

**CHALLENGES AND STRATEGIES OF SMALL AND MICRO  
ENTERPRISES IN INDUSTRIAL AREA OF NAIROBI, KENYA**

**BY**

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## **DECLARATION**

I, Annette Kerubo Makori, do hereby declare that this project paper is my original work and has not been submitted for a degree to any other university.

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## **DEDICATION**

This project paper is dedicated to my dear parents, **Mr.** and **Mrs. M.O.Makori**, whose love, sacrifice and commitment towards giving each and every one of us an education remain unrivalled.

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I thank the Almighty God for his guidance, protection and inspiration. Without his endless mercy and care I would not have been what I am today and achieved what I have at the present moment.

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However, I remain solely responsible for all errors and omissions in this paper.

## **ABSTRACT**

Small and micro enterprises (SMEs) play an important role in the Kenyan economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Education is one of the factors that impact positively on growth of firms. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments. As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. An understanding of the dynamics of SMEs is necessary not only for the development of support programs for SMEs, but also for the growth of the economy as a whole. This study sought to understand how SMEs manage the challenges they face in employing various strategies. These challenges seem to change according to different macro and micro conditions. Competition from large counterparts, political uncertainty and emergence of bogus small firms were the top three cited challenges facing SMEs in Nairobi's Industrial Area while delay in decision making and action to rehabilitate the business units, delay in disbursement of loans by banks and insecurity were the reported to be the least felt challenges in the study. This study employed stratified random sampling to collect data from 50 businesses using questionnaires. The data was analyzed descriptively using Microsoft Excel and presented using percentage tables. Relevant training or education is positively related to business success. The SMEs have among the following strategies to counter the challenges they face; superior customer service, effective marketing arrangement, continuously improving quality of goods and service delivery and use of security firms. The research concludes that business success is a consequence of embracing a mix of strategies.

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## **ABBREVIATIONS AND ACRONYMS**

<b>SMEs</b>	Small and Micro Enterprises
<b>GOK</b>	Government of Kenya
<b>NGOs</b>	Non- governmental Organizations
<b>CBD</b>	Central Business District
<b>US</b>	United States
<b>CBS</b>	Central Bureau of Statistics

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The importance of small and micro enterprises has been increasingly recognized in Kenya as a solution for the problem of scarcity of capital, widespread unemployment and poverty. But it has not served its purposes well due to various challenges. These challenges differ from industry to industry nowadays. The real or root causes have not been identified and corrective measures have not been taken on the basis of causes. The government; non-governmental organizations, (NGOs) and private sector are implementing programs aimed at improving governance and accountability of public institutions to be able to better respond to the needs of the poor, assisting them economically through creating income and employment opportunities, and improving their access to better services.

Employment creation is one of the most viable ways of reducing poverty levels in the country. This gives small and micro enterprises an important place in the economy since the medium and large scale sector has crippled their abilities to absorb Kenya's surplus labour. Small and micro enterprises become a tool of equitable wealth distribution throughout the state. If approached strategically, thousands of jobs could be created in the automobile, agro-based, cotton, handlooms and handicrafts industries etc.

Resource based view explains the relationship of small enterprises as it is based on the principle that an enterprise must engage in transactions with other actors and

enterprises in its environment in order to acquire resources. Enterprises depend on multidimensional resources: labor, capital and raw material. Enterprises may not be able to come out with countervailing initiatives for all these multiple resources. Hence enterprises should move through the principle of criticality and principle of scarcity. Critical resources are those the enterprise must have to function. An enterprise may adopt various countervailing strategies; it may associate with more suppliers, or integrate vertically or horizontally.

Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was need to conduct an empirical enquiry to investigate the challenges SMEs in Nairobi face and how they manage those challenges. The study targeted those enterprises within the Industrial Area in Nairobi City.

### **1.1.1 Concept of Strategy**

Business theorists and practitioners, having to understand the strategic process operating in highly competitive environments have offered different definitions. Chandler (1962), describes strategy as the determination of the basic long term goals and objectives of an enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out the goals. According to Quinn (1980), a strategy is the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

Strategy can help achieve success, but it doesn't guarantee it. Certain features of strategy directly contribute to success such as goals that are simple, consistent, and long-term, profound understanding of the competitive environment, objective appraisal of resources and effective implementation (G.Tyge 1950). Managers should pay attention to "strategic factors" which depend on "personal or organizational action" (C.Barnard 1934).

### **1.1.2 Business Challenges**

Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker, 2006). Lack of credit due to lack of collateral has also been identified as one of the most serious constraints facing SMEs and hindering their development.

Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMEs (Bokea, Dondo & Mutiso, 1999). Competition, insecurity, slow debt collection, lack of working capital and power interruptions are also other challenges facing small and micro enterprises. Political uncertainty, high cost of materials (input,) hawkers, low demand, unfavorable business laws and high transportation costs are an addition to the challenges. Others include high rent charges, lack of water, high cost of production, cheap imports and technological challenges among others.

According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone.

### **1.1.3 Small and Micro Enterprises**

Small and micro enterprises are defined variously. Some of the criteria employed in defining these enterprises include: number of workers, value of assets or annual turnover, nature of premises/space, status of registration/ legality of business and sustainability (CBS 1999). However, most definitions employ the number of workers criteria as this is easier to determine compared to other measures of size. For example, many businesses may not be willing to reveal the value of their assets or annual turnovers. In addition, the upper and lower limit of employees in SMEs is defined by the size of the economy (Egbetokun, 2010). In the United States for example, the upper limit size for SMEs is set at 500 employees for most manufacturing and mining industries (US Small Business Administration, 2009). In the European Union, a medium enterprise is one that employs up to 250 people (Commission Recommendation, 2003). In China, the definition of SMEs is quite complex and can include relatively large firms. For example, an industrial SME is defined as having up to 2,000 employees, while a medium-sized business has between 301 and 2,000 employees, and a small business has less than 300 workers. Therefore, what is regarded as an SME in China or in the US maybe quite large relative to an SME in another smaller economy.

In Kenya, there are different definitions of SMEs which are yet to be consolidated. For example, a national baseline survey of SMEs carried out in 1999 defines a small enterprise as one which employs 6-10 people while a medium one is expected to have 11-100 employees (CBS *et al*, 1999). However, there is a Micro and Small Enterprise bill that has been in process for 10 years, but has not yet been enacted into law. This bill takes a different approach by combining employment with other measures of size. For example, it defines a micro enterprise as a business activity whose annual turnover does not exceed Ksh. 500,000 and/or employs less than 10 people with total assets and financial investment subject to determination by the minister from time to time.

