

**RESPONSE BY KENYA ASSOCIATION OF MANUFACTURERS TO  
THE CHANGES IN THE BUSINESS ENVIRONMENT FACING  
MANUFACTURERS IN KENYA**

**BY**

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## DECLARATION

This management research project is my original work and has not been presented for examination in any other university.

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This management research project has been submitted for examination with my approval as the University Supervisor

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## **DEDICATION**

I dedicate this study in loving memory of my late mother Ms Jardin Egwa Mwawasi, who died on 18<sup>th</sup> July 1997. She was my friend and my confidant, and though I can't see her anymore, I thank God for the blessing of His gift to me. I still miss you mum.

And

To my uncle, Eng. Stanley W. Mwawasi, for his great sacrifice in financially supporting my undergraduate studies a basis which I could further my studies. May the Lord richly bless you.

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## ABSTRACT

In stable environments organisations are under no pressure to change and past measures of performance could easily be extrapolated to correctly indicate future performance. In the recent past, fundamental forces of change have been experienced in the global business environment. These have resulted in the globalisation, democratisation, economic reforms and trade liberalisation. This turbulence in business environment has put pressure on organisations to be sure that they can effectively meet the fundamental changes that are occurring. Organisations responding to these changes have also realised that their previous strategy and configurations may no longer serve them well.

Management of the business external environment (macro environment) is therefore crucial in ensuring a conducive business climate for a better economy. The macro environment consists of broad environmental factors that impact to a greater or a lesser extent on almost all organisations. It is therefore important to identify these issues and in particular those that are likely to have a differentially large impact on a specific organisation. There are many factors in the macro-environment that will effect the decisions of the managers of any organisation. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. The PESTEL frame work can help look at the way in which future trends in the political, economic, social, technology, environmental and legal environments might impinge on organisations. However it is important not to just list PESTEL factors because this does not in itself tell managers very much. What managers need to do is to think about which factors are most likely to change and which ones will have the greatest impact on them that is each firm must identify the key factors in their own environment. Managers must

decide on the relative importance of various factors and one way of doing this is to rank or score the likelihood of a change occurring and also rate the impact if it did. The higher the likelihood of a change occurring and the greater the impact of any change the more significant this factor will be to the firm's planning.

In the last 10 years KAM has been practicing strategic management in which management of the manufacturer's external environment has been a critical factor in the success of the advocacy agenda of the Association. The study aimed at determining the response by the Kenya Association of Manufacturers with regards to the change in the business environment affecting the manufacturing sector in Kenya. The Kenya Association of Manufacturers (KAM) is a dynamic, vibrant, credible and respected business association that serves as representative of Kenya's industry. The Association provides an essential link for co-operation, dialogue and understanding with Government, promote trade and investment, uphold standards and represent views and concerns of its members to the relevant authorities. In pursuit of its advocacy agenda, the Association encourages the formulation, enactment and administration of sound policies in order to improve the business environment, reduce the cost of doing business and ensure that Kenya firms attain and maintain world-class competitiveness.

The study identified the main factors that influence the change of the business environment in Kenya as political stability, Intellectual Property rights, infrastructure both energy and roads and the legal and regulatory frameworks governing businesses. Political instability was seen to erode investor confidence while competition from counterfeits in the local markets, the high cost of energy, insufficient energy supply and

poor roads seemed to increase the cost of doing business in Kenya . The above factors if not well addressed may lead to shrinkage or closure of investments in Kenya.

In a bid to improve the business environment in Kenya,the Kenya Association of Manufacturers has engaged various government Ministries, government agencies, parliamentary select committees and offices of the Prime Minister and President. The study revealed that there has been notable improvements in the business environment such as improved political stability, improved infrastructure, reduced cost of energy, reduced business licenses, enactment of the anti counterfeit bill etc however there is still room for improvement. It was also observed that KAM's responds to the business environment affecting manufacturers in Kenya by influencing the government through evidence based advocacy (impact). The study noted that the decision to implement or respond to the business environment is solely a government's responsibility, as such KAM's role is therefore to lobby the government to take necessary action by identifying the issues affecting the manufacturers, show how much it hurts the manufacturers and propose solutions to the government.

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## **CHAPTER 1: INTRODUCTION**

### **1.1 Background of the study**

In stable environments organisations are under no pressure to change and past measures of performance could easily be extrapolated to correctly indicate future performance. In the recent past, fundamental forces of change have been experienced in the global business environment. These have resulted in the globalisation, democratisation, economic reforms and trade liberalisation. This turbulence in business environment has put pressure on organisations to be sure that they can effectively meet the fundamental changes that are occurring. Organisations responding to these changes have also realised that their previous strategy and configurations may no longer serve them well.

Strategic planning assumes that the future is not expected to be a resemblance of the past hence not extrapolable. The future is now not necessarily expected to be an improvement over the past (Ansoff 1990) understanding the environment is therefore key to the firm's success. The environment consists of external and internal aspects of the firm which a strategist needs to understand, monitor and position the organisation to manage the opportunities and threats thereof. As organisations find themselves in unfamiliar environment, they have to respond by integrating change and internalising the ability to adapt to the new environment for survival and growth. Many authors agree that when the external environment changes, fundamental strategy and structural changes may be necessary (Chandler 1962; Ansoff,1990; Canals,1997) Research indicates that organisations, including business membership organisations like the Kenya Association

of Manufacturers need to respond to the changes in the external environment by formulating strategies to re align themselves to the new environment

### **1.1.1 Business Environment in Kenya**

Management of the business external environment (macro environment) is crucial in ensuring a conducive business climate for a better economy. The macro environment consists of broad environmental factors that impact greater or lesser extent on almost all organisations. It is therefore important to identify these issues and in particular those that are likely to have a differentially large impact on a specific organisation. In the event that the future environment is likely to be very different from the past it is helpful to construct scenarios of possible futures. This helps managers to consider the different ways in which strategies might need to change depending on how the business environment might unfold. There are many factors in the macro-environment that will effect the decisions of the managers of any organisation. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. The PESTEL frame work can help look at the way in which future trends in the political, economic, social, technology, environmental and legal environments might impinge on organisations. However it is important not to just list PESTEL factors because this does not in itself tell managers very much. What managers need to do is to think about which factors are most likely to change and which ones will have the greatest impact on them that is each firm must identify the key factors in their own environment. Managers must decide on the relative importance of various factors and one way of doing this is to rank or score the likelihood of a change occurring and also rate the impact if it

did. The higher the likelihood of a change occurring and the greater the impact of any change the more significant this factor will be to the firm's planning.

The manufacturing sector like the rest of the economy has seen a number of changes which have led to increased competition between local companies themselves and from the imported goods. In the past, the manufacturing sector has gone through various phases that can be summarised into three main strategy approaches: Import Substitution Strategy; Structural Adjustment Policies; and Export Oriented Strategy. These approaches emphasised export promotion, improved availability of imported inputs, and elimination of quantitative import restriction, constant or falling of real wages, privatisation of the government's commercial activities and decentralising of prices among other conditions. With the signing of Regional and Multilateral trading agreements such as the WTO, COMESA and EAC customs Union the government relaxed the import and export controls as such these liberalisations pursued by the Government of Kenya exposed the manufacturing sector to greater opportunities but can only be embraced if the cost of doing business in Kenya is reduced so that the Kenyan manufactured goods can fairly compete in the liberalised market. Some of the external factors increasing the cost of business are as out lined:

### **Tax levels and administration**

The taxes and levies charged upon by Kenyan businesses are high and the administration burden irritating. In 2007, 50% of the Kenyan firms interviewed in the investment climate Assessment report indicated that taxes were a severe problem. This is coupled with poor public service delivery such as infrastructural improvement and maintenance.

