

STRATEGIC OPTIONS FOR CREATING COMPETITIVE ADVANTAGE FOR YOUTH ENTERPRISES IN KENYA. A SURVEY OF YOUTH ENTERPRISES IN MURANG'A COUNTY.

AUTHOR: SAMUEL MWANGI NJUGUNA: PO BOX 486-10202, KANGEMA: KENYA.
PHD STUDENT IN BUSINESS ADMINISTRATION: STRATEGIC MANAGEMENT.
Jomo Kenyatta University of Agriculture and Technology. KENYA.

CO. AUTHORS: PROF J.M. KIHORO
 DR. KABARE KARANJA

ABSTRACT

The Youth Enterprises have to survive in the global economic environment through defining the areas in which they can achieve the superior results and on them base their complete business. This article discusses the back ground information regarding youth enterprises in relation to vision 2030 and the global trends on SMES competitiveness as well as regional trends on SMES competitiveness. The research objectives are the effects of collaborative networks, innovation, product diversification and entrepreneurial skills on competitive advantage of youth enterprises. Conceptual framework focuses on both independent and dependent variables, independent variables namely; collaborative networks, innovation, product diversification and entrepreneurial skills; dependent variable namely competitive advantage. The purpose of this article is: to unite and to expand the existing cognitions about the concept of collaborative networks, innovativeness, product diversification, and entrepreneurial skills; propose the universal model for the process of transformation of implementing these concept and to point on the guidelines which should follow these concepts.

Key Words: Collaborative networks, Competitive advantage, Product diversification and
Entrepreneurial Skills.

INTRODUCTION

Background of the Study

Youth enterprises present an important factor regarding economic development. They play a critical role in economic growth, reducing unemployment, and promoting flexibility and innovation in an economy due to their ability to quickly adapt to ever changing market conditions because of their lean structure and the active involvement of their human resources. Nevertheless, even though they are very dynamic they are also highly exposed to threats caused by insufficient investment capability and resources. Due to limited resources, both financial and non-financial nature, youth enterprises lack appropriate organizational characteristics, such as the lack of functional expertise, concentration of risks, shortage of information for identifying market opportunities, and diseconomies of scale (Wincent, 2005).

Therefore, in order to overcome these obstacles youth enterprises are forced to rely on cooperation with others, in the sense of building strategic networks. Strategic network refers to the group of firms that combine efforts to achieve competitive advantages that would be very difficult to achieve individually. Through such a process they can partly resolve previously mentioned problems by gaining competence, building resources, sharing risks, undertaking quick market movements, and making joint investments (Dickson and Hadjimanolis, 1998). Therefore, youth enterprises can profit a lot by participating in this form of collaborations.

The fundamental question for policymakers is how to restore the competitiveness of youth enterprises. (Teece, 2007; Teece et al 1997), argues that the answer resides in the dynamic capability-generating capacity of youth enterprises-level of innovativeness on superior enterprise performance and sustainable competitive advantages. Furthermore, several researchers (Buhalis & Cooper, 1998; Getz & Carlsen, 2000; Getz & Petersen, 2005; Hjalager, 2002; Jacob & Groizard, 2003; Morrison et al, 1999; Shaw & Williams, 1998) argue that many youth enterprises lack the necessary capabilities and resources to pursue growth opportunities through innovation even when they wish to do so. It appears that the critical role of innovativeness, as a dynamic capability, in achieving economic recovery is not completely understood since resource limitation is not a problem that only youth enterprises face, but all companies have limited (or even scarce) resources (Barney, 1996; Peteraf, 1993). Consequently, conflict exists between theory and reality; resulting in a failure to forge a tangible link between innovativeness, dynamic capabilities, firm performance, and competitiveness. In Africa and developing countries, significant proportion of youth enterprises may be inoperable or abandoned completely. Several factors have undermined long term competitiveness of income generating youth enterprises such as, the lack of follow-up support, lack of technical skills to carry out preventive maintenance or the absence of refresher training courses. (Rigby, Howlett & Woodhouse, 2000).

According to Youth Challenge International Kenya, an international NGO concerned with youth, majority of the Kenya's population is the youth aged 15 to 35 years and currently number about 60% of the population (YCIK, 2005). This means that the youth is a significant group which cannot be ignored in community development agenda. Empowering youth through initiating and supporting income generating youth enterprises to successful completion and sustainability globally is still a neglected concern in general, or an unfulfilled aspiration at best (World Bank, 2005).

According to Kenya's blue print and strategy for development known as Vision 2030 that aims towards making Kenya a newly-industrializing middle-income country capable of providing a high quality of life for all its citizens by the year 2030; Kenya's competitive advantage lies in agro-industrial exports. For superior performance of the manufacturing sector, one strategy includes strengthening SMEs to become the key industries of tomorrow. This, according to Kenya's Vision 2030, can be accomplished by improving their (SME) productivity and innovation. Vision 2030 therefore recommends a need to boost science, technology and innovation in the sector by increasing investment in research and development. Vision 2030 sees one key strategy to the development of SMEs as being the development of SME Parks in Kenya. The vision 2030 aims at globally competitive and prosperous youth. The goal for 2012 is to increase all-round youth groups. Specific strategies will involve: increasing the participation of youth in all economic, social and political decision-making processes (vision, 2030); improving access of all youth groups; and, minimizing vulnerabilities through prohibition of retrogressive practices and by up scaling training needs. The Flagship projects for 2012 are to: establish a consolidated social protection fund; to rehabilitate or build at least one youth empowerment centre in each constituency; and Sustain and increase the youth enterprise fund from Kshs. 1 to Kshs. 2 billion.