Operational and administrative management usually lies in the hands of one to three persons who usually make major decisions. According to the National Micro and Small Enterprise Baseline Survey 1999, not only are almost all the SMEs of the micro sub-group (i.e those with total employment of ten people or less) but about two-thirds of them are found in the rural areas. Infact about 70 percent of them are one –person owned enterprises i.e there is only one person working in the enterprise. Hence about 70 percent of total employment in SMEs is accounted for by owners working in the enterprises. The average size is about 18 an average that is consistent with many other regional studies of SME activities.

#### **1.1.4 Industrial Area of Nairobi, Kenya**

The Nairobi industrial area is situated at the southern end of the central business district. It is sandwiched between the city center and railway station in the west, the

high density residential areas Mbotela, Makadara and Ofafa in the north and the National Park and a fast growing belt of informal sector to the south. Geologically, it is referred to as the Athi-Kapiti plains extensions due to an extensive flat terrain. The area is straddled by Ngong River, Kenya's most polluted river due to the massive industrial pollution. In its short time of existence, Nairobi city has experienced rapid growth both in terms of population and physical expansion. Its history dates back to 1895 when a depot of caravan trade was established at the present day Ngara area. The town consisted of a railway center, a European business administration center, an Indian bazaar, railway quarters, European residential suburbs and military barracks outside town (Osengo .C. 1917).

In 1919, Nairobi became a municipality with a corporation and the initial circular boundary was changed to include some residential estates. This is when the industrial zone was established as a different entity from the CBD. In 1948, a master plan was developed which separated areas with functions. Industries dealing with bulky goods were located along the railway line, light industries were to be built at the centre and a smaller strip for noxious industries was planned in a separated position in the east. In its proposal for industrial location, it was defined that the great majority of workers should reside within one-mile radius of Industrial Area.

Low density areas were left majorly for white settlers. In 1963 the new independent administration changed the city boundaries with the aim of including adequate land for housing, commercial development and to absorb the urban density. Low income areas to serve industrial area with labor were Kaloleni, Jericho, Ofafa and Makongeni

.The space for these areas underestimated the expansion of the industrial area and hence the need for more workers.

Back in colonial times, the arriving industrialists occupied the space in a chaotic way. They randomly established neighborhoods of totally different industries which the mode has been extended up to the future. The intention of the 1948 master plan to concentrate similar industries in zones is almost totally ignored to present. Most roads present an assortment of differing industries what makes it almost impossible to efficiently upgrade the areas. Many companies simply don't have enough space for expansion and are forced to relocate.

### **1.1.5 Small and Micro Enterprises in Industrial Area of Nairobi**

In terms of ownership, the vast majority of these firms are sole proprietorships and the typical owner is a Kenyan. However, the share of African-owned firms falls sharply with increase in firm size as others are owned by Asians mostly of Indian origin in Nairobi's Industrial Area. SMEs have a simple internal enterprise perhaps because of their small size. Division of labour is very basic with the most sensitive work being assigned to either the owner or a highly skilled senior employer.

Bigger SMEs sometimes divide out work. However, in the typical one or two person firm; such allocation of duties is not viable. The market for these firms is mainly local/domestic though some producers trade beyond the local area. For example, some trade across borders with Tanzania, Uganda, Rwanda and Sudan. Generally these producers distribute their goods and services directly to the end user, whether a



business, institution or individual, rather than through an intermediary (McCormick 2007).

Small and micro enterprises in Nairobi's industrial area are characterized with various common features such as flexibility in operation whereby the enterprises adopt quickly to changes, use of indigenous raw materials, localized operation and lesser gestation periods. In addition, the SMEs are operated with profit motive because the managers or owners are too much profit conscious hence imposing high margins in their pricing. The enterprises are labour intensive and most of their employees have attained low or moderate education levels (Parker .J. and Torres .T. 1993).

## **1.2 Research Problem**

Despite the central role of SMEs in creation of employment, industrial transformation, and poverty reduction, the competitiveness and growth prospects of SMEs fall below the levels required to meet challenges of increasing and changing basis for competition (Moyi & Njiraini, 2005). A survey carried out by the Ministry of Commerce and Industry in 1985 on skills development through the Kenya Industrial Estates showed that out of 20 trainees given management and technical training skills with an aim of helping them succeed in their enterprises, only two were considered to be successful in terms of employment creation, increase in assets, and increase in profits. Likewise, the baseline survey of 1999 estimated that 80% of the SMEs failed within their first three years after starting up (GOK, 2001).

The livelihood of most inhabitants of Nairobi comes from informal economic activities, since formal wage employment has been decreasing, as the public sector

continues to retrench its employees. The informal sector where most of the poor belong has been noted to generate more employment than the formal sector hence the need to carry out a study on the small and micro enterprises. The location of study; Nairobi's Industrial Area is suitable as this is where most SMEs are situated which will also facilitate easy collection of data for the study. The selection of Kenya as a country was based on familiarity of the economic situation and it will be quite expensive to travel to another country to carry out research.

Studies in the same industry from other parts of the world have also been conducted. Zindiye (2008) did an empirical investigation into the factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe; Abidin (2009) studied implementation of lean practices in management of SMEs in Malaysia while Mangosh (2012) carried out a study on sickness in SMEs in India.

As previously mentioned, SMEs are a significant component of Kenya's economy. Moyi (2005) studied the impact of information technology on small and micro enterprises in Nairobi; Bowen, Morara and Mureithi (2009) did a study on the management of business challenges among small and micro enterprises in Nairobi's Central Business District (CBD); while Mwarari (2013) studied factors influencing listing of Kenyan small and micro enterprises in securities market for capital raising opportunities. No known study has been done to explore the challenges facing small and micro enterprises and strategies employed in countering the challenges in Nairobi's Industrial Area.

Therefore, this study will examine SMEs in Nairobi's Industrial Area to provide empirical evidence of this gap. What challenges do small and micro enterprises in Nairobi's industrial Area encounter? What strategies have small and micro enterprises in Nairobi's Industrial Area adopted to counter the challenges?

### **1.3 Research Objectives**

- i. To determine the challenges faced by small and micro enterprises in Nairobi's Industrial Area.
- ii. To establish the strategies adopted by small and micro enterprises to cope with the challenges small and micro enterprises in Nairobi's Industrial Area face.

