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Effects of Firm Size on Marketing Effectiveness among Small and Micro Enterprises in Kitui County – Kenya

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Abstract:

The Micro and Small Enterprises play an important role in the Kenyan Economy, the role and importance of Micro and Small Enterprises in a knowledge-based economy has been highly appreciated and acknowledged. Moreover, in the present economy, Micro and Small Enterprises are facing tremendous challenges and threats to survive in a competitive environment. The study examined the effects of firm size on marketing effectiveness among small and micro enterprises in Kitui County. The study was based on Dynamic capabilities view. The research used cross sectional survey. The target population was 3,200 registered Micro and Small Enterprises in Kitui County in the main sub-counties of the County such as Kitui, Mutomo and Mwingi towns where this research was undertaken. The sample size was 342 and 70% (241) of the respondents were interviewed. Descriptive statistics was used and hypothesis testing done. Data was collected using both closed and open ended questionnaires. The study found that firm size positively influences marketing effectiveness among Micro and Small Enterprises in Kitui County.

Keywords: Firm size, Marketing effectiveness, Micro and Small Enterprises and Kitui County.

1. Background of the Study

The Micro and Small Enterprises (Micro and Small Enterprises) play an important role in the Kenyan Economy. According to RoK (2012) Micro and Small Enterprises contributed to seventy percent of the Gross Domestic Product (GDP) in 2011 in Kenya. In the United States GDP was 99.7 per cent (Heneman, Tansky & Camp, 2011), China, 99 per cent (Cunningham & Rowley, 2008), Europe, 99 per cent (Daley, 2001), Holland, 95 per cent, Philippines, 95 per cent and Taiwan, 96.5 per cent (Lin, 2011) as well as Malaysia, 99.2 per cent (Man & Wafa, 2014; National Micro and Small Enterprise Development Council (NSDC), 2009; Saleh & Ndubisi, 2006). It expanded from employing 3.7 million people in 2011 to 5.1 million in 2012 according to a Sessional Paper No. 3 of 2013 (GoK, 2005). Research has shown that the Micro and Small Enterprises concept has been known in Kenya since 1972 when the International Labour Organization (ILO) introduced it. However, it was not until 2010 that the Kenya Government formulated ways of implementing it in a much publicized nationwide campaign (Baseline survey, 2011). The role of Micro and Small Enterprises in Kenya's development process is significant, particularly in the context of generating employment, wealth creation and income opportunities to thousands of people across the Country (KIPRA, 2014).

1.1. The Importance and Benefits of Marketing to Micro and Small Enterprises

According to Stokes (2011), marketing theory was developed from studies of large corporations. However, there is still considerable evidence that marketing decisions play a major role in the development and survival of a small business. For example, Siu and Kirby (2011) assert that the basic principles of marketing appear to be equally valuable to both large and small firms. In his studies, Hill (2001) found that Micro and Small Enterprises did marketing planning and had formal marketing practices whereas Blankson and Omar (2012) and Blankson and Stokes (2012) found that Micro and Small Enterprises marketing is an informal and unplanned activity that relies on the intuition and energy of the owner manager. Relationship marketing should continue to focus on leveraging and exploiting interactions with the customer to maximize customer satisfaction, ensure return business and ultimately enhance customer profitability (Mwangulu, 2014).

1.2. Small and Medium Enterprises in Kenya

According to the Global Economic Report (World Economic Forum, 2010) Kenya ranks 98th Country out of 133 in global competitiveness in 2009-2010, a 5 point drop from the 2008-2009 ranking when it was 93rd. Though favorable in the African context, this rating is lower than that of key trading partners in Africa particularly Egypt and South Africa who rank 70th and 45th respectively.

According to World Bank Report an issue of concern for Kenya is low marketing utilization by Micro and Small Enterprises owners among key comparator countries that impact negatively on Gross Domestic Product (WB, 2010). Micro and Small Enterprises (Micro and Small Enterprises) in Kenya do significantly contribute to the country's economic growth through employment creation, poverty reduction and their acting as intermediaries in trade.

