STRATEGIC MANAGEMENT PRACTICES IN SMALL AND MEDIUM ENTERPRISES AT KARIOBANGI LIGHT INDUSTRIES, NAIROBI

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DECLARATION

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

Student's signature.. Date..23.09.2011.....

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

Signature .... Date.....27/9/2011.....

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DEDICATION

This work is dedicated to my late brother, James. God knows the reason. You will forever be in our hearts.

ABSTRACT

Strategic Management is a relatively new concept in management. Its relevance has gained currency with increased competition among industry players where firms aim at gaining competitive advantage over rivals in order to remain viable over the long-term. There is however no uniformly agreed approach to strategic management amongst different firms. Each organization should develop and implement its own management concepts bearing in mind its unique situation to be able to handle its strategic decisions. This study sought to determine the strategic management practices as applied by SMEs at Kariobangi Light Industries and also sought to determine the factors that influenced the choice of strategies applied by these firms.

The study relied entirely on primary data which was collected through structured questionnaires with both closed and open-ended questions and personal interviews which enabled the researcher to freely interact with respondents and gain their confidence. This was necessary to remove any suspicions that the respondents might have had given the stiff competition in the area surveyed. Data was then coded and analysed on excel sheets and presented on tables to determine frequencies and percentages.

Although most of the firms surveyed did not have any formal strategic management mechanisms, they practised strategic management in their day to day running including investment in right personnel and skills, use of appropriate technology, focus strategy, reaction to competitor actions, maintaining good terms with creditors and suppliers and ensuring customer loyalty. In settling on the strategies, most firms considered such factors such as availability of resources, need to block new entrants, customer needs, availability of substitutes and social, political and environmental factors.

Successful implementation of strategies requires investment in resources. Firms should diversify their sources of resources through such means as forming partnerships and credit unions. They should also organise themselves into a powerful group to lobby for favourable considerations during formulation of policies and legislations.

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CHAPTER ONE: INTRODUCTION

1.1 Background

There is no universal approach to strategic management. Organisations practise it in different ways. Every organization, regardless of size and nature should develop and implement its own management concepts in order for it to run smoothly and allow it to handle its strategic, tactical and operational decisions. There are both internal and external factors that constantly affect a company's decision making process. Depending on the circumstances, these factors may cause a company to adjust its course of action in accomplishing certain goals through a process known as strategic management (Rane, 2007).

1.1.1 Strategic Management

Strategic management is the process by which managers identify and implement their organisation's strategy. Strategy is a plan of action stating how an organisation will achieve its long-term objective (Burnes, 2004). Mintzeberg and Quinn (1991) define strategy as the pattern or plan that integrates an organisation's major goals, policies and action sequence into a cohesive whole.

Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy regularly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment (Lamb, 1984).

The Strategic Management process is made up of various steps namely; developing a strategic mission, setting objectives, situation analysis, developing a strategy, strategy implementation and evaluation. The strategic management process is dynamic and continuous. A change in one component can necessitate a change in the entire strategy. As such, the process must be repeated frequently in order to adapt the strategy to environmental changes. Throughout the process the firm may need to cycle back to a previous stage and make adjustments (Internet Centre for Management and Business Administration, 2002-2010).

The firm's external environment consists of interrelated sets of factors that play a principle role in determining the opportunities, threats and constraints that the firm faces. Remote environment comprises factors originating beyond and usually irrespective of any single firm's operating situation like economic, social, political, technological and ecological. Industry environment factors include entry barriers, competitive rivalry, availability of substitutes, and bargaining power of buyers and suppliers. Operating environment comprises factors that influence a firm's immediate competitive position, customer profiles, suppliers, creditors and the labour market (Pearce & Robinson, 2007).

Strategic management entails three main elements. It includes understanding the strategic position of an organization, making strategic choices for the future and managing strategy in action. Understanding the strategic position is concerned with identifying the impact on strategy of the external environment comprising of political, economic, social and technological which helps evaluate the opportunities and threats; the organizations strategic capability in terms of resources and competence through consideration of an organisation's strengths and weaknesses; and expectations and influences of stakeholders on an organisation's purpose. Making strategic choices involves understanding the underlying bases for future strategy at both the business unit and corporate levels and the options for developing strategy in terms of both directions and methods of development.

Managing strategy in action is concerned with ensuring that chosen strategies are actually put into action through the development of appropriate strategies, structuring an organization to support successful performance, resourcing strategies in the separate resource areas and managing strategic change (Johnson, Scholes & Whittington, 2008).