### **1.4 Value of the Study**

Information from this study will be useful to both potential and practicing entrepreneurs (business owners and managers) to realize their weaknesses/shortcomings and rectify them to maximize beneficial effects for their businesses. The findings will also be of great assistance to the government of Kenya as it will give guidance to develop suitable policies and engage competent business development agencies to help SMEs improve their technological capabilities and become innovative to improve the quality of their products to survive. This will also enable the SMEs to move to the next level in industry and assist in achievement of Kenya's vision 2030. The study will add to the existing body of knowledge in the field of strategic management and form a basis for further research on this topic. This will be helpful in refining and validating findings especially when a significant number of experiences are collected and studied.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction.**

This chapter attempts to analyse the chosen topic of challenges of small and micro enterprises in Nairobi's Industrial Area. It also reviews theories from several related fields in order to generate an understanding of the challenges. Inevitably, this involves a discussion on the strategies to be adopted by the small and micro enterprises so as to counter the challenges facing them for better performance. To achieve this, some transposition of concepts and empirical researches conducted in large corporations and consumer business sector have been used as a backcloth to suggest key areas for primary data collection.

#### **2.2 Theoretical Foundations**

Two major theories will be analyzed so as to generate an understanding of the challenges facing small and micro enterprises in Nairobi's Industrial Area. The environmental dependence theory and the resource based view have been identified.

##### **2.2.1 Environmental Dependence Theory**

Hunger and Wheelen (2003) describe the macro environment, also called the societal environment, as comprising of a number of forces. The external business environment is undergoing accelerating changes. These changes have significant and sometimes quite unpredictable effects on enterprises and its management. Genus (1998) asserted that environmental change has relationship with management strategies and

enterprised performance. This assertion was supported by Child in Genus (1998) that environment determines the management strategy and enterprised change. The environment consists of specific and general forces. Specific forces directly affect an enterprise's ability to obtain resources. General forces shape the specific environment and affect the ability of all enterprises in a particular environment to obtain scarce resources.

The societal environmental factors are those general forces that are indirectly affecting the enterprise and can influence its long-run decision. Economic forces regulate the exchange of materials, money, energy, and information. The nature of the local and international economy can help or hinder a business. Management should always take into account the major costs such as, labor, and raw materials that the enterprise requires. Since these costs vary over time, they must also assess future prospects for price stability or inflation. The prices set by competitors and suppliers as well as the government's fiscal and monetary policies significantly influence the costs of producing products or services and the market conditions under which those products or services are sold. Thus business management must devote considerable time and resources to forecasting the economy and anticipating changes in prices (Boyd .B.1990).

Political-legal forces allocate power and provide constraining and protecting laws and regulations. Government involvement in the affairs of business has steadily escalated. Regulations were increased, and more formation of regulatory agencies has been done. This trend increases when people call upon government for instance, to protect the consumers, preserve the environment, put an end to discrimination in

employment, education, and housing. These pressures are reinforced by the management who call for adherence to high ethical principles in the conduct of business.

Socio-cultural forces regulate the values, morals, and customs of society. Culture is learned behavior passed on from generation to generation and is difficult for the inexperienced or untrained outsider to fathom. It is a distinctive way of life or pattern of living in a society. Social environmental factors include societal movements, changes in public values and attitudes people in the marketplace have toward working for a certain business. It describes their belief, tradition, custom, and values. These aspects of culture establish guidelines that determine how most enterprises will operate (Adetayo.E. (1998).

In Kenya, the level of technological development or availability determines most of the micro businesses to a large extent that the type of products they offer is affected largely by the technology. Given the Kenya's level of technological development, it will be more advisable for management to employ a technology that can have both automated and manual operation. The changes of technology in an enterprise affect the actions of its competitors.

In conclusion, these variables therefore in the business environment require management to try to anticipate their possible influence in the business activities (strategies) that they will be able to monitor them on a continuing basis and make use of them as very significant indicator for management decisions. Hence, more effective management plans for potential changes in the environment.

### **2.2.2 Resource Based View**

Resource based view studies the relationship of how the external resources of enterprises affect the behavior of the enterprise. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. The resource dependence perspective views enterprises as being members of coalitions in a constant state of change (Pfeffer and Salancik (2003) pp 24-25). These coalitions can be internal (shareholders, managers, employees) or external (customers, suppliers, competitors). Each group of coalition may have some power over the enterprise for various reasons. First, they may possess means with which to impact enterprisal behavior (owners of stock). Second, they may control the use of resources the enterprise requires (managers in critical departments). Third, coalitions may control access to needed resources (for example unions that control enterprise's access to skilled labor). Lastly, coalitions may regulate possession of critical resources (for instance, government allocating logging rights to forest products companies.)

Resource based view has implications regarding the optimal divisional structure of enterprises, recruitment of board members and employees, production strategies, contract structure, external enterprisal links, and many other aspects of enterprisal strategy. The basic argument of resource-dependence theory is that enterprises depend on resources and these resources ultimately originate from an enterprise's environment. The environment, to a considerable extent, contains other enterprises. The resources one enterprise needs are thus often in the hand of other enterprises hence resources are a basis of power. Legally independent enterprises can depend on

each other therefore power and resource dependence are directly linked. Power is thus relational, situational and potentially mutual (Barry C. and Gerstman J. (2007).

The rapid pace of globalization in the past three decades also raises new opportunities for organizational forms designed to reduce interdependencies across different institutional settings. Some argue that we are witnessing “hyper competition” and although this is debatable (McNamara, Vaaler, & Devers, 2003), rapidly changing environments may also warrant alternative forms of interorganizational linkages to reduce interdependence.

As stated earlier, critical coalitions of resource providers will continue to support the enterprise as long as it can induce them to do so. Failures occur when the enterprise does not have sufficient resources to maintain the support of such coalitions. When these coalitions recognize the firm’s inability to provide inducements, they will stop supporting the enterprise and will attempt to extract payments from the enterprise for past support.

### **2.3 Business Challenges.**

Small and micro enterprises play a very vital role in the economic development of the country. This sector can stimulate economic activity and is entrusted with the responsibility of realizing various objectives like generation of more employment opportunities with less investment, reducing regional imbalances among others. SMEs are not however in a position to play their role effectively due to various challenges.

Inefficient labor has been identified as a major challenge. Labour is key and an active player in small and micro enterprises. They lack training and developmental



opportunities in small-scale sector so they are unable to contribute as expected from them. Since size of small units is not always optimal, they are also unable to understand the importance of training and development. Level of education of workers working in small-scale sector is also low and they fail to cope up with the challenges of modern production system (Panda .R. 1992).

