AN ASSESSMENT OF CHALLENGES AFFECTING THE COMPETITIVENESS OF SMALL AND MEDIUM SIZED ENTERPRISES IN BARINGO COUNTY

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DECLARATION

This research project is my own original work and has not been submitted for a certificate award in any institution. No part of this work may be produced without prior knowledge of the student or Kabarak University

_____   Date_____

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GMB/NE/0638/05/012

Approval

This research project has been submitted for examination with my approval as the Kabarak University supervisor.

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DEDICATION

This work is dedicated to the Almighty God who has continued to bless the work of my hands. It is also dedicated to my wife whose support and encouragement especially during the highly demanding and challenging moments has finally enabled the accomplishment of this work.

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ABSTRACT

Over the past ten years, economic planners have realized the importance of the small enterprise sector in achieving national economic development goals. However, more often than not lack of capacity to tackle the challenges they face have led to the underperformance of the SMEs in the country. Studies done in this area have not been specific at the local level where the business environment is constantly evolving and giving rise to newer challenges that affect their competitiveness. Therefore, this study was done to assess the challenges affecting the competitiveness of SMEs in Baringo County. Specifically the study sought to; establish the current challenges being experienced by SME's in the business environment; to determine the extent to which these challenges affect the competitiveness of SMEs; and to determine extent to which the strategies employed in response to these challenges by the SMEs affect their competitiveness in Baringo County. The study employed survey research design targeting all the 2647 SMEs operating within Baringo County from where a sample comprising of 347 respondents was obtained using simple random sampling technique. Data was collected using questionnaires and analyzed using both descriptive and inferential statistics with the aid of Statistical Package for Social Scientists computer software version 21.0. The findings indicate that the access to finance remain the most significant challenge affecting the competitiveness of the SMEs in the area ($\beta = 0.687$, p=0.000, $\alpha = 0.05$).The findings also revealed that lack of formal business training and skills ($\beta = 0.301$; $p = 0.000$, $\alpha = 0.05$) significantly affected the competitiveness of the SMEs in the area. Findings also revealed that technology had a significant impact on the level of competitiveness of the SMEs ($\beta = -0.231$ $p = 0.000$, $\alpha = 0.05$). Finally, it also emerged that access to market information ($\beta = -0.540$; $p = 0.000$, $\alpha = 0.05$), was also a significant challenge to the competitiveness of the SMEs in the area. The study concluded that all the independent variables only explain 44% variation in the competitiveness of the SMEs. It is recommended that stakeholders should do capacity building especially in terms of risk management for the SMEs owners in order for them to be able carefully evaluate the risks in their business and to motivate them to consider applying for more funds for the expansion of their business. This training can also help them to come up with more realistic expansion plans without affecting their competitiveness. The SMEs owners also need general training in business management in order for them to strategically operate their businesses. More studies need to be done to establish the influence of business training on the strategic investments decisions of the SMEs in the area and also the influence of strategic relocation to potential areas on the performance of the SMEs.

Key Words: competitiveness; market share; turnover; positioning; profitability

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LIST OF ABBREVIATIONS

GDP – Gross Domestic Product

KANU – Kenya African National Union

MOYAS – Ministry of Youth Affairs

NARC – National Rainbow Coalition

NGOS – Non-governmantal organizations

SMES – Small and Medium Sized enterprises

SWOT – Strength weakness opportunity tests

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Micro Enterprises (SMEs) play an important economic role in the economic developments in many countries. Over the past 10 years, economic planners have realized the importance of the small enterprise sector in achieving economic development. As a result many governments and development organizations have focused on the promotion of SMEs as a way of encouraging broader participation in the private sector. SMEs are the backbone of the British economy (Rowe, 2008). According to the Department for Business, Enterprise & Regulatory Reform (BERR)'s Enterprise Directorate Analytical Unit, the UK economy is 99% SMEs, employing 14.23m people, out of a working population of approximately 30 million. In terms of UK turnover and Gross Domestic Product (GDP), UK SMEs account for 1.48 trillion sterling (British Pounds). SMEs with at least 1employee- outperform the large UK Corporations in terms of productivity despite having minimal resources, little support and being largely ignored. Large UK Corporations of 250employees and over account for 52% of employment but less only 50.8% of UK turnover (ibid),thus the UK economy is largely supported by SMEs and improving performance will have a substantially positive effect on its entire economy. Similarly, in the far east the SMEs are the backbone of Singapore's economy, contributing 47% of the country's GDP and generating 62% of available   jobs (SMU, 2008).

SMEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP. The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. In Kenya these businesses play a central role in the economy and are a major source of entrepreneurial skills, innovation and employment. However, many SMEs still remain outside the formal banking sectors yet they play a key role in the economy of many countries. They create employment at low levels of investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society ILO, (1989). Estimates show that there were about 900,000 small and microenterprises establishments employing 2

million Kenyans and generating about 14 per cent of the country's GDP in the early 1990s . In addition to its importance in creating jobs, the small enterprise sector contributes 33% of the value-added in manufacturing and the retail trade in Kenya Onyango and Tomecko, (1995). It is also stated that in Kenya this sector accounted for 20% of the GDP in 1999 (CBS *et al,* 1999) and 64% of the urban employment by 2002 according to Karekezi and Majoro, (2002). The sector also contributed to over 50 percent of new jobs created in the year 2005 (Economic Survey, 2006).

Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation, Kenya National Bureau of Statistics, (2007). However, it is generally recognized that SMEs face unique problems, which affect their growth and profitability and, hence, diminish their ability to contribute effectively to sustainable development. Many of the problems cited have implications for technology choice. These problems include lack of access to credit, inadequate managerial and technical skills, low levels of education, poor market information, inhibitive regulatory environments, and lack of access to technology (Harper 1974; ILO, 1989; and House *et al.,* 1991). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo and Mutiso, 1999).

According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Lack of planning, improper financing and poor management have been cited as the main causes of failure of small enterprises Longenecker *et al.,* (2006). As with many developing countries, there is still limited research and scholarly studies about the SMEs sector in Kenya. Also according to an SME Baseline Survey (2007), sixty per cent of formal businesses are located in the Nairobi region. On the other hand, informal sector enterprises are more widely distributed, with the majority found in the rural areas. This survey highlights the regional distribution of enterprises in Kenya. However, this data is generalized and does not give information specific to Baringo County.

1.2 Statement of the Problem

SMEs in Kenya are operating in an increasingly competitive and challenging business environment than before since the government introduced market liberalization in the 1990s. This competitive and challenging business environment is making the managers/owners of the businesses to re-engineer their operations and have consequently resulted to a lot of changes in order to make profit and remain in business. These responses to the competitive challenging environment are as expected accompanied by many changes including decline in profits a phenomenon that started being observed in the early 1990s as businesses tried to adapt to the competitive environment by coming up with new products and services (Kyalo, 2002).

However, more often than not lack of a good framework for understanding the challenges have led to the underperformance of the SMEs in the country and consequently affected their profitability, growth and expansion. In addition, responses to these challenges have been wanting in many instances due to insufficient information and poor approaches to problem solving by the SMEs owners. Studies done in this area have not been specific at the local level where the business environment is constantly evolving and giving rise to newer challenges, thus, leaving an important knowledge gap which if well addressed could be instrumental to the performance and competitiveness of the SMEs sector in the entire country. Therefore, the present study sought to investigate the challenges affecting competitiveness of the SMEs in Baringo County.

1.3 Purpose of the Study

The purpose of this study was to assess the challenges affecting the competitiveness of SMEs in Baringo County.

1.4 Objectives of the Study

Specifically the study sought to;

  i.   To establish the extent to which business training and skills affects the competitiveness of SMEs in Baringo County.

 ii.   To determine the extent to which technology change affects the competitiveness of SMEs in Baringo County.

iii.   To determine extent to which access to finance affects the competitiveness of SMEs in Baringo County.

iv.   To establish the extent to which access to marketing information affects the competitiveness of SMEs in Baringo County.

