# STRATEGIES ADOPTED BY SMALL AND MEDIUM ENTERPRISES IN NAIROBI KENYA TO IMPROVE PERFORMANCE

BY

ASEKA JOHN MSEE

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# DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

Signature ……………………            Date………………………………

**ASEKA JOHN MSEE**

**D61/60177/2010**

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

Signature ……………………            Date………………………………

**DR. JOHN YABS**

**LECTURER**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

# DEDICATION

To almighty God, who has been my strength and divine inspiration in everything I do.

To my late father Osanya Aseka and my mother Florence Nandwa who instilled in me the discipline and the will to keep trying and to always work hard and aspire to be relevant.

To my wife Melisa, you have always been a strong and wonderful pillar. You have always inspired me to carry on and complete the God given task.

Not to forget my daughter, Dr Patience Aseka and my son Shadrack Aseka for being patient with me when I had to keep away from you, when they needed me most.

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# ABSTRACT

The relationship between business strategy and organizational performance has been a subject of growing interest in the field of strategic management. Despite this trend there has been little attention given to small and medium enterprises (SMEs) in the developing countries. Numerous researches undertaken in developed countries have very little relevance to the developing countries because they serve in different environment. The aim of this study is to establish the strategies adopted by the small and medium enterprises in Nairobi Kenya to improve performance. The important of the research cannot be overemphasized; SMEs contribute immensely to economic development and wealth creation through employment, development of remote regions, spurring creativity and utilizing cheap and untapped resources among others. Understanding the strategies adopted by SMEs and how they can be planned to reach customers and the changing environment and developing systems of controls to keep track of their performance could go a long way in achieving a breakthrough to their successful operations. Therefore the success of this research project is an important positive contribution to the national economy and industrialization with the aim of achieving Kenya's Vision 2030 blue print.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

The need for firms to align their performance systems with their strategic goals has been a major concern for scholars in recent years. A number of frameworks and approaches have emerged; most popular of these is the balance scorecard (Kaplan and Norton, 1992). However, according to Storey (1994), these approaches have been designed primarily for large companies; SMEs exhibit distinct characteristics such as: informal strategies and structure, reactive mentality and limitation of resources. Research has also shown that SMEs that link its operations to their strategies outperform the competition (Argument et al., 1997). The implication of this is that entrepreneurs need a simple strategy that should provide an explicit link back to operations (Greatbanks and Boden, 1998).

Strategy according to Chandler (1962), is the determination of the basic long term goals and objectives of the enterprise, adoption of courses of action and allocation of resources necessary for carrying out these goals. The process of monitoring the activities to appraise efficiency and effectiveness of actions, aggregating and standardizing information and setting appropriate targets constitute performance measurement. Its effectiveness is enhanced by limiting the number of measures chosen and balancing them in terms of: financial and non-financial measures, leading and lagging indicators (input and output measures) and trade-off between measures. Various studies have been undertaken on the relationship between strategy and performance in SMEs.

Miller and Cardinal (1994) ascertained that, all factors being the same, a key determinant of business success lies in absence or presence of strategic planning. Strategic planning is concerned with the setting of long term organizational goals, the development and implementation of plans to achieve these goals, and the allocation of resources necessary for realizing these goals (Stonehouse and Pemberton 2002). Empirical literature supports that with respect to performance, strategic planning is more common in better performing SMEs, and it plays a crucial role in the firm's performance (Gibus and Kemp, 2003). Performances of most enterprises are determined by the business strategy they adopt (Pearce and Robinson, 1985).The strategies which result in high performance are identified with activities that generally lead to the industry key success factors such as innovation, new technology, new markets, product quality and extensive advertisement (Galbraith and Schendel, 1983).

According to MSE baseline survey 1999, most SMEs in Nairobi are characterized as survivalist enterprises; found by people unable to find a paid job, more often after restructuring or unable to get into economic sector of their choice, initiatives to augment their income under harsh economic conditions or seeking independence and locus of control. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skilled training in a particular field and only limited opportunities for growth into a viable business. They are involved mainly in activities such as: trade, services, manufacturing, bars, hotel and restaurants and construction. Trade related businesses are more dominant because of ease of entry to the business and quick return on investment. The sector is predominantly dominated by

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people with relatively low level of education and is more reliance on the customers within Nairobi.

Also according to the survey, although Nairobi and Mombasa towns constitute 10% of the population, they account for 16% of the total SMEs and 17% of the total employment. Studies by Bowen (2009), sight various challenges they encounter such as: increased competition, insecurity, lack of credit, few customers, debt collection, high rent, political uncertainty, power outages and high cost of raw materials. More depressing is the findings that SMEs in Nairobi do not survive beyond the fifth year due to lack of planning in the long term and various factors related to lack of support by the government and entrepreneur's lack of rational motivation of profit maximization against personal self-actualization pursuit.

### 1.1.1 Concept of Strategy

Managers in organizations usually face various challenges posed by the immediate external environment (competitors, suppliers, scarce resources and regulators etc.), remote environment composed mainly: Political, Economic, Social, Technological Legal and Ecological factors (PESTLE). Internally there are stakeholders such as shareholders and employees. In order to manage these competing forces, they have to formulate a robust long term plan or strategy. According to Johnson and Scholes (1998), strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through configuration of resources and competences with the aim of fulfilling stakeholder's expectations. O'Reagan and Ghobadian (2002) supported

that the purpose of strategic planning is to enable a business to gain as efficiently as possible a sustainable edge over its competitors.

Strategic management, according to Wheelan and Hunger (2002), is a set of managerial decisions and actions that determines the long run performance of an organization. It includes environmental scanning (internal and external), strategy formulation, strategy implementation, evaluation and control. Management vision of what the organization seeks to do and become is termed as organization mission. A mission statement articulates the organization's future cause and outlines where the organization is, what it does and where it is going, this sets particular business position. Objective setting purpose is to convert the mission statement into specific performance targets and close the gap between actual and desired performance, directing the organization to be more inventive and create a sense of urgency in improving its financial and business position. The objectives must be specific, measurable, achievable, relevant and with a time frame to enable monitoring and evaluation.

Once objectives are specified, a firm has undertaken a situation analysis with its current situation to devise a strategic plan to reach those objectives. An environmental scan can be performed using tools such as PESTLE or industry analysis. The firm also must know its own capabilities and limitations in order to select the opportunities that it can pursue with a higher probability of success using SWOT analysis. The study of strategic management emphasizes, the monitoring and evaluation of external opportunities and threats in light of the firm's strengths and weaknesses (Kenneth, 1987).

Strategy formulation process is then executed once a clear picture of the firm and its environment is in hand, specific strategic alternatives can be developed, depending on the firm's circumstance. Michael Porter (1980), identified generic strategies; cost leadership, differentiation, and focus that may be considered when defining strategic alternatives. However, he cautioned against implementing these strategies in combination in a particular situation.

Strategy implementation involves: operationalizing of strategy by efficiently and effectively matching structure, culture, policies and leadership to strategy and institutionalizing the strategy: building a capable team, providing leadership and allocating resources to strategically critical activities and where possible a system to reward achievements. Implementation is at three levels: corporate level, usually championed by the Chief Executive Officer (CEO), who approves and allocate resources, business level: where the focus is competition in the market place and operational level, where functional managers focus their departments to efficiently achieve departmental goals in line with organizational strategy. Every manager is a strategy maker or strategy implementer for the areas they have of authority (Thompson and Strickland, 1992). Once implemented, the results of the strategy need to be measured and evaluated, with changes made as required to keep the plan on track. Control systems should be developed and implemented to keep the firm on track.