Small-scale industries are facing the problem of short supply of raw materials. Small size and weak financial position also force them to unutilize the services of middlemen to get raw materials on credit from suppliers. So they fail to utilize their full production capacity and it also increases their cost of production which adversely affects their competitive strength in the market. Absence of credit facility is another challenge. Historically, SMEs have had privileged access to bank finance through cheap priority sector lending. Since interest rates were fixed lower for them than the market rates, they did not reflect the higher risks and costs of investing in small borrowers. SMEs also benefited from the subsidies implicit in the tax standards for provisioning for bad and doubtful debts. Besides, SMEs are also unable to generate resources as they lack systematic way to communicate their work to the capital markets and muster support from the intermediaries. Due to poor financial image, they generally fail to get their credit facility at reasonable costs (Bowen, Morara and Mureithi 2009).

Small and micro enterprises are also facing the problem of inferior supply of machinery and equipment. Most of companies which are engaged in production of plants and machineries are meant for medium and large scale companies. Only selected companies or few producers are engaged in the production of plant,

machineries and equipment for small-scale sector. So they generally charge high price for their capital goods supplies from small-scale units. Besides, bargaining power of SMEs is not so much and they have to work with available machinery and equipment in the market. They have also been forced to use second-hand machines. It also affects the production performance of SMEs.

Huge number of bogus small firms is another challenge that SMEs are facing. Government policy favours SMEs in terms of concessions, subsidy and incentives. This has prompted the so-called entrepreneurs to develop bogus firms on paper to avail government subsidies and incentives. It makes impossible for the genuine firms to get due concessions, subsidies etc. from the Government. They indirectly help the medium and large-scale enterprises in availing raw materials and other resources at reduced rates. Availability of cheap finance also encourages the bogus firms to operate in the small-scale sector (Indarti, N. 2004).

Selection of location for the development of plants also creates problem before the SMEs. The choice of location is generally governed by different consideration like availability of infrastructural facility, the cost and tenure of acquisitions, availability of labour and the proximity of markets. Small entrepreneurs are not properly trained in deciding about suitable location. Actually, they select their location due to other consideration like availability of cheap land, family business, sentimental attachment to their traditional ancestral property etc. Small and micro enterprises are facing the problem of competition from their other counterparts; medium and large scale industries. Since 1991, a large number of items reserved for small industries are now freely importable. In addition, obsolete technology is another challenge that small

and micro enterprises face. SMEs lack latest technology as they do not have any technological support from the government and other technological institutes and laboratories. But in practice, technology alone can ensure quality and high level of productivity. Research & development efforts are a costly venture and SMEs do not have resources to finance these programs individually and internally.

Marketing is one of the major stumbling blocks for small scale industries. i.e. lack of standardization, poor designing, lack of quality control, lack of precision, poor bargaining power, scale of production and the like affect them. Small and micro enterprises face the challenge of poor recoveries. It is general practice for buyers to avail credit facility from sellers. SMEs lack bargaining power in dictating their terms to the potential buyers for their products. Provision for credit facility with regard to sales is forced upon the SMEs by potential purchasers (Selwyn, T 1995).

## **2.4 Business Strategies.**

Small and micro enterprises are holding a very important place in the industrial system of the country. Thus, suitable strategies are necessary to remove these bottlenecks in the optimum operation of SMEs .Effective planning needs to be adopted by all SMEs and are required to conduct detailed survey of the existing situations prevailing in small-scale sector and draw productive programs for them. Study suggests that very few small entrepreneurs launch their operations on the basis of a careful plan. A detailed feasibility study or detailed project report is highly essential for small entrepreneurs to start their units. Without proper planning, they may be affected by improper location, inexperienced consultancy services, improper

technology, under estimation of costs, etc. SMEs are required to initiate effective action plan for their survival (Longenecker, 2006).

Improvement in techniques of production and proper technology is another strategy. Government consultancy enterprises and laboratories have an important role to play in this context. They have to arrange viable and modern techniques of production to them, as they are unable to expend money on this count. Besides, SMEs should keep themselves in touch with development in technology. They should also try to give a lead, if possible financially, in research and development efforts. They should also believe in continuous innovation and then they can remain in their business. Small and micro enterprises should make concerted efforts in imparting proper education and training to workers engaged in this sector as they are valuable asset of industry. Expenditure on training and development activities should be treated as an investment. Small Industries Associations (SIA) should also involve themselves in providing knowledge and skills required for them in the changing environment (MC.Garg 2003).

Provisions of infrastructural facilities such as development finance, power arrangement, and water supply among others are necessary for the smooth functioning of SMEs. Development of industrial estates has solved this problem to a certain extent but efforts are needed to develop more industrial estates to accommodate more small units. Small Industries Development Corporations and other canalizing agencies responsible for the supply of raw materials to small scale sector should take necessary action to maintain a continuous but proper supply of raw material to SMEs. They should also ensure that bogus firms are to be excluded from this type of support.

Government should also intervene from time to time in arranging cheaper imports of raw materials for them. Effective marketing arrangement needs to be incorporated. SMEs should focus on brand, product and market development. They should try to remain in the market and special trust should be given on quality improvement program.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter seeks to elaborate the course of action that will be used in acquiring a valid solution to the study that is; challenges and strategies of small and micro enterprises in Nairobi's Industrial Area. It is divided into five sections. Section one discusses the research design adopted. Section two sheds more light about the study site. Section three elaborates on the unit of analysis and the sampling procedure used. Section four discusses the sources of data for the study as well as the data collection methods while the fifth section elaborates on how the collected data will be analyzed and interpreted to provide meaning to the researcher.

#### **3.2 Research Design**

A research design is a plan and structure of investigation so conceived so as to obtain answers to research questions. The plan is the overall program of the research and includes an outline of what the investigator will do from writing of the hypothesis and their operational implications for the final analysis of data. Cooper and Schindler (2003) summarizes the essentials of research design as an activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity.

The researcher used the cross-sectional survey design in collecting the data from respondents. The design is preferred because it is concerned with answering questions such as who, how, what which, when and how much (Cooper and Schindler, 2003). A

descriptive study is carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected.

### **3.3 Population of Study**

A population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that the population of interest is homogeneous. The population for this study comprised of 800 small and micro enterprises from different sectors such as manufacturing industry, transport & courier service industry, clearing and forwarding agencies, construction companies and printing industries. The eligibility for this study was that the small and micro enterprises were to be operating within Nairobi's Industrial Area.

### **3.4 Sample Design**

This research employed stratified random sampling in selecting respondents. The population of this study of 800 SMEs was then segregated into several mutually exclusive subpopulations or strata herein referred to as business categories. The research applied was proportionate stratification that is based on the stratum's share of the total population to come up with the sample in each stratum. The actual businesses interviewed were arrived at by using simple random procedures to draw the sample from each stratum. In the selection of the sample units, a two stage stratified simple random sampling technique was adopted. In the first step, ten (10) sectors in small and micro enterprises were selected. The sample units selected from all the strata taken together were equally allocated for each stratum 5 samples whereby each

selected sample had one questionnaire for the manager or business owner. A total of 50 questionnaires were distributed proportionately.

