

**UNIVERSITY OF RWANDA
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF BUSINESS
DEPARTMENT OF MANAGEMENT**

***TOPIC: THE EFFECT OF ENTREPRENEURIAL CAPACITY ON
THE SMEs GROWTH IN KIGALI CITY – A CASE STUDY OF
GASABO DISTRICT***

A thesis submitted to the School of Business, College of Business & Economics as a partial fulfillment for the award of the Master of Business Administration (Global Business) by the University of Rwanda

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Kigali, November 2018

Declaration

I, Umutoni Rukamba Shakilah, declare that this research work is my original work and has never been submitted in any academic institution for academic purposes.

Umutoni Rukamba Shakilah

.....

November 2018

CERTIFICATE

This is to certify that this thesis is an outcome of the original work done by Ms. Shakilah Umutooni Rukamba a student of MBA programme of our School of Business under my supervision. I am sure that this work was not been used for any other purpose with any other institution.

Name signature of the supervisor:

.....

Prof. Rama Rao

Date:

DEDICATION

To all Entrepreneurial Mothers, who singly ensure that their families see a bright day; at least materially!

ACKNOWLEDGMENT

This work is a product of many who without their guidance and support would not have been accomplished.

Sincere gratitude to my Supervisor, Prof. Rama Rao. Your patience, guidance and perseverance finally helped to accomplish this work. Thank you for not giving me chance to give up although many a times I wanted to. I will always be grateful Sir!

A friend and a big sister is how best I can describe her but she is more than that. Jocelyne, your “pushing” and encouragement finally brought this work to be accomplished. Thank you for your persistence and always letting me know that there is still chance to finish what was started. May you always have a big heart for the desperate and hopeless!

In any task, a family is always directly or indirectly involved and mine wasn't an exception. Thank you for your understanding and standing by me. Be blessed always.

Finally, special thanks to the “Prayer Warriors”. Thank you for being who you are to me!

Abstract

The purpose of this study was to find out the effect of entrepreneurial capacity on the SMEs growth in Kigali city. It was conducted under the problem that various SMEs are mushrooming in Rwanda and various policies for facilitating their growth, including capacity development have been put in place by the government. Various literatures show entrepreneurial capacity as leading to SMEs growth but the literature doesn't illustrate whether this also applies in Rwanda. This leaves a gap it prompted the researcher to fill this gap and come up with new knowledge.

Kigali city was the study area and Gasabo district was the specified area of data collection. Data collection was restricted to the effect of the entrepreneurial capacity on the SMEs growth. This study was designed as descriptive-correlational. The study population was all the SMEs (32619) in Kigali city. Purposive sampling was used to select one district from Kigali city. Gasabo district was then selected using simple random sampling from the three districts constituting Kigali city. Sample size of 133 was determined using Slovene's formulae. 133 sampled respondents were determined using simple random sampling, but only 89 responded.

Both secondary and primary data were collected. Secondary data was collected through the review of the existing literature and studies related to this study. A structured research instrument was designed to collect quantitative primary data. Content validity was applied to check whether the content of the instrument was valid. The instrument contained items that collected data basing on each research objective. Collected data was analyzed in SPSS using descriptive statistics, correlation analysis where Pearson moment correlation coefficient was used to establish relationships and the level of significance was set at 0.05; and regression analysis which established the predicting variables.

Results from the analyzed data indicated that entrepreneurs had the capacity to grow their businesses, possessed knowledge and skills obtained from various experiences/domains, the majority never got chance to attend trainings on how to run their businesses and trainings were needed in the fields of customer care, financial management, as well as how to make production; the entrepreneurs' capacity of various kinds impacted positively the

growth of SMEs; entrepreneurs were challenged by lack of mortgage, collaterals, high and many taxes, as well as high rent; the growth of SMEs was related to the capacity skills obtained from various domains, including natural knowledge and skills (.378*); and, the best predictors of SMEs growth included, among others, capacity skills being prerequisite to any business startup; and, without the capacity skills, businesses would vanish.

From the study findings, it was concluded that entrepreneurial capacity had effect on the SMEs growth in Kigali city. The study recommended that capacity trainings be offered to all entrepreneurs; and taxes be reduced.

Key words: *entrepreneurial capacity, the growth of SMEs,*

List of Abbreviations

1. BNR: National Bank of Rwanda
2. GDP: Gross Domestic Product
3. MINECOFIN: Ministry of Economic planning and Finance
4. RDB: Rwanda Development Board
5. SMEs: Small and Medium Enterprises
6. SPSS: Special Package for Social Sciences Software
7. UR: University of Rwanda

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Following the economic crises that crippled many developing countries in the 1970's and 80's, African planners began to re-think their strategies. One of the strategies they came up with was entrepreneurship. Then, what is entrepreneurship? Different authors define this term differently. For example, Jegede (1990) defines it as an ability to assemble other resources to the unmet market demand. Banjoko (2002) also stresses that entrepreneurship is the process of creating value by gathering a unique package of resources to make use of an opportunity. According to Drucker, (1985), entrepreneurship is "the willingness and the ability of an individual to seek out an investment opportunity, establish an enterprise based on this and run it successfully either for profit making or for social benefit".

Although it is not much associated with formal sector employment, entrepreneurship is most times attributed with various positive socio-economic changes in developing countries as it is associated with job creation, wealth creation, innovation and its related welfare effects. It is in this regard that as Beck, Demirguc-Kunt and Levine (2003) highlight entrepreneurship as a strong small business sector, generally linked to a strong economy in both developed as well as developing countries. This is because, it accomplishes important roles in regards to effectiveness, competition, product innovation, pricing and industry survival by acting to disequilibrate, equilibrate or to do both in the market (Schumpeter 1999; Kirzner 1997; Matos & Hall 2007). Hence, entrepreneurship is one of the vital parts of economic development strategies of countries.

Entrepreneurship is therefore, a local and regional level activity, where innovative firms can immediately begin to make benefits for their host locations. It is in this regard that the idea of entrepreneurship is an ideal complement to an increasing focus on community-based economic development because it can work without a perfect system of hard infrastructure and often with little resources.

Moreover, entrepreneurship can address individual-level needs related to income and employment. At the very least, entrepreneurship creates a job for the entrepreneur as well

as income. At best, it generates additional jobs and incomes for other people. Due to its low-cost and high-impact approach to economic development, entrepreneurship has gained popularity in many developing countries among which, Rwanda. However, entrepreneurship performance success depends on capacity building of the entrepreneurs as research reveals.

What is capacity building then? According to the UNDP (2003), “capacity building encompasses human resources development and the strengthening of managerial systems, institutional development that involves community participation and creation of an enabling environment”. In the context of development, capacity building entails a dynamic process which enables individuals and agencies to increase the critical social and technical capacities to identify and analyze problems as well as offer resolutions to them.

Azikiwe (2006) views capacity building as the process by which individuals, regardless of sex, are equipped with skills and knowledge required to perform effectively and efficiently in their diverse work duties. He further defines capacity building as the capability to facilitate a person make use of his or her creative potentials, intellectual capacities and leadership abilities for personal as well as national growth and improvement.

Capacity building therefore means planning for people to obtain knowledge and advanced skills that are vital to a country’s economic growth, its standard of living and individual empowerment. It is the an organised programme that is designed to impart skills which enables the recipient put the knowledge and skills acquired into productive use to solve wide range of individual and national problems. Capacity building from the human capital point of view could be explained to mean, when people possess the needed knowledge and advanced skills that are critical to individual growth as well as the country’s growth and development.

The capacity required by any country for sustainable development is mainly dependent on the sufficiency and relevance of its entrepreneurship. This capacity, as Nwazor (2012) states, comes in different set-ups such as on-job training, formal schooling, traditional education and vocational training. How is this entrepreneurial development done in Rwanda?

Emerging from the ruins of the 1994 Genocide against the Tutsi, Rwanda began a comprehensive and ambitious campaign in 2000 aimed to reconstruct, foster national reconciliation and reduce poverty through various economic development strategies. The

Government's agenda gave priority to health, education, infrastructure, institutional development, private sector development and financial sector development and this would be achieved through the Vision 2020 programme (World Bank, 2010).

Between the years 2005 and 2011, Rwanda's real GDP per capita grew by 4.5% a year because of such policies and strategies demonstrating a sustained expansion of exports and domestic investment, with inflows of foreign direct investment also increasing greatly. In addition, the Government reinforced the foundations of macroeconomic and microeconomic stability, leading to strong private sector development through the implementation of cautious fiscal policies supported by a number of structural and institutional reforms (World Bank, 2010).

In order to fully implement the vision 2020 programme, the Government of Rwanda in partnership with all development stake holders designed the Economic Development and Poverty Reduction Strategy phase 1 in 2007, which highlighted private sector development as the means to creating jobs, bringing peace, breeding wealth and ultimately eradicating poverty. Furthermore, the Government focused on business regulation reform to attract foreign investment and subsequently, led to the establishment of the Rwanda Development Board (RDB, 2015).

