INFLUENCE OF INTERNAL CONTROLS ON GROWTH OF SMALL AND MEDIUM ENTERPRISES IN THE ERRAND SERVICES BUSINESSES IN NAIROBI COUNTY

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ABSTRACT

The purpose of this study was to establish the influence of internal control on growth of small business in Kenya. The specific objectives of the study were: To establish the role of technology, human resource practices, entrepreneurial skills, managerial skills as internal control factors influencing the growth of small and medium enterprise in the errand services businesses in Nairobi County. The study used descriptive survey. Data available from the Association of errand service provider 2013 reveal that there are 1,370 SMEs. A proportionate sample size of approximate 137 respondents which is 10% of the population was selected using a stratified random sampling technique from the identified sample. Data was collected using questionnaires that had linkert scale. Data analysis was done using SPSS Version 21 software and results finding tabulated for presentation and interpretation done. The study established that entrepreneurship skills, managerial skills, human resource practice and technology as internal control factors have a positive correlation with growth of errand service providers in Nairobi. The results established that there was a significant association between all the variables of managerial skills and growth of SMEs. In human resource practices, the results indicate that there is a significant association between all the measures of human resource and growth of SMEs. Only relationship with Entrepreneurial skills and technology was insignificant. The study concluded that Entrepreneurship, managerial skills, human resources and technology are critical ingredients in realizing economic growth in a country through bringing in new ideas, making appropriate decisions and tapping on latest technology for effectiveness with the suitable human resource. The study recommends that the business operators should undergo thorough training to improve on the components of internal control.

Key Words: Growth, Errand service, Small and medium enterprises, Entrepreneurship

INTRODUCTION

Internal control encompasses the policies, processes, tasks, behaviors and other aspects of a company that, taken together: facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company’s objectives (Gree and Thurnik, 2003). This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed; help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization; help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business (Manasseh, 2007).

In the US, Japan and Germany, small business contributes more than half of the gross domestic product (GDP) in each of those economies. Multi-nationals active around the globe establishment of internal controls for compliance is a key issue (Zhou, 2009). Ensuring that
global operations are customs-compliant is about managing risk and being commercially effective. According to a survey (Yearbook of China SMEs, 2003), The SMEs don’t recognize the internal management problem has become a common phenomenon. From the results of survey, only 6.8% of the enterprises think that it is necessary to improve their internal controls (Yearbook of China SMEs, 2003). Meanwhile, the enterprise management has poor awareness of risk and not accurate to the operate situation. The enterprise lacks of physical risk warning mechanism for every occurrence of business, financing and use of capital, shop management and so on (Zhou, 2009). Due to the business scale, human resource, financial and its own conditions affect many SMEs under the ownership and franchise’s restrictions, unwilling to establish the standard internal control system. They believe that establishing internal control system is a high cost method, which will bring heavy burden to the enterprise and maybe without significant results cannot compare with the management of all aspects of business directly.

Kimanzi (2004), Small businesses in Kenya are operating in a rapidly changing environment with different issues impacting on their long term survival. The key ones include inadequate infrastructural facilities (road water electricity etc.), insecurity of lives and property, inconsistent monetary, fiscal and industrial policies, limited access to markets, multiple taxation and levies, lack of modern technology for processing and preserving products, policy reversals, capacity limitations, data inadequacies, harsh operating environment, fragile ownership base, fragile capital base. While some of the challenges that SMEs faces are induced by the operating environment (government policies, globalization effects, financial institutions, local government policies, attitude to work etc.), other challenges are driven by the internal controls characteristics of the SMEs themselves (Dyer & Whetten, 2006).

