and maintenance	3	1
Hair salons	7	2.3
Car wash services	1	0.3
Laundry and dry cleaners	1	0.3
Estate agents	2	0.7
Tailoring and dress making outlets	6	2
Tours and travel	2	0.7
Photographic studios	2	0.7
Timber sales outlets	10	3.3
Hardware outlets	3	1
Sales and hire of electrical equipment	2	0.7
Curios and ornaments sales	1	0.3
Steel works	2	0.7
Shoe cobblers	2	0.7
Shoe shine services	2	0.7
Sales of bulky building materials	13	4.2
Bicycle spares and repairs	3	1
Sign writing services	2	0.7
Bulk goods transport services	1	0.3
Specialized ICT services	4	1.3
Cereals outlets	2	0.7
Wedding services and accessories	2	0.7
General suppliers	1	0.3
Warehousing/storage services	1	0.3
Journals& newspaper vendors	1	0.3
Management of public toilets	1	0.3
Petroleum products outlets	2	0.7
Pesticides & insecticides	1	0.3
Electronic repair shop	1	0.3
Mobile phone repairs and maintenance	4	1.3
Total	307	100

Findings in table 4.1 above show that almost all categories of SMES were represented in the study.

Time period the business has been in existence: Respondents were asked to specify their business period of existence with a view to determining the extent to which they had the ability to provide objective responses to the study questions. The responses are summarized and presented in figure 4.1 below.

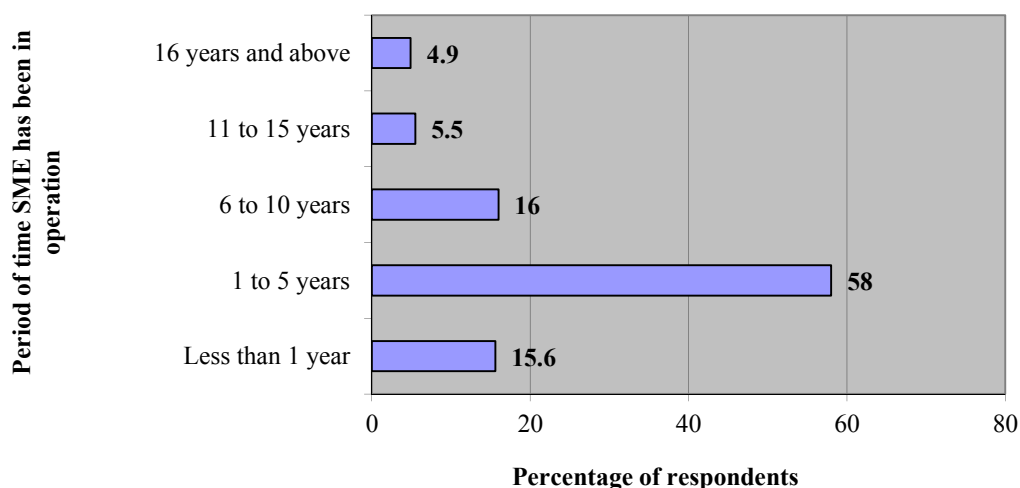


Figure 4.1: Period of existence of respondent SME

The findings in figure 4.1 above show that (15.6%) of the businesses have been in existence for less than a year, (58.0%) have been in existence for a period of between 1 to 5 years, (16.0%) of the businesses have been in existence for a period of between 6 to 10 years, (5.5%) of the business had been in operation for between 11 and 15 years, and (4.9%) of the businesses have been in existence for more than 16 years. The findings shows that at least (84.4%) of the businesses have been in existence for a period exceeding 5 years, hence the responses were expected to be objective.

List of products/services: The respondents were asked to indicate the type of products/services they offer. The responses are summarized and presented in table 4.2 below.

Table 4.2: List of products/services offered by SMEs in Kisumu municipality

Type of business	Products and services offered
Pharmaceutical outlets	Pharmaceutical drugs, medicine,
Fast foods restaurant	Chips, sodas, tea, mandazi, water, sausage
Bakery	Breads, cakes, fruit bans, cookies
Fish outlets	Fish; silver fish; selling fish; omena, mbuta;
Green groceries	Sukumawiki, tomatoes, onions, fresh fruits, vegetables, cabbages,
Posho mills & boiled and roasted maize outlets	Selling maize; selling boiled & roasted maize; grinding & selling maize
Fresh fruits and juices outlets	Passion, lemon, mango and avocado juices, fruit salads, picana,
M-pesa (money transfer service)	Money transfer, selling credit cards; sim cards; M-pesa service; sim swap
Charcoal dealers	Selling and charcoal
Barber shops	Shaving, general hair care, hair cut and dye, pedicure & manicure, phone charging
Retail shops	General shop; food products; sugar, sodas; general goods; toys and retailers; general food staff; selling padlocks; selling curtains; selling milk; Selling fresh flowers; selling roses; snacks
Water vendor “kiosks”	Selling water; sale of treated water
Second hand clothes dealers	Ladies wear (skirts, blouses), general clothes, shoes, men, women & kids wear, jeans & jackets, akala,
Music stores	CD & dubbing tapes; VCD, Cassettes; sale of CDs; selling blank CDs & DVDs; music hire; music CDs, DVDs & tapes, CDs, movies; movies; sale of CDs
Wines & spirits outlets	Wines & spirits, beers, sodas
Electrical appliances outlets	Connecting wires, aerials, chargers
Electronics equipment & accessories outlets	Electrical, Bulbs; electrical cables, sale of TVs & Radio, water heaters,
Butcherries	Beef meat; pork
Cyber cafes	Photocopying, selling stationeries, scanning, printing, binding, browsing, typesetting, lamination,