Consequently the Jubilee Government has focused on youth empowerment. Currently, 70% of unemployed people in Kenya are the youth. Youth aged between 18 and 35 are 30.3% of the total population. The education system in Kenya is not geared towards market demand. Consequently, 92% of unemployed youth have some form of formal education but do not possess any relevant skills. The Jubilee manifesto promised to allocate 2.5% of national revenue annually towards establishing a Youth Enterprise Capital to enable youth access interest free business financing either individually or in groups without the requirement of traditional collateral (Jubilee Manifesto 2013). Enhance youth specific affirmative action on Government procurement to 25% so as to mainstream the participation of youth-run enterprises in economic development. Develop and promote a policy on internship (on the job training) for all college students requiring practical training-with built in incentives for industry actors. Establish innovation centers to support the emerging generation of highly creative Kenyans. In addition the government has launched Uwezo fund to finance SMES for the youth and have made it a policy to provide 30% of government procurements to youth. The question is, are the youth enterprises having the strategic capabilities to utilize the honey moon offer by the government?

Global Trends on SMES Competitiveness.

SMEs, by number, dominate the world business stage. Although precise, up-to-date data are difficult to obtain, estimates suggest that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment (Ayyagari et al. 2011). Japan has the highest proportion of SMEs among the industrialized countries, accounting for more than 99% of total enterprises (EIU 2010). India, according to its Ministry of Micro, Small and Medium Enterprises, had 13 million SMEs in 2008, equivalent to 80% of all the country's businesses (Ghatak 2010). In South Africa, it is estimated that 91% of the formal business entities are SMEs (Abor and Quartey 2010).

Estimated data for the 27 countries in the European Union (the EU-27) for 2012 also illustrate the importance of SMEs. They account for 99.8% of all enterprises, employ 67% of all workers and contribute 58% of gross value added (GVA) – defined as the value of their outputs less the value of intermediate consumption and an important factor in GDP. The contribution made by SMEs does vary widely between countries and regions. Nevertheless, although they play particularly key roles in high-income countries, SMEs are also important to low-income countries, making significant contributions to both GDP and employment (Dalberg 2011). They are also major contributors to innovation in economies, partly through collaboration with the larger corporate sector. SMEs that become embedded in the supply chains of larger businesses can be spurred on to improve their own human and technological capital (ACCA 2010).

Regional Trends on SMES Competitiveness in Africa

According to UNCTAD (2003), SMEs represents more than 90 percent of formal sector enterprises and 16 percent to 33 percent of the working population in Africa. According to African Development Bank experts, 70 percent to 80 percent of SMEs in Africa are micro or very small enterprises, while only 5 to 15 percent are medium-sized enterprises percent. The contribution of SMEs to the Gross Domestic Product (GDP) is estimated to be less the 10 percent in most African counties, i.e. less than the average for low-income countries (16 percent). On the other hand, the informal sector represents the lion's share in terms of GDP and employment.

In Algeria, the private SME fabric has constantly grown since the 1990s. The number of SMEs grew from about 104,000 in 1992 to almost 293 946 private SMEs in 2007. These SMEs employ 1.06 million people (593,000 in 2004), i.e. an average of 3.64 jobs per SME (compared to 2.6 in 2004). In addition, the cottage industry had 116,347 plants in 2007 (including 115,508 individual artisans). The per sector breakdown of private SMEs demonstrates the predominance of the services sector (46 percent) and building and public works (34 percent), followed by industry (18.5 percent), while agriculture and fishing represent only a small portion (1.2 percent)

Most enterprises in Egypt are very small. According to a census conducted in 1996 on different establishments (CAPMAS Establishment Census of 1996), there were 1,641,791 micro, small and medium enterprises (MSME), i.e. 99.7 percent of the total number of non-agricultural establishments. Micro enterprises (one to four employees) represent the overwhelming majority with a share of 93.7 percent followed by small enterprises (five to nine employees) with 5.7 percent. The great majority of micro, small and medium enterprises (MSME) operate in trade and services (81.6 percent), while industry accounts for only 16.9 percent of total activities.

