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EFFECT OF CREATIVITY ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA

Beth Mukiri Kimathi

College of Human Resource Development

Jomo Kenyatta University of Agriculture and Technology, Kenya

E-mail of the Author: bmukiri@gmail.com

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ABSTRACT

SMEs play a crucial role in Kenya because they control above 80% of all jobs in the country and contribute to over 30% of the Gross domestic product (GDP) in Kenya in 2019. However, some of the SME's do not survive past their first year, others do not grow beyond the initial status, while others fail to perform as well as they were projected to perform. Entrepreneurial mindset is one possible strategy for enhancing the performance of SMEs. This study, therefore, sought to fill this gap by investigating the effect of creativity aspect of Entrepreneurial mindset on the performance of small and medium enterprises in Kenya. The study adopted survey research design focusing on a population of 268,100 licensed small and medium enterprises in Nairobi County in Kenya, from which a sample of 400 SMEs were selected through a multi-stage probability sampling method where stratified sampling method was used first to select firms under the sector strata's (manufacturing, services, wholesale and retail trade and real estate activities) and then simple random sampling was used to select representative samples from each sector.

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Quantitative data was collected using questionnaires and analyzed using Statistical Package for Social Science (SPSS) and Microsoft Excel. The study results established that creativity had positive and significant effect on performance of small and medium size enterprises in Kenya. The study concluded that creativity influenced performance of small and medium enterprises in Kenya. Small and medium enterprises with more creative owners/managers outperformed those with less creativity. The study further concluded that creativity leads business enterprises into high returns investments which improves performance and sustainability of the small and medium enterprises.

Keywords: *Creativity, SMEs, Performance, Kenya*

BACKGROUND OF THE STUDY

Today's global economy is characterized by changes in development and technology fueled by information and driven by entrepreneurial knowledge, skills and mindset (Gyong, 2014). To succeed in today's business world calls for appropriate innovative ideas and strategies which are functions of entrepreneurial mindset. Entrepreneurial mindset is a critical issue in today's business sustainability (Tyopine, Teddy, James & Ringim, 2016). Business success is not merely a function of relevant skills; it in addition requires appropriate entrepreneurial mindsets that capture the benefits of uncertainty hence attainment of the correct entrepreneurial mindset creates a solid in-road to the achievement, growth and performance of Small and Medium Enterprises (SMEs) (Junde, 2015). In regard to the small and medium enterprise, mindset refers to exploring opportunities and innovation, taking risks, as well as managing change and uncertainty and is an ability or way of thinking to identify and exploit new opportunities through flexible, reactive, innovative and renewal manner (Darjat, 2015). Small and Medium Enterprises bring or restore growth to stagnant economies and contributes to economic growth and social development and they cannot be undermined anywhere across the globe (Gürol & Astan, 2006). The mindset of the entrepreneur determines the business success in today's competitive market (McGrath, & MacMillan, 2000).

World over, SMEs are recognized as the catalyst by which global economies are built. Small and medium enterprises are used by governments worldwide for job creation, economic development, wealth creation and poverty reduction. According to Kenya National Bureau of Statistics (2016) the importance of small and medium enterprises in the Kenyan economy cannot be underestimated. The survey indicated that eighty per cent of the eight hundred thousand jobs created belonged to the informal sector that is controlled by SMEs. They are the undisputed foundation of economic diversification and expansion, contributing immensely towards a positive socio-economic impact within the country (Karen, 2015). Generally, majority of Kenyan investors start off as entrepreneurs mostly micro, small or medium enterprises which form a large a large part of the private sector in the developed and developing countries. The Small enterprises are considered as those that employ 10 to 49 employees while medium enterprises are those that are able to employ 50 to 99 employees (Njeru, 2012).

Small and medium firms are increasingly becoming important in any economy in the world. Productivity growth and consequently economic growth is strongly influenced by the performance of SMEs positively if more are born and thrive and negatively if they die and exit. Less than one-half of small start-ups survive for more than five years, and only a fraction develops into the core group of high-performance firms which drive industrial innovation and performance (OECD, 2010).