### **3.5 Data Collection**

This research involved majorly primary source of data. A self-administered questionnaire had been chosen as the main method of primary data collection so as to ensure uniformity of questions and to enable the researcher to control the mode of answering thus acquiring the required information. A questionnaire is a printed self-report form designed to elicit information that can be obtained through the written responses of the subjects. The respondents were business owners or those involved in the start-up and day to day running of these businesses. The questionnaire were distributed to respondents to complete and the researcher collected them personally after one week. Before the actual data collection process begun, an informal interview was administered to the manager of Chui Manufacturing Company to pretest the questionnaire.

### **3.6 Data Analysis**

The data gathered was analyzed and presented using descriptive statistics. Responses for close-ended questions will be summarized as percentages, frequency counts, or more sophisticated statistical indexes and then an inference about a particular population was drawn from the responses of the sample. The data was processed using Microsoft Excel and further presented in form of percentage tables using measures of central tendency.



## **CHAPTER FOUR**

### **DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter focuses on the analysis, interpretations and discussions of the questionnaire. Data analysis and interpretation of data are closely related. In data analysis, the collected data is broken up into groups or elements which the researcher examines separately, and translates into immediate results. In interpretation, the immediate results will be translated into integrated and meaningful general references and findings. The findings must be relevant to the objectives of the research which are to determine the challenges faced by small and micro enterprises in Nairobi's Industrial Area and to establish the strategies adopted by small and micro enterprises to cope with the challenges they face.

#### **4.2 Background Information**

This section identifies and discusses demographic factors related to SMEs in Nairobi's Industrial Area and the respondents answered on behalf of the enterprises. Aspects related to the enterprises such as legal status of business, period of business operating and type of business sector of the enterprise will be discussed in this section.

##### **4.2.1 Legal Status of Business**

This study investigated on information on the legal status of the enterprises in Nairobi's Industrial Area. The findings are provided on Table 4.1 as shown:

**Table 4.1: Legal status of the SMEs in Nairobi’s Industrial Area**

<b>Legal Status of Enterprise</b>	<b>Frequency</b>	<b>Percent (%)</b>
Sole Proprietorship	32	64
Close Corporation	1	2
Partnership	10	20
Private Company	7	14
<b>Total</b>	<b>50</b>	<b>100</b>

*Source: Field Data (2013)*

From the table shown, sixty four percent (64%) of the respondents are sole proprietorships. Twenty percent (20%) are partnerships, fourteen percent (14%) private companies, and two percent (2%) close corporations. This result indicates that most of the SMEs are sole proprietorships and partnerships.

#### **4.2.2 Period of Business Operating**

The research conducted also investigated on the period the SMEs in Nairobi’s Industrial Area have been operating. Different responses were gathered and the results are highlighted on table 4.2.

**Table 4.2: Period of Business Operating**

<b>Period</b>	<b>Frequency</b>	<b>Percent (%)</b>
1-5 Years	24	48
6-10 Years	10	20
11-15 Years	13	26
Above 15 Years	3	6
<b>Total</b>	<b>50</b>	<b>100</b>

*Source: Field Data (2013)*

Following the information on Table 4.2, forty eight percent (48%) of the respondents have been in operation for between 1 and 5 years, twenty percent (20%) have been in operation for 6-10 years, twenty six percent (26%) have been in operation for 11-15 years, and six percent (6%) in operation for more than 15 years. This result indicates that the majority of SMEs in Nairobi’s Industrial Area namely sixty eight percent (68%) are operating for less than ten years. However, thirty two (32%) of the SMEs have been in operation for more than ten years.

### 4.2.3 Type of Business Sector

The third demographic factor in the study was to examine the business sectors that SMEs in Nairobi’s Industrial Area operate in. Different businesses engage in various sectors as respondents reported. The results are shown on Table 4.3.

**Table 4.3: Type of business sector of Nairobi’s Industrial Area SMEs**

<b>Sector</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Food processing	15	30
Clothing and textile	10	20
Printing and Branding	11	22
Retailing and Distribution	8	16
Metal fabrication and Mechanic	6	12
<b>Total</b>	<b>50</b>	<b>100</b>

*Source: Field Data (2013)*

The results indicate that thirty percent (30%) of the respondents are operating in food processing. Twenty percent (20%) are involved in clothing and textile whilst twenty

two percent (22%) are in printing and branding. Other sectors include retailing and distribution with sixteen percent (16%) and metal fabrication and mechanic being twelve percent (12%).

### **4.3 Challenges Faced by SMEs in Industrial Area of Nairobi**

On gathering the challenges SMEs in Nairobi's Industrial Area face, respondents were given questionnaires listing the challenges. They were asked to report on the extent to which they encounter each of challenge using a five point scale where 1= Not at all, 2= Little extent, 3= Moderate, 4=Great extent and 5= Very great extent. Mean scores were thereafter computed and the higher the mean score, the greater was the challenge felt by the SME and vice versa. The results are shown on Table 4.4.

**Table 4.4: Challenges faced by SMEs in Nairobi's Industrial Area**

<b>Challenges</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Inefficient labour	2.92	<b>0.844</b>
Competition from large counterparts	3.90	<b>0.881</b>
Poor debt collection	3.00	<b>0.938</b>
Power interruptions	2.72	0.874
Insecurity	2.56	0.876
Inferior machinery and equipment	2.80	0.814
Huge number of bogus small firms	3.44	0.983
Lack of credit facilities	2.84	0.769
Short supply of raw material	3.12	0.941
Delay in disbursement of loans by banks	2.12	0.800

Under - financing by banks	3.04	0.899
Delay in decision and action to rehabilitate the business units	1.12	0.643
Political uncertainty	3.88	0.987
Restrictive by-laws	3.32	0.901
<b>Grand Mean</b>	<b>2.91</b>	

*Source: Field Data (2013)*

From the table shown, the grand mean for challenges faced was 2.91. This result indicates that the small and micro enterprises in Nairobi's industrial area are not severely faced by the challenges. The most pressing challenge being faced by the sampled units was reported to be that of competition from large scale industries. This is evident from Table 4.4 where the mean score recorded was 3.9. The second challenge being faced by the entrepreneurs in Industrial Area is political uncertainty with a mean score of 3.88 while the third major challenge on the list was the presence of huge number of bogus small firms with a mean score of 3.44.