The International Finance Corporation conducted projections on the number of enterprises in Egypt. Based on the census of businesses conducted in 1999 by the Central Agency for Public Mobilization and Statistics (CAPMAS), the number of enterprises in 2003 was 2,576,937. 93.5 percent of these are micro enterprises (one to four employees), 4.97 percent very small enterprises (five to nine employees), and 1.56 percent small and medium enterprises (10 to 200 employees). The study conducted in 2003-2004 by the Economic Research Forum (ERF), on the basis of representative sampling of Egyptian micro and small-sized enterprises, shows that more than 90 percent of them employ fewer than four employees (42.6 percent have only one), and that the great majority work in commerce (61.8 percent) and the service industry (19.5 percent), with the remainder in industry (17.7 percent). However, this study shows at the same time that recently established micro and small enterprises tend to hire more people than those already established. According to some estimates, micro, small and medium enterprises contribute by 80 percent to value added in the private sector and employ two-thirds of the non agricultural workforce. With regard to the contribution of MSMEs to external trade, the 2001 economic census shows that they account for only 7.5 percent of the country's exports. Egypt's agricultural sector is mostly made up of small holdings

Statement of the problem

Individual SMEs experience difficulties in achieving economies of scale in the purchase of such inputs as equipment, raw materials, finance and consulting services and are often unable to take advantage of market opportunities that require large production quantities, homogenous standards and regular supply. Small size is also a constraint on internalization of functions such as training, market intelligence, logistics and technology innovation, while preventing the achievement of a specialized and effective internal division of labour (UNIDO 2001). On a closer observation, however, it is clear that many of these obstacles are the result of SME's isolation rather than their size. Therefore, closer cooperation among SMEs as well as between SMEs and the institutions in their surrounding environment holds the key to overcoming them. Networking offers an important route for individual SMEs to address their problems as well as to improve their competitive position.

A number of barriers may constrain entrepreneurship and the creation and rapid growth of innovative SMEs, and hence impede the ability of economies to achieve full employment and economic growth. They include inappropriate framework conditions for entrepreneurship, barriers to SME access to international markets and knowledge flows, weak intellectual asset management by SMEs and lack of entrepreneurial human capital (OECD, 2009, 2010d). Innovative SMEs and entrepreneurs also commonly suffer from lack of access to financial services, particularly to seed and development capital, which has been exacerbated by the financial and economic crisis.

According to the Kenya National Bureau of Statistics (GOK, 2007), three out of five businesses fail within their first three years of operation. One of the most significant causes of failure is the negative perception towards SMEs (Bowen, Morara, & Muriithi, 2009) Amyx, 2005). Potential clients perceive the small business as lacking the ability to provide quality services and hence not trustworthy. Many of the problems faced by small businesses are inevitably centered on the owner/manager. There are two key factors that impact on the way most of these SMEs are managed. First, decision making is concentrated on one or two owner managers (Greenbank, 2000). Second, owner/managers often work at both the management and operational levels and therefore acquire information about the market and the performance of their business through personal experience rather than relying on feedback mechanisms from other sources (Mbogo, 2011).

The overall research problem addressed in this study is that, although there has been a lot of funding from the Kenya government through the Youth Enterprise Development Fund and other sources, there is a substantive dispersion between the implemented youth enterprises and the sustainable or active ones. This study will set out to examine the possible strategic options with competitive advantage youth enterprises can employ for growth and sustainability.

2.0: LITERATURE REVIEW

Literature review focuses on the relevant theoretical and empirical literatures. It comprises of the conceptual framework, theories and models of competitive advantage and research gap.

