STRATEGIC RESPONSES OF SMALL AND MEDIUM SIZED ENTERPRISES OPERATING WITHIN THE NAIROBI CENTRAL BUSINESS DISTRICT (NCBD) TO CHANGES IN THEIR ENVIRONMENT

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DECLARATION

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

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This project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

This piece of work is dedicated to my parents Mr. Felix Mathenge and Mrs. Mary Mathenge, my sisters Martha and Karen, my brothers Moses and Paul for their constant prayers, encouragement and support. I really appreciate you and may God bless you.

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I would like to thank The Almighty God through him all things are possible.

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ABSTRACT

The objective of the study was to identify the strategic responses adopted by the small and medium sized enterprises (SMEs) operating within the NCBD to changes in their environment. The research design adopted was descriptive survey to assist the researcher to identify the strategic responses used by the SMEs. This research design was appropriate for the study as it was concerned with specific predictions, narration of facts and characteristics concerning an individual, group or situation.

The study population comprised of all SMEs with formal premises registered with the Nairobi City Council operating within the NCBD. The main source of data was primary data. The primary data collection instrument was a structured questionnaire with both open and close ended questions developed by the researcher. The structured questionnaire was administered through personal interviews with the business owners or those in charge of the businesses.

The data collected was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the objective of the study.

SMEs in Kenya are sole proprietorships and are mostly operated by young people who have at least a secondary level of education and in most cases college education. Most businesses have a clearly defined vision for their future and prior set objectives. Competition is very strong in all the areas of operation. The strategies adopted in order to have a competitive edge were product differentiation, price wars, speed of service delivery and customer service. Most of the business operators regularly reviewed their business strategies in order to remain competitive in their respective areas of operation. Economic factors such as business cycles, interest rates and inflation were the most significant factors influencing business operations in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategy

Ansoff and Mc Donnell (1990), define strategy as a set of decision-making rules for guidance of organizational behavior. They argue that strategy is a potentially very powerful tool for coping with the conditions of change that surround the firm today and is a tool which offers significant help for coping with turbulence confronted by business firms. They emphasize strategy as a managerial tool that merits serious attention.

Aosa (1992), states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. The strategy problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of an organization's core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment and organizations internal capabilities.

Pearce and Robinson (2007) state that the firm's external environment consists of three interrelated sets of factors that play a principal role in determining the opportunities, threats and constraints that the firm faces. The ***remote*** environment comprises factors originating beyond and usually irrespective of any single firm's operating situation. These include the economic, social, political, technological and ecological factors. Factors that more directly influence a firm's prospects originate in the environment of its ***industry***, including entry barriers, competitive rivalry, the availability of substitutes and the bargaining power of buyers and suppliers. The ***operating*** environment comprises factors that influence a firm's immediate competitive situation. These include competitive position, customer profiles, suppliers, creditors and the labour market. These three sets of factors provide many of the challenges that a particular firm faces in its attempts to attract or acquire needed resources and to profitably market its goods and services.

1.1.2 Strategic Responses

When a firm's environment moves to a new turbulence level, the responsiveness of the firm's capability to the environment stimuli must also move to a different level. If the capability fails to keep pace with the environment, the firm is in danger of losing its competitive position and becoming unprofitable. (Ansoff and Mc Donnel, 1990)

According to Porter (1980), a firm's attempt to seek a competitive advantage is based on three generic strategies. First is striving for overall low-cost leadership in the industry, the second being striving to create and market unique products for varied customer groups through differentiation and lastly having a special appeal to one or more groups of consumer or industrial buyers focusing on their cost or differentiation concerns. Porter (1985) further emphasizes that competitive advantage arises from selection of the generic strategy that best fits the organization's competitive environment and then organizing value-adding activities to support the chosen strategy.

Once the strategist has assessed the forces affecting competition in his industry and their underlying causes, they can identify the company's strengths and weaknesses. The crucial strengths and weaknesses from a strategic standpoint are the company's posture Vis a Vis the underlying causes of each force. Where does it stand against substitutes? Against the sources of entry barriers? Then the strategist can devise a plan of action that may include positioning the company so that its capabilities provide the best defense against the competitive force; and /or influencing the balance of the forces through strategic moves, thereby improving the company's position; and/or anticipating shifts in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.(Mintzberg et al, 2003)

Thompson, Strickland and Gamble (2007) outline the company's five menu of strategic options or responses. The first strategic choice is the Generic Competitive Strategic option, which includes the cost of leadership, differentiation and focus strategies. The second set of strategic choices is the complementary strategic option which includes employing strategic alliances and partnerships, mergers with or acquiring other companies, backward or forward integration, outsourcing selected value chain activities, initiating offensive strategic moves and employing defensive strategic moves. The third are the Functional-Area Strategies to Support the above Strategic Choices, the fourth being timing a Company's Strategic moves in the market place and the fifth being the website strategy being employed.

The bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment; competitors' moves, economic fluctuations, availability of raw materials, labour demands (Ansoff and Mc Donnell, 1990).

All organizations are environment serving and therefore totally dependent on the environment. The small and medium size enterprise (SME) sector in Kenya is not an exception to this inter-dependency with the environment. The SMEs have to adopt suitable strategies for survival within the highly competitive and volatile environment.

1.1.3 Small and Medium Enterprises (SMEs) in Kenya

The definition of SMEs varies from country to country and the classification may be based on the firm's assets, number of employees or annual sales. The International Finance Corporation defines SMEs as firms with less than 300 employees and total assets less than US $ 15 million. In smaller economies, SMEs are defined as firms with less than 20 employees.

Kasende (2001) widely defines SMEs in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location and the market share. The country context plays a significant role in determining the nature of these characteristics, especially the size of the investment in capital accumulation and the number of employees. He argues that for developing countries, small scale generally means enterprises with less than 50 workers and medium sized enterprises would usually mean those that have 50-99 workers. This definition will be adopted for purposes of this research.

In most African countries, and particularly in Kenya, SMEs account for a significant share of production and employment and are therefore directly connected to poverty alleviation. For the poor population in the rural areas SMEs are also very relevant for employment and as an income source. In developing countries SMEs are challenged by the globalization of production and the shift in the importance of the various determinants of competitiveness. SMEs are accountable for above 50 percent of manufacturing gross domestic product. It is estimated that in Kenya small enterprises generate 12% to 14% of the national income (Daniel and Mead, 1998).

The decline in employment levels within the formal sector since year 2000 due to company closures and retrenchments attributed to low capacity utilization has resulted in SMEs sector assuming a greater prominence in providing a source of livelihood to many families. There is therefore need to support the growth of SMEs so as to enable the sector to contribute meaningfully to national economic development (World Bank, 2004).

The SME sector in Kenya plays an important role in the socio-economic development of the country and cuts across all sectors of the economy. It provides one of the most prolific sources of employment and is the breeding ground for the large industries that are critical for industrialization. (Sessional paper No. 2 of 2005 on Development of Micro and Small Enterprise for Wealth and Employment Creation for Poverty Reduction).

Its significance can be attributed to the immense contribution towards economic growth, employment creation, poverty reduction and the development of an industrial base. According to the Economic Survey (2008), the economy sustained its growth momentum that begun in 2003 to register a real Gross Domestic Product (GDP) growth estimated to have expanded by 7.0 per cent compared to a revised growth of 6.4 per cent in 2006 and 5.7 per cent in 2005. The renewed expansion has been attributed to the account of the economy's resilience, improved business confidence, stable macro-economic environment and a rebound of the global economy.

The Economic Survey (2008) identifies that the major sources of growth for the year 2007 were transport and communication, taxes on products, wholesale and retail trade, manufacturing which contributed 23.3, 23.2, 15.7 and 8.8 per cent respectively. The SMEs made a significant contribution to this economic growth in 2007 and it is projected that more gains will be made towards achieving the government's development strategy of Vision 2030. However, the economic growth for 2008 is likely to slow down due to the sluggish economic activities witnessed in the first quarter of the year associated to the 2007 post election skirmishes, which in turn affected the SMEs immensely.

There are prospects for renewed growth in 2008 with the signing of the peace agreement among the key stakeholders in Kenyan Politics and the formation of the coalition government. Increased demand for goods and services from Kenya by emerging economies coupled by sound policy frameworks are expected to support more growth. (Economic survey, 2008)

In the past, the government of Kenya has put in place measures geared towards the promotion and development of the SME sector. One of the notable interventions is the publication of Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya, which emphasized the need to create an enabling environment through an appropriate legal and regulatory framework, putting in place support and facilitative measures to promote the growth of the sector. In order to enhance economic growth, employment creation, income generation, poverty reduction and industrialization, the government also developed the Poverty Reduction Strategy Paper and Economic Recovery Strategy for Wealth and Employment Creation, 2003-2007.

