

**RESPONSE STRATEGIES TO ENVIRONMENTAL CHANGES  
BY SMALL AND MEDIUM SIZED ENTERPRISES IN  
EASTLEIGH BUSINESS DISTRICT, NAIROBI COUNTY, KENYA**

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## DECLARATION

This research project is my original work and has not been submitted for the award of any degree in any other university.

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The research project has been submitted for examination with my approval as the university Supervisor.

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I would like to dedicate this study to my dear parents Mr. and Mrs. Kamau, my brother Andrew Kamau, my sisters Miriam Wairimu and Linet Wanjiru. Thank you for your encouragement, moral and financial support and above all love and prayers.

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## **ABBREVIATIONS AND ACRONYMS**

<b>SMEs</b>	Small and Medium Sized Enterprises
<b>ILO</b>	International Labour Organization
<b>GDP</b>	Gross Domestic Product

## ABSTRACT

At the boundaries between the firm and environment there exist input-output dependencies of the organization. The environment is complex and turbulent and constantly changing and therefore organizations need to adopt response strategies in order to respond to the opportunities and threats arising from the changing environment. The study was guided by two main objectives: first, to determine the environmental changes faced by small and medium sized enterprises in Eastleigh business district and second, to establish the nature of response strategies employed by small and medium sized enterprises in Eastleigh business district to the changing environment. The study employed cross-sectional survey and data was collected from 76 out of 88 small and medium sized enterprises that were being targeted. The study results showed that the surveyed small and medium sized enterprises faced various challenges from the external environment which included intense competition, political and economic challenges, threat of substitute goods and services among others. The study results also revealed that SMEs had adopted various response strategies to cope with the changes in the environment. Although some of the results were not statistically significant, the study concluded that SMEs adopted a combination of strategies to respond to the changes in the environment. These strategies included low pricing of products and service, good customer care services, offering quality goods and services, speed in delivery of goods and services, focus strategy among others. Overall results of the study supports pertinent theories and similar empirical studies. Following the findings of the study in regards to the two objectives, the researcher has recommended different strategies to be adopted by policy makers, SMEs owners as well as management practitioners. Policy makers should invest more on research and development when coming up with policies, they should be fully aware of the impact of environment on organizations and these should guide development of policies which should be flexible and aligned with the changing environment. Due to some of the results being statistically not significant as well as limitations of the study, similar studies should be done targeting the same target population and results be compared with those of the current study. It is also suggested that similar studies to be conducted targeting other SMEs across Kenya as well as other organizations in order to validate and/or enhance this study's findings.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Organisations exist in the context of a complex political, economic, social, technological, environmental and legal world, (Johnson, Scholes & Whittington, 2005). They also noted that environment is more complex for some organisations than for others and how this affects the organisation could include an understanding of historical and environmental effects as well as expected or potential changes in environmental variables. They further observe that many of those variables will give rise to opportunities and others will exert threats on the organisation. In their study Jabnoun, Khalifah and Yusuf (2003) noted that with any significant change in the level of uncertainty, a change in strategy is necessary to keep the organization in harmony with its environment.

Environment dependence theory emphasizes on organizations being open systems and dependent on the environment for both inputs and outputs. According to Stoffels (1994) at the boundaries between the firm and environment there exist input output dependencies of the organization. Organizations are social systems they depend on their environment for a number of issues ranging from input resources to the consumption of finished goods or services by the environment and besides that, their activities are also influenced and shaped by such environmental forces as social, economic, technological, competitive, and regulatory forces (Dauda & Ismaila, 2013). According to Cole and Kelly (2011) a key feature of the open system is their interdependency on the environment which may be relatively stable or relatively uncertain at a particular point in time. They further state that this feature is of

considerable importance to business enterprises which need to adapt to the changing fortunes of the market place if they are to flourish and ofcourse remain competitive in a very unpredictable environment.

Eastleigh is a well-known business hub in Nairobi County, Kenya. It's located in Kamukunji Constituency, East of Central Business District. Just like other small and medium sized enterprises in Kenya, small and medium sized enterprises in Eastleigh face challenges like inadequate resources, fast changes in technology and access to finance but the operating environment have been made more challenging due to increase in insecurity caused by terror attacks, decline in customers due to fear, poor waste management, pollution, bad roads and cut throat competition.

### **1.1.1 Organization-Environment Interface**

There are two ways in which the environment influences the organization and they are the need for information about the environment and the need for resources from the environment (Daft, 2010). According to Stoffels (1994) there exist input output dependencies of the organization at the boundaries between the firm and the environment. In relation to the environment, Daft (2010) states that the environment is infinite and includes everything outside the organization, he further defines the organization environment as all element that exist outside the boundaries of the organization and have potential to affect all or part of the organization.

Business organisations in the world over are sufficiently environment dependent and environmental serving because they do not exist in a vacuum (Dauda & Ismaila, 2013). They also argue that organizations cannot survive or succeed without appreciating the influence environment has on them and therefore organizations are

environment dependent as well as environment serving. Firms depend on environments for resources and information (Pfeffer & Salancik, 1978). The environment in which organizations operate in have significant impact on their performance and this is well noted by Hambrick (1982) who observed that external operating environment is seen as a significant influence on the performance of small and medium sized firms and especially in the case of micro firms.

It doesn't matter what the nature of business is, a firm is embedded in a complex network of relations with various other organizations and individuals (Clegg, Carter, Kornberger, & Schweitzer, 2011). According to Drucker (1999) environment is ever changing and we live in a period of profound transition. The turbulent environment is characterized as an unfamiliar world of strange technologies, strange competitors, new consumer attitudes, new dimensions of social control and above all questioning of the firm's role in society (Ansoff, 1984). According to Eisenhardt (1989) one should not understate the importance of the external operating environment because it not only has direct impact on decision making processes but as well as on the decisions taken. Environmental influences and trends can be thought of as layers around an organisation and the most general layer is the macro-environment whereby an understanding of political, economic, social, technological, environmental and legal influences can provide an overall picture of the variety of forces at work around an organisation (Johnson, Scholes & Whittington, 2005).

### **1.1.2 Response Strategies**

To survive and prosper in a competitive market place, an organization must strive to respond continuously to opportunities and threats posed by a changing environment (White, Varadarajan, & Dacin, 2003). Changes in the external environment in which

organizations operate can either bring forth opportunities and/or threats and therefore, a thorough understanding of the implications of these changes is important for strategic decision making (Machuki & Aosa, 2011). Strategic response as described by Pearce and Robinson (2007) encompasses a set of decisions and actions that result in the formalization and implementation of plans that are designed to achieve a firm's objectives. A response strategy is a manager's intended reaction to relationship dissatisfaction (Tjemkes & Furrer, 2010). Strategic responses ensure the survival of the organizations at large and at the same time enhance relevance in the environment in which they serve (Evusah, 2013). Response strategies are both operational and strategic.