The SME sector in Kenya has over the years been recognized for its role in provision of goods and services, enhancing competition, fostering innovation, generating employment and in effect, alleviation of poverty. SMEs created 3.7 Million jobs in 1999 which grew to 12.6 million in 2015 (Kenya National Bureau of Statistics, 2016). However, while there is consensus about the crucial role played by SMEs in any economy, previous data indicate that three out of every five businesses in Kenya fail within the first few months of opening shop or operation and there is still essential lack of understanding as to why some SMEs manage to grow, while others remain trapped at small scale and low productivity levels (Simiyu, Namusonge & Sakwa, 2016; Munyaka, Ouma & Ndirangu, 2015).

According to KNBS (2016), a total of 2.2 million SMEs were closed in Kenya in the last five years, 2016 inclusive and on average, businesses were closed at the age of three years and eight months. The dilemma then is what causes these SMEs to close shop. Some scholars have argued that the death of SMEs is because of the perceived mindset of its owners identified as one of the major causes of SMEs failure rates. Others have said entrepreneurial mindset is an important success factor for SMEs without which a business will fail (Nieman, 2006; Dhliwayo & Vuuren, 2007; Alasadi & Sabbagh, 2015; Tyoapine, Teddy, James & Ringim, 2016; Ngeek, 2012; Asenge & Agwa, 2018). However, the results obtained in previous research on entrepreneurial mindset are far from conclusive and there is need to progress research to add knowledge in this area and contribute to the growth of small and medium enterprises in Kenya.

Scholars and researchers have suggested that a focus on the role of entrepreneurial mindset to business growth has the potential to contribute meaningfully to the study of entrepreneurship (McGrath & MacMillan, 2000; Kirzner, 1997). Majority of investors in developing countries like Kenya start business of as small and medium enterprises which lead to creation of employment, increased wealth creation, expanded market, variety of goods and services and high-quality goods and services. There exists limited literature focusing on the effect of creativity on the performance of SMEs in Kenya. Previous studies in Kenya focused on creativity in the context of manufacturing firms in Nairobi industrial area and university graduates in Kenya (Njeru, 2012; Ndururi & Mukulu, 2015). Although various studies have explored the area of entrepreneurial mindset exhibited through other attributes like business alertness, training, work experience and education (Kalu, & Peace, 2017; Asenge, Diaka, & Soom, 2018) there is insufficient empirical data with specific focus on effect of entrepreneurial mindset exhibited through creativity on the performance of SMEs in Kenya (Ngeek, 2012; Susilo, 2014). This study sought to fill that knowledge gap by assessing the effect of creativity on the performance of SMEs in Nairobi County, Kenya.

THEORETICAL LITERATURE REVIEW

Entrepreneurial creativity theory postulated that creativity has evolved from origins in mysticism and divine inspiration to being a key performance contributor in helping businesses adapt to changing environments. There have been many conceptualizations of creativity over time, but research over the past years has produced some consistent themes. Creativity has been defined variously as a process, as a product outcome, and in social constructionist terms (Eno-Obong, 2006). Creativity is most commonly described today as the generation or production of ideas that are novel and useful. In order to be useful, creative ideas must also be appropriate, that is, of potential value towards accomplishing desired goals. These ideas may reflect either a recombination of existing materials or an introduction of new materials to the organization (James & Drown, 2012).



Entrepreneurial creativity theory guided the researcher in discovering the theory's view that there is a great set of linkages between creativity as an attribute and performance of small businesses or firms in this case the SMEs in Kenya. The theory helped bring out the link between creativity in relation to how SMEs perform. In relations to this study, SMEs in Kenya rely mostly on the owners' creativity to steer the business growth hence the confirmation of the link between creativity and performance of SMEs.

EMPIRICAL LITERATURE REVIEW

According to Weerasiri, Zhengang and Perera (2012) creativity is the beginning for innovation and it is depicted by the ability to bring into life, create, invent, to produce through imaginative and visionary skill, to make or birth something new. According to Harris (2012) in some cases creative ideas are incredible and bright, while others are just modest, just decent useful ideas that no one seems to have thought of yet. Creativity is also defined as the ability to accept change and newness, an attitude, a readiness to play with ideas and opportunities, a flexibility of viewpoint, the practice of enjoying the worthy, while looking for ways to increase it. Creativity is a crucial ingredient for the success of SMEs especially when advanced to innovation because it enables their businesses to survive and grow (Blackburn, Hart & Wainwright, 2013). Creativity enables the entrepreneur to act on these opportunities in ways which can result in competitive advantage for the business. It can provide the basis for innovation and business growth, as well as impacting positively on society generally.