1.5 Research Hypotheses

H0₁: Business training and skills has no significant effect on the competitiveness of SMEs in Baringo County.

H0₂: Technology changes do not significantly affect the competitiveness of SMEs in Baringo County.

H0₃: Access to finance does not significantly affect the competitiveness of SMEs in Baringo County.

H0₄: Access to marketing information does not significantly affect the competitiveness of SMEs in Baringo County.

1.6 Significance of the study

Given the importance of SMEs in the Kenyan economy today and the promise it has on the devolved system, the outcome of this study together with others would be instrumental in informing the national government through the Ministries of Youth Affairs (MOYA), Gender and Social Services, Trade and Industrialization and other line ministries in developing policies for improving the business environment especially at the local level in favor of the SMEs and also guide them in the disbursement of the Youth and Women. Baringo county also stands to gain from the results of this study as it could use them to develop polices and strategies that will guide the planning for and location of SMEs within Baringo county. Non Governmental Organizations (NGOs) and other Development Partners dealing with poverty eradication will also find the report useful in finding a more reliable point of entry when carrying out economic interventions. Finally, the results of this study are intended to further contribute to the stock of knowledge in this sector and will be disseminated through workshops, seminars and also be published using various media to facilitate further work in this study area.

1.7 Limitations of Study

The main limitation of the study was the cooperation of the respondents who met the study with some measure of apprehension. This was overcome by taking care to explain the nature of the study and its implications. Another limitation experienced was the language barrier which was addressed by using translators who understood the language of the respondents well enough.

1.8 Scope of the study

The target population comprised all the SMEs operating within the Baringo County. The study was carried out over a period of one month from mid September to mid October 2013. It engaged managers or owners of the small and medium sized enterprises in order to identify challenges they face in their current business environment and the strategies they employ to ensure that they remain competitive and meet the needs of their customers. Their records were examined where possible in order to have a better insight of their performance.

1.9Assumptions of the Study

The study was based on the following assumptions;

i.   It was assumed that all businesses operating within Baringo County had duly been registered and are thus operating legally.

ii. It was also assumed that the licensing office records of Baringo County were updated and it was proper to use them to draw a representative sample.

1.10 Operational definition of Terms

Business development – in this study refers to the tasks and processes concerning analytical preparation of potential growth opportunities, the support and monitoring of the implementation of growth opportunities, but does not include decisions on strategy and implementation of growth opportunities.

Business plan – in this study refers to a formal statement of a set of business goals, the reasons they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals. Business plans may also target changes in perception and branding by the customer, client, taxpayer, or larger community.

Collateral based lending – refers to a type of lending offered by traditional banks and finance companies and is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts.

Competitiveness – refers to positioning in the market of the SME where it can achieve maximum results. It is usually as a result of business planning and technical experience that leads to strategic positioning.

Credit scoring - is a numerical expression based on a level analysis of a person's credit files, to represent the creditworthiness of that person. A credit score is primarily based on credit report information typically sourced from credit bureaus.

Information based lending- usually incorporates financial statement lending, credit scoring, and relationship lending.

Viability based financing is especially associated with venture capital. Since the viability based approach is concerned with the business itself, the aim has been to provide better general business development assistance to reduce risk and increase returns.

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CHAPTER TWO

LITERATURE REVIEW

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2.1 Introduction

This chapter examines previous studies done in the area of SMEs challenges and their competitiveness in order to give hindsight for the current study. The literature is reviewed based on the study objectives which are then conceptualized to show the relationship between the variables in the study. This will help the researcher to bridge the gap in knowledge existing in the study area.

2.2 Theoretical Literature

2.2.1 Small and Medium enterprises in Kenya

Small and Medium Sized Enterprises (SMEs) have of late become a dominant player in the economies of developing countries contributing significantly to job creation, poverty alleviation, increase in household income and purchasing power of the citizens and also increase in revenue to the exchequer among other benefits (Republic of Kenya, 1999). The main factors determining whether a company is an SME are; the number of employees and either turnover or balance sheet total. The definition of SMEs according to European Union law is given in Table 1.

Table: 1 Categories of SMEs according to EU Laws

Company category	Employee	Balance sheet Total	
Medium sized	Turnover <250	≤$50M	≤$40M
Small	<50	≤$10M	≤ $10M
Micro	<10	≤$2M	≤ $2M

Source: European Union (2000)

The ceilings shown in Table 1 apply to the figures for individual firms only. A firm which is part of larger groupings may need to include employee/turnover/balance sheet data from that grouping too. The definition of Micro, Small and Medium sized enterprise is updated to take

account of economic developments. The definition of enterprises according to staff headcount and turnover or balance-sheet total is essential for identifying businesses able to benefit from European Union (EU) programs or policies specifically designed for SMEs. In this study the definition of SMEs was one with less than 10 employees and a balance sheet no exceeding 2 million dollars per annum.

As economies open up and become increasingly liberalized, many business opportunities become available by the day thereby attracting more players at all levels of business developments (ILO report to the G20 Leaders' Summit, 2009). This leads to market expansion, increased production, diversity of the product base and import export phenomenon that in many cases flood the markets with inexpensive products. Coupled with this is the fact that many governments like in this case the Kenya government have taken note of the viability of SMEs in the economies and have thrown their weight behind their development by providing enabling legislation, market facilities, financial support through the budgets and also development partners, and other forms of business developments assistance to the entrepreneurs (Republic of Kenya, 2007).

Currently, many players are entering the business world as entrepreneurs and as a result the level of competition is increasing especially for the SMEs which characteristically have low entry requirements. As such, it is imperative that the entrepreneurs employ effective marketing strategies in order to survive. Competition for most SMEs comes from big businesses and also from other SMEs offering similar products and services. For example, according to Bowen et al., (2009) most SMEs are by-passed for bigger businesses in the award of tenders, credits etc due to the negative perception they attract, that is, prospective clients tend to doubt or underestimate their capacity to deliver as desired. On the other hand, lack of facilities and expertise in marketing makes them culpable to competition from similar SMEs which may have these. Generally speaking SMEs in Kenya rarely invest in formal marketing development as a core function of their operations and instead they rely on informal methods (Wanjohi, 2012). This is evidenced by the modes of advertising and product presentation which suggests that they have limited market and product knowledge, and as such, a challenged in terms of value addition and market capture and retention. Poor investment in marketing can also be attributed to the limited

capital available for the SMEs which translate also to proportionally low investment in technology. Table 2 shows a stratified distribution of SMEs in the country

Table 2: Informal, Micro and small enterprise

Region	No of enterprises	Percentage (%)
Nairobi and Mombasa	223,668	13
Others major Town	183,144	11
Rural Towns	95,720	6
Rural areas	1,177,326	70
Total	**1,679,858**	**100**

Source: National SMEs Baseline Survey 2007

Information in the table 1, reveals that more than two-thirds (70%) of all SMEs are located in the rural areas and only one-third are found in urban areas - even when urban areas are defined to include small rural towns. Of these, about 13 per cent are located in Nairobi and Mombasa while other major towns account for 11 % of the total SMEs in Kenya. Such towns include Kisumu, Thika, Eldoret and Nakuru. Given the importance of SMEs to the Kenyan economy and the exposure to risks owing to their location, there is need to conduct this study to investigate the strategies adopted by SMEs in Baringo County in response to competitive business environment. The need to continually improve and offer low and innovative services/products is a great challenge to the SMEs given the dynamic nature of the business environmental factors and competition. It is therefore important for the SMEs to invest in the competitive strategies by emphasizing on the differentiation, cost leadership, customers focus and other strategies as a response to the competitive environment despite the fact that it's challenging, costly and it will first erode the profits of the SMEs.