The Kenya Revenue Authority in consultation with the Ministry of Finance has implemented a number of reforms to enhance tax compliance by tax payers and simplify requirements. Some of the key improvements include the implementation of the Electronic Tax Registers (ETR), which provide monthly sales reports for inclusion on the VAT returns. This reduces on the need for reconciliation and extraction of data from manual records. However, the situation on the ground indicates that there are still enormous amounts of VAT and excise duty refund claims that have not been processed. This ties up capital for businesses and limits the activities that a company can undertake within a given period.

### **External trade facilitation**

Cross border trade facilitation is one of the critical factors that support trade. A lot of progress has been made in the past to eliminate obstacles posed by tariffs through the creation of Free Trade Areas (FTA), Customs Union and Multilateral and Bilateral negotiations on preferential tariffs through regional and international trade negotiations. Technology has also reduced the obstacles posed by distance. Many countries including Kenya are however still unable to increase their share of participation in external trade due to high trade facilitation costs and more particularly, the low level of logistical services which are trade barriers. Countries that have higher overall trade facilitation costs are unlikely to increase their trade share within the global market. An efficient transport system, good internal transport networks and fewer documents requirements normally reduce bureaucracy and make compliance with import and export procedures faster and cheaper

## **Labour**

Labour market regulations are an important factor in determining employment expansion and absorption within the economy. For a country with high unemployment levels, it is particularly critical to ensure that labour market regulations do not impede the absorption especially of young persons in the job market. In 2007, the parliament of Kenya enacted the following new labour laws: Employment Act, Work and Injury Benefits Act, Labour Relations Act and Occupational Health and Safety Act. The business community is concerned about the provisions within these laws that have the capacity of making the local labour market more rigid without attendant incentives to enhance productivity. In order to ensure competitiveness of Kenya's businesses, there is need to ensure that such laws are not implemented so as to avoid increasing the cost of doing business. This is because the implementation of these new laws will not only create a hostile environment between employers and workers but also drastically increase the cost of doing business in Kenya.

## **Business Licensing and legislations**

Businesses appreciate the need for regulation however; the time spent on regulation and administrative burden needs to be reduced. Regulation needs to act as an incentive towards compliance and be applied fairly and consistently on all businesses. The regulatory frame work has a lot of influence in determining the level of formality in an economy and enterprise growth and survival. Onerous and burdensome regulations discourage firms from complying with the same and breed ground for numerous visits by public officials and demands for bribes. In recognition of the enormous challenges that

the burdensome licenses pose to business activity in the country, the government of Kenya formed the working committee on regulatory reforms in Kenya. The committee was specifically mandated by the government to focus on the licensing as an extremely damaging form of business regulation and to use the regulatory guillotine approach to eliminate unnecessary or redundant licenses while simplifying those which are necessary. The committee reviewed a total of 1,325 licenses and made recommendations on each of these licenses. In 2007 the Minister for Finance abolished 315 licences by guillotine, rationalised 379 and retained 270 licenses. Another 342 licenses are earmarked for further review in consultation with other government departments. Unfortunately to date most of the 315 licenses abolished by the Minister are still being enforced because local authorities have refused to obey the Minister's directives citing that they cannot be sustainable without collecting fees from the licenses. Businesses are therefore getting harassed by the local authorities' officers as they insist on collecting fees from the abolished licenses.

There is need to streamline the legislation making process such that all relevant stakeholders are involved. In the recent past regulations have been passed at the expense of manufacturers. For example the Tobacco control Act, the price control bill, the alcohol control bill etc. While manufacturers support the spirit of the bills, there is need to balance both economic and social economic factors. Some of the new Acts are in conflict with already existing Acts while roles and mandates given in some Acts undermine the powers of other regulatory agencies and as such it has been difficult for private sector to comply.

## **Infrastructure**

Infrastructure plays a crucial role in the competitiveness of countries world wide. Kenya's economic blue print the Economic Recovery Strategy for Wealth and Employment 2003-2007 correctly identified infrastructure as a major constraint. Within the last five years the government of Kenya has invested significantly in improving port operations, road network, energy supplies and privatisation of the railway system. Vision 2030 maintains this centrality and recognises that it will be impossible to deliver the promised economic growth without a supportive infrastructure. As part of transport infrastructure, roads are important for both economic and social development, particularly in a growing economy. Kenya has a road network of about 64,000km out of which only 14.1% is paved. This makes internal connectivity a big problem. Consequently, transport costs are factored in as a significant part of the cost of production in the country.

A reliable power supply is critical for the growth of the industry. Kenya, like many African countries is currently facing problems with electrical supplies. With recent economic growth, demand for electricity has been growing steadily and has necessitated additional capacity to fore stall rationing. Inadequate supply and outages of power have forced Kenyan firms to invest in self supply through generators and alternative sources of energy such as biomass. For a majority of firms, electricity has over the past 5 years become a big problem. Approximately 80% of the Kenyan firms experience accruing losses from power interruptions. The cost of electricity is high compared to other competitors like Egypt and South Africa. The effective cost per unit of electricity for



manufacturing sector range between Ksh 10 and Ksh 15 per kilowatt while in Egypt and South Africa pay equivalent of between Ksh 2.50 and Ksh 3.80 per kilowatt of electricity

## **Security**

Crime is a common occurrence in Kenya and remains a major problem for the country's private sector. In 2007, 33% of Kenyan firms reported crime as a serious obstacle with losses of up to 4% of sales. Kenyan firms spend 3% of annual sales on security services and a significant amount informally on protection rings to avoid crime and arson (ICA, 2007). The security situation in Kenya has a significant impact on business decisions. It affects the operating hours of retailers, manufacturers, as well as those dealing with the transportation of goods. All this leads to a conclusion that crime has a significant cost impaction for Kenyan firms, and hence it remains a major constraint to doing business in the country.

### **1.1.2 Kenya Association of Manufacturers**

Business Associations are becoming the integral part of the economies all over the world in that they play a vital role in building a foundation for sustainable economic development. They bring together the business community to push for common issues and dialogue with the government. They contribute in the bringing about of a better business environment by lobbying for; improved market access, reduced non tariff barriers in International markets as well as improved infrastructure to support local and international trade. In the global sphere we have examples of the American Chamber of Commerce, Confederation of Danish Industries, while in the larger Africa we have examples of Zambia Association of Chambers of Commerce and Industry, Confederation of Tanzania Industries, Rwanda Private Sector Federation, Uganda Manufacturers Association, Burundi Manufacturers Association etc. In Kenya there are several Business Associations such as the Federation of Kenya Employers, The Flower Council of Kenya, The Kenya Chamber Of Commerce and Industry, The Kenya Private Sector Alliance, The Kenya Association of Manufacturers etc

The Kenya Association of Manufacturers (KAM) is the premier representative organization for manufacturing value-add industries that also serve as the voice of industry and other related sectors in Kenya. Established in 1959 as a private sector body, Kenya Association of Manufacturers has over the years transformed itself into a dynamic, vibrant, credible and respected business association with a professional Secretariat. The Association provides an essential link for co-operation, dialogue and understanding with the Government by promoting trade and investment, upholding standards and

representing members' views and concerns to the relevant authorities. In 2009, KAM unveiled a new corporate logo as it celebrated 50 years of its existence.