Executives are likely to respond to perceived threat in the environment by initiating internally directed actions because they perceive such actions to be associated to higher levels of control and lower levels of risk than are externally directed actions Dutton and Jackson (as cited in Chattopadhyay, Glick & Huber, 2001). These operation actions are like cost cutting and budget tightening. According to Nutt (as cited in Chattopadhyay, Glick & Huber, 2001) organizations response to opportunities are driven more by the unique features of the new ideas and technology. Control reducing threats lead to more conservative internally directed actions and likely losses lead to riskier externaly directed actions (Chattopadhyay, Glick & Huber, 2001).

Reacting to environmental changes can enable organizations to introduce better products in response to new offering of rivals, counter an unexpected shift in buyers taste and buyer demand by redesigning or repackaging its products or shifting its advertising emphasis to different product attributes and also adjust to new government

policies (Thompson, Strickland & Gamble, 2007). Organizations can become solution providers and low cost providers in respond to environmental change (Johnson, Scholes & Whittington, 2008).

### **1.1.3 Small and Medium Sized Enterprises in Kenya**

According to the Micro, Small and Medium sized enterprises Bill (2009), a micro enterprise is said to have less than 10 people with annual turnover not exceeding Ksh500,000, a micro enterprise more than 10 but less than 50 with annual turnover between Ksh500,000 to Ksh 5million and a medium enterprise with more than 50 people but less than 100 with annual turnover between Ksh 5 to 800 million. The sector is divided into four categories; manufacturing, trading, services, and agri-business.

Small and medium sized enterprises in Kenya play a major role towards economic development and provide a source of employment to many unemployed people in Kenya. Importance of small and medium sized enterprises towards creation of employment and incomes was first underscored by ILO (1972) in a report on Employment, Income and Equity in Kenya. The report emphasizes on the importance of informal sector as a sector of thriving economic activity and a source of Kenya's future wealth. According to the African economic outlook (2011), small and medium sized enterprises create close to 80% of Kenya employment underlying the importance of small and medium sized enterprises in the country. Small and medium sized enterprises contributes towards 20% of the GDP but despite of the huge percentage it contributes towards employment, many small and medium sized enterprises are said to fail in less than 3 months.

Despite the importance of small and medium sized enterprises in Kenya, small and medium sized enterprises face a lot of challenges. Ong'olo and Odhiambo (2013) observes some of the challenges faced by small and medium sized enterprises in Kenya and describes them as inadequate inputs and lack of production technology for better crop and livestock production. They also claim that these challenges are brought about by various reasons and they state these reasons are: inability to access finance for small and medium sized enterprises despite the existence of various financial institutions; challenges in value addition and marketing activities; Poor coordination of small and medium sized enterprises activities by the multiple institutions and departments handling small and medium sized enterprises issues in Kenya and there is lack of coordinated strategies and approaches to stimulate small and medium sized enterprises among these institutions. Other reasons cited are inadequate private and public dialogue at the local level during policy making process and poor enforcement of regulatory legislation affecting the implementation of the small and medium sized enterprises-related programmes and policies in Kenya.

#### **1.1.4 Small and Medium Sized Enterprises in Eastleigh**

Eastleigh is a suburb of Nairobi County, Kenya located East of Central Business District and in Kamukunji Constituency. In Eastleigh one can find almost anything money can buy and at a cheaper price making it one of the most well-known markets in Kenya. Eastleigh has a few large enterprises but many small and medium sized enterprises, the enterprises range from: retail outlets ranging from small-scale hawking on streets to large shopping malls, medical clinics and hospitals, transport companies, insurance companies, import and export businesses, property agents, forex exchange, supermarkets, night lodges, hotels and restaurants, small and large wholesalers and pharmaceuticals among others.

Small and medium sized enterprises in Eastleigh serve most of East and Central Africa with traders and customers coming from as far as Tanzania, Ghana, Burundi and Rwanda. It's estimated that businesses make over \$100 million dollars a month and contributes close to 25% of tax revenue collected by Nairobi County this is because of the large number of small and medium sized enterprises operating in the area. According to Wehliye (2014) Crisis Group's Horn of Africa Project Director estimates the Somali owned businesses in Eastleigh bring in an estimated \$780 million per annum in foreign currency to Kenya's exchequer.

Despite of the numerous potential the market offers, small and medium sized enterprises in the area are faced with numerous challenges. There is poor waste management, bad roads, insecurity, economic crisis caused by terror attacks leading to businesses performing poorly, fewer customers caused by insecurity and cut throat competition. These challenges and changes in the business environment adds to the already tough times faced by small and medium sized enterprises in Eastleigh business district.

## **1.2 Research Problem**

Organizations are faced with uncertain and turbulent environment. Uncertainty means that a decision makers do not have sufficient information about environmental factors and they have a difficult time predicting, organizations must cope with and manage uncertainty to be effective (Daft, 2010). According to Eisenhardt and Sull (2001) strategy in turbulent environments should be flexible but disciplined which then requires a set of strategic rules to help managers cope with opportunities and threats coming rapidly at them without having to refer to superiors or do slow strategic planning exercises. According to Thompson, Strickland and Gamble (2007)

strategically relevant influences coming from the outer ring of the macro environment can sometimes have a high impact on a company's business situation and have a very significant impact on the company's direction and strategy. To succeed and achieve organisational objectives, business organisations adopt strategies that align them properly with operating environment, the aim of which is to avoid any mismatch between the organisation and its environment (Dauda & Ismaila, 2013).

Small and medium sized enterprises in Eastleigh business district are faced with similar challenges facing other small and medium sized enterprises through out the country mainly inability to access finance, inadequate resources and inadequate technology. In addition to these challenges small and medium sized enterprises in the area have to deal with bad roads affecting transportation of goods and people, poor drainage and waste management system and high insecurity caused by terror attacks which has then driven away customers ultimately causing losses for businesses.

Several studies have been done in relation to response strategies and environmental changes (Brown, 2012; Bamiatzi & Kirchmaier, 2012; Boyne & Meier, 2009; Parnell, Lester & Menefee, 2000; Mathenge, 2008; Rugut, 2012; Mwaura, 2004; Makori, 2013 among others). Internationally, Brown (2012) concluded from his study that the primary and most significant implication is that organizations cannot leave organizational adaptation or marketing planning to chance in the current rapidly changing and competitive environment. Bamiatzi and Kirchmaier (2012) concluded that in adverse situations most firms employ a multiple-strategy approach where as Boyne and Meier (2009) observed that negative impact of turbulence can be mitigated if organizations maintain structural stability. Parnell, Lester and Menefee (2000) made

an observation that in dynamic and volatile industries, combination strategies may serve as a more effective means of adapting to unpredictable environmental changes. Combining different strategies help organizations to align themselves with the changing environment.

Locally, Mathenge (2008) observed that small and medium sized enterprises adopt strategies of product differentiation, price wars, speed of service delivery and customer service in order to have a competitive edge. Rugut (2012) noted that small and medium sized enterprises use the marketing mix strategies and that the positioning strategies used are hybrid bases, positioning on benefits, positioning on specific product features, positioning against another product or a competing business, and product class disassociation. In his study Mwaura (2004) concluded that small and medium sized enterprises vary with choice of business strategy they adopt and that the relationship between strategy types and the performance of small and medium sized enterprises is moderated by environment. Makori (2013) concluded that business success is a consequence of embracing a mix of strategies.