Since then, Rwanda has adopted to Doing Business report as an instrument for categorizing and learning from good practices in business regulations as well as to examine improvement, training for professionals—including lawyers and judges, to ensure proper administration of the reforms and entrepreneurs through the National capacity Building Secretariat (East Africa Business Week, 2012; MINECOFIN, 2015; The Economist, 2012) and also brought technical expertise from other countries, to imitate good practices and build capacity for entrepreneurs, civil society and other stakeholders involved in the private sector development (Kagire 2010).

From such Government endeavors of creating a good business climate, 77% more firms registered doing business in Rwanda in 2007. By 2008, more than 3,000 firms registered, up from an average of 700 in previous years. In 2009 the number increased to 6,905. In 2010 the Government registered 18,447 new businesses compared to the targeted 20,000 that year, owing not only to the simplification of the start-up process, but more generally to the

overall Government agenda to support private sector growth through fostering entrepreneurship. Since then, more than 50,000 business companies/entrepreneurships have been established and have provided numerous jobs and boosted the economy of Rwanda (RDB, 2015). From such a background, it is evident that entrepreneurship development leads to creation of jobs and economy boost. Furthermore, its success needs the establishment of a favorable business environment in regard to rules and regulations as well as capacity building.

1.2 Statement of the Problem

In emerging countries like Rwanda, the level of unemployment is at a high rate. Yet, Micro, Small and Medium Enterprises (MSMEs) sector play an important role in creating jobs thereby solving the issue of unemployment. Hence, they are engines of the country's economic growth. It is in this regard that in 2007, the Government of Rwanda set out to promote private sector growth through fostering entrepreneurial development. This included establishing policies like industrial policy, SMEs policy, entrepreneurship policy, Vision 2020, VUP, EDPRS I & II, and the capacity building. Subsequently, these reform programmes, according to the available literature have had impressive quantifiable results. These results are however attributed to the whole set of reform effort and are aimed at making Rwanda a middle income earning country, through self-employment (MINECOFIN, 2015).

Since doing a successful business depends heavily on the entrepreneur's capacity, yet the Human Capacity Institutional Development department has been established in RDB, there is a lot of SMEs and MEs in the country, specifically in Kigali City. However, despite various efforts for entrepreneurial capacity, no conclusive research has been conducted to find out whether this growth of SMEs and MEs in Rwanda is linked to entrepreneurial capacity. It is not clear whether these MSMEs are established after their owners have been given entrepreneurial capacity and whether their success depends on the entrepreneurial skills they get after their establishment. This has inspired the researcher to conduct this study on the entrepreneurial capacity and MSMEs growth in Rwanda so as to fill that gap by coming up with new knowledge that will be vital to researchers, entrepreneurs, and policy makers

in regard to entrepreneurial development particularly in Rwanda, and generally to the business world.

1.3 Research Objectives

The major aim of this research is to find out the impact of entrepreneurial capacity and the growth of SME's in Rwanda. In order to sufficiently address the overall objective, the study will seek to deal with the following specific objectives:

1.3.1 Specific objectives

1. To find out the entrepreneurial capacity of MSME operators in Rwanda.
2. To assess the knowledge and skills possessed by the SME entrepreneurs in Rwanda.
3. To analyze the entrepreneurial trainings received by the entrepreneurs in Rwanda
4. To establish the effect of entrepreneurial capacity on the growth of MSME's in Rwanda.
5. To find out the challenges by Rwandan MSME's in achieving growth.
6. To suggest solutions to the challenges faced by entrepreneurs in Rwanda.

1.4 Research Questions

In following the foregoing the specific objectives, the research will seek to answer the following research questions:

1. What is the entrepreneurial capacity of SME operators in Rwanda?
2. What are the knowledge and skills possessed by the SME entrepreneurs in Rwanda?
3. What are the entrepreneur trainings received by the entrepreneurs in Rwanda?
4. What is the effect of entrepreneurial capacity on the growth of SME's in Rwanda?
5. What are the challenges faced by Rwandan SME's in achieving growth?
6. What are the solutions to the challenges faced by the growth of SME's in Rwanda?

1.5 Significance of the study

The most important set of beneficiaries of this study is the university and other scholars for the enrichment of the academic body of knowledge. To this effect, the University of Rwanda

will have additional library material from which future scholars can make reference in their academic endeavors.

The entrepreneurial society will benefit by knowing the impact of the composition of the skills of their workforce against the growth targets and expectations.

The Government of Rwanda is also a stake holder in entrepreneurial development and the enhancement of economic policy. Particular to the issue of entrepreneurial growth is the tax authority, the Rwanda Revenue Authority (RRA). By knowing the growth potential imminent from entrepreneurial skills enhancement, the tax authority will be in a better position to plan their tax targets for the common good of national development

Finally, the study is important to entrepreneurial financiers, who seek fund startups or older businesses with the startup capital or mezzanine financing. With a good report on the relationship under study, it will be easier for the business financiers to know what aspects of the workforce training to include in the valuation and financing plans.

1.6 Scope of the Study

This study will encompass the entrepreneurial capacity growth of MSMEs in Kigali City, since it is the business hub of the country and the center for a diversity of entrepreneur excellence. Primary data collection will be collected from 30 MSMEs in Gasabo, Nyarugenge, and Kicukiro districts.

1.7 Justification of the study

This study should be conducted because the current literature on entrepreneur capacity and its relationship with the growth of SMEs in Rwanda is shallow and this justifies the interest by the researcher to investigate on this issue and fill that void by coming up with new findings/ knowledge in this field of entrepreneur capacity and MSMEs growth.

1.8 Limitations of the Study

In conducting the study, several limitations are envisaged:

Time frame: this study will be conducted from June to November, 2017 and shall deal with data on entrepreneur capacity and MSMEs growth in Rwanda from 2007 to 2015.

Financial constraints: since the researcher is a student and has no financial capacity to conduct this study countrywide in regard to printing and photocopying of the questionnaires, transportation to questionnaires distribution and collection, coding, among others, financial constraints will make her conduct the study only in Kigali City.

Geographical location: The study will be limited to MSMEs in the Gasabo, Nyarugenge, and Kicukiro districts of Kigali City due to time limit and financial constraints.

1.9 Organization of the Study

This research is structured into five chapters. It comprises the introduction, which this part concludes as Chapter One, Chapter Two covers the literature review related on the relationship between entrepreneurial capacity and MSMEs growth and the conceptual framework, Chapter Three which describes the methodological and data analysis approaches. Further, Chapter Four will be the presentation, analysis and interpretation of the findings while Chapter Five will present the results overview, summary of the major findings and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights various literature and related studies on the Entrepreneurial capacity, entrepreneurial knowledge and skills, entrepreneurial level of education, entrepreneurial training, entrepreneurial study tour, SMEs and MEs growth, Impact of entrepreneurial capacity on the growth of SMEs and MEs, and related studies. A conclusion will then be made basing on the reviewed literature.

2.2 The meaning of Entrepreneurship

Entrepreneurship implies taking initiative, the organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account, and the acceptance of risk or failure. According to Amzad et al, (2009), an entrepreneur is one who brings resources, labor, materials, and other assets into combinations that make their value greater than before. Furthermore, he is the one who introduces changes, innovations, and a new order of things. In other words, entrepreneurship is the creating and building something of value from nothing (Dingee et al, 1990).

According to Refaat (2009), entrepreneurship involves recognizing emerging business opportunities and the presence of enterprising individuals. Kapasuwan et al (2009) complements this view by asserting that entrepreneurship is the creation of new ventures, implying the starting of new businesses which is risky and filled with uncertainty. In the view of Naude (2010), entrepreneurship is the resource and process whereby individuals utilize opportunities in the market through the creation of new business firms.

This signifies that Creativity is essential to entrepreneurship as noted by Amabile & Khaire, (2008). A high level of entrepreneurship activity in any country therefore, has the tendency to make positive impact on elevation of unemployment (Van Vuuren, 2005).

2.3 Entrepreneur knowledge and skills

Entrepreneurs require knowledge and skills in their daily business activities. New knowledge is required because it is assumed that nobody knows everything. Entrepreneurial skills are a sort of human capital that can be acquired through educational practices. Skills are required for either improving the already existing skills or applying them appropriately. The knowledge and skills required by entrepreneurs are: leadership skills, communication skills, personal effectiveness, basic management skills, creativity skills, marketing skills, interpersonal skills, among others (www.cefe.illinois.edu).

2.4 Entrepreneurial level of education

It is widely believed that the level of education in informal sector which is constituted by the entrepreneurs is very low. This conception is disproved by Chinguta (2003) who established in his study in Zambia that the majority of the entrepreneurs had gone to school. 55.5 percent had attained secondary education, while 37.2 had attained primary education. His study further revealed, however, that post-secondary education in many entrepreneurs was almost none existent. Such results complement with other studies conducted other countries of Africa (Kambewa, et al. 2000; Abumere, et al. 1998; Mkandawire, 2000). This signifies that many of the entrepreneurs are the people who can't afford post-secondary education and therefore resort to starting up affordable businesses.

Does entrepreneurial success result from the attained education level or from experience? Various researches have come up with contradictory evidence. In Zambia, for example, Chinguta (2003) found a weak relationship between education level and enterprise ownership. Todd and Shaw (1980), proposed that experience is more relevant than education in regard to entrepreneurial success.