2.3 Conceptual Framework

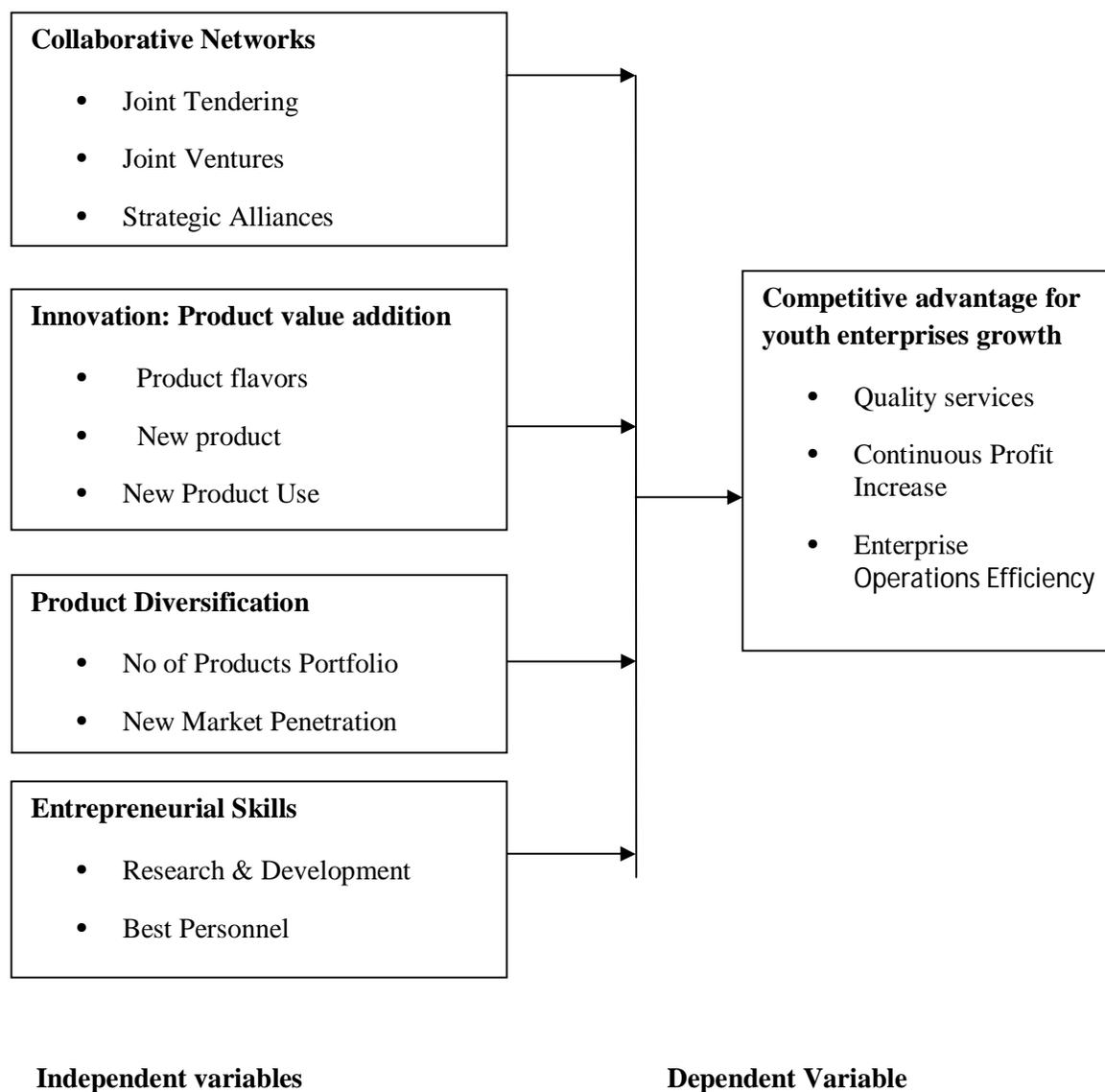


Figure.2.5: Conceptual framework as adopted from Eisenhardt & Martin (2000), Porter's (1990) and Ansoff (1965) model.

Collaborative networks and Competitive Advantage

Literature defines strategic networks of small and medium sized enterprises in many ways. Jarillo (1988) defines the term strategic networks as an arrangement between distinct but related organizations that through their mutual cooperation gain or sustain competitive advantage with regard to their competitors outside the network. These inter firm network organizations are characterized by a special kind of relationship, a certain degree of reflexivity and logic of exchange that operates differently from that of markets and hierarchies. Human and Provan (1997) suggested that strategic SME networks could be defined as intentionally formed groups of small and medium sized companies in which the firms are geographically proximate, operate within the same industry, potentially sharing inputs and outputs,

and undertake direct interactions with each other for specific business outcomes. The fact that the firms are close to each other means that they can combine core competence and resources to accomplish organizational objectives that would otherwise be difficult or impossible.

The purpose of strategic SME networks is to create a forum for direct and joint business activity among membership firms as well as indirect services such as lobbying. Strategic SME networks enable members to contribute inputs and also benefit outputs from one another. Firms in these networks share competence and resources so that each firm can reach goals through participation. Therefore, cooperation and relations are fundamental for value creation, i.e. competitiveness (Human and Provan, 1997). Strategic SME networks have two important functions. For customers, the strategic SME network represents a large company that provide complex products, and for membership firms on the other hand, network presents a place where learning and resource exchange can be used for development, innovation, and strategic renewal (Mezegar, Kovacs and Paganelli, 2000). Therefore, one function of the network can be seen as an interaction among the network and outside environment and the other one as a close interaction between membership firms.

In his work Treziovski (2003) by synthesizing the literature reveals some of the most important networking practices that are significantly associated with an effectiveness of strategic SME networks. They are as follows: Product/service is produced by mutual assets of several firms located at key points of the value chain. Network members share information, cooperate with each other, customize their product or service, and demonstrate goodwill and trustworthiness. Network members provide a unique response to the need of its value chain partners, by which is reflecting the firm's distinctive competences. Voluntary behavior that improves the final product or service is expected from network participation rather than simply fulfilling a contractual obligation. Networks learn to operate without exclusionary behaviors and to compete without seeking unfair advantage. Better and closer relationships with suppliers and customers can contribute strongly to a company's performance across a range of areas such as costs, quality, reliability and timeliness of input delivery. Structures, cultures and procedures that encourage dynamic change, flexibility and knowledge sharing across functional areas have to be included in organizational strategies.