### 1.1.2    Organizational Performance

Research has established the important role played by SMEs in economic development (Petrof 1987), and for companies to align their performance measurement to strategy is well documented in literature (Kaplan, 1983). However, these approaches have been designed for large manufacturing industries. SMEs exhibit distinct characteristics that differentiate them from their counterpart (Storey 1994), therefore different approach is necessary.

In SMEs a wide variety and definitions variables are used to measure the term performance (Murphy and Hill, 1996). Performance according to Keates and Bracker (1988) has a different set of meaning as undifferentiated to large firms and may usually be one dimensional concept, which implies a number of different interpretations.

Most frequently used measure of performance has been change in firm's turnover (Weinzimmer et al., 1998). Other measure commonly used is change in the number of employees. However it has been found that these measures, which are frequently used in SMEs context, are strongly intercorrelated (Storey et al., 1987), unlike in capital intensive large companies. Earlier studies have also used parameters such as sales growth, market shares, profitability and shareholders satisfaction (Keates and Bracker, 1988). According to Murphy, Trailer and Hill (1996), dimensions like efficiency, growth and profit were frequently used. Limitations posed by these financial data necessitated the use of non-financial data (Dess and Robinson, 1984).

Gibson and Cassar (2005) concentrated on economic success measure of performance by using financial (sales and income measurements) and non-financial indicators (number of employees). This was also supported by Ramanujan, Verkatraman, and Camillas (1986), Tosi and Gomez-Mejia (1984) and Saffu (2005) who recommended that organizational performance of SMEs should be measured with both financial and non-financial criteria, employing both objective and subjective data. This was necessary to mitigate challenges of obtaining reliable financial information from the business people over the past years (Bracker and Pearson, 1986). Thus different measures can be identified and adopted, there are no set of standard measurement.

### 1.1.3   Small and Medium Enterprises (SMEs) in Kenya

The definition of SMEs varies from one country to another and one particular time or another in the same country, depending on the pattern and stage of development, government policy and administrative setup. Different definitions either relate to capital or employment or both or any other criteria (Scarborough, 2011).The new SMEs Act (2012) defines an SME as a firm, trade, service, industry or a business activity whose annual turnover is below KSh 5,000,000 shillings and employs below fifty people.

The important role played by the SMEs cannot be overemphasized; they contribute immensely to the economic development and wealth creation through employment and creation of market linkages (Peacock, 2004). They have potential to create immediate large scale employment opportunities 10-20 times more than large factories, harnessing local unutilized resources (Mahlnobis, 1968). Distribution of national income and wealth

is achieved more equitably due to their widely spread ownership covering rural and remote regions, which stimulates local economic activity, which in turn drives wealth and further creation of employment (Walker and Webster 2004).They also foster creativity and entrepreneurial spirit through innovation and cheap resource utilization; therefore serve as an important seedbed role for the growth of new industries and establishment of future large companies (Howard, 1997).

The sector contribution to the Gross Domestic Product (GDP) increased from 13.8% in 1993 to 20% in 2007, provided about 78% of the total employment and contributed 57% of the jobs created in 2005/2006 financial year (World Bank, 2007). Therefore the promotion of this sector is an efficient and effective strategy to reposition the country and place it on a higher growth trajectory. Efforts to promote this sector have been articulated in Sessional Paper No.2 of 2005 on development of SMEs for wealth and employment creation. A number of initiatives have been stipulated aimed at improving SMEs environment such as expanding access to credit, and improve access to training (Rongwe, Ndirangu and Nyangito, 2002).The Government has just signed The SME Bill (2012), which is aimed at establishing the SMEs Authority to be responsible for formulating and reviewing policies and programs for SMEs as well as monitoring and evaluating the implementation of existing policies and programs related to, or affecting, SMEs and advice the government on appropriate policies and course of action to be taken. In the new devolved government, just started to operate under the new constitution, Public Procurement and Disposal Regulation (2013) has already been enacted by the Minister of

Finance to preferentially consider local SMEs in tender award in their respective County Governments in a bid to spur their development and address local imbalance.

Despite the important economic role played by SMEs in contribution to employment, revenue collection, innovation and technological advancement, past statistics indicate that three out of five businesses fail within the first few months of operation (KNBS). They are also plagued by high failure rates and poor performance (Jocumsen, 2004). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive SMEs as lacking ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Therefore, bigger companies are given business for their clout and name instead.

Starting and operating a small business includes possibility of success as well as failure. Because of liability of size, simple management mistake is likely to lead to a sure death of a small enterprise, hence no opportunity to learn from past mistakes. Lack of planning and poor management has been identified as the main causes of failure of small enterprises (Longnecker, et al, 2006). Lack of credit has also been cited as the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tomecko and Dondo, 1992). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has also been a major constraint in development of SMEs (Bokea, Dondo and Mutiso, 1999).

## 1.2  Research Problem

Strategy plays a crucial role in the firm's performance (Gibus and Kemp, 2003), as it gives the direction that the firm has in mind and which way they want to achieve their goals. The performance of an enterprise is determined by the business strategy it adopts (Pearce and Robinson, 1985). Many researchers have associated business strategies with performance, distinguishing between strategies associated with high and low performance (Covin, 1991). Further in literature, it also investigates the different typologies and performance and determines which typologies lead to best performance for firms. Therefore there is a great need to understand the linkage between strategy and performance as recipe for organizational improvement.

Despite important contribution to the national economy studies by Bowen (2009) in Nairobi SMEs found out that most SMEs do not survive beyond the fifth year. According to Wheelan and Hunger (1999), two underlying factors cited from literature responsible for failure were: an overall lack of strategic management, with an inability to plan a strategy to reach the customers and failure to develop a system of controls to keep track of SME performance.  Strategic planning in SMEs is inhibited according to Pearson (1984) by lack of time, lack of specialized expertise, inadequate knowledge of planning and reluctance to share knowledge.

Therefore there is a need to undertake in depth of study the strategy management practices adopted by SMEs and how their performance measures are formulated, implemented, monitored and measured with a clear focus to increase efficiency and

productivity in their performance, in order to focus on their customers and the changing environment to achieve the financial success. This could directly contribute to the organization realization of profit maximization objectives, sustainability of the enterprises, encouragement and motivation of entrepreneurial culture that would ultimately bear a positive contribution to achieving industrializing economy in fulfillment of the country's Vision 2030.

Many research have been undertaken regarding strategies and performances in organizations such as Ayieko (2011): Strategic Planning and Performance of Large Manufacturing Firms in Kisumu Kenya, who found that the firms were moderately practicing strategic planning. Chimwani (2010): Application of Strategic Performance Measure in SMEs in Manufacturing Enterprises in Nairobi: Case of the Balance Score Card Perspectives; concluded that most performance measures in manufacturing SMEs were financial in nature, and there was the knowledge gap between knowledge of customer, internal business perspective and innovation/learning and growth perspectives business measures. Muchiri (2011): Challenges of Implementing of Strategic Decisions among SMEs in Nairobi Kenya concluded that support is necessary from bottom up for successful implementation of strategies in SMEs.