KAM's mission is to promote competitive local manufacturing within a framework of a liberalized global economy, with a vision to be a world class business membership organisation effectively delivering services to members wherever they operate.

KAM's services are delivered through four main pillars: Policy Research and Advocacy, Business Competitiveness Services, Membership Support and Development and Sound Structures and Institutions. In addition to Nairobi, KAM has established five other regional chapters; Athi River, Coast, Eldoret, Nakuru and Nyanza/Western. The chapters exist to develop strategies, priorities and action plans to lobby for policy reforms around various issues at the regional levels.

Currently, KAM represents approximately 630 members who are distributed across 12 key industrial sectors: Building, Mining & Construction, Chemicals & Allied, Energy & Electronics, Food & Beverages, Leather & Footwear, Metal & Allied, Motor Vehicle & Accessories, Paper & Paper Board, Pharmaceutical & Medical Equipment, Plastics & Rubber, Services & Consultants, Textiles & Apparels, Timber, Wood & Furniture and Affiliate Associations.

Membership is classified into three categories: Ordinary membership: for companies involved in actual processing and value addition activities; Associate & Consulting membership: for companies offering essential and consultancy services to manufacturers, and Affiliate/Association membership: for small sectoral associations.

Some of the main activities of KAM include: Representing businesses to the government on issues that impact them such as poor infrastructure, dumping, counterfeit trade, substandard and un-customed goods, legislation, environment and business licensing; Represent industry in trade negotiation under the EAC (East African Community, COMESA (Common Markets for Eastern and Southern Africa), ACP-EU, AGOA (Africa Growth Opportunity Act) and WTO (World Trade Organization) trade agreements; Provision of business information on trade in the EAC and COMESA markets; Present budget proposals to the Government; Provide technical advice on taxation; Facilitate seminars and workshops on topical issues; Provide companies with training on energy efficiency and energy audits conducted by the Centre for Energy Efficiency and Conservation (CEEC) and Provide a wide range of other Business Support Services from the Secretariat.

## **1.2 Statement of the problem**

A major challenge to industrialization in Kenya is the highly competitive global conditions under which the country is seeking to industrialize. A range of developments have raised global competition to unprecedented levels. Trade and investment liberalization coupled with improved logistics and information and communication technology (ICT) systems have made it easier to outsource commoditized parts of value chains to lowest cost destinations.

The rapid expansion of China and India, in particular, in the global trading system has increasingly driven down costs and increased the commoditization of a number of manufacturing products and even services, particularly in less sophisticated activities. Conversely, advanced economies generally dominate the intellectual property associated

with high technology production. As a result, Kenya finds itself 'sandwiched' between these two sets of countries.

Kenyan firms still face challenges on the business environment although the country has recorded some improvements in the last years. According to Investment Climate Assessment Report 2007 (ICA 2007) by the World Bank Group, the top constraints identified were tax rates and tax administration, corruption, security, infrastructure services (electricity and transportation), and business licensing. Although Kenya has recently reduced the number of tax payments, tax administration remains a major burden for firms in Kenya. High cost of electricity and its quality and transport are the main infrastructure bottlenecks affecting industries in Kenya.

Kiambuthi, (2008) undertook a study on the change management at KAM, the focus being leadership change both at the board level and secretariat. It was evident that the organizational structure was key in managing change, as the association continued to refine its structure to match the change in environment.

Muturi (2001) undertook a study with the objective of assessing the relevance services being offered by the association and whether their expectations are being met. The study results showed 43% of the 60 respondents felt that their membership in the association was important to them while 45% said that their membership was necessary when their companies experienced problems and required solutions which KAM could help attain.

In reference to the above studies KAM seem to be relevant to the manufacturing sector and is cognisant of the changing business environment. The study therefore sought to determine KAM's response to the changing business environment affecting

manufacturers in Kenya so as to make the manufacturers more competitive in the liberalised market.

### **1.3 Research Objective**

The objective of the study was to determine the response by KAM to the changing business environment facing manufacturers in Kenya.

### **1.4 Importance of the study**

The vision 2030 takes cognisance of the fact that the government of Kenya will have to provide an enabling environment for the private sector to thrive and support economic development. The private sector is positioning itself to play its rightful role of engaging government in the realisation of the Vision 2030 – first in identification external environmental factors that affect manufacturers and prioritise what the government needs to urgently address and secondly in working in partnership with government to find practical solutions to the issues.

The beneficiaries of the study will include: Other business membership organisations in Kenya such as the Kenya Flower Council, Kenya Chamber of Commerce and Industries etc may adopt the strategies especially on the cross cutting factors that may affect other businesses which are not necessarily from manufacturing sector and therefore add more voice in lobbying the government to provide a conducive business environment. With the coming of the fully fledged EAC common market and the COMESA, EAC & SADC Tripartite FTA, the Regional business membership organisations like the East African Business Council, COMESA business Council, will also benefit as they can scale up the

strategies at regional levels to improve the business environment in the Regional Economic Communities.

The academia will also benefit, in that they will have documentation of the various problems faced by the manufacturing sector in Kenya and may also contribute to the improvement of the business environment by conducting further research on the impact of the external environment to the manufacturing sector and share with the relevant line ministries in the Government.

The relevant Government ministries in Kenya and the donors will get to know through the strategies how best they can work together with KAM or Private Sector in the improvement of the business environment in Kenya

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Background of the Manufacturing Sector in Kenya**

The Kenyan economy has remained predominantly agriculture based since independence, with industrialization remaining an integral part of the country's development strategies. The industrial sector's share of monetary GDP has remained about 15-16% while that of manufacturing sector has remained at a little more than 10% over the last two decades. The sector, despite its potential, has not been dynamic enough to function as "an engine for growth" for the Kenyan economy as has been the case of newly emerging economies. The sector has been inward-looking with limited technological progress and reflects past import-substitution and export-led policy orientations. However, with improved productivity and competitiveness, the sector is poised to contribute significantly to accelerated economic growth.

Manufacturing activities account for the greatest share of industrial production output and form the core of industry. The manufacturing sector in Kenya is mainly agro-based and characterized by relatively low: value addition, employment, and capacity utilization and export volumes partly due to weak linkages to other sectors. The intermediate and capital goods industries are also relatively underdeveloped, implying that Kenya's manufacturing sector is highly import dependent. The performance of the manufacturing sector has been affected by low capital injection, use of obsolete technologies and high costs of doing business. The factors that have contributed to the high cost of doing business include; the poor state of physical infrastructure, limited access to finance, limited research and development, poor institutional framework, and inadequate



managerial, technical and entrepreneurial skills. The high cost of doing business has also contributed to the limited local and Foreign Direct investment (FDI) in the country and the high outflow of investment to the neighbouring countries.

