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EFFECT OF ENTREPRENEURIAL MANAGEMENT ON ACCESS TO VENTURE FINANCING OF SMALL AND MEDIUM ENTERPRISES IN STAREHE SUB-COUNTY

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ENTREPRENEURSHIP IN THE COLLEGE OF HUMAN RESOURCE DEVELOPMENT IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ENTREPRENEURSHIP OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University

Signature……Date……

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HD313-C004-2644/14

This research project has been submitted for examination with my approval as University Supervisor

Signature……Date……

DR. KARANJA NGUGI

DEDICATION

I dedicate this work to my family and all those who supported me in the completion of this project.

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I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project. The work of carrying out this study needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few.

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LIST OF ACRONYMS AND ABBREVIATIONS

AIM: Alternative Investment Market

ASEAN: Association of Southeast Asian Nations

CCC: Cash Conversion Cycle

GDP: Gross Domestic Product

OECD: Organisation for Economic Co-operation and Development

PLS-SEM: Partial Least Squares Structural Equation Modeling

SMEs: Small and Medium-Size Enterprises

US: United States

OPERATIONAL DEFINITION OF TERMS

Access to venture financing: This refers to access or no access of venture financing, including credit from formal financial institutions, in a business (Fatoki & Asah, 2011).

Entrepreneurial management: It is a mode of management‖ that is proactive, opportunity-driven, and action-oriented which is evidenced by the firm‘s strategic decisions and operating management philosophies. (Hameed & Ali, 2011).

Growth orientation: This is a multidimensional construct, applied at the organisational level, which characterizes firm's entrepreneurial behaviour and includes Employment growth, Sales turnover, and Development stages (Cowling & Liu, 2013).

Innovativeness: This refers to the number of products and services, number of technologies and number of products added value in a business (Hui-Hong & Kim, 2012).

Opportunity commitment: This refers to the number of business opportunities seen and utilized in the past, presence of a vision and number of market opportunities currently identified (Berglund, 2007).

Resource gap identification: This is the ability of a business owner to identify knowledge lacking, physical assets required and working capital required in a business (Agu, 2014).

Small and Medium Enterprises: The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ between 10 and 100

employees which have an annual turnover between Ksh 500,000 and Ksh 800 million (International Finance Corporation, 2015).

ABSTRACT

SMEs play a significant role in the economic development by creating employment, wealth creation, poverty eradication and creation of new firms. However, this sector is characterized by low access to credit. This study therefore sought to examine the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county. The study also sought to find out the effect of resource gap identification, opportunity commitment, innovativeness and growth orientation on access to venture financing of small and medium enterprises in Starehe sub-county. This research study used a descriptive research design. The target population was all the 1016 SME's operating in Starehe Sub-County that have been licensed by Nairobi County government licensing department. Stratified random sampling was used to select 10 percent of the target population. The study made use of primary data, which was collected by use of semi structured questionnaires. A pilot study was conducted to test the validity and reliability of the research instrument. The research instrument generated both qualitative and quantitative data. Qualitative data was analyzed by use of thematic analysis and the results was presented in a prose form. Quantitative data was analyzed by use of both inferential and descriptive statistics with the help of statistical software known as Statistical Package for Social Sciences (SPSS version 22). Descriptive statistics included percentages, and frequencies, measures of central tendency (mean), measures of dispersion (standard deviation). The results were presented using tables and figures which included bar charts and pie charts. The study also used correlation analysis and multiple regression analysis to determine the relationship between the independent variables and dependent variable. The study found that resource gap identification was influencing access to venture financing of small and medium enterprises most, followed by growth orientation, opportunity commitment and innovativeness. The study also found that the identification of knowledge gap, physical assets required and working capital required had a significant influence on access to venture financing. The study further established that number of opportunities in the past, presence of a vision and number of market opportunities influence access to venture financing of small and medium enterprises. The study revealed that number of new products/services, number new technologies and number of products added value influence access to venture financing of small and medium enterprises. The study also established that number of employees, sales volume and development stage of SMEs influence their access to venture finance. Business owners should frequently conduct gaps analysis in their organizations so as to identify, knowledge gaps, working capital required and physical assets required. Also, SME owners should show commitment to their businesses by developing strategic plans with mission vision and objectives and should also identify other opportunities in the market, develop a business plan and present it to financial institutions for financing. Also, SMEs should develop business plans for the products and services they have introduced as well as the products they had added value to, and use them to seek for venture financing from financial institutions.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter presents an introduction to the study. It begins with of the background of the study that gives the global perspective, African perspective and local perspective of the study problem. The chapter also comprises of the statement of the problem, objectives of the study, researcher questions significance of the study, scope of the study and limitations of the study.

Worldwide SMEs are recognized as engines of growth and development and they are the backbone of the economy in many successful developed nations all over the world (Kehinde, 2011). They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports. Huiyuan (2009) indicates that SMEs are recognized as one of the most important sources of employment, wealth creation, poverty reduction and contributing to competition with other large businesses. SMEs have such a crucial significance in the development of an economy that they cannot be ignored hence their development should form one of the objectives of any country (Fatoki & Asah, 2011).

The capital needs of small and medium-size enterprises (SMEs) can be either satisfied by its own internal funds or by debt capital. The lack of access to credit remains a major constraint for the entrepreneurs in developing countries (Hameed & Ali, 2011). Unlike larger firms, SMEs rarely have access to public equity markets in most countries and therefore do not have access to the public debt. Instead, they turn to banks and the credit market (trade credit, money lenders, informal lending from

family/friends, and rural finance) for both short and long term credit (Prabhakar, 2015).

Access to external resources is needed to ensure flexibility in resource allocation and reduce the impact of cash flow problems. Firms with access to funding are able to build up inventories to avoid stocking out during crises, while the availability of credit increases the growth potential of the surviving firms during periods of macroeconomic instability (Haron, Saniza, Jayaraman & Ishak, 2013). Firms without access to bank funding are more vulnerable to external shocks. However, SMEs globally often lack access to credit as they are considered by financial institutions high risk groups. According to Fatoki and Asah (2011), one of the main reasons influencing SMEs access to credit is entrepreneurial management. Nkuah, Tanyeh and Gaeten (2013) found that the main components of entrepreneurial management include opportunity commitment, firm growth, resource gap identification and innovativeness. This is also supported by Hameed and Ali (2011) argument that the dimensions of entrepreneurial management include strategic orientation, resource orientation, management structure, growth orientation, and entrepreneurial culture.

1.1.1 Global Perspective of Venture Financing of Small and Medium Enterprises

SMEs access to venture financing is a global problem in both developed and developing countries. In the United States (US), Organisation for Economic Co-operation and Development (2015) indicate that seven years after the global financial crisis, lending to US small businesses is still below the pre-crisis levels and credit conditions remain tight for many of these firms. Demand and supply-side factors, along with heightened regulatory oversight and increased reserve requirements in the banking sector, including entrepreneurial management skills, explain the sluggish recovery of SME lending.

According to the European Commission (2014) report, bank loans constitute the main source of external funding for business in the majority of Member States. However, the difficulties of accessing bank loans are particularly affecting smaller and younger companies. The reject rates in most of the banks remain high in some euro area countries such as the Netherlands (23.5%), Greece (21.5%) and Ireland (18.7%) (Afrifa & Padachi, 2016). In addition to the problem of loan applications being rejected, some businesses receive less financing than requested or decline loan offers due to their high costs and/or tight conditions (Richard & Neema, 2012). As a result, over a quarter of SMEs do not get most of the financing they ask for from their banks. Some of the reasons given for rejection of loan applications include lack of entrepreneurial management skills, poor financial management, and lack of business plans among others.

Limited access to bank credit is a persistent problem in Asia and Pacific and lending to SMEs has declined over the course of the global financial crises of 2008 and 2014; a period wherein they received only 18.7% of total bank loans. In the ASEAN region, small and medium-sized enterprises still have limited access to financing. This is despite their critical economic role in countries such as Malaysia, Indonesia, Thailand, the Philippines and Singapore. According to Kehinde (2011), SMEs in Malaysia, Indonesia, Thailand, the Philippines and Singapore contribute between 30% and 60% of the countries' gross domestic product (GDP), while employing between 60% and 90% of the workforce. However, less than 60% of SMEs in these countries have access to bank loans and around 50% are unserved or underserved by financial institutions. According to Haron, Saniza, Jayaraman and Ishak (2013) the main factors hindering SMEs access to bank financing in the Asia and Pacific include lack of collateral, poor relationship with financial institution, history of loan default and

having a poor financial record. All these factors are related to entrepreneurial management.

1.1.2 African Perspective of Venture Financing of Small and Medium Enterprises

In Africa, close to 83% of the formal SMEs already have a banking relationship via deposit/checking accounts, while only about 35% of SMEs have access to credit (International Finance Co-operation, 2015). In sub-Saharan Africa, 45% of firms cite access to finance as a major constraint. Nkuah, Tanyeh and Gaeten (2013) indicate a similar disadvantage for small enterprises in North Africa with only 16% of small and medium-sized businesses having a loan or line of credit.

In a study conducted in Mozambique, Osano and Languitone (2016) established that access to finance was the main challenge facing SMEs and only 5% of the SMEs are financed by formal financial institutions meaning they use other financing lines for both investment and working capital. Similarly, Nkuah, Tanyeh and Gaeten (2013) found that in Ghana, lack of adequate access to credit topped the factors hampering the growth of small businesses in Ghana. The World Bank (2014) survey results show that banks in Tanzania, Rwanda and Kenya currently account for between five to 20 percent share of SME lending in their overall loan portfolios and notes several contribution factors to poor bank financing of the SMEs as lack of record management, entrepreneurial and financial management skills. In Tanzania, Richard and Neema (2012) found that only 21% of SMEs had access to credit from formal financial institutions and hence majority of the SMEs were obtaining loans from friends and family, money lenders, relatives, rotating savings and credit groups to finance their businesses. The amount of capital raised through these methods is limited and insufficient to sustainably finance growing SMEs.

1.1.3 Local Perspective of Venture Financing of Small and Medium Enterprises

SMEs have become important players in the Kenyan economy, but at the same time they continue to face constraints that limit their development and financial performance. Lack of access to financial services is one of the main constraints, and a number of factors have been identified to explain this problem (Makena, 2011).

In a study on factors influencing SMEs access to finance in Westlands Division, Kung'u (2011) found that entrepreneurial characteristics were the most contributing factors hindering access among SMEs. In another study, Makena (2011) found that the main factors hindering SMEs access to finance include lack of innovativeness, poor financial management, poor record keeping and lack of entrepreneurial skills. In addition, Makena, Kubaison and Njati (2015) indicate that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the business positively impact on the performance of SMEs. They found out that, lack of managerial experience, skills and personal qualities are found as the main reasons why SMEs fail and hence a hindering factor in accessing funds.

1.1.4 SMEs in Kenya

It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy. The Sector has continued to play an important role in the economy of this country (Kenya National Bureau of Statistics, 2015). The Small Enterprise Sector or Informal Sector provided approximately 82.7% of total employment and contributed over 92% of the new jobs created in 2014 (Economic survey, 2015).

The sector therefore plays a key role in employment creation, income generation and is the bedrock for industrializing the Country (Mayabi, 2013). Due to their

characteristics, SMEs in Kenya suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. The challenges are not only in the areas of financing investment and working capital, but also in human resource development, market access, and access to modern technology and information. Access to financial resources is constrained by both internal and external factors (Economic survey, 2015).

Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment (Kenya National Bureau of Statistics, 2015). From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts.

1.2 Statement of the Problem

SMEs play a significant role in the economic development by creating employment, wealth creation, poverty eradication and creation of new firms. This sector had the largest share of employment accounting for 82.7 per cent of the total jobs (Economic survey, 2015). In the global economy, SMEs are largely recognized as engines of growth and development and are the backbone of economy in many developed nations (Sharu & Guyo, 2013). SMEs have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports (Mayabi, 2013).

SMEs require access to credit for them to grow. However, one of the main challenges facing SMEs in Kenya is poor access to credit. According to International Finance Corporation (2015), about 65% of SMEs in Kenya did not receive any financial assistance from financial institutions in the year 2015. Osano and Languitone (2016) contend that small firms tend to face greater financial constraints than do larger firms.In Malaysia, Al-Dhaafri, Al-Swidi and Yusoff (2015) found that entrepreneurs who had entrepreneurial management skills had access to venture financing. However, these findings cannot be generalized to Kenya due to economic and legal differences between the two countries. Due to lack of entrepreneurial skills, poor financial management, failure to identify business opportunities and resource gaps, SMEs are considered by financial institutions as high risk groups and hence the high rate of loan request rejection. In addition, despite having SMEs start up on a very high note, there is a high rate of collapse and most enterprises are short lived and barely survive third anniversary due to lack of venture financing to survive and expand. They eventually stagnate and lack continuity. According to Sharu and Guyo (2013), 3 out of 5 businesses fail within the first few months of operation and those that continue 80 per cent fail before the fifth.

Various studies conducted on access to venture financing of small and medium enterprises have shown mixed findings on the role of entrepreneurial management. For instance, Fatoki and Asah (2011) found that entrepreneurial management was one of the main factors influencing SMEs access to finance in commercial banks in South Africa. In addition, Hameed and Ali (2011) found that entrepreneurial skills influence SMEs access to finance. On the contrary, Aminu and Shariff (2015) found that entrepreneurial management skills were not significant determinants of SMEs access to finance in Nigeria. It is therefore not clear whether entrepreneurial management

affects access to venture financing of small and medium enterprises. SMEs play a major role in the economy of the country and hence their performance is of paramount importance. In addition, the performance of SMEs as indicated by Afrifa and Padachi (2016) depends on access to credit. This study therefore sought to examine the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study was to examine the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county.

1.3.2 Specific Objectives

The specific objectives of the study were: -

i. To find out the effect of resource gap identification on access to venture financing of small and medium enterprises in Starehe sub-county
ii. To determine the effect of opportunity commitment on access to venture financing of small and medium enterprises in Starehe sub-county
iii. To examine the effect of innovativeness on access to venture financing of small and medium enterprises in Starehe sub-county
iv. To determine the effect of growth orientation on access to venture financing of small and medium enterprises in Starehe sub-county

1.4 Research Questions

This study sought to answer the following questions: -

i. What is the effect of resource gap identification on access to venture financing of small and medium enterprises in Starehe sub-county?

ii. How does opportunity commitment affect access to venture financing of small and medium enterprises in Starehe sub-county?

iii. What is the effect of innovativeness on access to venture financing of small and medium enterprises in Starehe sub-county?

iv. How does growth orientation affect access to venture financing of small and medium enterprises in Starehe sub-county?