These studies have looked at different strategies adopted by various organizations and small and medium sized enterprises as influenced by the changing environment as well as to gain competitive edge but none of them have looked at response strategies adopted by small and medium sized enterprises in Eastleigh business district due to the changes in environment especially with changes that have been brought about by recent terror attacks. Due to the changes in the business environment there is need to investigate the response strategies adopted by small and medium sized enterprises in Eastleigh business district. It is in this light that the researcher seeks to fill the gap in

research in this area of study. What are the response strategies adopted by small and medium sized enterprises in Eastleigh business district to the changes in environment?

### **1.3 Research Objectives**

The study sought to achieve the following objectives:

- i. To determine the environmental changes faced by small and medium sized enterprises in Eastleigh business district.
- ii. To establish the nature of response strategies employed by small and medium sized enterprises in Eastleigh business district to the changing environment.

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

The study will be of value to players in the following areas. First, the study supports the existing theories of open systems where by organizations are environment dependent and environment serving. Small and medium sized enterprises being open systems are exposed to turbulent and uncertain environment hence the need to adopt response strategies aligning them with the environment if they are to survive and succeed.

Second, to the policy makers the study will help them appreciate the importance of taking cognizance of the environment while developing policies affecting small and medium sized enterprises as well as other organizations. Policies should be flexible so as to adapt to changes in business environment, policy makers should always develop policies addressing the need of being environment dependent. Policies makers in the industry should also develop policies aligned with the environment to succeed.

Finally to managerial practices, especially to those running small and medium sized enterprises, the research study would provide a basis for making important and relevant decision emphasizing on the need to appreciate the importance of finding strategic fit between their businesses and environment. Those in management should run businesses and organization with a good appreciation of the need to be aligned with the environment since they depend on it for their input and output and their success depends upon how they interact with the environment. Frequent scan of the environment would help management identify changes and respond appropriately to them.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter summarizes literature from other researchers who have carried out research in the same field of study. The specific areas covered here are; theoretical foundation of the study, environmental changes facing organizations and response strategies to environmental changes.

### **2.2 Theoretical Foundation**

The study is built upon various theories and the theories considered for the study are environment dependence theory, open system theory and chaos and complexity theory. Environment dependence theory emphasizes on organizations being environment serving and environment dependent for both their inputs and outputs. Business organisations in the world over are sufficiently environment dependent and environmental serving because they do not exist in a vacuum (Dauda & Ismaila, 2013). The framework for the environment is in the form of a matrix of connections which are processes, influence, transactions and communication that exist within it (Emery & Trist, 1965). According to Stoffels (1994) this model demonstrates that the firm is a part of the environment, the firm interacts with the environment both as a receptor of signals from the environment and a transmitter of signals to it and the character of the environment the firm faces is importantly shaped by interdependencies and transactions that occur entirely outside the domain or realm of influence of the organization.

Open systems theory refers to open systems as those which do interact with their environment upon which they rely for obtaining essential inputs and for the discharge of their systems output and social systems like organizations are open systems (Cole & Kelly, 2011). According to Stoffels (1994) in an open system objects interact with their environment reach a new steady state and continue dynamic activity including interaction with the environment. He goes further and states that open systems more properly describe the behaviour of organizations and the people within them. Open systems are open because they exchange resources with the environment, and they are systems because they consist of interconnected components that work together (Anderson, 1999). Key feature of open systems is the interdependence on the environment which may be relatively stable or relatively uncertain at a particular point in time and this feature is of considerable importance to business enterprises which need to adapt to the changing fortunes of market place if they are to flourish (Cole & Kelly, 2011). In contrast to many views of open systems, Stoffels (1994) argues that organization theorist disregards open system as been sufficient enough and because of that what is needed in addition is a model describing the process in the environment itself which are among the determining conditions of the exchange occurring between organization and environment.

Chaos and complexity theory is the study of complex, nonlinear and dynamic systems (Levy, 1994). Complexity theory aids in the understanding of why strategy is never complete (Clegg, Carter, Kornberger, & Schweitzer, 2011). In many industries the environment is changing at an incredibly fast pace, operating in such an environment is commonly referred to as being chaos. Today's manager must be able to thrive on chaos but at the same time change should be interactive meaning they design a

desirable future and invent ways of bringing it about (Lussier, 2009). Complexity leads to changes within the organization and as complexity and uncertainty in the external environment increases so does the number of position and department within the organization leading to increased internal complexity (Thompson, Strickland and Gamble, 2007). According to Lussier (2009) as business grow the complexity of its internal and external environment increases, the major factor increasing the complexity of the environment is the globalization of business. While the complexity of industry systems dictates the need for broad strategies, the dynamic nature of chaotic systems mandates that strategies adapt (Levy, 1994).

### **2.3 Environmental Changes Facing Organizations**

Organizations are open systems and therefore they face challenges brought about by changes in the environment. According to Pearce and Robinson (2011) the three interrelated set of factors in the remote, operating and industry environment prove many of the challenges that a particular firm faces in its attempt to attract or acquire needed resources and to profitably market its goods and services. According to Thompson, Strickland and Gamble (2007) there are various industry driving forces affecting organization and they stated some of them as: emerging new internet capabilities and application, increasing globalization, changes in an industry long term growth rate, changes in who lays the product and how they use it, regulatory influences and government policy changes and changing societal concerns attitudes and lifestyle, diffusion of technical know-how across companies and changes in cost and efficiency among others.

Environmental turbulence has led to major challenges for organization to deal with as well as rapid changes in technology, increases in consumer tastes and preferences and an ever increasing and unpredictable competitive business terrain across the economy (Moses, 2012). As organizations are social systems they are influenced and shaped by such environmental forces as social, economic, technological, competitive, and regulatory forces (Dauda & Ismaila, 2013). This is a period of unparalleled change driven by factors such as genomics, information technology, demographics, health economics and globalisation (Smith, 2002). He also notes that each of these factors individually would call for a considered response from the industry but taken together they represent a fundamental change in the market environment.

Variables in the external business environment are characterized with high degree of uncertainty which the organization has little or no power to control and most of these variables which are political, social ecology, technology, legal and economic are as well unpredictable (Reginato & Guerreiro, 2013). In a conceptual work by Moses (2012) he observed that the external environment posed challenges in terms of the ever changing customer tastes and preferences, strategic leadership, changing technologies, increased cost of energy and production cost among others. In a study by Jabnoun, Khalifah and Yusuf (2003) they observed that environmental uncertainty compounded by increased consumer awareness and demand for more value in products and services has changed the business landscape whereby success for any firm now depends greatly on its ability to provide quality products and services to consumers. They then conclude that business organizations therefore are now faced with a triangle of issues that they must address to build on viability and profitability and this is in the form of uncertainty, strategy, and quality.

According to a study by Makori (2003), political uncertainty, high cost of raw materials, low demand for goods, unfavorable business laws and high transportation costs are some of the challenges faced by small and medium sized enterprises in Nairobi, Kenya. He notes that other challenges are: high rent charges, lack of water, high cost of production, cheap imports and technological challenges among others. In a conceptual work by Syrette and Devine (2012) executives noted that challenges facing their organizations are speed and abruptness of change in their markets, depth and magnitude of decline in some markets, unpredictable nature of changes across different sectors, breakdown of trust in institutions particularly financial ones that had always been considered reliable, global nature of the recession such that all regions and most countries are affected, interconnectedness of markets, geographies and institutions and lack of availability of credit and finance.