2.2.2 SMEs Competitiveness and Competitive Strategies

According to Kotler (2002) for an organization or any business operator to be successful, he/she must do a better job than the competitor. Designing an organization's marketing strategies begins with thorough competitor analysis. The operator has to know their competitor's strategies, objectives, strengths and weaknesses. A competitor is important in any organization because without competition the market will be stagnant and in any moment a market leader

should exist in order to win and as a result secondhand cars have been competing quite well. Grant (2005) argues that competition is a necessary evil. It is necessary because it indicates the health of the industry as reflected by the product range and depth of distribution. He further stated that competition always induces firms to revise their product portfolio as also to revisit their product market to understand changing needs, expectations and perceptions of different market segments. It also motivates firms to make their product features rich and versatile.

Strategy is a concept borrowed from the military, it means maneuvering troops into position before the enemy is actually engaged, and attention shifts to tactics (Nicholas, 2000). Strategy has been borrowed by business with troops being substituted with resources. Strategy is a unifying theme that gives coherence and directions to the actions and decisions of an individual or organizations. Grant (2005) strategy concept is therefore important in most of the organizations because it guides the directions and actions the business will choose. It also guides the business in order to survive in the current unpredictable and often turbulent business environment. The firm performance is also largely determined by how effectively the firm business strategy is implemented (Rowe, 2008).

Competitive strategy is about being different or unique in the eyes of the customer, or deliberately choosing a different set of activities to deliver a unique mix of value. Porter (2005) defines competitive strategy as a combination of the ends for which the firm is striving and the means by which it is seeking to get there. It is also a search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. Competitive strategy set forth a framework for analyzing industries and competitors. It therefore embraces strategy as both a plan and position. Competition erodes profitability as competition increases the interests of different stakeholders converge around the goal of survival Grant, (2005).

It is therefore important that small and medium sized enterprises respond strategically to survive the competitive challenging environment. According to Thompson and Gamble (2010), a competitive strategy concerns the specifics of management's game plan for competing over

rivals. They continue to say that there are countless variations in the competitive strategies that firms employ mainly because of which firm's strategic approach which entails customer-designed actions to fit its own circumstances and industry environment. According to Bowen *et al.,* (2009), the five distinct competitive strategy approaches stand out: A low cost provider strategy striving to achieve lower overall costs than the rivals and appealing to a broad spectrum of customer, A broad differentiation strategy seeking to differentiate the company's products and services offering from rivals in ways that will appeal the customers. A best cost provider strategy giving customers more value for the money by incorporating well to excellent product attributes at a lower cost than rivals. A focused strategy based on low cost- concentrating on a narrow buyer segment and out competing rivals by having lower cost than its rivals and thus being able to server niche members at a lower price, A focused (market niche) strategy based on differentiation concentrating on a narrow buyer segment and out-competing rivals by offering niche members customized attributes that meet their tastes and requirements better than the rivals products. It is therefore important that the small and medium enterprises operating in a competitive environment to continuously adapt to the environmental changes because it will determine the direction. John and Robinson (2009).

The five competitive strategies:-
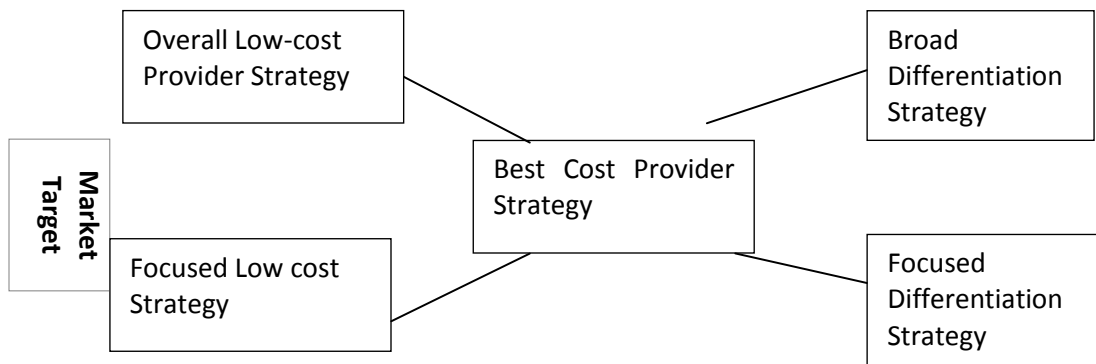
Lower Cost   **Differentiation**

Figure 1: Generic Strategies

Types of competitive advantages being pursued

Source: Porter, competitive strategy (1980)

2.2.3 SMEs Strength, Weaknesses, Opportunities and Threats

It is commonly used as a tool, which assesses the firm's strategic profile in terms of its strengths, weaknesses opportunities and threats. Focusing on internal and external environment, it serves to highlight a firm's competence which will enable it to gain a competitive advantage. The strengths and weaknesses relates to the organization itself, while the opportunities and threats reflects aspects of the external environment. Environmental analysis is critical component in strategic management because it produces much of the SMEs information to assess the outlook for the future it is therefore important that the managers/business owners have information on what is going on in the environment hence become a source of strength to the firm. Environmental analysis and competitive analysis identify threats to and opportunities for the firm. Competitive analysis and internal organizational analysis identify the strengths and weaknesses of the organization. This type of analysis is referred to as SWOT analysis (Mc Grath,2002)

2.3 Empirical Literature

It is generally recognized that SMEs face unique challenges which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Many SMEs managers/owners lack managerial training and experience. The typical owner or manager of small business develops their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-today operations than long term issues and more opportunistic than strategic in its concepts (Kyalo, 2002). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SMEs owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not be well equipped to carry out managerial routines for their enterprises (King and McGrath, 2002). This section examines the challenges affecting the competitiveness of SMEs

2.3.1 Inadequate Education, Skills and Scanty Market

information

Education and skill are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Study suggests that those with more education and training are more likely to be successful in the SME sector according to King and McGrath (2002). As such for small business to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprawling of many commercial colleges offering various computer applications. Further studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

Lack of sufficient market information poses a great challenge for small and medium enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data. Muteti,(2005) and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, small and medium enterprises entrepreneurs need to be supported. With connectivity being enhanced (by connecting Kenya globally through fiber optic cable project) there is renewed hope for the SMEs.

2.3.2 Lack of credit

Lack of access to credit is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use an appropriate technology because it is the only they can afford, In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan.

Credit constraints operate in variety of ways in Kenya where undeveloped capital market force entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finances. There are various other financial challenges that face small and medium enterprises. They include high

cost of credit, high bank charges and fees, the scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifying the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of pyramid schemes came up promising hope among the "little investors" that they can make it to the financial freedom through soft borrowing, the rationale behind thinking to these schemes, a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraints remain a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2008).

2.3.3 National policy and regulatory Environment

The National policy and regulatory environment has an important impact on technology decisions at the enterprise level. The structural adjustment program (SAPs) implemented in many African countries are aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. SAPs tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions to many African countries. USAID (1991) the findings in the study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of SMES. Unpredictable government policies coupled with "grand corruption" high taxation rates all continue to pose a great threat, not only to the sustainability of SMEs but also to the Kenyan economy that was gaining momentum after decades of vantage and during KANU era.

2.3.4 Technology Change and Poor Infrastructures

Change of technology has posed a great challenge to small businesses. Since the mid 1990's there has been a growing concern about the impact of technological change on the work of small and medium enterprise. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned they are most often unaware of this technology, and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies. In most of the African nations, Kenya inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persist (Muteti, 2005). There is digital pied between the rural and urban Kenya. With no power supply in most of the rural areas, it is next to impossible to have Internet

connectivity and access to information and networks that are core in any enterprise. This technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs.

Poor infrastructure poses a major challenge to small and medium enterprises in Kenya. In Kenya, the provision of better infrastructures has lagged behind over years. There are poor roads, inadequate electricity supply. According to the proceedings of the national investment conference, November 2003, Kenya still stands in need of better infrastructures. It has been the pledge of NARC government when it took over from KANU in 2002 to improve the infrastructures, but there is yet much to be done.