1.5 Justification of the Study

This research study was of great importance to the SME owners, government of Kenya and policy makers, researchers and academicians.

1.5.1 SME owners

The study is of great importance to SME owners in Starehe Sub-county as it provides information on the effect of entrepreneurial management on access to venture financing of SMEs that can be used to improve access to venture financing. In addition, the study provides information on the influence of resource gap identification, opportunity commitment, innovativeness and growth orientation on access to venture financing of SMEs that can be used to improve SME owners' entrepreneurial management.

1.5.2 The Government of Kenya

To the National and County governments, the study provides information on how entrepreneurial management affects access to venture financing among SMEs that can be used to develop and implement policies to improve entrepreneurial management and hence access to venture financing of SMEs. In addition, the findings of this study

can be used to develop training programmes on entrepreneurial management for SME owners and students in learning institutions.

1.5.3 The Researchers and Academicians

To the researchers and academicians, the study provides information that can be used as literature review in studies related to entrepreneurial management and the access of venture financing of SMEs. The study also provides a base upon which further studies can be conducted on the effect of entrepreneurial management on access to venture financing of SMEs.

1.6 Scope of the Study

This study sought to examine the effect of entrepreneurial management on access to venture financing of small and medium enterprises. The study only focused on four components of entrepreneurial management, namely; resource gap identification, opportunity commitment, innovativeness and growth orientation. The population of this study was 1016 registered SMEs in Starehe Sub-County. However, the study collected data from 102 SMEs owners in Starehe Sub-County.

1.7 Limitations of the Study

The limitations of the study are those characteristics of design or methodology that impact or influence the application or interpretation of the results of the study. The study used primary data which was collected by use of questionnaires. Questionnaires are exposed to the risk of recall bias and nonresponse bias. Recall bias arises due to differences in the accuracy or completeness of participant recollections of past events. Nonresponse bias results from unwillingness or inability of the respondents to participate in the study. The respondents were reluctant in giving the required information as the information being sought is of strategic importance to business

owners. In addition, some respondents felt as if they were being investigated. The researcher obtained a letter of data collection for the University to prove to the SME owners that the information being sought would only be used for academic purposes. The researcher however worked at winning the confidence of the respondents by explaining to them the purpose of the study and how they may benefit from the study findings. Also the researcher assured them of confidentiality of any information given.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on entrepreneurial management and access to venture financing of small and medium enterprises. The chapter begins with a theoretical literature that outlines the specific theories related to the variables of the study. This is followed by a conceptual framework that shows the hypothesized associations between variables, empirical review, critique of existing literature summary or the literature and research gap.

2.2 Theoretical Review

A theory is a coherent group of tested general propositions, commonly regarded as correct, that can be used as principles of explanation and prediction for a class of phenomena. This study used the following theories: resource based view theory, theory of pattern identification, the investment theory of innovation and enterprise life cycle theory.

2.2.1 Resource Based View Theory

Resource based view theory was developed by Birger Wernerfelt in his article known as 'a Resource-Based View of the Firm' in 1984. The resource-based view (RBV) as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Hitt, Carnes & Xu, 2016). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and

not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the bundle of resources can sustain the firm's above average returns.

Ruivo, Oliveira and Neto (2015) emphasizes the distinction between capabilities and resources by defining capabilities as "a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm. Resources are stocks of available factors that are owned or controlled by the organization, and capabilities are an organization's capacity to deploy resources". Essentially, it is the bundling of the resources that builds capabilities.

According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. In RBV model, resources are given the major role in helping companies to achieve higher organizational performance. There are two types of resources: tangible and intangible. Tangible assets are physical things (Colbert, 2004). Land, buildings, machinery, equipment and capital – all these assets are tangible. Physical resources can easily be bought in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. Intangible assets are everything else that has no physical presence but can still be owned by the company. Brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market. Intangible resources usually stay within a company and are the main source of sustainable competitive advantage.

Resource based view theory entails the identification of unique resources in a firm and making a decision where these resources can be invested to earn the company the highest returns (Hitt, Carnes & Xu, 2016). The theory also suggests that a firm's resources are the key determinants of its performance and this significantly contributes to its competitiveness and performance. Resources include organizational processes, assets, information and knowledge as well as attributes that help the organization to develop and implement strategies to improve its efficiency, effectiveness, image, awareness and quality of services or products (Ruivo, Oliveira & Neto, 2015). If utilized appropriately, these resources help an organization to achieve and maintain a competitive advantage, in the long run. However, an organization needs to identify the attributes of resources that their competitors cannot imitate (Colbert, 2004). If a firm's resources can easily be replicated by their competitors, even though the resources are their main source of competitiveness, then this competitiveness will not last for long.

The resource based view theory is used to explain the resource gap identification in SMEs. As indicated in the theory, a firms resources and capabilities are key to achieving a competitive advantage (Ruivo, Oliveira & Neto, 2015). Resources and capabilities in SMEs include knowledge, physical assets and working capital. SMEs must be in a position to identify the resource gaps in operations such as working capital, knowledge and physical assets that may be needed to improve its products or services. Identification of resource gaps in an organization helps the management to take another step to seek for funds (Hitt, Carnes & Xu, 2016). Entrepreneurs who know the exact resources they need in their business and how these resources will improve their performance in terms of revenue are more likely to access funds in

financial institutions as compared to those who do not know exactly which resources they need.

2.2.2 Theory of Pattern Identification

The theory of pattern identification was formed in 1972 by Ulf Grenander (Agu, 2014). The theory of pattern identification suggests that cognitive frameworks serve as template (patterns or guides), assisting specific persons to recognize connections between apparently independent events and trends and to detect meaningful patterns in these connections (Li, Yang, Cai & Xie, 2004). This aspect of pattern identification theory suggests an intriguing explanation of the fact that particular business opportunities are recognized by specific persons but not by others. Briefly the persons who recognize specific opportunities may do so because they possess relevant cognitive framework that help them accomplish this task frameworks that enable them to perceive the emergent patterns (technological, economic, social, cultural) that underlie many new business opportunities (Richards et al., 2014). An aspect of the theory of pattern identification with important implications for understanding opportunity identification is the suggestion that cognitive frameworks, developed through individuals' unique life experiences, play a crucial role in pattern identification (Agu, 2014).

The theory indicates that there are five stages of pattern identification. These include preparation, incubation, insight, which form the discovery phase, evaluation and elaboration, which constitute the formation phase (Berglund, 2007). Preparation and prior knowledge are essential to the opportunity identification process. Preparation refers to the experience and knowledge that precedes the opportunity discovery process. Such preparation is typically a conscious effort to develop expertise in a

domain and develop sensitivity to the issues and problems in a field of interest (Li, Yang, Cai & Xie, 2004).

Incubation refers to the part of the opportunity identification process in which entrepreneurs or an entrepreneurial team contemplates an idea or a specific problem. It does not, however, refer to conscious problem-solving or systematic analysis. Rather, Lewin (2013) argues that during incubation, "ideas churn around below the threshold of consciousness". Thus, incubation is typically an intuitive, non-directional style of considering various possibilities or options.

Insight refers to the "eureka" moment or "aha" experience. Whereas incubation refers to an ongoing process, insight refers to a moment of identification. In many cases, it is the point at which a whole answer or core solution springs into awareness suddenly and unexpectedly (Lewin, 2013). This sudden convergence is the result of a cognitive shift that existing means-ends relationship. Insights may provide sweeping catalysts to new venture creation or uncover incremental knowledge that advances an ongoing discovery process. It is unlikely that an insight is a singular "event"; insights often occur recursively throughout the opportunity-identification process (Agu, 2014). Entrepreneurial insights typically consist of either the sudden recognition of a business opportunity, the solution to a well-considered problem, or the acquisition of an idea from colleagues, friends, or other associate.

Evaluation signals the start of the second phase of the opportunity-identification process formation (Li, Yang, Cai & Xie, 2004). It involves analysing whether concepts developed in the discovery phase are workable, whether the entrepreneur has the necessary skills to accomplish it, and whether it is truly a novel enough idea to pursue. In the context of entrepreneurial opportunity identification, evaluation may

involve feasibility analysis wherein ideas are put to the test via various forms of investigation such as preliminary market testing, financial viability analysis and/or feedback from business associates and others in one's social network (Lewin, 2013).

In the context of entrepreneurial creativity, elaboration involves "capturing value from the creative act". In contrast to the confidence- seeking aspects of evaluation, elaboration involves legitimacy seeking: forming the business into a viable opportunity by subjecting it to external scrutiny and building its support system (Li, Yang, Cai & Xie, 2004). Elaboration is typically the most time-consuming part of the process since it represents the relatively more tedious work of selecting options, finalizing choices, and organizing resources (Li, Yang, Cai & Xie, 2004). Assuming the business idea is still considered viable after the evaluation process, elaboration may involve detailed planning activities to reduce uncertainty. The elaboration process itself, however, often reveals aspects of the business concept that need attention or more careful analysis and thus may result in further evaluation.

The theory of pattern identification is used to explain entrepreneurial opportunity commitment in SMEs. An entrepreneur who is committed to market opportunities is opportunity driven and vision driven. For an entrepreneur to develop a product or service, they must first of all identify a gap and see it as an opportunity to do business (Li, Yang, Cai & Xie, 2004). However, some entrepreneurs may not be committed to filling the gap or to the business opportunity as they are not opportunity driven or vision driven. For those who show commitment to the business opportunity they can access finances for financial institutions by developing a business plan.

2.2.3 Schumpeter's innovation theory

Schumpeter's innovation theory was developed by Joseph Alois Schumpeter in the year 1943. Although since the late 1880s there have been reports of the use of the term "innovation" to mean something unusual, none of first precursors of innovation have been as influential as the Schumpeter (Laumas, 2013). According to him, consumer preferences are already given and do not undergo spontaneously. It means that they cannot be cause of the economic change. Moreover, consumers in the process of economic development play a passive role.

In Theory of economic development, Schumpeter described development as historical process of structural changes, substantially driven by innovation which was divided by him into five types. The first one is launch of a new product or a new species of already known product. The second one is application of new methods of production or sales of a product (not yet proven in the industry) (Bellofiore, 2015). The third one is opening of a new market (the market for which a branch of the industry was not yet represented). The fourth one is acquiring of new sources of supply of raw material or semi-finished goods and the fifth one is new industry structure such as the creation or destruction of a monopoly position (Hirooka, 2013).

Schumpeter argued that anyone seeking profits must innovate. That will cause the different employment of economic system's existing supplies of productive means (Bellofiore, 2015). Schumpeter believed that innovation is considered as an essential driver of competitiveness and economic dynamics (Laumas, 2013). He also believed that innovation is the centre of economic change causing gales of "creative destruction", which is a term created by Schumpeter in Capitalism, Socialism and Democracy.

Schumpeter described development as historical process of structural changes, substantially driven by innovation (Bellofiore, 2015). He divided the innovation process into four dimensions: invention, innovation, diffusion and imitation. Then he puts the dynamic entrepreneur in the middle of his analysis. In Schumpeter's theory, the possibility and activity of the entrepreneurs, drawing upon the discoveries of scientists and inventors, create completely new opportunities for investment, growth and employment. In Schumpeter's analysis, the invention phase or the basic innovation have less of an impact, while the diffusion and imitation process have a much greater influence on the state of an economy (Laumas, 2013). The macroeconomic effects of any basic innovation are hardly noticeable in the first few years (and often even longer). What matters in terms of economic growth, investment and employment, is not the discovery of basic innovation, but rather the diffusion of basic innovation, which is the period when imitators begin to realize the profitable potential of the new product or process and start to invest heavily in that technology.

It is worth noting that according to Schumpeter invention is not the cause: discovery and execution are "two entirely different things". "The pure new idea is not adequate by itself to lead to implementation (Bellofiore, 2015). It must be taken up by a strong character (entrepreneur) and implemented through his influence". It is not the power of ideas but the power that gets things done. Schumpeter says that creative destruction is the essence of capitalism (Laumas, 2013). A stationary economy, reactive, repetitive and routine, is a circular flow that admits of no surprises or shocks, an unchanging economic process which flows on at constant rates in time and merely reproduces itself. Whereas a stationary feudal economy would still be a feudal economy, and a stationary socialist economy would still be a socialist economy, stationary capitalism is a contradiction in terms.

Schumpeter writes that that capitalist reality is first and last a process of change where change is the essence. Absent creative destruction, what remains would be perpetual imitation and thus not the essence of capitalism at all (Hirooka, 2013). According to Schumpeter, innovations are essential to explaining economic growth, and the "entrepreneur" is the central innovator. As Schumpeter described in The Theory of Economic Development the entrepreneur's main function is to allocate existing resources to new uses and new combinations. One of Schumpeter's most lasting contributions was his insistence that entrepreneurship is at once a unique factor of production and the rare social input that makes economic history evolve. In other words innovation is the "creative destruction" that develops the economy while the entrepreneur performs the function of the change creator. In Schumpeter's work entrepreneur is: Carrying out innovations is the only function which is fundamental in history (Laumas, 2013). Typical characteristics of entrepreneurs are: intelligence, alertness, energy and determination.

In this study, this theory is used to explain entrepreneurial innovativeness of the entrepreneurs. Entrepreneurship goes hand-in-hand with innovation the ability to produce new ideas, new technologies, value addition, better solutions; and pioneer new products. The most successful entrepreneurs are not simply the hardest working, they are the most innovative by developing new technologies, new products and services and working towards value addition (Waari & Mwangi, 2015). When innovative entrepreneurs present their ideas to financial institutions, there are more likely to receive financing for their ideas as compared to non-innovative entrepreneurs.

2.2.4 Enterprise Life cycle Theory

The enterprise life cycle theory was developed by Hanks in the year 1990 using data from 133 manufacturing SMEs from 'high technology' industries in the United States (Hui-Hong & Kim, 2012). The theory indicates the four development stages: Start-up; Expansion; Maturity; and Diversification. They describe growth stage as a unique configuration of variables related to organisation context or structure. Contextual dimensions considered include enterprise size and age, growth rate, and challenges faced. Structural dimensions include structural form, formalisation, centralisation, vertical differentiation, and number of organisational levels (Huiyuan, 2009).