**PROBLEM STATEMENT**

According to Kenya’s Economic Survey (2012), out of the total new jobs created, Micro, Small and Medium Enterprises (MSMES) created 426.9 (89.9%) thousand new jobs out of a total of 474.8 new jobs created in 2012 in Kenya. According to RoK (2012), SMEs contributed to seventy percent of the Gross Domestic Product (GDP) in 2012 in Kenya. WB(2008), SMEs, have a high death rate, (60%) closing down within their 1st year of operation, 40% less than 2 years old and 66% less than 3 years; thus hardly gain from experience (GOK, 2012). According to Sessional paper of 2005 No.2 SMEs in Kenya have high collapse rate with most of the SMEs die with 3 years of operation. According to survey World Bank (2008), the sector immensely contributed to new job opportunities by 60%. It also indicates that through the years researchers identified internal factors as the major cause of failure of small business in developing countries stating that 70% collapsed cause of inherent business challenges. According to Republic of Kenya (ROK, 2012), shows that there is increased rate of fraud which is affecting growth of SMES. World Bank (WB) shows that collapse of SMES is associated with internal controls (WB, 2012). According to a survey by KPMG (2013) shows that internal controls are a critical ingredient for the growth of SMES in Kenya.
According to KPMG (2013) SMEs have tended to have a more relaxed attitude towards fraud. This could be attributed to the increased difficulties in implementing solid internal controls or the closer working relationships within SMEs. Whatever the reason, SMEs experienced a higher incidence of fraud with 50% of SME respondents experiencing at least one fraud in the past 2 years. One of the difficulties facing SMEs is their ability to absorb the cost of a fraud if it occurs. The survey identified that in over 40% of the fraud incidents none of the money lost was recovered, whilst the actual recovery rate of around 37% of the total dollar amount lost is very low. This research project sought to investigate the extent to which small firms engage in internal control practice to ensure its future survival from the introductory phase to the growth phase of the organizational life cycle.

GENERAL OBJECTIVES

The general objective of this study was to establish the influence of internal controls on the growth of small and medium enterprise in the errand services businesses in Nairobi County

SPECIFIC OBJECTIVE OF THE STUDY

1. To establish the role of technology as an internal control factor influencing the growth of small and medium enterprise in the errand services businesses in Nairobi County.
2. To identify the role of Human Resource Practices as an internal control factor influencing the growth of small and medium enterprise in the errand services businesses in Nairobi County.
3. To establish the role of entrepreneurial skills as an internal control factor influencing the growth of small and medium enterprise in the errand services businesses in Nairobi County.
4. To establish the role of managerial skills as an internal control factor influencing the growth of small and medium enterprise in the errand services businesses in Nairobi County.

Significance of the Study

The study is of value to the managers and owners of SMEs in making their decisions on internal control mechanism that will assist them on their growth path. This study also gives insights to the government bodies on how they can form a foundation for helping or enhancing the growth of small enterprises. It would act as a guide to the government on how they can offer or mitigate polices that affect the internal control of SMEs affect their growth. The study is finally a source of reference material for future researchers on other related topics; it can also help other academicians who will undertake the same topic in their studies. The results of this study can be used by academics to discuss the internal controls factors affecting growth of SMEs in Kenya. The study also highlights other important relationships that require further research.
Scope of the Study and limitation

The study was conducted among the existing owners of SMEs drawn from various sectors of the economy. This provides information that enabled better understanding of the research problem. The research was carried out over a period of three months as stipulated by the university. In the pursuit of conducting this study, few limitations were expected. First, some of the respondents were unwilling to respond to all questions, thus making it difficult to get data; others restrained from some information fearing for sabotage. This however was overcome by reassuring the respondents that the intended use of information sought was for academic purpose only.

Justification of the Study

Internal controls have a major impact on all business be it large or small and since Small and Medium Enterprises dominate the private sector in most developing countries, a deeper understanding of how internal controls affect growth of small enterprise will be ideal. In globalized economies there has been increase in challenges such as intense competition and ever changing environmental conditions. Since SMEs are a major contributor to the GDP they still lack a theoretical understanding of how to manage internal controls. This study will therefore seek to establish the influence of internal control on growth of small business in Kenya.