1.3. Statement of the Problem

Marketing effectiveness (capabilities) enable the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities, and overcome competitive threats (Day, 1994). The marketing effectiveness increases SMEs ability to grow hence would limit high failure rates prevalent in the sector today. The ability to effectively market products or services is influenced by financial, human resources, firm size, managerial skills and Technology among other factors. Since past studies have focused majorly on access to financial resources, there remains a research gap on the effects of firm level characteristics on the marketing effectiveness which once addressed SMEs will improve their ability to market goods and services and overcome the high rate of failure and drive Vision 2030 economic pillar. Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes.

1.4. Research Objective

The main objective of this study is to investigate the effects of firm level characteristics on marketing effectiveness among small and micro enterprises in Kitui County

1.5. Specific Objectives

- i. To establish the influence of the numbers of employees on marketing effectiveness among small and micro enterprises in Kitui County.
- ii. To examine the influence of Asset base on marketing effectiveness among small and micro enterprises in Kitui County.
- iii. To examine how the number of departments in an organization affects marketing effectiveness among small and micro enterprises in Kitui County.
- iv. To establish the effects of output levels on the marketing effectiveness among small and micro enterprises in Kitui County.

2. Theoretical Review

2.1. Dynamic Capabilities View

The DC view evolved from the RBV and is concerned with the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano & Shuen, 2012). However, a concise and comprehensive definition of dynamic capabilities, view has not yet been reached (Teece et al., 2012; Eisenhardt & Martin, 2011). According to Day (1994), capabilities are complex bundles of skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities and are deeply embedded within the organizations' fabric. Hence, firms that are better equipped to respond to market requirements and to anticipate changing conditions will enjoy long-run Marketing effectiveness and superior performance.

Hou, (2008) asserts that dynamic capabilities are the collection of resources, such as technologies, skills, and knowledge-based resources. This view is augmented by Helfat and Peteraf (2009) who view dynamic capabilities as the capacity of a firm to purposefully create, extend or modify its resource base. The focus is on the capacity of an organization facing a dynamic environment to create new resources, renew or change its resource mix making it possible to deliver a constant stream of innovative products and services to its target customers. The resource base includes tangible, intangible and human assets which the firm owns and controls or has preferential access to. Dynamic capabilities view acknowledges top management team's belief that firm evolution plays an important role in developing dynamic capabilities (Teece et al., 2012; Helfat & Peteraf, 2009).

2.2. Firm Size on the Marketing Effectiveness

Numerous studies have discussed that small and medium enterprises are financially more constrained than large firms. For example, Calomiris & Hubbard (2011) noted that when the company is smaller, the access to the market is restricted. Previous studies have mentioned several reasons for Small firms to have less access to the market which affects the marketing effectiveness of the businesses. Firstly, the small firms face with information opacity such as unable to withstand the competition from large firms (Binks & Ennew, 1996). When the firm is small, most of the time it is owned and operated by the entrepreneur who might not understand the marketing techniques used by bigger firms to attract a bigger market base. In addition, smaller firms have lesser assets to maintain the expenses that come along with marketing.

Large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers (Serrasqueiro & Macas Nunes, 2008). In addition, they face less difficulty in getting access to credit for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification (Yang & Chen, 2009). On the other hand, small firms exhibit certain characteristics which can counterbalance the handicaps attributed to their smallness. They suffer less from the agency problem and are characterized by more flexible non-hierarchical structures, which may be the appropriate organizational forms in changing business environments (Yang & Chen, 2009).

Size of the firm can be determined by market capitalization, output levels, number of employees, sales turnover, market share or asset base. Yohn (1998) employed firm size as a proxy for the quantity of previous information and released information. Mohammed and Yadav (2002) used firm size as proxy for the quality of information released. Some indigenous firms have been performing well in the recent years and have been awarded at the international and regional level. Example, during the Annual African Investor Index Awards Held in New York in 2009 Equity Bank was named the best performing bank in Africa. Others have been cross listed e.g. Kenya Commercial Bank which is also listed in Uganda Securities Exchange, Rwanda Stock Exchange and Dar-es-Salaam Stock Exchange. The two banks have been named in the top one thousand banks in the world by Banker Magazine. They also rank top three in Africa by profitability.