Internationally, research on strategies and performance has also been undertaken by various scholars such as; Pushpakumari and Watanabe: Do Strategies Improve SMEs Performance? An Empirical Analysis of Japan and Sri Lanka, the findings were that, there was a relationship between proactive strategies and performance in manufacturing

SMEs in Sri Lanka and Japan. Wang, Walker and Redmond investigated: Explaining the Lack of Strategic Planning in SMEs: The Importance of Owner Motivation and concluded that; Ownership motivation was central to understanding of the planning practices in SMEs and as alternative explanation to the common focus on barriers to strategic planning.

These studies have been performed either in western contest or with a bias towards large firms. SMEs exhibit distinct characteristics that differentiate them from large industries (Storey, 1994). Westhead and Storey (1996), further avers that SMEs are not "small large business" but are separate and distinct group compared to large businesses. Therefore extending the research findings in large firms to SMEs would be misleading. Dynamic environment currently and ever changing circumstances also make it difficult if not impossible to generalize similar research performed in different environment; hence there is a knowledge gap which this study intends to fill by investigating the strategies adapted by SMEs in Nairobi, Kenya to improve performance.

## 1.3 Research Objectives

To establish the strategies adopted by SMEs in Nairobi, Kenya to improve performance.

## 1.4 Value of the study

The rate of failures of SMEs in the economy is alarming and has multiple negative effects such as discouraging prospective entrepreneurs, waste of scarce resources, loss of employment and missed opportunities. This research is intended to understand the

challenges facing the SMEs owner manager in matching their strategies with the internal circumstances and external opportunities in their external environment with a view of bringing more understanding appreciation and improvement of their performance geared toward realization of the profit objectives.

Bring awareness to policy makers in the Government to understand the various challenges SMEs encounter in the startup and operation of their business. So that they could analyze, formulate and implement their policies in support of SMEs with consideration and their involvement in order to channel their efforts and resources effectively to support their course to meet their overall objectives as a win-win situation. To the researcher and scholars, this would contribute to a body of knowledge. They could use the findings to generalize, extend or repeat the research in a different environment and provide more learning to the business community.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter presents a literature review on areas related to business strategies, performance and relationship of business strategies and performance of SMEs.

## 2.2 Theoretical Foundation

Strategy has many definitions in the literature of SMEs. O'Reagan and Ghobadian, (2005), describe strategy as a deliberate set of coherent decision and actions to achieve competitive advantage, giving coherence and direction to the organization. Firm can have strategy at three levels: corporate, business and function level. According to studies by Stonehouse and Pembertone (2002) and Jones (1982); SMEs tend to orientate towards short time operational rather than long term strategic issues. And decision making tend to be reactive rather than proactive. SMEs that attempt to plan, plans are ad hoc and intuitive, rather than formally written and provide little basis upon which business performances can be measured and analyzed (Kelmar and Noy, 1990).

Business strategy is an overall plan of action, which defines the competitive position of the firm (Mintzberg and Quinn, 1991). They are implemented through major functional areas in Production, Human Resource Management (HRM), Sales and Marketing, Finance and Research and Development (R&D).The effectiveness of the overall business strategy depends largely on how well the various functions are integrated to form a pattern (Robinson and Pearce, 1988). The pattern defines the organization's business

strategy and therefore competitive position in the industry (Mintzberg and Quinn, 1991). Due to complexity of interaction, no one organization would be similar to another. The essence of strategy is to understand why organization performs differently and how the performance can be directed and controlled, of our great interest is the relationship between strategy and performance.

Three factors influence the management's choice of strategy; management, environment variables and firm's internal resources (Thompson and Strickland, 1983) and the greater the influence of the environmental variable on the business strategy, the less the impact of the management (Montanari, 1978). Managers have great influence on business strategy in SMEs where the manager is also the owner of the firm than in large firms (Miller, 1988). They have enormous impact to the firm through their power of ownership and face to face contact with employees. Thus the owner- manager is the center of all the enterprise behavior (Covin, 1991).

## 2.3 Performance of SMEs

Research evidence available indicates that SMEs play a very important role in economic development (Petrof, 1987). And the role is dependent of each unique individual enterprise. Most studies on growth and performance have focused on large companies and new ventures, while established SMEs have attracted little attention, yet most jobs have been created by existing SMEs (Davidson et, al., 1992).

In SMEs, a wide variety of definitions and variables are used to measure the term performance (Murphy and Hill, 1996). Therefore, it is not always clear what performance means or what are the appropriate operational definitions. In entrepreneurship research, a wide variety of definitions and variable are used to define and measure the terms of business performances in a business (Murphy, Trailer and Hill, 1986).Similarly, the developed conceptual frameworks for assessing performance in small firms are also reflected by a multidimensional nature. Performance, according to Keats and Bracker (1988) has different set of meaning to small firms as undifferentiated one dimensional concept which implies a number of interpretations and appropriate measurements.

Earlier studies used traditional accounting parameters such as; sales growth, market shares, profitability and shareholder's expectations (Keats and Bracker, 1988).According to Murphy, Trailer and Hill (1996), dimensions like efficiency, growth, and profit were frequently used also. Whereas, according to Bracker and Person (1986), measurements that were commonly used were; sales revenue, profits, return on assets, etc. Other applied financial performances measures were; sales levels, sales growth rate, cash flow, return on shareholder's equity, gross profit margin, net profits from operations, profit to sale ratio, return on investments and ability to re-invest profits (Covin, 1991).

However, these dimensions had limitations that necessitated the use of non-financial measures (Dess and Robinson, 1984). Gibson and Casser (2005), concentrated on economic success measure of performances (sales and income measurements) and non-financial indicators (number of employees). This has been supported by Ramanujan and

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Verkatraman (2005), Ramanujan, Verkatraman and Camillas (1986) and Saffu (2005), who recommended that performance, should be measured by both financial and non-financial criteria, employing objectives and subjective data. This improved measurement method was found to have more reliability and validity and reflected objectively the firm's performance (Dess and Robinson, 1984). It also mitigated the challenges of obtaining reliable information from business people due to their inherent reluctance to disclose financial information.

Thus various measures may be used in determining performance of SMEs, however, when used singly, different measures may result to conflicting results, because they measure different aspect of the firm. Gibson and Cassar (2005) used economic success to measure performance of SMEs that is, financial indicators (sales and income measure and non-financial indicators (number of employees). Some studies have attempted to improve on the previous measurements. Kotey and Meredith (1997) used similar approach including such variables as: productivity, industry leadership, creating new jobs, community development and business growth. Medori and Steeple, (2000); Ghainlayi et al, (1997) and Kaplan and Norton (1992) recommended six dimensions: quality, time, flexibility, finance, customer satisfaction and human resource to holistically cover all aspects of the firm's performance measurements.

Thus from literature review on performance of SMEs, we can conclude that, different measures are applied and there is no any set of best standard measurements. Therefore in the current research, business performance would be identified in terms including financial and non-financial measure.