Despite the significant role played by SMEs, the sector has continued to experience many binding constraints that have inhibited its full potential. According to Sessional Paper No. 2 of 2005 on Development of Micro and small Enterprises for Wealth and Employment Creation for Poverty reduction, several challenges facing the micro and small enterprises were highlighted. These challenges also extend to the medium enterprises and include unfavourable policies, inhibitive legal and regulatory framework, limited access to financial services and markets, inadequate access to skills and technology, insecurity of land tenure, poor access to infrastructure, inadequate business know-how and linkages with large enterprises, gender inequality, limited access to information, impact of HIV/AIDS pandemic, unsatisfactory occupational health and safety standards.

According to the NCBDA chairman, Kahura (2004), the city of Nairobi is faced by challenging task of creating opportunities for a population growing at 5-7% per annum. With rising poverty and unemployment levels rated at sixty and seventy percent respectively in the city, over 600,000 residents now live on the informal sector. The CEO of NCBDA, Fadamula (2004) also emphasizes the importance of SMEs. He points out that over the past decade, thousands of Kenyans have joined the unemployed ranks as companies close and the educations system offloads thousands of graduates into the job market. It is estimated that 60% of Nairobi's residents live below the poverty line.

This study will focus on the over 50,000 SMEs operating within the NCBD. (NCC 2007) The SMEs operating within the area cut across all lines of business including wholesale and retail, manufacturing, education, agriculture, hospitality, building and construction, clearing and forwarding among others. In addition, the NCBD and its environs are densely populated and as such will give a good representation of the strategic responses adopted by SMEs to changes in their environment.

1.2 Statement of the Research Problem

According to Ansoff and McDonnell (1990) organizations are environment dependent and environment serving. Organizations are in a constant two-way interaction with the environment. They receive inputs from the environment, transform or add value to them, and return the outputs in form of goods and services back to the environment. They therefore affect and are affected by what happens in the external environment, which is beyond the organization's control. Environmental change creates pressure for change in the organization and this means that they have to respond to relevant external change to ensure that they survive.

Despite the significance and contribution of the small and medium enterprises (SMEs) to the Kenyan economy, they are faced by many challenges and constraints due to the volatile environment in which they operate. The SMEs have to adopt strategic responses to align themselves with the environment for survival and competitive advantage.

Several studies have been carried out on strategic responses of firms to the changes in the environment in a number of industries. Waweru (2002) found out that small firms make adjustments to their strategic variables depending on their uniqueness to ensure survival. Kattuiku (2005) recommends that companies scan their immediate environment for survival purposes in a study on the strategic responses to changes in the environment by the Co-operative Bank of Kenya. Kariuki (2007) also emphasizes the importance enterprises re-aligning themselves to changes in the environment in his study of competitive strategies adopted by Exhibition Stalls in the NCBD.

Several studies have also been carried out on the small and medium size enterprises but there has been no study carried out to establish the strategic responses adopted by SMEs operating within the NCBD after the recent political instability occasioned by the post-election violence.

This study will identify the strategies adopted by the small and medium sized enterprises (SMEs) operating within the NCBD in the light of a rapidly changing, volatile and highly competitive environment. This study will therefore address the following question.

What are the strategic responses of the small and medium sized enterprises (SMEs) operating within the NCBD to changes in their environment?

1.3 Research objective

The objective of the study was to identify the strategic responses adopted by the small and medium sized enterprises (SMEs) operating within the NCBD to changes in their environment.

1.4 Importance of the study

The research will help the managers and business owners in identifying environmental factors that could threaten the survival of their businesses and help them identify appropriate strategies for continued survival and growth.

It will enable the government in enacting and formulating policies that promote an enabling environment for growth of the SME sector.

Potential investors in the sector will be informed on the challenges faced by the various SMEs and will therefore provide them with adequate information before entering into the industry.

It will assist the Nairobi Central Business District Association (NCBDA) in strengthening of relationships and lobbying with the SMEs operating within the NCBD in meting their overall objectives of making the city of Nairobi a modern, secure and cleaner city.

It will also assist scholars in further research based on the findings of the study.

1.5 Scope of the study

This study was limited to the small and medium sized enterprises (SMEs) operating within the Nairobi Central business District (NCBD).

CHAPTER TWO: LITERATURE REVIEW

2.1 The concept of strategy

Mintzeberg and Quinn (1991) define a strategy as the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive whole. Porter (1980), states that strategy is creating a fit among a company's activities. The success of a strategy depends on doing many things well not just a few- and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability.

Thompson and Strickland (2002) define a strategy as the pattern of organizational moves and managerial approaches used to achieve organizational objectives and pursue organizational mission. Strategy is the match between an organization's resources and skills, and the environmental opportunities it wishes to accomplish (Schendel and Hofer, 1979). It is important to provide guidance and direction for the activities of the organization. Strategy can also be seen as the process of deciding a future course for a business and has a role on organizing and steering the business in the attempt to bring that future course.

Aosa (1992), states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. The strategy problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of an organization's core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment and organizations internal capabilities.

Bateman and Zeithaml (1993) define strategy as a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. They point out that each organization has certain strengths and weaknesses. The actions or strategies the organization implements should be directed toward building strengths in areas that satisfy the wants and needs of consumers and other key actors in the organizations external environment.

2.2 The External Environment

According to Pearce and Robinson (2007), a host of external factors influence a firm's choice of direction, action and ultimately its organizational structure and internal processes. These factors which constitute the external environment can be divided into three categories, which include the remote environment, industry environment and the operating environment.

2.2.1 Remote environment/Macro environment

The remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation. (Pearce and Robinson, 2007). All organizations operate in a macro environment which is defined by the most general elements in the external environment that can potentially influence strategic decisions. (Bateman and Zeithmal, 1993).

According to Johnson, Scholes and Whittington (2005), the macro environment consists of the broad environmental factors that impact to a greater or lesser extent on almost all organizations. He analyzes this environment using the PESTEL framework which can be used to identify how future trends in the ***political, economic, social, technological, environmental and legal environments*** might impinge on organizations. If the future environment is likely to be very different from the past it is helpful to construct scenarios of possible futures. This helps managers consider how strategies might need to change depending on the different ways in which the business environment might change.

2.2.2.1 PESTEL Framework

Political factors and Legal factors

The political environment may create significant opportunities or threats for organizations. The government can affect business opportunities through tax laws, economic policies and international trade rulings. (Bateman and Zeithaml, 1993). Johnson, Scholes and Whittington (2005), identify government stability, taxation policy, foreign trade regulations and social welfare policies as the main factors that play a significant role in the political environment. He also identifies several laws and regulations that impact on the legal factors. These include laws relating to competition, employment, health and safety, product safety and the environment among others.

Pearce and Robinson (2007), states that the direction and stability of political factors are a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which the firms must operate. Political constraints are placed on firms through fair-trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies and many other actions aimed at protecting employees, consumers, the general public and the environment. Because such laws and regulations are most commonly restrictive, they tend to reduce the potential profits of firms. However, some political actions are designed to benefit and protect firms such as patent laws and government subsidies. Thus, political factors may either limit or benefit the firms they influence.

Economic factors

Economic factors concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. On both the national and international level, managers must consider the general availability of credit, the level of disposal income, and the propensity of people to spend. Prime interest rates, inflation rates, and trends in the growth of the gross national product are other economic factors they should monitor. (Pearce and Robinson, 2007).

Johnson, Scholes and Whittington (2005), identify business cycles, GNP tends, interest rates, money supply, inflation, unemployment and disposable income as being the significant factors that affect the economic environment.

Economic conditions change over time and are difficult to predict as periods of dramatic growth may be followed by a recession. Even when times seem good, budget deficits or other considerations may create concern about the future. The economic environment dramatically affects companies' ability to function effectively and influences their strategic choices. Interest and inflation rates affect the availability and cost of capital, the ability to expand, prices, costs and consumer demand for products. Unemployment rates affect labour availability and the wages the firm must pay as well as product demand. (Bateman and Zeithaml, 1993)

Social factors

According to Pearce and Robinson (2007), the social factors that affect a firm involve the beliefs, values, attitudes, opinions and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational and ethnic conditioning. As social attitudes change, so does the demand for the various types of clothing, books, and leisure activities among others. Like other forces in the remote external environment, social forces are dynamic, with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors.