LITERATURE REVIEW

Resource Based View Theory

It was developed by Penrose (1959) who suggested that a company should be considered as a collection of physical and human resources bound together in an organizational structure. Hafeez et al. (2007) classified resources as physical assets and intellectual assets. Physical assets (i.e. plant and equipment) are easily distinguishable due to their tangible existence (Hafeez et al., 2007). Intellectual capital is relevant to the intangible aspect of human resource such as employee skill, knowledge and individual competencies (Hafeez et al., 2007). Overall, the RBV addresses two key points (Gottschalk and Solli-Sæther, 2005). First, the RBV indicates a resource should provide economic value and must be currently scarce, difficult to imitate or copy, non-substitutable, and not readily accessible in factor markets to create competitive advantage (McIvor, 2009). Second, resources determine firm performance (Gottschalk and Solli-Sæther, 2005; McIvor, 2009). Majority of SMEs in emerging economy cannot compete in an effective way due to their internal resource gap (UNIDO, 2003). For example, resource-based view (RBV) argues smaller firms are more vulnerable than larger firms because they lack the necessary resources and capability for survival and growth.
Social Control theory

According to Matsueda, (1982), social control theory proposes that people's relationships, commitments, values, norms, and beliefs encourage them not to break the law and therefore engage in economic constructive activities. Thus, if moral codes are internalized and individuals are tied into, and have a stake in their wider community, they will voluntarily limit their propensity to commit deviant acts which would bring in creativity for new business ideas.

McClelland's Theory

McClelland's theory can help you to identify the dominant motivators of people on your team. You can then use this information to influence how you set goals and provide feedback, and how you motivate and reward team members. Examine your team to determine which of the three motivators is dominant for each person. You can probably identify drivers based on personality and past actions. Based on the driving motivators of your workers, structure your leadership style and project assignments around each individual team member. This will help ensure that they all stay engaged, motivated, and happy with the work they're doing (McClelland, 1961). McClelland's particular fascination was for achievement motivation, and this laboratory experiment illustrates one aspect of his theory about the affect of achievement on people's motivation. McClelland asserted via this experiment that while most people do not possess a strong achievement-based motivation, those who do, display a consistent behavior in setting goals:

Schumpeterian Theory of Innovation

Schumpeter (1928) pointed to the discontinuous and disruptive nature of technological change in capitalism that brings the inseparable combination of short-term instability and long-term growth. Schumpeter argued that entrepreneurs, who could be independent inventors or R&D engineers in large corporations, created the opportunity for new profits with their innovations. He set up a production function where the entrepreneur is seen as making new combinations of already existing materials and forces, in terms of innovation; such as the introduction of a new good, introduction of a new method of production, opening of a new market, conquest of a new source of production input, and a new organization of an industry (Casson, 2002). For Schumpeter, the entrepreneur is motivated by the desire for power and independence, the will to succeed, and the satisfaction of getting things done (Swedberg, 2000). He conceptualized 'creative destruction' as a process of transformation that accompanies innovation where there is an incessant destruction of old ways of doing things substituted by creative new ways, which lead to constant innovation (Aghion & Howitt, 1992).
EMPIRICAL REVIEW

Entrepreneurial Skills

Entrepreneurship includes characteristics, such as perseverance, creativity, initiative, propensity to take risks, self-confidence and internal locus of control. Having such traits entrepreneurs are able to identify challenges and develop internal controls that can make their business prosper. Kirzner (2009) depicts that entrepreneurship involves noticing new business ideas that nobody has noticed before. When entrepreneurs take advantage of latent new business opportunities, they create new entrepreneurial opportunities that other entrepreneurs can act upon. Therefore, Entrepreneurship create good business environment that make more entrepreneurship happens. Increasing pressure from competition lead to incentive of higher productivity (Nickel, 2006). Therefore, all companies invest much capital and energy in their research and development departments to looking for new technologies. These entrepreneur activities keep upgrading our knowledge in order to provide new product or more efficient production processes of what is technically viable. Productivity enhancements mainly resulted from technical change through the discovery of new idea and commercialization. New ideas span the range from the discovery of new scientific laws and theories or improvements in our current understanding of basic science to the application of new ideas to product, services or production process.