Product creativity allows the organization to take advantage of opportunities which develop as the result of changing environmental conditions (Shalley, Zhou & Oldham, 2004). According to Gurpreet, Bernd and Richard (2009) there are many good reasons for paying attention to SME's. They constitute the majority of organizations, they are a main source of employment, they are flexible, and they are often creative and innovative. While many SMEs are creative and innovate partly because of their need to remain competitive, effective use of ICT helps in defining newer opportunities and sustainability in a marketplace (Harris, 2012). Rukevwe (2015) view creativity as being able to do imaginative and non-routine things while also building on tradition to achieve profitable outcomes. They say creativity for creativity's own sake can result in profitable outcomes. According to Ranga, Murali and Swathi (2013) the entrepreneur is mainly concerned with coming up with new services, products, markets, processes, the ability to bring something new into the market to ensure business or enterprise growth.

Process creativity is a system which, through the dynamic interaction of personal characteristics, social psychological context and cognitive processing, produces an output that the social organization in the field finds valuable. Creativity requires an entrepreneur, a context and a process as well as interaction between these elements to produce a novelty, such as a business opportunity. Creative personalities have internal intentions that drive them to realize their dreams (Baldacchino, 2009). The goal of the creative personality is self-actualization, and the means of achieving that goal are mustered from the deep structures of personality. Creative personalities have the ability to tap into the preconscious and conscious, and even to access the unconscious, and use the symbol collections found there as material for self-fulfillment. Thus, they pursue their internal intentions under conscious control and exploit preconscious and unconscious deep structures to find an expression for their creative urges (Bilton, 2007).



RESEARCH METHODOLOGY

The study adopted descriptive research design through survey research using both quantitative and qualitative methodologies. According to Aggarwal (2008) descriptive research is devoted to the gathering of information about prevailing conditions or situations for the purpose of description and interpretation. The choice of this design is informed by the fact that entrepreneurial mindset is a precise state of mind which positions people or individuals towards entrepreneurial actions and outcomes which can easily be described and information acquired through such description (Karanja, 2012). According to Kenya National Bureau of Statistics (2016) there were 1,560,500 licensed to operate SMEs in Kenya, hence the total population of licensed SMEs in Kenya is 1,560,500. These SMEs are spread out in all the 47 counties in Kenya with Nairobi County carrying the majority. The target population of this research consisted of all licensed small and medium enterprises in Nairobi County, Kenya which according to Kenya National Bureau of Statistics (2016) are estimated to be 268,100 in number (Kenya National Bureau of Statistics, 2016).

This study applied multi-stage probability sampling method. In the first stage stratified sampling method was used to divide the SMEs into 4 strata according to SME sectors (manufacturing, real estate activities, wholesale & retail trade and services) with each sector forming a stratum. Stratified random sampling was found to be appropriate as it enables the researcher to characterize not only the total population but also crucial sub-groups of the population. Stratification also helps reduce standard error by providing some control over variance. The technique also provides a better comparison across strata (Saunders *et. al.*, 2007). In the second stage, a simple random sampling method was used to select representative samples from each sector. This allows equal probability of all individuals in the defined population to be selected as a member of the sample (Kombo & Tromp, 2006). This sample size of 400 SMEs was calculated using the formula developed by Cochran (1963) as cited by Singh and Masaku (2014).

Table 1: Sampling Table

Industry	Population	Sample	Percentage
Manufacturing	28,419	42	10.6
Real Estate Activities	7,480	12	2.79
Wholesale & Retail Trade	111,262	166	41.5
Services	120,939	180	45.11
Total	268,100	400	100

The data analysis included both descriptive and inferential statistics. This study adopted regression model to test the effect of Creativity on performance of SMEs. The regression model of the study was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where: Y is the performance of the SMEs

β_0 = Is a constant which represents the performance of SMEs when the independent variable under consideration are zero.