Johnson, Scholes and Whittington (2005), identifies population demographics, income distribution, social mobility, lifestyle changes, attitudes to work and leisure, consumerism and levels of education as the major factors that influence the social environment. According to Bateman and Zeithaml (1993), social trends concerning how people think and behave have major implications for management of the labour force, corporate social actions and strategic decisions about products and markets. Today companies that want to create or maintain a competitive advantage are introducing more supportive policies regarding maternal and paternal leave, flexible working hours and childcare.

Technological factors

To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products or for improvements in existing products or in manufacturing and marketing techniques. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Thus, all firms and mostly those in turbulent growth industries must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services. Technological forecasting can help protect and improve the profitability of firms in growing industries. It alerts strategic managers of both impending challenges and promising opportunities. (Pearce and Robinson, 2007).

According to Bateman and Zeithaml (1993), a company cannot succeed without incorporating into its strategy the astonishing technologies that exist and continue to evolve. Technological advances create new products, production techniques and ways of managing and communicating. As technology evolves, new industries, markets and competitive niches develop. For example, with the advent of computers, a huge industry was created.

Johnson, Scholes and Whittington (2005) identify the key contributors towards technological factors. These include government spending on research, government and industry focus on technological effort, new discoveries, and developments, speed of technology transfer and rates of obsolescence.

Environmental/Ecological factors

Pearce and Robinson (2007) identify the most prominent factor in the remote environment as being the reciprocal relationship between business and ecology. They define ecology as the relationships among human beings and other living things and the air, soil and water that support them. Threats to our life-supporting ecology caused principally by human activities in an industrial society are commonly referred to as pollution. Specific concerns include global warming, loss of habitat and biodiversity, air, water and land pollution.

According to Pearce and Robinson (2007), the global climate has been changing for ages but it is now evident that human activities are accelerating this tremendously. A change in atmospheric radiation, due to in part to ozone depletion, causes global warming. Another area of great importance is the los of habitat and biodiversity. Ecologists agree that the extinction of important flora and fauna is occurring at a rapid rate and if continues, it could constitute a global extinction on the scale of those found in fossil records. Air pollution is created by dust particles and gaseous discharges that contaminate the air while water pollution occurs principally when industrial toxic wastes are dumped or leak into the nation's waterway. Land pollution is caused by the need to dispose of ever-increasing amounts of waste and is more dauntingly caused by the disposal of industrial toxic wastes in underground sites. Johnson, Scholes and Whittington (2005) identify environmental protection laws, waste disposal and energy consumption as the key contributors to the environmental factors.

2.2.2. Industry environment

2.2.2.1 The Five Forces Framework

Inherent within the notion of strategy is the issue of competitiveness, which deals with gaining advantage over competitors. Michael Porter's five forces framework was originally developed as a way of assessing the attractiveness (profit potential) of different industries. As such it can help in identifying the sources of competition in an industry or sector. According to Pearce and Robinson (2007), the cornerstone of Porter's work first appeared in the Harvard Business Review, in which he explained the five forces that shape competition in an industry. His well defined analytical framework helps strategic managers to link remote factors to their effects on a firm's operating environment.

In line with the five forces framework Pearce and Robinson (2007) points out that different forces take on prominence in shaping competition in each industry. Every industry has an underlying structure or a set of fundamental economic and technical characteristics that gives rise to these competitive forces. The strategist, wanting to position his or her company to cope best with its industry environment or to influence that environment in the company's favor, must learn what makes the environment tick.

Porter (1980) identifies five contending forces that drive industry competition namely the threat of entry, bargaining power of suppliers and buyers, threat of substitute products and competitive rivalry.

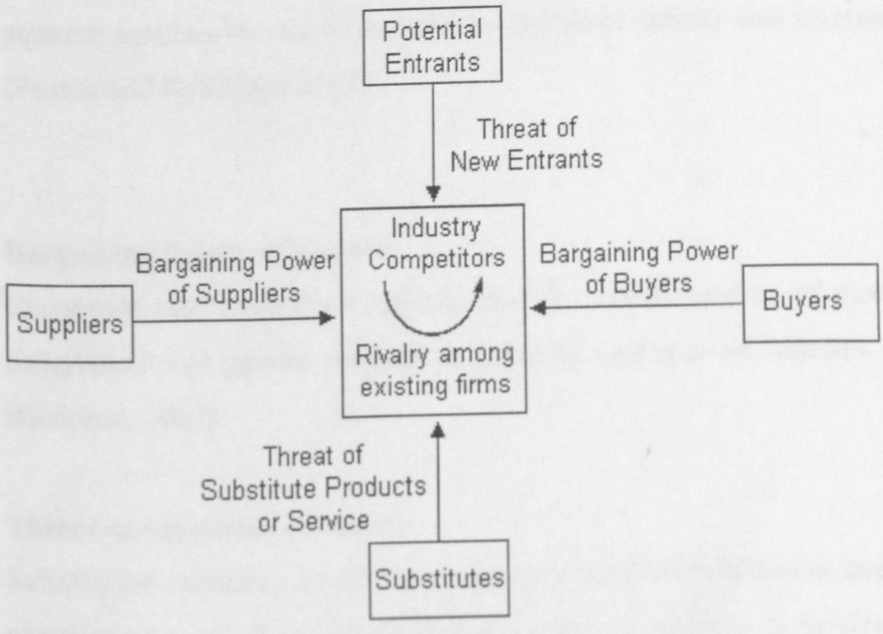


Figure 1: Source: Porter (1985)

Threat of Entry

According to Johnson, Scholes and Whittington (2005), threat of entry will depend on the extent to which there are barriers to entry. These factors need to be overcome by new entrants if they are to compete successfully. These should be seen as providing delays to entry and not as permanent barriers to determined potential entrants.

The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that the entrant can expect. If barriers to entry are high and a newcomer can expect sharp retaliation from the entrenched competitors, he or she obviously will not pose a serious threat of entering. (Pearce and Robinson, 2007).

Bargaining Power of Suppliers

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers therefore can squeeze profitability out of an industry unable to recover cost increases in its own prices. (Pearce and Robinson, 2007)

Bargaining Power of Buyers

Customers can force down prices, demand higher quality or more service, and play competitors off against each other all at the expense of industry profits. (Pearce and Robinson, 2007)

Threat of substitute Products

Substitution reduces demand for a particular class of products as customers switch to the alternatives, even to the extent that this class of products or services becomes obsolete. (Johnson, Scholes and Whittington, 2005)

Competitive Rivalry

Johnson, Scholes and Whittington (2005) define competitive rivals as organizations with similar products and services aimed at the same customer group. Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, product introduction and aggressive advertising. (Pearce and Robinson, 2007).

2.2.3 Operating Environment

The operating environment, also known as the competitive or task environment comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. Among the most important of these factors are the firm's competitive position, the composition of its customers, its reputation among suppliers and creditors, and its ability to attract capable employees. The operating environment is much more subject to the firm's influence or control than the remote environment. Thus, firms can be much more proactive in operating with the operating environment than in dealing with the remote environment. (Pearce and Robinson, 2007).

Bateman and Zeithaml (1993) points out that all organizations are affected by the general components of the macro environment. Each organization also functions in a closer, more immediate task environment. The task environment comprises the specific organizations with which the organization directly interacts. These organizations include regulators, labour unions, suppliers and customers. The organization's competitors face the same task environment whereas competitors are key components of one another's task environment.

Competitive position

Assessing its competitive position improves a firm's chances of designing strategies that optimize its environmental opportunities. Development of competitor profiles enables a firm to more accurately forecast both its short and long term growth and its profit potentials. (Pearce and Robinson, 2007). When organizations compete for the same customers and try to win market share at the others' expense, all must react to and anticipate their competitors' actions. (Bateman and Zeithaml, 1993)

Customer profiles

Developing a profile of a firm's present and prospective customers improves the ability of its managers to plan strategic operations, to anticipate changes in the size of markets, and to reallocate resources so as to support forecast shifts in demand patterns. The traditional approach of segmenting customers is based on customer profiles constructed from geographic, demographic, psychographic and buyer behavior information. (Pearce and Robinson, 2007)

Suppliers

Choosing the right supplier is an important strategic decision. Suppliers can affect manufacturing time, product quality and inventory levels. The relationship between suppliers and the organization is changing in some companies. Instead of having many suppliers, organizations are having fewer suppliers who have made long term commitments to cooperative relationships in which trusted suppliers provide high quality materials. (Bateman and Zeithaml, 1993).