Human Resource Practices

Internal controls are established to guard against losses resulting from employees' oversights and fraud. Often entrepreneurs think of internal controls as a requirement for big business. This thought is compounded by the press coverage of corporate bankruptcies that often result from financial fraud and highly leveraged derivative investments (McPherson & Chuta, 1994). Kelly (2001) notes, recruitment activities need to be responsive to the increasingly competitive market to secure suitably qualified and capable recruits at all levels. However, to be effective, these initiatives need to include how and when to source the best recruits (McLean et al., 2004). Effective recruitment demands well-defined organizational structures with sound job design, robust task and person specification and versatile selection processes, and employee engagement and on boarding strategies (Kelly, 2001). Training and development is the organizational activity concerned with improving the performance of individuals and groups in organizational settings (Hoover, In Press). If the employees are not evaluated against their current jobs, those that they are likely to hold in future or against the activities of the organization, there will be no basis for training and development. The employees and organizations affected are likely to witness reduced performances. Compensation consist of every item of payment that is both monetary and non monetary. According to Roche (2000), this practice improves organizational performance. Blinder (1990) points out that the way employees are compensated impacts on their commitment levels.
Technology

According to Baets (1992), Information technology is the technology that is used to store, manipulate, distribute or create information. Furthermore, it is claimed that through the use of information technology, SMEs can gain from developing capabilities for managing, information intensive resources, enjoy reduced transaction costs, develop capacity for information gathering and dissemination of international scale and gain access to rapid flow of information (Brynjolfsson, 1990). New business models and market configurations enabled by information technology, including business process outsourcing, provide SMEs with access to new market and new sources of competitive advantages. Information is needed for various purposes and serves as an invaluable commodity or product. Information is very important aspect of decision making in all levels of management in enterprises (Hicks, 2003), especially in competitive business environment and managers utilize information as a resource to plan, organize, staff administer and control activities in ways that achieve the enterprises objectives. The ability of SME’s to realize their goals depends on how well the organizations, acquire, interpret, synthesizes, evaluate and understands information and how well its information channels supports organizational processes. The ability of SME to survive in an increasingly competitive and global environment is largely influenced upon their capacity to access information as a resource and usage of new technologies. Greater use of these technologies is often associated with improved availability of information, quality of work, effectiveness and efficiency in accomplishing tasks.

Managerial Skills

Jay (2007) defines competent management as an approach to managing people for full utilization of available resources for the continuous achievement of organizational objectives. Govender and Parumasur (2010) indicate that managers have to continuously develop new competencies to manage challenges and for organizational survival. Camphor (2008) urges that development of managerial skills and competencies is essential for organizations to achieve their objectives. According to Lefebvre and Lefebvre (2002) innovative and managerial capabilities of the management team are strongly associated enterprise growth. This has also been identified by Martin and Staines (2008) in his study managerial competencies in small firm. The study results showed that lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of senior managers. Profits tend to be high when an entrepreneur has more education and experience in the line of business.
Firm Growth

According to Delmar, (2006) more useful, revenue-based measures of growth are increases (or decreases) in net profit or net margins. These methods account for the expenses incurred in generating revenues for the firm and identify the portion that is truly added to the bottom line. Special analyses of profit margins include calculating the return on investment (ROI), either for the company as a whole or for individual units or product lines. While net profits are an indication of wealth creation, companies (or their observers) may scrutinize their finances further to determine whether they are actually generating an economic profit, or a profit that exceeds the implicit cost of the capital invested in them. It is only after the cost of capital is met that the company may be said to create new wealth. This growth may also be expressed in terms of market value added, a more direct measure of shareholder wealth creation. Davidsson, Delmar and Wiklund (2006), they assert that some business people boast of the number of employees in their companies or departments as measure of business growth.