X_1 = Creativity Index

β_1 represent the coefficient of X_1

ε represents the error term.

RESULTS AND DISCUSSIONS

In this study a response rate of 84% (335 out of 400) was obtained. This response rate was considered to be high based on the proposition by Babbie (2004) who argued that a response rate of above 50% is adequate for a descriptive study. The response was attributed to readily available SMEs, managers and owners at the time of the study. The regions targeted by the study are crowded by SMEs who showed great interest in the study. Table 2 shows that background information on the respondents.

Table 2: Background Information on the Respondents

	Categories	Frequency	Percent (%)
Gender	Male	218	65.1
	Female	117	34.9
	Total	335	100
Age Bracket	18-25 years	75	22.4
	26-35 years	128	38.2
	36-45 years	90	26.9
	46-55 years	30	9
	Over 56 years	12	3.6
	Total	335	100
Marital status	Married	150	44.8
	Single	158	47.2
	Divorced	15	4.5
	Widowed	12	3.6
	Total	335	100
Level of education	No formal Education	3	0.9
	Primary	30	9
	Secondary	161	48.1
	Certificate	63	18.8
	Diploma	21	6.3
	University	57	17
	Total	335	100



Descriptive Statistics Results

Creativity in this study was measured using product creativity, process creativity and business model creativity. The findings in this section sought to establish the level of creativity among SMEs in Nairobi County. First, the study sought to establish whether SMEs held meetings where employees brainstormed on new ideas and how often such meetings were held. The results indicate 33.9% agreed that they met with employees to brainstorm on news ideas. The findings further showed that 30% and 26% of the SMEs met monthly and weekly respectively. However, majority (65.1%) indicated they didn't hold such meetings to brainstorm on new ideas (see Table 3). The finding implies that majority of the SMEs in the study population didn't create a forum or platforms where creativity of employees could be harnessed and utilized for growth and expansion purposes. The finding further implied that SMEs owners relied on their own creativity to steer the business growth. This further explains why majority of the SMEs collapse when the owner runs out of ideas or is no longer with the business.

Table 3: Descriptive Results on Creativity

Question	Response	Frequency	Percent (%)
Do you hold meetings where employees present new ideas and solutions to challenges facing the business	Yes	117	33.9
	No	218	65.1
	Total	335	100
How often do you meet to come up with new products/services/ideas in the business	Weekly	30	26%
	Monthly	35	30%
	Quarterly	12	10%
	Twice year	22	19%
	Once a year	6	5%
	Rarely	12	10%
	Total	117	100

The descriptive results on the statement used to measure the level of creativity among SMEs in Nairobi County are presented in Table 3. The findings show that 59.9% and 19.9% of the respondents indicated that their businesses planned to introduce new and improved products in the next one year which implied increased products creativity. Similarly, more than half (54.8% and 16.3%) of the respondents agreed that they were in the process of introducing new equipment, machinery or technology. This was an indication of high process creativity among SMEs. The study further sought to establish whether SMEs planned to automate their business processes e.g. accounts, human resources, and procurement and findings shows that statement had a mean of 3 which implied some of the SMEs agreed (31.0%) while other disagreed (31.3%). This finding further implied that some SMEs were in the process of adoption automation while others were not (see Table 4).



The study results further indicates that 56.7% and 17.9% of the respondents indicated that their SMEs planned to market their products/services through social media e.g. Facebook, emails, Instagram which was confirmed by the mean response of 3.73. Slightly more than half (37.6% and 20.6%) also agreed that in the next 1 year they had plans to open new branches which implied that their business was in the right direction as far growth was concerned. The results further indicates that majority of the respondents as shown by the mean of 3.77 agreed that their business planned to use technology to acquire new customers and retain the existing (see Table 4). On customers’ maintenance in the last 1 year and meetings with the staff members to discuss new ideas, the finding showed that SMEs had varying level of creativity. On average, the SMEs in the study population showed above average level of creativity. This was shown by their plans to venture into new products and services, plans to introduce new equipment, machinery or technology in the next 1year and adoption of creative ways of marketing through social media and use of technology to attract new and retain the existing customers.