The Manufacturing sector has gone through various phases that can be summarised into three main strategy approaches: (i) Import Substitution Strategy; (ii) Structural Adjustment Policies; and (iii) Export Oriented Strategy which have been implemented through various key policy documents and sessional papers.

### **Import Substitution Policies**

In the period immediately after independence, Kenya's industrialization efforts were mainly guided by import substitution industrialization (ISI) strategy. The objectives of the strategy were, rapid growth of industry, easing balance of payment pressure, increased domestic control of the economy and generation of employment. The ISI advocated domestic production of import substitutes by domestic industries through protection of the infant industries from international competition. The main policy instruments for protecting domestic industries were quantitative restrictions, import licensing, foreign exchange controls, high tariffs on competing imports and overvalued exchange rates. The ISI policy is credited for high growth of industries producing consumer products such as textiles and garments; food and beverages; and tobacco that became leading sectors between the period of 1963 to 1989. The manufacturing sector grew at an average rate of 8% per year. However, the high level of protection contributed to inefficiencies in the domestic industries which hindered the development of a

competitive industrial base. The ISI policy was also largely inward looking and biased against exports. This led to excess capacity in industry due to the limited size of the domestic market resulting into low capacity utilization.

### **Structural Adjustment Programmes**

Concern about low levels of capacity utilization within industry was a justification for a shift in focus from protection to efficiency. This was the context in which Structural Adjustment Policy (SAP) was introduced in the 1980s to address structural concerns and restore macroeconomic balance. The main components of structural adjustment included price decontrols, tariff adjustments, reform of state corporations, cost sharing in delivery of social services and establishment of export platforms. Price controls introduced in the 1970s discouraged exports and held back investments. They were eventually fully abolished in 1994, deepening the role of markets and allowing efficient allocation of resource. Tariff adjustments dismantled high protection thereby allowing more use of local resources and permitting competition. It also encouraged exports and became key instruments of trade policy in Kenya. Tariff adjustments fuelled economy-wide changes in relative prices, increased competition in the domestic market and promoted efficiency. However, SAPs interfered with resource allocation by stifling the forces of supply and demand. This impinged negatively on the exports and held back potential investments leading to the introduction of export oriented policies.

### **Export Oriented Policies**

In the mid 1990s, Kenya adopted an export oriented industrialization strategy after the ISI strategy and SAPs. The strategy offered incentives aimed at encouraging industries to

produce for exports. The main objectives of export led industrial sector reform programmes were to improve efficiency, stimulate private investment and increase the sector's foreign exchange earnings. The trade liberalization measures also aimed at encouraging production for exports and included the removal of quantitative restrictions, tariff reduction and export promotion as well as the establishment of flexible exchange rate regimes. This Strategy is still being pursued with emphasis on value addition, diversification of products and markets, establishment of intra- and inter-sectoral linkages and encouraging technology adoption and upgrading.

### **Government policies to industrial transformation**

The Sessional Paper No. 2 of 1997 on Industrial Transformation to the year 2020 aimed to set up policies and strategies that would lay the foundation for the structural transformation required to enable Kenya to join the league of *Newly Industrialized Countries (NICs)* by the year 2020. The role of Government in the provision of enabling environment through policy and institutional framework, programs and projects was explicitly stated. The role of private sector in seizing opportunities to invest in manufacturing, processing and service industries was equally emphasized. Industrial transformation strategies were identified and a two-phased methodology developed namely: Phase one entailed promotion of micro, small and medium scale industries, utilizing and adding value to local raw materials, and requirement of relatively modest capital investment. Included in this phase were agro-processing, building and construction materials, etc. Phase two entailed promotion of capital intensive manufacturing industries that require high capital investment, support infrastructure, well

developed technologies and high human skills. Included in this phase were metallurgical, petro-chemical, pharmaceutical, machinery and capital goods, telecommunications and information processing industries.

The Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 (ERS) identified key policy actions necessary to spur the recovery of the Kenyan economy. The ERS was anchored on four main pillars namely: restoration of economic growth within the context of a stable macro-economic environment; rehabilitation and expansion of infrastructure; equity and poverty reduction; and improving governance. The ERS policy empathized on the adoption of a growth strategy based on sectors that generated employment most rapidly, and that provide more income-generating opportunities for the poor. The sectors identified included agriculture, trade and industry, ICT forestry and mining.

The Kenya Vision 2030 marked an important milestone in the country's development as it came soon after the successful implementation of the "*Economic Recovery Strategy for Wealth and Employment Creation*" (ERS) over the period 2003 to 2007. The Kenya economy recovered from the slow growth rate of 0.6 percent in 2002 to a projected growth of over 7 percent in 2007. The aim of Kenya Vision 2030 is "the globally competitive and prosperous country with a high quality of life by 2030." It aims at transforming Kenya into "a newly-industrialising, middle income country providing a high quality of life to all its citizens in a clean and secure environment". The economic, social and political pillars of Kenya Vision 2030 will be anchored on the following foundations: macroeconomic stability; continuity in governance reforms; enhanced

equity and wealth creation opportunities for the poor; infrastructure; energy; science, technology and innovation (STI); land reform; human resources development; security; and public sector reforms.

## **2.2 The investment climate in Kenya**

Kenya has enjoyed a long history of economic leadership in East Africa as one of the largest and most advanced economies in the region. However, inconsistent efforts at structural reforms and poor policies over the past 15 years generated a prolonged period of decline in development indicators and significantly eroded this leadership position. While Kenya was a prime choice for foreign investors seeking to establish a presence in Eastern and Southern Africa in the 1960s and 1970s, poor economic policies, rising problems of corruption and governance, and deterioration of public services and infrastructure have discouraged foreign direct investment (FDI) since the 1980s. Over the past 25 years, Kenya has been an underperformer in attracting direct foreign investment. Since 2003, Kenya's performance in attracting FDI has been marginally better at nearly US\$6 per US\$1,000 of GDP (US \$82 million in total). But this is well below potential and pales in comparison to the FDI levels in neighbouring countries with smaller economies. To make the country more attractive to investors, the Government of Kenya (GOK) reviewed its investment policy and launched a private sector development strategy in 2007. A policy review by the United Nations Conference on Trade and Development (UNCTAD) is one component of this effort. According to the UNCTAD report (and most observers), significant disincentives for investment in Kenya include governmental overregulation and inefficiency, expensive and irregular electricity and

water supplies, an underdeveloped telecommunications sector, a poor transport infrastructure, and high costs associated with crime and general insecurity.

The government of Kenya and the development partners has undertaken various studies on the country's investment climate. These studies have identified regulatory and administrative barriers as the main impediments to the competitiveness of the Kenya's manufactured products because they add to the already high cost of doing business. These studies proposed that the country should undertake licensing reforms.

The doing business 2008 report ranked Kenya eighth among the top ten reformers in the world and second in Africa. It was ranked 9<sup>th</sup> out of the 178 economies of the economies that were studied in the survey, well ahead of the other members of the East African Community. Uganda was ranked at position 81, Tanzania 170 while Rwanda and Burundi managed a position 124 and 171 respectively. Although the above position was commendable for Kenya, there are still many other licenses that continue impacting negatively on businesses, particularly manufacturers in Kenya. This damaging effect is felt right from the point of entry and into the businesses during registration and continues throughout the operation and even during closure of business.