## 2.4 Business Strategy and Performance

Empirical studies available attest that, performance of an enterprise is determined by the business strategy it adopts (Pearce and Robinson, 1985). Researches have associated business strategies and performance, distinguishing between strategies associated with high and low performance. Strategies which result in high performance are identified with activities that lead to success in industry, key success factors. These activities are associated with initiatives in the industry (Miller and Friesen, 1983). Research has identified such initiatives to be associated with: product quality, product and services innovations, development of new operating technology, and discovery of new markets (Robinson and Pearce, 1988). Further parameters according to Covin (1991) includes: customer service and support, extensive advertising and use of external financing. These initiative taking strategies are commonly referred to as proactive strategies and are well integrated (Galbrath and Schendel, 1983).

Firms which perform below average tend to follow others in the industry and are reactive to the events in the environment. They are characterized by strategies that avoid risk taking and limited innovation (Miller and Friesen, 1983); the activities may not be well integrated and more often mismatched with the demands of the environment. These

activities are often referred to as reactive strategies. In practice organizations my adopt a combination of reactive and proactive strategies based on the prevailing circumstances. Strategies with varying degree of proactivity and reactivity lie along the proactive-reactive continuum.

Studies have identified that there are relationships between business strategies and performance. The activities that lead to improving the existing products to meet to the changing customer needs, new products development, and emphasizing on product quality improvement are associated with market share increases by attracting new customers and retaining existing ones (Robinson and Pearce, 1988). These innovative and risk taking activities are likely to be ignored by low performing firms to the detriment of their performance. High performing firms are also implementing new production technologies, emphasizing on cost effectiveness and employee's productivity to compete with their contemporary in the industry (Anderson and Cleverland, 1989). Studies by Kotey and Meredith (1997) confirm that when firms are advertising more, identifying names of products, greater emphasizing on customer service and credit, exploring marketing techniques, it leads to an increase in high performance. They further added that these firms use more debt financing, and rationalize costs and benefits associated with the alternative.

Rigorous studies by Gibb and Davies, (1990); Rizoni (1991) and Sebora et al., (1994) have identified and highlighted critical success factors for continuous improvement, this include: promoting a corporate culture, creating effective structure, analyzing

competitors, developing co-operation partnership and developing flexibility and speed of response. SMEs are labor intensive than large firms and research has found that assessment of employee's performance, concern with employee's well-being and job satisfaction are more common in high performing firms. Recent studies by Boer, et al., (2000) describes how firms can gain competitive advantage by extending their innovation efforts to the various phases of the product life cycle and by facilitating knowledge transfer and learning within the company and with other partner organizations.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter would provide information on research methodology be used in undertaking the research. It articulates the research design, especially with respect to the choice of the design, the population of the study, sample design, sampling techniques and data collection methods as well as analysis.

## 3.2 Research Design

Research design was a cross-sectional survey that was conducted on a sample of SMEs in Nairobi Kenya. The design was found appropriate as it has enabled the researcher obtain information concerning the current status of the phenomena (Mugenda 2003).

Research design is the program that guides a researcher as he collects data, analyses, and interprets the observation about phenomenon. It is a model of proof that allows a researcher to draw inferences concerning causal relationship among variables under investigation and possibly enable generalization and manipulation of the results.

## 3.3 Population

The target population of study was all SMEs in Nairobi Kenya. According to the baseline survey (1999), (see attached as appendix II), SMEs in urban locations of Mombasa and Nairobi and proportional composition was as indicated in Trade, Services, Hotel, Bars & Restaurants and Manufacturing sector.

A sample size of 100 SMEs was to b ederived proportionately from these strata, based on the secondary data as indicated in Appendix III as: Trade - 60, Services - 21, Hotel, Bars & Restaurants – 6, Manufacturing - 10 and construction – 3. SMEs in Kenya is defined by a criteria based on business activities, size of the firm, turnover and number of employees.

## 3.4 Sample design

Stratified sampling was to be conducted based on the proportionate population of SMEs in the five sectors: Trade, Services, Hotel, Bar & Restaurant, Manufacturing and Construction in Nairobi as (per appendix II attached). Sample size was to be 100 SMEs, with a representative composition (as shown in Appendix III attached). Because of the value of the information which was general with low variability of the population. The design was to enable us represent the overall population of SMEs in large and small sectors with more precision than simple random sampling

## 3.5 Data Collection

According to Mugenda (2003), primary data consists of data collected by the researcher through data collection instruments such as questionnaires, interviews, measurements, observation and brainstorming. Whereas, secondary data consists of already documented data such as library books, government records and internet files.

In this research, used primary data collected through questionnaire (Appendix I) in addition to secondary data. Pilot study was undertaken to test the instrument of data collection before commencing on the exercise to improve on validity and reliability.

**3.6 Data Analysis**

The purpose of data analysis was to investigate the causal relationship among the variables under investigation. Apart from descriptive statistics of Mean, Frequency and Percentages on the characteristics of respondents, regression analysis was used to measure and predict the relationship between the predictor variables (strategy) and the dependent variable (performance).The standard deviation was utilized to give us an indication of the dispersion of the scores of the variables.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The main objective of the study was to investigate the strategies adopted by small and medium enterprises in Nairobi Kenya to improve performance. The research was conducted on sample size of 100 respondents, out of which 83 respondents completed and returned the questionnaires duly filled in, making a response rate of 83%. Mugenda and Mugenda (1999) stated that a response rate of 50% and above is a good for statistical reporting. The study made use of frequencies (absolute and relative) on single response questions. On multiple response questions, the study used Likert scale in collecting and analyzing the data whereby a scale of 5 points was used in computing the means and standard deviations. These were then presented in tables, graphs and charts as appropriate with explanations being given in prose.

## 4.2 Demographic Information

The study initially sought to inquire information on firm's characteristics of respondents such as the name of the organisation, the business activities which among others included construction companies, manufacturing, Bar/hotels/ restaurants, trade and service industry, job designation which included managers, technicians, drivers, service people, attendants, and owners among others. Included in this questionnaire was also information on level of education, total number of employees, legal form and number of years in operation. This information was aimed at testing the appropriateness of the respondent in

answering the questions regarding the strategies adopted by small and medium enterprises in Nairobi Kenya to improve performance.

### 4.2.1 Respondents' Distribution by Gender

The study sought to establish the gender of the respondents and the findings are as shown in Figure 4.2 below.

**Table 4.1: Respondents' Distribution by gender**

|        | Frequency | Percentage % |
|--------|-----------|--------------|
| Male   | 40        | 48.2         |
| Female | 43        | 51.8         |
| Total  | 83        | 100.0        |

According to the findings, 48.2% of the respondents were male and 51.8% were female. This is an indication that majority of small and medium enterprises in Nairobi Kenya are owned and operated by females.

### 4.2.2 Respondents' Distribution by Age

The study sought to establish the age of the respondents and the findings are as shown in Figure 4.1 below.