RESEARCH METHODOLOGY

Research Design

This study used descriptive survey which attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction (Cooper and Schindler, 2003). Descriptive research is more rigid and seeks to describe uses of a product, determine the proportion of the population that uses a product, or predict future demand for a product. The choice of the descriptive survey research design is made based on the fact that in the study, the researcher was interested on the state of affairs already existing in the field and no variable would be manipulated.

The Study Population and Sampling

According to Kothari (2004), defines study population as the sum total of elements about which inferences are to be made. Thus the group made up of all possible observations of a characteristic of interest is the population, while a collection of observations presenting only a portion of that population is a sample (Denscombe, 2008). Data available from the Association of Errand Service provider (2013) reveal that there are 1,370 Errand service providers in Nairobi County. Therefore the study targeted 1,370 Errand service providers in Nairobi County. The study targets this area because of the business diversity in dealing with customers and has a bigger number of staff who would compromise on internal controls of business.
Sampling Frame and Technique

The sampling frame describes the list of all population units from which the sample was selected (Cooper and Schindler, 2003). It is a physical representation of the target population and comprises all the units that are potential members of a sample (Kothari, 2008). Mugenda and Mugenda (2003), indicates that a sample size of 10% of the target population is large enough so long as it allows for reliable data analysis and allows testing for significance of differences between estimates. The sample size depends on what one wants to know, the purpose of the inquiry, what is at stake, what was useful, what had credibility and what can be done with available time and resources (Mugenda and Mugenda, 2003). Therefore, a proportionate sample size of approximate 137 respondents which is 10% of the population was selected using a stratified random sampling technique from the identified sample.

Data Collection

The respondents in this study were the entrepreneurs of the targeted SMEs. The reason for administering the chosen population was necessitated by the complexity of the subject under study. Primary data was collected using a questionnaire with closed and open ended questions administered to the selected entrepreneurs. Mugenda and Mugenda (2003), the questionnaire was divided into 5 parts. The first part was mainly on the background information, the second part was to establish the effect of entrepreneurial skills on growth, third part is to establish the effect of human resource practices, fourth is the technology on growth and finally how to measure growth. The questionnaires were self administered. However, where the entrepreneurs were busy and cannot be easily reached, the researcher used drop and pick later method.

Data Analysis and Presentation

This section discusses the techniques that were used to analyze data and test the variables. Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Tables were used to summarize responses for further analysis and facilitate comparison. Data analysis was done using SPSS Version 21 software and Microsoft excels to generate quantitative reports. Data for this study was quantitative hence descriptive statistics was employed and arithmetic mean, standard deviation, percentages and frequencies were used to analyze responses to the questionnaires while the findings were presented using tables.

The findings emerging from the analysis were used to compile this report. The qualitative method can be used to uncover and understand what lies behind the phenomena under study. Multiple Regression analysis was conduct to establish the form of relationship between dependent variable and the independent variables. The regression equation used was;

\[ Y = a + B_1 X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4 + ... + B_n X_n + \epsilon \]
Where: \[ Y = \text{Dependent Variable (Growth)} \]
\[ X_1 = \text{Management Skills} \]
\[ X_2 = \text{Entrepreneur Skills} \]
\[ X_3 = \text{Technology} \]
\[ X_4 = \text{Human Resource Practices} \]
\[ a = \text{the constant} \]
\[ \epsilon = \text{error term} \]

RESULTS AND FINDINGS

Effects of Managerial Skills on the Growth the Small Medium Enterprises

The study sought to establish the extent to which managerial factors impact on errand services businesses. The study found that: Coordination of employees, mean of 4.13 was derived showing that they agree; Communication skills, a mean of 3.37 was derived showing that they are moderate; rate of turnover, mean of 3.86 was derived showing that they agree and extent of satisfaction, a mean of 2.24 was derived showing little extent.