## **2.4 Response Strategies to Environmental Changes**

Organizations are faced with challenges brought about by turbulence and uncertainty in the environment and therefore have to adopt response strategies to these challenges and changes. According to Thompson, Strickland & Gamble (2007) in times of rapid change companies should keep their products and services fresh and exciting, develop quick response capability, rely on strategic partnership with outside suppliers and with other companies, initiate fresh actions every few months not just when a company response is needed and have cutting edge know how as well as fast to market capabilities.

Organizations are faced with various environmental changes and according to Johnson, Scholes and Whittington (2008) in times of competitive threat if a strategy

of differentiation is retained an organization can build multiple bases of differentiation, ensure a meaningful basis of differentiation, minimize price difference for superior products or service and focus on less price sensitive market segments. They further noted that if a company decide to set up a lowcost price business it should then establish a separate brand for the low price business to avoid customer confusion, run the business separately and ensure its well resourced, ensure benefits to the differentiated offerings from the low price alternative and allow the business to compete .

According to Stoffels (1994) there are various insulating strategies for turbulence times and he notes some of them as concentric diversification, conglomerate diversification, coalition. He also notes turbulence reducing strategies and states them as vertical and horizontal integration. Organizations are faced with crises in turbulent and uncertain environment and according Starbuck, Greve and Hedberg (1978) there are various ways to cope with crises and they state some of the ways are avoiding excesses, experimenting with portfolio which they say is investing in new markets, new products, new technologies, new methods of operating or new people and managing ideology which is concentrating on ideological phenomena such as morale and enthusiasm.

Changes in the external environment in which organizations operate can either bring forth opportunities and/or threats and therefore a thorough understanding of the implications of these changes is important for strategic decision making (Machuki and Aosa, 2011). In aconceptual work by Bamiatzi and Kirchmaier (2012) they made an observation that in adverse conditions most firms employ a multiple-strategy

approach, simultaneously pursuing differentiation strategy via innovation or marketing focus and a product customization strategy and that most companies maintain low cost production but still don't compromise on quality thus selling their products at competitive prices. Similar study carried out by Koksal and Ozgul (2007) observed that increasing the research and development budget in spite of all the financial limitations imposed by a crisis has an important impact on firms performance and they emphasize that it will be useful to focus research and development on the development of products that capture niche markets, and technology and production methods that save costs.

In response to economic crisis, Koksal and Ozgul (2007) observed that communication with consumers is of special importance they state that lost consumer interest due to reduced discretionary income can be reacquired through promotion activities and that companies can attract floating customers to their brands since consumers tend to change their brand preferences more frequently during crises than at other times. They also note that offering higher quality products at the same price or the same quality at a lower price, has a positive effect on performance in times of crisis. In his study on response to changing environment, Makori (2013) made an observation that among the top most strategies adopted by individual to challenges in the environment were selling of good quality products, good customer care and effective marketing arrangements and further made an observation that business success is a consequence of embracing the whole package of strategies in order to succeed. He also noted that selling a variety of products or offering a variety of services is just as important as embracing prudent financial management systems.

In addition to strategic aggressiveness the responsiveness of the firms organizational capability must also be matched to the environmental turbulence (Ansoff & McDonnell, 1990). In his study Mumbua (2013) concluded that competitive strategies that were mostly applied by small and medium sized companies were differentiation strategies as well as innovative cost-reduction strategies which were to ensure efficiency. In response to turbulent market environment, Parnell, Lester and Menefee (2000) observe that a strategy should fit with the psychological characteristics and constraints of the managers responsible for its formulation and implementation. They also note that in dynamic, volatile industries, combination strategies may serve as a more effective means of adapting to unpredictable environmental changes.

If management is reluctant to increase the complexity of the firms systems to a level necessary to make them responsive to the environment it should simplify the strategic position of the firm by exiting from turbulent business arena (Ansoff & McDonnell, 1990). In selecting a suitable strategy, Thompson, Strickland and Gamble (2007) state that a winning strategy typically fits the circumstance of a companys external situation and its internal resource strength and competitive capabilities and it builds competitive advantage and boosts company performance. In their study, Boyne and Meier (2009) concluded that the proper internal response to external changes might be contingent on the size of the external change and the perceived persistence of that change. They state that for smaller changes or changes that are unlikely to persist, internal stability appears to be a better strategy. In response to environmental changes, Lussier (2009) observe that organizations need to continually align their internal environment with changes in the external environment which can result in changing

the mission and shifting priorities and goals. According to Adeoye and Elegunde (2012) a company that wants to succeed must develop a clear understanding of the trend of external business environment and forces that shape competition. They claim that this understanding will enable an organisation to choose the appropriate strategy or strategies that fit the trend in the external business environment.

In times of environmental changes strategic management process needs to change. In his conceptual work, Smith (2002) observed that in markets that were simple and stable, almost any hybrid strategy making process would create good strategies however as markets become more complex, with more segments, competitors or channels, he established that the strategy making process need to change if it is to create strong strategies. Business managers are preoccupied with trying to align the internal systems of their firms with the ever changing business environment (Moses, 2012). In his study, Smith (2002) observed that in complex markets, strategy processes that were predominantly planning, supported by some command and incrementalism, were needed. Rapidly changing external business contexts are increasing the need for more disciplined and at the same time more adaptive context specific strategic management (Mockler, 1993). This view is also observed by Daft (2010) who notes that industry environment characterized by high velocity change require companies to rapidly adapt their strategies.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter provides a discussion of the overall research methodology that was used in the study. It covers the following the research design, population, sampling design, data collection and data analysis.

### **3.2 Research Design**

This study was conducted through a cross-sectional survey. Cross sectional study is a study of a particular phenomenon at a particular time (Saunders, Lewis & Thornhill, 2007). It is carried out once and represent a snapshot of one point in time in order to answer a research question (Cooper & Emory, 1995; Sekran, 1992).

The reason for selecting cross sectional survey for this study was because of the time constraint, the study was supposed to be carried out within a few months and the design was also good for descriptive analyses. The research design was also relatively quick and easy to conduct and data on all variables were collected just once hence simplifying the study.

### **3.3 Population of the Study**

The population of the study comprised all small and medium sized enterprises in Eastleigh business district estimated to be slightly over 1000. The researcher compiled a list of all the small and medium sized enterprises and the most appropriate small and medium sized enterprise were selected to be the respondent for the study.

The researcher made sure that the entire population was considered and well represented. The interview questions were administered to the respondents selected from the population as samples and emphasis was made to make sure that the response rate was adequate large enough to assure reliability of the study.

### **3.4 Sampling Design**

A sample size of 88 was used for the study, this was based on the formula for sample size,  $ss = Z^2 * (p) * (1-p) / c^2$  whereby confidence level was 95% and confidence interval was 10%. The researcher used probabilistic sampling method for the study and the strategy that used was simple random sampling strategy where by every member of the target population had an equal chance of being selected.