**Figure 4.1: Respondents' Distribution by Age**
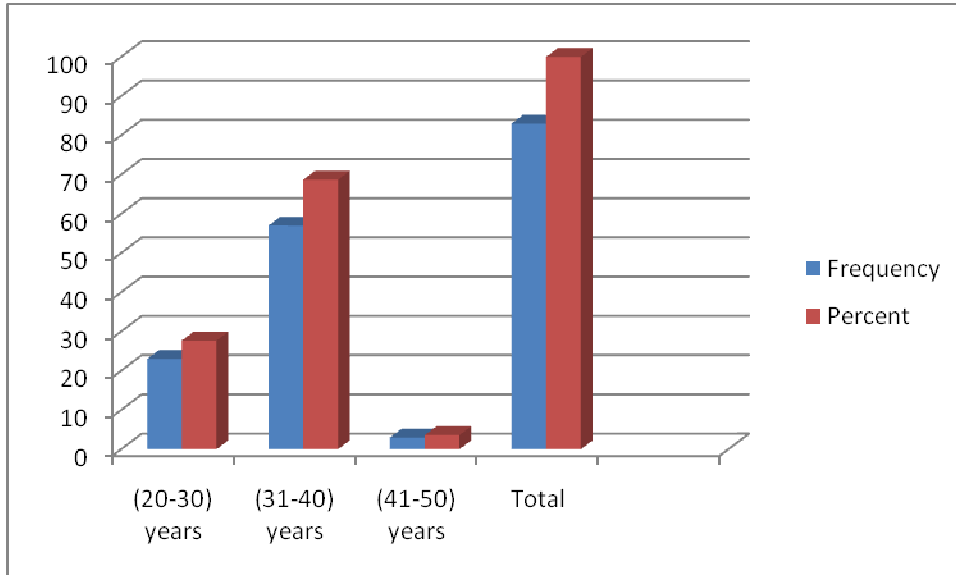


With regard to the age of the respondents 27.7% were in the age bracket (20-30) years, 68.7% were bracket of (31-40) years, and 3.6% were in age bracket (41-50) years these implies that small and medium business are operated by young and energetic people between (31 - 40) years. It also clear that the extend of entrepreneurship is higher among the youth in Nairobi, Kenya.

**4.2.3    Respondents Distribution by Education Level**

The study sought to establish the level of education of the respondents and the findings are as shown in Figure 4.3 below.

**Table 4.3: The Distribution by Education Level**

|  | Frequency | Percent |
|---|---|---|
| Secondary | 23 | 27.7 |
| Tertiary college | 34 | 41.0 |
| Graduate | 24 | 28.9 |
| Postgraduate | 2 | 2.4 |
| Total | 83 | 100.0 |

Concerning the education level of the respondents, 27.7% had attained secondary school education, 41% had tertiary level of education, 28.9% were graduates and only 2.4% had post graduate level of education. This could be inferred that all the investors in SMEs in Nairobi have at least a basic education with majority of operators 41% having attained tertiary college education. Most post graduate Kenyans in Nairobi seemed to have low interest in venturing in SMEs business.

### 4.2.4 The Number of Employees

The research further sought to establish the number of employees in SMEs in different sectors and organisations and the findings are as shown in figure 4.4.

**Figure 4.2: The number of Employees**
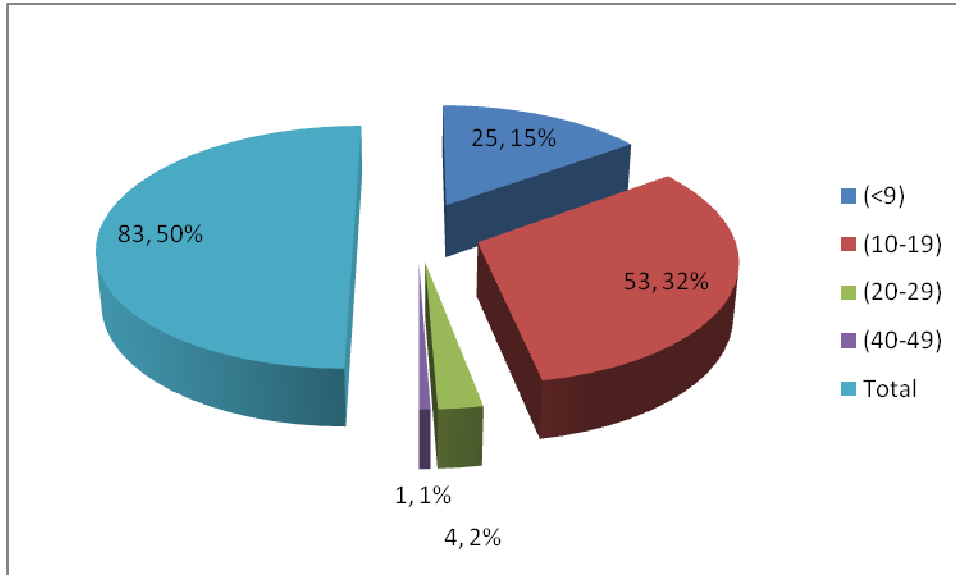


**Source:Author 2013**

From the findings 64% of the SMEs had most of the employees in the range of (10-19) people, 30% of the organisations employeed less than nine (>9) people, 4% had employeed between (20-29) people and the rest of organisations had employed only 1% in category of (40-49) people. Most SMEs in Nairobi kenya 94% have an avarage under 20 people.

**4.2.5   Legal Form**

The study further inquired from the respondents on the legal form and findings are as shown in table 4.4

**Table 4.4: Legal Form**

|                     | Frequency | Percent |
|---------------------|-----------|---------|
| Sole proprietorship | 24        | 28.9    |
| Partnership         | 42        | 50.6    |
| Limited company     | 16        | 19.3    |
| Joint stock         | 1         | 1.2     |
| Total               | 83        | 100.0   |

From the findings 50.6% of the SMEs in Nairobi are in partnership kind of ownership, 28% are sole proprietorship arrangement, 19.3% are limited companies, and only 1.2% are in joint stock. This depicts that, majority of SMEs in Nairobi have partnership ownership, this could be due large initial capital challenge required in start up and running of the businesses. It also reveals that joint stock market has not been exploited in Nairobi SMEs possibly due to stringent conditions laid out by the Capital Market Authority (CMA) on an initial capital requirement.

### 4.2.6 Operation Period of the Businesses

The study further sought to find the period of time business had operated below is the findings figure 4.3.

**Figure 4.3: Operation Period**
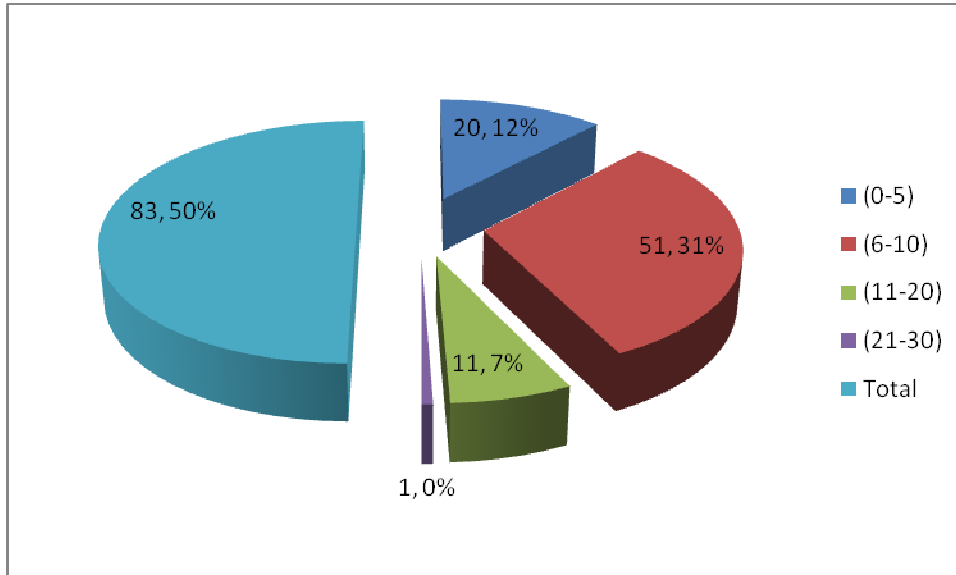


The researcher wanted to find out the period of time these SMEs had been in operation in Nairobi. Findings revealed that a vast majority (64 %) of the respondents had been in operation for a period of (6-10) years, 12% had operated for less than (0-5) years, 14% were operational for a period of (11-20) years, and almost none was existence after 21 years. The study therefore reveals majority of SMEs in Nairobi County were upcoming businesses and only less than 1% of the businesses had operated for longer period of time (21-30) years. Thus there is a trend of decreasing number of SMEs with more number of years in operation, which could indicate many SMEs falling out of business with time.