1.1.2 Small and Medium Enterprises

SMEs are defined differently from country to country. There is however unanimity on the variables that are considered in determining whether a business falls in the category of SMEs namely; the number of employees and turnover levels. The Kenya Micro, Small and Medium Enterprises bill (2009) defines small and medium enterprise as a business in both the formal and informal sector that is carried on with between 10 and 100 employees and that has an annual turnover of between Ksh. 500,000 and Ksh. 800,000,000. This definition will be adopted for the purpose of this study.

There are over 1.6 million registered SMEs in Kenya, found in virtually every sector of the economy and employing 5.1 million people or 75% of the total labour force. SMEs account for a significant share of production and are therefore directly linked to poverty alleviation. Income generated by SMEs in Kenya accounts for 20% of the Gross Domestic Product (GDP) (Onyango, 2010). SMEs have assumed greater prominence in Nairobi due to decline in employment levels within the formal sector due to business closures and retrenchments since the year 2000. Currently there are plans to allow SMEs to list in the Nairobi Stock Exchange for ease in accessing capital. A bigger proportion of SMEs (over 50,000) in Nairobi operate within the Central Business District (P. Mathenge, 2008).

The government of Kenya has progressively adopted an approach of partnering with the SMEs to achieve its economic objectives. Its first step towards recognizing the place of

SMEs in the economy was the publication of Sessional paper no. 1 of 1986 on 'Economic Management for Renewed Growth' which recognised small enterprises as a primary means of strengthening Kenya's economy. This was followed by Sessional paper no. 2 of 1992 on 'Small Enterprises and Jua Kali Development' in which it emphasised the need to create an enabling environment through appropriate legal and regulatory framework and putting in place support and facilitative measures to promote growth of the sector. It subsequently developed Sessional Paper no. 2 of 2005 on 'Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction'. In the budget estimates for 2010-2011, the government allocated Ksh3.8bn to a revolving fund charged with extending credit facilities to 8.2m Kenyans engaged in the informal sector through SMEs. Other similar initiatives include the Women and Youth Funds. The Kenya Micro, Small and Medium Enterprises bill (2009) that is pending in parliament seeks to regulate the operations of SMEs in Kenya.

Sessional paper no. 2 of 1992 on 'Small Enterprises and Jua Kali development' identified the benefits of SMEs to the country's economy as among others; increased output of goods and services, creation of jobs at low capital cost, development of a pool of skilled and semi-skilled workers, creation of demand and supply for goods and services, participation of indigenous people in economic activities and increase of savings and investments.

Various authorities have identified the challenges to the development of the SMEs sector in Kenya. Many of these challenges are strategic in nature in that they affect the long-term competitive position of the SMEs and limit their competences. Many SMEs owners or managers lack managerial training and experience. Lack of access to credit affects technology choice by limiting the number of alternatives that can be considered. The national policy and regulatory environment has an important impact on technology decisions at the enterprise level. SMEs bear the biggest political risks due to their lack of bargaining powers. While big corporations have successfully lobbied the government to factor their concerns in the formulation of government policies, most SMEs entirely depend on the goodwill of the government for favourable policies. Poor infrastructures pose a major challenge to small enterprises in Kenya. Lack of sufficient market information poses a great challenge to small enterprises (Wanjohi & Mugure, 2008).

The absence of formal strategic management in most SMEs is brought about by centrality of the owner/manager, highly turbulent environment in which SMEs operate, rigidity of formal systems, limited time on planning, inexperience on the part of owner/manager, lack of openness and fear of failure (Carter & Evans, 2006). The government of Kenya's Sessional Paper no. 2 of 2005 on 'Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction' summarised the challenges faced by SMEs as 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 infrastructure, inadequate business know-how, competition from large enterprises, limited access to information, gender inequality, impact of HIV/AIDS pandemic, unsatisfactory occupational health and safety standards.

1.1.3 Overview of SMEs at Kariobangi Light Industries

Development of SMEs at Kariobangi Light Industries dates back to the 1980s, when workers of formal-sector factories started losing jobs due to Structural Adjustment Programmes (SAPs). The government of Kenya designated the area as such in 1989.