The reason for selecting simple random sampling was because of the ease of assembling the sample and it also minimized sampling error as every member of the target population had an equal chance of being selected. The other reason for selecting this strategy was that it was highly representative when almost all subjects participated.

### **3.5 Data Collection**

The researcher used both primary and secondary sources of data collection. Primary data is the raw data without interpretation or pronouncements that represent an official opinion or position. Secondary data includes data that is already in existence and is needed to give more information to supplement the primary data, (Cooper & Schindler, 2006).

The primary data was collected through the questionnaire and secondary data was obtained from online journals, empirical studies, documentaries, textbooks, and newspapers. Questionnaire was employed as the main tool for primary data collection. The researcher administered the questionnaires as well as the interviews.

### **3.6 Data Analysis**

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper & Schindler, 2006). To achieve the objectives of the study the researcher used both descriptive and inferential statistics to analyze data and also to describe the basic features of the data in the study as well as generalize the findings to the larger population.

The data collected was coded, edited and tabulated to ensure consistency and completeness. The objectives of the study were achieved through the use of statistical tools such as mean, standard deviation and one-sample t-tests. The one sample t-test was done at 95% confidence level ( $p=0.05$ ) and test value of 3. This test generated the mean scores, standard deviations and t-values. Mean scores show the ranking of the environmental changes and response strategies to these changes by respondents where as the t-values show whether there were any statistical significant differences across the surveyed SMEs on the extent to which the environmental changes affected their operations and the extent to which response strategies were adopted. Data was classified, tabulated and summarized using tools such as percentages, frequency distribution tables.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter contains data analysis, research results and discussion. The objectives of the study were to determine the environmental changes faced by small and medium sized enterprises in Eastleigh business district and second to establish the nature of response strategies employed by small and medium sized enterprises in Eastleigh business district to the changing environment. The findings are presented in tables, in form of percentages, mean, standard deviations and one sample t-test.

### **4.2. Response Rate**

Primary data collection was through the use of structured questionnaires which were administered by drop and pick method while personal face to face visits boosted the data collection effort. The study targeted 88 respondents from SMEs in Eastleigh business district and out of the 88 questionnaires distributed, 76 were used in the analysis.

The study managed to achieve 86.4% valid response rate which was significant enough to provide a valid and reliable conclusion about environmental changes facing small and medium sized enterprises in Eastleigh business district and second, the nature of response strategies employed by small and medium sized enterprises in Eastleigh business district to the changing environment.

### **4.3 Background Information**

This section identifies demographic factors related to SMEs in Eastleigh business district and the respondents answers on behalf of the enterprises. Aspects related to gender of respondents and the enterprises such as nature of business as well as period of business operating will be discussed in this section.

#### **4.3.1 Gender of respondents**

The study first aimed at establishing the gender of respondents this was in order to avoid biasness interms of gender and also be able to get data from different respondents. This was also to establish whether SMEs in the area of study were male or female dominated. The findings are presented in Table 4.1.

**Table 4.1:** Gender of Respondents

<b>Gender</b>	<b>Frequency</b>	<b>Percent(%)</b>
Male	52	68.4
Female	24	31.6
Total	76	100.0

Source: Research Data, (2014)

The findings in Table 4.1 shows that majority of the respondents were male (68%) and this shows that SMEs in Eastleigh business district are male dominated.

#### **4.3.2 Nature of business**

The study investigated on the nature of business the SMEs in Eastleigh business district are involved in. This was to establish whether they were sole proprietorship, partnership, joint venture, private limited company and public limited company. The results are presented in Table 4.2.

**Table 4.2:** Nature Business

<b>Nature of Business</b>	<b>Frequency</b>	<b>Percent (%)</b>
Sole proprietorship	52	68
Partnership	18	24
Joint Venture	4	5
Private Limited Company	2	3
Public Limited Company	0	0
Total	76	100.0

Source: Research Data, (2014)

The results in Table 4.2 shows that majority (68%) of the SMEs in Eastleigh business district are sole proprietorship. Therefore, findings of the study could be generalized among individuals running their own businesses and also could point out on the efficiencies or inefficiencies of response strategies adopted by SMEs based on decision made by a single person.

### **4.3.3 Years of operation**

The study also investigated on the years of operation that SMEs in Eastleigh business district had been operating for. This was mainly to establish the years of experience in the market and how this determine the kind of response strategies adopted by SMEs.

The results are presented in Table 4.3.

**Table 4.3:** Years of Operation

<b>Statement</b>	<b>Frequency</b>	<b>Percent (%)</b>
0-5 Years	46	61
6-10 Years	22	29
11-15 Years	4	5
Over 16 Years	4	5
Total	76	100.0

Source: Research Data, (2014)

The result in Table 4.3 shows that majority (61%) of the SMEs have been operating for a period of 0 to 5 years indicating that the major challenges and changes in the

environment as pointed out by respondents have only taken place for a period of less than 5 years. On the other hand only 10% of the SMEs have been in operation for more than 10 years.

#### 4.4 Environmental Changes

The study sought to find out changes that have taken place in the environment in which the SMEs in Eastleigh business district operate. Environment was divided into three different types namely: remote environment, industry environment and operating environment. The respondents were asked to rate to which extent changes in each environmental factors affected their operations on a scale of 1 to 5, where: (1= Not at all, 2= Little extent, 3= Moderate, 4=Great extent and 5= Very great extent). Findings on the means, standard deviations and one sample t-test for the different factors were established in order to provide a generalized perception of all the respondents. Results on remote environment are presented in Table 4.4.

**Table 4.4:** Extent of change in the Remote Environment

<b>Remote Environment Factors</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Sample test (t-value)</b>	<b>Significance (2-tailed)</b>
Political Factors	76	3.24	1.539	1.341	0.184
Economic Factors	76	3.89	1.126	6.925	0.000
Social Cultural Factors	76	2.68	1.499	-1.837	0.070
Technological Forces	76	2.42	1.299	-3.886	0.000
Ecological Changes	76	2.87	1.464	-0.784	0.436
Legal Changes	76	2.71	1.263	-1.998	0.049

Source: Research Data, (2014)

Study results presented in Table 4.4 indicate that the major aspects of change in the remote environment affecting operations of SMEs to a greater extent were economic factors indicated by a mean score of 3.89. On the other hand technological factors received low ranking with a mean score of 2.42 therefore indicating it has low effect on SMEs. However, there were statistically significant differences across the respondent SMEs on changes in environmental aspects that affected their operations. Statistically significant differences are reported for economic factors (t-value =6.925,  $p < 0.000$ ) and technological forces (t-value=-3.886,  $p < 0.05$ ). This means that even though these environmental factors had high and low rankings respectively, there was disparity across the SMEs on the extent to which these factors have effect on their operations.

The results for factors in the industry environment affecting SMEs operation are presented below in Table 4.5.