As Harrison and Leitch (2010) note, the significant role the education sector plays in the entrepreneurial development is highly recognized as important by policy makers and researchers. The global increase in entrepreneurship education program aimed at encouraging entrepreneurial activity, business start-ups and entrepreneurial mindsets have

been witnessed in the previous decade in many emerging development countries (Fayolle et al, 2006).

In Rwanda, however, SMEs have a relatively well-trained cadre with about 62.8 per cent having been to secondary school or university (Musahara et al, 2012). These authors go on to suggest that more capacity building interventions are greatly required for these SMES because more than 50 per cent of them need support services. Lack of capacity therefore, makes them to be in the category of Micro SMES as 55 percent of them can only employ between 1 and 5 employees.

2.5 Entrepreneurial training

McGrath and King (1995) believe that people working in the informal sector don't receive skills training. Bennell (1999), complements that this lack of skills training is due to the entrepreneurs themselves who don't prioritize skills development in their businesses. According to White and Kanyon (2000), expanding an existing business requires specific skills, knowledge and attitudes that differ from that of a starting business.

Many SMES make efforts to raising their productivity by stimulating business creativity. However, this creativity further needs supportive environment especially from the government. The government can establish the entrepreneurial environment through business training, advisory and counseling services to SMEs owners, among others (Sohn & Jung, 2010). Entrepreneurial training is a systematic effort aimed at modifying or developing new knowledge and skills through learning experiences so as to achieve effective performance of the enterprise (Njoroge & Gathungu, 2013).

Hynes and Richardson, (2007) define training as an intentional effort to teach specific abilities, which are knowledge bearing, to complete the project better. Training and education on small business establishment should focus on raising finance, legal regulations, choosing premises, taxation, book keeping and accounting, and marketing strategies. Furthermore, awareness education programs should be designed and aim at increasing the number of people who are sufficiently knowledgeable about small business as an economic activity that has to be considered as an economic alternative. According to Musahara et al, (2012), the majority SMES have received little capacity building.

However, the government of Rwanda through RDB offers services for capacity building to SMEs through the BDCs and aim at improving the performance of the SMEs, their access to markets and their ability to compete. The RDB's capacity building services include training, consultancy, marketing, information, technology development and transfer and business linkages. This will help new entrepreneurs and existing businesses to grow and become competitive and contribute to the prosperity of Rwanda (www.rdb.rw).

2.6 Entrepreneurial Theories:

2.6.1 The innovation theory

The innovation theory of entrepreneurship was advanced by Joseph Schumpeter. According to this theory, innovation skills are highly emphasized for the success of any entrepreneur. The entrepreneur is believed to be someone who is innovative, creative, and foresighted. Since this theory is based on innovative skills of the entrepreneur, this innovation will only exist when the entrepreneur brings a new product to the market, initiates a new production method, initiates a new source of material supply as well as introduces new organization in any domain (Schumpeter, 1999).

Despite describing the entrepreneur as an innovative person, this theory ignores the organizing abilities as well as risk taking as other characteristics of the entrepreneur. Besides, the theory seems to be describing entrepreneurship at a large scale level, forgetting other levels (from micro level, small scale level, and macro level entrepreneurship or enterprises). This signifies that the entrepreneurship is viewed by this theory as at the level of large scale enterprise, specifically in developed economies, yet the majority entrepreneurs belong to the micro and small enterprises and are mostly located in developing economies, including Rwanda.

2.6.2 Kirzner's disequilibrium theory

According to Kirzner, the economy is in disequilibrium and it is the role of competing entrepreneurs that will lead to its equilibrium. In other words, an improvement in the technique of production leads to change (disequilibrium) in the market where initially there was equilibrium. If there is equilibrium in the market there is nothing for the entrepreneur

to do and no exchange and profit opportunities for them since everybody will be able to carry out his initially determined exchange plans (Kirzner, 1973).

In regard to this, Kirzner comprehends that markets are not always clear as well as no perfectly informed representative agent. He goes on to say that for change to occur the entrepreneurs need incentives and these incentives come from the difference among agents in terms of information and knowledge. These economic agents are viewed as suffering from ignorance because they don't know that additional information is available and needed. According to Kirzner whenever the change occurs, some planned activities will not be realized, hence no room for entrepreneurial discovery and creativity like in the innovation theory (Kirzner, 1973).

This implies that the course of market events is foreordained by the data of market situation and for the system to create profit opportunities for entrepreneur there is need for an exogenous shock to the system. The entrepreneur discovers and exploits new business opportunities and eliminates ignorance, thereby moving the economy toward equilibrium, the economic state where no more information can be discovered. Kirzner's view of entrepreneurship identifies a disequilibrium that can only be corrected to equilibrium by entrepreneurs who produce and exchange. The theory therefore, emphasizes the exchange opportunities and progress that comes mainly from it (Kirzner, 1973). In other words, entrepreneurial progress does not depend on a great man but it does depend on many great men as well as many players in the business field. Since there is a lot of uncertainty in the business environment, profit is always a speculative affair by the entrepreneurs and therefore an entrepreneurship is an act of risk taking. Seeing risk and grabbing them may be considered too certain and requires an extra talent of entrepreneurs who can see the extraordinary things. This therefore, denies the effectiveness of the Kirzner theory, hence its strong criticism.

2.7 SMEs and MEs growth

Stevenson (1983) suggests that entrepreneurial firms base their strategies solely on opportunities that exist in the environment, using opportunities as a starting point for developing strategies. Any small firm, that experiences growth, goes through a lifecycle

process of growth stages. The growth process may consist of a series of disconnected “jumps” or spurts of growth, which may be interspersed with relative periods of stability (Roomi, et al.2009). This growth, however, can be measured in sales and profits because they give a more reliable and accurate estimation of the profits.

2.8 The relationship between entrepreneurial capacity and the growth of SMEs and MEs

Various related studies have been conducted to establish a relationship between entrepreneurial capacity and the growth of MESMES. In their study about the relationship between firm absorptive capacity and organizational responsiveness in the context of growth-oriented small and medium-sized enterprises, Jianwen et al, (2003) found absorptive capacity, external knowledge acquisition and intrafirm knowledge dissemination to be positively related to organizational responsiveness. Furthermore, their study indicated that the responsiveness of growth-oriented SMEs is expected to increase if they have well-developed capabilities in external knowledge acquisition and intrafirm knowledge dissemination; they have a well-developed external knowledge acquisition capability and adopt a more proactive strategy, such as being a prospector; they face a turbulent environment and have a well-developed internal knowledge dissemination capability.

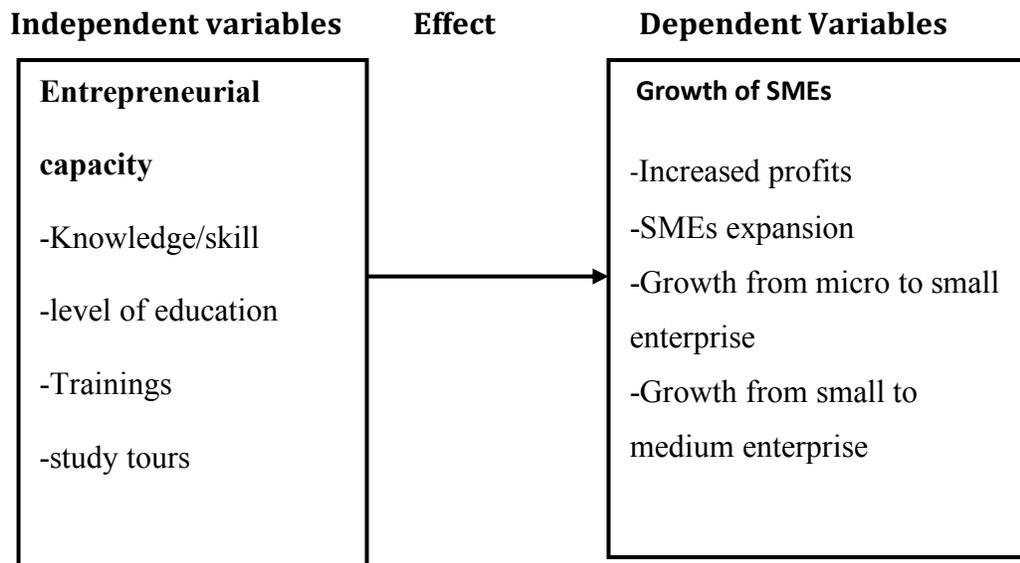
From the studies of Thorpe et al, (2005), it is evident that SME knowledge research concentrates primarily on the acquisition and use of knowledge, treating it as an asset that is transferred by routines. They thus concluded that policies encouraging entrepreneurship and economic regeneration need to be more flexible and sensitive to the often complex contexts within which knowledge is used by SMEs.

Valentim et al (2015) stresses that Small and Medium-sized enterprises (SMEs) are more vulnerable to globalization and rapid technological change due to their scarcity of resources. It is in this regard that SMEs' absorptive capacity allows them to access knowledge and plays a key role in their ability to explore and exploit opportunities in their environment. From their study, these authors concluded that Portuguese SMEs were engaged in knowledge management practices, through collaboration with business partners, favoring learning processes based on experience, knowledge transfer to employees and knowledge absorption

by employees, reflecting the importance given by SMEs to the tacit nature of knowledge which helps them in efficiency improvements, strategic adaptation, and the launch of new products and services.