## 4.3 Business Strategies

In order to assess the various operational strategies of SMEs, area of operations in Finance, Production, Human Resource management (HRM), Marketing and Research and Development (R & D) were identified and assessed.

### 4.3.1   Finance

In order to further asses the performance measure by the small and medium enterprises in Nairobi Kenya, respondents were requested to indicate their level of agreement on various strategies effective in management of their business operation. The responses were rated on a five point Likert scale where: 1- strongly agree, 2- agree, 3- moderate, 4-disagree and 5-strongly disagree. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.5 below

**Table 4.5: Business Finance**

| Operational Strategies | Mean | Std. Deviation |
|---|---|---|
| Use of outside borrowed funds | 1.2892 | 0.45613 |
| Search for cheaper source of finance | 1.2410 | 0.48364 |
| Re-investment of earned profits | 1.2530 | 0.60169 |
| Maintaining large cash balances | 1.5301 | 0.84590 |

From the study findings majority of respondents agreed that maintaining large cash balances was effective in business operations (mean -1.5301).Use of outside borrowed funds (mean-1.2892). Re-investment of earned profits (mean-1.2530) and search for cheaper source of finance (mean-1.2410) respectively. The findings indicate that most SMEs tend to use maintain large cash balances in their operations as compared to search for cheaper source of finance such as bank loans as they tend to have challenges

accessing this loans. Thus there is less tendency to take risk and leverage on the external sources of finance.

## 4.3.2  Production Process

The researcher sought to know the level of agreement on various strategies adopted in their production process for effective business operation.  The responses were rated on a five point Likert scale where: 1-strongly agree, 2-agree, 3-moderate, 4-disagree and 5-strongly disagree. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.6 below.

**Table 4.6 Production Process**

| Operational strategies | Mean | Std. Deviation |
|---|---|---|
| Changing or  re-inventing production methods | 1.8193 | 0.81367 |
| Improving the existing products to meet changing customer needs | 1.4337 | 0.60873 |
| Developing new products | 1.2892 | 0.59531 |
| Emphasizing product quality | 1.2651 | 0.58611 |
| Involving employees in decision making | 1.2048 | 0.55785 |

From the findings majority strongly agreed that changing or re-inventing production methods is important for effective business operations (mean-1.8193), improving the existing products to meet changing customer needs (mean-1.4337), developing new products (mean-1.2892), emphasizing on the product quality (mean-1.2651) and involving employees in decision making (mean-1.2048) respectively. These illustrates that changing or re-inventing production method is the best strategy in the effective business operation (especially in manufacturing), improving the existing products to meet changing customer needs was agreed to be effective strategy in business, developing new products was moderately agreed to be good for business while emphasizing product quality and involving employees in decision making was disagreed to be effective strategies in business production process.

### 4.3.3   Human Resource Management

In order to further assess the effect of human resource management in business operation strategy, respondents were requested to indicate their level of agreement on relevant strategies. The response were rated on a five point Likert scale where: 1-strongly agree, 2-agree, 3-moderate, 4-disagree and 5-strongly. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.7 below.

**Table 4.7: Human Resource Management**

| Operational Strategies | Mean | Std. Deviation |
|---|---|---|
| Using clear personal policy in reward and punishment of employees | 1.3253 | 0.60704 |
| Emphasizing employees welfare | 1.1446 | 0.44537 |
| Assessing employees performance | 1.1566 | 0.42718 |
| Assessing employees job satisfaction | 1.1687 | 0.48938 |
| Emphasizing employees job satisfaction | 1.1084 | 0.34964 |
| Emphasizing employees productivity | 1.3976 | 0.71465 |

Findings as presented in table 4.7 reveals that emphasizing the employees productivity was strongly agreed to be effective strategy in SMEs operation (mean-1.3976),using clear personal policy in reward and punishment of employees (mean-1.3253), accessing employees job satisfaction (mean-1.1687), assessing employees performance (mean-1.1566), emphasizing employees welfare (mean-1.1446), and emphasizing employees job satisfaction (mean-1.1084) respectively .These implies that emphasis on employees productivity in human resource management is the strategy that enhances business productivity among SMEs in Nairobi on the other hand emphasis on employees job satisfaction has minimal impact on effectiveness of business operations.

### 4.3.4  Marketing

In order to further asses the marketing strategies adopted by small and medium enterprises in Nairobi Kenya, respondents were requested to indicate their level of agreement on various strategies effective in helping the business operations. The responses were rated on a five point Likert scale where: 1-strongly agree, 2-agree. 3-moderate, 4-disagree and 5-strongly disagree. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.8 below

**Table 4.8: Marketing**

| Operational Strategies | Mean | Std. Deviation |
|---|---|---|
| Using brand names | 1.4578 | 0.70367 |
| Advertising products | 1.5542 | 0.84468 |
| Expanding customer credits | 1.6867 | 0.89617 |
| Pricing products at market price | 1.3976 | 0.64278 |
| Emphasizing customer service | 1.1951 | 0.50769 |
| Selling products direct to end user | 1.3976 | 0.79541 |
| selling through distribution channels | 2.1687 | 1.29558 |

The findings  reveal that majority of respondents strongly agreed that selling through distribution channels is the best marketing strategy (mean-2.1687), expanding on customer credits (mean-1.6877), advertising products (mean -1.5542), use of brand names (mean-1.4578), pricing products at the market price and selling products direct to

end user had the same impact on business operations (mean-1.3976), emphasizing on customer service had the least impact on business operations (mean-1.1951) respectively. This implies that selling through distribution channels as marketing strategy impact positively on the performance of SMEs while emphasis on customer service has least impact on SMEs in Nairobi.

### 4.3.5   Research and Development

In order to further asses the marketing strategies adopted by small and medium enterprises in Nairobi Kenya, respondents were requested to indicate their level of agreement on various strategies effective in helping the business operations. The responses were rated on a five point Likert scale where: 1-strongly agree, 2-agree, 3-moderate, 4-disagree and 5-strongly disagree. The mean and standard deviations were generated from SPSS and are as illustrated in Table 4.9 below.