2.4 Gaps relating to previous studies on challenges facing SMEs

In an increasingly competitive environment and in the face of competition from bigger firms that posses plentiful resources, the survival and growth of the SMEs hinge on the formulation of effective competitive strategies. Although there is extensive literature on competitive strategies much of this literature does not explicitly consider specific difficulties faced by SMEs. The latter is important as it inhibits the SMEs ability to acquire sustainable competitive advantages. Existing literature on competitive strategies implicitly assume that resources required to implement the strategies are given, and thus the impact of resource constraint on strategy formulation has been overlooked. The applicability of such strategy prescription to SMEs whose obstacle is resource constraint according to Bowen *et al.,* (2009) is therefore suspect. What is therefore required is new approaches which explicitly examines reactions of the bigger firms and which also specifically take account the SMEs limitations in providing guidance to SMEs in competing against much bigger firms. This study is aimed at identifying other strategies adopted by the SMEs operating within Baringo County in responding to the competitive environment.

2.5 Conceptual Framework

The conceptual framework in Figure 2 shows the relationship between the independent, dependent and intervening variables. The study is based on the assumption that all the independent variables necessarily affect the dependent variable. The independent variables in this study are the current challenges being experienced by SME's, influence of the challenges and strategies employed in response to these challenges. The dependent variable is the competitiveness of the SMEs and is determined by such aspects like profitability, market share and quality of products.

Independent variables   **Dependent variable**

Challenges being experienced by SME's
- Business Training and Skills
- Access to Finance
- Technological Changes
- Market Information

Competitiveness among SMEs in Baringo County

- National policies and regulations promoting SMEs
- National economic conditions

Intervening variables
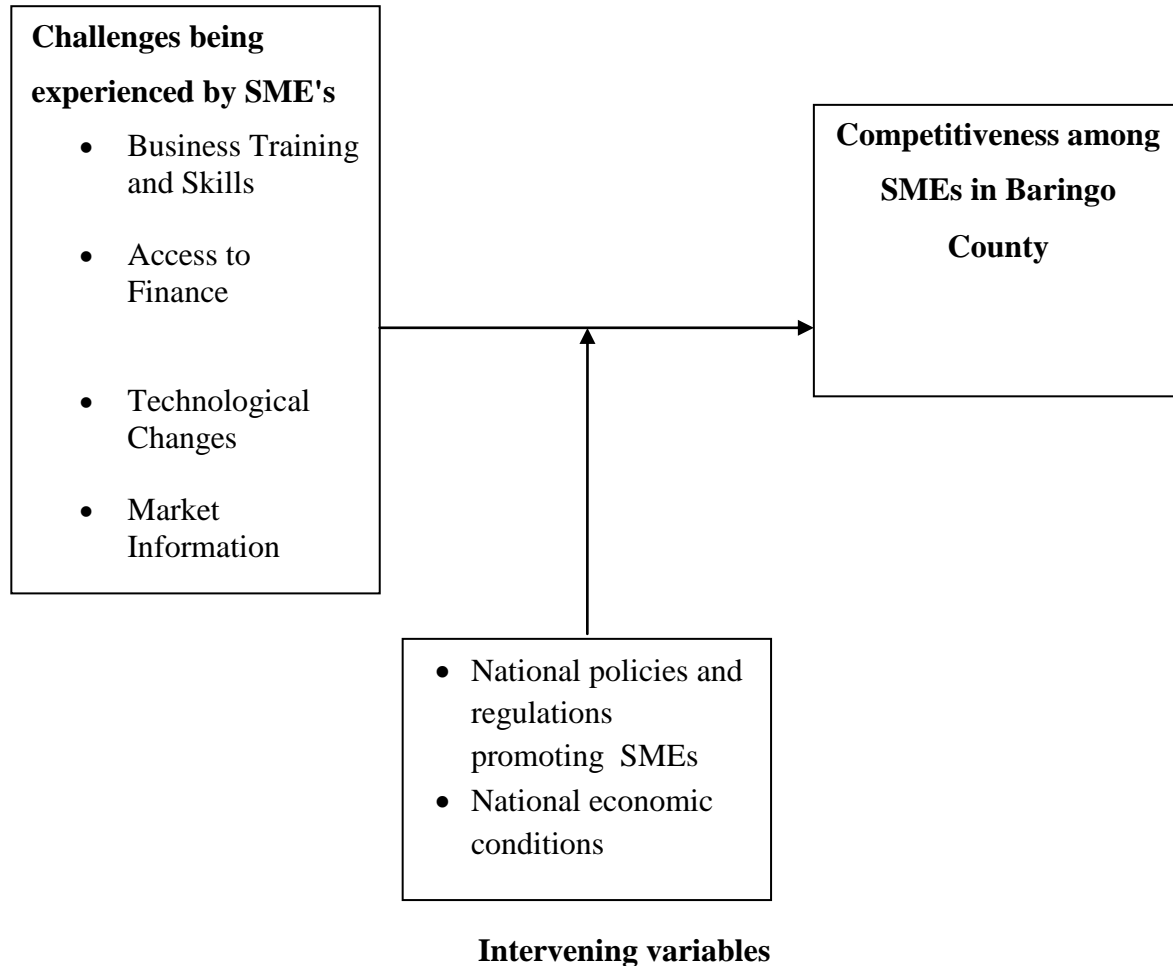
Figure 2: Conceptual Framework

Source: own conceptualization (2013)

Business training and skills, technology changes, access to finance and market information could affect the competitiveness of SMEs in the area and newer challenges could have arisen in the area requiring better strategies to solve them while the old may or may not have been fully addressed. This was likely to affect the competitiveness of the SMEs in the area in terms of the speed with which they overcome those challenges. The challenges were also expected to influence the way the SMEs in the area position themselves in the area in order to gain a more competitive advantage and may also affect their methods of operation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used in conducting the study. This includes: the research design; target population, sampling design and procedures; research instruments for data collection; the research process; validity and reliability of the research instruments as well as data processing and analysis techniques.

3.2 Research Design

Kombo and Tromp (2006) assert that a research design refers to the master plan that will be used in the study in order to answer the research questions; a research design is a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision according to Heron (1998). The study adopted a survey research design.

3.3 Area of study

Baringo county is located between longitudes 35 30' and 36 30' East and between latitudes 0 10' and 1 40 'South, The county is cut across by the Equator at the southern part. It covers an area of 11,015.3sq km. There are numerous business organizations operating within the county including hotels, healthcare centre educational institutions trading companies, etc that are local, regional and even international.

3.4 Target Population

In this study the target population was the 2647 SMEs operating within Baringo County (MCB, 2012) specifically those operating at Kabarnet Town, Eldama Ravine Town,Marigat Kabartonjo urban and Mogotio town. Baringo County was chosen because of its diverse demographic pattern that could be generalized to many areas of the country. The study targeted the SMEs across the socioeconomic strata, that is, ranging from those in the urban areas to those in the rural areas so as to make it more representative of most SMEs in Baringo County.

3.5 Sample size and Sampling Procedure

Stratified random sampling was used to obtain the required sample size. The sample size was calculated using the formula;

$$n = {}^{N}\!/_{1 + N(e^2)}$$

Where N is the population and e=0.05 is the level of precision (Yamane, 1967). The estimated number of SMEs operating in Baringo County is 2647 (MCB, 2012). Therefore, the sample was given by n= 2647/1+2647(0.05)²=347 which can be was rounded off to 347 SMEs. stratified random sampling under proportional allocation was used to various strata under the formula;

$$(n/N)N_h$$

Where n = sample size

N = Total number of SMEs

N_h = Total SMEs for each strata

Random sampling techniques were used to select the respondents from each stratum Table 3 shows the distribution of the sample according to SMEs in the area.