An SMEs ability to acquire and exploit external knowledge is often critical to achieving and sustaining a competitive advantage. Study findings by Bierly et al (2009) reveal that predictors of exploration and exploitation of the application of external knowledge differ. Surprisingly, technological relatedness, a common measure of absorptive capacity, is negatively associated with the application of external knowledge to explorative innovations, indicating that knowledge from more distant sources is applied more to exploration.

2.9 Conceptual framework



2.9.1 Explanation of the conceptual framework

In the above conceptual framework, the entrepreneurial capacity (independent variable) is characterized by knowledge and skills, level of education, trainings, and study tours as sub independent variables. These independent variables affect the growth of the SMEs (dependent variable in terms of increased profits, SMEs expansion, SMEs growth from Micro, small, to medium enterprise sub dependent variables).

2.10 Conclusion

This chapter has highlighted various views, theories, and empirical literature from various authors and scholars on what entrepreneurship is, entrepreneurial capacity and its relationship with the MESMEs growth. However, the ideas and evidences presented vary for example; Krisners and Shapenter's theories differ on the meaning of entrepreneurship and who the entrepreneur is. Furthermore, other authors contradict on the entrepreneurship capacity an entrepreneur should be possessing. This is because, in the informal sector we find both educated and uneducated entrepreneurs, trained and untrained, as well as those having varying education levels (primary, secondary and university levels). The literature also reveals that many entrepreneurs do not prioritize in skills development.

Further still, the literature does not highlight clearly whether the success of MSMEs depends on entrepreneurship capacity obtained through training or formal education or through the individual entrepreneurs' creativity and innovations. This therefore leaves a gap in the existing literature which this research aims to fill.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

This chapter describes research design, study population, sampling size and sampling techniques, research questionnaire, the validity and reliability of the research questionnaire, sources of data, data analysis, and ethical considerations.

3.2. Research Design

A research design is a plan or structure for a study which is used as a guide in collecting and analyzing research data (Ngaaga et al, 2009). This study is descriptive and analytical because it is aimed at describing and analyzing how the entrepreneurial capacity affects the growth of SMEs in Rwanda. It adopted a survey of selected SMEs to verify the relationship between the entrepreneurial capacities and the enterprise performance.

3.3. Data Needs and Sources

To realize the objectives of this study both primary and secondary data were needed. Table 3.1 presents the data required and their sources to realize each objective for the study. It also specifies the data collection tools appropriate to collect the data.

Table 3.1: Objective-Wise Data Needs, Sources & Collection Techniques

| No | Objectives of research | Need of | | Source of | | Tools of collecting | |
|----|---|--|--|--|---|--|----------------|
| | | Primary data | Secondary data | Primary data | Secondary data | Primary data | Secondary data |
| 1 | To find out the entrepreneurial capacity of SME operators in Rwanda. | Provides firsthand information on the entrepreneurial capacity in Rwanda | Serve as the basis for this study | Respondents who are the owners or managers of the small and medium enterprises | Published research in journals, articles, and books both online and hard copies | Research instrument With structured items | Desk research |
| 2 | To determine the annual level of SME growth in Rwanda. | Provide real experience of the growth of MSMEs in Rwanda | Comparison to other countries | Respondents who are the owners or managers of the small and medium enterprises | Published research in journals, articles, books | Research instrument With structured items | Desk research |
| 3 | To establish the effect of entrepreneurial capacity on the growth of SME's in Rwanda. | Evaluate the actual effect of entrepreneurial capacity in relation to expected SMEs growth | Provides empirical evidence from other regions about the relationship between the entrepreneurial capacity and SMEs growth | Respondents who are the owners or managers of the small and medium enterprises | Published research in journals, articles, and books | Research instrument With structured items | Desk research |

| | | | | | | | |
|---|--|---|---|---|--|---|-------------|
| 4 | To find out the challenges by Rwandan SME's in achieving growth. | Highlights loopholes in the current entrepreneurial capacity in regard to SMEs growth | Provides evidence of the entrepreneurial capacity challenges in regard to SMEs growth | Respondents who are the owners or managers of the small and medium businesses | Published research in journals and books | Research instrument With structured items | Desk review |
|---|--|---|---|---|--|---|-------------|

Source: By the researcher, 2016

Table 3.1 illustrates the data that was required and their sources to comprehend each objective for the study. It also specifies the data collection tools that were appropriate to collect the data. In other words, it matches each research objective with the needed primary data, and secondary data, as well as their sources, and collection techniques. It further illustrates the data that was required and their sources to comprehend each objective for the study. It also specifies the data collection tools that were appropriate to collect the data. In other words, it matches each research objective with the needed primary and secondary data, as well as their sources, and collection techniques.

3.3.1. Primary Sources of Data

According to Ngaaga et al, (2009), primary data are information revealed by eyewitnesses who experienced a particular event. He also indicates that primary documents include original documents. Technical method in collection of primary data like questionnaire is used. It is in this regard that primary data was collected using the research instrument. The items of this instrument collected primary data according to each research objective. The primary data was collected from the randomly selected respondents who are the managers or owners of the SMEs. Data was collected on the capacities possessed by the entrepreneurs, the annual growth rate of the SMEs, the effect of the entrepreneurial capacity on SME growth, as well as the challenges and their solutions in regard to the SMEs growth.

3.3.2. Secondary Data

Grinnell and Williams (1990) define secondary data as the data that already exists in boxes, in some companies or organizations' computers. In this regard that secondary data was collected as a basis on which this research is built on.

The secondary data was collected from empirical published journals, books, articles, newspapers, magazines, organizations, etc about entrepreneurial capacity, in the domains of education, training, skills, experience; the SME growth, the effect of entrepreneurial capacity on SME growths, as well as the challenges and solutions to SMEs growth. This data was reached in form of hard or soft copy. This secondary data therefore, highlighted variables of this study.

3.4. Target Population

The target population of this study included all the SMEs businesses in Rwanda. According to RDB statistics, there are 50,000 SMEs across Rwanda (RDB, 2015). Since it is difficult to study all these SMEs in a short period and due to lack of financial support, the researcher judged that only the total population of SMEs in Kigali city be included in the study. Kigali city is constituted by the districts of Gasabo, Kicukiro, and Nyarugenge.

Table 3.2: Number of SMEs in Kigali city by district

| Province | District | Number of SMEs |
|--------------------|-------------------|----------------|
| <i>Kigali city</i> | <i>Gasabo</i> | 12,337 |
| | <i>Kicukiro</i> | 8,091 |
| | <i>Nyarugenge</i> | 12,191 |
| | | |
| Total | | 32619 |

Source: Establishment Census, June, 2015

The researcher employed purposive sampling (also known as judgment, selective or subjective sampling) to select Kigali city as the population of the study from all the SMEs in all the provinces of Rwanda. The study population was purposively selected as Kigali City

SMEs from the rest of the provinces because it is the largest commercial city center in Rwanda and constitutes numerous SMEs with varying capacities, skills, and rate of growth. Kigali City was also selected due to this research’s time limit and limited financial resources by the researcher. It is from that total population of SMEs in Kigali city that a sample of respondents was selected from each district by applying the Slovene’s formulae.

3.5. Sample size and Sampling techniques

3.5.1. Sample size

Since it is difficult to study the whole population due to time limit and financial resources, sampling of respondents is needed to represent the total population (Ngaaga et al, 2009). In regard to this study, a sample size was determined using the Slovin’s formula (1960) to figure out what sample size of respondents would be required: $n = N / (1 + Ne^2)$ where:

n = Number of samples

N = Total population (32619)

e = Error tolerance (Represented by 0.05)

$n = 32619 / (1 + 32619 * 0.05^2)$

Therefore, the sample size of this study was 399.987, when rounded off is 400 respondents as highlighted in the sample frame bellow. However, due to the largeness of the sample and limited research time of reaching all sampled respondents, the researcher decided to purposively have a sample of 133 SMEs/respondents in one district. This one district was selected using simple random sampling technique.

Table 3.3: Sample frame

| Province | District | Number of SMEs | Sample | Random sample |
|--------------------|-------------------|----------------|---------|---------------|
| <i>Kigali city</i> | <i>Gasabo</i> | 12,337 | 133.329 | 133 |
| | <i>Kicukiro</i> | 8,091 | 133.329 | |
| | <i>Nyarugenge</i> | 12,191 | 133.329 | |
| Total | | 32619 | 400 | |

Source: Primary data

3.5.2. Sampling techniques

Sampling technique is about how a researcher reaches to the selected sample size (Ngaaga et al, 2009). In this study, simple random sampling was used to study the selected sampled respondents from one district of Kigali City and from each category of enterprise (Stratified levels: small or medium SMEs). Under simple random sampling, the lottery method was used to select the 133 SMEs/respondents of one district (Gasabo district) from the three districts of Kigali city. The names of SMEs were assigned numbers, and then well mixed in a box before they were randomly selected. Finally random selection was conducted to obtain the needed sample of the population.

3.6. Data collection

After determining the study population, sample size, and sampling techniques, the next step was to design a research instrument that would elicit data from the respondents. The items constituting the instrument were designed to elicit quantitative data that and were measured on a numerical scale as (4) strongly agree, (3) Agree, (3) Neutral, (2) strongly disagree and (1) Disagree.