Type of business	Products and services offered
Beauty and cosmetics outlets	Shampoo, hair food ,chains, perfumes, body sprays, lipstick, beauty creams, earrings, weaves, kid toys, necklaces, rings, lotions,
Bar & Restaurants	Food & alcoholic drinks, accommodation, food and beverages,
Sale of mobile phones and accessories outlets	Sale of mobile phones, memory cards, broad band modems, chargers, phone battery, USB cables
Fashion outlets	Selling hand bags, designer shoes and clothes, Maasai sandals, bangles
Computer maintenance and accessories	Repairs of computers, sale of computer accessories, computer repair, CPU, key boards, flash disks, printers, scanners
Office equipment, accessories and maintenance	Office machines, LCD projector maintenance, photocopier maintenance, sale of computers, printers,
Hair salons	Hair plaiting & selling braids and weaves; hair dressing services; manicure& pedicure, plaiting, blow-dry, perming, selling handbags and shoes
Car wash services	Washing cars and motor vehicles
Laundry and dry cleaners	Washing & ironing clothes
Estate agents	Property marketing, development, sales and renting, house agents, property sales
Tailoring and dress making outlets	Dress making; dress making; tailor made kitenges; tailoring; mending clothes; tailoring;
Tours and travel	Tours & travel, air ticketing, car rental, taxing
Photographic studios	Photographing; photography and video coverage
Timber sales outlets & carpentry	Making furniture i.e. chairs, tables; making traditional stools, selling cooking sticks; making cupboards, sale of timber
Hardware outlets	Cement, iron sheets, ceiling boards and colors for painting, steel, nails, sale of bricks, building materials, glasses, building tools,
Sales and hire of electrical equipment	Public address system, generators
Curios and ornaments sales	Sale of African ware, Akalas, bangles
Steel works	Doors, windows, gates,
Shoe shiners and cobblers	Shoe shining & mending shoes, shoe repair, mending shoes and slippers
Motor vehicle spare parts	Toyota & Nissan spare parts; motor vehicle spare parts sale of engine spare parts;
Sales of bulky building materials	Sand, ballast, bricks
Bicycle spares and repairs	Selling bicycle spare parts; bicycle repairs and spare parts; bicycle repairs;
Architectural services	Making rubber stamps, designing & printing T-shirts
Transport services	Motorcycle
Specialized ICT services	Software & hardware maintenance, software development services, webdesign services
Cereals outlets	Sale of beans, rice, groundnuts, green grams; general cereals;
Wedding services and accessories	Wedding gowns, flowers, and other wedding accessories
General retailers	Incubation;
Stationery	Selling toners; general stationeries; toners, cartridges, bibles, text books & song book, exam papers; sale of school uniforms; toners, selling books; supply of text books; photocopying papers; distributing stationery; selling exercise books;
Warehousing/storage services	Storing goods for hawkers
Journals& newspaper vendors	Selling of news papers and journals
Management of public toilets	Operation of public toilets
Petroleum products outlets	Selling fuel & lubricants, supply of petroleum products
Pesticides & insecticides	Pesticides & insecticides
Electronic repair shop	TV, Radio & CD players repair
Mobile phone repairs and maintenance	Mobile phone repairs, phone maintenance, sale of phone accessories

Number of full time employees: Respondents were asked to give the number of full time employees in their respective organizations. The researcher sought to determine the size of operations of the various businesses. Responses are summarized and presented in figure 4.2 below.