### **2.3 Role of business membership organizations**

In the context of changes in economic, political and social environment over the years, both the role and the responsibility of the business associations have been extended and altered and their reach and range of services widened and deepened (Muturi, 2000). For any organisation to achieve its goal and objectives there is need for them to constantly adjust their strategies to the external environment (Pearce and Robbinson, 1997) this necessitated by the constantly changing environment, which is turbulent and which therefore needs to be constantly addressed. The external environment in Kenya has been constantly changing since independence and this has brought about the need for the manufacturing sector and KAM as a lobby organisation to realign their strategies to these changes.

The above background gives a clear position of the changing role of business associations in the promotion of the interests of their membership in relation to the various changes in government's policy towards the industrial sector. With such changes occurring in the economic environment of the country, it has become imperative that the business of today and tomorrow will definitely require substantial guidance in terms of lobbying. In this regard, business associations articulating the views of the private sector and offering other support services have even become more important. Their importance rises in line with the growth of the economic sectors that they represent. Ideally, they have important functions and are catalysts for the development of their members. It is certain that well articulated strategies have a very significant effect on the long-term viability of their members businesses.

Lobbying governments and public relations has tended to be the most common activity undertaken by associations within the developing countries. (Nadvi and Schmitz, 1994, Clothier, 1997). Through lobbying, business associations seek to defend interests of their members to influence policy making process to the benefit of their members by providing informed interventions at various levels of government. Business have been seen to be lobbying while primarily seeking fiscal and trade benefits from the government to their members.

#### **2.4 Environment challenges**

An environment consists of variables that form the context within which firms exist (Hunger and Wheelen, 1995) environmental conditions affect and influence strategies developed by organization for its success. Environmental factors affect the strategic management practices. Strategy helps organizations to cope with the change by designing appropriate strategic responses (Pearce and Robinson, 1988) Ansoff and McDonell (1990) observed that strategic diagnoses help determine the firms strategic responses. Strategic responses will ensure success within the environment in which a firm operates. The business external environment could change for a certain number of factors. These factors could be economic, legal, political, competition and so on. Firms need to create sustainable competitive advantage in order to react to challenges in the environment. Sustainable competitive advantage is an advantage that one firm has relative to competing firms. It usually originates from a distinctive competence. It allows the maintenance and improvement of the firm's competitive position. Porter (1991) argues that in general sustainable competitive advantage is difficult to mimic, is unique, sustainable and superior to the competitors and is applicable to multiple situations. The future is an underlying



consideration in environmental challenges. While we must resolve environmental challenges that we are faced with now, we must also pay attention to signals of challenges that may confront us in the future. The capability to anticipate problems that may emerge in the future as a result of environmental challenges can be a powerful planning tool for organizations. An awareness of trends and possible developments which may bring about environmental challenges could help organizations to be better prepared to address challenges which may arise in the future. Strategic response calls for organizations to change their strategy to match the environment and also to transform the organization in order to match the strategy.

Kazmi (2002) sums up the business environment as being complex, dynamic, and multi-faceted with far reaching impact. Kazmi adds that the traditional approach to strategic management has had its emphasis on control, order and predictability. But the environment is proving to be more unpredictable, uncertain and non linear.

## **2.5 Responses to environmental changes.**

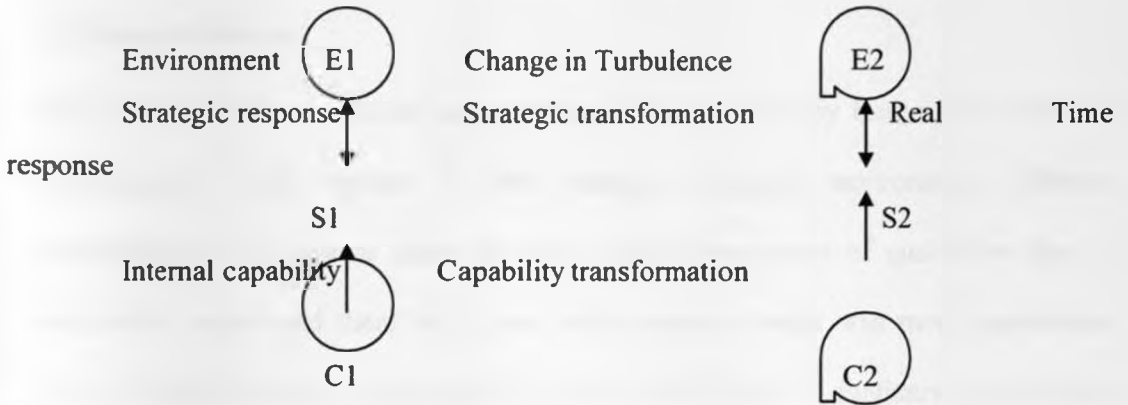
Porter (1991) pointed out that an organization needs to know the underlying sources of competitive pressure to develop an actionable strategic agenda. Faced with unfamiliar changes in the environment, there is need to come up with strategies appropriate for the new challenges. Aosa (1992) observed that the modern approach to strategic planning has developed to increasing challenges caused by high levels of environmental turbulence. Assessment of environmental threats, opportunities, weaknesses and strengths are core to developing strategic response. A strategic diagnosis helps the organization to determine necessary change to be made to its strategies and internal capabilities. Firms need to respond to changes with stable and long-term yet flexible fundamental change in character

of business as well as major changes of the business interface with customers. Organizations that do not adequately adjust to the meet environmental challenges will experience a strategic problem (Aosa, 1992) this problem arises out of the non adjustment to the environment by organizations. The success, survival and consistency of any organization will depend on how well it positions itself to the change in the external environment, strategic management and positioning involves strategy formulation, implementation, control and evaluation.

An organization must maintain a strategic fit with the environment. Organizations have to respond to the dynamism, instability, heterogeneity and uncertainty of the environment (Thompson, 1967). A sustainable competitive advantage is maintained when there is strategic fit between the external and internal environment. The environment is a critical factor for any organization's survival and success. The environment shapes how organizations configure their activities and resources that enable it to create a unique, valuable and visible output in the market place. Strategic response involves change in a firm's strategic behavior to assure success in the transforming future environment. Strategic diagnosis identifies whether there is need to carry out a such change (Ansoff, 1999) specific action is selected and executed to bring the firm's aggressiveness and responsiveness in line with the future environment.

Specific action is selected and executed to bring the firm's aggressiveness and responsiveness in line with the future environment.

**Figure 1: relationship between the environment, strategy and internal capability**



Source Ansoff, 1999

**Key**

E1: Represents the environment;

E2: Represents the future environment (changes in the environmental turbulence)

S1: Represents the present strategy

S2: Represents the future strategy (strategic transformation)

C1: Represents internal capability

C2: Represents the future internal capability (capability transformation)

The above figure shows the relationship between the environment strategy and internal capability. As illustrated in the figure, a change in environment from environment E1 to E2 requires a change in the firm’s strategy from S1 to S2. A change in strategy can only be possible if the organization’s capability is changed from C1 to C2 as shown in the figure above.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Research design**

The study required an in depth understanding of the response by Kenya Association of Manufacturers with regards to the changing business environment affecting manufacturers in Kenya as such; the data collected was more of qualitative than of quantitative nature and therefore a case study research design was more appropriate. Young (1960) identified a case study as a very powerful form of qualitative analysis that involves a careful and complete observation of social units. He identified it as an examination of specific phenomena such as a program, an event, a person, a process, an institution or social group. Cooper and Schindler (2003) noted that case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations.