**Table 4.5:** Extent of change in the Industry Environment

<b>Industry Environment Factors</b>	<b>N</b>	<b>Mean</b>	<b>S D</b>	<b>Sample test (t-value)</b>	<b>Significance (2-tailed)</b>
Threat of new entrants	76	3.16	1.488	0.925	0.358
Threat of Substitute Products/Services	76	3.47	1.280	3.225	0.002
Bargaining Power of Suppliers	76	3.37	1.468	2.187	0.032
Bargaining Power of Buyers	76	3.47	1.301	3.174	0.002
Competitive Rivalry	76	3.92	1.208	6.645	0.000

Source: Research Data, (2014)

Study results presented in Table 4.5 indicate that the major aspects of change in the industry environment affecting operations of SMEs to a greater extent was

competitive rivalry indicated by a mean score of 3.92. On the other hand threat of new entrants received low ranking with a mean score of 3.16 therefore indicating it had low effect on SMEs operation. However, statistically significant differences across the respondent SMEs were reported on threat of substitute Products/Services (t-value =3.225, p<0.05), competitive rivalry (t-value=6.645, p<0.05), bargaining power of suppliers (t-value 2.187, p<0.05) and bargaining power of buyers (t-value=3.174, p<0.05). This means that even though these environmental factors had high or low rankings, there was lack of unanimity among the respondents on the extent to which these factors have effect on their operations.

The results for factors in the operating environment affecting SMEs operation are presented below in Table 4.6.

**Table 4.6:** Extent of change in the Operating Environment

<b>Operating Environment Factors</b>	<b>N</b>	<b>Mean</b>	<b>S D</b>	<b>Sample test (t-value)</b>	<b>Significance (2-tailed)</b>
Competitive Position	76	3.16	1.071	1.285	0.203
Customer Profiles and Market Changes	76	3.11	1.102	0.832	0.408
Suppliers Relationships	76	3.22	1.312	1.486	0.142
Creditors	76	2.37	1.539	-3.577	0.001
Labour Markets	76	2.42	1.398	-3.611	0.001

Source: Research Data, (2014)

Study results presented in Table 4.6 indicate that the major aspects of change in the operating environment affecting operations of SMEs to a greater extent was suppliers relationships indicated by a mean score of 3.22. On the other hand labour markets received low ranking with a mean score of 2.42 therefore indicating it had low effect

on SMEs. However statistically significant differences are reported for creditors (t-value =-3.577, p<0.05) and labour markets (t-value=-3.611, p<0.05). This means that even though these environmental factors had low rankings, there was variance across the SMEs on the extent to which these factors have effect on their operations.

#### 4.4 Response strategies to changes /challenges in the Environment

The study sought to establish the extent to which SMEs had adopted response strategies to respond to the changes and challenges from the environment. The respondents were asked to rate the response strategies adopted in response to the changes in the environment on a scale 1 to 5, where: (1= Not at all, 2= Little extent, 3= Moderate, 4=Great extent and 5= Very great extent). Findings on the means, standard deviations and one sample t-test for the different strategies were established in order to provide a generalized perception of all the respondents. Results are presented in Table 4.7.

**Table 4.7:** Extent of Use of Response Strategies

Response Strategies	N	Mean	S D	Sample test (t-value)	Significance (2-tailed)
Invest in research & development	76	2.68	1.551	-1.775	0.080
Adopting latest Technology	76	3.08	1.468	.469	0.640
Innovation	76	2.71	1.198	-2.107	0.038
Diversify into other businesses	76	3.03	1.469	.156	0.876
Marketing and advertising	76	3.03	1.608	.143	0.887
Offer quality goods and services	76	4.26	1.147	9.597	0.000
Low cost pricing	76	4.05	1.199	7.655	0.000
Good customer care services	76	4.53	0.721	18.465	0.000
Branding	76	3.17	1.279	1.165	0.248
Differentiation of goods and services	76	2.79	1.204	-1.525	0.131

Form strategic partnerships-Suppliers	76	2.82	1.598	-1.005	0.318
Adopting positioning strategies	76	3.45	1.280	3.048	0.003
Adopting expansion Strategies	76	3.55	1.491	3.231	0.002
Adopting focus strategies	76	3.50	1.238	3.520	0.001
Down sizing	76	2.55	1.418	-2.751	0.007
Joining/formation of groups/saccos to access loans/credit	76	2.54	1.739	-2.308	0.024
Speed in delivery of services	76	4.50	0.600	21.794	0.000

Source: Research Data, (2014)

The results in Table 4.7 shows that various response strategies adopted by SMEs were ranked differently on the levels of extent to which they were applied. Good customer care services and speed in delivery of services, received high ranking with mean scores of 4.53 and 4.50 respectively and therefore presents the greater extent to which SMEs have adopted these response strategies to deal with the changing environment. On the other hand, down sizing and joining or formation of saccos received low ranking with mean scores of 2.55 and 2.54 respectively and therefore presents the lesser extent to which these strategies have been adopted by the respondents. However, there were statistically significant differences across the respondent SMEs on the response strategies adopted to deal with environmental changes. Statistically significant differences are reported for innovation (t-value =-2.107, p<0.05), offering quality goods and services (t-value=9.597, p<0.05), low cost pricing (t-value 7.655, p<0.05), good customer care services (t-value=18.465, p<0.05), adopting positioning strategies (t-value=3.048, p<0.05), adopting expansion strategies (t-value=-3.231, p<0.05), down sizing (t-value=-2.751, p<0.05), speed in delivery of services (t-value=21.794, p<0.05), joining/formation of groups/saccos to access loans/credit (t-value=-2.308, p<0.05) and adopting focus strategies (t-value=3.520, p<0.05). This

means that there was great disparity across SMEs on the extent to which SMEs have adopted these response strategies to respond to opportunities and/or threats.

#### **4.5 Discussion**

The results of the study are fairly comparable to other empirical studies that have considered environment as part of the study variables in relation to the response strategies. The overall findings of the study also provide additional evidence to theory that organizations are environment dependent and environment serving and therefore to succeed and flourish organizations need to adopt strategies that align them with their environment. The findings of the study supports what Bettis & Hitt (1995) established that awareness and understanding of the external operating environment is of the utmost importance to firms to enable business leaders to align their firm's strategies with external environment conditions. The study findings reveal that environmental changes have different impact on SMEs in Eastleigh business district. Within the remote environment the findings reveal that there are two major factors affecting SMEs operations which are economic and political changes. However there were statistically significant differences across respondents on economic and technological changes.

The research findings partially supports empirical study by Moses (2012) who established that in addition to environment turbulence being a major challenge to organizations, rapid changes in technology and an ever increasing and unpredictable competitive business terrain across the economy also posed a challenge to organizations. The study results offer support to findings by Reginato & Guerreiro, (2013) who established that variables in the external business environment are characterized with high degree of uncertainty which the organization has little or no

power to control and most of these variables which are political, social ecology, technology, legal and economic are as well unpredictable. The research study results partially support findings by Makori (2013) who concluded that political uncertainty, high cost of raw materials, and low demand for goods were some of the challenges faced by small and medium sized enterprises in Nairobi, Kenya.