Among the least felt challenges were delay in decision making and action to rehabilitate the business units with a mean score of 1.12. The second least challenge was delay in disbursement of loans by banks with a mean score of 2.12 and the third least challenge was insecurity with a mean score of 2.56.

#### **4.4 Strategies Adopted by SMEs in Nairobi's Industrial Area**

In finding out about strategies adopted by the SMEs in countering the challenges, respondents were also given questionnaires listing the strategies. They were asked to

indicate the extent to which they apply each of the strategies to counteract the challenges they face using a five point scale where 1= Not at all, 2= Little extent, 3= Moderate, 4=Great extent and 5= Very great extent. Mean scores were thereafter computed and the higher the mean score, the greater was the application of the strategy by the SME and vice versa. The results are shown on Table 4.5

**Table 4.5: Strategies of SMEs for Challenges Faced**

<b>Strategies</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
Recruitment of manpower based on efficiency, skill and competence	3.92	0.935
Improvement in techniques of production	4.08	0.744
Good customer service	4.32	0.881
Ensuring regular supply of raw material	4.12	0.873
Effective marketing arrangement	4.16	0.944
Imparting proper education and training to workers	3.72	0.865
Competitive pricing of products	4.24	0.976
Belonging to a professional membership body	4.0	0.912
Using security firms in guarding businesses	3.64	0.789
Collecting debts after one month	3.68	1.166
Selling good quality products	4.36	0.889
Implementation of ideas as per schedule	3.84	1.007

<b>Grand Mean</b>	<b>4.00</b>	
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*Source: Field Data (2013)*

Different respondents apply various listed strategies in counteracting the challenges they face. After computing the mean scores as shown on Table 4.5, the grand mean for strategies adopted was 4.00. This result implies that SMEs in Nairobi's Industrial Area are greatly employing strategies to counteract the challenges they are facing. Selling of good quality products emerged as the most applied strategy with a mean score of 4.36. The second strategy applied was good customer service with a mean score of 4.32 while the third top strategy applied was effective marketing arrangement with a mean score of 4.16.

However, among the least applied strategies by the SMEs in Nairobi's Industrial area were; the making use of security firms or guards to safeguard businesses with a mean score of 3.64. The second least applied strategy was the collection of debts after one month with a mean score of 3.68 while the third least strategy was imparting of proper education and training to workers with a mean score of 3.72.

#### **4.5 Discussions of Findings**

All the small and micro enterprises that participated in this research are faced with various challenges, which if not managed well can lead to business failure. It is the researchers' view that the seeds of future business performance are sown in the early stages of the business life and that understanding them has a predictive value. The results of this study show that SMEs in Nairobi's industrial area are least faced with challenges. This is due to the great application and adoption of strategies to counteract

the challenges. Most of the SMEs studied are sole proprietorships and partnerships. This could be attributed to the fact that sole proprietorships are easy to form. Cronje (2004:59) pointed out that a sole proprietorship is by far the most popular form of business. A sole proprietorship is a business that is owned and managed by one individual. It is a simple form of business, and the least costly form of ownership for starting a business.

The predominance of SMEs in the food processing industry can be attributed to the relatively low capital requirement since most food processors tend to be, primarily, involved in light rather than heavy manufacturing such as bread making. The results of this study are consistent with the findings of the study by Mather (2005) which found that the processing industry is the most important component of South Africa's manufacturing economy.

Small businesses dominate the food processing industry since the sector was deregulated by the South African government in the 1990's. Deregulation implies the removal of government control from an industry or sector to allow for a free and efficient market place. Mather (2005) concludes that agricultural manufacturing accounts for twenty eight percent (28%) of all manufacturing employment, thirty one percent (31%) of all manufacturing production, and twenty five percent (25%) of the manufacturing sector's contribution to the gross domestic product of South Africa in the year 2000. The findings above are especially interesting since both Kenya and South Africa are viewed as developing economies.



It is also clear that infant businesses need as much support and help in their early years when their motivation is high as well as in their maturity phases when their levels of innovations are low. Challenges in business undertakings usually arise due to a complex of factors present in the internal and external environments. Internal environment pertains to the factors within the control of management whereas external environment relates to the factors beyond the control of the management.

Competition from large counterparts, political uncertainty and emergence of bogus small firms were the top three cited challenges facing SMEs in Nairobi's Industrial Area while delay in decision making and action to rehabilitate the business units, delay in disbursement of loans by banks and insecurity were the reported to be the least felt challenges in the study. These large firms creating competition are said to be within the country, out of state and even from foreign countries. Smaller businesses may have greater difficulty surviving difficult economic times.

Larger businesses may have a greater financial cushion and access to more resources that can help them weather the storm. Diversified large companies can focus their attention on areas that may be performing well despite difficult economic conditions. For smaller companies, a loss of even one major customer in a struggling could deliver a fatal blow, as they may have no way to replace the lost revenue. In the case of Nairobi's Industrial Area, recent development has shown that trade has become inextricably linked with the development process. Any prolonged disruption in trade can destabilize the standard of living of the people significantly.

Small and micro enterprises often face greater challenges in obtaining needed financing than larger businesses. Banks are reluctant to loan money to unestablished small businesses, leaving the entrepreneur to rely on credit cards or home equity loans for survival. They may not have the assets needed to collateralize a business loan. A lack of financing can also prevent a business owner from expanding her operations unless she resorts to other methods like taking on investors or franchising. A higher percentage of the studied enterprises are sole proprietorships. The results on legal status of business is consistent with the study by Rwigema & Karungu(1999:115) which established that seventy four percent (74%) of the respondents surveyed in the study of small firms in Johannesburg are sole proprietorships, five percent (5%) close corporations and one percent (1%) are private companies.

Most of businesses sampled in this study are operating between 1 to 10 years. Considering that a stratified random approach was used in the selection, the results of this research suggest a high failure rate. Looking at the performance rating by length of time the businesses had been in operation; one may conclude that as businesses mature their returns seem to decline. This may signal a lack of innovation on their part. Lack of innovation and search for changing customer needs reduces the survival of businesses. It is therefore imperative that businesses proactively innovate to meet customer demands.

This could be especially true if the business deals only with one product. As the product reaches the decline stage, the business may decline and the business is likely to fail. The findings of this study on period of business operation are consistent with previous empirical studies on the age of SMEs in South Africa. Rwigema and Karungu (1999:114), in a study of SMEs in Johannesburg, stipulate that forty seven

percent (47%) of enterprises surveyed had operated between one and ten years. The high rate of unemployment in Kenya since 1997 is the primary motivation for starting SMEs.