3. Research Methodology

3.1. Research Design

This study used descriptive survey design. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive studies provide factual, accurate and systematic data (Mugenda, 2012). The choice of the descriptive research design is based on the fact that in this study, the researcher was interested on the state of affairs already existing in the field and no variable would be manipulated. This study therefore was able to generalize the findings to a larger population. Descriptive design uses a preplanned design for analysis (Creswell, 2003). In this study, inferential statistics and measures of central, dispersion and distribution were applied. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individual (Orodho, 2003). Ngugi (2012) carried out a similar study to identify challenges hindering sustainability of Micro and Small Enterprises after the exit of the founders in Kenya.

3.2. The Study Population

This study was done in Kitui County and targeted 3,200 small and medium enterprises in Farming, Trade, Manufacturing and Service sectors. Data available at department of trade and industrialization in Kitui County (2013) indicate a total of 3,200 Micro and Small Enterprises licensed and operating in main sub-counties such as Kitui, Mutomo and Mwingi. Kitui County was chosen because of its diverse demographic pattern that could be generalized to many areas of the country. The study targeted the Micro and Small Enterprises across the socioeconomic strata, that is, ranging from those in the urban areas to those in the rural areas so as to make it more representative of most Micro and Small Enterprises in Kitui County. The distribution is as shown in table 3.1

Type of Business Activity	Frequency	Percentage (%)
Trade	550	17.2
Service	1023	32.0
Manufacturing	713	22.3
Farming	914	28.6
Total	3,200	100

Table 1: Target Population
Source: Kitui County records (2015)

3.3. Sampling Design and Size

According to Webster (2013) a sample is a finite part of a statistical population whose properties are studied to gain information about the whole. Sampling on the other hand is the act, process or technique of selecting a suitable sample or a representation of a whole population to determine characteristic of the whole population. Stratified random sampling technique was used for this study. Orodho (2003) states that stratified sampling is applicable if a population from which a sample is to be drawn does not constitute a homogeneous group. The strata consisted of the four categories, trade, service sector, agriculture and manufacturing.

From the above population of 3,200 possible respondents, Kerlinger (2009) 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 (Patton, 2012).

3.4. Data Collection Methods

Creswell (2003) defines data collection as a means by which information is obtained from the subject of investigation. The researcher used questionnaire as the primary data collection instrument. The questionnaire was designed to give a brief introduction and was divided into sections representing the various variables adopted for study. The questionnaire was self-administered through drop and pick method to the selected Micro and Small Enterprises. The questions were designed to collect qualitative and quantitative data. The open ended questions gave the respondents flexibility to answer to the research hypothesis. The researcher used assistants to distribute by hand the questionnaires to be completed by the selected respondents.

3.5. Instrument Validity

According to El-Gohary and Gall (2009) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed in this study is a measure of the degree to which data collected using a

particular instrument represents a specific domain or content of a particular concept. The researcher piloted 34 Micro and Small Enterprises using rule of thumb that is 10% of the sample should constitute the pilot test (Cooper & Schilder, 2011; Creswell, 2003). The proposed pilot test was within the recommendation and the research instrument was found to be suitable for this research

3.6. Data Analysis

This section outlines the techniques that were used to analyze data and test the variables. Data analysis refers to examining what has been collected in a study and making deductions and inferences (Kombo, 2006). This study collected large amounts of data regarding effects of firm level characteristics on the marketing effectiveness among Micro and Small Enterprises Kitui County. Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. Data collected was analyzed using inferential statistics. Hypothesis testing was done to establish the relationship of variables. In order to analyze collected data Ngechu (2013) observed that, a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential and test statistics. Data was grouped into frequency distribution to indicate variable values and number of occurrences in terms of frequency. Frequency distribution table is informative to summarize the data from respondents, percentages and other diagrams such as bar charts and pie charts were used during the analysis. The organised data was interpreted using assistance of computer package SPSS communicate research findings.

3.7. Response Rate

From the data collected, out of the 342 questionnaires administered, 241 were filled and returned, which represents 70% response rate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% good and above, while 70% rated very good. The recorded high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants (business owners/ managers/directors or business partner) of the intended survey, utilized a self-administered questionnaire where the respondents completed and these were picked shortly after and made follow up calls to clarify queries as well as prompt the respondents to fill the questionnaires.