Innovation and SMES Competitiveness

In recent years, academics have started to view innovation not at a micro/product-level but as a macro/firm-level perspective (Siguaw et al., 2006). The main premise underlying this new trend is that the defining factor of long-term survival through innovation appears to be based not on specific, discrete innovations, but rather on an overarching, organization-wide innovation capability structure, termed "innovativeness" (Trott, 1998). The logic underpinning this reasoning is that a youth enterprises long-term survival may rely more on overall enterprise-level innovativeness that produces strategic capabilities which in turn enhances the development of innovations, and less on the actual innovations themselves (Trott, 1998). For Menguc & Auh (2006), it is this idiosyncratic aspect that encapsulates the difference between innovation and innovativeness. Innovation is typically defined as an outcome-oriented measure, such as "new product success" (Ayers et al., 1997); while innovativeness is recognized as a contextual variable representing the firm-level orientation or inclination towards innovation (Menguc & Auch, 2006; Hurley & Hult, 1998).

The Moderating Role of Firm-Level Innovativeness in Achieving Superior Competitive Advantage Capabilities is distinctive, unique, and intangible dimensions of an organization. For Menguc & Auh (2006), innovativeness is a distinctive firm-level competency since it is rare, valuable, and hard-to-copy; which cannot be easily accomplished overnight. Innovativeness is an embedded aspect of the firm's social structure (and culture) of the firm (Lado & Wilson, 1994). Eisenhardt and Martin (2000) argue that a firm who possesses the ability to be nimble, change quickly, and to be alert to changes in the environment (attributes of innovativeness), and thus apply its strategic capabilities sooner and more strategically than competitors, will be better able to adapt more quickly and easily to changing market conditions, and thus create a superior competitive advantage. Indeed, a more innovative, or innovation capable, organization is one that has the ability to build and deploy distinctive resources faster than others (Winter, 2003). In essence, an innovative firm is a proactive firm that constantly explores new market opportunities instead of exploiting existing ones (Menguc & Auch, 2006). Innovativeness, characterized by a high degree of organizational flexibility and the active and effective implementation of new organizational strategies and practices, enhances productivity and enables firms to match their asset base to the requirements of a changing business environment.

Product Diversification and Competitive Advantage of SMEs

Many of the current organizations in the world are moving toward expanding and improving their business environment. One of the reasons may be meeting customers' multiple needs. By meeting customers' multiple needs, managers attempt to make them more loyal to their organizations. For this reason and other technical ones such as raw material procurement and the final product's distribution system inside organizations, many organizations have decided the diversification strategy. Diversification strategies can influence the competitive balance in an industry. In diversity analysis, there are two key elements including risk and output. One way to reduce risks is to diversify investments. Investment companies reduce risks by investing in different assets and forming a portfolio.

According to Hall (1995), diversity is a kind of strategy which is often used for expanding the company's market or increasing sales and profits. According to Nayyar (1992), enterprises have diversity if they work simultaneously in more than one business. So, the diversity strategy can be defined as "the extent of participating in different businesses and the main model of relationships among different business of the companies.

According to Rowe et.al, (1997) and Qian (2002), diversity can be classified into two; namely related diversity and unrelated diversity. The related diversity is reached when an enterprise has different business units which are related to each other in some ways (for example: similar businesses). In this kind of diversity, the units are common. Or they are jointly used by related businesses in that enterprise. Overall, there are tangible and intangible relationships among different business units. The related diversity leads to the reciprocal transfer of information between organization managers and department managers. It causes organization managers in organizations with related diversity compared to organizations with unrelated one, to have more information about their department managers (Rowe et.al., 1998). In the unrelated diversity, an enterprise is diversified in the areas that have little similarities to each other. Overall, this kind of diversity causes enterprises to collect cash flows from departments and reallocate them to the departments [Rove et al. 1997]. In other words, the unrelated diversity strategy is the result of diversification among different industries (Qian G 2002). According to Kochart & Hit (1998), the difference between related and unrelated diversity is exactly connected to the sources of assets available to the company. Existence of special assets, especially assets which have tactic natures, will more lead to the related diversity than the unrelated one. Enterprises with a high amount of intangible assets (special and non-flexible assets) attempt to invest these sources in their related activities.

SMEs can diversify through various way namely; new investments in similar products, secondly, investments which lead to the vertical integration of complementary activities. This integration may forward or backward. Third, investments which lead to the globalization through increasing the participation in foreign markets and similar products and lastly investments which lead to the formation of intangible assets like marketing knowledge, patented technology, product differentiation, and management capability.

It is believed that diversity is a tool to expand an enterprise borders toward addressing the coordination problems in some markets and strategies which connect enterprises in terms of consumers and suppliers. Another function of diversity, especially the unrelated diversity is to achieve a proper tool to manage risks. This issue emerges in the financial incentive to create diversity (Hall 1995)

Entrepreneurial Skills and Competitive Advantage

Entrepreneurship involves identifying and exploiting entrepreneurial opportunities. However, to create the most value entrepreneurial firms also need to act strategically. This calls for an integration of entrepreneurial and strategic thinking as opined Helsinki, et al, (2009). Many SMEs, particularly in the developing countries face monumental challenges. Despite the lofty objectives of policies and practitioners, the results from SME programmes and policies are often disappointing and the potential contributions that vigorous small-scale industry could make to development programs are not realised (Lebell, Schultz, and Weston, 1974).