Table 3: Distribution of sample in areas of Baringo County

Area /Strutum	Number of SMEs	Sample size
Kabarnet	867	114
Eldama Ravine	632	83
Kabartonjo	466	61
Marigat	395	52
Mogotio	287	38
Total	2647	347

3.6 Data collection Instruments

Primary data was used in this study. Questionnaires were administered as the main instruments of collecting data from the respondents. The main advantage of using questionnaires was that the researcher was able to collect all the completed questionnaires within a short period of time.

3.7 Validity and Reliability of the Instruments

The research instruments were carefully developed with assistance from the supervisors and then 20 questionnaires were administered for pilot testing to respondents in Nyahururu town which is

in a neighboring county with similar demographic characteristics. Any comments that the respondents made were considered during the final draft of the questionnaire and thus ensure the validity of the instrument. Reliability of an instrument is the extent to which its ability to measure is without bias i.e. error free and, hence, offers consistent measurement across time and across various items in the instrument. The researcher calculated the reliability coefficient between the two sets of scores in each question with the aid of the statistical package for social sciences SPSS 21.0. Cronbach alpha was used to calculate the reliability index giving $\alpha = 0.7142$ from 31 items and this was quite satisfactory for the study purposes as according to Berthoud (2002), a reliability index of a minimum of 0.7 is satisfactory for any research instrument.

3.8 Data Analysis

The questionnaires were first checked for completeness and consistency before processing. The data was coded and analyzed using both descriptive and inferential statistics with the aid of SPSS computer software version 21.0. Measures of central tendency such as mean, mode and standard deviation were used as well as correlations and regressions. The simple regression equation is given by $Y_c = a + bx$, where Y is the value of the dependent variable which in this case represented the competitiveness of the SMEs. The multiple regression model;

$$y = bo + b_1 x_1 + b_2 x_2 + b_3 x_3 + e$$

where,

Y= Competitiveness of the SMEs

X1 = Business training and skills

X2 = Technology change

X3 = Access to finance

X4 = Market information

e =error term, normally distributed with mean zero and variance 1

was used to show the influence of all the independent variables in combination on the dependent variable. The analyzed data was then presented in tables and interpreted.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

4.1 Introduction

This chapter gives detailed results of data analysis. The data collected was analyzed using descriptive statistical methods for each variable and the results presented in form of tables to facilitate clarity in understanding the results. The results presented are also discussed through description, interpretation and explanation. A total of 246 SMEs participated in the study that was conducted through self administered questionnaires. The response rate for the questionnaires is given in Table 4.1

4.1.1 Response rate

Table 4.1 gives the summary of the questionnaire response rate

Table 4.1: Questionnaire response rate

No of instruments issued	No of instruments returned	Response rate (%)
347	246	71

The 71 percent response rate shown in Table 4.1 was high and acceptable for the analysis (Kombo and Tromp, 2006). The high response rate was achieved through careful preparation, advance arrangements with the respondents to collect the questionnaires promptly after they had been completed.

4.1.2 Demographic Characteristics of the Respondents

The study sought to determine the demographic characteristics of the respondents as they are considered as categorical variables which give some basic insight about the respondents. The characteristics considered in the study were; range of ages of the respondents; gender and highest level of education attained by them. The findings on these are summarized in Table 4.2(a) and 4.2(b)

Table 4.2(a): Gender Characteristics and Age of the Respondents

Gender		Age				Total
		18-30yrs	31-40yrs	41-50yrs	51 and Above	
Female	Frequency	39	36	49	12	136
	Percentage (%)	15.85	14.63	19.92	4.88	55.28
Male	Frequency	48	50	0	12	110
	Percentage (%)	19.51	20.33	0	4.88	44.72
	Frequency	87	86	49	24	246
Total	Percentage (%)	35.37	34.96	19.92	9.76	100
Chi-square	34.5079					
d.f	3					
p-value	0.0001					

The findings in Table 4.2(a) suggest that most of the respondents were aged between 31 and 40 years of age (35%). However, the findings also indicate that more females aged above 40 years were engaged in the SMEs. The Chi-square values also indicate that gender was significant to age in this study. The study also sought to compare gender and education of the respondents as shown in Table4.2(b)

Table 4.2(b): Gender Characteristics and Education of the Respondents

Gender		College	Primary	Secondary	University	Total
Female	Frequency	48	38	50	0	136
	Percentage(%)	19.51	15.45	20.33	0	55.28
Male	Frequency	36	13	36	25	110
	Percentage(%)	14.63	5.28	14.63	10.16	44.72
Total	Frequency	84	51	86	25	246
	Percentage(%)	34.15	20.73	34.96	10.16	100
Chi-square	38.9352					
d.f	3					
p-value	0.0001					

The findings also imply that majority of the respondents were highly educated young people and suggest that the SMEs were attracting the youth and hence were better positioned for better performance prospects in the future.

4.2 Descriptive Statistics

This section presents the results of the descriptive statistical analyses of the data and their interpretations. The descriptive statistics used are the means, modes, medians and standard deviations. The descriptive statistics helped to develop the basic features of the study and form the basis of virtually every quantitative analysis of the data. The results were arranged as per the study objectives using tables.

4.2.1 Business Training and Skills and Competitiveness of SMEs in Baringo County

The first objective of this study was to establish the relationship between business training and skills and the competitiveness of SMEs in Baringo County. To achieve this objective the respondents were asked to react to various statements describing their business training and skills and how it affected their competitiveness. The statements were measured on a 5 point Lickert Scale ranging from; 1 = strongly agreed to 5 = strongly disagreed. These formed the basis of computing the mean mode and median. The results are summarized in Table 4.3.

Table 4.3: Business training and skills and Competitiveness of SMEs

Business training and skills	SA Freq(%)	A Freq(%)	N Freq(%)	D Freq(%)	SD Freq(%)	χ2	P-value
I have been trained in business management	25(10.2)	63(25.6)	0	122(49.6)	36(14.6)	91.7886	0.0001
I attend business oriented courses regularly	13(5.3)	38(15.4)	12(4.9)	111(45.1)	72(29.3)	145.5041	0.0001
Book keeping is not a challenge for me	0	75(30.5)	60(24.4)	111(45.1)	0	16.7561	0.0002
Business training has improved my efficiency in business	25(10.2)	74(30.1)	48(19.5)	89(35.4)	12(4.9)	81.6016	0.0001

1- Strongly agree,   2- Agree,   3- Neutral,   4 – Disagree,   5 – Strongly disagree

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Looking at Table 4.3, it can be noticed that there was a general disagreement on the statements describing business training and skills. However, more respondents (49%) disagreed on whether they had received any business training than those who said tha training had improved the efficiency of their businesses. This means that the majority SMEs operators in the area had not received any formal training in business. This undoubtly made book-keeping a challenge for them and also meant that the efficiency of their business operations to some extent was bound to be affected.

4.2.2 Access to finance and competitiveness of SMEs in Baringo County

The second objective of this study was to determine the extent to which access to finance affects the competitiveness of SMEs in Baringo County. This objective was measured by asking the respondents to give their opinion on four statements pertaining to their status of financial access. A five point Lickert Scale with opinions ranging from strong agree = 1 to strongly disagree = 5 was used. A nominal scale was used and, hence, the points were not weighted. Table 4.4 summarizes the results on this variable.

Table 4.4: Access to finance and Competitiveness of SMEs

Access to finance	SA Freq(%)	A Freq(%)	N Freq(%)	D Freq(%)	SD Freq(%)	$\chi2$	P-value
I experience several barriers to accessing credit for my business	50(20.3)	38(15.4)	13(5.3)	61(24.8)	84(34.1)	56.6423	0.0001
My business assets and bank savings cannot guarantee the required finance	25(10.2)	51(20.7)	0	110(44.7)	60(24.4)	61.7398	0.0001
My level of profitability affects my saving power and ability to get loans	13(5.3)	125(50.8)	0	96(39.0)	12(4.9)	163.0081	0.0001
My business currently needs more finance	126(51.2)	12(4.9)	0	48(19.5)	60(24.4)	110.4878	0.0001

1- Strongly agree,   2- Agree,   3- Neutral,   4 – Disagree,   5 – Strongly disagree

According to the findings in Table 4.4, majority of the respondents strongly agreed (51.1%) on their need for more finance for their business. However, they interestingly reported that they were experiencing several barriers to accessing credit for their businesses (20%). The implication of this is that their barriers to accessing finance were more of a personal challenge than an institutional one. It is likely that they needed some training in capital management for their businesses in order to encourage them to seek for more finance for their businesses.