Managerial effect on Growth of SMEs

The study aimed at discovering the extent to which growth of SMEs is influenced. The study established that: Technical Skills at a mean of 4.07 was derived showing that they agree; Interpersonal skills, a mean of 4.32 was derived showing that they agree; Managerial experience, a mean of 4.10 was derived showing that they agree; Plans on schedule and a mean of 3.84 was derived showing that they agree.

Entrepreneurial Skills as an Internal Control Factor on the Growth of SMEs

The study aimed at determining the extent entrepreneurship skills influence the growth of enterprise. The study found that: Skills to provide attractive range of products, a mean of 4.30 was derived showing that they agree, Clear goals and objectives setting skills a mean of 4.28 was derived showing that they agree, Skills to build an effective top management team, a mean of 4.08 was derived showing that they agree, Risk-taking propensity a mean of, a mean of 4.01 was derived showing that they agree, Business operating skills a mean of, a mean of 4.01 was derived showing that they agree, Planning skills a mean of, a mean of 3.94 was derived showing that they agree, Skills to efficiently control and plan changes in the number of employees, a mean of 3.76 was derived showing that they agree, Skills to ensure that financial records are maintained, a mean of 3.25 was derived showing that they are moderate, Good cost control skills, a mean of 2.36 was derived showing little extent, Skills to focus on quality and design of
the product or service, a mean of 1.70 was derived showing little extent and Skills to act quickly (responsiveness), a mean of 1.49 was derived showing little extent.

**Human Resource Practices as Internal Control Factor on the Growth of SMEs**

The study aimed at establishing the extent on roles played by Human resource practices in ensuring the growth of SMEs. The study found that: Compensation strategies impacts on the business performance, a mean of 4.21 was derived showing that they agree, Empowerment of employees, a mean of 4.19 was derived showing that they agree; Employees express opinions, a mean of 4.10 was derived showing that they agree; When an employee leaves the firm, we do not have a succession training program for his/her replacement, a mean of 4.09 was derived showing that they agree; Motivation given to employees has an impact on the business performance, a mean of 3.97 was derived showing that they agree; Recruitment activities need to be responsive to the increasingly competitive market, a mean of 3.74 was derived showing that they agree; Get the best out of employees, a mean of 3.64 was derived showing that they agree; Continual learning (Sharing information & knowledge), a mean of 3.44 was derived showing that they are moderate; The firm supports our employees by constantly upgrading their skills and education whenever each of them feels it is necessary, a mean of 3.41 was derived showing that they are moderate; Employees satisfaction, a mean of 3.37 was derived showing that they are moderate; Training and development improves productivity of employees in SMEs, a mean of 3.20 was derived showing that they are moderate and that Employees perform their best, a mean of 2.20 was derived showing little extent.

**Role of Technology as an Internal Control Factor on the Growth of SMEs**

The study aimed at discovering the extent of roles played by technology in SMEs in attaining growth objectives. The study found that: People in SMEs are not quite well equipped in terms of education and IT skills a mean of 4.42 was derived showing that they agree; More information is critical for the SMEs to be successful, a mean of 4.38 was derived showing that they agree; Technology reduces transaction costs, a mean of 4.11 was derived showing that they agree; Lack of sufficient market information poses a great challenge to small enterprises, a mean of 4.01 was derived showing that they agree; Is the Cost of technology High, a mean of 3.94 was derived showing that they agree and Information is very important aspect of decision making a mean of 3.76 was derived showing that they agree.

**Growth**

The study aimed at determining the growth that has been in the organization in the areas of revenue, market share, and customer base, number of staff, product diversification, assets growth, profitability and revenue which are the growth parameters. The study found that on the revenue that majority of the respondent shown by 44% said that revenues had increased by 41-60, the study found that on the Profitability the majority who are 31% said it had increased by
between 41-60%, the study found that on the Customer base majority who are 29% said it had increased by between 81-100%, the study found that on number of staff majority who are 59% said it had increased by between 21-40%, the study found that on Product diversification majority who are 29 % said it had increased by between 61-80%. Finally the study found that on Assets growth majority who are 41% said it had increased by between 41-60.