The research instrument was designed with the advice of the supervisor and it contained two sections that collected data from respondents' background as well as the structured questions in the table.

3.7. Pretesting of the instrument

In order to test whether the items of the instrument were valid, content validity was employed. This was done by ensuring that the items of the instrument were designed in a manner that they collected the required primary data according to each study objective. The researcher then proceeded to collect the final data. The instrument was administered on a drop-and-pick basis to avoid many of the problems associated with mail questionnaire or guided telephone interviews (Kothari, 2004).

3.8. Data Processing

After collecting all the distributed research instruments from respondents, data was coded and computed in SPSS for easy analysis and presentation (Sekaran, 2006). It was then analyzed basing on each research objective using descriptive statistics like frequencies means, and percentages, and inferential statistics using correlations and regression analyses so as to establish the relationship between the entrepreneurial capacity and the SMEs growth, as well as to establish which best predicting independent variables of the SMEs growth. Results of analyzed data were presented in form of tables and were a basis for the study conclusion and recommendations.

3.9. Ethical issues

Before gathering data from respondents, the researcher obtained a recommendation letter from the research supervisor that authorized her to officially access any data she required. This was in conformity with the UR research rules. The researcher presented this letter to respondents as well as institutions that had the research data she was looking for. Confidentiality of the respondents was also regarded highly. Honesty in reporting of scientific data; and careful transcription and analysis of scientific results to avoid error were also ensured (Resnik, 2008).

3.10. Limitations of the Study

This study was limited to time, financial resources and area coverage. In regard to time, it was conducted in 2016/2017. In regard to financial resources and area coverage, it was limited to Kigali City, in the district of Gasabo.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter highlights how the collected data was analyzed, interpreted and presented. Data was analyzed and presented basing on the background information, each research objective (entrepreneurial capacity, entrepreneurial knowledge and skills, entrepreneurial trainings, impact of entrepreneurial capacity on SME growth, challenges faced by entrepreneurs). 133 respondents were sampled and distributed questionnaires but 89 responded showing a response rate of around 67% which is assumed to be sufficient for analysis.

In data analysis, data was entered in SPSS and then analyzed using descriptive statistics where frequencies and percentages were used to interpret data of each question constituting the research instrument. Besides, data was analyzed using inferential statistics where correlation and regression techniques were employed. This was done so as to measure whether a relationship exists between the entrepreneur capacity and the SMEs growth. The analyzed and interpreted data was then presented in tables as illustrated below.

4.2. Description of respondents

Table 4.1: Respondents' age

| Age | No. of Respondents | Percentage to total |
|-------------|--------------------|---------------------|
| 15-25 | 16 | 18 |
| 25-45 | 40 | 45 |
| Above 45 | 19 | 21.3 |
| No response | 14 | 15.7 |
| Total | 89 | 100.0 |

Source: Primary Data

Table 4.1 indicates that most entrepreneurs are in the age range of 25-45; this is illustrated by 45% of all the respondents surveyed. This signifies that these are the people who have

matured, left or finished school and aim at achieving high in the society before they go to retirement age where they are not energetic to strive for their businesses.

Table 4.2: Respondents' Gender

| Sex | No. of Respondents | Percentage to total |
|-------------|--------------------|---------------------|
| Male | 30 | 33.7 |
| Female | 40 | 44.9 |
| No response | 19 | 21.3 |
| Total | 89 | 100.0 |

Source: Primary Data

Table 4.2 illustrates that 44.9% of all entrepreneurs are female. This explains that in terms of gender promotion in regard to doing business, women are highly involved in doing business than their male counterparts.

Table 4.3: Respondents by enterprise type

| Enterprise | No of Respondents | Percentage to total |
|-------------|-------------------|---------------------|
| Micro | 21 | 23.5 |
| Small | 41 | 46 |
| Medium | 13 | 14.6 |
| Macro | 4 | 4.4 |
| No response | 10 | 11.2 |
| Total | 89 | 100.0 |

Source: Primary Data

Table 4.3 highlights that 46% enterprises were the small enterprises, followed by the micro ones (23.5%). This means that the owners of these enterprises use small affordable capital that can be borrowed from friends, microfinance institutions, or from their savings of other work before they started their own business.

Table 4.4: Respondents by length of business experience

| Years of business experience | No of Respondents | Percentage to total |
|------------------------------|-------------------|---------------------|
| Less than 5yrs | 34 | 38.2 |
| Less than 10 yrs | 44 | 49.4 |
| Above 10 yrs | 5 | 5.6 |
| No response | 6 | 6.7 |
| Total | 89 | 100.0 |

Source: Primary Data

Table 4.4 shows that most businesses have been operating in a period of less than 10 yrs (49.4%). This may be attributed to the various financial and developmental support activities/campaigns in Rwanda and have awakened and facilitated people in involving in various business activities.

Table 4.5: Respondents by education level

| Education level | No of Respondents | Percentage to total |
|-----------------|-------------------|---------------------|
| Primary | 15 | 16.8 |
| Lower secondary | 23 | 25.8 |
| Upper secondary | 30 | 33.7 |
| Undergraduate | 15 | 16.8 |
| Postgraduate | 6 | 6.7 |
| Total | 89 | 100.0 |

Source: Primary Data

Table 4.5 illustrates that most entrepreneurs have a secondary education level (33.7% upper secondary, 25.8% lower secondary). This means that those who possess lower secondary never got chance to proceed to upper secondary and therefore drop out of school. They become bored with life and resort to new life of establishing micro and small enterprises so that they are recognized people in the society.

The same applies to those who finish upper secondary but they don't get chance to proceed to undergraduate. The undergraduates who are represented by 16.8% are the ones with the belief that after studying, they have gained various capacities and therefore, instead of seeking jobs, they create it through establishing micro and small businesses that will grow into macro enterprises. These findings complement Musahara et al, (2012) who revealed that SMEs in Rwanda have a relatively well-trained cadre where 62.8% have been to secondary school or university. Furthermore, they complement with Chinguta (2003) who established in Zambia that the majority of the entrepreneurs (55.5%) had attained secondary education; 37.2% had attained primary education, while post-secondary education was almost none existent.

4.3. Entrepreneurial capacity of respondents

The table 4.6 highlights the results of the instrument's questions according to the research objective which aimed at investigating the entrepreneurial capacity on SMEs growth. Each question's responses were measured on a five Likert scale and given a numerical score as: strongly disagree (1), disagree (2), neutral (0), agree (0), and strongly agree (4). Actual scores were converted into mean scores. A five-point scaled item was designed to interpret the mean scores. The interpretation scale used was: 0.00-0.09= below low; 1.00-1.49= low; 1.50-2.49=below average; 2.50-3.49= average; and 3.50-4.00= high.

As indicated in the table below, the majority respondents agreed that they were constantly thinking new ideas for their business(3.3295 average mean); took business risks for the thrill of it(3.2159 average mean); believed in organizing business tasks before getting started (2.8876 average mean); enjoyed tackling a business tasks without knowing all the potential challenges (3.2360 average mean); believed that entrepreneurship was a huge risk taking(2.7303 average mean); determined which location to set their business (3.2500 average mean); as well as strongly agreed that that they strived to use past mistakes as a learning process in business(3.4607 average mean); had personal account(3.3371 average mean); had other personal investments(2.6629 average mean); determined which type of customers to serve in their business(3.4270 mean); had a strong need to achieve in business (3.5618 high mean); I enjoy finding an answer to a frustrating business challenge(3.2921

average mean); always find out what my competitors are doing(3.0000 average mean); associated closely with other entrepreneurs(3.7176 high mean); were willing to tolerate uncertainty in business(3.2500 average mean); as well as had the desire and willingness to take initiatives business(3.25759 average mean).

On the other hand however, majority respondents disagreed with the statements that they worked long hours to achieve their business goals (1.8523 below average mean); did worry about what others were thinking of them (1.7079 below average mean); blamed others when something went wrong in their business (1.9318 below average mean); slept as little as possible because of much focus on their business (1.9101 below average mean).

These results signify that the surveyed entrepreneurs have the capacity to ensure their business runs smoothly and successfully as they constantly think of new ideas about their business growth, are aware that entrepreneurship is a risk taking and for them, they risk for the thrill of it. Their capacity is also evidenced in the fact that they don't blame others when something goes wrong and don't have no time to think of what others are thinking of them. It can therefore, be concluded that the entrepreneurs have the capacity to grow their businesses.