### **3.2 Data collection**

Both primary data and secondary data were utilised during the study. Primary data was collected through personal interview using an interview guide. The guide was circulated via email to all the 12 Executive officers and 3 Assistant Executive officers in preparation for the personal interviews to be conducted with each of the officers based in the head office and telephone interviews were made to the 5 chapter officers. Personal interviews are preferred as they allow the researcher to utilise the probing technique which includes the respondents' feelings, attitude and facial expression. The secondary data was collected from the KAM published documents

### **3.3 Data Analysis.**

Given that both the primary and secondary data was qualitative, conceptual content analysis method was used to analyse the data. According to Cooper and Schindler (2003) this analysis provides the researcher with a qualitative picture of the respondents concerns, ideas, attitudes and feelings. It measures the semantics content of the “what” aspect of a message. Content analysis has been described as the “a research technique for the objective, systematic and qualitative description of the manifest content of a communication” to clarify this further recent interpretations have broadened the definition to include latent as well as manifest content, the symbolic meaning of the messages and qualitative analysis. The conceptual content analysis method has been used in similar studies including that of Kiambuthi (2008)

## **CHAPTER 4: FINDINGS AND ANALYSIS**

### **4.1 Introduction**

This chapter will cover the research findings and discussions of the study results. The data in this study was collected through personal interviews. A total of 9 out of the 12 targeted staff in the rank of Executive Officer and 1 out of the targeted 3 in the rank of Assistant Executive officer of the KAM secretariat were interviewed. The 3 of the executive officers to be interviewed were out of the country on official duty while 2 of the assistant executive officers to be interviewed had left employment. The data collected was summarised and presented in the forms of tables reflecting the numbers (frequencies) and percentage of the respondents on the various issues.

**Table 1: Personal data of Respondents**

Position held	Frequency	Percentage
Executive Officers	9	75%
Assistant Executive Officer	1	33%
Total	10	67%

**Table 2: How do you describe the business environment in Kenya?**

	Frequency	Percentage
Conducive	0	0%
Fair	6	60%
Not conducive	2	20%
dynamic	2	20%

**Table 3: What are the factors that influence the change in the business environment in Kenya?**

Factors	Frequency	Percentage
Political Stability	7	70%
Infrastructure: Electricity	7	70%
Legal and regulatory Framework :Business regulations	7	70%
IPR(counterfeit) &Competition	5	50%
Global Financial crisis	3	30%

#### **4.2 The business environment in Kenya**

Of the respondents interviewed, 60% felt that the business environment is fair and has quiet improved and therefore very optimistic for even better times. The improvement is alluded to the improving political stability, reduction of the cost of electricity and the ongoing road constructions. All of the respondents agreed that there are many factors that affect the business environment such as the political stability, government legislations and regulation (business licensing), Infrastructure (energy& roads) counterfeit goods (competition), competition etc. 70% felt that Political stability, infrastructure and government legislations and regulations play a big role in creating a favourable business environment. In addition 50% of the same respondents also felt that the global financial crisis and competition brought by counterfeit goods also play a role in influencing the business environment.

#### **4.3 The impact of the business environment to the manufacturing sector in Kenya**

There is a great link between politics and economics in Kenya. The former plays a crucial role in the economic well being of any country. The disputed presidential election of 2007 put Kenya's economy on the hot spot. Though the violence was triggered by the disputed presidential elections, the crisis was deeper. The post election violence unleashed underlying tensions in the country which had been simmering for most of the nation's life. The post-election violence and resultant destruction of life and property had unexpected impact on not only the manufacturers but the whole economy in general. KAM estimated that the whole economy lost in excess of Kshs 300 billion and about 440,000 jobs in the first half of 2008. However these estimates were fairly conservative



and assumed gradual return to normalcy will continue. The above scenario was dictated by orders cancellations from the region (Rwanda, Tanzania, Southern Sudan, DRC) most companies reported 50%; Destruction of factories and outlets especially in the worst hit areas i.e. Western/Nyanza and Rift Valley, high transport costs, Disruption in supply chain of raw materials etc It had been hoped that the grand coalition that emerged from the national accord would reduce political temperatures and create an environment for rebuilding the nation. Persistent political wrangling by the political class ever since the coalition government was formed continued to affect the country's economy negatively. In a survey conducted by KAM, East African business leaders cited that political instability in Kenya is a bigger threat to the economic outlook than the global financial crisis. They emphasised on the need to deal with political governance so as to restore investor confidence in the country. Dealing with post election violence and the underlying reasons for it remains a thorny issue and is captured in differences with regards to the recommendations on what to do with the perpetrators of violence. Although the government is far from disintegrating, political happenings is making the business community worried about the possible inaction of the political structure to provide answers to the more grievous issues of the economy.

Kenya's licensing regime has been identified as a major impediment to doing business in the country. Business licenses have for a long time been recognised as a major constraint that continues to overwhelm businesses with burdensome licenses, fees, charges and other related compliance costs, resulting in declining competitiveness for the country. The growth and competitiveness of the private sector is constrained by multiple and

burdensome license. The business licensing regime in Kenya is highly motivated by revenue collection by government and its agencies; as such Kenya had 1325 licenses affecting business in one way or another. KAM conducted a study on the existing licenses and on realising the impact of business licenses on the cost of doing business in the country, the government in 2005 undertook business regulatory reforms aimed at deleting licenses considered illegal, unnecessary or business unfriendly. Despite these efforts however, some of the licenses, that were eliminated have since been introduced through by- laws while new ones have sprung and continue to impact negatively on business especially manufacturers. The Single Business Permit for resistance was designed to be the license that will cater all the numerous licenses by the local authorities however this has not been the case as other licenses have been mushrooming alongside it. The payment of the license is also duplicated among various local authorities, since even after paying for the license to the local authority in the area where production takes place; a manufacturer still has to pay similar licenses to all other local authorities where distribution takes place!

Electricity generation in Kenya is not very reliable as it is highly dependant on rains. In 2000 and 2009 rainfall received in the country was very low resulting in heavy reduction in hydro-generation thus necessitating power cuts. The shortage in 2000 was severe and it led to a big loss of production and should have been a lesson to avoid future shortages. With recent continued drought experienced in the country, Kenya has found itself in power rationing and this has led manufacturers depend on generators as a substitute. Emergency power and thermal generation is gradually replacing Hydro but at high cost.

The cost of energy in Kenya currently stands at Kshs 10.30 per kilowatt this of course increases the cost of production hence makes the goods produced in Kenya uncompetitive in the market

Counterfeiting has been a major threat to both the manufacturers and the public in Kenya. Kenyan manufacturers have been facing unfair competition from cheap counterfeits and consumers exposed to hazardous products. The manufacturing sector in the country, which contributes about 10% to the country's GDP, has blamed reducing profits to the sale of counterfeited products in Kenya. According to KAM, local manufacturers lose more than 50billion shillings in sales due to counterfeits. Statistics also indicate that the government loses at least 6 Billion shillings in potential taxes. Manufacturers now look at the future with a measure of optimism that after the enactment of the Anti-counterfeit Act 2008, which has now been passé into law, will provide the ammunition to keep the menace under check.