**Table 4.9: Research and Development (R& D)**

| Operational Strategies | Mean | Std. Deviation |
|---|---|---|
| Consulting technical experts | 1.9880 | 1.10976 |
| Taking part in activities related to trade or industry associations | 1.9157 | 0.93970 |
| Attempting to predict industry trends and acquiring knowledge of competitor | 1.9639 | 0.99322 |

From the findings the study reveals that majority of SMEs in Nairobi strongly agree on consulting technical experts (mean 1.9880), attempting to predict industry trends and acquiring knowledge of competitor (mean-1.9639), taking part in activities related to trade or industry associations (mean-1.9157) respectively. This goes to show that most entrepreneurs tend to seek expert knowledge and advice before and during their operations, however there is less involvement in membership in professional memberships and in trade industry activities which could also be important to their development.

## 4.4 Business Performance

In order to assess SMEs performance, financial measures: annual sales, annual profits, market share and re-investment in business and non financial measure (number of employees) were used and the results are as shown below:

**Table 4.10: Business Performance**

| Business Performance year (2010-2013) | Mean | Std. Deviation |
|---|---|---|
| Annual sales | 3.9759 | .73212 |
| Annual profits | 4.0120 | .78855 |
| Number of employees | 4.5181 | .84231 |
| Market share | 4.2530 | .65970 |
| Re-investment in business | 4.2289 | .70409 |

From the findings majority agreed that number of employees had increased (mean=4.5181), market share (mean=4.2530), Re-investment in business (mean=4.2289), annual profits (mean=4.0120), and annual sales (mean=3.9759) respectively. From the respondent results it is shown that there is a level of business performance measure amongst SMEs in Nairobi Kenya. The emphasize is more on the number of employees indicator and least on the annual sales indicator as a measure of performance.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents summary of findings, conclusion and recommendations of the study in line with the objectives of the study. The research sought to establish the strategies adopted by small and medium enterprises in Nairobi Kenya to improve performance.

## 5.2 Summary

From the findings 50.6% of the SMEs in Nairobi are partnership kind of ownership, 28% are sole proprietorship owned, 19.3% are limited companies, and only 1.2% of firms are operating as joint stock. This implies that majority of SMEs in Nairobi have partnership ownership, these can be due large sum of money required to start and run businesses. It also reveals that joint stock market has not been exploited in Nairobi SMEs these could be due to large sums of money required in stock market. Findings revealed that a vast majority (62 %) of the respondents had been in operation for period of (6-10) years, 24% had operated for less than (0-5) years, 14% were operational for a period of (11-20) years, the remaining less than 1% were in operational for a period of (21-30) years. The study therefore reveals majority of SMEs in Nairobi County were upcoming businesses and only 1% of the businesses had operated for longer period of time (21-30) years.

On operational strategies adopted by SMEs, majority of respondents agreed that maintaining large cash balances was effective in business operations (mean -1.5301), use of outside borrowed funds (mean-1.2892). Re-investment of earned profits (mean-1.2530) and search for cheaper source of finance (mean-1.2410) respectively. This is an indication that their best strategy in the effective running of the business is maintain large cash balances, use of outside borrowed funds, re-investing of earned profits and search for cheaper source of finance respectively. Majority strongly agreed that changing or re-investing production methods is important for effective business operations (mean-1.8193), improving the existing products to meet changing customer needs (mean-1.4337), developing new products (mean-1.2892), emphasizing on the product quality (mean-1.2651) and involving employees in decision making (mean-1.2048) respectively. This implies that changing or re-investing production method is the best strategy in the effective business operation, improving the existing products to meet changing customer needs was agreed to be effective in business, developing new products was moderately agreed to be good for business while emphasizing product quality and involving employees in decision making was disagreed to be effective strategies in business production process.

Emphasizing the employees productivity was strongly agreed to be effective strategy in SMEs operation (mean-1.3976), using clear personal policy in reward and punishment of employees (mean-1.3253), accessing employees job satisfaction (mean-1.1687), assessing employees performance (mean-1.1566),emphasizing employees welfare (mean-1.1446), and emphasizing employees job satisfaction (mean-1.1084) respectively. This is

an indication that emphasis on employees productivity in human resource management is the strategy that enhances business productivity among SMEs in Nairobi on the other hand emphasis on employee's job satisfaction has minimal impact on effectiveness of business operations. Majority of respondents strongly agreed that selling through distribution channels is the best marketing strategy (mean-2.1687), expanding on customer credits (mean-1.6877), advertising products (mean -1.5542), use of brand names (mean-1.4578), pricing products at the market price and selling products direct to end user had the same impact on business operations (mean-1.3976), emphasizing on customer service had the least impact on business operations (mean-1.1951) respectively. This implies that selling through distribution channels as marketing strategy impact positively on the success of SMEs operation, the other hand emphasis on customer service has least impact on SMEs in Nairobi, Kenya. The study reveals that majority of SMEs in Nairobi strongly agree on consulting technical experts (mean 1.9880), attempting to predict industry trends and acquiring knowledge of competitor (mean-1.9639).

On business performance trends, from the findings on performance, majority agreed that number of employees had increased (mean=5.5181), market share (mean=4.2530), investment in business (mean=4.2289), annual profits (mean=4.0120), and annual sales (mean=3.9759) respectively. This indicates a positive performance generally among SMEs in Nairobi, Kenya; however higher rate of increase in employees as compared to other performance measures means that is an indicator mostly used to measure growth.

**5.3 Conclusion**

The study concludes that most SMEs in Nairobi are slightly dominated by women at 52% as compared to men at 48%.The age prevalent for starting and operating SMEs is skewed towards younger generation, however, education wise they have at least a tertiary education, and the higher the education, the less tendency towards interest in SMEs ownership and operation of the people in Nairobi Kenya. Most of the SMEs are jointly owned or sole proprietorship as compared to joint stocks and limited companies and most of the enterprises have in operation between (6 – 10) years.

For most SMEs as literature supports, their strategies are formed at the operational level and results suggest that as financial strategy, they tend to maintain large cash balances and to some degree, utilising outside borrowed funds. At production level their major strategy is changing and re-inventing production methods and product improvement to meet changing customer needs. Human Resource Management strategies, emphasize is on employee productivity and using clear policy in reward and punishment of employees. Whereas, in Marketing and R&D, they prefer the strategies of selling through distribution channels and consulting technical experts respectively.

However based on the mean scores, which was out of a score of 5, this indicates that the strategies are reactive more than proactive. Based on business performance indicators there is a level of positive business performance trend amongst SMEs in Nairobi and entrepreneurs between the years 2010 to 2013 and are aware and measure or at least understand the business performance trends.

## 5.4 Recommendations

The study recommends that government should create and make available more revolving fund to young people in SMEs to help them exploit the opportunities in the stock market.

The study recommends that government and relevant organisations should provide more training to young people on the best strategies to adopt in marketing, finance management and production process in order link their operation to the customers to improve performance in SMEs.

The study also recommends that government should provide an enabling environment by improving infrastructure, security and an enabling culture where entrepreneurship is not looked down upon as a domain for less educated people in the society and where failure is not stigmatised but rather an avenue for further learning and improvement.

## 5.5 Areas of further studies

Since this study explored the strategies adopted by small and medium enterprises to improve performance in Nairobi Kenya. The study recommends that similar study should be done in other Counties for comparison purposes and to allow for generalization of findings on the strategies adopted to improve performance in SMEs in Kenya.

Similarly the research should be undertaken to SMEs in various categories separately in manufacturing, construction, bar and restaurant and trade in order to establish the strategies adopted for a more conclusive results since they are oriented differently.