According to Schumpeter (1999), innovation skills are highly emphasized for the success of any entrepreneur. This author further described an entrepreneur as someone who is innovative, creative, and foresighted. Nwazor (2012) stressed capacity as resulting from different set-ups such as on-job training, formal schooling, traditional education and vocational training

Table 4.6: Entrepreneurial Capacities of Respondents

| Statements | No response | Strongly disagree/% | Disagree% | Neutral% | Agree% | Strongly agree% | Frequency | Mean | Std. Deviation |
|--|-------------|---------------------|-----------|----------|--------|-----------------|-----------|--------|----------------|
| I constantly find myself thinking new ideas about my business | 1.1 | 0 | 4.5 | 1.1 | 52.8 | 40.4 | 88 | 3.3295 | .67333 |
| I take business risks for the thrill of it. | 1.1 | 0 | 3.4 | 4.5 | 52.8 | 38.2 | 88 | 3.2159 | .88990 |
| I believe in organizing business tasks before getting started | 0 | 0 | 11.2 | 7.9 | 57.3 | 23.6 | 89 | 2.8876 | 1.02733 |
| I enjoy tackling business tasks without knowing all the potential challenges | 0 | 0 | 1.1 | 6.7 | 47.2 | 44.9 | 89 | 3.2360 | 1.01155 |
| I work long hours to accomplish my business goals | 1.1 | 25.8 | 39.3 | 10.1 | 15.7 | 7.9 | 88 | 1.8523 | 1.06717 |
| I believe that entrepreneurship is a huge risk taking occupation | 0 | 4.5 | 9.0 | 10.1 | 55.1 | 21.3 | 89 | 2.7303 | 1.15566 |
| I strive to use past mistakes as a learning process in business | 0 | 4.5 | 0 | 2.2 | 31.5 | 61.8 | 89 | 3.4607 | .89260 |

| | | | | | | | | | |
|--|-----|------|------|------|------|------|----|--------|---------|
| I enjoy finding an answer to a frustrating business challenge | 0 | 34.8 | 53.9 | 2.2 | 7.9 | 1.1 | 89 | 3.2921 | 1.07874 |
| I do worry about what others are think of me | 1.1 | 31.5 | 43.8 | 0 | 22.5 | 1.1 | 89 | 1.7079 | .69417 |
| I blame others when something goes wrong in my business | 0 | 15.7 | 38.2 | 15.7 | 22.5 | 7.9 | 88 | 1.9318 | .77006 |
| I sleep as little as possible because of much focus on my business | 0 | 0 | 15.7 | 0 | 34.8 | 49.4 | 89 | 1.9101 | 1.15444 |
| I have a savings account | 0 | 10.1 | 16.9 | 10.1 | 29.2 | 33.7 | 89 | 3.3371 | .73768 |
| I have other personal investments | 0 | 0 | 7.9 | 0 | 41.6 | 50.6 | 89 | 2.6629 | 1.31377 |
| I always find out what my competitors are doing | 1.1 | 7.9 | 0 | 0 | 50.6 | 40.4 | 89 | 3.0000 | 1.10782 |
| I determine which type of customers to serve in my business | 0 | 0 | 0 | 0 | 43.8 | 56.2 | 89 | 3.4270 | .63760 |
| I determine which location to set my business | 4.5 | 0 | 1.1 | 0 | 24.7 | 69.7 | 88 | 3.2500 | .82001 |

| | | | | | | | | | |
|--|--|--|--|--|--|--|----|--------|--------|
| I have a strong need to achieve in business | | | | | | | 89 | 3.5618 | .49898 |
| I associate closely with other entrepreneurs | | | | | | | 85 | 3.7176 | .47838 |
| I am willing to tolerate uncertainty in business | | | | | | | 88 | 3.2500 | .93772 |
| I have the desire and willingness to take initiatives in my business | | | | | | | 87 | 3.2759 | .80246 |

Source: Primary Data

4.4: Entrepreneurial knowledge and skills

The second research objective investigated the entrepreneurial knowledge and skills. Each question's responses were measured on a five and given a numerical score as: strongly disagree (1), disagree (2), neutral (0), agree (3), and strongly agree (4). A five-point scaled item was designed to interpret the mean scores. The interpretation scale used was: 0.00-0.09= below low; 1.00-1.49= low; 1.50-2.49=below average; 2.50-3.49= average; and 3.50-4.00= high.

According to the table 4.7 below, a significant majority of respondents were in agreement with the statements that their business success depends on their natural knowledge and skills (3.4167 average mean); knowledge and skills obtained from formal education (3.6667 high mean); knowledge and skills obtained through the experience of doing business (3.4333 average mean); knowledge and skills obtained from attending various trainings (3.1818 average mean); as well as knowledge and skills obtained from study tours (3.5000 high mean)

This signifies that the knowledge and skills they possess are from a variety of experiences. Therefore, no single factor is attributed to knowledge and skills which the entrepreneurs possess. These findings are in line with Jianwen et al (2003) findings that revealed absorptive capacity, external knowledge acquisition and intrafirm knowledge dissemination as positively related to organizational responsiveness. According to White and Kanyon (2000), expanding an existing business requires specific skills, knowledge and attitudes that differ from that of a starting business.

Table 4.7: Entrepreneurial Knowledge & Skills of Respondents

| Statements | No response | Strongly disagree /% | Disagree % | Neutral % | Agree % | Strongly agree % | Frequency | Mean | Std. Deviation |
|---|-------------|----------------------|------------|-----------|---------|------------------|-----------|--------|----------------|
| the success of my business depends on my natural knowledge and skills | 59.6 | 0 | 0 | 1.1 | 19.1 | 20.2 | 36 | 3.4167 | .76997 |
| the success of my business depends on knowledge and skills I obtained from formal education | 93.3 | 0 | 0 | 0 | 2.2 | 4.5 | 6 | 3.6667 | .51640 |
| the success of my business depends on knowledge and skills I learned from attending various entrepreneurial trainings | 87.6 | 0 | 0 | 0 | 10.1 | 2.2 | 11 | 3.1818 | .40452 |
| the success of my business depends on knowledge and skills I obtained through the experience of doing business | 66.3 | 0 | 0 | 0 | 19.1 | 14.6 | 30 | 3.4333 | .50401 |
| the success of my business depends on knowledge and skills I obtained from study tours | 93.3 | 0 | 0 | 0 | 3.4 | 3.4 | 6 | 3.5000 | .54772 |
| the success of my business depends on knowledge and skills I obtained from any other apart from what is stated above | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | | |

Source: Primary Data

4.5. Entrepreneurial Trainings

The third objective investigated the entrepreneurial trainings required to successfully grow their businesses. Each question's responses were measured on a five and given a numerical score as: strongly disagree (1), disagree (2), neutral (0), agree (3), and strongly agree (4). A five-point scaled item was designed to interpret the mean scores. The interpretation scale used was: 0.00-0.09= below low; 1.00-1.49= low; 1.50-2.49=below average; 2.50-3.49= average; and 3.50-4.00= high.

As indicated in table 4.8 below, the majority respondents were in agreement with the statements that they have attended many trainings(3.5556 high mean); few trainings (3.4000 average mean); and never got chance to attend trainings on how to run their businesses (3.3243 average mean); and business success was attributed to the entrepreneurial trainings they had attended(3.7143 high mean). Furthermore, majority respondents indicated that they needed trainings on business management (4.0000 high mean); customer care (3.3939 high mean); financial management (3.4500 average mean); marketing(3.2000 average mean); stock taking (3.7500 high mean); record keeping(3.1667 average mean); and production (3.3077 average mean).

The results imply that only a small number of entrepreneurs have accessed trainings on how to run businesses and the majority has never got the chance. Furthermore, results imply that trainings are needed by entrepreneurs in the fields of customer care, financial management, and how to make production so that their businesses grow. These findings replicate those of Musahara et al (2012) who found that the majority SMEs had received little capacity building. The findings also prove McGrath and King (1995) belief that people working in the informal sector don't receive skills training.

Table 4.8: Entrepreneurial Trainings experienced by the Respondents

| Statements: As an entrepreneur | No response | Strongly disagree/% | Disagree% | Neutral% | Agree% | Strongly agree% | Frequency | Mean | Std. Deviation |
|--|-------------|---------------------|-----------|----------|--------|-----------------|-----------|--------|----------------|
| I have attended many trainings on how to run my business | 89.9 | 0 | 0 | 0 | 4.5 | 5.6 | 9 | 3.5556 | .52705 |
| I have attended few trainings on how to run my business | 60.7 | 0 | 0 | 0 | 23.6 | 15.7 | 35 | 3.4000 | .49705 |
| I have never got chance to attend trainings on entrepreneurship | 58.4 | 0 | 0 | 0 | 28.1 | 13.5 | 37 | 3.3243 | .47458 |
| my business success is attributed to the entrepreneurial trainings I have attended | 92.1 | 0 | 0 | 0 | 2.2 | 5.6 | 7 | 3.7143 | .48795 |
| need trainings to run my business on business management | 98.1 | 0 | 0 | 0 | 0 | 1.1 | 1 | 4.0000 | . |
| I need trainings to run my business on marketing | 88.8 | 0 | 0 | 0 | 9.0 | 2.2 | 10 | 3.2000 | .42164 |
| I need trainings to run my business on customer care | 62.9 | 0 | 0 | 0 | 22.5 | 14.6 | 33 | 3.3939 | .49620 |

| | | | | | | | | | |
|---|-------|---|---|---|------|------|----|--------|--------|
| I need trainings to run my business on financial management | 77.5 | 0 | 0 | 0 | 12.4 | 10.1 | 20 | 3.4500 | .51042 |
| I need trainings to run my business on record keeping | 93.3 | 0 | 0 | 0 | 5.6 | 1.1 | 6 | 3.1667 | .40825 |
| I need trainings to run my business on stock taking | 95.5 | 0 | 0 | 0 | 1.1 | 3.4 | 4 | 3.7500 | .50000 |
| I need trainings to run my business on production | 85.4 | 0 | 0 | 0 | 10.1 | 4.5 | 13 | 3.3077 | .48038 |
| I need trainings to run my business on pricing | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | | |
| I don't need more trainings on entrepreneurship | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | | |

Source: Primary data

4.6. Impact of the entrepreneurial capacity on the SMEs growth

The fourth objective assessed the effect of entrepreneurial capacity on the SMEs growth. Each question's responses were measured on a five and given a numerical score as: strongly disagree (1), disagree (2), neutral (0), agree (3), and strongly agree (4). A five-point scaled item was designed to interpret the mean scores. The interpretation scale used was: 0.00-0.09= below low; 1.00-1.49 = low; 1.50-2.49 = below average; 2.50-3.49 = average; and 3.50-4.00= high.