**Regression Analysis**

In this study, a multiple regression analysis was conducted to test relationship among variables i.e. dependent and independent variables. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (growth of SMEs in the errand services businesses in Nairobi) that is explained by all the four independent variables (managerial skills, entrepreneurial skills, technology and human resource practices).

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.839</td>
<td>.704</td>
<td>.696</td>
<td>2.03472</td>
<td>.704</td>
<td>87.391</td>
<td>5</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Managerial Skills, Entrepreneurial Skills, Human Resource and Technology.

b. Dependent Variable: Growth

**Table 2: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>1809.028</td>
<td>5</td>
<td>361.806</td>
<td>3.231</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>761.775</td>
<td>98</td>
<td>4.140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2570.803</td>
<td>103</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: GROWTH

b. Predictors: (Constant), Managerial Skills, Entrepreneurial Skills, Technology and Human Resource.

The linear regression analysis shows a relationship between the dependent variable which is growth of SMEs and independent variables which are Managerial Skills, Entrepreneurial Skills, Technology and Human Resource practices. The coefficient of determination ($r^2$) and correlation
The correlation coefficient (r) shows the degree of association between Variables and growth of SMES in Kenya. The results of the linear regression indicate that $R^2 = .704$ and $R = .839$ which is an indication that there is a strong relationship between the independent variables and growth of SMES in Kenya.

The significance value is 0.00 which is less than 0.05 thus the model is statistically significant in predicting how managerial skills, entrepreneurial skills, technology and human resource influences growth of SMEs in the errand services businesses in Nairobi. The F critical at 5% level of significance was 0.00. Since F calculated is greater than the F critical (value = 7.391), this shows that the overall model was significant.

This study is supported by KPMG (2013) that shows internal controls are a critical ingredient for the growth of SMES in Kenya and also supported by Tybout (2000), where he states that there are considerable doubts about the quality of management in this SME sector, with policy-makers suggesting that there are particular weaknesses in management skills, lack of financial acumen, technology, entrepreneurial flair, practical knowledge, and human resource management.

**Table 3: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients$^a$</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unstandardized Coefficients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-.119</td>
<td>.710</td>
<td>-.168</td>
</tr>
<tr>
<td></td>
<td>Managerial skills</td>
<td>.101</td>
<td>.016</td>
<td>.374</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial skills</td>
<td>-.020</td>
<td>.011</td>
<td>-.075</td>
</tr>
<tr>
<td></td>
<td>Technology</td>
<td>.006</td>
<td>.027</td>
<td>.009</td>
</tr>
<tr>
<td></td>
<td>Human Practice</td>
<td>.170</td>
<td>.041</td>
<td>.211</td>
</tr>
</tbody>
</table>

$^a$ Dependent Variable: GROWTH

The established regression equation was

$$ Y = -0.0119 + 0.101X_1 + (-0)0.020X_2 + 0 .006X_3 + 0 .170X_4 + \epsilon $$

The regression equation above has established that holding all factors (technology, entrepreneurial, human resource and managerial skills) constant, factors affecting growth of errand SMEs in Nairobi County will be -.119. The findings presented also shows that taking all other independent variables at zero, a unit increase in management skills will lead to a 0.101 increase in growth of errand SMEs in Nairobi County. As a result of poor Entrepreneurial skills it will lead to a -.020 decrease in growth of errand SMEs in Nairobi County. On the other
hand, a unit increase in Technology will lead to a 0.006 increase in growth of errand SMEs in Nairobi County and a unit increase in Human Practice will lead to a 0.170 increase in growth of errand SMEs in Nairobi County. This infers that human resource influences growth of errand service SMEs most followed by management skills, technology and entrepreneurship that has negative impact due to low application. The study also established a significant relationship between growth of errand SMEs and the independent variables; human resource practices ($p = 0.00 < 0.05$), managerial skills ($p = 0.000 < 0.05$), Entrepreneurial skills ($p = 0.066 > 0.05$) and Technology ($p = 0.834 > 0.05$) as shown by the $p$ values. This shows that only human resource and entrepreneurship are significant.