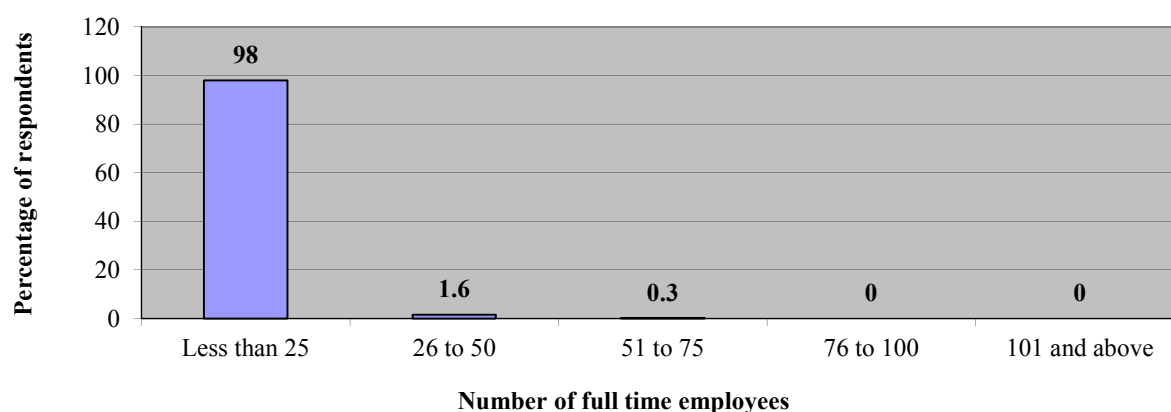


Figure 4.2: Number of full time employees

The findings in table 4.2 above shows that majority the respondents (98%) have less than 25 full time employees, (16%) of the respondents have 26 to 50 employees and (0.3%) of the respondents have between 51 to 75 employees. None of the respondent SMEs had over 76 full time employees.

Gender distribution of respondents: Respondents were asked to indicate their gender, with a view to determining the gender distribution of the owners/managers of SMEs in Kisumu municipality. The findings in figure above shows that majority of the respondents (64.8%) are male and (35.2%) of the respondents are female. The findings indicate that ownership/management positions of the respondent SMEs in Kisumu municipality are male dominated.

Age distribution of respondents: Respondents were asked to indicate their age by ticking as appropriate against given age brackets. The findings in figure 4.4 above shows that majority of the respondents (44%) are aged between 18-27 years, (37.5%) of the respondents are aged between 28-37 years, (14.3%) of the respondents are aged between 38-45 years, (3.9%) of the respondents are aged between 46-55 years and (0.3%) of the respondents are aged over 55 years.

Highest academic qualification: Respondents were asked to indicate their highest academic qualification. The responses are summarized and presented in table 4.3 below

Table 4.3: Highest academic qualification

Academic qualification	Frequency	Valid Percent	Cumulative Percent	Mean score	Standard deviation
Primary school	11	3.6	3.6		
Secondary school	91	29.6	33.2		
College education	184	59.9	93.2		
University education	21	6.8	100.0		
Total	307	100.0		2.70	0.65

The findings in table 4.3 above shows that majority of the respondents (59.9%) are college graduates, (29.6%) of the respondents qualified for secondary education, (6.8%) of the respondents are university graduates and (3.6%) of the respondents qualified up to primary school. The findings show that majority of the respondents, (66.7%) had at least attained a tertiary college education certificate. The responses provided were thus expected to be objective.

Period of time respondent has managed the business: Respondents were asked to indicate the period of time they had managed the business, with a view to determining their ability to articulate issues pertaining to their respective businesses. The responses are summarized and presented in table 4.4 below

Table 4.4: Period of management

Period of management	Frequency	Valid Percent	Cumulative Percent	Mean score	Standard deviation
Less than 1 year	56	18.2	18.2		
1 and 5 years	171	55.7	73.9		
6 and 10 years	62	20.2	94.1		
11 and 15 years	5	1.6	95.8		
16 years and above	13	4.2	100.0		
Total	307	100.0		2.18	0.90

The findings in table 4.4 above shows that majority of the respondents (55.7%) have managed their businesses for a period of between 1 and 5 years, (20.2%) of the respondents have managed their businesses for a period of between 6 and 10 years, (18.2%) of the respondents have managed their businesses for less than a year, (4.2%) of the respondents have managed their businesses for more than 16 years and 1.6% of the respondents have managed their businesses for a period of between 11 and 15 years

4.3 Human capacity building for small and micro enterprises

In order to assess the barriers to performance of SMEs, respondents were asked to indicate the extent to which they agree/disagree to each of the listed factors. The responses are summarized and presented below.

4.3.1 Barriers to performance of Small and Micro Enterprises

This section presents responses pertaining to barriers to performance of small and micro enterprises. The responses are summarized and presented in table 4.5 below. Key: Strongly agree = 5; Agree = 4; Somehow agree = 3; Slightly agree = 2; Disagree = 1.