As illustrated in the table 4.9 below, majority respondents were in agreement with the statements that the growth of business is related to various capacity and skills obtained from various domains (2.8605 average mean); without capacity skills, their business would vanish (3.1348 average mean); profited in their business after attending various trainings(2.3563 below average mean); capacity skills were perquisite for any business startup (3.0795 average mean); identified opportunity to set up their own business (3.4432 average mean); got a new product idea and tested(3.3864 mean); identified a niche market(3.3977 average mean); were successful in designing a business strategy(2.9655 average mean); found a new investment strategy and financing model(3.1264 average mean); networked with stakeholders that contributed to their business growth (3.1364 average mean); manufacturing process was improved with innovative method(2.9294 average mean); technology improvement was done (2.8046 average mean); maximally used human resources(2.7356 average mean); and finally they became good citizens (3.4302 average mean).

On the other side, majority respondents were in disagreement with the statement that before acquiring capacity skills, their business were not doing well (2.1236 below average mean). These findings highlight that entrepreneurial capacity of various kinds impact positively the growth of SMEs.

Table 4.9: Impact of entrepreneurial capacity on SMEs growth

| statements | No response | Strongly disagree/% | Disagree% | Neutral% | Agree% | Strongly agree% | Frequency | Mean | Std. Deviation |
|---|-------------|---------------------|-----------|----------|--------|-----------------|-----------|--------|----------------|
| the growth of my business is related to the capacity skills I obtained from various domains | 3.4 | 3.4 | 6.7 | 10.1 | 46.1 | 30.3 | 86 | 2.8605 | 1.20940 |
| without the capacity skills, my business would vanish | 0 | 6.7 | 7.9 | 0 | 50.6 | 34.8 | 89 | 3.1348 | .82835 |
| capacity skills are a preliquisite to any business start up | 0 | 7.9 | 10.1 | 1.1 | 42.7 | 37.1 | 88 | 3.0795 | .94955 |
| before acquiring capacity skills from various trainings, my business was not doing well | 0 | 20.2 | 37.1 | 7.9 | 21.3 | 13.5 | 89 | 2.1236 | 1.12634 |
| I have profited much from my business after attending trainings on entrepreneurship | 0 | 12.4 | 29.2 | 9.0 | 29.2 | 18.0 | 87 | 2.3563 | 1.19083 |
| I identified the opportunity to do business on my own | 1.1 | 0 | 0 | 2.2 | 46.1 | 50.6 | 88 | 3.4432 | .72489 |
| I got a new product idea and tested | 1.1 | 0 | 1.1 | 2.2 | 49.4 | 46.1 | 88 | 3.3864 | .73394 |
| I identified a niche market | 1.1 | 0 | 0 | 1.1 | 55.1 | 42.7 | 88 | 3.3977 | .61662 |

| | | | | | | | | | |
|--|-------|-----|------|------|------|------|----|--------|---------|
| I was successful in designing a distribution strategy | 2.2 | 4.5 | 13.5 | 4.5 | 42.7 | 32.6 | 87 | 2.9655 | 1.03932 |
| I found a new investment strategy and financing model | 2.2 | 2.2 | 9.0 | 4.5 | 42.7 | 39.3 | 87 | 3.1264 | .99773 |
| I was successful in networking with stakeholders that contribute to growth of the business | 1.1 | 4.5 | 10.1 | 2.2 | 42.7 | 39.3 | 88 | 3.1364 | .93688 |
| the manufacturing process was improved with an innovative method adopted | 4.5 | 4.5 | 15.7 | 5.6 | 34.8 | 34.8 | 85 | 2.9294 | 1.12110 |
| technology improvement was done | 2.2 | 3.4 | 10.1 | 11.2 | 41.6 | 31.5 | 87 | 2.8046 | 1.25605 |
| human resources are used to the maximum | 2.2 | 2.2 | 4.5 | 14.6 | 49.4 | 27.0 | 87 | 2.7356 | 1.30705 |
| I became a good corporate citizen | 3.4 | 0 | 1.1 | 5.6 | 30.3 | 59.6 | 86 | 3.4302 | .98865 |
| any other please specify | 100.0 | 0 | 0 | 0 | 0 | 0 | 0 | | |

Source: Primary data

4.7. Challenges faced by the entrepreneurs

Table 4.10 provides an insight to the challenges faced by the respondents and their impact on their businesses.

Table 4.10: Challenges faced and their Impact on Respondents' Businesses

| N | Challenge faced | How the challenge was faced | No of Respondents | Percentage to total | No response |
|---|-----------------|---|-------------------|---------------------|-------------|
| 1 | Mortgage | Lacked collateral to access bank credit | 60 | 67.4 | 29 |
| 2 | Collateral | No collateral to expand business through bank financing | 52 | 58.4 | 37 |
| 3 | Taxes | Too many and high taxes | 80 | 89.8 | 9 |
| 4 | Rent | Too much rent | 85 | 95.5 | 4 |

Source: Primary Data

According to the Table 4.10, majority respondents indicated mortgage (67.4%), lack of collateral (58.4%), many and high tax dues (89.8%), and high rent (95.5%) as the most challenges they faced. The respondents highlighted solutions for those challenges as: getting facilitated with mortgages (70%); financial institutions to facilitate business owners by using the business assets they possess as collaterals (65%); reducing the number of taxes as well as reducing taxes to a lower rate (97%); land owners should drastically reduce rent. All these would enable the entrepreneurs to pay rent, taxes, as well as earn more profits thereby expanding their businesses.

4.8. Correlational Analysis

Since this study is aimed at finding out the impact of entrepreneurial capacity on SMEs growth, Pearson moment correlation coefficient was used to establish whether a

relationship exists between entrepreneurial capacity and SMEs growth. The level of significance was set at 0.05. The following are the variables entered and how they relate to each other:

1. The growth of my business is related to the capacity skills obtained from various domains correlated with the success of my business depends on my natural knowledge and skills (.378*).
2. I am willing to tolerate uncertainty in business correlated with I have a strong need to achieve in business(.406**); I associate closely with others(-.217*); I determine which location to set my business(-.212*); I determine which customer to serve in my business(-.350**); I enjoy finding an answer to a frustrating business challenge(-.320*); I strive to use past mistakes as a learning process (.315**); and, I enjoy tackling business tasks without knowing all potential challenges (.568**).
3. I have a strong need to achieve in business correlated with I believe that entrepreneurship is a huge risk taking occupation (.285**); I determine which location to set my business (-.344**); I enjoy finding an answer to a frustrating business challenge (-.266*); I determine which customers to serve in my business (-.798**); and, I sleep as little as possible because of much focus on business (.483**).
4. I associate closely with others correlated with I sleep as little as possible because of much focus on business (.382*); I strive to use past mistakes as a learning process (.287**).
5. I have a desire and willingness to take initiatives correlated with I enjoy finding an answer to a frustrating business challenge (.214*). The following correlation matrix illustrates these correlating variables.

Table 4.11 presents the correlation matrix illustrates correlating variables of the study analyzed in table 4.9

Table 4.11: Correlation Matrix

| Variables | P r | the success of my business is related to my natural knowledge and skills | I have a strong need to achieve in business | I associat e closely with other entrepre neurs | determi ne which location to set my business | I determine which type of customers to serve in my business | I enjoy finding an answer to a frustratin g business challenge | I strive to use past mistakes as a learning process in business | I enjoy tackling business tasks without knowing all the potential challenges | I believe that entrepreneur ship is a huge risk taking occupation | I sleep as little as possible because of much focus on my business |
|---|--------|--|--|--|---|---|--|--|--|---|--|
| the growth of my business is related to the capacity skills I obtained from various domains | | .378* | | | | | | | | | |
| I am willing to tolerate uncertainty in business | | | .406** | -.217* | -.212* | -.350** | -.320* | .315** | .568** | | |
| I have a strong need to achieve in business | | | | | -.344** | -.798** | -.266* | | | .285** | .483** |
| I associate closely with other entrepreneurs | | | | | | | | .287** | | | .382* |
| I have the desire and willingness to take initiatives in my business | | | | | | | .214* | | | | |

Correlation is significant at the 0.05 level (-2tailed).