4.2.3 Technological changes and competitiveness of SMEs in Baringo County

The study also sought to establish how technological changes affected the competitiveness of SMEs in Baringo County. This objective was measured by asking the respondents to give their opinions on whether; there has been technological changes since they started their businesses; changes in technology often force them to invest in relevant technology; they train themselves and their staff on how to use technology for their business and; adapting to new technology affected the profitability for their business. A five point Lickert Scale was used to measure the status of these opinions as; 1 = strongly agree; 2 = agree; 3 = neutral; 4 = disagree; 5 = strongly disagree. The means, modes, medians and standard deviations were then calculated and presented in Table 4.5.

Table 4.5: Technological changes and Competitiveness of SMEs

Technological changes	SA Freq(%)	A Freq(%)	N Freq(%)	D Freq(%)	SD Freq(%)	χ^2	P-value
There have been technological changes since I started my business	171(69.5)	75(30.5)	0	0	0	37.4634	0.0001
Changes often force me to invest in relevant technology	61(24.8)	122(49.6)	12(4.9)	51(20.7)	0	101.1545	0.0001
I train myself and staff on how to use technology for the business	98(39.8)	62(25.2)	48(19.5)	38(15.4)	0	33.6098	0.0001
Adapting to new technology affects the profitability of my business	74(30.1)	146(49.3)	0	26(10.6)	0	88.9756	0.0001

1- Strongly agree,   2- Agree,   3- Neutral,   4 – Disagree,   5 – Strongly disagree

The findings in Table 4.5, indicate that majority (70%) of the respondents strongly agreed that they had experienced technological changes since starting their businesses in the area. They also strongly agreed that they train themselves and their staff on how to use technology for the business (40%). These findings imply that technological changes were forcing businesses in the area to adapt their businesses to technology in order to remain competitive in the area. This is also supported by the finding that most SMEs in the area reported investing in relevant technology to cope with the changes (25%).

4.2.4 Market information and competitiveness of SMEs in Baringo County

The study also sought to establish the extent to which access to market information affected the competitiveness of SMEs in Baringo County. This was the fourth objective and was measured by requesting the SMEs owners in the area to react to several statements describing the status of market information. A five point Lickert Scale was used ranging from 1 = strongly agree to 5 = strongly disagree. This formed the basis for computing the mean, median and modal score on each statement. The findings on this are summarized in Table 4.6.

Table 4.6: Market information and Competitiveness of SMEs

Market information	SA Freq(%)	A Freq(%)	N Freq(%)	D Freq(%)	SD Freq(%)	χ2	P-value
Reliable market information is not easy to come by in this area	25(10.2)	76(30.9)	0	85(34.6)	60(24.4)	34.0976	0.0001
Changes in prices of goods and services often lead to losses in my business	12(4.9)	87(35.4)	84(34.1)	51(20.7)	12(4.9)	109.9756	0.0001
Price discovery system of goods and services here is poor and affects prices	13(5.3)	89(36.2)	12(4.9)	96(39.0)	36(14.6)	135.0163	0.0001
Poor market information means I cant get the right suppliers	63(25.6)	62(25.2)	12(4.9)	61(24.8)	48(19.5)	38.187	0.0001

Poor market information system means I cant access the right market in time	52(21.1)	61(24.8)	0	97(39.4)	36(14.6)	32.5366	0.0001

1- Strongly agree,   2- Agree, 3- Neutral, 4 – Disagree,   5 – Strongly disagree

The results in Table 4.6 suggest that there was a general consensus on the statement, "poor market information means I cannot get the right suppliers" with majority (26%) strongly agreeing on this point. The findings also reveal that most respondents agreed (36%) that changes in prices of goods and services often led to losses in their business. Both findings suggest that market information was a crucial component of the competitiveness of the SMEs in the area. However, it also emerges from the findings that poor market information did not necessarily mean that the respondents could not access the right market in time (21%) implying the market information mainly affected the supply of retail goods and not their scale.

4.2.5 Competitiveness of SMEs in Baringo County

SMEs in Baringo County notably operate in an increasingly competitive business environment given the prevailing socioeconomic situations and the population ecology. In the present study competition among SMEs in the area was treated as the dependent variable. To assess the degree of competition among the SMEs in the area, the small business owners in the area were asked to respond to various questions describing the aspects of competition among their businesses in the area at present. They were asked whether they thought that; more SMEs have entered the market in the area thus increasing the competition; the competition had resulted in the SMEs reducing prices of goods; profitability and growth had suffered as a result of the competition and services; the quality of goods and services in the area have improved and; it was difficult to maintain or increase market share due to the competition. The degrees of the responses were rated on a five point Lickert scale ranging from strongly disagrees to strongly agree. The study findings on these are given in the following sections.

Table 4.7: Competitiveness of SMEs in Baringo County

	SA	A	N	D	SD		
Competitiveness of SMEs	Freq(%)	Freq(%)	Freq(%)	Freq(%)	Freq(%)	$\chi 2$	P-value

I consider my SMEs to be handling customer better than my competitors	37(15.0)	50(20.3)	0	147(59.8)	12(4.9)	170.6179	0.0001
I have seen many customers shifting from my competitors to my business in the last 5 years	0	75(30.5)	12(4.9)	123(50.0)	36(14.6)	114.878	0.0001
Many customers have been referred to buy from my business by other customers	12(4.9)	75(30.5)	25(10.2)	97(39.4)	37(15.0)	103.0244	0.0001
Very few of my customers shift from my business to my competitors	12(4.9)	74(30.1)	13(5.3)	86(35.0)	61(24.8)	97.6179	0.0001

1- Strongly agree,   2- Agree,   3- Neutral,   4 – Disagree,   5 – Strongly disagree

Looking at Table 4.7, it can be deduced that there was a general agreement over the statements describing the competitiveness of SMEs in the area. This meant that the SMEs in the area were experiencing increasing competition from each other. However, defining competitiveness as the ability of the SMEs to capture new markets and add value to their products and services, those who agreed with the statements that 'I have seen many customers shifting from my competitor's to my business in the last 5 years,' (31%) and, 'very few of my customers shift from my business to my competitors,' (30) seem to suggest that the SMEs in the area were not competitive enough and, hence, needed business training and skills.

4.3 Inferential statistics

In this section the results of the correlation and regression analyses are presented in for the purposes of making meaningful inferences of the data to the entire population under study.

4.3.1 Correlation analysis

In this subsection a summary of the correlation and regression analyses is presented. It seeks to first determine the degree of interdependence of the independent variables and also show the degree of their association with the dependent variable separately. These results are summarized in Table 4.8

Table 4.8: Summary of Correlations

		Business Training	Access Finance	Techology Change	Market Information	Competitiveness
Business Training	Pearson Correlation	1				
	Sig. (2-tailed)	0.000				
Access Finance	Pearson Correlation	.184**	1			
	Sig. (2-tailed)	0.005				
Technology Change	Pearson Correlation	0.004	-.456**	1		
	Sig. (2-tailed)	0.000	0.058			
Market Information	Pearson Correlation	.336**	.216**	-.299**	1	
	Sig. (2-tailed)	0.015	0.138	0.001		
Competitiveness	Pearson Correlation	.549**	.284**	0.096	.200**	1
	Sig. (2-tailed)	0.000	0.001	0.000	0.020	

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

The results in Table 4.8(a) show that the level of correlation between the independent and dependent variable was higher than the other zero order value in the correlations between the independent variables. This suggests that although multicollinearity existed as the correlations in among the independent variables was significant, they were not high enough to significantly affect the findings; hence, multicollinearity was ruled out.