The citing of competition as a top challenge is expected as most SMEs, especially small sellers and producers tend to congregate in dense markets and overcrowded cities (National Baseline Survey, 1999). It also suggests a lack of market information and innovation as most new businesses are a duplication of already existing ones. The findings of the study indicated selling of good quality products, good customer service and effective marketing arrangements as the top three strategies adopted to counteract the challenges the SMEs face.

Good customer care is necessary in any business. This is mainly because of the personalized services that most customers anticipate when dealing with small business owners or managers. The results of this study are consistent with the findings of Morara, Bowen and Mureithi (2009), who mentioned competition as a challenge to SMEs in Nairobi's Central Business District. 71 percent of their respondents mentioned it among their top three. When asked how they counter their competitors, 30.2 percent of the respondents mentioned good customer service followed by discount offers (which vary according to client), which was mentioned by 18.3 percent as the remedy. 7.9 percent of the respondents reported that they use price as a competitive edge by selling more cheaply than their competitors. The least three strategies adopted by the respondents were making use of security firms or guards to safeguard businesses, collection of debts after one month and the imparting of proper education and training to workers.

However, credit constraint seems to be easing up when compared to previous researches. In a developing country like Kenya, the government is often a dominant stakeholder even in privately owned enterprises. The various tax relief and subsidies it provides its ownership or control of the institutions that finances organizations, its enterprises related policies stemming from its overriding concern with industrial development, etc. make it a major stakeholder even in minor enterprises. Its actions often affect the performance of SMEs.

New units come up through appropriate policies, tax incentives, subsidies, infrastructural facilities, etc. and they also disappear or get sick like a simple magic. The policies of financial and infrastructural support provided or withheld by the government is a determinant of health and sickness of many an industrial unit. Frequent changes in government policies need to be avoided to reduce business. The government can play a crucial role by ensuring adequate supply of power, transport and raw materials and taking care that its policies formulated to achieve certain social objectives do not affect the industrial units. The possibilities of creating a fund for the purpose need to be exposed.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter discusses the summary of the findings, conclusions of the study and gives recommendations for policy and practice based on study findings.

#### **5.2 Summary of Findings**

The general purpose of the research was to determine the challenges faced by small and micro enterprises in Nairobi's Industrial Area and to establish the strategies adopted to cope with the challenges. Competition was mentioned in literature and in empirical part, especially unfair competition. Businesses are facing problems to increase their income because of this. Good customer service and discount offers (which vary according to client) are used as the remedy. Other entrepreneurs use price as a competitive edge by selling more cheaply than their competitors. Selling a variety of products, offering credit facilities, selling of quality goods and services and offering customers with additional services like free training are additional strategies to competition. Using price to compete may mean lower profits, even if it may translate into higher volumes. However, this strategy can be employed by everybody hence spelling a death knell for the business given the fierce competition in the small Some other enterprises do not pay state taxes and this way they have lower prices, so the price competition is present.

Political uncertainty is an issue in Kenya as reported by most respondents. Kenya is an independent country, but is not recognized by all countries and most of larger companies do not yet take the risk to invest in the country. The country is facing inter-

tribal clashes especially during general elections whereby businesses of certain communities are destroyed hence creating fear among entrepreneurs to invest in foreign regions.

Emergence of huge number of bogus small firms such as hawkers is a key challenge. As a response to this challenge, businesses that face this problem sell cheaper than the hawkers while others sell goods of a higher quality. Competing with hawkers on price is debatable since hawkers are known to sell cheaply. There is also a sense of security experienced by customers when they deal with a trader who has a physical location.

### **5.3 Conclusions of the Study**

Drawing from the findings of this study, some conclusions can be made. First, the study has confirmed the findings of earlier research work that small scale sector occupies an important position in the industrial structure of our country. In a country like Kenya, wherein on one hand there is the acute problem of unemployment and on the other hand scarcity of capital, it is only the small scale sector which is best suited under these circumstances.

Small scale enterprises play an important role in employment generation, resource mobilization and utilization, income generation and in helping to promote change in a gradual and phase manner. Small and micro enterprises have vast potentialities but they could not progress satisfactorily. Their performance is not good as they face the problems of labour, availability of raw material, absence of credit facility, lack of machinery and equipment unsuitable location completion from large scale units

obsolete technology, marketing facilities etc. Suitable measures are necessary to remove these bottlenecks in the optimum operation of SMEs.

The role of the concerned entrepreneur is very important as far as to avoid business challenges. It is the sole responsibility of the concerned entrepreneur to avert business challenges in the unit set up by him. This can be possible if the entrepreneur does his job properly while preparing his project work, if he understands and pays adequate attention to the deficiencies pointed out by the aspiring officials of the banks and other financial institutions, if he selects the required capital goods carefully, if he appoints only the efficient and required number of worker in time, if he implements his project within his estimated cost and as per time schedule. Among the top most strategies adopted in the study were selling of good quality products, good customer care and effective marketing arrangements. Business success is a consequence of embracing the whole package of strategies in order to succeed. Selling a variety of products or offering a variety of services is just as important as embracing prudent financial management systems.

Overall there are numerous business challenges in Kenya now and in the near future. It requires time and effort to see positive figures in the economy. Parts of these developments process are businesses in Nairobi's Industrial area. Most of them are micro-sized, but with the external help they have the opportunity to become SMEs.

#### **5.4 Recommendations for Policy and Practice**

Based on the research findings and available literature, the study proposes recommendations for both policy and practice. Policy makers the world over have indicated the significance of the small to medium sized enterprise and the contribution

they make to the well-being of a country. It is the policy makers who must play a role in contributing to the success of the SME sector by putting policies in place that will enable SMEs to thrive. They also need to provide the necessary support entities to assist start-ups in getting through the first three years of their existence since these are the critical years for future success. The study results also recommend that the government need to address restrictive by- laws which seems to favour the large business enterprises as the SMEs suffer.

The findings of this study further recommend the need for SMEs to specialize and produce what they can produce best. They need to do an evaluation of their strengths and weaknesses and know where their competitive edge is. In addition, these firms can also engage in value-addition activities as studies have shown that such activities have the potential to boost the product quality and profit margins of many firms. Therefore, this study recommends innovation, effective marketing arrangement and good customer service so as to counter competition which is majorly being felt.