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

4.9. Predictors of the SMEs growth

In order to determine which independent variables best predicted the SMEs growth, a multiple regressions method was used. The variables which entered the regressions were:-

- I constantly find myself thinking new ideas about my business,
- I have profited much from my business after attending trainings on entrepreneurship, before acquiring capacity skills from various trainings, my business was not doing well,
- I determine which location to set my business,
- I enjoy tackling business tasks without knowing all the potential challenges,
- I strive to use past mistakes as a learning process in business,
- I have the desire and willingness to take initiatives in my business,
- I enjoy finding an answer to a frustrating business challenge, capacity skills are a prerequisite to any business startup, without the capacity skills, my business would vanish,
- I have a strong need to achieve in business,
- I associate closely with other entrepreneurs,
- I work long hours to accomplish my business goals,
- I always find out what my competitors are doing,
- I take business risks for the thrill of it,
- I believe that entrepreneurship is a huge risk taking occupation,
- I sleep as little as possible because of much focus on my business,
- I believe in organizing business tasks before getting started,
- I determine which type of customers to serve in my business.

Model Summary

| R | R Square | Adjusted R Square |
|-------------------|----------|-------------------|
| .620 ^a | .385 | .176 |

a) Predictors: (Constant), I constantly find myself thinking new ideas about my business, I have profited much from my business after attending trainings on entrepreneurship, before acquiring capacity skills from various trainings, my business was not doing well, I determine which location to set my business, I enjoy tackling business tasks without

knowing all the potential challenges, I strive to use past mistakes as a learning process in business, I have the desire and willingness to take initiatives in my business, I enjoy finding an answer to a frustrating business challenge, capacity skills are a prerequisite to any business startup, without the capacity skills, my business would vanish, I have a strong need to achieve in business, I associate closely with other entrepreneurs, I work long hours to accomplish my business goals, I always find out what my competitors are doing, I take business risks for the thrill of it, I believe that entrepreneurship is a huge risk taking occupation, I sleep as little as possible because of much focus on my business, I believe in organizing business tasks before getting started, I determine which type of customers to serve in my business.

The multiple correlation coefficients of the combined variables were .620. The best predicting variables found were:- I constantly find myself thinking new ideas about my business; i have profited much from my business after attending trainings on entrepreneurship; before acquiring capacity skills from various trainings, my business was not doing well; I determine which location to set my business; I enjoy tackling business tasks without knowing all the potential challenges; I strive to use past mistakes as a learning process in business; I have the desire and willingness to take initiatives in my business; I enjoy finding an answer to a frustrating business challenge; capacity skills are a prerequisite to any business startup; without the capacity skills, my business would vanish; I have a strong need to achieve in business; i associate closely with other entrepreneurs; I work long hours to accomplish my business goals; i always find out what my competitors are doing; I take business risks for the thrill of it; I believe that entrepreneurship is a huge risk taking occupation; I sleep as little as possible because of much focus on my business; I believe in organizing business tasks before getting started; and, I determine which type of customers to serve in my business. They accounted to .176 adjusted R square which 17.6% of the total variance in the SMEs growth.

Bierly et al (2009) reveal that predictors of exploration and exploitation of the application of external knowledge differ.

This imply that for the success and growth of SMEs in Rwanda, those predictors have to be the major focal point of improvement by the policy makers

ANSWERS TO RESEARCH QUESTIONS:

Question No 1. What is the entrepreneurial capacity of SME operators in Rwanda?

Answer: Entrepreneurs have an average capacity to grow their businesses.

Question No 2. What are the knowledge and skills possessed by the SME entrepreneurs in Rwanda?

Answer: Entrepreneurs possess knowledge and skills they obtained from various experiences/domains.

Question No 3. What are the entrepreneur trainings received by the entrepreneurs in Rwanda?

Answer: The majority entrepreneurs never got chance to attend trainings on how to run their businesses moreover, they needed trainings in the fields of customer care, financial management, how to make production, among others.

Question No 4. What is the effect of entrepreneurial capacity on the growth of SMEs in Rwanda?

Answer: The entrepreneurs' capacity of various kinds had a significant positive effect on the growth of SMEs.

Question No 5. What are the challenges faced by Rwandan MSME's in achieving growth?

Answer: Mortgage; lack of collateral; many taxes; high taxes; high rent.

Question No 6. What are the solutions to the challenges faced by the growth of MSME's in Rwanda?

Answers: Getting facilitated with mortgages; financial institutions to facilitate business owners by using the business assets they possess as collaterals, reducing the number of taxes, reducing taxes to a lower rate and land owners should drastically reduce rent.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The aim of this research was to find out the effect of entrepreneurial capacity on the growth of SME's in Kigali City. The various theories and studies in current literature on the entrepreneurial capacity effect on SMEs growth were analyzed and found gaps were the basis for this study to fill. The study was conducted with specific objectives of finding out the entrepreneurial capacity of SMEs operators in Gasabo district; finding out the knowledge and skills possessed by the SMEs operators in Gasabo district; establishing the entrepreneurial trainings received by the SMEs operators in Gasabo district; establishing the effect of entrepreneurial capacity on the growth of SMEs in Gasabo district; finding out the challenges faced by the SMEs in achieving growth, as well as suggesting recommendations for enhancing the growth of SMEs in Rwanda.

Basing on the specific objectives, the research was guided by the following research questions:-What is the entrepreneurial capacity of SMEs operators in Gasabo district? What are the entrepreneurial knowledge and skills possessed by the SMEs operators in Gasabo district? What trainings have the SMEs operators acquired and need? What is the effect of entrepreneurial capacity on the growth of MSME's in Gasabo district? What are the challenges faced by Rwandan SMEs in achieving growth in Gasabo district? What are the solutions to the challenges faced by the growth of SMEs in Gasabo district?

In regard to scope, the study was confined to the entrepreneurial capacity, entrepreneurial knowledge and skills, entrepreneurial trainings, effect of entrepreneurial capacity on the growth of SMEs, challenges faced by SMEs, as well as solutions to those challenges. Kigali City is the business hub of the country and the center for a diversity of entrepreneurial excellence and provided the study population from which Gasabo district was selected.

The study population was all the SMEs in all the three districts constituting Kigali city. A sample of 400 respondents was chosen using the Slovene's formulae. Purposive sampling was used to select only one district from Kigali city and in this case Gasabo due to limited time and financial resources by the researcher. Simple random sampling was used to select Gasabo as the specific area of study from the three districts as well as selecting the

SMEs for study. Out of 133 sampled respondents in Gasabo, only 89 (those who responded) filled and returned the questionnaire.

In regard to data collection tools, a research instrument with structured items was designed and its validity checked using the content validity. Its items collected data on the respondent's background information, entrepreneurial capacity, entrepreneurial knowledge and skills, entrepreneurial trainings, the impact of the entrepreneurial capacity and the SMEs growth, as well as challenges of SMEs and their solutions. This was done in accordance with the stated research objectives and research questions.

In data processing, collected data was coded, edited and entered in SPSS. It was analyzed using descriptive statistics, correlation and regression analysis. Findings were presented in form of percentages, frequencies and coefficients and highlighted in tables and interpreted according to the research objectives. Ethical issues were also considered during the data collection process. From the analyzed data, the following were the major findings.

5.2 Summary of Findings

The major findings of this study were summarized and highlighted according to each research objective as follows:

1. In regard to the first research objective about the entrepreneurial capacity, entrepreneurs had the capacity to grow their businesses.
2. In regard to the second research objective about entrepreneurial knowledge and skills, entrepreneurs possessed knowledge and skills obtained from various experiences/domains.
3. In regard to the third objective about the entrepreneurial trainings, majority entrepreneurs never got chance to attend trainings on how to run their businesses; and trainings were needed in the fields of customer care, financial management, how to make production, among others.
4. About the fourth objective which assessed the effect of the entrepreneurial capacity on the SMEs growth, the entrepreneurs' capacity of various kinds impacted positively the growth of SMEs.
5. On the fifth objective which was about the entrepreneurial challenges, entrepreneurs were mainly challenged by lack of mortgage, collaterals, high and many taxes, as well as high rent.

6. The correlation results indicated that the growth of SMEs was related to the capacity skills obtained from various domains, including natural knowledge and skills (.378*).
7. The regression results indicated many best predictors of SMEs growth and some of them were: - capacity skills being prerequisite to any business startup and without the capacity skills, businesses would vanish.

5.3 Conclusion

The researcher, basing on the above findings concluded that entrepreneurs' capacity of various domains do lead to the growth of the SMEs in Kigali City; entrepreneurs' lack of capacity skills in customer care, financial management, and production are the major challenges.

5.4 Recommendations

1. The RDB and the private sector federation should provide trainings for entrepreneurs on how to handle customer care, financial management, as well as how to make production. Trainings should be done to all entrepreneurs so that they all have chances of increasing their entrepreneur skills so that they successfully run and grow their businesses.
2. RDB and the private sector federation should help entrepreneurs to identify which skills they possess as well as those they lack. This would enable entrepreneurs to know how to improve on those skills they possess as well as to be trained in other skills they lack.
3. RDB, the private sector, the government, and banking institutions in Rwanda should facilitate entrepreneurs in easily accessing finances/loans and securities which would help them improve and expand their businesses.
4. Land owners should drastically reduce rent. This would enable the entrepreneurs to pay rent, taxes, as well as earn more profits thereby expanding their businesses.
5. Future studies should be done in other provinces in Rwanda so as to replicate these findings.

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