The study findings support those of Weerasiri, Zhengang, and Perera (2012) who posited that creativity is the starting point for innovation and it is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new. Shalley, Zhou and Oldham (2004) on the other hand avers that creativity enables the entrepreneur to act on these opportunities in ways which can result in competitive advantage for the business such as adoption new technologies in the business process. The study results also support the finding of Ranga, Murali and Swathi (2013) who contributed by asserting that an entrepreneur creativity is primarily concerned with developing new products, services, processes or markets and or the ability to bring something new into the market to ensure business growth. Creativity is a requisite of a high performing business, therefore SMEs that are creative stands a chance of achieving high performance in terms of improved profitability and business growth.

Table 4: Descriptive Results on Creativity

Statement	SD	D	N	A	SA	Mean	Std Dev
Our business introduces new/improved products or services every year	1.8%	9.0%	9.3%	59.9%	19.9%	4	0.90
We always upgrade our equipment, machinery or technology	0.9%	13.6%	14.5%	54.8%	16.3%	4	0.92
We have continuously automated our business processes e.g. accounts, Human resources, procurement etc.	4.0%	31.3%	27.4%	31.0%	6.4%	3	1.02
We have invested in creative ideas of marketing our products/services through social media e.g. Facebook, emails, Instagram etc.	3.0%	13.4%	9.0%	56.7%	17.9%	4	1.00
Our creativity has enabled us to open new branches of our business.	2.1%	18.8%	20.9%	37.6%	20.6%	4	1.08
Using technology to acquire new customers and retain the existing customers had impact on our business growth	0.0%	10.3%	18.2%	55.9%	15.5%	4	0.84



Statement	SD	D	N	A	SA	Mean	Std Dev
Maintaining the same customers requires a lot of creativity from SMEs owner	4.5%	29.6%	26.0%	27.5%	12.5%	3	1.11
Holding meetings with the staff members to discuss new ideas stirs our business creativity	4.5%	34.0%	20.0%	25.4%	16.1%	3	1.18
SD (1)- Strongly Disagree D (2)-Disagree, , N (3)-Neutral, A (4)-Agree SA(5)-Strongly Agree							

Correlation Analysis of Self-Efficacy and SME Performance

The study adopted correlation analysis to test the association between independent variables and dependent variables. The importance of Pearson correlation analysis is that it gives the strength of the association between two variables and takes on values ranging -1 and +1. The strength of the correlation increases as Pearson correlation values approach 1. According to the results, the Pearson correlation value for creativity and Performance of SMEs was $r=0.411$, $p=0.000$ (see Table 5). These findings implied that creativity had positive correlation with Performance of SMEs in Kenya. These findings implied that increasing creativity would result to increase or rise on Performance of SMEs. The finding further established that creativity is a requisite of a high performing business, therefore SMEs that are creative stands a chance of achieving high performance in terms of improved profitability and business growth. The study findings support those of Weerasiri, Zhengang, and Perera (2012) who posited that creativity is the starting point for innovation and it is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new. The study results also support the finding of Ranga, Murali and Swathi (2013) who contributed by asserting that an entrepreneur creativity is largely concerned with coming up with new products, services, process or markets, the ability to bring something new into the market to ensure business growth.

Table 5: Correlation Matrix

		Creativity	SME Performance
Creativity	Pearson Correlation	1	.411**
	Sig. (2-tailed)		0.000
	N	335	335
SME Performance	Pearson Correlation	.411**	1
	Sig. (2-tailed)	0.000	
	N	335	335
** Correlation is significant at the 0.05 level (2-tailed).			



Linear Regression Model Fitting for Creativity and SME Performance

Coefficient of Determination

The findings of model summary revealed $R=0.411$ and $R\text{-square} = 0.169$ which implied that Creativity was positively correlated with Performance of SMEs ($R = 0.411$). However, $R\text{-square} = 0.169$ revealed that Creativity accounted for 16.7% of the variation in Performance of SMEs other factors held constant. The finding therefore confirmed that Creativity positively and significantly influenced Performance of SMEs.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411	0.169	0.166	0.80217
Predictors: (Constant), Creativity				

ANOVA Results and Model Significance

The study employed ANOVA to test the significance of the regression model used to ascertain the relationship between creativity and performance of small and medium size enterprises in Kenya. The null hypothesis tested was model is not statistically significant, therefore since $f\text{-computed} = 67.697$ with $p=0.000 < 0.05$. At this point the null hypothesis that creativity do not significantly affect Performance of SMEs was rejected. The model used to predict the effect of creativity on Performance of SMEs had a good fitness.