3.8. Firm Size

The study sought to establish whether firm size influence on marketing effectiveness of a business. From the findings, almost all the respondents indicated that firm size has an impact on marketing effectiveness.

3.8.1. Firm Size Influences Marketing Effectiveness

Response	Frequency	Percent
Yes	238	99
No	3	1
Total	241	100

Table 2: Firm size influences on Marketing effectiveness

Majority of the respondent indicated that larger firms have an advantage over smaller firms as far as marketing is concerned. They highly attributed this to financial stability of larger firms which easily allows them to implement good marketing strategies by hiring highly qualified marketers with minimal financial strain unlike small firms which financial stability might be a problem. Calomiris and Hubbard (2011) noted that when the company is smaller, the access to the market is restricted. Serrasqueiro and Macas Nunes (2008) noted that large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers.

3.8.2. Nature of Firm Size

The study sought to establish the firm size of the respondents who took part in the study.

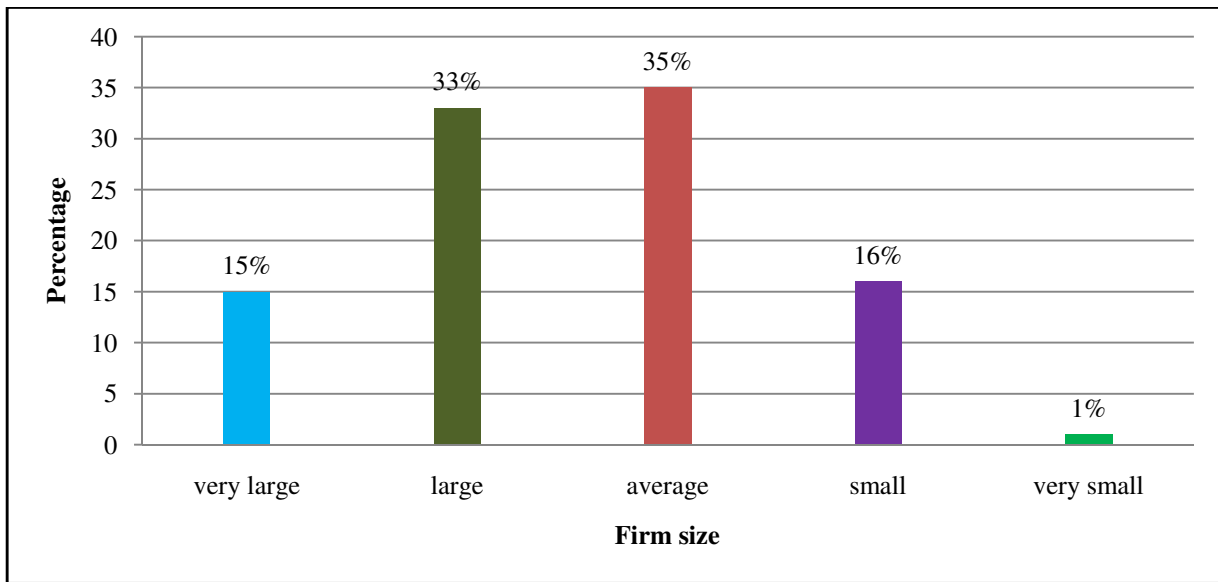


Figure 1: Firm Size

From the findings, 35% indicated they had an average firm size, 33% indicated that their firm size was large, 15% indicated very large, 16% indicated that they were small and 1% indicated that their firm size was very small.

3.8.3. Extent to Which Firm Size Affect Marketing Effectiveness

The study sought to establish the extent to which firm size affects marketing strategies.