Dependable relationships between a firm and its suppliers are essential to the firm's long term survival and growth. A firm regularly relies on its suppliers for financial support, services, materials and equipment. In addition, it occasionally is forced to make special requests for such favours as quick delivery, liberal credit terms, or broken lot orders. Particularly at such times, it is essential for a firm to have had an ongoing relationship with its suppliers. An important way for suppliers to increase their power over customers is to extend them credit. (Pearce and Robinson, 2007)

Creditors

With regard to its competitive position with its creditors, the firm should seek to understand whether the creditors fairly value and willingly accept the firm's stock as collateral, the perception of the firm as having an acceptable record of past payment, strong working capital position, compatibility of creditors loan terms with the firms profitability objectives and the creditors ability to extend the necessary lines of credit. (Pearce and Robinson, 2007).

Human resources

A firm's ability to attract and hold capable employees is essential to its success. However, a firm's personnel recruitment and selection alternatives often are influenced by the nature of its operating environment. A firm's access to needed personnel is affected primarily by the firm's reputation as an employer, local employment rates, the ready availability of people with needed skills, and its relationship with labour unions. (Pearce and Robinson, 2007)

Labour Unions

Historically, the relationship between management and labour unions has been adversarial. Troubled labour relations can create higher costs and productivity declines. But declining productivity and high quality overseas competition can create layoffs. To increase productivity and competitiveness, management and labour are increasingly working together in friendlier relationships. (Bateman and Zeithaml, 1993)

Unions represent the workers in their negotiations with employers through the process of collective bargaining. When managers' relationships with their employees are complicated by the involvement of a union, the company's ability to manage and motivate the people that it needs can be compromised. (Pearce and Robinson, 2007)

2.3 Strategic Responses

Strategy is the sustained pattern of resource allocation by which firms align themselves effectively to their external environment. Hence, a useful place to start is to consider the macro-environmental context in which industry finds itself. This is a period of unparalleled change driven by factors such as genomics, health economics and globalization. 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 (Smith 2002).

Thwaites and Glaister (1992) argue that for an organization to succeed in an industry, it must select a mode of strategic behaviour that matches the level of environmental turbulence and develop a resource capability which complements the chosen mode. They identify three distinct modes of strategic behaviour. The first mode is reactive and driven by the environment and the second mode is pre-emptive and seeks to anticipate future events and prepare for them. The third mode is the most aggressive stance where organizations not only seek to identify future scenarios but also work to bring these about.

Strategic response can be categorized according to the dimensions of magnitude, domain, and speed, and they conceptualize organizational resources as tangible and intangible. The theoretical framework is meant to understand the relationships among; strategic response to new technologies; organizational resources, and; firm performance (Lee, 2004).

Schendel and Hofer (1979) point out that different response, despite perception of the same challenges, may be due to differences in a firm's resources or capacities. Another possible reason for the difference in strategic responses that are found is the level of organizational slack. Slack is defined as the differences between the resources available to the organization and the total requirements of the members of the organizational coalition.

2.3.1 Three Levels of Response

Because ecological needs can change the competitive context of firms, they demand a strategic response from individual firms. Three levels of response seem plausible; passive or defensive strategies concentrating compliances with standards and end-of-pipe technologies; reactive strategies aimed at developing recycling models and considering the lifelong environmental impact of new products; and active strategies seeking integrated protective concepts and taking account of those effects that result from product use.

Similarly a study of British firms identified three basic strategic responses to environmental concerns; compliance, compliance plus, and excellence. Compliance is the minimalist approach to observing legal requirements and strives to integrate environmental management into business excellence (Brockhoff, 1995).

Superior performance can only be achieved by responding continuously to the customer's over changing needs. Thus once the marketers have gathered the market intelligence, processed it by sharing it with the appropriate interfunctional groups, then it is time to develop action plan. Day (1994) argues that a market orientation culture supports the need to gather the market intelligence and functionally coordinate actions to gain a competitive advantage.

2.3.2 Planned Strategic Response

The type and the timing of response will differ among firms. In firms engaged in planned strategic response, one would expect to find anticipation of threats and opportunities to be matched by anticipatory response.

However, Ansoff and McDonnell (1990) argue that many firms that engage in forecasting exhibit the same procrastination behaviour of reactive firms. They attribute this behaviour to the nature of forecasted information. In many firms, forecasts of economic conditions, sales, earning and costs are extrapolative in the sense that they project past performance patterns into the future.

Relating strategic choices to the types of environmental pressures that are put on firms have no substantial differences between the strategic groups. It is therefore unlikely that the firms have chosen their different strategies merely in response to differentiated pressures (Brockhoff, 1995)

Ansoff and McDonnell (1990) agree that even if there is systems delay in planned strategic response, this delay is smaller than in any other response case. This is because in reactive management the information is derived second hand from data intended to measure past performance and in planned management, threat/opportunity forecasting in primary input data.

2.3.3 Strategic Responses for competitive Advantage

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business cost structure and its ability to differentiate the business from competitors. (Pearce and Robinson, 2007)

They further emphasize that businesses that create competitive advantages from one or both of these sources usually experience above-average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below average profitability. Research has found out that businesses that do not have either form of competitive advantage perform the poorest among their peers, while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability within their industry.

Initially managers were advised to evaluate and choose strategies that emphasized one type of competitive advantage. Often referred to as generic strategies, firms were encouraged to become either a differentiation oriented or low cost oriented company. However, recent studies have shown that the highest profitability levels are found in businesses that possess both types of competitive advantage at the same time. Businesses that have one or resources/capabilities that truly differentiate them form key competitors and also have resources/capabilities that let them operate at a lower cost will consistently outperform their rivals that don't. The challenge for business managers today is to evaluate and choose business strategies based on core competencies and value chain activities that sustain both types of competitive advantage simultaneously. (Pearce and Robinson, 2007)

Cost Leadership Strategy

This is a low-cost strategy where businesses seek to establish long-term competitive advantages by emphasizing and perfecting value chain activities that can be achieved at costs substantially below what competitors are able to match on a sustained basis. This allows the firm, in turn to compete primarily by charging a price lower than competitors can match and still stay in business. (Pearce and Robinson, 2007)

Kotler (2003) outlines cost leadership as one of the generic strategies according to Michael Porter. The business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and win a large market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing and physical distribution.

Differentiation Strategy

This is a business strategy that seeks to build competitive advantage with its product or service by having it being different from other available competitive products based on features, performance, or other factors not directly related to cost and price. The difference would be one that would be hard to create and/or difficult to copy or imitate. (Pearce and Robinson, 2007)

According to Kotler (2003), the business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. Thus the firm seeking quality leadership, for example must make products with the best components, put them together expertly, inspect them carefully and effectively communicate their quality.

against the competitive forces or as finding positions in the industry where the forces are weakest. Knowledge of the company's capabilities and the causes of the competitive forces will highlight the areas where the company should confront competition and where to avoid it. If the company is a low-cost producer, it may choose to confront powerful buyers while it takes care to sell them only products not vulnerable to competition from substitutes.

Influencing the Balance

When dealing with the forces that drive industry competition, a company can devise a strategy that takes the offensive. This posture is designed to do more than merely cope with the forces themselves; it is meant to alter their causes. Innovations in marketing can raise brand identification or otherwise differentiate the product. Capital investments in large-scale facilities or vertical integration affect entry barriers. The balance of forces is partly a result of external factors and partly in the company's control.

Exploiting Industry change

Industry evolution is important strategically because evolution brings with it changes in the sources of competition. In the familiar product life cycle pattern, for example, growth rates change, product differentiation is said to decline as the business becomes more mature and the companies tend to integrate vertically. What is critical is whether they affect the sources of competition. The trends carrying the highest priority from a strategic standpoint are those that affect the most important sources of competition in the industry and those that elevate new causes to the forefront.

2.4 Strategic Responses and Environmental challenges

Johnson, Scholes and Whittington (2005) describe the environment as being organized in a series of layers. The most general layer of the environment is often referred to as the macro-environment. This consists of broad environmental factors that impact to a greater or lesser extent on almost all organizations. The PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental and legal environments might impinge on organizations. This provides the broad data

Market Focus Strategy

This is a generic strategy that applies a differentiation strategy approach, or a low-cost strategy approach, or a combination and does so solely in a narrow or focused market niche rather than trying to do so across the broader market. The narrow focus may be geographically defined or defined by product type features, or target customer type, or some combination of these. (Pearce and Robinson, 2007)

The business focuses on one or more narrow market segments. The firm gets to know these segments intimately and pursues either cost leadership or differentiation within the target market segment. (Kotler, 2003)

Speed Based Strategy

This is a business strategy built around functional capabilities and activities that allow the company to meet customer needs directly or indirectly more rapidly than its main competitors. This competitive advantage can be created around several activities such as customer responsiveness, product development cycles, product or service improvements and speed in delivery or distribution. The rapid response capabilities create competitive advantages in several ways. They create a way to lessen rivalry because they have availability of something that a rival may not have. It can also allow the business to charge buyers more, engender loyalty, or otherwise enhance the business position relative to its buyers. Finally, substitute products and new entrants find themselves trying to keep up with the rapid changes rather than introducing them. (Pearce and Robinson, 2007).