The first stage is the conception and development stage. In this stage SMEs focus on product development and design, securing adequate financial resources and developing a market. In this stage SMEs have no formality and procedures, which means they rarely keep records and the businesses are characterized by poor management (Hui-Hong & Kim, 2012). The enterprise is not faced with any type of competition during this stage. In this stage, as compared to other stages, profits are negative or low because of the low sales and high distribution and promotion expenses. Even profits may not be earned during the start up stage. The main concern of entrepreneur in this stage is to try to get more and more customers for the product (Primc & Cater, 2016). Therefore, more and more money is spent in promotional activities like sales promotion and advertising. Also much money is required to attract distributors to one's product and build inventories.

The second stage involves commercialization. In this stage SMEs have a product that performs well and meets a need in the market place, have the capability to produce and sell and have some revenues and some backlog of orders (Primc & Cater, 2016).

In addition, the number of employees, profits and profit margin increase. During this stage, the enterprise is known to and accepted by the market. The early adopters keep continuing to buy the product and the prospective buyers start following their lead, especially if they hear favorable word of mouth from the existing buyers. As a result, production increases and sales start climbing quickly but supply falls far short of demand for the product produced by the entrepreneur. More production provides the benefit of economies of scale by reducing per unit cost of the product. As a result, profits increase (Hui-Hong & Kim, 2012).

The third stage of a business life cycle is growth. In this stage the business achieves high growth rates in both sales and marketing, has its own products and focuses on how to produce, sell, and distribute products in volume while attaining profitability (Primc & Cater, 2016). The enterprise is transformed from a single-line enterprise operating in a limited market to a multi-line company penetrating new markets with new products and services. Product and service lines are broadened through innovation and development.

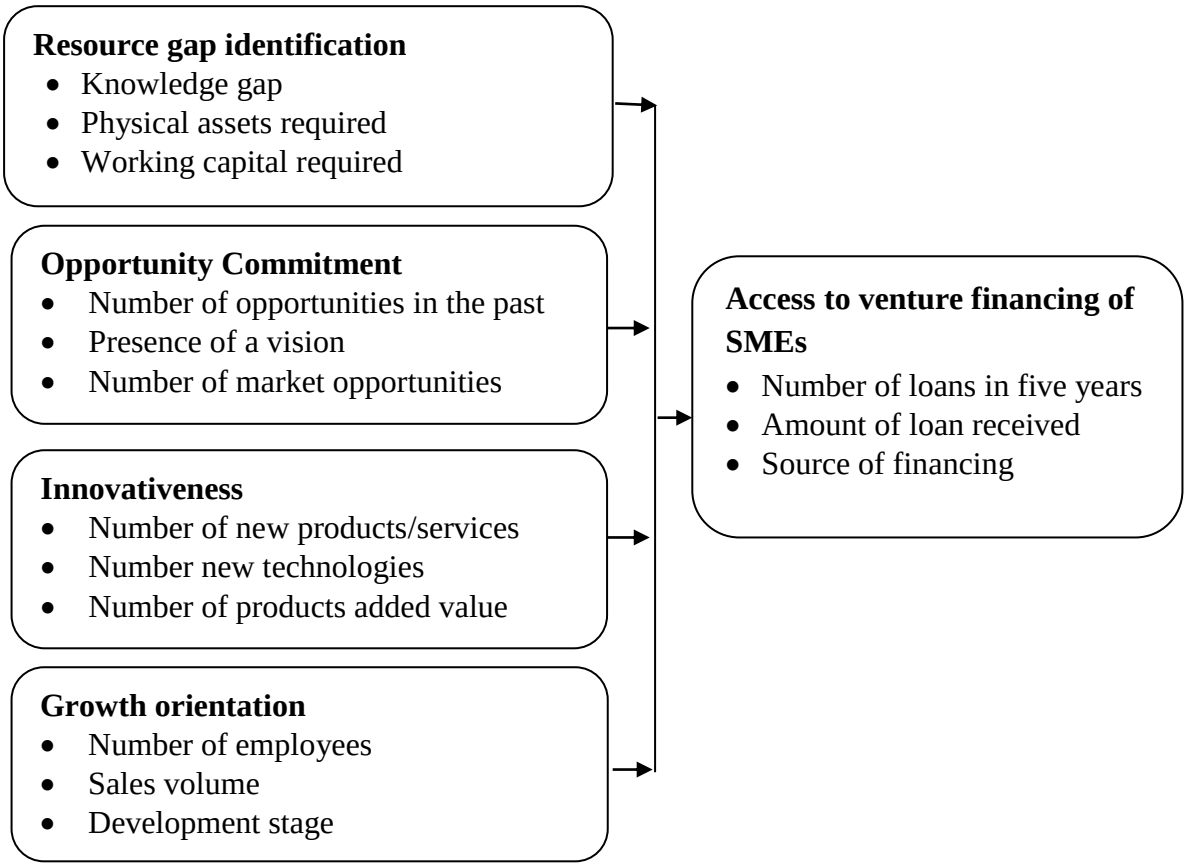
The fourth stage is known as the profitability stage (Huiyuan, 2009). This stage involves the development of 2nd, 3rd generation products and/or totally new product lines, securing growth funding and penetrating new geographic territories.

The enterprise life cycle theory is used to explain the growth orientation of SMEs in Kenya. Although all businesses follow the four stages of the enterprise life cycle theory, most SMEs close or get stagnant in the first stage and never grow to see the commercialization, growth and profitability stages (Primc & Cater, 2016). Businesses that manage to see the four stages of life cycle are characterized by large number of employees, good records keeping, larges sales volume and increased profitability.

Therefore, these business will easily access finances from financial institutions as compared to those that get stagnant in the first stage.

2.3 Conceptual Framework

A conceptual framework is a group of concepts (independent and dependent variables) that are broadly defined and systematically organized to provide a focus, a rationale, and a tool for the integration and interpretation of information. In this study, the independent variables were resource gap identification, opportunity commitment, innovativeness and growth orientation. On the other hand, the dependent variable was access to venture financing of small and medium enterprises.



Independent Variable **Dependent variable**

Figure 2. 1: Conceptual Framework

2.4 Empirical Review

This section presents a review of literature on the variables of the study, namely; resource gap identification, opportunity commitment, innovativeness, growth orientation and access to venture financing of small and medium enterprises.

2.4.1 Resource gap identification

Resource gap identification is usually conducted using a resource gap analysis. A gap analysis is a broad-based business tool that helps organizations assess their target market, products, services or resources in light of their ideals and objectives (Moreno, Monieiro-Pinheiro & Joia, 2012). A resource gap analysis is particularly useful, as it

helps business owners and managers examine how their current resource levels including time, money and human resources are helping it meet its goals. Every organization needs a solid mix of tools and resources to meet its objectives and to fulfil its sales and marketing strategies. These resources can help leverage its brand name and strategic capabilities (Cook, Pandit & Milman, 2012). Identifying which of the company's tools and resources are hurting its image or perceived value gives the company a list of things to fix. A gap analysis can also help identify areas where more people or human resources are needed to help increase productivity. Most, resource gap analysis involves physical assets, working capital and knowledge.

Though physical assets in business depreciate, a business that is performing well will have a growth in assets in term of cost. This is through acquisitions of new assets. As business expands it needs to acquire more assets to enhance the efficiency in service delivery (Mbogo & Muturi, 2015). For instance, a business that started with 20 customers per day but grows to 100 customers per day will require an information system, more working station and bigger working space. Therefore, growing SMEs need to identify the physical asserts that they need so as to seek financing (Cook, Pandit & Milman, 2012).

Despite being the engine of most developing economies, the majority of small and medium enterprises (SMEs) do not exist long enough to celebrate their fifth anniversary (Moreno, Monieiro-Pinheiro & Joia, 2012). The entrepreneurs behind these start-ups are passionate, but more often than not lack basic business skills and experience. A survey conducted by Singapore Business Federation (2013) among SMEs in Singapore revealed that 78% of the SMEs in the country were lacking manpower with the right skills and 85% were lacking relevant knowledge and skills.

Similarly, Jafarnejad, Abbaszadeh, Mehran and Seyed (2013) found that lack of sufficient knowledge in management skills was one of the key barriers to entrepreneurship in Small and Medium-sized Enterprises in Iran. In Kenya, Njoroge and Gathungu (2013) established that due to lack of knowledge entrepreneurs were able to market their products within the district but not around the country. In addition, the results revealed that the entrepreneurs were able to do simple daily book keeping of business transactions but were not able to do complex financial statements.

In managing the working capital of a firm especially the small business, the acute shortage of fund needed for growth remain a subject of strategic financial management function (Cook, Pandit & Milman, 2012). The small business normally encounters the following problem in regard to their working capital management: high rate and threat of insolvency, volume and level of current debt and paying all bills/cash outflow from cash earnings which most time remain a poor means of settlement other means not being ostensibly available to small firms posing a technical insolvency of the firm (Primc & Cater, 2016).

Afrifa and Padachi (2016) conducted a study on working capital level influence on SME profitability. The purpose of the study was to investigate the relationship between working capital level, measured by the cash conversion cycle (CCC) and profitability of small and medium enterprises (SMEs). The study employed panel data regression analysis on a sample of 160 Alternative Investment Market (AIM)-listed SMEs for the period from 2005 to 2010. The empirical results show that there is a concave relationship between working capital level and firm profitability and that there is an optimal working capital level at which firms' profitability is maximised.

Kehinde (2011) carried out a study on effective working capital management in small and medium scale enterprises and found that most SMES do not care about their working capital position, most have only little regard for their working capital position and most do not even have standard credit policy. The results also indicate that the firms selected show signs of overtrading and illiquidity, concerns was on profit maximization without taken cognizance of payment of creditors. The firms exhibit low debt recovery over credit payment. Despite experiencing challenges in their liquidity, most entrepreneurs to not identify working capital as a resource gap that needs to be filled. In a study conducted in the United Kingdom, Pescod (2014) indicated that only 10% of SMEs tried to raise finances in the year 2014 to raise their working capital.

2.4.2 Opportunity commitment

The essence of Israel Kirzner's approach to entrepreneurship is alertness to entrepreneurial opportunities. Entrepreneurial opportunities are essentially arbitrage opportunities that exist because of the undervaluation of resources in the market (Aminu & Shariff, 2015). The entrepreneur sees a way to combine these resources in order to produce a product whose market value will exceed the market value of this combination and hence earn a profit. In this way, entrepreneurship provides a systemic coordinating function in facilitating the deployment of resources to their most highly-valued uses (Barnes et al., 2016).

For Kirzner, the entrepreneurial act is constituted by, and only by, the momentary perception of the arbitrage opportunity; it is a revelation, an epiphany. The entrepreneur sees the value differentials that constitute a profit opportunity (Bellofiore, 2015). The execution of the opportunity is another (more mundane)

matter. Once the opportunity is revealed it remains for the manager (who might be the same person) to act out its implications. However, exploiting opportunities will lead (if they are real and not just imagined) to entrepreneurial profit. Profits are thus the reward for correctly perceiving and exploiting available opportunities (Chava, Nanda & Xiao, 2013). Kirzner is surely correct that exploiting an entrepreneurial opportunity involves combining (organizing) productive resources in a novel way to produce something whose value exceeds the total cost of production namely, the cost of paying for the labor services needed (wages), plus the cost of paying for the services of the diverse types of physical capital used (machines, raw materials, facilities, transportation, storage) plus any interest cost. Any excess over this is profit (Cook, Pandit & Milman, 2012).

In a study on entrepreneurial opportunity as the potential to create value, Lewin (2013) established that unpacking the concept of entrepreneurial opportunity to include three categories of essential ingredients, provides a fruitful framework for applying Israel Kirzner's approach to entrepreneurship bridging the entrepreneur as someone alert to opportunities to create value, to real world situations requiring the entrepreneur's evaluation of resource inputs and prospective outputs, and his perception of what actions are necessary and need to be coordinated, in an environment of sufficient mutual understandings.

In Sweden Berglund (2007) carried out a study on opportunities as existing and created in Swedish mobile internet industry and established that once the opportunity has been discovered and deemed worthwhile, the entrepreneur undertakes a series of exploitation activities. These include raising financial and other resources, protecting information about the opportunity from competitors, and designing appropriate

organizations and business models. The world is unpredictable with respect to technology, markets and competitors. Therefore the entrepreneur will often craft strategies to deal with these uncertainties by introducing slack, identifying niche markets and forming strategic alliances. Careful planning is thus vital for successful exploitation of an opportunity, especially under conditions of high uncertainty (Cowling & Liu, 2013). Crafting a solid business plan helps the venture by evaluating conjectures about future events, focusing attention on bottlenecks and additional resource requirements, clarifying goals and objectives, and facilitating communication and increasing legitimacy in interaction with external stakeholders.

2.4.3 Innovativeness

Innovation is recognised as an essential component of the economic growth process, where it can be broadly defined as the development, deployment and economic utilisation of new products, processes and services (Wikhamn, Wikhamn & Styhre, 2016). As world economies become more integrated and interdependent, the ability of entrepreneurs and firms to seize upon global business opportunities by commercialising new products and processes faster than their competitors is critical in raising the economic wealth of a nation (Antonioli & Della-Torre, 2016). SMEs are a very heterogeneous group which includes a wide variation of firms such as grocery stores, restaurants, small machine shops and computer software firms. A subset of SMEs is dynamic, innovative, and growth-oriented. On the basis of firms having introduced at least one new or improved product or process on the market, about 30-60% of SMEs in the manufacturing sector in the OECD can be characterised as innovative. In some OECD countries such as in Belgium, Ireland, Italy, Portugal and the United Kingdom, small manufacturing firms are almost as innovative as large firms. Similarly, in services, small firms in some OECD countries, for example in

Portugal, Switzerland and the United Kingdom, are equally innovative as large firms (Wikhamn, Wikhamn & Styhre, 2016).

Innovative start-ups and micro-enterprises are more likely to face tight external financing constraints as information asymmetries tend to be more significant (Wikhamn, Wikhamn & Styhre, 2016). Consequently, they rely more heavily on insider finance and start-up funds provided by relatives, friends and private investors. Once a firm's growth potential is reflected by cash flows, external financing sources including bank loans and venture capital become available (OECD, 2012).