Table 6: ANOVA Results and Model Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	43.561	1	43.561	67.697	.000b
Residual	214.277	333	0.643		
Total	257.838	334			
a Dependent Variable: SME Performance					
b Predictors: (Constant), Creativity					

Regression Coefficients

The study used regression coefficients to test the effect of creativity on performance of small and medium size enterprises in Kenya. These findings were also the basis for hypotheses testing and optimization of the regression model.



Table 7: Regression Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	1.095	0.239		4.588	0.000
Creativity	0.554	0.067	0.411	8.228	0.000
a Dependent Variable: SME Performance					

The first research hypothesis was to test whether creativity had a significant effect on performance of small and medium size enterprises in Kenya. In the multivariate regression analysis creativity had regression coefficient $\beta=0.554$, with a corresponding $p=0.000$. The coefficient $\beta = 0.554$ is also significantly different from 0 with a $p\text{-value}=0.000$ which is less than 0.05. Similarly, t -statistics computed 8.228 was greater than t -critical 1.96 at 0.05 significance level, this implies that the null hypothesis $\beta_1=0$ was rejected and the alternative hypothesis (H_{a1}) $\beta_1 \neq 0$ was taken to hold implying that creativity had positive and significant effect on performance of small and medium size enterprises in Kenya. Based on these findings a unit increase in creativity would result to increase of 0.554 units in performance of small and medium size enterprises in Kenya. The study finding agrees with the proponents of Knight's theory. According to this theory risk, uncertainty and profit brings out the link between risk and uncertainty and profits or performance of the SMEs in Kenya. Weerasiri, Zhengang, and Perera (2012) also argued that creativity is the starting point for innovation and it is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new.

The study results further conform to those of Harris (2012) who found that creativity is a crucial ingredient for the success of SMEs especially when advanced to innovation because it enables their businesses to survive and grow. Shalley, Zhou and Oldham (2004) on their part posited that creativity allows the organization to take advantage of opportunities which develop as the result of changing environmental conditions. Rukevwe (2015) similarly, view creativity as being able to do imaginative and non-routine things while also building on tradition to achieve profitable outcomes. The findings of this study and review of previous empirical studies shows that creativity is a requisite of a high performing business, therefore SMEs that are creative stands a chance of achieving high performance in terms of improved profitability and business growth.

CONCLUSION

Creativity in this study was measured using product creativity, process creativity and business model creativity. The findings of descriptive analysis showed that majority of the SMEs that in the study population didn't create a forum or platforms where creativity of employees could be harnessed and utilized for growth and expansion purposes. The results further established that SMEs in Kenya showed above average level of creativity. The majority of the SMEs had plans to venture into new products and services, plans to introduce new equipment, machinery or technology in the next one year and adoption of creative ways of marketing through social media and use of technology to attract new and retain the existing customers.



The findings of this study showed that entrepreneurial mindset was a significant determinant of performance of small and medium size enterprise in Kenya. Based on the key findings of the study, the following conclusion were drawn; first, creativity is a significant component of entrepreneurial mindset that influenced performance of small and medium enterprises. Small and medium enterprises with more creative owners/managers outperformed those with less creativity. The study further concluded that creativity leads business enterprises into high returns investments which improves performance and sustainability of the small and medium enterprises.

RECOMMENDATIONS

The study recommends that SMEs owner or managers should invest in automation of their business processes e.g. accounts, human resources and procurement. This would improve efficiency in the way SMEs serve their customers to enhance customer loyalty. The study also recommends that SMEs should organize meetings with the staff members to discuss new ideas to enhance their creativity and finally the study recommends that SMEs owners or managers should come up with creative ways of maintaining the same customers as they continue attracting new customers.

CONFLICT OF INTEREST

No potential conflict of interest was recorded by the author.

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