Table 4.5: Barriers to performance of Small and Micro Enterprises

Barriers to performance of Small and Micro Enterprises		5	4	3	2	1	Mean score	Standard deviation
Limited managerial skills	Percentage	47.2	25.1	15.6	6.5	5.5	1.98	1.18
	Frequency	145	77	48	20	17		
Low marketing skills	Percentage	44.3	29.6	13.7	8.1	4.2	1.98	1.14
	Frequency	136	91	42	25	13		
Limited marketing skills	Percentage	41.4	27.7	16.3	6.5	8.1	2.12	1.25
	Frequency	127	85	50	20	25		
Difficulty in getting access to technology	Percentage	45	26.4	11.1	9.1	8.5	2.10	1.30
	Frequency	138	81	34	28	26		
Regulatory constraints	Percentage	46.6	33.6	9.4	6.2	4.2	1.88	1.09
	Frequency	143	103	29	19	13		
Accessibility to affordable credit	Percentage	48.2	34.5	8.8	2.9	5.5	1.83	1.08
	Frequency	148	106	27	9	17		

4.3.2 Managerial problems that affect the operations of SMEs

This section presents responses pertaining to managerial problems that affect the operations of small and micro enterprises. The respondents were asked to indicate the extent to which each of the listed factors has affected the operations of their SME. Responses are summarized and presented in the table 4.6 below. Key: Very much = 5; Much = 4; Somehow = 3; Slightly = 2; Not at all = 1.

Table 4.6: Managerial problems that affect the operations of SMEs

Managerial problems that affect the operations of SMEs		5	4	3	2	1	Mean score	Standard deviation
Marketing	Percentage	38.4	40.7	11.7	5.9	3.3	1.95	1.01
	Frequency	118	125	36	18	10		
Operations	Percentage	37.5	39.7	12.1	5.5	5.2	2.01	1.09
	Frequency	115	122	37	17	16		
Financial management	Percentage	57.7	27.7	6.8	4.9	2.9	1.68	1.00
	Frequency	177	85	21	15	9		
Human resources management	Percentage	33.2	28.7	15.3	15.3	7.5	2.35	1.29
	Frequency	102	88	47	47	23		
Distribution management	Percentage	28	37.5	16.9	11.1	6.5	2.31	1.18
	Frequency	86	115	52	34	20		
Information technology management	Percentage	34.2	26.7	12.4	15	11.7	2.43	1.39
	Frequency	105	82	38	46	36		
Materials management	Percentage	28.3	37.8	15.6	8.5	9.8	2.34	1.25
	Frequency	87	116	48	26	30		

4.3.3 *Managerial skills*

Respondents were asked to indicate the extent to which they agreed/disagreed with the statement “Managers require basic skills to establish organizational goals and determine appropriate strategies to achieve these goals.” Responses are summarized and presented in table 4.7 below.

Table 4.7: Managerial skills

Response	Frequency	Valid Percent	Cumulative Percent	Mean score	Standard deviation
Strongly agree	180	58.6	58.6		
Agree	104	33.9	92.5		
Somehow agree	17	5.5	98.0		
Slightly agree	6	2.0	100.0		
Total	307	100.0		1.4.1	0.68

Findings in table 4.5 above show that managers require basic skills to establish organizational goals and determine appropriate strategies to achieve these goals, as indicated by (58.6%) of the respondents who “strongly agreed”, (33.9%) of the respondents who “agreed” and (5.5%) of the respondents who “somehow agreed”.

4.3.4 *Factors affecting human capacity building needs of SMEs*

The respondents were asked to indicate the extent to which each of the listed factors has affected the human capacity building needs of their SME. Responses are summarized and presented in the table 4.8 below. Key: Very much = 5; Much = 4; Somehow = 3; Slightly = 2; Not at all = 1.

Table 4.8: Human capacity building needs

Human capacity building needs		5	4	3	2	1	Mean	Std. dev.
Advanced vocational skills	Percentage	58.3	30.6	7.2	3.6	0.3	1.57	.80
	Frequency	179	94	22	11	1		
Basic vocational skills	Percentage	60.3	31.3	5.2	2.3	1.0	1.52	.78
	Frequency	185	96	16	7	3		
Co-operation and networking	Percentage	61.2	30	4.6	2	2.3	1.54	.86
	Frequency	188	92	14	6	7		
Creativity and innovation	Percentage	61.2	30.3	5.5	2	1	1.51	.77
	Frequency	188	93	17	6	3		
Customer service	Percentage	69.1	22.1	4.9	2.3	1.6	1.45	.82
	Frequency	212	68	15	7	5		
Efficiency, profitability and time management	Percentage	70.4	19.9	5.2	3.3	1.3	1.45	.84
	Frequency	216	61	16	10	4		
Exports and internationalization	Percentage	17.9	23.8	22.8	16.3	19.2	2.95	1.37
	Frequency	55	73	70	50	59		
Financial management	Percentage	63.8	24.1	6.5	2.9	2.6	1.56	.93
	Frequency	196	74	20	9	8		
Foreign languages	Percentage	18.2	23.1	21.5	16.3	20.8	2.98	1.40
	Frequency	56	71	66	50	64		
Human resources management	Percentage	33.6	37.5	12.4	11.4	5.2	2.17	1.17
	Frequency	103	115	38	35	16		
Information technology	Percentage	38.8	29.3	15.3	11.4	5.2	2.15	1.20
	Frequency	119	90	47	35	16		
Legal knowledge	Percentage	42.7	24.4	21.8	5.9	5.2	2.07	1.16
	Frequency	131	75	67	18	16		
Management and leadership skills	Percentage	39.1	47.2	8.5	2.6	2.6	1.82	.89
	Frequency	120	145	26	8	8		
Marketing and dissemination of information	Percentage	34.5	46.3	10.4	6.8	2.0	1.95	.95
	Frequency	106	142	32	21	6		
Process management	Percentage	29.3	44	15.6	7.8	3.3	2.12	1.02
	Frequency	90	135	48	24	10		
Product development	Percentage	33.2	43	12.1	6.5	5.2	2.07	1.09
	Frequency	102	132	37	20	16		
Production and materials management	Percentage	34.9	44	10.7	8.1	2.3	1.99	1.00
	Frequency	107	135	33	25	7		
Quality control	Percentage	40.4	39.7	12.4	5.2	2.3	1.89	.97
	Frequency	124	122	38	16	7		
Skills related to attitude: commitment, flexibility and responsibility	Percentage	50.2	35.8	10.7	2	1.3	1.68	.84
	Frequency	154	110	33	6	4		