Small firms are deemed to be "organic" to the extent that their strategy, structure, and culture are embodied by their owner-managers. The primary goals and characteristics of entrepreneurs are thus crucial in determining the firm's level of innovation and orientation toward product novelty and technological sophistication (Miller, 1993). In this regard, studies have shown that the previously acquired knowledge and experience of small business owners condition their managerial behaviour (Thong, 1999). In addition, a key component in the small firm's learning experience is the owner-manager's individual learning (Riemenschneider and Mykytyn, 2000). Domain-specific knowledge that comes with

experience in a specific business sector as well as the general knowledge obtained from a higher education would thus influence the entrepreneur's awareness of the various organizational development practices to be assimilated and integrated by the organization.

Entrepreneurial skills are very important to a SME. The skills help to bring growth which is also associated with new challenges and development opportunities which affect the employees (Hamel and Prahalad, 2002; Wiklund et al, 2003; Ghoshal et al, 2000). The environment in which the organization operates poses challenges depending of the industry life cycle and industry structure; but market growth does not necessarily lead to growth of small organisations (Morris, 2001). David & Edward, (2011) conducted a research on the impact of entrepreneurs' personal characteristics on their firm's performance using data collected to survey owners and senior managers of small- to medium-sized Canadian manufacturing companies. Mediation relationships were tested with hierarchical regression analyses. It was found that entrepreneurs' personal characteristics, such as need for achievement, need for cognition, and internal locus of control, have positive influences on firm performance. Furthermore, it was demonstrated that their strategic orientations mediated these influences. The data indicate that entrepreneurs with higher levels of internal locus of control are more likely to adopt an entrepreneurial orientation than a market orientation. The study helps to better understand why entrepreneurs make different strategic decisions under seemingly similar competitive environments. The findings suggest that entrepreneurs do not simply react mechanically to external environmental changes. Instead, how they seek and interpret information and formulate organizational strategies is partially influenced by their personal characteristics. Entrepreneurs develop their own ways of utilizing the human capital that they bring to their firms. The contingency perspective explains the decisions and actions under a given opportunity depending on the circumstance. The core characteristic of small scale is the characteristic of the firm and does not only deal with economy of scale in production or operation but also involve marketing. According to Akande (2012) as the small organization grows the entrepreneur need to delegate more, build additional layers of hierarchy, establish formal systems and procedures for planning, coordination and control, create a structure communication system and make knowledge more explicit and less tacit. Innovation exploits the strength of motivated management and labor to survive in harsh times. Small organizations are relatively strong in inventions aimed at application of basic technologies to serve the small niche or residual markets. This exploits the potential flexibility and closeness to the customers. They possess skills to translate technology in a variety of new technology-product-market combination (Nooteboom, 2002). Entrepreneurship and strategic management are concerned with growth and wealth creation (Amit & Zott, 2001; Hitt, et al 2001, 2002; Morris, 2001).

The Concept of Competitive advantage in SMES

Competitiveness can be assessed at either the national or the enterprise level. At the national level it has been defined as a nation's ability to produce goods and services that meet the test of international markets while simultaneously maintaining and expanding real incomes of its people over the long term (US Presidential Commission on Industrial Competitiveness). Competitiveness has been the subject of a number of recent annual reports: UNCTAD's World Investment Report (WIR) 2002, UNIDO's Industrial Development Report 2002/2003, and the Global Competitiveness Reports 1979-2002, published by the World Economic Forum. While each has a slightly different focus (transnational corporations, industrial development, government intervention), they all agree that an important element in improving competitiveness is building domestic capabilities. For example, World Investment Report 2002 states: "If developing countries are to strengthen competitiveness, they will have to strengthen their capabilities, attract and stimulate activities suited to their endowments (or lack of) and upgrade them over time." None of the preceding reports goes into detail about the policies and support programmes that are necessary for strengthening productive capacity at the enterprise level, particularly that of small- and medium-sized enterprises (SMEs). Therefore, in filling out the picture on competitiveness, this report examines the groundwork that developing countries must lay if their domestic enterprises are to become competitive.

According to (Efendioglu, 2001), strategic competitiveness has two main aspects: the ability to stay close to the frontier of technology and of integrated international production systems (getting ahead), and the capability and flexibility to accommodate change in old and new industries (catching up/keeping up). Among the drivers of competitive industrial performance and capability are the level of skilled labor, technological effort as shown by research and development expenditures by productive enterprises, technology imports and infrastructure. The 16 countries identified by UNIDO have used varying strategies for their industrial performance. Not surprisingly, East Asia has the highest industrial competitiveness capability-outstripping Latin America by a factor of more than two. Domestic technological effort, as

measured by R&D financed by productive enterprises, is the most consistent and significant of the drivers, and FDI is gaining in significance.

Research Gaps

A number of barriers may constrain entrepreneurship and the creation and rapid growth of innovative SMEs, and hence impede the ability of economies to achieve full employment and economic growth. They include inappropriate framework conditions for entrepreneurship, barriers to SME access to international markets and knowledge flows, weak intellectual asset management by SMEs and lack of entrepreneurial human capital (OECD, 2009, 2010d). Innovative SMEs and entrepreneurs also commonly suffer from lack of access to financial services, particularly to seed and development capital, which has been exacerbated by the financial and economic crisis.