In the United Kingdom, Lee, Sameen and Cowling (2012) conducted a study on access to finance for innovative SMEs since the financial crisis. The study used secondary data from over 10,000 UK SME employers. The results indicate that innovative small firms – those introducing new products, processes or business models – are most likely to create new markets, achieve rapid growth, and help the economy recover. External finance may be particularly important for innovative small firms, as they can lack the internal resources to successfully commercialise innovations. However, the study found that innovative firms are more likely to be turned down for finance than other firms, and this worsened significantly in the crisis.

In the United States, Chava, Nanda and Xiao (2013) conducted a study on lending to innovative firms. The study sought to establish whether bank financing is compatible with innovation. The results indicated that banks particularly those experienced in lending to innovative firms recognize the value of a firm's intellectual property, as concretized by patent stock, and provide cheaper loans ex-ante. If covenants are violated ex-post, experienced lenders are judicious in exercising control rights and cut R&D significantly, particularly when the borrower has lower R&D efficiency. The

study also found that lender-expertise and property rights that patents confer to intellectual property seems to allow bank loans, an important source of capital for firms, to be a viable means of financing for innovative firms.

2.4.4 Growth orientation

Growth orientation refers to the entrepreneur's desire to achieve growth. Most firms, of course, desire growth to prosper and survive (Moreno & Casillas, 2008). High-growth orientation means that rapid growth is the top priority, while low-growth orientation means safe, slow, and steady growth are priorities for management. However, not all firms are targeting to grow and maximise their returns.

Various aspects considered while measuring the growth are sales, employees, assets, profits, equity and others. Measurable characteristics like changes in turnover, change in productivity, and change in employment, profit and total assets are different ways of measuring growth (Antonioli & Dell-Torre, 2016). It is argued that commonly and widely used measures are changes in sales and employment. Moreno and Casillas (2008) noted that when compared to sales growth, employment growth is considered to be effective in terms of reliability and volatility as owners-managers make sure that the demand has expanded to certain level before personnel are recruited. When compared to financial data, reliable information with respect to the employment growth is easy to access and collect. Eggers et al. (2013) conducted 50 case studies on small businesses units of Asia, Africa, Europe, and America by means of various measures of growth. The study revealed the distribution of growth measures were employment growth, sales growth, profitability growth, income growth and assets growth.

In China, Li, Larson and North (2014) conducted a study on to examine the growth-orientation effects of specific entrepreneurial expertise in an emerging economy. It draws on face-to-face interviews with entrepreneurs of young high-tech small and medium-sized enterprises in the Chinese provinces of Guangdong and Guangxi. Using four measures of firm-level performance that is, employment, profitability, sales turnover and internationalization the findings show that different types of entrepreneurial teams have different growth intentions depending on the strengths of the team members. The 'mixed' type of team optimized performance in general and employment growth in particular, while 'technology entrepreneurial' teams were more profit-oriented, and 'business practice entrepreneurial' teams were more export-oriented.

Cowling and Liu (2013) conducted a study on the effect of enterprises' growth orientation and access to finance on small firm performance in a global economic recession. The study used a unique longitudinal data set drawn from the 2007/08 UK Annual Small Business Survey on a sample of 3506 firms. The results indicate a positive effect of growth orientation on firm growth as well as the 'feedback' mechanism of past growth to motivation. Both human capital and access to finance moderate the inter-relationship between growth orientation and growth. However, small businesses with scarce resource during the recession find securing enough finance a more important driver of growth performance and future growth aspiration.

In Nigeria, Aminu and Shariff (2015) conducted a study on the influence of growth orientation on SMEs access to finance. The purpose of this paper is to establish the role of firm growth orientation in helping SMEs improve their financial access. A total of 362 questionnaires from SMEs in North Western Nigeria were used in this

study. Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to test the study hypotheses. The findings indicate that growth orientations are important drivers of firm access to finance. The result further suggests that SMEs who configured and utilized employment growth, sales turnover and development stages as bases for seeking external funds are more likely to get a loan from external sources.

2.4.5 Access to venture financing of small and medium enterprise

According to Waari and Mwangi (2015), access to financial resources refers to the availability of financial capital and other financial services to SMEs. Similarly, Olawale and Asah (2011) define access to finance as the availability of financial resources (internal, debt and equity) for SMEs. Matshekg (2012) indicates that most SMEs in developing economies are restricted in accessing finances, though the opaqueness nature of the firms may results in this serious constraints of accessing external financing and consequently affect their performance. Several studies indicate that productivity of small businesses depends largely on its access to capital (Zarook, Rahmam & Khanam, 2013; Lewin, 2013). Aminu and Shariff (2015) reveal that access to finance is directly related to the performance of SMEs. Thus, the lack of finance upset the full potentials of SMEs as an economic driver. Jafarnejad et al. (2013) state that access to finance improve firms to grow and develop. They further argue that access to finance facilitates firm performance through innovation, new market, reduction in risk and improves entrepreneurial activity and firm growth.

Njoroge and Gathungu(2013) contends that most SMEs in developing economies are restricted in accessing finances, which invariably affecting their growth and development. For instance, one of the most severe problems facing SMEs in the developing world is access to finance. Therefore, inability of SMEs to access finance can be a restriction for their development. Although, the uncertainties typically

associated with SMEs contributes to the difficulty for lenders to assess the risk of an investment. Afrifa and Padachi (2016) further explain that financial insufficiencies problem might prevent SMEs from growing and achieve their best performance. It also explains the inability of SMEs to influence economic development. Consequently, most of the SMEs rate access to finance as their major constraint to achieve superior performance.

2.5 Critique of Existing Literature relevant to the study

Various studies have been conducted both globally and locally on the entrepreneurial management and access to finance. In Libya, Zarook, Rahman and Khanam (2013) conducted a study on management skills and accessing to finance among SMEs and found that management experiences and education levels had significant positive effects on access to finance; in contrast, business planning, and political connection have no significant effect in regard to access to finance. Besides being conducted in a different country with different business environment, legal framework and socio-economic factors, the independent variable in this study was management skills and hence it did not show how entrepreneurial management affects access to finance.

In South Africa, Matshekga (2012) conducted a study on the impact of entrepreneur's human capital variables on access to funding and found that knowledge, education and expertise are all perceived to be very important in accessing funding. In addition, Olawale and Asah (2011) carried out a study on the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' Town and found that that firm and entrepreneurial characteristics impact on access to debt finance by SMEs. These studies were conducted in South Africa and hence its findings cannot be generalized to Kenya due to differences in legal framework,

economic conditions and business environment. In addition, the independent variables were entrepreneur's human capital and, firm and entrepreneurial characteristics, which are different from entrepreneurial management.

In Kenya, Waari and Mwangi (2015) conducted a study on the factors influencing access to finance by Micro, Small and Medium Enterprises in Meru County and established that information asymmetry, business risks and transactional costs influence access to finance. However, the study did not show the effect of entrepreneurial management on access to finance. In addition, the study was limited to Meru County and hence it cannot be generalized to other Counties in Kenya. Gichuki, Njeru and Tirimba (2014) conducted a study on the challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee Market in Nairobi City County and established that key challenges include high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period. However, the study did not focus on entrepreneurial management.

2.6 Summary of the Literature

The study used four theories to explain the effect of the independent variables in the dependent variable. These theories were resource based view theory, theory of pattern identification, the investment theory of innovation and enterprise life cycle theory. The resource based view theory was used to explain the resource gap identification in SMEs. Entrepreneurs who know the exact resources they need in their business and how these resources will improve their performance in terms of revenue are more likely to access funds in financial institutions as compared to those who do not know exactly which resources they need. The theory of pattern identification was used to explain entrepreneurial opportunity commitment in SMEs. For an entrepreneur to

develop a product or service, they must first identify a gap and see it as an opportunity to do business. The investment theory was used to explain entrepreneurial innovativeness. When innovative entrepreneurs present their ideas to financial institutions, they are more likely to receive financing for their ideas as compared to non-innovative entrepreneurs. The enterprise life cycle theory was used to explain the growth orientation of SMEs in Kenya. Although all businesses follow the four stages of the enterprise life cycle theory, most SMEs close or get stagnant in the first stage and never grow to see the commercialization, growth and profitability stages. Businesses that manage to see the four stages of life cycle are characterized by large number of employees, good records keeping, larges sales volume and increased profitability. Therefore, these business will easily access finances from financial institutions as compared to those that get stagnant in the first stage.

2.7 Research Gaps

Although there are several studies conducted on access to finance among small and medium enterprises, these studies were limited in terms of regions, country and scoped. For instance, the findings of studies conducted in other countries (Zarook, Rahman & Khanam, 2013; Matshekga, 2012; Olawale & Asah (2011) cannot be generalized to Kenya due to differences in economic conditions, legal framework governing SMEs and financial institutions and business environment in which the SMEs operate. In addition, the studies conducted in Kenya on access to finance among SMEs (Waari & Mwangi, 2015; Gichuki, Njeru & Tirimba, 2014) do not show the influence of entrepreneurial management on access to finance among SMEs. Further, the studies do not outline the effect of resource gap identification,

opportunity commitment, innovativeness and growth orientation on access to finance among SMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the plan and methods that was used to carry out the study. It contains the research design, the target population, sampling frame, sample size and sampling technique, data collection instruments, pilot test, data collection procedures and data analysis and presentation.

3.2 Research Design

Research design refers to the method used to carry out a research. This research study used a descriptive research design. This design involves gathering data that describes events and then organizing, tabulating, depicting, and describing the data. According to Greener (2008), descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. The reasons of using the descriptive research design in this study is that it provides an opportunity to use both quantitative and qualitative data, in order to find data and characteristics about the population or phenomenon that is being studied.

3.3 Target Population

Target population in statistics is the specific population about which information is desired. According to Creswell (2006), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. The target population of this study consisted of all the SME's operating in the Starehe Sub-County. The Starehe Sub-County is chosen because it has SME’s from all

sectors. According to Nairobi City County government (2015) there were 1016 registered SMEs in the year 2014 in Starehe Sub-County.

Table 3. 1: Target Population

Category	Target Population
Manufacturing	98
Trade	508
Services	410
Total	**1,016**

Source: Nairobi City County government (2015)

3.4 Sampling Frame

According to Creswell (2006), a sampling frame is a complete set of elements (persons or objects) that possess some common characteristic defined by the sampling criteria established by the researcher. The sampling frame of this study was all the 1016 SME owners in the five wards in Starehe Sub-County.

3.5 Sampling Technique and Sample Size

The study used stratified random sampling to select 10% of the target population. According to Mugenda and Mugenda (2003), a sample size of between 10 and 30% is a good representation of the target population. In stratified random sampling, a population is stratified first and then random sampling is done. Stratification is done when members of a target population are divided into homogeneous groups before sampling. After the members have been put into homogenous groups, they are randomly picked using the simple random sampling. This process is preferred because no element of the population is left out. The strata are collectively exhaustive.

Sampling error is reduced if the procedure is used. The sample size of this study was therefore 102 business owners and managers.

Table 3. 2: Sample Size

Category	Target Population	Sample Size
Manufacturing	98	10
Trade	508	51
Services	410	41
Total	**1,016**	102

3.6 Data Collection Instrument

The two types of data include primary data and secondary data. This study made use of primary data. The main advantage of using primary data is that data is collected specifically for the purpose of this particular study (Bryman, 2005). Essentially, the questionnaire is tailored to obtain data that will help in meeting the objectives of the study. Primary data can be collected by use of questionnaires, interview guides, focused group discussions and observation guides. This research study used semi structured questionnaires to collect data primary data. Questionnaires were preferred in this study because they are very economical in terms of time, energy and finances. The structured questions were used as they conserve energy, money and time and facilitate an easier analysis as they are in immediate usable form. On the other hand, the unstructured questions were used as they encourage the respondent to provide an in-depth response without feeling held back in revealing of any information.

The questionnaire were divided into six sections that included demographic information and the rest covering the four independent variables and the dependent variable. The structured questions used nominal scale, ordinal scale and likert scale.

3.7 Data Collection Procedures

The researcher wrote a letter of transmittal of data collection instruments to individual respondents. The questionnaires were hand delivered to the respondents. Follow-ups were then made on daily basis to monitor the progress of the respondents in filling up the questionnaires. The data collection exercise was expected to take approximately two weeks.

3.8 Pilot Test

This is a small duplicate and trial to the main study, which aids in examining the validity and reliability of the research instruments that will be used, as well as the operational considerations during the administration of the questionnaires. A pilot test is useful in identifying the various weaknesses that are likely to occur, inadequacies of the research, as well as the various problems that are most probably going to appear during the research process (Creswell, 2006). The pilot test was conducted with a randomly selected number of SMEs in Nairobi Central Business District. The pilot group comprised of 10% of the sample size.

3.8.1 Validity of Research Instruments

According to Creswell (2006) validity is the degree to which results acquired from process of analysis of the data actually embodies the phenomenon under study. There are two types of validity: content validity and face validity. Face validity refers to probability that a question is misinterpreted or misunderstood. According to Cooper and Schindler (2006) pre-testing is a proper way to increase the possibility of face validity. On the other hand, content validity, also referred to as logical validity, refers to the degree to which a measure depicts all facets of a given social construct. In this study, the content validity was improved by seeking the opinions of experts in the

field of study, particularly the supervisors. Also, the face validity of the research instrument was improved by carrying out a pilot test and changing any unclear and ambiguous question.

3.8.2 Reliability of the Research Instrument

Reliability is the consistency of measurement, or the degree to which an instrument gives the same results each time it is used on the same subjects under the same condition. In this study reliability of the research instrument was measured by measuring the internal consistency of the responses. The Cronbanch's Alpha technique was used to measure the internal consistency technique, where alpha values range from 0 to 1, with the reliability increasing as the alpha value increases. The commonly used coefficient of reliability is 0.6 to 0.7, with greater than or equal to 0.8 indicating a good reliability (Kothari, 2004). In this study, a Cronbanch's Alpha of 0.7 and above was accepted but a Cronbanch's Alpha of below 0.7 would have necessitated adjustment in the research instrument. The data obtained from the pilot test was not included in the actual study.

3.9 Data Analysis and Presentation

The semi structured questionnaire will generate both qualitative and quantitative data, which were analyzed differently using different methods. Qualitative data was analyzed by use of thematic analysis and the results were presented in a prose form. Quantitative data was analyzed by use of both inferential and descriptive statistics with the help of statistical software known as Statistical Package for Social Sciences (SPSS version 22). Before analysis, the completed questionnaires were edited for completeness and consistency. Descriptive statistics were used to summarize the background information. Descriptive statistics included percentages, and frequencies,

measures of central tendency (mean), measures of dispersion (standard deviation). The results were presented using tables and figures which included bar charts and pie charts.