Within the industry environment the study revealed that competitive rivalry highly affected SMEs operation however there were statistically significant differences across the respondent in regards to competitive rivalry, threat of substitute products/services, and bargaining powers of suppliers/buyers. The study findings support empirical study by Makori (2013) who established that competition from large counterparts caused some of the major challenges facing SMEs in Nairobi's Industrial Area, Kenya. The study results also partially support empirical study by Mbiriri (2009) who established that two of the biggest challenges from the external environment were increased competition and the changing technology. In the operating environment the study revealed that supplier relationship highly affected SMEs operation however there were statistically significant differences across respondents in regards to labour markets and creditors. The findings of the study do not support empirical study by Mumbua (2013) which revealed that some of the most pressing challenges SMEs in Mombasa County faced were lack of access to external finance, lack of capital and credit. This is because SMEs in Eastleigh business district mainly depend on their own savings as well as contribution from friends and relatives to start up their businesses and to sustain them.

The results of the study on response strategies adopted by SMEs in Eastleigh business district revealed that good customer care services and speed in delivery of services were the major strategies used by SMEs to respond to the changing environment where as the least used strategies were downsizing and joining or formation of saccos. However there were statistically significant differences across respondents on innovation, offering quality goods and services, low cost pricing, good customer care services, adopting positioning strategies, adopting expansion strategies, down sizing, speed in delivery of services, joining/formation of groups/saccos to access loans/credit and adopting focus strategies. The study findings partially support the findings by Mumbua (2013) who established that SMEs in Mombasa County applied mostly differentiation strategies as well as innovative cost-reduction strategies to ensure efficiency. This is because only a few of the respondents SMEs have adopted differentiation strategies and most have adopted low cost strategies although the results shows that there is disparity across the SMEs. The study findings partially support empirical study by Makori (2013) who established that SMEs adopt superior customer service, effective marketing arrangement, continuously improving quality of goods and service delivery.

An empirical study by Parnell, Lester and Menefee (2000) made an observation that in a dynamic and volatile industries, combination strategies may serve as a more effective means of adapting to unpredictable environmental changes. The findings of the current study also revealed that SMEs have combined different strategies in order to appropriately respond to the changing environment. The study results offer support to the empirical study by Bamiatzi and Kirchmaier (2012) on strategies for superior performance under adverse conditions. They concluded that in adverse situations most

firms employ a multiple-strategy approach. An empirical study by Mwaura (2004) examined environment as a moderator of the relationship between business strategy and performance and concluded that small and medium sized enterprises vary with choice of business strategy they adopt and that the relationship between strategy types and the performance of small and medium sized enterprises is moderated by environment. The results also offer partial support of the various theories of environment including environment dependent theory, chaos and complex theory, and open systems theory. The main proposition of these theories is that organizations are part of the environment and the environment in which organizations operate in is complex, turbulent and ever changing and therefore for organizations to succeed they have to be aligned with their environment.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

The study was undertaken with two main objectives. First to determine the environmental changes faced by small and medium sized enterprises in Eastleigh business district and second to establish the nature of response strategies employed by small and medium sized enterprises in Eastleigh business district to the changing environment. This chapter presents a summary of the research findings on environmental changes and response strategies adopted, conclusion of the study, recommendation for policy and practice, limitations of the study and suggestions for further study.

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

The study aimed to established the environmental changes faced by SMEs in Eastleigh business district and response strategies to these changes. The study results indicate that SMEs in Eastleigh business district face a number of changes and challenges from the environment most of which affect their operations. From the findings under the remote environment, economic and political changes seemed to pose major challenges to SMEs thus affecting operations. High interest rates, inflation and levels of disposable income were the main challenges affecting businesses because it cost more to import products and due to inflation, consumers spend less thus affecting business performance. Politics was another major factor affecting SMEs sometimes leading to closure of businesses but despite of the major changes in technology, SMEs in the area ranked it as one of the least factor affecting their

operation. However, there was statistically significant differences across the respondent in regards to economic and technological forces.

The study results established that under the industry environment, SMEs ranked competitive rivalry as the major factor affecting their operation at a great extent, other factors were only at a moderate extent. Reason for this results is due to the fact that majority of the SMEs are involved in similar businesses and thus fight for the same customers which then makes competition to be intense especially with slow down of business. However, there was lack of unanimity among the SMEs on the extent to which threat of substitute products/services, bargaining power of suppliers and buyers and competitive rivalry affected their operations. The results of the study also established that under the operating environment competitive position, customer profiles and market changes and supplier relationship affected SMEs but at a moderate extent. There was lack of unanimity in regards to the extent the other two factors namely creditors and labour market affected operations.

The study established that to respond to various changes and challenges brought about by the environment, SMEs have combined several strategies. Response strategies that were being used at a greater extent were low cost pricing, expansion, focus strategies, offering quality goods and services, good customer care services and speed in delivery of services. However, there were statistical differences across the SMEs in regards to most of the strategies. The study results indicated that differentiation, research and development and innovation were among the least ranked response strategies by SMEs despite of their immense importance.

### **5.3 Conclusion**

The study results presented and discussed in this paper reveal that environment is a major factor affecting business operation and without good response strategies, SMEs and other organizations would experience challenges and miss out on opportunities that would then affect their performance. Changes in the environment in which organizations operate can either bring forth threats and/or opportunities and therefore a very good understanding of the implications of these changes is important for strategic decision making. The result of the study indicate that there are factors within the environment that have great impact on SMEs but somehow have been ignored for example technology which presents great opportunity for SMEs if well utilised. The results of the study offer partial support to an empirical study by Nandakumar, Ghobadian and O'Regan (2010) who noted from their study that environmental dynamism and hostility act as moderators in the relationship between business-level strategy and relative competitive performance.

The findings of the study indicated that SMEs in Eastleigh business district are facing very harsh environment. There has been a slow down of business, major business losses, closed down of some business and intense competition among SMEs. SMEs have therefore resulted to adopting a combination of strategies which includes, low cost pricing, speed in delivery of services and good customer care services. The study results indicate irregardless of the major challenges facing SMEs, less attention has been paid to innovation, research and development, differentiation of goods/services and marketing and advertising which are very effective in dealing with competition and coping with very complex environment. The study results offer partial support to

Koksal & Ozgul (2007) who concluded that to be successful during an economic crisis, decision-makers and planners need to focus on promotional strategy but in combination with other strategies. Although their study did not involve environment as a variable, economy changes was noted as a major challenge affecting SMEs in the current study. To deal with the uncertain environment, SMEs have combined different mix of strategies in order to survive and succeed.

In essence although some of the results were statistically not significant, the findings of the study offer some support for the propositions of open systems, complex/chaos theory and environment dependence theory, that organizations are open systems and continually interact with the environment in which they operate (Stoffels, 1994). Since the findings reveal that SMEs are part of the environment and therefore have to deal with the opportunities and/or threats presented by the environment there is need for SMEs owners to make strategic decisions based on good environment scanning and adopt strategies that respond to their environment if they are to flourish and succeed.

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

Based on the findings of the study on the two main objectives guiding the study, it is recommended that policy makers should invest more on research and environment scanning. Policy makers should also come up with policies that are flexible due to the ever changing environment and offer training to SMEs owners on the importance of strategic thinking and appreciating the environment they operate in as it presents opportunities and threats that need to be appropriately responded to as revealed in the research findings. Policy makers should keep abreast with the changes in the

environment because success or failure of SMEs mainly depend upon how they relate with their environment. Response strategies to environmental changes should be well aligned in order to have positive output.