The management of intellectual and intangible growth, particularly for new enterprises and SMEs that rely strongly on the exploitation assets is critical for turning innovation into a driver for SME competitiveness and of intellectual capital in their business models. The use of intellectual property rights (IPR) including patents, copyrights and trademarks can be an important tool for protecting and managing intellectual assets, assisting SMEs to open up new markets, increase enterprise value and raise finance. However, studies show that SMEs rarely have explicit intellectual assets strategies, lack knowledge of the possibilities offered by IPR regimes and use intellectual property protection to a much smaller extent than large firms (OECD, 2010,).

Individual SMEs experience difficulties in achieving economies of scale in the purchase of such inputs as equipment, raw materials, finance and consulting services and are often unable to take advantage of market opportunities that require large production quantities, homogenous standards and regular supply. Small size is also a constraint on internalization of functions such as training, market intelligence, logistics and technology innovation, while preventing the achievement of a specialized and effective internal division of labour (UNIDO 2001). To preserve their narrow profit margins, small-scale entrepreneurs in developing countries are often unable to introduce innovative improvements to products and processes and this limits the scope of firms to take advantage of new market opportunities.

On a closer observation, however, it is clear that many of these obstacles are the result of SME's isolation rather than their size. Therefore, closer cooperation among SMEs as well as between SMEs and the institutions in their surrounding environment holds the key to overcoming them (OECD 2009). Networking offers an important route for individual SMEs to address their problems as well as to improve their competitive position (UNIDO 2001). By coordinating their activities, enterprises can collectively achieve economies of scale beyond the reach of individual small-scale firms and obtain bulk purchase inputs, achieve optimal scale in the use of machinery and pool production capacities to meet large-scale orders. Inter-enterprise cooperation also enables SMEs to specialize in their core businesses and give way to an external division of labor thus improving their efficiency in production. Joint work also encourages enterprises to learn from each other, exchange ideas and experience to improve product quality and take over more profitable market segments.

According to the Kenya National Bureau of Statistics (GOK, 2007), three out of five businesses fail within their first three years of operation. One of the most significant causes of failure is the negative perception towards SMEs (Bowen, Morara, & Muriithi, 2009) Amyx, 2005). Potential clients perceive the small business as lacking the ability to provide quality services and hence not trustworthy. Many of the problems faced by small businesses are inevitably centered on the owner/manager. There are two key factors that impact on the way most of these SMEs are managed. First, decision making is concentrated on one or two owner/managers (Greenbank, 2000; Keasey and Watson, 1993). Second, owner/managers often work at both the management and operational levels and therefore acquire information about the market and the performance of their business through personal experience rather than relying on feedback mechanisms from other sources (Greenbank, 1999).

Organizations, large and small alike, struggle to develop in an external operating environment which is characterized by turbulence and uncertainty. Among the challenges in the Kenyan Environment that limit SMEs growth includes the lack of access to credit, management skills, communication and infrastructure. Lack of managerial accounting skills for decision making and lack of technical skills are as much obstacles to developing a small business as is the inability to access credit. According to Kibera (2000, the SMEs are engaged in many business activities depending on the economic and political environment existing in that country. They are found in the agriculture, manufacturing, construction, transport, hospitality, educational and professional services sectors. Despite the high rate of SMEs failures, their

contribution to the economy growth cannot be ignored. In Kenya, the SMEs play an important role in employment and wealth creation, income distribution, accumulation of technological capabilities and spreading the available resources among a large number of efficient and dynamic small and medium size enterprises (IDRC, 1993).

3.0: RESEARCH METHODOLOGY

Research design adopts descriptive research design. The research design constitutes the blue print for the collection, measurement and analysis of data, Kothari, (2003). A descriptive research design is used in this study. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals Orodho (2003). Research design can be used when collecting information about people's attitudes, opinions habits or any other social issues Orodho and Kombo, (2002). The choice of this design is appropriate for this study since it utilizes a questionnaire as a tool of data collection. This is supported by (Gall et al 2003) who assert that this type of design enables one to obtain information with sufficient precision so that hypothesis can be tested properly. It is also a framework that guides the collection and analysis of data. Creswell (2003) observes that a descriptive research design is used when data is collected to describe persons, organizational settings or phenomenon. The design also has enough provision for protection of bias and maximized reliability (Kothari, 2008). Descriptive design uses a pre-planned design for analysis (Mugenda and Mugenda, 2003).

Target population for this study will consist of 350 Youth groups dealing with income generating enterprises in Murang'a County. The enterprises are placed into six categories namely; Motor Bike Operators, Car Wash Shops, Bee keeping, Youth Commercial Public Toilets, Milk vending and Green Grocery. The study targeted active youth enterprises. According to Kombo & Tromp (2006), an effective population should have ideas on the topic investigated. The target populations have adequate information to address the study objectives of the research. According to Creswell (2002) data collection is the means by which information is obtained from the selected subject of an investigation. The tool of data collection for this study is questionnaires addressed to enterprise chairpersons. The questionnaire is used for data collection because it offers considerable advantages in its administration.