4.3.2 Regression Analysis

The study used multiple linear regression analysis to determine the combined effect of all the independent variables on the dependent variable. The results are summarized in Table 4.9

Table 4.9: Multiple linear regression analysis model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0. 666[a]	0.444	0.435	3.26636

a. Predictors: (Constant), Competitiveness of SMEs

b. Predictors: (Constant), Business training and skills, Access to finance, Technological change Market information

The results in Table 4.9 show that the value obtained for R, which is the model correlation coefficient was r = 0.666 which was higher than any zero order value in the table. This indicates that the model improved when more variables were incorporated when trying to analyze the challenges affecting the competitiveness of SMEs in the area. The adjusted r square value of, r = 0.435, also indicates that Business training and skills, Access to finance, Technological change, Market information could explain approximately 44% of the variations in the competitiveness of SMES in Baringo County.

The results of the ANOVA performed on the independent and dependent variables are summarized in Table 11.

Table 4.10: ANOVA model

Source of difference	Sum of squares	df	Mean square	F_o	Sig.
Between groups	2052.620	4	513.155	48.097	.000[a]
Within groups	2571.254	241	10.669		
Total	4623.874	245			

The results of Table 4.10 indicate that there is a significant difference between means of factors affecting the competitiveness of SMEs in Baringo County (F_o = 48.097 >F_c= 2.37; α<.05; df = 4, 245; p = 0.00). This finding confirms the finding suggested by Table 4.10. The study therefore

establishes that the challenges of business training and skills, access to finance, Technology change and Market information had a significance influence on the competitiveness of SMEs in the area. This means that all these challenges made a notable impact on the competitiveness of SMEs in the area. To answer the question about which of the independent variables had more effect on the competitiveness of the SMEs in the area, the beta value was used and the results of this are as summarized in Table 4.10.

Table 4.11: Multiple linear regression analysis correlation coefficients

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	2.521	0.416		6.056	.188		
Business training and skills	0.418	0.084	0.301	4.961	.000	.860	1.162
Access to finance	0.522	0.061	0.687	8.557	.000	.279	3.582
Technological change	-0.324	0.086	-0.231	-3.773	.000	.773	1.293
Market information	-0.523	0.078	-0.54	-6.705	.000	.294	3.404

a. Dependent Variable: Competitiveness of SMEs

The results in Table 4.11 indicate that the most important challenge affecting the competitiveness of SMEs in the area was access to finance followed by business training and skills, technological change and market information in that order. The beta values for these variables 0.301, 0.687, -0.231and -0.540 respectively indicate that the dependent variable competitiveness of the SMEs would change by a corresponding number of standard deviations when the respective independent variables changed by one standard deviation. All VIF values are well below 10 and the tolerance statistics, all were above 0.2.Therefore it can be concluded that there is no colliearity within our data.

4.4 Hypotheses testing

H0$_1$: Business training and skills do not significantly affect the competitiveness of SMEs in Baringo County

The multiple regression analysis shows that the relationship is significant (β = 0.301; p = 0.000, α = 0.05). This leads to the rejection of the null hypothesis. This suggests that although business training and skills officials were an important aspect in increasing the competitiveness of the SMEs, a lot still needed to be done in the area to ensure that the SMEs owners received adequate training in business management. This findings agree with those of Amyx (2005) and King and

McGrath (2002) who had pointed out that those entrepreneurs with more education and training are more likely to be successful in the SME sector and similarly, Wanjohi and Mugure (2008) maintained that for small business to do well in Kenya, the entrepreneurs needed to be well informed in terms of skills and management

H0$_2$: Access to finance does not significantly affect the competitiveness of SMEs in Baringo County

A multiple regression analysis shows a significant relationship (β = 0.687, p=0.132, α = 0.05) exists between access to finance and the competitiveness of the SMEs in Baringo County. This leads to the rejection of the null hypothesis. This implies that a lot still needs to be done in terms of improving access to finance as quite a number of the SMEs owners in the area still had to contend with the difficult hurdles of accessing finance for their businesses. Wanjohi and Mugure (2008) also found similar results thereby underscoring the need to improve access to the SMEs through availing the finances and also imparting to them necessary financial management skills via training.

H0$_3$: Technological changes do not significantly affect the competitiveness of SMEs in Baringo County

The multiple regression analysis shows that β = -0.231 is significant at the 95% confidence level and p = 0.000, leading to the rejection of the null hypothesis. This underscores the significance of adapting the small businesses to technology in order for them to remain competitive in the area. These findings are consistent with those of Bowen *et al.,* (2009) who found that majority of the SMEs in the country found it difficult to cope with the technology change as it required more investments than they could afford and consequently affected their profitability.

H0$_4$: Access to marketing information does not significantly affect the competitiveness of SMEs in Baringo County

A correlation analysis shows a significant relationship (β = -0.540; p = 0.002, α = 0.05) exists between Access to marketing information and the competitiveness of SMEs in Baringo County. This leads to the rejection of the null hypothesis. These findings confirm that there is a strong link between access to marketing information and competitiveness of SMEs in the area. They imply that more emphasis needed to be put on improving access to market information for the

SMEs owners in the area. These findings support the conclusions by Wanjohi and Mugure (2008) and also Bowen *et al.,* (2009) that timely access to market information among the SMEs was critical factor in their survival. According to Cochran (1981; in King and McGrath 2002), lack of sufficient market information poses a great challenge for small and medium enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information

CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes, discusses, concludes and makes recommendations on the research findings as carried out in the actual study. It is devoted to the summary of the findings, conclusions and recommendations emanating from the study. The implications are discussed and suggestions made on areas of further study. The main purpose of this study was to identify the challenges affecting the competitiveness of SMEs in Baringo County. Specifically the study sought to establish the extent to which business training and skills, access to finance, technology change and access to marketing information affects the competitiveness of SMEs in Baringo County.

5.2 Summary of the Findings

Multiple regression model findings indicate that the study variables could explain up to approximately 44% of the variations in the competitiveness of SMEs in Baringo County.

5.2.1 The extent to which business training and skills affects the competitiveness of SMEs in

Baringo County

The findings on this variable reveal that the majority SMEs operators in the area had not received any formal training in business (mode = 4) implying that they their approach to business management lacked better management skills that would enable them to make more strategic decisions. The regression analysis shows that the relationship between this variable and the competitiveness of the SMEs in the area was significant ($\beta = 0.301$; $p = 0.000$, $\alpha = 0.05$) and led to the rejection of the null hypothesis. This suggests that although business training and skills officials were an important aspect in increasing the competitiveness of the SMEs, a lot still needed to be done in the area to ensure that the SMEs owners received adequate training in business management

5.2.2 The extent to which access to finance affects the

competitiveness of SMEs in

Baringo County

Access to finance remained the most significant challenge affecting the competitiveness of the SMEs in the area (β = 0.687, p=0.132, α = 0.05) according to the findings on this variable. Majority of the respondents strongly agreed on their need for more finance for their business (mode=1). However, institutional barriers to accessing credit for their businesses (mode = 5) were not the major issue leading to the view that the barriers were more of personal capacity challenges than an institutional. This implies that a lot still needs to be done in terms of improving access to finance as quite a number of the SMEs owners in the area still had to contend with the difficult hurdles of accessing finance for their businesses. Wanjohi and Mugure (2008)

5.2.3 The extent to which technology change affects the competitiveness of SMEs in

Baringo County

According to the findings of this study, the effects of technology change on the competitiveness of the SMEs in the area, majority (mode = 4) of the respondents strongly agreed that they had experienced technological changes since starting their businesses in the area. They also strongly agreed that they train themselves and their staff on how to use technology for the business (mode = 1). This was likely to put a strain on the operations of those who reported investing in relevant technology to cope with the changes. Multiple regression analysis shows that this variable was significant with the beta value β = -0.231 being significant at the 95% confidence level and p = 0.000. This underscores the significance of adapting the small businesses to technology in order for them to remain competitive in the area. These findings are consistent with those of Bowen *et al.,* (2009) and also imply that technology changes were forcing businesses in the area to adapt their businesses to technology in order to remain competitive in the area.