The global financial crisis in US and Europe had far reaching implications for all economies. Beyond the initial manifestation in the collapse of US equity markets, it led to an unprecedented credit crunch world-wide, sapping consumer and investor confidence, led to declining industrial output, bringing down commodity prices, reducing consumer demand and driving advanced countries into a recession that spread to emerging and poor economies. In the case of Kenya, the global financial crisis in 2009 also affected manufacturers in Kenya especially those that that relied heavily on export markets were hard hit. Companies resorted to downsizing to cope with shrinking market opportunities

and increased cost of doing business. Clearly the economic crisis was a direct threat to Kenya's growth and employment, and consequently, affects the government's revenue mobilisation and expenditure. The impact of the crisis has been felt most with regards to the rising of the food prices. Failure to import on time or sufficient quantities due to rising food prices globally have brought to the fore the vulnerability of Kenya as a net food importing country

#### **4.4 KAM response as a business association to the factors affecting the manufacturing sector**

On business licenses KAM has engaged town clerks, mayors, Provincial Local government officers, Permanent Secretaries and Ministers for the Ministries of Local Government, Finance and Trade, in a bid to sensitise them on the impact of business licenses to the manufacturers in Kenya. Through the lobbying efforts of KAM and donor partners, the government of Kenya, has since made the effort to simplify and rationalise 379 and eliminated 315 licenses which did not make any economic sense. Even though some of the licenses had been eliminated completely, local authorities are still collecting the revenues from the eliminated licenses claiming that they need to be sustainable. The Ministry of Local Government has since gazetted legal notice 147 which states that once a business has acquired a single business license in the local authority where the business is established, then the business can supply across other local authorities at no additional licenses. This is a step in the right direction however there is need for the Ministry to work on the enforcement of this gazette notice as most local authorities do not abide with it. A redress mechanism should also be instituted so that violators of such legal notices can be charged of an offence. The Ministry of Finance has also responded to this matter

by proposing a Business Regulatory Reform bill and by also establishing a Business Regulatory Reform Unit which also acts as a gate keeper to ensure that all upcoming licenses are vetted by the unit before they get gazetted or implemented. An electronic register has also been established to host all legally enforceable licenses.

KAM has been at the forefront campaigning for the increase in power generation as well as the reduction of the cost of energy. This effort led to the installation of emergency power supply which though was expensive but ensured that the production process did not get to a stand still. KAM has engaged various government agencies and ministries, the Prime Minister and President to reduce the cost of energy by 50%. Even though this seems to be far fetched, it is achievable if Kenya could quickly invest in geothermal power generation. In addition to these efforts KAM has also been championing energy efficiency among manufacturers with support from the Ministry of Energy. This project has shown great results in terms of savings made by industries implementing energy efficiency.

In response to counterfeit, KAM has been vigilant in ensuring that the anti counterfeit bill is drafted, passed and implemented. The anti- counterfeit bill was passed and became law in 2008. Although not fully operational, as the industry may expect all measures are in place to make it fully operational. Some of the issues that have been pending and affecting the Agency from executing its mandate were the gazettelement of the Regulations to the Anti-Counterfeit Act 2008 and the gazettelement of Agency's inspectors which have now been done. This means that manufacturers who have been adversely affected or have

a case can now lodge directly to the Anti-Counterfeit Agency as per the Regulations and the procedures provided. The anti counterfeit agency's work will include educating and informing consumers on matters relating to counterfeit and will fight trade in such goods.

During the height of the global financial crisis period, KAM engaged the government through National Economic and Social Council (NESC) and proposed the following to the government; Invest in infrastructure improvement especially towards energy security and Especially towards Energy Security by expanding the energy supply from renewable sources to reduce impact on Tariff and through accelerated investment in Geothermal Well Drilling; Reduction of the Burden of Government by rationalising Government Agencies and the 42 Ministries to reduce expenditure; De-Regulate and De-bureaucratize by reviewing the business regulations and eliminate spurious ones and automate government services to reduce corruption; support local producers through buying Kenyan products etc.

#### **4.5 The approach used by KAM in lobbying for a friendly business environment**

As a business association, KAM is always on the look out scanning the business environment to identify any issue or factor that may hamper the activities of the business community. Once the issues have been identified data is collected and compiled to show fact based impact on business. With evidence and proposed solutions in her hands KAM engages the relevant government ministry or agency and the parliamentary select committees, to lobby for a friendly business environment. Consultations are then made

between government and KAM and in some cases the issues are escalated to the offices of the Prime Minister or the President to resolve any stalemates.

In 2008, KAM mobilised other like minded business associations and spearheaded the National Business Agenda (NBA) which was the private sector's submission to government indicating the areas of priority that the government of Kenya needs to focus on to enable a favourable business environment. This initiative was in line with the Private Sector Development Strategy (PSDS) whose purpose was to catalyse the provision of an enabling environment which will enhance private sector growth and competitiveness. The NBA resulted to the Prime Minister's Round Table which is now a quarterly private sector and government engagement structure to address the issues arising from the business community.

Over the years, KAM has actively been involved actively in various government committees and in management boards of most of the government agencies e.g. NEMA, KEBS, ERC, NESC etc. this in itself is a plus for the business community as, there is established structures to continuously engage the government KAM has also capacity build the business community by providing information that is critical to the business community through seminars, press conferences, OPEDS, and other publications. KAM also offer trainings to manufacturers to enhance their competitiveness.

#### **4.6 Influence of the business environment to the strategic plan and the performance of KAM**

KAM being a lobbying organisation, the business environment has strongly influenced the strategic plan. The dynamism of the business environment has also seen the reduction of the strategic plan period from 5 years to 3 years. The association normally scans the environment on behalf of the manufacturing sector. The planning session is normally a joint session of both the board members and the management level (executive officers and assistant executive officers). The session first seeks to evaluate the performance of the previous strategic plan while noting the reasons behind the success or failure to achieve the objectives of the plan. The team then identifies the business environment factors that are likely to change in the cause of the next strategic plan. The factors are listed with possible implications to the business from which the objectives of the strategic plan are derived. A SWOT analysis of KAM as an organisation is then conducted with an aim to match the SWOT with the proposed objectives of the new plan. Once the strategic plan is completed, guided by the strategic plan objectives the secretariat proceeds to work on the annual work plans as units then zeroed down to individuals. The annual work plans do not only ensure the successful implementation of the strategic plan but also help in addressing other issues that may arise in the cause of the strategic plan period. The progress of the annual work plan is tracked monthly by the Chief Executive Officer through the unit heads and quarterly by the board members through the Chief Executive Officer.



#### **4.7 The unforeseen external environment factors that came into play outside the strategic plan and how were they addressed**

The planning session for the current strategic plan (2008-2010) took place ahead of the 2007 general elections. The outcome of the election which brought a political stalemate led to a coalition government something which private sector had not predicted but rose up to the occasion by lobbying for political stability in the country. Since the business environment is turbulent, KAM has in numerous situations first fought the unforeseen business challenges. For instance in the current strategic plan 2008-2010; did not foresee the following; post election violence, new constitution and the global economic crisis.