To the management practitioners and owners of SMEs in Eastleigh business district and generally SMEs in Kenya, it is recommended that management embrace strategic management, strategic thinking and regularly scan the environment for opportunities and threats irregardless of the size of the business. In response to opportunities and threats in the environment SMEs should adopt strategies that are flexible and aligned with their environment. SMEs should also embrace research and development, form strategic alliance with other SMEs and suppliers, take advantage of technology, adopt differentiation strategies and be innovative in order to stand out and on top of these adopt marketing mix strategies in order to remain competitive and successful in the volatile market. Generally SMEs should embrace a combination of strategies in response to the changes in the environment.

### **5.5 Limitations of the Study**

The study faced a number of limitation that may have impacted on the overall results of the study. First, as this study is based on cross-sectional research design in which data was collected within a shorter period or at one point in time, the results of this study are therefore limited to cross-sectional data. Since environment is ever changing and challenges and response strategies that SMEs adopts changes with time, the findings of the study are therefore limited at that point in time when data was collected.

Second, the study did not achieve 100% response rate and this was because of a number of the targeted respondents' reluctance to accept to be interviewed and to return back the questionnaires as well as limited time and resource. Third, there was difficulty in translating the questionnaire to a language more understandable by the respondents as well as cultural differences which may have affected the quality of the data collected.

Lastly the sampling frame was limited to SMEs in Eastleigh business district which may be facing different environmental changes and challenges from other SMEs in the country and therefore there is limitation on the extent to which these results could be generalized across all SMEs in Kenya. Therefore, the findings and conclusions drawn here might not apply to all SMEs in Kenya and also to other organizations.

## **5.6. Suggestions for further Research**

The study was based on cross sectional data and since environment is ever changing and the response strategies adopted by SMEs keep on changing with time this provides an opportunity for replicative studies to be done in order to compare results. Due to the fact that the study did not achieve 100% response rate and the fact that the researcher encountered challenges in translating the questionnaire to a language easily understood by the respondents which may have affected the quality of the study, a similar study should be done targeting the same target population and effort made to ensure that every respondent clearly understands the questionnaire and the results to be compared with those of the current study.

Since the study only concentrated on SMEs in Eastleigh business district the findings and conclusions drawn in the study may not be generalized to other SMEs or

organizations. Consequently, a similar study is necessary for other SMEs and organizations across Kenya in order to validate or enhance this study's findings. The findings and conclusions drawn here might not apply to all SMEs in Kenya as well as in other organizations.

Environment is dynamic and consistently changing and with these changes, response strategies would be expected to change with time. Therefore this being the first study on SMEs in Eastleigh business district, similar studies could be conducted to identify how SMEs would alter their strategies to other changes in the environment in future and also comparison made with results for the current study.

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## **APPENDICES**

### **Appendix I: Introduction Letter**

David Macharia Kamau

P.O Box 6787-00200,

Nairobi, Kenya.

Dear respondent,

#### **RE: INTRODUCTION LETTER**

I am a postgraduate student pursuing Master of Business Administration (MBA) degree at the School of Business, University of Nairobi. As part of the requirement for the award of the degree, I am expected to carry out and submit a research project. I am conducting a study on response strategies adopted by the small and medium sized enterprises in Eastleigh business district to environmental changes.

In this respect, I kindly request you to provide objective answers to the following questions that will be vital information for this study. The information provided will be kept confidential and it will only be used for the intended purpose of the study.

Thank you in advance.

Yours faithfully,

**David Kamau.**

## **Appendix 11: 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 response strategies to environment changes by small and medium sized enterprises in Eastleigh business district, Nairobi County, Kenya. Kindly answer all the questions either by ticking in the boxes or writing in the spaces provided

### **Section A: Background information**

1. Name of the respondent (optional).....

2. Gender

(a) Male [ ]

(b) Female [ ]

3. Nature of business

(a) Sole Proprietorship

(b) Patnership

(c) Joint Venture

(d) Private Limited Company

(e) Public Limited Company

(f) Others Specify: .....

4. How long have you been in business?

(a) 0-5 yrs [ ]

(b) 6-10 yrs [ ]

(c) 11-15 yrs [ ]

(d) Over 16yrs [ ]

## Section B: Environmental Changes

5. To what extent do the following changes/challenges influence operations at your business/organization ?

(1= Not at all. 2= Less Extent. 3= Moderate Extent. 4 = Great Extent & 5=Very Great Extent.)

<b>STATEMENT: Remote Environment</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Political e.g. political party, or consumption, political ideology, government control and political stability					
Economic forces e.g. exchange rates, level of disposable income, interest rates, inflation rates and industry growth					
Social cultural factors e.g. tribe, religion, demographics, fashion, change in lifestyle					
Technological forces e.g. Internet					
Ecological changes e.g. Waste management, pollution					
Legal changes e.g. registration changes, health and safety					

<b>STATEMENT: Industry Environment</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Threat of new entrants eg barriers to entry,distribution channel,capital requirement,,ease of entry to the market					
Threat of substitute products/services-likelihood of substitute products/services and how competitive are they					
Bargaining power of suppliers eg size and composition of suppliers and ability to influence raw material prices					
Bargaining power of buyers eg size and composition of buyers and ability to influence prices					
Rivalry among existing business ie degree of competition in the market among SMEs,either high or low competition					

<b>STATEMENT: Operating Environment</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Competitive position eg market share,location,product quality/changes in competitors moves					
Customer profiles and market changes eg customer different needs and their changes and if these needs are met/if they are satisfied					
Supplier relationships i.e changes in the relationship between suppliers and SMEs					
Creditors eg availability of credit,credit rating					
Labour markets eg availability of labour, labour changes					

## SECTION C: Response Strategies To Environmental Changes

6. Kindly state the extent to which your businesses have applied the stated responses to cope with environmental changes

( 5=Very Great Extent. 4= Great extent. 3=Moderate Extent. 2=Low Extent. 1=Very Low Extent)

<b>STATEMENT: Response strategies</b>	1	2	3	4	5
Invest in research and development (to know changes in the market/changes in customer needs/to meet needs of the customers)					
Adopting latest technology					
Innovation interms of technology,products and services					
Diversify into other business ie move into other business					
Marketing and advertising of products and services offered					
Offering quality goods and services					
Low cost pricing of products and services					
Good customer care services					
Branding (create unique and differentiated brand that stands out and is attractive)					
Differentiation of products and services eg interms of quality,content,package.					
Form strategic partnership-suppliers and other companies					

Adopting positioning strategies eg quality products,convinent location					
Adopting expansion strategies(increase size of business because of oppourtinitis either offer other products/services or expand to other markets)					
Adopting focus strategy(target a group of customers who have unmet needs and either offer low cost/differentiated products/services)					
Down size (either by retrenching employees so as to have a lean business)					
Joining/formation of groups/sacco's to access loans/credit					
Speed in delivery of services					

**THANK YOU FOR YOUR TIME**