The study also used correlation analysis and multiple regression analysis to determine the relationship between the independent variables and dependent variable. The study applied a 95% confidence interval. A 95% confidence interval indicates a significance level of 0.05. This implies that for an independent variable to have a significant influence on the dependent variable, the p-value ought to be below the significance level (0.05).

Since there are four independent variables in this study the multiple regression model were as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby;

Y	= Access to venture financing
B_0	= Constant
β_1- β_4	=Coefficients of determination
X1	= Resource gap identification
X2	= Opportunity commitment
X3	= Innovativeness
X4	= Growth orientation
ε	= Error term

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter focuses on data analysis, results presentation and discussion of the findings. The general objective of this study was to investigate the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county. The study also sought to find out the effect of resource gap identification, opportunity commitment, innovativeness and growth orientation on access to venture financing of small and medium enterprises in Starehe sub-county. The research findings were presented in form of tables, graphs and charts.

The sample size of this study was 102 business owners and managers of SMEs in Starehe sub-county. The researcher distributed the questionnaires to all the anticipated respondents of the study out of which 102 responses were obtained. This represents a 100% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 100% is even better.

4.2 Pilot Test

To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the supervisor. This helped to improve the content validity of the data that was collected. It facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

The researcher selected a pilot group of 10 SME owners from the target population to test the reliability of the research instruments. The reliability of the questionnaires that was used to collect data was measured statistically using Cronbach's Alpha. Internal consistency techniques were applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. In the pilot test five constructs were studied.

Table 4. 1: Cronbach's Alpha Reliability

Construct	Cronbach's Alpha
Resource gap identification	0.789
Opportunity commitment	0.767
Innovativeness	0.732
Growth orientation	0.743
Access to venture financing	0.767

According to the findings resource gap identification was found to have a Cronbach's alpha value of 0.789, opportunity commitment was found to have a Cronbach's alpha value of 0.767, innovativeness was found to have an Cronbach's alpha value of 0.732, growth orientation was found to have a Cronbach's alpha value of 0.743 and access to venture financing was found to have a Cronbach's alpha value of 0.767. These findings clearly show that the research instrument used in the study was reliable.

4.3 Background Information

The general information of the respondents comprised of their gender, age bracket, highest level of education and the duration of time their businesses had been in operation.

4.3.1 Gender of the Respondents

The respondents were asked to indicate their gender. The results were as shown in figure 4.1.

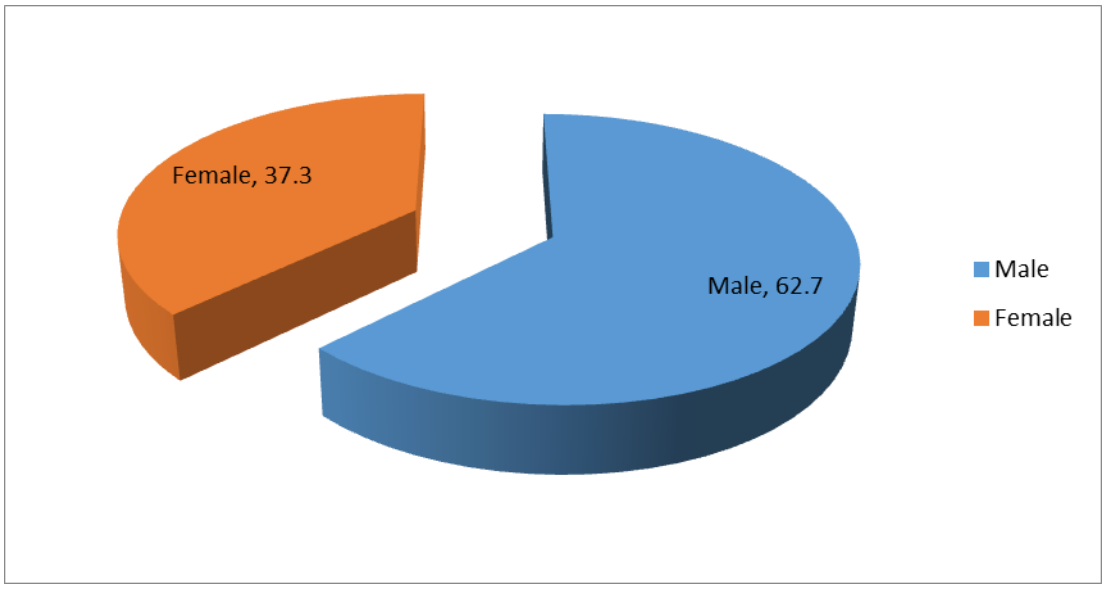


Figure 4. 1: Gender of the Respondents

From the findings, 62.7% of the respondents indicated that they were male while 37.3% indicated that they were female. These findings agree with Sharu and Guyo (2013) findings that most of the SMEs owners in Nairobi County are male. It can be deduced that SMEs sector in Starehe Sub county is male dominated.

4.3.2 Age Bracket of the Respondents

The respondents were asked to indicate their age bracket. The results were as shown in figure 4.2.

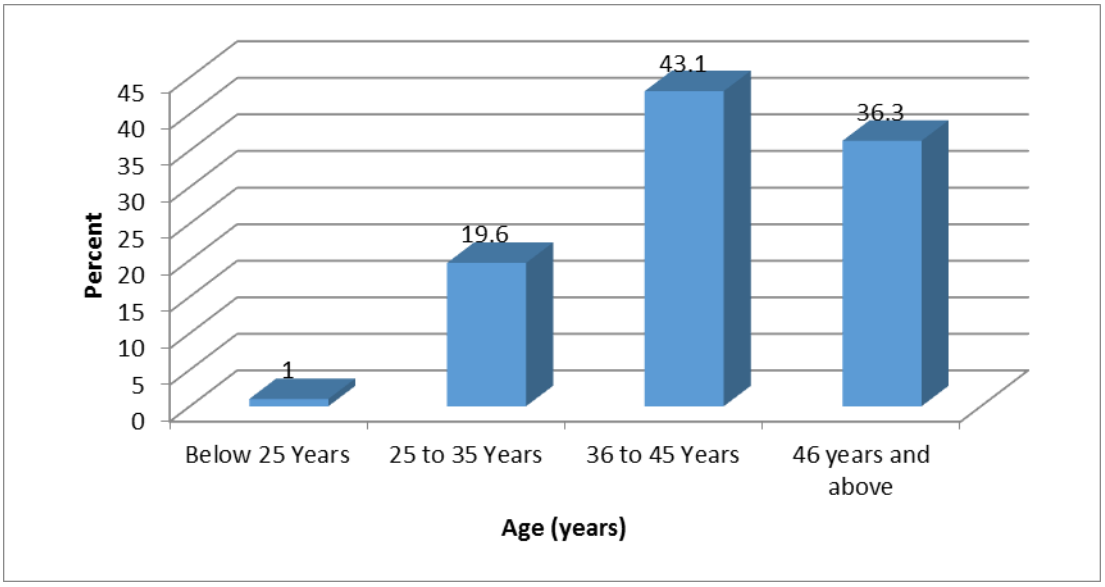


Figure 4. 2: Age Bracket of the Respondents

According to the findings, 43.1% of the respondents indicated that they were aged between 36 and 45 years, 36.3% indicated 46 years and above, 19.6% indicated between 25 and 35 years and 1% indicated below 25 years. These findings agree with Sharu and Guyo (2013) findings that most of the SME owners were aged between 25 and 40 years. According to Aminu and Shariff (2015), the age bracket of an SME owner influences his/her entrepreneurial skills and experience and that the higher the age the higher the probability of having more experience. It can be deduced that most of the SME owners in Starehe Sub-County were aged between 26 and 40 years.

4.3.3 Respondents' Highest Level of Education

The respondents were also sked to indicate their highest level of education. The results were as presented in figure 4.3.

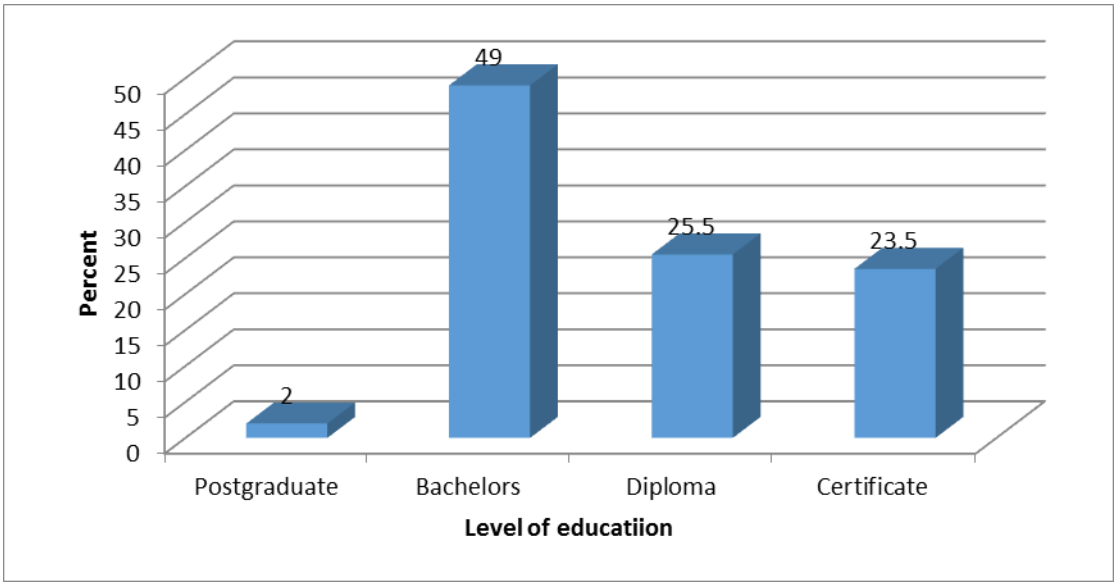


Figure 4. 3: Respondents' Highest Level of Education

According to the findings, 49% of the respondents indicated that they had bachelor's degrees as their highest level of education, 25.5% indicated that they had diplomas, 23.5% indicated that they had certificates and 2% indicated postgraduate degrees. This shows that most of the SME owners in Starehe Sub-County had bachelor's degrees. These findings are contrary to Mburu and Guyo (2015) findings that most of the SME owners in Nairobi County have diplomas as their highest level of education. According to Aminu and Shariff (2015), the level of education influences entrepreneurial management. It can be inferred that most of the SME owners in Starehe Sub-County had bachelor's degrees.

4.3.4 Duration of time the business has been in Operation

The respondents were further asked to indicate the duration of time their business had been in operation. The results were as shown in figure 4.4.

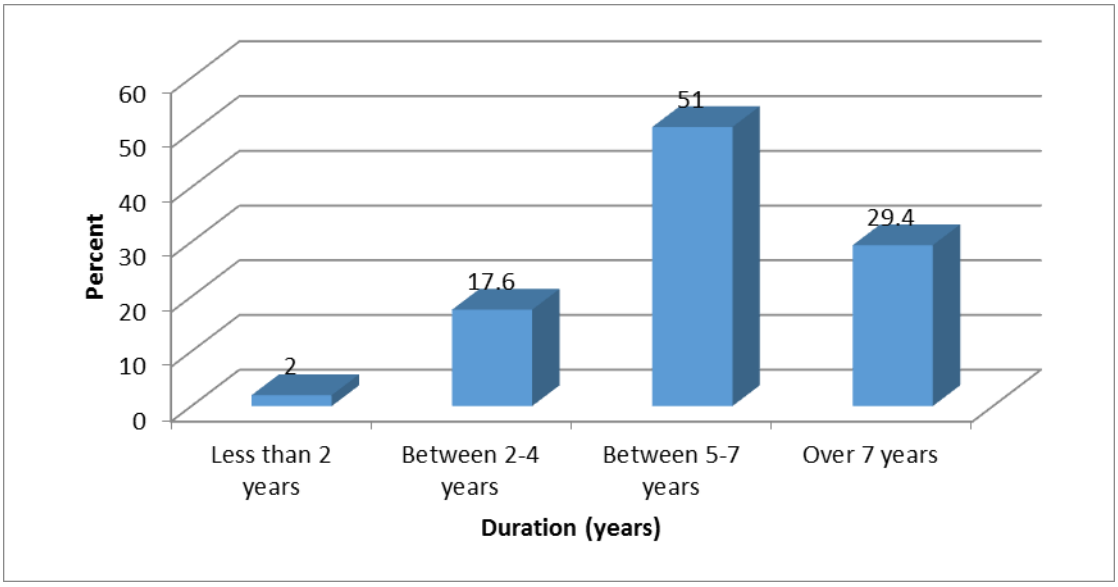


Figure 4. 4: Duration of time the business have been in Operation

According to the findings, 51% of the respondents indicated that their business had been in operation for between 5 and 7 years, 29.4% indicated for over 7 years, 17.6% indicated for between 2 and 4 years and 2% indicated for less than 2 years. These findings are contrary to Moreno et al. (2012) argument that majority of small and medium enterprises (SMEs) do not exist long enough to celebrate their fifth anniversary. It can be inferred that most of the SMEs in Starehe Sub County had been in operation for between 5 and 7 years.

4.4 Resource gap identification

The first objective of the study will be find out the effect of resource gap identification on access to venture financing of small and medium enterprises in Starehe sub-county.

4.4.1 Area Lacking Knowledge in the Businesses

The respondents were asked to indicate the areas that their businesses were lacking in knowledge. The results were as shown in figure 4.5.