During the Political stalemate in 2007 caused by the contentious general election which led to the Post Election Violence in Kenya, KAM, spearheaded the business community in lobbying the two principles to resolve the stalemate. The business community also generously contributed food, shelter and clothing items to the many displaced Kenyans affected by the post election violence. The business community in the Kenya welcomed the constitution review process and was part and parcel of the stakeholders who were engaged. Keen on maintaining a business focus within the debates and various provisions, KAM on behalf of the business community remained engaged in the process by expressing views through consultation, reviewing the harmonised draft and presenting its views to both the Committee of Experts and the Parliamentary Select Committee. The business community felt that there was need to engage in the reforms process for the following reasons; there is need for good governance, peace and stability for a conducive environment for business.; there must be clarity of functions between the different levels of government to avoid duplication and increased costs; protection of physical and

intellectual property all over the country; freedom of commercial activity all over the country; promotion and enhancement of the investor confidence. Etc

#### **4.8 What are the challenges faced by KAM while responding to the changes in the business environment**

KAM is a membership organisation however whatever it lobbies for the improvement of the business environment will be enjoyed by all the manufacturing sector as such some manufacturers do not see the need to enroll membership. KAM is heavily reliant on membership subscription which is highly dependent of the members' attitudes towards the Associations performance. As such, there is need for the Association to limit its operations' expenses in terms of human and financial resources at the secretariat. KAM has sometimes been perceived as selfish, because it advocates for favourable business environment with limited consideration to other players in the value chain. For instance the case of importing wheat where KAM has been lobbying for the reduction of the duty on imported wheat instead of encouraging manufacturers to first buy out the locally produced wheat grains from the farmers and supplement with the imported. There are instances where manufacturers have conflicting interests among themselves; this has been observed during preparations of the budget proposals to the government.

Most of the business environmental factors affecting the business community highly depend on the government and political will to address the challenges affected by the business community. However there are some of the environmental factors that are even beyond the government's control for instance; the cost of crude oil is a global issue affecting the cost of energy. The cost of implementation of some of the business community proposals such as infrastructural proposals like establishment of geothermal

energy is quiet heavy therefore government takes time to implement them. Changes in the government administrative structures such as change of the Ministries, Ministers, Permanent secretaries, Managing Directors of the government agencies affect KAM lobbying strategies as this calls for new engagements with the new officers which sometimes take more time for the officer to come to understand the issues faced by the business community. Some of the manufacturers' issues cut across various government ministries hence coordination among Ministries is poor therefore decision making takes longer. Conflict of interest between government and industry for instance with regards to the paper industry where the government wants to protect Pan Paper mills by putting a 25% import duty to discourage paper converters from importing paper yet the cost of paper from the Pan paper Mills is expensive and insufficient. Some of the government agencies are not sustainable for instance the Local Government authorities hence they are notorious in introducing numerous licenses and harassing businesses while others are sustainable due to exorbitantly charging manufacturers levies and fees.

From the above discussions one may observe that several wins have been achieved to improve the business environment but there is still room for improvement and therefore there is need for both the government and the private sector through the business associations to work together for the improvement of the business environment. KAM's response to the business environment is to identify the issues affecting the manufacturers and lobby the government using evidence based approach (impact analysis)

## **CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary of the findings**

Management of the business external environment (macro environment) is crucial in ensuring a conducive business climate for a better economy. The macro environment consists of broad environmental factors that impact greater or lesser extent on almost all organisations. It is therefore important to identify these issues and in particular those that are likely to have a differentially large impact on a specific organisation. The business environment is mainly influenced by political stability, infrastructure, business legislations/regulations and competition. These factors if not well addressed, may lead to increased cost of doing business/ production and unfair competition which may lead to shrinkage or closure of the manufacturing firms. The study revealed that due to the on going improvements of infrastructure (roads and energy) and the business regulatory reforms, the business environment has improved for the better. KAM has played a critical role in lobbying for the conducive environment through identifying the issues affecting the manufacturing sector, conducting impact assessments and submission of proposals to the government. KAM together with the government and other like minded private sector bodies like the Kenya Private Sector Alliance (KEPSA) have institutionalised the private and public sector engagements through; Ministerial Stakeholder Forums, the Prime Minister's Round Table and the Private Sector Development Strategy. Among the successes that business community celebrates is the improved energy supply, reduced cost of energy; improved roads, the reduction of the

business licenses, the establishment of the business regulatory reform unit and the enactment of the anti counterfeit bill, it is important to note that but this could only be achieved if and only if the government was willing and able to.

## **5.2 Conclusions**

From the study it is clear that the response to the changing business environment affecting the manufacturing sector in Kenya cannot be a sole responsibility of KAM or any other Business Association, because the government has a major role to play. It is therefore imperative that the government supports the business community by creating an enabling business environment. The government should consider implementing the proposals made by the Business Associations in the various issues such as reducing further the cost of energy by 50%. Where the government is unable to implement the proposals, there should be Private sector participation structures set where private sector can contribute or invest financially to improve the business environment. The government also need to speed up its decision making process because time is of essence to every business. The government should improve its internal communication to reduce duplication of efforts and also to reduce resistance to policy changes among and across Government Ministries. The role of the legislations and regulations governing business's should not be motivated by revenue collection therefore government should sufficiently fund the parastatals to reduce the need for the parastatals to source funds from the business through levies and licenses.

### **5.3 Limitations of the study**

The study was carried out through interviews with members of staff and did not involve the members of the association, the government ministries, government agencies and other Business Associations who could have had different opinion from the KAM secretariat.

### **5.4 Recommendations for further study**

The association has been developing and implementing successive strategic plans, it is therefore recommended that a study be carried out on strategic implementation at KAM to reveal the performance of the association on its advocacy agenda. It is also recommended that the government through the Kenya Investment Authority (KENINVEST) conducts a study to evaluate the government's performance with regards to the improvement of business climate in Kenya.

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**University Of Nairobi,**

School of Business

MBA program

P.O Box 30197

Nairobi

**To whom it may concern**

Dear Sir/Madam,

**RE: INTRODUCTION LETTER**

The bearer of this letter Arnolda Chao, registration 70024/2008 is a Master of Business Administration (MBA) student of the University of Nairobi.

She is required to submit part of her course assessment a research project on a management problem. We would like the students to do their projects on real problems affecting organisations in Kenya. We would therefore appreciate if you assist her to collect data in your organisation for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be available to the interviewed organisations on request.

Thank you,

Dr. W.N Iraki

Coordinator, MBA program

**INTERVIEW GUIDE**

1. How would you describe the business environment in Kenya?-----

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2. What are the factors that influence the change in the business environment in Kenya? -----

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3. To what extent have the factors affected the manufacturing sector in Kenya?-----

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4. How has KAM as a business association responded to the factors affecting the manufacturing sector?-----

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5. What challenges has KAM faced while responding to the changes in the business environment? -----

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6. How has the business environment influenced the strategic plan of KAM?-----

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7. Are there instances where unforeseen external environment factors came into play outside the strategic plan? If yes, how were they addressed?-----

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