Human capacity building needs		5	4	3	2	1	Mean	Std. dev.
Taxation	Percentage	30.9	41.7	14.3	4.6	8.5	2.18	1.17
	Frequency	95	128	44	14	26		
Team work	Percentage	52.1	24.8	15.3	4.2	3.6	1.82	1.07
	Frequency	160	76	47	13	11		

4.4 Human capacity building approaches for SMEs

In order to meet the first objective of the study, “In order to assess the human capacity building needs of SMEs in Kisumu municipality, the respondents were asked to tick as appropriate against a listing of possible approaches. Multiple responses were allowed. The responses are summarized and presented in table 4.9 below.

Table 4.9: Human capacity building approaches for SMEs

Human capacity building approaches	Frequency	Valid Percent
Formal training approaches only	71	23.1
Informal training approaches only	19	6.2
On-the job-training approaches only	50	16.3
Job-specific training approaches only	33	10.7
A combination of formal and informal training approaches	4	1.3
A combination of formal training approaches and on-the job-training approaches	41	13.4
A combination of formal training approaches and job-specific training approaches	17	5.5
A combination of formal, informal training approaches and on-the job-training approaches	2	0.7
A combination of formal and informal training approaches, on-the job-training approaches and job-specific training approaches	1	0.3
A combination of training approaches and on-the job-training approaches	8	2.6
A combination of Informal training approaches, on-the job-training approaches only and Job-specific training approaches	1	0.3
A combination of on-the job-training approaches and job-specific training approaches only	9	2.9
A combination of formal training approaches, on-the job-training approaches and Job-specific training approaches	48	15.6
A combination of Informal training approaches and job-specific training approaches	3	1.0
Total	307	100.0

Findings of the study show that the following training approaches were used by the SMES:

Formal training approaches only, as indicated by 23.1% of the respondents; informal training approaches only, as indicated by 6.2% of the respondents; on-the job-training approaches only, as indicated by 16.3% of the respondents; job-specific training approaches only, as indicated by 10.7% of the respondents; a combination of formal and informal training approaches, as indicated by 1.3% of the respondents; a combination of formal training approaches and on-the job-training approaches, as indicated by 13.4% of the respondents; a combination of formal training approaches and job-specific training approaches, as indicated by 5.5% of the respondents; a combination of formal, informal training approaches and on-the job-training approaches, as indicated by 0.7% of the respondents; a combination of formal and informal training approaches, on-the job-training approaches and job-specific training approaches, as indicated by 0.3% of the respondents; a combination of training approaches and on-the job-training approaches, as indicated by 2.6% of the respondents; a combination of informal training approaches, on-the job-training approaches only and job-specific training approaches, as indicated by 0.3% of the respondents; a combination of on-the job-training approaches and job-specific training approaches, as indicated by 2.9% of the respondents; a combination of formal training approaches, on-the job-training approaches and job-specific training approaches, as indicated by 15.6% of the respondents; and a combination of informal training approaches and job-specific training approaches, as indicated by 0.1% of the respondents.

4.5 The impact of capacity building on the performance of SMEs

In order to meet the second objective of the study, “to establish the impact of human capacity building on the performance of SMEs in Kisumu”, respondents were asked to indicate the extent to which they agree/disagree to the factors listed below. Responses are summarized and presented in table 4.10 below. Key: Strongly agree = 5; Agree = 4; Somehow agree = 3; Slightly agree = 2; Disagree = 1.