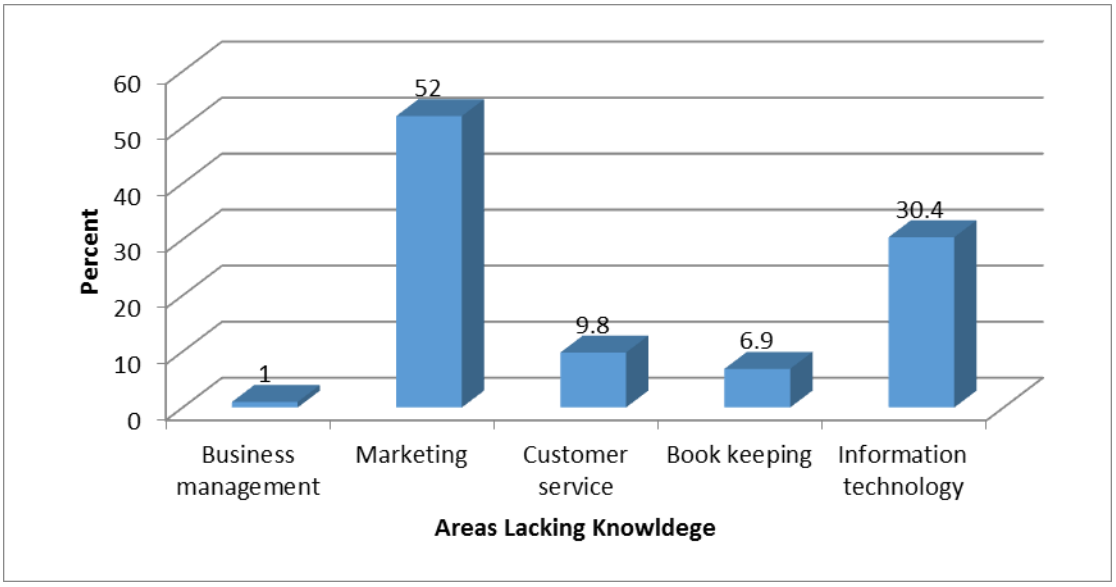


Figure 4. 5: Area Lacking Knowledge in the Businesses

From the findings, 52% of the respondents indicated that their businesses were lacking knowledge in marketing, 30.4% indicated in information technology, 9.8% indicated customer service, 6.9% indicated book keeping and 1% indicated in business management. These findings concur with Moreno et al. (2012) argument that entrepreneurs behind these SMEs are passionate, but more often than not lack basic business skills and experience. The findings also agree with Njoroge and Gathungu (2013) findings that due to lack of knowledge entrepreneurs were able to market their products within the district but not around the country. This shows that most of the SMEs in Starehe Sub County were lacking knowledge in marketing and information technology, which affected their ability to market their products outside their districts.

4.4.2 Working Capital required in the Business

The respondents were requested to indicate the amount of working capital they required in their businesses. The results were as shown in table 4.2.

Table 4. 2: Working Capital required in the Business

Amount	Frequency	Percent
Ksh 500,000 to 999,999	6	5.9
Ksh 1 million to 4,999,999	18	17.6
Ksh 5 million to 9,999,999	20	19.6
10 million to 19,999,999 million	21	20.6
Above 20 million	37	36.3
Total	**102**	**100.0**

From the findings, 36.3% of the respondents indicated that their businesses required a working capital ranging above 20 million, 20.6% indicated between 10 million t and19,999,999 million, 19.6% indicated between Ksh 5 million and 9,999,999, 17.6% indicated between Ksh 1 million and 4,999,999 and 5.9% indicated between Ksh 500,000 and 999,999. This shows that most of the SMEs in Starehe Sub County were currently requiring a working capital of more than Ksh 10 million. These are contrary to Kehinde (2011) findings that despite experiencing challenges in their liquidity, most entrepreneurs to not identify working capital as a resource gap that needs to be filled. According to Cook et al. (2012), acute shortage of fund needed for growth remain a subject of strategic financial management function. It can be deduced that most of the SMEs in Starehe Sub County required a working capital ranging above 20 million.

4.4.3 Physical Assets Required

The study found that different businesses required different types of physical assets. In the hotel industry, the respondents indicated that they required bugger premises, modern chairs and tables as well as computers and modern kitchens. In the service industry like in tours and travel companies the respondents indicated that they

required more vehicles and computers to manage their businesses. In clubs and restaurants, the respondents indicated that their businesses required modern music systems, seats and more space. In the manufacturing industry, the respondents indicated that their businesses required new equipment and machines and transport vehicles. These findings agree with Mbogo and Muturi (2015) argument that though physical assets in business depreciate, a business that is performing well will have a growth in assets in term of cost. This is through acquisitions of new assets. As business expands it needs to acquire more assets to enhance the efficiency in service delivery and access to venture financing. These findings also concur with Cook, Pandit and Milman (2012) argument that growing SMEs need to identify the physical asserts that they need so as to seek financing.

4.5 Opportunity Commitment

The second objective of the study was to investigate the effect of opportunity commitment on access to venture financing of small and medium enterprises in Starehe sub-county.

4.5.1 Business Opportunities Identified in the past

The respondents were asked to indicate the number of business opportunities they had identified and utilized in the past. The results were as presented in table 4.2.

Table 4. 3: Business Opportunities Identified in the past

Number of business opportunities	Frequency	Percent
One	67	65.7
Two	20	19.6
Three	7	6.9
Four	8	7.8
Total	**102**	**100.0**

According to the findings, 65.75 of the respondents indicated that they had identified and utilized one business opportunity in the past, 19.6% indicated two business opportunities, 7.8% indicated four business opportunities and 6.9% indicated three business opportunities. These findings agree with Chava, Nanda and Xiao (2013) argument that Kirzner is surely correct by indicating that exploiting an entrepreneurial opportunity involves combining (organizing) productive resources in a novel way to produce something whose value exceeds the total cost of production namely, the cost of paying for the labour services needed (wages), plus the cost of paying for the services of the diverse types of physical capital used plus any interest cost. Iit ca be inferred that most of the SME owners in Starehe Sub County had identified one business opportunity in the past.

4.5.2 Vision for the Business

The respondents were asked to indicate whether they had a vision for their businesses. The results were as shown in figure 4.7.

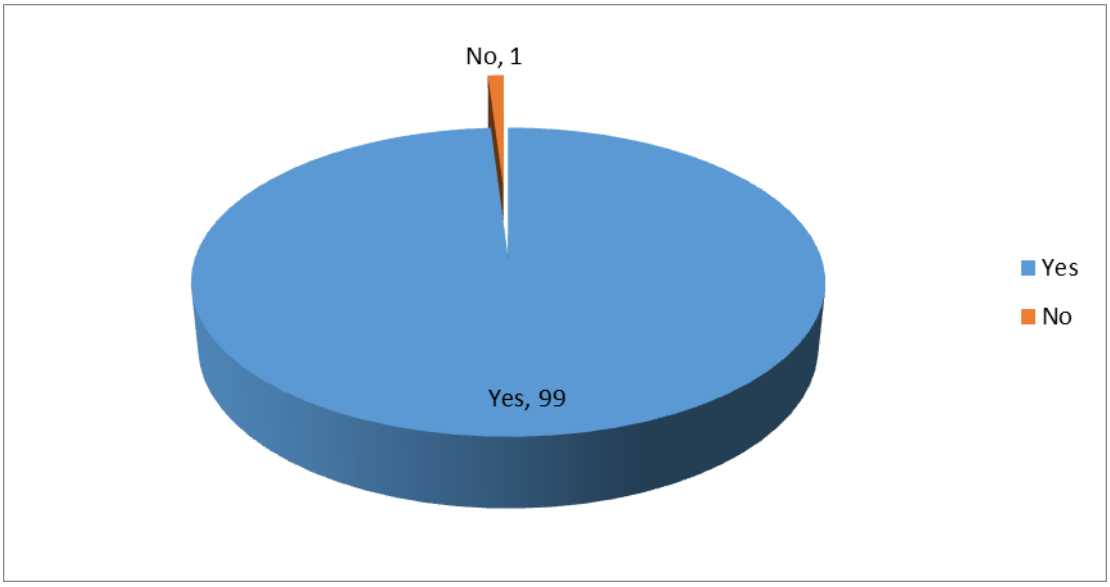


Figure 4. 6: Vision for the Business

According to the findings, 99% of the participants indicated that they had a vision for their businesses while 1% indicated that they had no vision. The findings are contrary to Berglund (2007) argument that most SMEs do not have a vision statement. It can be inferred that most of the SME owners in Starehe Sub County had visions for their businesses.

4.5.3 Business Opportunities Currently in the Market

The respondents were requested to indicate the number of business opportunities currently in the market. The results were as presented in table 4.4.

Table 4. 4: Business Opportunities Currently in the Market

	Frequency	Percent
One	56	54.9
Two	25	24.5
Three	7	6.9
Four	1	1.0
More than four	13	12.7
Total	102	100.0

According to the findings, 54.9% indicated that they had identified one business opportunity currently in the market, 24.5% indicate two business opportunities, 12.7% indicated more than four business opportunities, 6.9% indicated three business opportunities and 1% indicated four business opportunities. These findings agree with Lewin (2013) argument that an entrepreneur is someone alert to opportunities to create value, to real world situations requiring the entrepreneur's evaluation of resource inputs and prospective outputs. However, Berglund (2007) found that one of the challenges facing entrepreneurs in exploiting available business opportunities was raising financial and other resources. These findings imply that most of SME owners in Starehe Sub County had identified one business opportunity currently in the market.

4.6 Innovativeness

The third objective of the study was to examine the effect of innovativeness on access to venture financing of small and medium enterprises in Starehe sub-county.

4.6.1 Products developed or introduced in the Last five years

The respondents were asked to indicate the number of products or services they had developed or introduced in the last five years. The results were as show in figure 4.7.

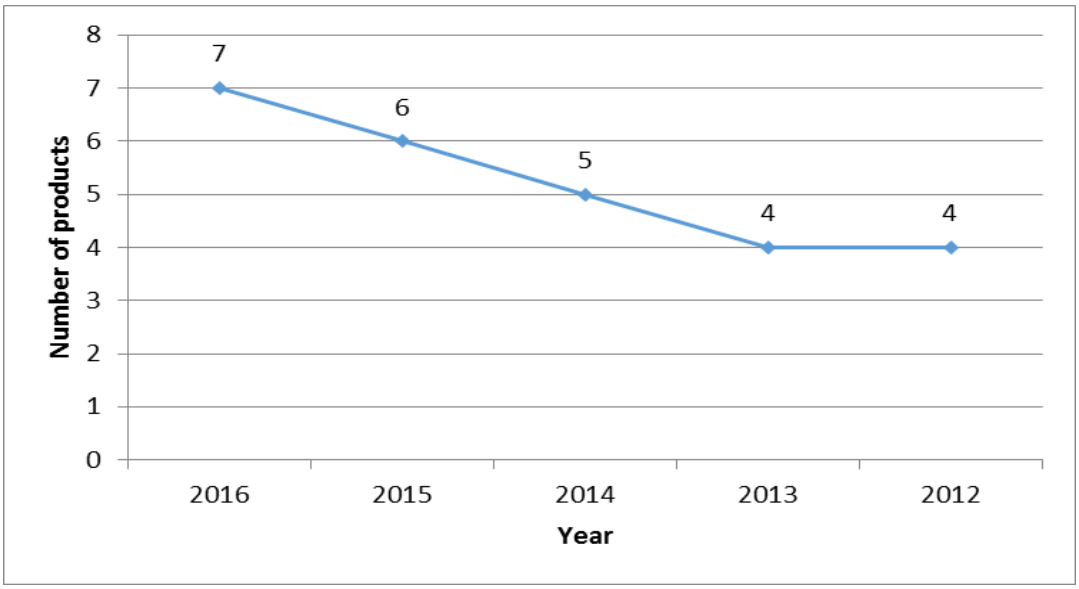


Figure 4. 7: Products developed or introduced in the Last five years

From the findings, the number of products the SME owners in Starehe sub-county had introduced in the market in the last five years had been increasing with years. In the year 2012, the respondents introduced an average of 4 products and services, in the year 2013 they introduced an average of 4 products and services and in the year 2014 they introduced an average of 5 products and services. In the year 2015, the respondents introduced an average of 6 products and services and in the year 2016 they introduced an average of 7 products and services. According to Wikhamn et al. (2016) most SMEs rely more heavily on insider finance and start-up funds provided by relatives, friends and private investors. Once a firm's growth potential is reflected by cash flows, external financing sources including bank loans and venture capital become available. It can be deduced that the number of products the SME owners in Starehe sub-county had introduced in the market in the last five years had been increasing with years.

4.6.2 New Technologies developed or adopted in the Last five years

The respondents were asked to indicate the number of new technologies their businesses had developed or adopted in the following years. The results were as indicated infigure 4.8.

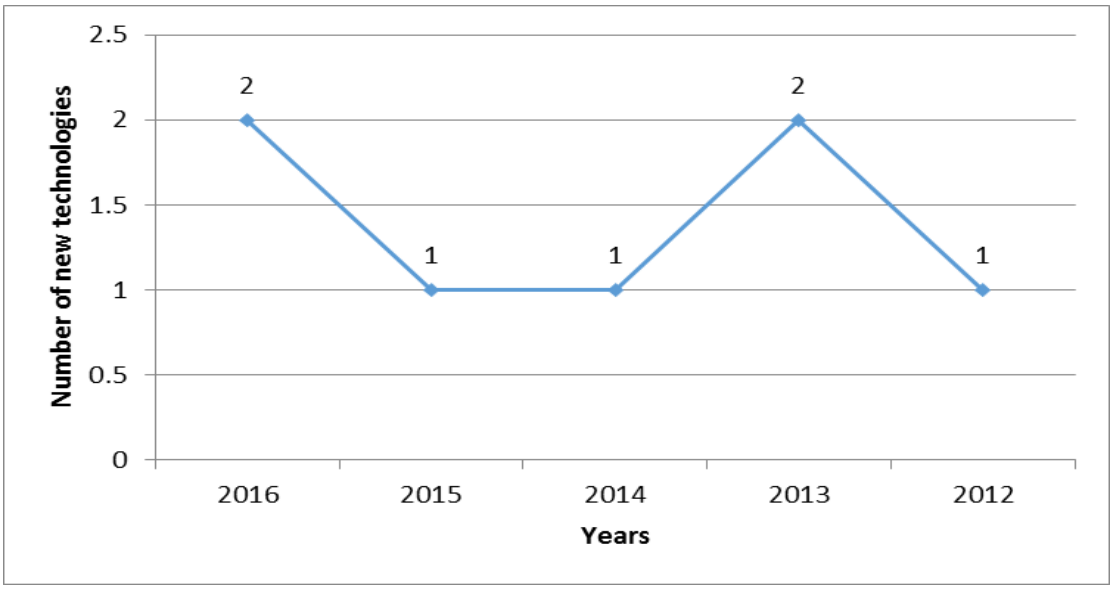


Figure 4. 8: New Technologies developed or adopted in the Last five years

From the findings, the number of technologies adopted by SMEs in Starehe Sub County has been increasing over the years. In the year 2012, SMEs in Starehe Sub County had adopted an average of one new technology. This increased to 2 new technologies in the year 2013, decreased to one new technology in 2014, remained stagnant in the year 2015 and increased to 2 new technologies in the year 2016. This implies that most of the SMEs had adopted between 2 new technologies in year 2016, 2013, one technology in year 2012, 2014 and 2015. These findings agree Wikhamn et al. (2016) argument that as firms grow, they increase their adoption of new technologies, which affects their access to venture financing. It can be deduce that number of technologies adopted by SMEs in Starehe Sub County has been increasing over the years.