Quantitative data will be analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS). This technique will give simple summaries about the sample data and present quantitative descriptions in a manageable form, Gupta (2004). Together with simple graphics analysis, descriptive statistics forms the basis of virtually every quantitative analysis to data, Kothari (2004). Correlation analysis is used to establish the relationship between the independent and dependent variables. The purpose of doing correlation is to allow the study to make a prediction on how a variable deviates from the normal. The hypothesis testing will be done at 5% level of significance and SPSS package will be used for this purpose.

REFERENCES

Abor J. and Quartey, P. (2010). *Issues in SME Development in Ghana and South Africa*, International Research Journal of Finance and Economics, 39: 218–28.

ACCA (2010). *Small Business: A Global Agenda*
www.accaglobal.org.uk/content/dam/acca/global/PDF-technical/small-business/pol-afb-sbaga.pdf

ACCA (2012a). *SME Internationalization in Central and Eastern Europe*
www.accaglobal.org.uk/content/dam/acca/global/PDF-technical/small-business/pol-tp-sicee.pdf

- ACCA (2012b). *SMEs and their Advisers: Measuring Trust and Confidence*
www.accaglobal.org.uk/content/dam/acca/global/PDF-technical/small-business/rr-127-001.pdf
- Amyx, C. (2005). *The Perception Problem: Size Doesn't Matter*. Washington Business Journal.
- Ayyagari, M., Beck, T. and Demirgüç-Kunt, A. (2003). *Small and Medium Enterprises Across the Globe: A New Database* (Vol. 3127) (World Bank Publications).
- Ayyagari, M., Demirgüç-Kunt, A. and Maksimovic, V. (2011). *Small vs. Young Firms Across The World – Contribution to Employment, Job Creation, and Growth, Policy Research Working Paper 5631* (The World Bank Development Research Group).
- Bowen, M., Morara, M., & Muriithi, S. (2009). *Management of Business Challenges Among Small and Micro Enterprises in Nairobi, Kenya*. KCA Journal of Business Management.
- Cooper, R.D and Schindler, P.S. (2001) *Business Research Methods*. MCGraw-Hill: New York
- Cooper, R.D and Schindler, P.S. (2003) *Business Research Methods* (8th edition) MCGraw-Hill: New York
- Dickson, K.E. and Hadjimanolis, A. (1998). *Innovation and networking amongst small manufacturing firms in Cyprus*, International Journal of Entrepreneurial Behaviour and Research, Vol. 4, No. 1, pp. 5-17.
- EIU (Economist Intelligence Unit) (2010), *SMEs in Japan: A New Growth Driver?*
- Greenbank, P. (2000). *Training micro-business owner-managers: a challenge to current approaches*. Journal of European Industrial Training, 403-411.
- Ghatak, S. (2010), *Micro, Small and Medium Enterprises (MSMEs) in India: An Appraisal*
www.legalpundits.com/Content_folder/SMEArti150610.pdf
- Kombo K. and Tromp L.A (2006) *Proposal and Thesis Writing*. Pauline Publications, Africa Makuyu.
- Kothari, C.R. (2005) *Research Methodology. Methods and Techniques* (Second Revised)
- Mbogo, M. (2011). *Influence of Managerial Accounting Skills on SME's on the Success and Growth of Small and Medium Enterprises in Kenya*. Journal of Language , Technological & Entrepreneurship in Africa: Vol 3; No 1
- OECD (undated a). *Small Businesses, Job Creation and Growth: Facts, Obstacles and Best Practices* www.oecd.org/industry/smes/2090740.pdf

- OECD (undated b), *The Impact of the Global Economic Crisis on SMEs in the MENA region* www.oecd.org/mena/investment/42869189.pdf, accessed 10 November 2012.
- OECD (2009a), *Top Barriers and Drivers to SME Internationalization*, Report by the OECD Working Party on SMEs and Entrepreneurship. www.oecd.org/industry/smes/43357832.pdf
- Teece, D. J. (2007). “*Explicating strategic capabilities: The nature and microfoundations of (sustainable) enterprise performance*”, *Strategic Management Journal*, 28: 1319-1350.
- Teece, D.; Pisano, G.; & Shuen, A. (1997). “*Dynamic Capabilities and Strategic Management*”, *Strategic Management Journal*, 18 (7): 509-533.
- UNCTAD, 2004, *Possibilities of action for strengthening the competitiveness of SMEs*, Note by UNCTAD Secretariat, Geneva.
- UNCTAD, 2007, *Report of the Experts Meeting on the Ways to increase the Participation of small and medium enterprises (SME) of developing countries in world value chains*, Geneva.
- UNCTAD, 2008, *Fundamental Elements of an entrepreneurship policy*, Note by UNCTAD Secretariat, Geneva
- Wincent, J. (2005). *Does size matter? A study of firm behavior and outcomes in strategic SME networks*, *Journal of Small Business and Enterprise Development*, Vol. 12 No. 3, pp. 437-453