According to Porter, a firm pursuing the same strategy directed to the same target market constitutes a strategic group. The firm that carries out that strategy best will make the most profits.

Mintzberg et al (2003), outlines three strategic approaches as follows:

Positioning the Company

This is the first approach and takes the structure of the industry as given and matches the company's strengths and weaknesses to it. Strategy can be viewed as building defenses from which the key drivers of change can be identified and these usually differ from sector to sector. These environments will have a different impact from one organization to another. If the future environment is likely to be very different from the past it is helpful to construct scenarios of possible futures. This helps managers consider how strategies might need to change depending on the different ways in which the business environment might change.

The next layer within the broad general environment is called an industry or a sector. This is a group of organizations producing the same products of services. Porter's five forces framework can be useful in understanding how the competitive dynamics within and around an industry are changing.

The last and most immediate layer of the environment is the operating or task environment which consists of competitors and markets. Within most industries or sectors there are many different organizations with different characteristics and competing on different bases. The concept of strategic groups can help with the identification of both direct and indirect competitors. Similarly customers' expectations are not all the same. They have a range of different requirements the importance of which can be understood through the concepts of market segments and critical success factors.

Strategic management scholars generally view environmental scanning as a prerequisite for formulating effective business strategies. Moreover, effective scanning of the environment is seen as necessary to the successful alignment of competitive strategies with environmental requirements and the achievement of outstanding performance.

According to Johnson, Scholes and Whittington (2005), managers can make sense of an uncertain world around their organizations commonly referred to as the business environment. However, this can be difficult for several reasons. First, the environment encapsulates many different influences, which make it difficult to make sense of the diversity. Second is the problem of complexity, which arises because many of the separate issues in the business environment are interconnected. Finally there is the issue of the speed of change. Many managers feel that the pace of technological change and speed of global communications mean more and faster change now than ever before.

There are many pressures on the business community; environmental pressures are now considered equally as important as any other pressure such as financial and operational. Therefore, managers are expected to become more environmentally responsible and conscious (Montaben, 2000). However, Kappler and Moore (1999) argued that the focus on the environmental impact of the company is a reactive response to increased general environmental concern rather than a proactive approach to environmental problems.

Sociological research on business organizations has identified several strategic responses to environmental challenges (Alexander, 1985). Their responses range from conforming with external rules and regulations to proactively shaping the environment.

Ansoff and Mc Donnel (1990) further argue that it is no longer possible to devise a single prescription for response to challenges, which would apply to industries and all firms. Therefore the first step in strategic management is to perform a strategic diagnosis that identifies the type of strategic aggressiveness and organizational responsiveness a particular firm needs to develop in order to meet the future challenges of its environment.

Ansoff and Mc Donnel (1990) further propose that firms adapt internally to strategic postures ranging from efficiency-orientation to market-focused orientation. These two strategic postures provide a rather parsimonious approach for mapping competitive dynamics of an industry and concurrent strategic adaptations. Although these strategic postures can be used in any environment, the effectiveness of the strategy will be dependent on the alignment of the strategic posture with the appropriate environment. Firms that perceive their environment as more dynamic and unpredictable should pursue a market focused strategy, which is typically supported by heavy investment in research, product or service design, and marketing. Uncertainty demands a market-focused strategy in order to keep "offerings relevant and attractive in a changing setting".

On the other hand firms that perceive their environment, as relatively stable should pursue an efficiency-oriented strategy that emphasizes cost control. This strategy involves "the construction services commonly offered". "The cost of adapting to an uncertain environment is less likely to be recouped in a stable environment where product and service offering, as well as the method of doing business, do not require change". (Ansoff and Mc Donnel, 1990)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research design adopted was descriptive survey to assist the researcher to identify the strategic responses used by the SMEs. This research design was appropriate for the study as it was concerned with specific predictions, narration of facts and characteristics concerning an individual, group or situation (Kothari, 2004). Using the method, we were able to develop graphs and pie charts according to the responses that we got from the respondents within the SME sector.

3.2 Population

The study population comprised of all SMEs with formal premises registered with the Nairobi City Council operating within the NCBD. The Nairobi City Council has registered over 50,000 SMEs operating within the NCBD (NCC, 2007).

3.3 Sample size and selection

A convenient sample of 200 SMEs was studied. The sample was selected from the list of registered businesses operating within the NCBD obtained from the Nairobi City Council. In order to carry out a scientific study, every 250th business on the list was selected as a respondent until the desired 200 respondents are selected.

3.4 Data collection

The main source of data was primary data. The primary data collection instrument was a structured questionnaire with both open and close ended questions developed by the researcher. The structured questionnaire was administered through personal interviews with the business owners or those in charge of the businesses.

3.5 Data analysis

The data collected was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the objective of the study. Percentages revealed the proportions of different attributes being studied for relative comparison. Rank ordering helped the researcher to rank different attributes /variables in order of their representation to address the objectives of the study. Mean scores, rating scales such as likert scales were to be used to analyze the data collected.

CHAPTER FOUR: RESULTS AND FINDINGS

4.1 Introduction

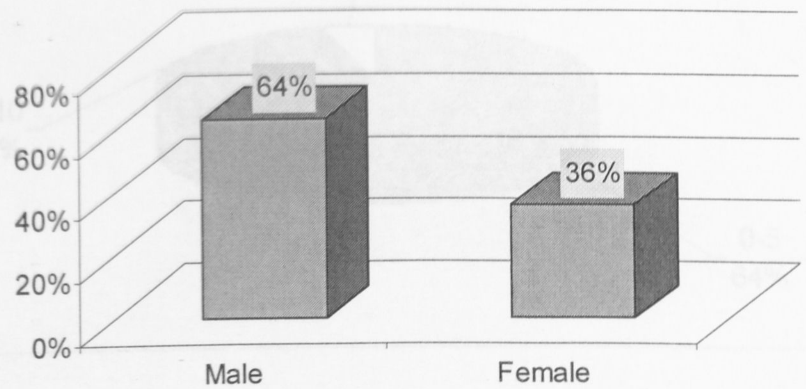
This chapter presents the findings of the study based on data collected from the field. The study sought to identify the strategies adopted by the small and medium sized enterprises (SMEs) operating within the NCBD in the light of a rapidly changing, volatile and highly competitive environment. The study was geared at investigating the strategic responses of the small and medium sized enterprises (SMEs) operating within the NCBD to changes in their operating environment.

4.2 General background information

The survey was targeted at a population sample of 200 Small and Medium Size Enterprises (SMEs) operating within the NCBD but only 106 responded. These SMEs were selected from the list provided by the Nairobi City Council with a population of 50,000. Every 250th Small and Medium Enterprise (SME) on the list was selected for the study. The response rate was therefore 106/200 which was 53% of the target population sample.