Table 4.10: Impact of capacity building on the performance of SMEs

Impact of capacity building on the performance of SMEs		Responses (%)						Mean	Std. dev.
		5	4	3	2	1			
Management practices determines increase in company profits	Percentage	73	25.7	1	0.3	0	1.29	0.49	
	Frequency	224	79	3	1	0			
Organizations with training programs do better	Percentage	66.8	23.8	8.8	0.7	0	1.43	0.68	
	Frequency	205	73	27	2	0			
Training enhances business performance	Percentage	64.8	28.7	4.6	1.3	0.7	1.44	0.70	
	Frequency	199	88	14	4	2			
Training leads higher levels of sales	Percentage	59.9	28	8.5	2.9	0.7	1.56	0.82	
	Frequency	184	86	26	9	2			
Formal training leads to higher levels of sales growth than informal training	Percentage	60.6	24.8	11.1	3.6	0	1.58	0.83	
	Frequency	186	76	34	11	0			
Different organizational need different training approaches	Percentage	69.7	24.1	4.6	1.3	0.3	1.38	0.67	
	Frequency	214	74	14	4	1			
Its assumed training and development will be more successful in the long run	Percentage	56	29.3	10.4	2	2.3	1.65	0.91	
	Frequency	172	90	32	6	7			
Training facilitates a firms expansion	Percentage	61.2	29.3	8.1	1	0.3	1.50	0.72	
	Frequency	188	90	25	3	1			
Training is a powerful agent of change	Percentage	61.6	28.7	7.8	2	0	1.50	0.72	
	Frequency	189	88	24	6	0			
Firms with training systems and strong management support for training are more successful in delivering training	Percentage	62.2	26.4	9.1	2	0.3	1.52	0.77	
	Frequency	191	81	28	6	1			
Organizational performance can be held back through a neglect of training activity	Percentage	60.3	29	6.8	2.9	1	1.55	0.82	
	Frequency	185	89	21	9	3			
Government funded training investments	Percentage	57.7	28.3	8.8	3.3	2	1.64	0.92	
	Frequency	177	87	27	10	6			
Training is important in enhancing competitive advantage	Percentage	58.6	33.9	5.5	2	0	1.51	0.69	
	Frequency	180	104	17	6	0			
Training is seen as a useful means of coping with market competition	Percentage	61.2	31.6	5.5	1	0.7	1.48	0.71	
	Frequency	188	97	17	3	2			

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents conclusions drawn from the research findings and the recommendations for practice and for further studies.

5.2 Conclusions

Sessional Paper No.2 of 1992 on Small Enterprise and “Jua Kali” Development in Kenya, published in 1992 outlined the contributions of the small enterprise sector to the national economy, the key ones being the following: employment creation; enhancing the participation of indigenous Kenyans in the economy; promotion of local savings and investments; promoting the development of entrepreneurship and managerial skills among local Kenyans; and engendering the acquisition of skills among workers. Policies for improving the performance of the sector included measures geared towards the promotion of research, inter-firm linkages, technical training and technology extension. Most respondents in this survey named appropriate business training as very important contributing factors to growth. Lack of business management training facilities was also perceived as a major barrier to growth. One of the reasons for this could be the fact that the majority of respondents had not been formally trained in the skills needed to operate an enterprise professionally. This points

to a need for the design and delivery of specific business and technical training programmes by national and regional institutions responsible for fostering the growth of women-owned businesses.

Findings of the study show that the main training approaches were used by the SMES include the following: formal training approaches only, as indicated by 23.1% of the respondents; on-the job-training approaches only, as indicated by 16.3% of the respondents; job-specific training approaches only, as indicated by 10.7% of the respondents; a combination of formal training approaches and on-the job-training approaches, as indicated by 13.4% of the respondents; and a combination of formal training approaches, on-the job-training approaches and job-specific training approaches, as indicated by 15.6% of the respondents.

Priorities are expressed for training related to innovation and opportunity recognition, business evaluation and business growth considerations, developing strategic customer care, networking skills, marketing management, selling skills and negotiation skills. These findings confirm that SME managers and owners are interested in growing their enterprises, and are aware that the aptitude for innovation is nothing less than a direct reflection of an organization's ability to change, to adapt to new and competent competitors, and to suit its products and services to the ever-evolving needs of customers (Burns, 2001).

The findings of this study suggest that there will be times when formal training is appropriate for SMEs. Dependent on size, product, market and organizational structures, formal training will be both required and/or encouraged by SME management. It is possible that training is undertaken in these firms as a tactical solution to a problem (Cassell *et al.*, 2002; Hendry *et al.*, 1991) and the demand for training is explicitly related to improving the way the business is operated (Patton and Marlow, 2002). Nevertheless, formal training may still be appropriate to address specific skills or development needs. This will require an understanding of the unique problems that the SME managers face. Therefore, it is not only the type of training that will be important. Training support for SMEs requires targeted interventions that address specific problems that SME managers need to resolve, and will require an in-depth understanding of the organization's context and conditions (Perren *et al.*, 1999; Cassell *et al.*, 2002; Patton and Marlow, 2002). Consequently, "when thinking about SMEs, addressing the pertinent human resources issues that emerge from current business priorities should be a key theme" (Cassell *et al.*, 2002), particularly since different styles of learning may be appropriate in different situations and dependent on organizational conditions. While it is increasingly acknowledged that flexible support systems are needed to meet the diverse needs of the small business sector (Small Business Skill Assessment, 2004), the nature of this diversity is not well understood. This study provides information that will allow a more targeted approach to the support of both formal and informal training in the SME sector, and will therefore be an important contribution to policy development.