4.6.3 Number of Products Added Value

The respondents were asked to indicate the number of products they had added value to in the last five years. The results were as presented in figure 4.9.

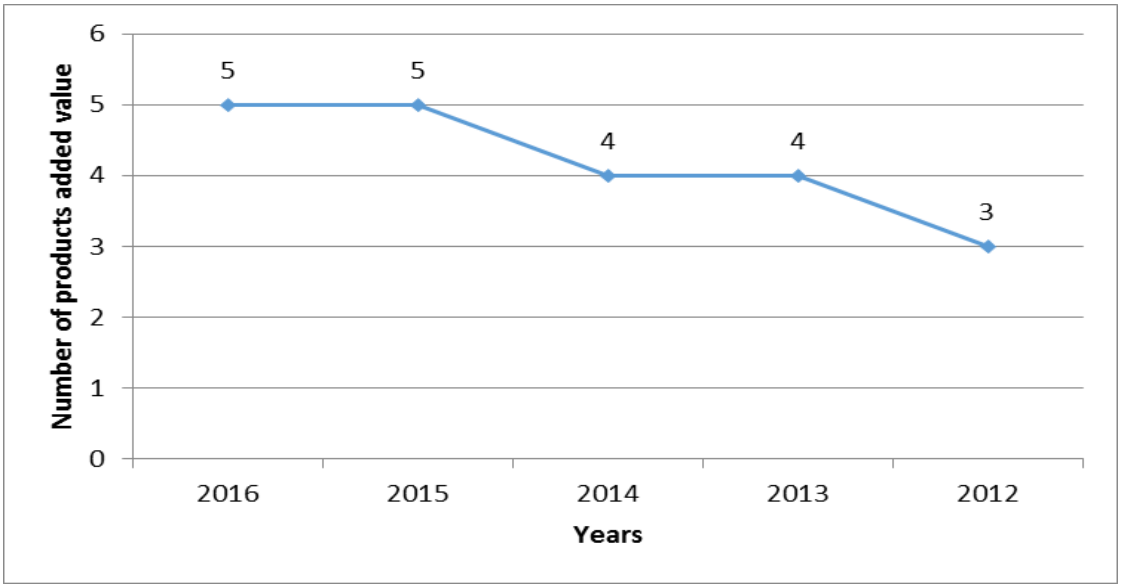


Figure 4. 9: Number of Products Added Value

According to the findings, the number of products that SMEs Starehe sub-county had added value to in the last five years had been increasing over the years. In the year 2012, SMEs in Starehe sub-county added value to an average of 3 products, in the year 2013 and 2014 it was an average of 4 products in the year 2015 and 2016 it was an average of 5 products. These findings imply that the number of products that SMEs Starehe sub-county had added value to in the last five years had been increasing over the years. These findings agree with Lee et al. (2012) argument that innovative small firms – those introducing new products, processes or business models – are most likely to create new markets, achieve rapid growth, and help the economy recover. However, Lee et al. (2012) found that innovative firms are more likely to be turned down for finance than other firms, mostly during the crisis. These findings imply that

the number of products that SMEs Starehe sub-county had added value to in the last five years had been increasing over the years.

4.7 Growth Orientation

The fourth objective was to determine the effect of growth orientation on access to venture financing of small and medium enterprises in Starehe sub-county.

4.7.1 Number of Employees in the Last Five Years

The respondents were requested to indicate the number of employees they had been having for the last five years. The results were as shown in figure 4.10.

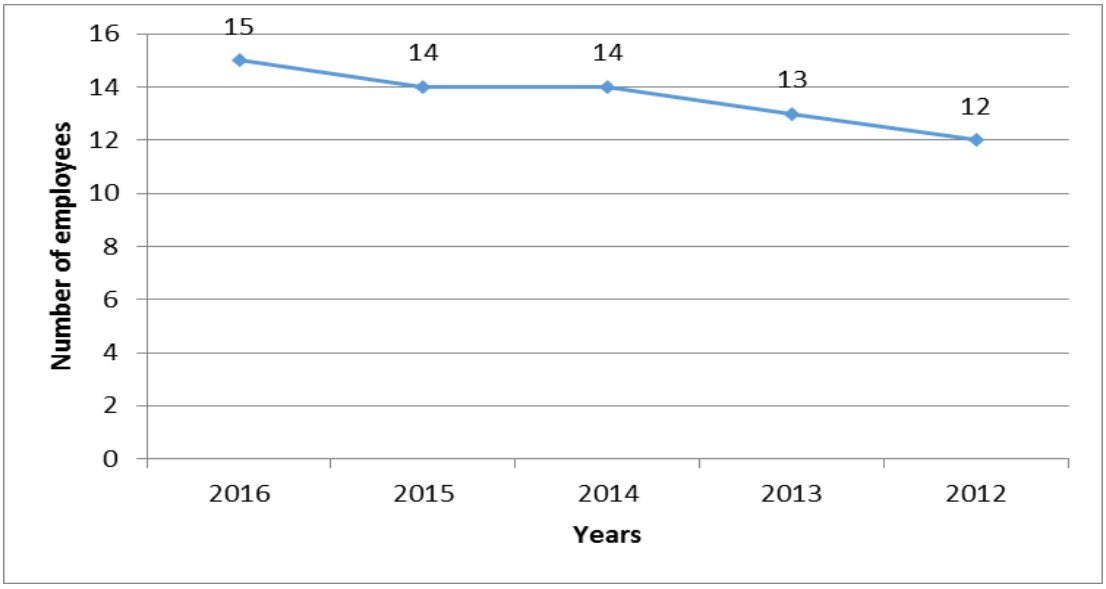


Figure 4. 10: Number of Employees in the Last Five Years

According to the findings, the number of employees in the SMEs in Starehe Sub County has been increasing for the last five years. In the year 2012, the SMEs had an average of 12 employees, in 2013 they had an average of 13 employees, in 2014 they had an average of 14 employees, in the year 2015 they had an average of 14 employees and in the year 2016 they had an average 15 employees. These findings imply that the number of employees in the SMEs in Starehe Sub County has been

increasing for the last five years. These findings concur with Cowling and Liu (2013) argument that as firms grow in years, their number of employees increases and so does their access to venture financing. It can be deduced that the number of employees in the SMEs in Starehe Sub County has been increasing for the last five years.

4.7.2 Annual Sales in the Last Five Years

The respondents were asked to indicate their annual sales revenue in the last five years. The results were as shown in table 4.5.

Table 4. 5: Annual Sales in the Last Five Years

	2016	2015	2014	2013	2012
0 to 10 million	26.5	26.5	29.4	34.3	36.1
11 to 20 million	20.6	23.5	22.5	21.2	26.8
21 to 30 million	23.5	24.5	25.5	22.2	22.7
31 to 40 million	13.7	12.7	8.8	11.1	11.3
41 to 50 million	4.9	7.8	9.8	8.1	1.0
51 to 60 million	6.9	2.0	1.0	1.0	0.0
61 to 70 million	1.0	0.0	1.0	0.0	1.0
71 to 80 million	1.0	1.0	1.0	1.0	1.0
81 to 90 million	0.0	1.0	1.0	1.0	0.0
91 to 100 million	2.0	1.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Mean	24.63	23.02	21.48	19.90	18.41
Minimum	1	0	0	0	0
Maximum	100	95	88	86	80

From the findings, the study found that annual sales of the SMEs in Starehe Sub County have been increasing over the years. In the year 2012, SMEs in Starehe Sub County had an average of Ksh 18.41 million, in 2013 they had an average of Ksh 19.90 million, in 2014 they had an average of Ksh 21.48 million, in 2015 they had an average of Ksh 23.02 million and in 2016 they had an average of Ksh 24.63 million.

In the year 2012, 36.1% of the respondents indicated that their annual sales were less than 10 million, 26.8% indicated that they had between Ksh 11 and 20 million and 22.7% indicated that they had between Ksh 21 and 30 million. In the year 2013, 34.3% of the respondents indicated that their businesses had annual sales revenue less than 10 million, 22.2% indicated between 21 and 30 million and 21.2% indicated between 11 and 20 million. In the year 2014, 29.4% of the respondents indicated that their businesses had annual sales revenue of less than 10 million, 25.5% indicated between Ksh 21 and 30 million and 22.5% indicated between Ksh 11 and 20 million. In the year 2015, 26.5% of the respondents indicated that their businesses had annual sales revenue less than 10 million, 24.5% indicated between Ksh 21 and 30 million and 23.5% indicated between Ksh 11 and 20 million. In the year 2016, 26.55 of the respondents indicated that their businesses had annual sales revenue of less than Ksh one million, 23.5% indicated that they had between 21 and 30 million, and 20.6% indicated between Ksh 11 and 20 million. The findings concur with Aminu and Shariff (2015) argument that fir growth in terms of annuals sales increases over the years and influences access to finance in a business. These findings imply that annual sales of the SMEs in Starehe Sub County have been increasing over the years.

4.7.3 Business Development Stages

The respondents were asked to indicate their businesses were in which business development stages. The results were as shown in table 4.6.

Table 4. 6: Business Development Stages

Business Development Stages	Frequency	Percent
Growth (consistent source of income and new customers)	95	93.1
Expansion (broadening horizons)	5	4.9
Maturity (continued success)	2	2.0
Total	**102**	**100.0**

From the findings, 93.1% of the respondents indicated that their businesses were in the growth (consistent source of income and new customers) stage, 4.9% were in the expansion (broadening horizons) stage, 2% were in the maturity (continued success) stage. According to Cowling and Liu (2013) the development stage of a business influences in access to finance. From these findings we can deduce that most of the SMEs in Starehe Sub County were in the growth (consistent source of income and new customers) stage.

4.8 Access to venture financing of SMES

4.8.1 Number of Times of Loan Access

The respondents were asked to indicate the number of times they had accessed financing for their business in the last five years. The results were as shown in figure 4.11.

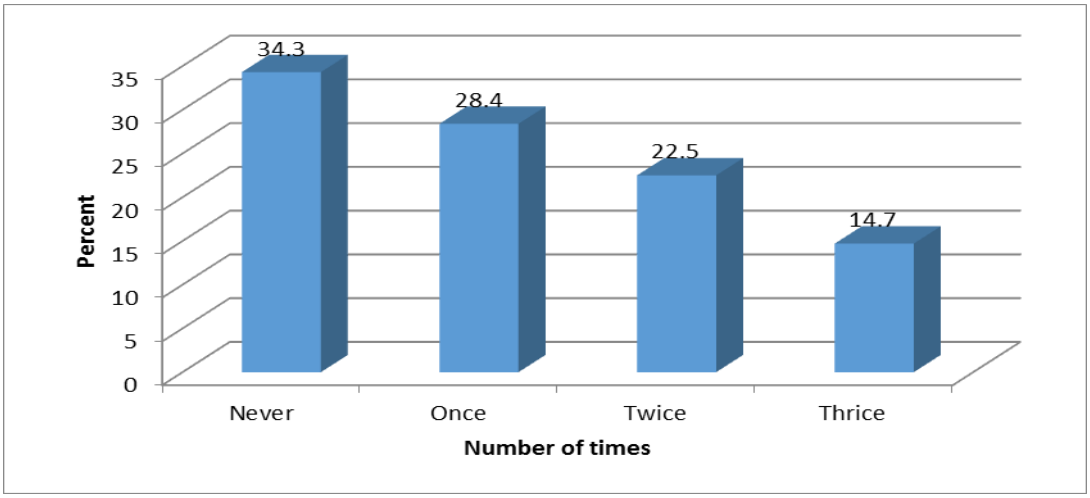


Figure 4. 11: Number of Times of Loan Access

From the findings, 34.3% of the respondents indicated that they had not accessed financing for their business in the last five years, 28.4% indicated once, 22.5% indicated twice and 14.7% indicated thrice. These findings agree with Pescod (2014) findings that only 10% of SMEs tried to raise finances in the year 2014 to raise their working capital in the United Kingdom. This implies that more than one third of the SMEs in Starehe Sub County had not accessed financing for their business in the last five years.

4.8.2 Amount received as venture financing

The respondents were asked to indicate the amount received as venture financing. The results were as shown in table 4.7.

Table 4. 7: Amount received as venture financing

Amount	Frequency	Percent
Below Ksh 100,000 million	1	2
Ksh 500,000 to 999,999 million	13	19.6
Ksh 1 to 4,999,999 million	6	8.8
Ksh 5 to 9,999,999 million	14	20.6
10 to 19,999,999 million	9	13.7
Above 20 million	24	35.3
Total	**67**	**100**

According to the findings, 35.3% of the respondents indicated that they had obtained more than 20 million as venture financing, 20.6% had obtained between Ksh 5 million and 9,999,999, 19.6% had obtained between Ksh 500,000 and 999,999, 13.7% indicated between 10 million and 19,999,999 million, 8.8% indicated between Ksh 1 million and 4,999,999 and 2% indicated below Ksh 100,000. This shows that most of the SME owners who had obtained venture financing had obtained more than 20 million as venture financing.

4.8.3 Source of Financing

From the respondents who indicated that they had accessed venture financing, the study also to find out the source of financing. The results were as shown in table 4.8.

Table 4. 8: Source of Financing

	Frequency	Percent
Friends and family members	3	2.9
Saccos	24	23.5
Microfinance institutions	19	18.6
Banks	46	45.1
Women Enterprise Fund	7	6.9
Youth Fund	3	2.9
Total	**102**	**100.0**

According to the findings, 45.1% of the respondents indicated that banks were the main source of financing, 23.5% indicated Saccos, 18.6% indicated microfinance institutions, 6.9% indicated Women Enterprise Fund, 2.9% indicated friends and family members and the same percent indicated Youth Fund. This implies that most of the source of financing of SMEs in Starehe Sub County was mainly banks and Saccos.

4.8.4 Type of financing Used in the Businesses

The respondents were asked to indicate the type of financing they were using in their businesses. The results were as shown in table 4.9.