4.2.1 Gender of the respondents

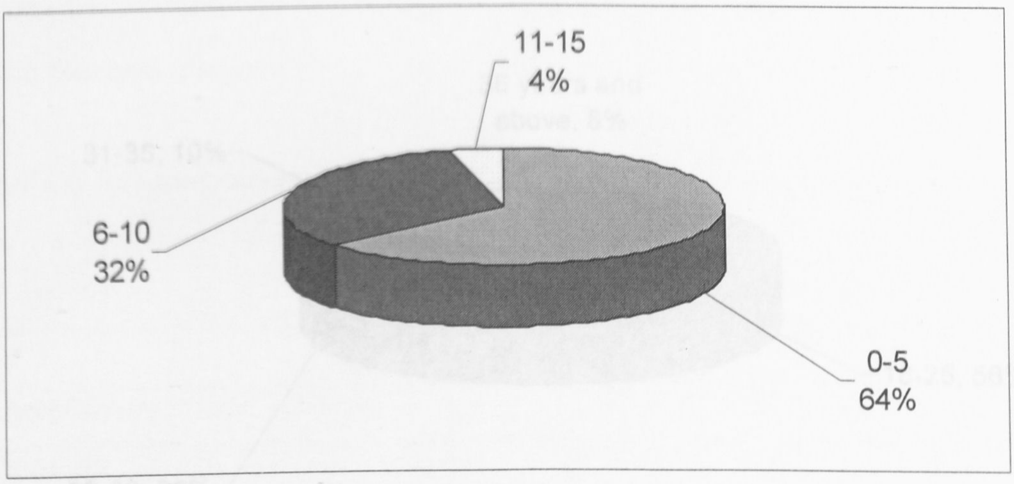
Chart 1: Gender



The respondents covered in the survey were both male and female with the majority being male (64%) and female being 36%

4.2.2 Number of years in operation

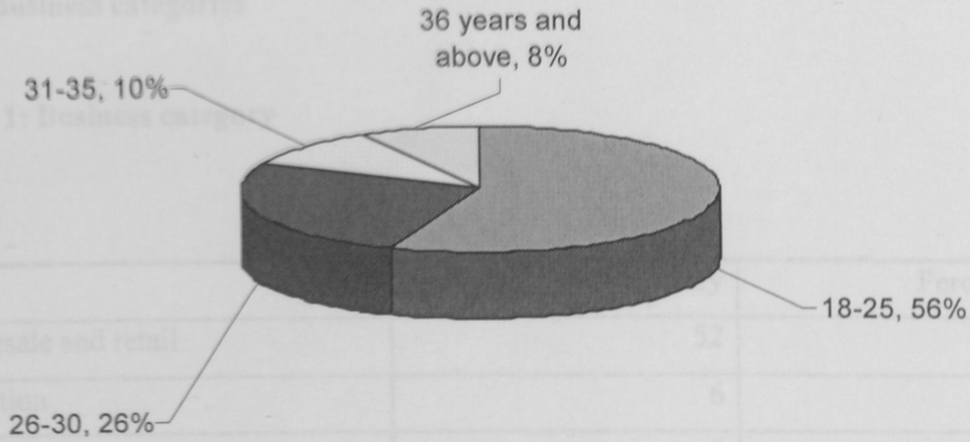
Chart 2: Number of years the businesses had been operational



Most of the businesses captured in the survey had been in operation for a period of between 0 and 5 years. These formed 64% of the businesses covered while those that had been operational for 6-10 years followed with a 32% share. A paltry 4% had operated for a period of between 11 and 15 years.

4.2.3 Age of the business operators

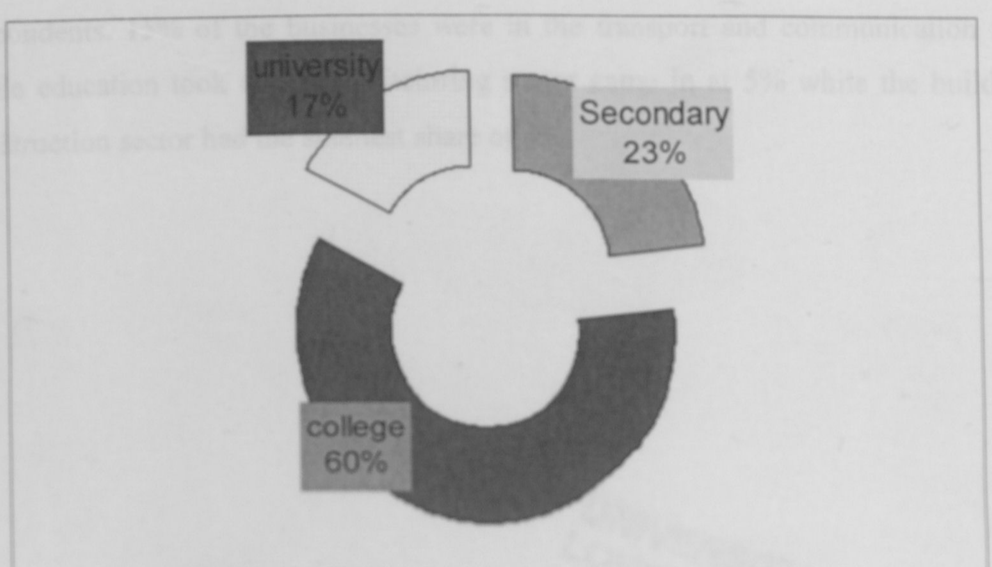
Chart 3: Respondents' age



Most of the respondents/ business operators captured in the survey were aged between 18 and 25 years where they formed 56% of the whole sample. 26% of the business operators were aged between 26 and 30 years while those aged between 31 and 35 years formed 10% of the respondents. Only 8% of the business operators were above 36 years.

4.2.4 Education level of the respondents

Chart 4: Education level



Business operators with college level of education formed the majority of all the respondents (60%) captured in the survey while those who had university level education formed 17% of the survey respondents. Those with secondary level education formed 23% of all the respondents in the survey.

4.2.5 Business categories

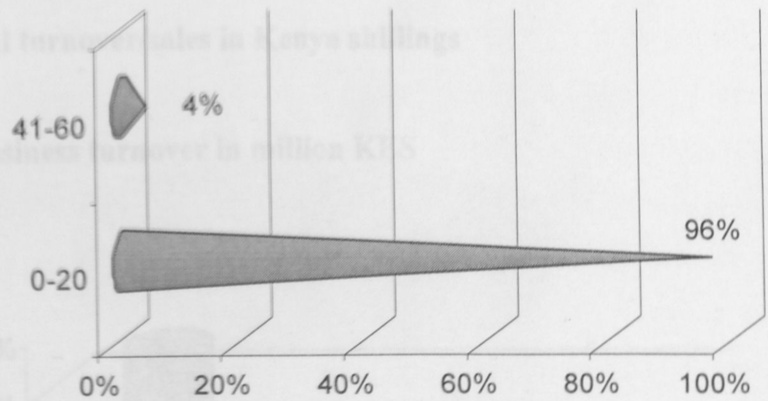
Table 1: Business category

	Frequency	Percentage
Wholesale and retail	52	49%
Education	6	6%
Manufacturing	5	5%
Building and Construction	4	4%
Transport and communication	17	15%
Service	22	21%
Total	106	100%

According to the results of the survey, most of the businesses were in the wholesale and retail sector (49%) followed by those in service sector which formed 21% of the respondents. 15% of the businesses were in the transport and communication industry while education took 6%. Manufacturing sector came in at 5% while the building and construction sector had the smallest share of 4%.

4.2.6 Employees in the business

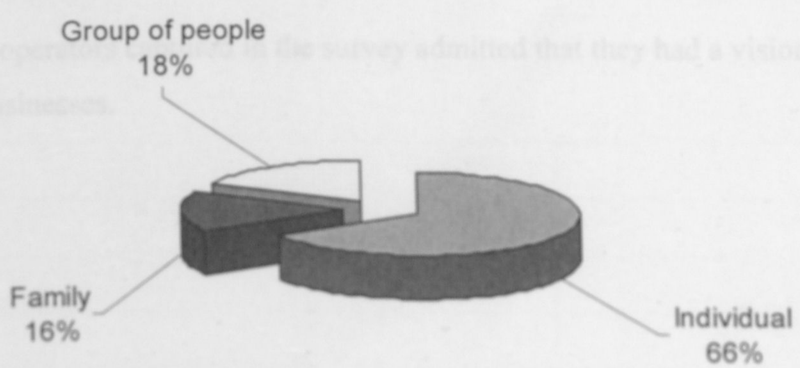
Chart 5: Number of workers employed



Most of the businesses covered in the survey had 20 or less than 20 employees. This is as shown above where they took the biggest share of 96% while the rest had between 41 and 60 employees.

4.2.7 Ownership structure

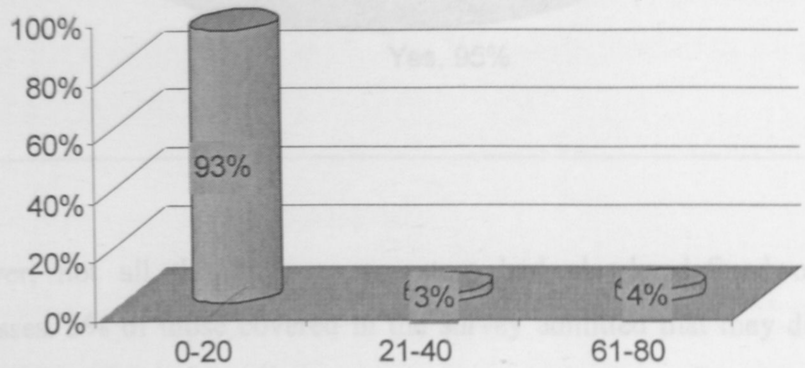
Chart 6: Type of ownership



Most of the businesses covered in the survey had sole proprietorship kind of ownership. These formed 66% of all the businesses covered in the survey. Businesses owned by groups of people formed 18% of all those captured in the survey while family owned businesses formed 16%.