This study is a start and provides an important contribution towards an understanding of the complexities involved in developing and sustaining effective small business support that is more demand-led rather than supply driven. This is important not least because of the vast amount of money spent by Government on small business support, and the lack of convincing evidence that traditional formal approaches to development advocated by business support agencies provide performance improvements. The empirical analysis and the tentative conceptual framework, provide an important contribution towards a demand-led policy framework in the area of development and training support for SMEs.

5.3 Limitations of the study

Limitations include the study's restricted focus on SME businesses within one geographical area. The study focused on SMEs in Kisumu municipality only, and considering the diversity of the country, the findings may not be representative of the whole population of SMEs in Kenya. However, the sampling technique used ensured that each respondent had a non-zero chance of being selected to participate in the study. Though the researcher was determined to undertake the study to completion within the given time frame, various constraints were encountered as earlier envisaged. The time allocated for data collection may not have been sufficient to enable the respondents complete the questionnaires as accurately as possible, considering that they were at the same time carrying out their daily duties and priority is of essence. The researcher preferred to administer the data collection tools to only the sampled respondents, however, this was practically not possible as some of them delegated this request since they were either too busy or were away on official duties.

5.4 Recommendations of the study

Based on findings of the study, it is expected that the stakeholders, who include the Government, the SME owners and the agencies offering various support mechanisms to the SMEs will gain a better understanding of the impact of human capacity building on performance of Small and Medium Enterprises. The following measures are recommended in order to enhance capacity building of SMEs in Kenya:

This study identifies that the research, management, and policy development of training in the SME sector needs to be more open and flexible in order to address the idiosyncratic nature of SME requirements. HRM practices in small firms vary greatly and using static models to define the management training and advice

needs of small firms is not tenable.

Research, management and policy instruments of training support will need to interact with, and be responsive to, the subtle distinctions of context that will moderate what is more appropriate, and more likely to be welcomed, in the small business sector.

Factors such as difficulties in accessing training, difficulties in SMEs finding time for their employees to do enough training, rapid changes causing significant adjustments to training needs; cost of training prohibits some firms from engaging in training; and they can rarely afford to invest in formal off-site group training sessions. It is recommended that if training is to be offered to SMEs it should encourage as little time away from the workplace; it should be flexible and inexpensive.

5.5 Recommended areas of further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested: (i) Whereas the current study focused on responses from the management of the SMEs with respect to capacity building approaches used and the impact on their businesses, future studies should focus on the various organizations that support SMEs, with a view to establishing any variances; (ii) the present study did not allow for the exploration of employees perspectives of capacity building activities, considered to be crucial in the development of effective capacity building intervention strategies. Neither did it allow for strategists nor do training institutions' perspectives of the difficulties they face in engaging with SME managers and in encouraging them to undertake capacity building activities. Given the importance of the views of employees, strategists and practitioners, an exploration of their experiences should be undertaken through further research studies, using the same conceptual framework, so that a more holistic understanding of capacity building can be established and a fully coordinated approach can be taken to policy, practice, education and training; and (iii) there is need to adjust the survey instruments to capture the much more basic and limited range of training present in SMEs; extending the survey to SMEs outside of urban centers, and conducting longitudinal and qualitative studies to explore how and why investment in training increases with SMEs growth over time and how it contributes to enterprise development.

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APPENDIX I: QUESTIONNAIRE FOR STAFF AND MANAGERS OF SMEs IN KISUMU CITY

Dear Sir/Madam;

This questionnaire has been designed to collect information from the Business Owners/Managers of selected registered Small and Micro Enterprises (SME) in Kisumu and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: BACKGROUND INFORMATION

1. Please indicate the name of your SME _____
2. Please indicate the type of business your SME is registered to operate _____
3. Please indicate the period of operation of your SME (Tick as appropriate)
 - (a) Less than 1 year []
 - (b) 1 to 5 years []
 - (c) 6 to 10 years []
 - (e) 16 years and above []
4. Please list the products/services you offer to your customers.