Table 4. 9: Type of financing Used in the Businesses

	Frequency	Percent
Savings	66	64.7
Shares	9	8.8
Loans	24	23.5

Grants	3	2.9
Total	**102**	**100.0**

According to the findings, 64.7% of the respondents indicated that they were using savings to finance businesses, 23.5% indicated that they were using loans, 8.8% indicated that they were using shares and 2.9% indicated grants. This shows that most SME owners in Starehe Sub County were using savings to finance businesses.

4.9 Inferential Statistics

This study made use of inferential statistics such as correlation analysis and multivariate regression analysis to establish the relationship between the dependent and the independent variables.

4.9.1 Correlation Analysis

In this study correlation analysis was used to determine whether there is an association between the dependent variable (access to venture financing of small and medium enterprises) and the independent variables (resource gap identification, opportunity commitment, innovativeness and growth orientation). In addition, correlation analysis was used to find out the direction of the relationship – whether it is positive, negative or zero. A correlation is a number between -1 and +1 that measures the degree of association between two variables. A positive value for the correlation implies a positive association. A negative value for the correlation implies a negative or inverse association.

Table 4. 10: Correlation Coefficient

		Access to venture financing	Resource gap identification	Opportunity commitment	Innovativeness	Growth orientation
Access to venture financing	Pearson Correlation	1				
	Sig. (2-tailed)					
Resource gap identification	Pearson Correlation	.602**	1			
	Sig. (2-tailed)	.000				
Opportunity commitment	Pearson Correlation	.550**	.550**	1		
	Sig. (2-tailed)	.000	.000			
Innovativeness	Pearson Correlation	.577**	.637**	.529**	1	
	Sig. (2-tailed)	.000	.000	.000		
Growth orientation	Pearson Correlation	.609**	.630**	.533**	.651**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

From the correlation analysis, the study found that there is a positive relationship between resource gap identification and access to venture financing of small and medium enterprises, where the correlation coefficients was 0.602 and a p-value of 0.000. The study also found that opportunity commitment and access to venture financing of small and medium enterprises correlate positively with correlation coefficient of 0.550 and p-value of 0.000. The study further established that there is a positive relationship between Innovativeness and access to venture financing of small and medium enterprises with a correlation coefficient of 0.577 and p-value of 0.000. Finally, the study found that there is a positive relationship between Growth

orientation and access to venture financing of small and medium enterprises with a correlation coefficient of 0.609 and a p-value of 0.000.

4.9.2 Regression Analysis

A multivariate regression analysis was used to determine the relationship between the dependent and the independent variables. The multivariate regression model was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where Y is access to venture financing, B_0 is Constant, β_1- β_4 are coefficients of determination, X_1 is resource gap identification, X_2 is opportunity commitment, X_3 is innovativeness, X_4 is growth orientation and ε is Error term.

Table 4. 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.7905	0.62489	0.60479	0.30137

The R-Squared is the proportion of variance in the dependent variable which can be explained by the independent variables. The R-squared in this study was 0.624, which shows that the four independent variables (resource gap identification, opportunity commitment, innovativeness and growth orientation) can explain 62.4% of the dependent variable,

Table 4. 12: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.686	4	2.171	23.907	.000[b]
	Residual	8.810	97	.091		
	Total	17.496	101			

The analysis of variance in this study was used to determine whether the model is a good fit for the data. From the findings, the p-value was 0.000 which is less than 0.05 and hence the model is good in predicting how the four independent variables (resource gap identification, opportunity commitment, innovativeness and growth orientation) influence access to venture financing of small and medium enterprises. Further, the F-calculated (23.907) was more than the F-critical (2.47) which shows that the models was fit in predicting the influence of the independent variables on the dependent variable.

Table 4. 13: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.649	0.261		6.316	0.000
Resource gap identification	0.354	0.07	0.263	5.057	0.000
Opportunity commitment	0.231	0.058	0.140	3.983	0.017
Innovativeness	0.214	0.075	0.123	2.853	0.032
Growth orientation	0.268	0.07	0.177	3.829	0.000

Based on this table, the equation for the regression line is:

$$Y = 1.649+0.354X_1 + 0.231X_2 + 0.214X_3 +0.268X_4$$

According to the intercept (β_0), when the four independent variables are held constant, access to venture financing of small and medium enterprises will have an index of 1.649.

The study found that there is a positive and significant relationship between resource gap identification and access to venture financing of small and medium enterprises. A unit increase in resource gap identification would lead to a 0.354 improvement in access to venture financing of small and medium enterprises. The relationship was significant as shown by a p-value of 0.000., which is less than the significance level (0.05).

The study also found that there is a positive and significant relationship between opportunity commitment and access to venture financing of small and medium enterprises. A unit increase in opportunity commitment would lead to a 0.231 improvement in access to venture financing of small and medium enterprises. The relationship was significant as shown by a p-value of 0.017., which is less than the significance level (0.05).

The study further established that innovativeness and access to venture financing of small and medium enterprises. A unit increase in innovativeness would lead to a 0.214 improvement in access to venture financing of small and medium enterprises. The relationship was significant as shown by a p-value of 0.032., which is less than the significance level (0.05).

Lastly, the study found that there is a positive and significant association between growth orientation and access to venture financing of small and medium enterprises. A unit increase in growth orientation would lead to a 0.268 improvement in access to

venture financing of small and medium enterprises. The relationship was significant as shown by a p-value of 0.000., which is less than the significance level (0.05).

From these findings we can infer that resource gap identification was influencing access to venture financing of small and medium enterprises most, followed by growth orientation, opportunity commitment and innovativeness.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, conclusions and recommendations for practice and further research on the problem. This study aimed at investigating the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county. The study also sought to find out the effect of resource gap identification, opportunity commitment, innovativeness and growth orientation on access to venture financing of small and medium enterprises in Starehe sub-county.

5.2 Summary of the Findings

5.2.1 Resource Gap Identification

From correlation analysis, the study found that there is a positive and a significant correlation between resource gap identification and venture financing of small and medium enterprises in Starehe sub-county. In addition, the regression analysis showed that resource gap identification was the most significant component of entrepreneurial management influencing access to venture financing of small and medium enterprises in Starehe sub-county. The regression analysis also found that resource gap identification influences access to venture financing of small and medium enterprises in Starehe sub-county positively and significantly.

5.2.3 Opportunity Commitment

The study established that opportunity commitment and access to venture financing of small and medium enterprises in Starehe sub-county correlate positively and significantly. The regression analysis showed that opportunity commitment was the third most significant component of entrepreneurial management influencing access to venture financing of small and medium enterprises. In addition, regression analysis results showed that opportunity commitment influences access to venture financing of small and medium enterprises in Starehe sub-county.

5.2.4 Innovativeness

The study revealed that there is a positive and significant correlation between innovativeness and access to venture financing of small and medium enterprises in Starehe sub-county. The regression analysis results show that innovativeness is the least significant component of entrepreneurial management in influencing access to venture financing of small and medium enterprises. Also, the regression results show that innovativeness has a positive and significant influence on access to venture financing of small and medium enterprises in Starehe sub-county.

5.2.4 Growth Orientation

The study established that there is a positive relationship between growth orientation and access to venture financing of small and medium enterprises in Starehe sub-county. The regression analysis results showed that growth orientation was the second component of entrepreneurial management in influencing access to venture financing of small and medium enterprises. In addition, regression results show that growth orientation has a positive and significant influence on access to venture financing of small and medium enterprises in Starehe sub-county.

5.3 Conclusion

The study concludes that entrepreneurial management influences access to venture financing of small and medium enterprises in Starehe sub-county. The study found that the four independent variables (resource gap identification, opportunity commitment, innovativeness and growth orientation) explain 62.4% of access to venture financing of small and medium enterprises in Starehe sub-county.

This study concludes resource gap identification has a positive and significant influence on access to venture financing of small and medium enterprises in Starehe sub-county. The study found that the identification of knowledge gap, physical assets required and working capital required had a significant influence on access to venture financing.

The study also concludes that opportunity commitment has a positive and significant influence access to venture financing of small and medium enterprises in Starehe sub-county. The study established that number of opportunities in the past, presence of a vision and number of market opportunities influence access to venture financing of small and medium enterprises.

The study further concludes that innovativeness has a positive and significant influence on access to venture financing of small and medium enterprises in Starehe sub-county. The study revealed that number of new products/services, number new technologies and number of products added value influence access to venture financing of small and medium enterprises.

Lastly, the study concludes that growth orientation has a positive and significant influence on access to venture financing of small and medium enterprises Starehe sub-

county. The study found that number of employees, sales volume and development stage of SMEs influence their access to venture finance.

5.4 Recommendations

The study found that resource gap identification influences access to venture financing. This study recommends that business owners should frequently conduct gaps analysis in their organizations so as to identify, knowledge gaps, working capital required and physical assets required.

The study also found that opportunity commitment influences access to finance among SMEs. The study therefore recommends that SME owners should show commitment to their businesses by developing strategic plans with mission vision and objectives and should also identify other opportunities in the market, develop a business plan and present it to financial institutions for financing.

The study also found that SMEs had in the last five years been introducing new products and services and technologies. The study also found that innovativeness influences access to finance. The study therefore recommends that SMEs should develop business plans for the products and services they have introduced as well as the products they had added value to, and use them to seek for venture financing from financial institutions.

The study found that the growth of SMEs was influencing their access to venture financing. This study therefore recommends that SMEs should reinvest their profits in their businesses so as to increase growth in terms of sales revenue, which would give increase their credit score and hence access to finance.

5.5 Proposed Areas for Further Research

This study focused on the effect of entrepreneurial management on access to venture financing of small and medium enterprises in Starehe sub-county. Having been limited to Starehe sub-county, the findings of this study cannot be generalized to other sub-counties in Nairobi and other counties in Kenya. This study therefore suggests similar studies to be conducted in other counties in Kenya. The study also suggests further studies on the effect of bank specific factors on access to venture financing of small and medium enterprises in Nairobi County.

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APPENDICES

Appendix I: Questionnaire

Dear Sir/Madam,

RE: UNDERTSTANDING THE EFFECT OF ENTREPRENEURIAL MANAGEMENT ON ACCESS TO VENTURE FINANCING OF SMALL AND MEDIUM ENTERPRISES IN STAREHE SUB-COUNTY

This questionnaire is aimed at understanding the effect of entrepreneurial management on access to venture financing of small and medium enterprises in starehe sub-county. Your input is valuable and I thank you for participating in this research. This is academic research and the information you provide will be treated in the strictest confidence and will not be divulged to any person(s) not involved in the compilation and/or assessment of the related research work.

If you have any queries or concerns relating to any of the questions, please feel free to get in touch with the researcher (Richard Wambua) on email at rwambua72@gmail.com or Tel 0720318945.

Please answer the questions by ticking √ or filling in the space provided.

Sincerely,

RICHARD WAMBUA

JKUAT University

September 2016

Please answer the questions below as precisely and truthful as possible. Any information provided will be held with strict confidentiality and anonymity. In addition, your answers will only be used for academic purposes only. Kindly tick your responses against each questions in the spaces provided.

General Information

1. Gender

Male [ ]

Female [ ]

2. Age Bracket

Below 25 Years […] 25 to 35 Years [ ]

36 to 45 Years [ ] 46 years and above [ ]

3. What is your highest level of Education?

Postgraduate [ ] Bachelors [ ]

Diploma [ ] Certificate [ ]

4. For how long has your business been in operation?

Less than 2 years [ ] Between 2 - 4 years [ ]

Between 5 - 7 years [ ] Over 7 years [ ]

Others (specify) ……

Resource gap identification

5. In which of the following areas do you think your business is lacking in knowledge?

Accounting [ ] Business management [ ]

Marketing [ ] Customer service [ ]

Book keeping [ ] Information technology [ ]

6. Which of physical assets do you think are required in your business currently?

……..

……..

7. What amount of working capital do you think is currently required in your business?

Below Ksh 100,000	[ ]	Ksh 100,000 to 499,999	[ ]
Ksh 500,000 to 999,999	[ ]	Ksh 1 million to 4,999,999	[ ]
Ksh 5 million to 9,999,999	[ ]	10 million to 19,999,999 million	[ ]
Above 20 million	[ ]		

Opportunity Commitment

8. How many business opportunities have you identified and utilized in the past?

One	[ ]	Two	[ ]
Three	[ ]	Four	[ ]
More than four	[ ]		

9. Please name them …….

10. Do you have a vision for your business?

Yes	[ ]	No	[ ]

11. How many business opportunities are currently there in the market?

One	[ ]	Two	[ ]
Three	[ ]	Four	[ ]
More than four	[ ]		

12. Please name the market opportunities above

……

……

Innovativeness

13. How many products or services have you developed or introduced in the following years?

Year	2016	2015	2014	2013	2012
Number of products or services					

14. How many new technologies has your business developed or adopted in the following years?

Year	2016	2015	2014	2013	2012
Number of technologies					

15. List the new technologies that your business has developed or adopted in the years stated above?

……
……

16. How many products have you added value to in the following years?

Year	2016	2015	2014	2013	2012
Number of products					

Growth Orientation

17. How many employees have you been having in the following years?

Year	2016	2015	2014	2013	2012
Number of employees					

18. What has been your annual sales revenue in the following years?

Year	2016	2015	2014	2013	2012
Sales revenue					

19. In which of the following business development stages is your business?

Start-up (Testing of the business idea) [ ]

Growth (consistent source of income and new customers) [ ]

Expansion (broadening horizons) [ ]

Maturity (continued success) [ ]

Access to venture financing of SMES

20. In the last five years how many times have you accessed financing for your business?

Never [ ] Once [ ]

Twice [ ] Thrice [ ]

Four times [ ] More than 5 times [ ]

21. What was the amount received as venture financing in question 21?

Below Ksh 100,000 [ ] Ksh 100,000 to 499,999 [ ]

Ksh 500,000 to 999,999 [ ] Ksh 1 million to 4,999,999 [ ]

Ksh 5 million to 9,999,999 [ ] 10 million to 19,999,999 million [ ]

Above 20 million [ ]

22. What was the source of financing in question 21?

Friends and family members	[ ]	Shylocks	[ ]
Saccos	[ ]	Microfinance institutions	[ ]
Banks	[ ]	Women Enterprise Fund	[ ]
Youth Fund	[ ]	Donors	[ ]
Sold shares	[ ]		

23. Which type of financing are you using in your business?

Savings	[ ]	Shares	[ ]
Loans	[ ]	Grants	[ ]