**Table 4: Correlations**

<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>Managerial Skills</th>
<th>Entrepreneurial Skills</th>
<th>Technology</th>
<th>Human Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>1.000</td>
<td>.754</td>
<td>-.142</td>
<td>-.032</td>
<td>.631</td>
</tr>
<tr>
<td>Managerial skills</td>
<td>.754</td>
<td>1.000</td>
<td>-.101</td>
<td>-.139</td>
<td>.563</td>
</tr>
<tr>
<td>Entrepreneurial skills</td>
<td>-.142</td>
<td>-.101</td>
<td>1.000</td>
<td>.099</td>
<td>-.055</td>
</tr>
<tr>
<td>Technology</td>
<td>-.032</td>
<td>-.139</td>
<td>.099</td>
<td>1.000</td>
<td>.068</td>
</tr>
<tr>
<td>Human Practice</td>
<td>.631</td>
<td>.563</td>
<td>-.055</td>
<td>.068</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>.000</td>
<td>.000</td>
<td>.025</td>
<td>.328</td>
<td>.000</td>
</tr>
<tr>
<td>Managerial skills</td>
<td>.000</td>
<td>.000</td>
<td>.084</td>
<td>.028</td>
<td>.000</td>
</tr>
<tr>
<td>Entrepreneurial skills</td>
<td>.025</td>
<td>.084</td>
<td>.088</td>
<td>.088</td>
<td>.224</td>
</tr>
<tr>
<td>Technology</td>
<td>.328</td>
<td>.028</td>
<td>.088</td>
<td>.176</td>
<td>.176</td>
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<tr>
<td>Human Practice</td>
<td>.000</td>
<td>.000</td>
<td>.224</td>
<td>.176</td>
<td>.176</td>
</tr>
</tbody>
</table>

The results as depicted in Table 4.23 indicate that there is a significant association between all the variables of Managerial skills and growth of SMEs (Phi greater than 0.5). For Human Resource practices, the results indicate that there is a significant association between all the measures of human resource and growth of SMEs. Only relationship with Entrepreneurial skills and technology is insignificant (Phi -.142 and -.032 respectively).
CONCLUSIONS

The study concludes that entrepreneurial skills are one of the most important elements of rapid development of economy and globalization. It is considered as an economical process which generates new ideas, creates new companies and also tries to maintain and expand them by using changes of global environment and innovations. The findings also indicated that managerial skills have been a major contributor towards the growth of SMEs in Kenya. The study concludes further that good human resources practice would impact positively to business growth and that up to date technology would enhance effectiveness and efficiency in SMEs. The study concludes that business would show growth in areas of revenues, profits, market share and number of workers if internal control aspects are monitored. The study concludes that there is a relationship between the dependent variable which is growth and independent variables. The output given illustrated there exist a significant positive relationship between the components of internal control, namely Managerial skills, Entrepreneurial skills, human resource, technology factors and growth of SMEs.

RECOMMENDATIONS

The study recommends that in order to tap fully into the potential that is there in SMEs the owners of these businesses need to appreciate the different roles that are played by entrepreneur skills therefore the organization should tap and nature talents in order to be innovative in creating viable business ideas. The owners need to go for training through entrepreneurship workshops to learn on basics of running businesses such as making business plans. The study recommends that the owners should enhance their management skills by improving on their communication skills to relate well within the business and with customers this could be achieved through attending communication lectures or seminars. The management also need to raise their strategies on managing risks in businesses.

The study recommends that employees should be motivated and that a human resource plan should be in place. As well there should be knowledge management scheme to retain the skills of employees leaving organization. The study recommends that since technology is critical in providing information for decision making, SMEs should acquire necessary and recent technology gadgets in order to tap into opportunities that are in technology and also reduce the costs of running business.

REFERENCES


Yearbook of China SMEs, (2003). State of small business development in China