5. How many full time employees does the SME have (Please tick as appropriate)?
 - (a) Less than 25 []
 - (b) 26 to 50 []
 - (c) 51 to 75 []
 - (d) 76 to 100 []
 - (e) 101 years and above []

6. Indicate your gender (Tick as appropriate)
- (a) Male
- (b) Female
7. Indicate your age group (Tick as appropriate)
- (a) 18 – 27 years
- (b) 28 – 37 years
- (c) 38 – 45 years
- (d) 46 – 55 years
- (e) 55 years and above
8. Indicate your highest academic qualification (Pleas tick as appropriate)
- (a) Primary school
- (b). Secondary school
- (c). College education
- (d). University education
- (e). Any other (Please specify) _____
9. For how long have you managed the business? (Tick as appropriate)
- (a). Less than 1 year
- (b). 1 and 5 years
- (c). 6 and 10 years
- (d). 11 and 15 years
- (e). 16 years and above
10. Please list your duties and responsibilities
-
-

SECTION II:HUMAN CAPACITY BUILDING FOR SMALL AND MICRO ENTERPRISES IN KISUMU

11. Listed below are some of the barriers to performance of SMEs. With respect to your organization, please indicate the extent to which you agree/disagree that each of the listed factors has negatively affected the performance. (Please tick as appropriate along a five-point scale). Where (Strongly agree = 5; Agree = 4; Somehow agree= 3; Disagree = 2; and Strongly disagree = 1)

Barriers to performance of Small and Micro Enterprises	Rating				
	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree
Limited managerial skills					
Low marketing skills					
Limited extension services					
Difficulty in getting access to technology					
Regulatory constraints					
Accessibility to affordable credit					
Others (Specify)					

12. Please indicate the extent to which each of the listed managerial problems have affected the operations of your SME (Tick as appropriate along a five-point scale). Where Very much = 5; Much = 4; Somehow = 3; slightly = 2; and Not at all = 1).

Managerial problems that affect the operations of SMEs	Rating				
	Very much	Much	Somehow	Slightly	Not at all
Marketing					
Operations					
Financial management					
Human Resources management - inadequate and inefficient management of employees					
Distribution management					
Information technology management					
Materials management					
Others (Please Specify)					

13. Please indicate the extent to which you agree or disagree with the statement “Managers require basic skills to establish organizational goals and determine appropriate strategies to achieve these goals”. (Please tick as appropriate along a five-point scale).

- (a) Strongly agree []
- (b) Agree []
- (c) Somehow agree []
- (d) Disagree []
- (e) Strongly disagree []

14 (a) Human capacity building needs of SMEs

Listed below are some of the statements that show a positive relationship between capacity building and performance of SMEs. Please indicate the extent to which you agree or disagree that each of the statements is true with respect to your organization (Tick as appropriate along a five-point scale).

Where Very much = 5; Much = 4; Somehow = 3; Slightly = 2; and Not at all = 1).

Human apacity building needs of SMEs	Rating				
	Very much	Much	Somehow	Slightly	Not at all
Advanced vocational skills					
Basic vocational skills					
Co-operation and networking					
Creativity and innovation					
Customer service					
Efficiency, profitability and time management					
Exports and internationalization					
Financial management					
Foreign languages					
Human resources management					
Information technology					
Legal knowledge					
Management and leadership skills					
Marketing and dissemination of information					
Process management					
Product development					
Production and materials management					
Quality control					
Skills related to attitude: commitment, flexibility and responsibility.					
Taxation					
Teamwork					
Others (Specify)					

(b) Human Capacity building approaches for SMEs

Please indicate the training approaches your business uses in capacity building of employees (Tick as appropriate)

Capacity building needs of SMEs	Tick as appropriate
Formal training approaches	
Informal training approaches	
On-the-job training	
Job-specific training	

15. The impact of capacity building on the performance of SMEs in Kisumu.

Listed below are some of the statements that show a positive relationship between capacity building and performance of SMEs. Please indicate the extent to which you agree or disagree that each of the statements is true with respect to your organization (Tick as appropriate along a five-point scale).

Where (Strongly agree = 5; Agree = 4; Somehow agree= 3; Disagree = 2; and Strongly disagree = 1)

Impact of capacity building on the performance of SMEs	Rating				
	Strongly agree	Agree	Somehow agree	Slightly agree	Disagree
Management practices determines increase in company profits					
“Organizations with training programmes do better					
Training enhances business performance.					
Training leads higher levels of sales.					
Formal training leads to higher levels of sales growth than informal training.					
Different organizational need different training approaches.					
Its assumed training and development will be more successful in the long run.					
Training facilitates a firm’s expansion, existence, profitability and productivity and competitive advantage					
Training is a powerful agent of change, facilitating and enabling a company to grow, expand and develop its capabilities thus enhancing profitability.					
Firms with training systems and strong management support for training are more successful in delivering training.					
Organizational performance can be held back through a neglect of training activity.					
Government funded training investments in business have significant influence in setting proactive strategies to combat recession, ensure increased employment opportunities, increased investments and increased profits.					
Training is important in enhancing competitive advantage.					
Training is seen as a useful means of coping with market competition.					

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