4.2.8 Annual turnover/sales in Kenya shillings

Chart 7: Business turnover in million KES



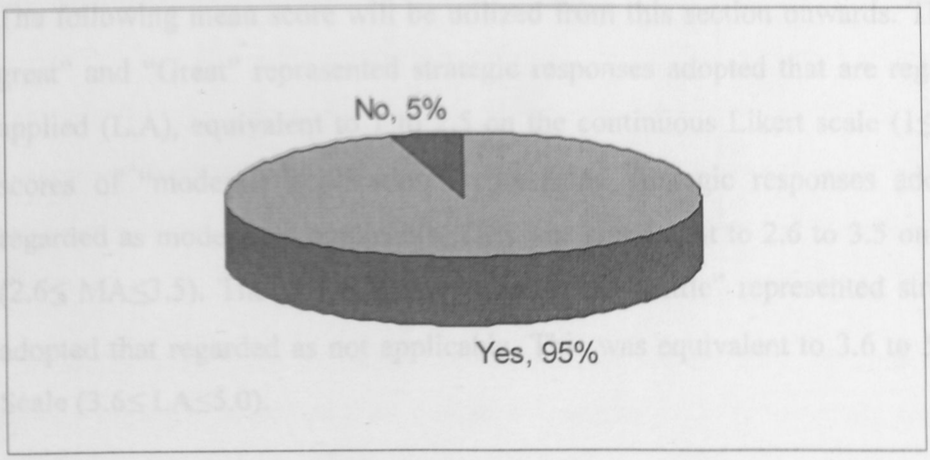
4.3 Strategic responses adopted

4.3.1 Business Vision

All the business operators captured in the survey admitted that they had a vision for the future of their businesses.

4.3.2 Business objectives

Chart 8: Business objectives



However, not all the business operators had clearly defined objectives for their businesses. 5% of those covered in the survey admitted that they didn't have a clearly defined vision for their businesses.

4.3.3 Competition in the industry

Table 2: Competition

Competition	Frequency	Percentage
strong	53	50%
Very strong	38	36%
Hyper	15	14%
Total	106	100%

Competition in the respective business areas was described as weak, strong, very strong or hyper. Most of the businesses faced strong competition (50%) while those that faced very strong competition formed 36% and those that faced hyper competition formed 14% of the businesses covered.

The following mean score will be utilized from this section onwards. The scores "Very great" and "Great" represented strategic responses adopted that are regarded as largely applied (L.A), equivalent to 1 to 2.5 on the continuous Likert scale (1≤ NA≤ 2.5). The scores of "moderate application" represented strategic responses adopted that were regarded as moderately applicable. This was equivalent to 2.6 to 3.5 on the Likert scale (2.6≤ MA≤3.5). The score of "Not at all" and "Little" represented strategic responses adopted that regarded as not applicable. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6≤ LA≤5.0).

Table 3: Strategic responses adopted

	Mean	Std. Deviation
Customer service	1.59	.788
Speed strategy	1.73	.647
Product differentiation	2.31	.987
Being low cost leaders	2.36	.841

According to the results of the survey, all the strategic responses that were under investigation had means of between 1.59 and 2.31. These are largely applicable to the businesses under investigation.

4.3.4 Review of business strategies

Table 4: Regular review of business strategies

	Frequency	Percentage
Yes	103	97%
No	3	3%
Total	106	100%

As can be seen from the table above, most of the business operators captured in the survey regularly reviewed their business strategies in order to remain competitive in their respective areas of operation.

The frequency of reviewing the business strategies however varied per business. Table 5 represents the various periods within which business operators reviewed their business operations.

Table 5: Frequency of reviewing strategies

	Frequency	Percentage
Once a month	40	39%
After 2-3 months	30	29%
Mid of the year	15	15%
End of year	18	17%
Total	103	100%

Most of the businesses reviewed their business strategies on a monthly basis (39%) while

29% of them reviewed their business strategies after 2-3 months. 17% reviewed their strategies at the end of the year and 15% at the middle of the year.

4.3.5 Effect of post election violence on businesses

Table 6: Post election violence and its effect on businesses

	Frequency	Percentage
Very great	41	39.8%
Great	40	38.8%
Moderate	16	15.5%
Little	6	5.8%
Total	103	100%

The post election violence had a 'very great' effect on 39.8% of all the businesses covered in the survey. The effect was 'great' on 38.8% of all the businesses and 'moderate' on 15.5% of businesses. The post election violence had 'little' effect on 5.8% of the businesses covered in the survey.

4.3.6 Review of operating strategies after the post election violence

Table 7: Review of strategies after post election violence

	Mean	Std. Deviation
Customer Service	1.57	.680
Speed strategy	2.12	.844
Being a low cost leader	2.46	.886
Product review after PE violence	2.47	1.097

Customer service topped the list of the business strategies reviewed after the post election violence since it had a mean score of 1.57 qualifying to be largely applicable. All these strategies were largely applicable since their mean scores were between 1 and 2.5.

After the changes displayed in the table above were effected, most of the business operators noticed significant changes in their businesses in the following ways:

- High placement in the industry
- Increased sales and consequently profitability
- Increase in customers/clients

4.4 Business operating environment

4.4.1 Factors influencing competitiveness in the industry

Table 8: Factors influencing competitiveness in the industry

	Mean	Std. Deviation
Access to credit facilities from finance institutions as banks	2.91	.981
Credit from suppliers	3.09	1.269
Access to insurance facilities	3.15	1.052

The most applicable factor cited as very essential in the survival of businesses was access to credit facilities from financial institutions since it had a mean score of 2.91 while credits from suppliers and access to insurance facilities were the least applicable influencing factors.

4.4.2 Factors affecting business operations

Business operations in Kenya are affected by several factors being political and legal, economic, social, technological and environmental.

Table 9: Factors affecting business operations

	Mean	Std. Deviation
Economic factors	2.00	.816
Technological factors	2.15	.861
Political and legal factors	2.16	.982
Social factors	2.69	.897
Environmental factors	2.95	.922

According to the survey findings, the most significant factors affecting business operations in Kenya are economic. This is true because the mean score was 2 and according to our scale this falls in the middle of the range i.e. 1-5. Technological factors were also moderately significant with a mean score of 2.15 while the least significant contributing factors were environmental.

4.4.3 Challenges currently facing businesses

All the respondents in the survey admitted that their businesses experienced challenges in their operations citing these as displayed in the table below

Table 10: Challenges currently facing businesses

	Frequency	Percentage
Inadequate access to financial, Inadequate access to skills and technology	18	17.4
Inadequate access to skills and technology	3	2.9
Limited access to financial services	6	5.8
Limited access to information	13	12.6
Post Election Instability	17	16.6
Unfavourable policies	15	14.6
Unfavourable policies, Poor access to infrastructure	3	2.9
unfavourable policies, Post Elections instability,	8	7.8
unfavourable policies, Post Elections instability, Inadequate access to skills	20	19.4
Total	103	100

Most respondents were of the opinion that the challenges that they currently faced and mostly affected their businesses were unfavourable policies, post election instability and inadequate access to skills all combined in one package where it had a representation of 19.4% followed by inadequate access to financial and inadequate access to skills and technology which came in second with a 17.4% representation. Political instability was also a major challenge since it had a 16.6% representation.

Out of the 106 respondents, 3 did not answer this particular question and hence the 103 respondents.

4.4.4 Future of businesses

Table 11: Business future

	Frequency	Percentage
Going regional	6	9.83
Growth	6	9.83
Moderately promising	3	4.9
Preferred Business of choice	3	4.9
Promising future	43	70.4
Total	61	100

Most business operators described the future of their businesses as promising (70.4%) while 9.83% anticipated going regional in future. A similar percentage anticipated growth of their businesses while 4.9% were striving to be the preferred business of choice and the remaining 4.9% were a little pessimistic saying that their businesses were moderately promising.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section of the research provides a discussion on the findings of the study, the conclusions of the study and the recommendations.

The survey was targeted at a population sample of 200 small and medium size enterprises but only 106 responded. The response rate was therefore 106/200 which was 53% of the target population sample.