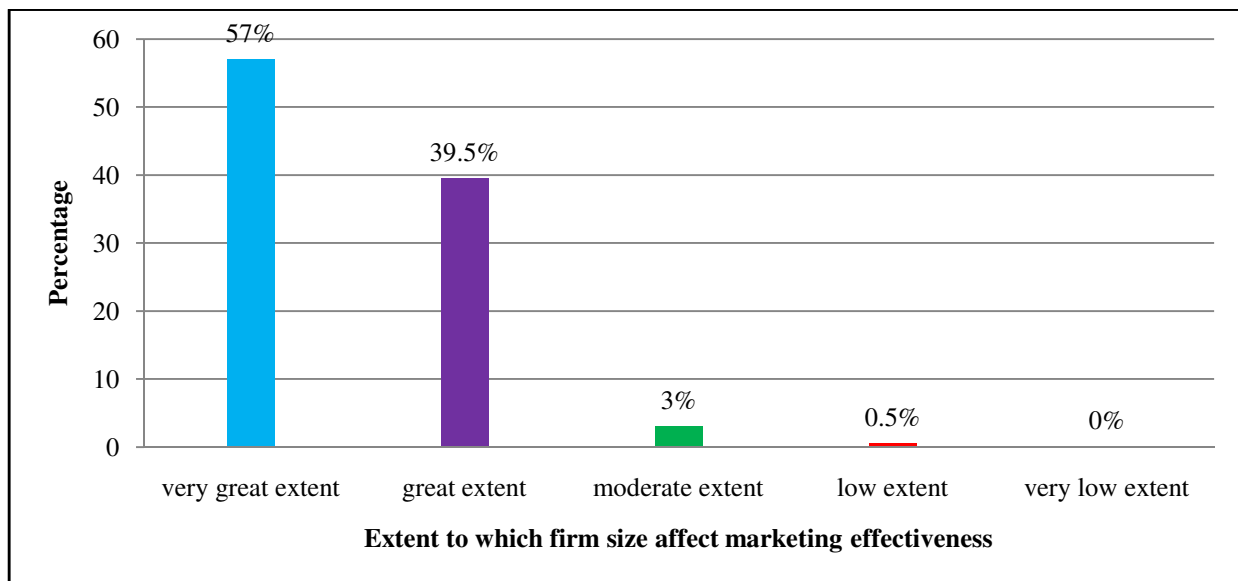


Figure 2: Extent to which firm size affect marketing effectiveness

From the findings, 57% indicated that the extent was very great, 39.5% indicated that the extent was great, 3% indicated that the extent was moderate and 0.5% indicated that the extent was low extent. This in line with Serrasqueiro and Macas Nunes (2008) that large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers. In addition, they face less difficulty in getting access to credit for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification. Gilmore et al. (2001) noted that small firm marketing has been characterized by attributes such as haphazard, informal, loose, unstructured and spontaneous.

However, Yang and Chen (2009) argues that, small firms exhibit certain characteristics which can counterbalance the handicaps attributed to their smallness. They suffer less from the agency problem and are characterized by more flexible non-hierarchical structures, which may be the appropriate organizational forms in changing business environments.

3.8.4. Influence of Aspects of Firm Size on Marketing Effectiveness

The respondents were further requested to indicate the extent to which the following aspects of firm size affect marketing effectiveness in their businesses. Their responses were as shown below.

	Mean	Std. Deviation
Number of employees	3.667	1.225
Asset base	3.556	1.333
number of departments	3.525	1.080
output levels	3.512	1.414

Table 3: Influence of aspects of firm size on marketing effectiveness

From these findings tabled above, the respondents indicated that number of employees affects marketing effectiveness in their businesses to a great extent as shown by a mean score of 3.667. Additionally, the respondents indicated that asset base affects marketing effectiveness in their businesses to a great extent as shown by a mean score of 3.556. Further, the respondents indicated that number of departments affects marketing effectiveness in their businesses to a great extent as shown by a mean score of 3.525. Lastly, the respondents indicated that the ability to output levels affects marketing effectiveness in their businesses to a great extent as shown by a mean score of 3.512. This is in line with Gilmore et al. (2001) that small firm marketing has been characterized by attributes such as haphazard, informal, loose, unstructured and spontaneous. Serrasqueiro and Macas Nunes (2008) that large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers. In addition, they face less difficulty in getting access to credit for investment, have broader pools of qualified human capital, and may achieve greater strategic diversification

3.9. Determinants of Firm Size

The study sought to establish what factors respondents consider when determining their firm size. From the findings, majority rated their firm size based on the number of employees they had and sales volume they made within a given period. Quite a number also based their judgments on their firm size through assessing the firm's financial stability. A few rated their firm size based on the number of branches they had.