## 5.6 Limitation of Study

The researcher encountered quite a number of challenges most particularly during data collection given the number of respondent and their willingness to cooperate with information. Time for the study was insufficient given that the researcher had to make a follow up on respondents and sometimes guide and clarify to the respondent on answering the questionnaires. Some respondents were biased while giving their information especially relating to their finances for fear of victimization by the government officials. At the same time it was hard to prove the accuracy of the data given due to lack of proper documented management of by SMEs owner.

Lack of honesty from some respondents especially in giving information relating to their performance activities and trends for fear that the information could be used against them with their rivals or to be used in exposing them to the taxation

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# APPENDICES

## Appendix I: Authorization Letter

**UNIVERSITY OF NAIROBI**
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex:     22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 05/10/2013

### TO WHOM IT MAY CONCERN

The bearer of this letter .......... ASEKA JOHN MSEE

Registration No.............. D61/60177/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

05 OCT 2013
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
00100, NAIROBI

**Appendix II: Questionnaires**

**Introduction**

This questionnaire is for soliciting information from selected SMEs. The objectives is to assess the various strategies the firms have adopted to improve their performances. Would appreciate if you could answer the following questionnaire and return to me by today. Your cooperation in the exercise would be highly appreciated.

**Instructions**

Please answer all questions as honestly as possible or by ticking (X) in boxes where appropriate.

**SECTION A: GENERAL INFORMATION AND FIRMS CHARACTERISTICS**

| | **Details** | **Please type or tick (X) in the box where appropriate** |
|---|---|---|
| 1. | Name of your organization | |
| 2. | Core of business activity | |
| 3. | Your job designation | |
| 4. | Gender | Male {   }                            Female {   } |
| 5. | Your Age | 20 – 30 {   }    31 - 40 {   }   41 - 50 {   } <br><br> 51 - 60 {   }    61 - 70 {   }      > 70 {   } |
| 6. | Your education level | Secondary {   } Tertiary College {   } Graduate  { |

| | | | | | |
|---|---|---|---|---|---|
| | } | | | | |
| | Postgraduate {    }      Others {    } | | | | |
| 7. | Total no of Employees | < 9  {    }   10 - 19  {     }   20 - 29  {      } 30 – 39  { | | | |
| | | } | | | |
| | | 40 - 50  {     } | | | |
| 8. | Legal Form | Sole  Proprietorship  {     }   Partnership   {      }  Limited | | | |
| | | Company  {     } Joint stock   {    }   Corporation    {     } | | | |
| | | Others ………………. | | | |
| 9. | No   of   Years   in | 0 - 5  {    }  6 – 10  {    }  11 – 20  {    }  21 – 30  {    }    > | | | |
| | Operation | 41  {    } | | | |

## SECTION B: BUSINESS STRATEGIES

Show your level of agreement on the extent to which the tabulated list of business strategies have been effective in helping your operation: 1= strongly agree, 2= agree, 3= moderate, 4= disagree and 5= strongly disagree

| | | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| **1.0** | **Finance** | | | | | |
| 1.2 | Use of outside borrowed funds | | | | | |
| 1.3 | Search for cheaper source of finance | | | | | |
| 1.4 | Re- investment of earned profits | | | | | |
| 1.5 | Maintaining large cash balances | | | | | |
| **2.0** | **Production** | | | | | |

| | | | | | | |
|------|------------------------------------------------------------------|---|---|---|---|---|
| 2.1 | Changing or re-inventing production methods | | | | | |
| 2.2 | Improving the existing products to meet changing customer needs | | | | | |
| 2.3 | Developing new products | | | | | |
| 2.4 | Emphasizing products quality | | | | | |
| 2.5 | Emphasizing cost reduction in all areas of the business | | | | | |
| **3.0** | **HRM** | | | | | |
| 3.1 | Involving employees in decision making | | | | | |
| 3.2 | Using clear personal policy in reward and punishment of employees | | | | | |
| 3.3 | Emphasizing employees welfare | | | | | |
| 3.4 | Assessing employees performance | | | | | |
| 3.5 | Assessing employees job satisfaction | | | | | |
| 3.6 | Emphasizing employees job satisfaction | | | | | |
| 3.7 | Emphasizing employees productivity | | | | | |
| **4.0** | **Marketing** | | | | | |
| 4.1 | Using brand names | | | | | |
| 4.2 | Advertising products | | | | | |
| 4.3 | Expanding customer credit | | | | | |
| 4.4 | Pricing products at market price | | | | | |
| 4.5 | Emphasizing customer service | | | | | |
| 4.6 | Selling products direct to end user | | | | | |
| 4.7 | Selling through distribution channels | | | | | |
| **5.0** | **R & D** | | | | | |

| 5.1 | Consulting technical experts | | | | | |
|-----|------------------------------|---|---|---|---|---|
| 5.2 | Taking part in activities related to trade or industry associations | | | | | |
| 5.3 | Attempting to predict industry trends and acquiring knowledge of competitor activities | | | | | |

## 3. SECTION D: BUSINESS PERFORMANCES 2010 – 2013

Please tick in the table below, how the trends of the following performance indicators have been experienced from 2010 to 2013 in your organization.

1: Highly decreased        2: Slightly decreased        3: No increase

4: Slight increase        5: Highly increased

| | | 1 | 2 | 3 | 4 | 5 |
|-----|--------------------------|---|---|---|---|---|
| 6.0 | Annual Sales | | | | | |
| 6.1 | Annual Profits | | | | | |
| 6.2 | Number of Employees | | | | | |
| 6.3 | Market Share | | | | | |
| 6.4 | Investment in the Business | | | | | |

**THANK YOU FOR YOUR COOPERATION IN THE EXERCISE**

**NATIONAL BASELINE SURVEY 1999**

**SECTROL AND URBAN - RURAL DISTRIBUTION OF MSE TABLE**

| Sector | Urban | | | Rural | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | No | Col % | Row % | No | Col % | Row % | No | % |
| Manufacturing | 45,019 | 10.2 | 26.1 | 127,745 | 15.1 | 73.9 | 172,764 | 13.4 |
| Trade | 273,738 | 61.5 | 33.1 | 552,410 | 65.0 | 66.9 | 826,149 | 64.1 |
| Bars/Hotel/ Restaurants | 24,888 | 5.9 | 32.5 | 51,789 | 6.5 | 67.5 | 76,677 | 6.0 |
| Services | 92,937 | 21.0 | 48.6 | 98,398 | 11.6 | 51.4 | 191,335 | 14.8 |
| Construction | 6,561 | 1.5 | 29.7 | 15.537 | 1.8 | 70.3 | 22,097 | 1.7 |
| **TOTAL** | **443,133** | **100.0** | **34.4** | **845,879** | **100.0** | **65.6** | **1,289.012** | **100.0** |

Source: National MSE Baseline Survey 1999 (CBS, K- Rep and ICEG)

**Appendix IV: Table illustrating the sampling process**

| Stratum | Col % | No of samples |
|---|---|---|
| Manufacturing | 10.2 | 10 |
| Trade | 61.5 | 60 |
| Bars/Hotel/ Restaurants | 5.9 | 6 |
| Services | 21.0 | 21 |
| Construction | 1.5 | 3 |
| **TOTAL** | **100.0** | **100** |