5.2.4 The extent to which access to marketing information affects the

competitiveness of SMEs in Baringo County

Majority of the respondents strongly agreed that, "poor market information means I cannot get the right suppliers" implying that access to marketing information was affecting their

competitiveness in the area. The findings also revealed that changes in prices of goods and services often led to losses in their business in the area (mode = 2). A regression analysis shows a significant relationship (β = -0.540; p = 0.002, α = 0.05) exists between access to marketing information and the competitiveness of SMEs in Baringo County, thus underscoring its importance as a challenge affecting the competitiveness of the SMEs in the area. These findings suggested that more emphasis needed to be put on improving access to market information for the SMEs owners in the area.

5.3 Conclusions

Based on the findings of this study the following conclusions are drawn, first it was established that lack of business training and skills among the SMEs owners in the area significantly affected their competitiveness. Access to finance has also been identified as the foremost challenge that needed to be addressed by capacity building of the entrepreneurs as it appears majority were not prepared to handle the credit risks in order to expand their businesses. The study findings also show that technology adoption by the SMEs was posing a significant challenge as a result of the constant changes that forced many to upgrade to the most relevant technology of the day. It was also established that access to marketing information was significant to the competitiveness of the SMEs in the area and needed to be improved in order to enable the business to strategically position themselves for better performance and more competitiveness. Therefore, the study finds that all the variables of the present study were all significant to the competitiveness of the SMEs in Baringo County and that they needed to be addressed in the order prescribed in the multiple regression model.

5.4 Recommendations on Research Findings

Following recommendations are made based on the findings of the study;

The stakeholders in the SMEs sector who include financial institutions, NGOs etc in the area should consider organizing training sessions to the SMEs owners in the area with the aim equipping them with better management skills that will help them make more strategic decisions that will make their businesses more competitive in the area.

There is need to do capacity building especially in terms of risk management for the SMEs owners in order for them to be able carefully evaluate the risks in their business and to motivate them to consider applying for more funds for the expansion of their business. This training a may also help them to come up with more realistic expansion plans without affecting their competitiveness.

Stakeholders should increase their efforts at developing workable strategies in order to enable the SMEs to overcome the challenges they face more conveniently and also be in a position to handle other emerging challenges. They should also look for points of entry in more literature such as the present study so as to enable them to have more reliable information

SMEs owners in the area need to be more prudent while choosing the appropriate technology for their businesses so that the technology changes do not unnecessarily affect their operations. Such decisions may enable them to invest in relevant technology without compromising their competitiveness in the area.

Finally, the access to timely market information in the area is low and needs to be improved. The stakeholders should put more emphasis in disseminating market information in the area through the mass media and the SMEs owners also need to establish contact with a variety of suppliers in order to have more reliable marketing information.

5.5 Recommendations for Further Research

More studies need to be done to establish the influence of business training on the strategic investments decisions of the SMEs in the area and also the influence of strategic relocation to potential areas on the performance of the SMEs in the area.

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APPENDICES

APPENDIX I: Letter of Transmittal

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Alfred K Komen
P.O. Box 11713
Nakuru
5th September, 2013

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Alfred K Komen
P.O. Box 11713
Nakuru
5th September, 2013

The Governor
Baringo County
P.O. Box 53
Kabarnet

Dear Sir/Madam,

RE: **REQUEST TO CARRY OUT RESEARCH ON SMES WITHIN BARINGO COUNTY**

I do request to be allowed to carry out the above research among the Small and Medium-sized Enterprises (SMEs) in various parts of Baringo County.

I am postgraduate student of Kabarak University Nakuru - Student No. **GMB/NE/0638/05/012** I intend to do a research on **the challenges affecting the competitiveness of SMEs in Baringo County.** This research is to be conducted only in the area and is for purely academic purposes only; however, evaluation results may be made public after the completion of the study for future researchers and other relevant stakeholders to guide them in their work.

Every care will be taken in the data collection procedure to ensure that it is within ethical limits. Thank you in advance for your cooperation.

Yours faithfully

Alfred K. Komen

APPENDIX 2: Questionnaires for all Respondents

The questions below are for the purposes of assessing the challenges affecting the competitiveness of SMEs in Baringo County. Your opinions as reflected in this questionnaire are important to this study and are held in confidentiality. Therefore you are kindly requested to fill this questionnaire in the most free and honest way possible.

Please tick [√] the appropriate answers in the boxes provided and also write down the appropriate answers in the spaces provided. Do not write your name on the questionnaire. Thank you in advance for your time and cooperation.

SECTION A: Background Information

1. Age:
   18-30 yrs ☐   31-40 yrs ☐   41-50 yrs ☐   51 and above ☐

2. Gender
   Male ☐   Female ☐

3. Highest Level of education
   Primary ☐   Secondary ☐   College ☐   University ☐

4. Years of experience in the SMEs sector

   1 - 5 yrs ☐   6 - 10 yrs ☐   11 - 15 yrs ☐   Over 15 yrs ☐

SECTION B

Effect of Business Training and Skills on the competitiveness of SMEs in Baringo County

1. Please rate how business training and skills affect the competitiveness of your business in these terms?

1- Strongly agree   2- Agree   3- Neutral   4 – Disagree,   5 – Strongly disagree

Business training and skills	1	2	3	4	5
I have been trained in business management					
I attend business oriented courses regularly					
Book keeping is not a challenge for me					
Business training has improved my efficiency in business					

SECTION C
Effect of access to finance on the competitiveness of SMEs in Baringo County

2. Please rate how **Access to finance** affects the competitiveness of your business in these terms?

1- Strongly disagree   2- Disagree   3- Neutral   4 – Agree   5 – Strongly agree

Access to finance	1	2	3	4	5
I experience several barriers to accessing credit for my business					
My business assets and bank savings cannot guarantee the required finance					
My level of profitability affects my saving power and ability to get loans					
My business currently needs more finance					

SECTION D
Effect of technological changes on the competitiveness of SMEs in Baringo County

3. Please rate how **technological changes** affect the competitiveness of your business in these terms?

1- Strongly agree   2- Agree   3- Neutral   4 – Disagree,   5 – Strongly disagree

Technological changes	1	2	3	4	5
There have been technological changes since I started my business					
Changes often force me to invest in relevant technology					
I train myself and staff on how to use technology for the business					
Adapting to new technology affects the profitability of my business					

SECTION E
Effect of access to market information on the competitiveness of SMEs in Baringo County
4. Please rate how access to **Market information** affects the competitiveness of your business in these terms?
1- Strongly disagree   2- Disagree   3- Neutral   4 – Agree   5 – Strongly agree

Market information	1	2	3	4	5
Reliable market information is not easy to come by in this area					
Changes in prices of goods and services often lead to losses in my business					
Price discovery system of goods and services here is poor and affects prices					
Poor market information means I cant get the right suppliers					
Poor market information system means I cant access the right market in time					

SECTION F
Competitiveness of SMEs in Baringo County
5. Please rate how these statements describe the competitiveness of SMEs in your area.
1- Strongly disagree   2- Disagree   3- Neutral   4 – Agree   5 – Strongly agree

Competitiveness of SMEs	1	2	3	4	5
I consider my SMEs to be handling customer better than my competitors					
I have seen many customers shifting from my competitors to my business in the last 5 years					
Many customers have been referred to buy from my business by other customers					
Very few of my customers shift from my business to my competitors					

Thank you very much for your cooperation