3.10. Hypothesis Testing on Relationship between Firm Size and Marketing Effectiveness

- H_0 : There is no significant association between firm size and the marketing effectiveness among Micro and Small Enterprises in Kitui County.
- H_1 : There is an association between firm size and the marketing effectiveness among Micro and Small Enterprises in Kitui County.

	Sum of Squares	df	Mean Square	F
Between Groups	25.509	4	6.377	13.910
Within Groups	107.286	234	0.458	
Total	132.795	238		

Table 4: ANOVA-Hypothesis testing on the relationship of firm size and marketing effectiveness

At 5% level of significance the tabulated $F=2.42$ which is obtained from the F-distribution table, while the computed $F=13.910$. Clearly 13.910 is greater than 2.42. This allows us to conclude that null hypothesis should be rejected in favor of H_1 and conclude that there is sufficient evidence to claim that there is an association between firm size and the marketing effectiveness among Micro and Small Enterprises in Kitui County. This is in line with Vijayakumar and Tamizhselvan (2010) who found a positive relationship between firm size and profitability which is caused by an effective marketing. Papadognas (2014) also conducted analysis on a sample of 3035 Greek manufacturing firms for the period 2011-2011 by dividing firms into four size classes he applied regression analysis which revealed that for all size classes, firms' profitability is positively influenced by firm size.

3.11. Hypothesis 3: Firm size

- H_0 : There is no significant relationship between firm size and marketing effectiveness among Micro and Small Enterprises
- H_1 : There is a significant relationship between firm size and marketing effectiveness among Micro and Small Enterprises

The null hypotheses imply that the variables- firm size and marketing effectiveness are independent of each other. The researcher wanted to find out whether there was any notable relationship between firm size and marketing effectiveness.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.639 ^a	12	.001
Likelihood Ratio	27.599	12	.001
Linear-by-Linear Association	2.609	1	.106
N of Valid Cases	123		

Table 5: Chi-Square Test for firm size and marketing effectiveness

a.8 cells (56.3%) have expected count less than 5. The minimum expected count is .08. The calculated Pearson Chi-Square value is 29.639. The associated P-Value (Asymptotic significance) is 0.001. This value is less than 0.05 (5% level of significance) indicating that there is evidence against the null hypotheses and therefore we reject it. A conclusion can be drawn from the study that 'There is a significant relationship between firm size and marketing effectiveness among Micro and Small Enterprises'

4. Summary of Findings

4.1. Firm Size

The findings of this study established that firm size affects the marketing effectiveness among Micro and Small Enterprises in Kitui County. Most firms interviewed indicated that they were large 33% and medium 35% while 57% felt that firm size affects marketing effectiveness to a greater extent. On hypothesis testing H_0 should be rejected in favor of H_1 . A UK-based study; success in challenging times, key lessons from UK Micro and Small Enterprises found evidence of a positive relationship between plant size and firm survival but, in contrast, a negative relationship for micro-businesses (firms with fewer than 10 employees). This may be because larger Micro and Small Enterprises are more likely to reach output that is close to the minimum efficiency levels needed to survive. Size, however, becomes less important over time provided that businesses can grow fast. The study also found that number of employees, asset base, number of departments and output levels affects marketing effectiveness among Micro and Small Enterprise in Kitui County to a great extent.

4.2. Conclusion

The study concluded that firm size is a significant determinant of the effectiveness of marketing of Micro and Small Enterprises in Kitui County. Wagner (2011) argues that firm size has a strong relationship with effective marketing because of economies of scale.

4.3. Recommendations

This study found strong relationship between firm size and marketing effectiveness. It found size as a determinant in securing finances where bigger enterprises easily secured finances and customer confidence on bigger Micro and Small Enterprises being better. Indeed, the study attributes failure of Micro and Small Enterprises to the inability to grow and attract lending and boost customer confidence. Bigger Micro and Small Enterprises have the capacity to attract and retain talents who have skills and experience.

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