## **5.5 Limitations of the Study**

Regardless of its high ambitions, a research project is constrained by resource limitations, both financial and non-financial. Limitations of time, funding and scope of the study required the research study to focus on a limited number of objectives. Moreover the research problem and questions often directly or indirectly involve multiple areas of financial management. Because of limited access to scarce resources, this study could not research all SMEs in Nairobi but only selected SMEs located in Nairobi's Industrial Area as the target population and considered the target SMEs representative for all SMEs in Nairobi. Similarly, due to limited resources this study



used the stratified sampling technique with one SME representing several in various sectors. Given more time and funds, the fraction would be reduced and the sample has could broaden.

There were several practical problems in filling in the questionnaires that might have weakened the data. For instance, four questionnaires were filled in at the time of collection and while the respondent was working and had to answer to a telephone or meet an employee. These things may have disturbed the interviewee's concentration and distorted the answers.

However, the respondents were managing directors or persons who really ran the company. Their status was validated, because the researcher met every respondent in person. Thus the target persons were suitable for the research. Attitudes among the respondents towards the questionnaires were positive and the questionnaires were constructive in general. These issues may improve the quality of the data.

## **5.6 Suggestions for Further Research**

This research work suggests some lines of enquiry for further research. Further research could determine if the findings of this research are consistent across different small and micro enterprises in other parts of the country especially in the rural areas, if SMEs in the rural areas present unique challenges that are not shared by their urban counterparts.

In addition, there is the need to duplicate the research in other parts of Kenya and in other sectors to confirm if the results of this research can be generalized across the

whole country. Finally, this study can also be carried out in other parts of Africa for comparison purposes.

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## APPENDICES

### Appendix 1: Questionnaire

This study is a requirement for the partial fulfillment for the award of the degree of Master of Business Administration (MBA) program at the University of Nairobi. The purpose of this study is to investigate the challenges of small and micro enterprises in Nairobi's Industrial Area.

The result of this study will provide the management with the necessary information for developing strategies that will enable the small and micro enterprises to deal with emerging challenges now and in the future.

### Section A: Biographical details

The purpose of this section is to establish the general profile of the enterprise and the respondent. Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided

Name of enterprise	
Status	
Gender	
Age	
Educational Qualifications	
Legal status of the business	
Type of business sector	
Period of business operating	

## Section B: Requirements of the Ministry of Trade

The following questions are to determine the status of your enterprise under the requirements of the Ministry of Trade

Question 1: How many employees did you start with? -----

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Full Time	
Part Time	

Question 2: What is your current total number of employees? ---

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Full Time	
Part Time	

Question 3: During the first year of operation what was your turnover? -----

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Question 4: What is the current annual turnover of your firm? -----

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Question 5: What was the net asset value of your firm when started? -----

Question 6: What is the current net asset value of your firm? -----

Question 7: Is your company managed by its owners?

Yes = 1  No = 2

Question 8: Is your business formally registered?

Yes = 1  No = 2

## Section C: Challenges of SMEs in Nairobi's Industrial Area

To what extent do you encounter each of the following challenges?

Use a 5 point scale where 1= Not at all, 2= Little extent 3 = Moderate 4 =Great

5= Very great extent

<b>Challenges</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Inefficient labour					
Competition from large counterparts					
Poor debt collection					
Power interruptions					
Insecurity					
Inferior machinery and equipment					
Huge number of bogus small firms					
Lack of credit facilities					
Short supply of raw materials					
Delay in disbursement of loans by banks and other financial institutions					
Under-financing by banks					
Delay in decision and action to rehabilitate the business units					
Political uncertainty					
Restrictive by-laws					

### **Section D: Strategies for counteracting challenges facing SMEs in**

#### **Nairobi's Industrial Area**

To what extent do you apply each of the following strategies to counteract the challenges you face?

Use a 5 point scale where 1= Not at all, 2= Little extent 3 = Moderate 4 =Great

5= Very great extent



<b>Strategies</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Recruitment of manpower based on efficiency, skill and competence					
Improvement in techniques of production					
Good customer service					
Ensuring regular supply of raw materials					
Effective marketing arrangement					
Imparting proper education and training to workers					
Competitive pricing of products					
Belonging to a professional membership body					
Making use of security firms or guards to safeguard business					
Collecting debts after one month					
Selling good quality products					
Implementation of ideas as per schedule					

**THANK YOU FOR TAKING YOUR TIME TO COMPLETE THE  
QUESTIONNAIRE**

## **Appendix 2: List of SMEs in Nairobi's Industrial Area**

1. Tropikal Ltd
2. Keppel Investments Ltd
3. Chui Manufacturing Co.
4. Rupra Construction Co.
5. Powerpoint Systems (E.A) Ltd
6. Chemical and School Supplies
7. Satguru Travel and Tours
8. Radar Ltd
9. Kentons Ltd
10. Avtech Systems Ltd
11. Sai Pharmaceuticals Ltd
12. Coninx Industries Ltd
13. R & R Plastic Ltd
14. Capital Paints ltd
15. Asl Credit Ltd
16. Kandia Fresh Produce  
Suppliers
17. Furniture Elegance Ltd
18. Highland Forwarders Ltd
19. Sujuzi Agencies
20. Specialised Hardware
21. Safety Tech Ltd
22. Auto Aunciliaries Ltd
23. Monte Services Ltd
24. Laytons Branding Ltd
25. Midco Ltd
26. Oriental Products Ltd
27. Master Power Systems Ltd
28. Transport & Lifting Services
29. General Aluminium Fab Ltd
30. Computer Planet Ltd
31. Vajra Drill Ltd
32. Avtech Systems Limited
33. Tyre king Ltd
34. Complast Industries Ltd
35. Anurag Brothers Ltd
36. Optiware Communications Ltd
37. Ganatra Plant & Equipment Ltd
38. Africa Tea Brokers Ltd
39. Sai Pharmaceuticals Ltd
40. Silverbird Plus
41. Warren Enterprises Ltd
42. Wangezi Enterprises
43. Joyknitts Garments Ltd
44. Chemserve Cleaning Services
45. Gina Corporate  
Communications
46. Manpower Kenya Ltd

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|-----------------------------------|--------------------------------------|
| 47. Biodeal Laboratories Ltd      | 55. Waumini Insurance Brokers<br>Ltd |
| 48. Viva Productline Ltd          | 56. Apple Coolers Ltd                |
| 49. Faram Ea Ltd                  | 57. Alpha Woolens Ltd                |
| 50. The Phoenix Ltd               | 58. Panesar's Kenya Ltd              |
| 51. Dalco Kenya Ltd               | 59. Toolcrafts Limited               |
| 52. Union Logistics Limited       | 60. Mbokoni Transporters Ltd         |
| 53. Creative Edge Ltd             |                                      |
| 54. Marketpower International Ltd |                                      |