Most business operators were male and the age bracket for the businessmen/women was below 30 years with the greatest majority being at the age of between 18 and 25 years. It was also observed that most of the business operators had attained tertiary level of education with most being college graduates. The businesses covered were young in the sense that they had been in operation for less than five years. Wholesale and retail businesses form the majority of SMEs followed by service industry. These had less than twenty employees and the type of ownership was mostly sole proprietorship. Turnover in sales was below twenty million Kenya shillings for most businesses.

5.2 Strategic responses

All the business operators captured in the survey admitted that they had a vision for the future of their businesses. However, not all the business operators had clearly defined objectives for their businesses. Most of the businesses faced strong competition and in order to remain profitable they had to adopt strategic responses. These varied from product differentiation, pricing wars, speed of service delivery and customer service. All these were largely applied but customer service and speed of service delivery being the most significant and common strategy adopted. Most of the business operators captured in the survey regularly reviewed their business strategies in order to remain competitive in their respective areas of operation. The frequency of reviewing the business strategies however varied per business but most reviewed their business strategies on a monthly basis.

The post election violence had negative effects on most of the businesses covered in the survey where most complained of reduced customer numbers and business closure during the post election crisis; this led to reduced profits. After the post election violence, most of the business operators went back to the drawing board and reviewed their strategies so that they could remain relevant in their industry. Customer service topped the list of the business strategies reviewed after the post election violence but product differentiation, pricing wars and speed of service delivery were also very applicable. After effecting these changes, most of the business operators noticed significant changes in their businesses in the following ways:

- High placement in the industry
- Increased sales and consequently profitability
- Increase in customers/clients

5.3 Business operating environment

The survey sought to investigate the factors that made businessmen remain competitive in their areas of operation. The factors that were under investigation were access to credit facilities from financial institutions such as banks, access to insurance facilities and credit from suppliers. The most applicable factor cited as very essential in the survival of businesses was access to credit facilities from financial institutions. Access to insurance facilities was not a bother to the business operators and credit from suppliers was also not very applicable in business operations.

Political and legal factors (political stability and taxation), economic factors (business cycles, interest rates, and inflation), social factors (beliefs, values, attitudes and lifestyles of persons), technological factors (innovation and improvement of products and techniques) and environmental factors (global warming and pollution) were also under investigation in the survey. According to the survey findings, the most significant factors affecting business operations in Kenya are economic in nature such as business cycles, interest rates and inflation.

Technological factors which include innovation and improvement of products and techniques were also moderately significant but environmental factors such as global warming and pollution were of little concern to business operators. The challenges that were currently facing businesses were unfavourable policies, post elections instability, limited access to financial services, inadequate access to skills and technology, poor infrastructure, limited access to information, unsatisfactory health and safety standards and HIV/AIDS pandemic. Of these, unfavourable policies, post elections instability and inadequate access to skills were the most challenging. The impact of HIV/AIDS pandemic was not mentioned as a concern to the business operators.

Most business operators described the future of their businesses as promising while others anticipated going regional in future. A good percentage anticipated growth of their businesses to be the preferred business of choice and a few were a little pessimistic saying that their businesses were moderately promising.

5.4 Conclusion

SMEs in Kenya are sole proprietorships and are mostly operated by young people who have at least a secondary level of education and in most cases college education. These businesses have a turnover which is below twenty million Kenya shillings and less than twenty employees. Most of these businesses deal with fast moving consumer goods both in retail or wholesale. The other area of operation that was also very significant is the service industry. Most businesses have a clearly defined vision for their future and prior set objectives. Competition is very strong in all the areas of operation.

The strategies adopted in order to have a competitive edge are product differentiation, price wars, speed of service delivery and customer service. Most of the business operators regularly review their business strategies in order to remain competitive in their respective areas of operation. Access to credit facilities from financial institutions such as banks and economic factors such as business cycles, interest rates and inflation are the most significant factors influencing business operations in Kenya. The challenges that are currently facing businesses are unfavourable policies, post elections instability and limited access to financial services.

5.5 Recommendations

The recommendations are as follows:

To start with, there should be education for SME operators on the need to have innovation in their businesses in order to sustain their businesses and have robust growth. Secondly, the government should evaluate its policies to ensure that the SMEs enjoy some privileges to foster this sector of the economy.

Thirdly, measurers should be put in place to contain economic issues such as inflation and cost of doing business in Kenya. Fourthly, there should be political will to promote peace and political stability in the country so that the country does not experience a repeat of civil unrest as the one seen after 2007 general elections. Finally, there should be provision of credit facilities tailor-made for the SMEs sector.

5.6 Further studies

The following are some of the suggestions for further studies:

An investigation should be done on the challenges faced by the SMEs and the government's role in their existence. In addition a survey should be carried out to investigate whether business operators in the SME sector have adequate business training and skills required to run their businesses. Finally further research can be done to investigate the challenges faced by SMEs in their quest to access credit from financial institutions.

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APPENDIX (1): Questionnaire

SECTION ONE: GENERAL BACKGROUND INFORMATION

1. What is the name of the business? (Optional) --

2. Title of the respondent --

3. Number of years in operation

- 0-5 [ ] 6-10 [ ] 11-15 [ ] 16-20 [ ] Over 21 [ ]

4. What is your Gender?

- Male [ ]
- Female [ ]

5. Select the appropriate age bracket

- 18-25 yrs [ ] 26-30 yrs [ ] 31-35 yrs [ ] 36 yrs and above [ ]

6. Your level of education

Secondary [ ]	University [ ]
College [ ]	Others [ ]

7. Business category

Wholesale and Retail	[ ]	Manufacturing	[ ]
Hospitality	[ ]	Building and Construction	[ ]
Education	[ ]	Transport & Communication	[ ]
Clearing and forwarding	[ ]	others (Specify) --------------------	

8. Number of workers employed

- 0-20 [ ] 21-40[ ] 41-60 [ ] 61-80 [ ] 81-100 [ ]

9. Type of Ownership

- Individual [ ] Family [ ] Group of people [ ]

10. Annual Turnover/Sales in Kenya Shillings

- 0-20 million [ ] 21-40million [ ] 41-60million [ ] 61-80million [ ]
  81million and above [ ]

SECTION TWO: STRATEGIC RESPONSES ADOPTED

11. Does your business have a vision for the future?

Yes [ ] No [ ]

12. Do you have any set objectives for your business?

Yes [ ] No [ ]

13. How do you describe competition in your industry?

a) Weak competition [ ]

b) Strong competition [ ]

c) Very strong competition [ ]

d) Hyper competition [ ]

14. Product differentiation (Having different products for different customers)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

15. Being low cost leaders (Quoting reasonable prices to customers)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

16. Speed Strategy (Meeting customers' needs much faster than competitors)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

17. Customer service (Customer value, customer care, brand image, communication)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

18. Do you regularly review your strategies?

- Yes [ ]   No [ ]

19. If yes, how often?

Once a month [ ]   after 2-3 months [ ]

Mid of the year [ ]   End of the year [ ]

Never at all [ ]

20. To what extent was your business affected by the Post election violence?

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

21. To what extent did you review the following strategies after the post election violence?

✓ Product differentiation

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ Being a low cost leader

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ Speed strategy

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ Customer Service

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

22. What effect did the change of above strategy have on your business in terms of profitability and market positioning compared with competitors?

____

____

____

____

SECTION THREE: THE ENVIRONMENT

23. Please indicate other factors that make you remain competitive in your industry

✓ Access to credit facilities from financial institution such as banks

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ Access to Insurance facilities

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ Credit from Suppliers

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

24. To what extent do the following factors affect the operations of your business?

✓ **Political and Legal factors** (Political stability and taxation policy)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ **Economic Factors** (business cycles, interest rates, inflation)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ **Social Factors** (beliefs, values, attitudes and lifestyles of persons)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ **Technological Factors** (Innovation and improvement of products and techniques)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

✓ **Environmental Factors** (global warming and pollution)

1	2	3	4	5
Very great	Great	Moderate	Little	Not at all
☐	☐	☐	☐	☐

25. Are there any challenges currently facing your business?

- Yes [ ]   No [ ]

26. If yes, kindly indicate the challenges (tick appropriately)

Unfavourable policies [ ]

Post election instability [ ]

Limited Access to financial services [ ]

Inadequate Access to skills and technology [ ]

Poor access to infrastructure [ ]

Limited Access to information [ ]

Unsatisfactory Health and safety standards [ ]

Impact of HIV/AIDS pandemic [ ]

Others--

27. In your own words, please comment on the future of your business.

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