There are a total of 160 firms within the Kariobangi Light Industries involved in various activities including manufacture of animal feeds, footballs, soaps, detergents, roof washers and shoe polish: mixing and repackaging of paints, ink, beauty products and insecticides; fabrication of metal products; flour milling; casting or machining of metal parts; engineering works; workshops; baking; servicing of posho mills; recycling among others (Nairobi City Council, 2010)

Initially, most of the enterprises concentrated in making similar products with less emphasise on quality due to the low levels of competition. However with time and owing to new entrants and competition, there has been increased focus on best business practices just like in the other sectors of economy (Akoten, 2009).

1.2 Statement of Research Problem

Strategic management helps in understanding the strategic position of an organization and identifying how organisations make strategic choices for the future and manage strategy in action. An organization needs to understand its strategic position through identifying the impact on strategy of the external environment, understand its strategic capability in terms of resources and competence through consideration of its strengths and weaknesses and understand the expectations and influences of stakeholders on its purpose. Transient competitiveness, shortening business lifecycles, competition, and high uncertainty are characteristic of business volatility. Responding strategically to these circumstances calls for identification of the firm's direction and scope over the longterm to ensure it achieves advantage in a changing environment through configuration of its resources and competences with the aim of fulfilling stakeholder expectations (Johnson et al. 2008).

Employing strategic management is critical to the creation of an SME's competitive advantage. SMEs must establish a unique image in the minds of potential customers. Strategic management comes naturally to SMEs than to large companies because owners/managers are usually in close contact with their market, giving them valuable knowledge of how to best serve their customer needs (Scarborough & Zimmerer, 1996).

It is important for SMEs to reposition themselves for competition hence the need to develop strategic objectives. The achievement of an SME's objectives will largely depend on the way it enhances its internal strengths, exploits external opportunities, manages internal weaknesses and controls threats. Formal strategic management will assist small businesses in: acquisition of external financial support, making a choice of the best way to respond to market dynamics, identifying key results areas, consideration of the various available alternatives and as a tool of communicating and controlling business factors of production. It also aids in better internal management and staff development as well as instilling better financial management practices (Carter & Jones-Evans, 2006).

There have been previous studies on SMEs. Bowen (1998) identified risk as a constraint to a micro enterprise growth, while Maru (2004) established that organisations apply change in organisational structure, change in funding and change in information systems. Gichohi (2007) found out that most employed differentiation with minimal use of cost and focus strategies. Kawino (2007) established that strategic thought was found among proprietors in identification and choice of an opportunity to be exploited by an entrepreneur. Among strategies applied were networking and flexibility. Wanjohi and Mugure (2008) found out that strategies adopted by SMEs are price wars, product differentiation, speed of service delivery and customer service. Wacuka (2008) established that most firms employed price competitiveness, good quality and marketing by friends. Mathenge (2008) identified the patterns of diversification in SMEs. McCormick (1988) identified the contribution of SMEs to the economy. Although the above studies dealt on various aspects of SMEs, there are no generally accepted strategic management practices hence different firms apply strategic management in ways that reflect their unique environments. This study sought answers to the following: What is the nature of Strategic Management practices as applied by SMEs at Kariobangi Light Industries? What factors influence strategic management practices in SMEs?

1.3 Research Objective

This study sought to;

i. Establish the strategic management practices as applied by SMEs at Kariobangi Light Industries,

ii. Determine the factors that influence strategic management practices in SMEs at Kariobangi Light Industries.

1.4 Significance of the Study

This study will be useful to the following stakeholders:

SMEs operators will be able to develop their strategies based on their needs and competences. They will be able to learn from tested strategies that have been successfully applied by other operators.

Academicians and Researchers will gain from the additions to the already existing body of knowledge. There are many researches on SMEs but this one provides a holistic approach to strategic management in SMEs.

Government agencies will benefit from the results in determining how future policies could be formulated to successfully impact on this sector. Policies need to be long-term and focus on market dynamics. Any policies made should develop the SMEs further and provide needed motivation.

Potential investors in the sector will learn the dynamics of the business before committing their capital. They will be in a position to carry out objective environmental analysis (strengths, weaknesses, opportunities and threats- SWOT analysis) and determine where they fit in the market.

Financial institutions will be able to gauge the long-term sustainability of the firms in assessing their financing needs. The study provides information on market volatility, long-term prospects of the SMEs, and general management practices that help to determine the success of SMEs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategy

Strategic management is the process by which managers identify and implement their organisation's strategy. Strategy is a plan of action stating how an organisation will achieve its long-term objective (Burnes, 2004). Mintzeberg and Quinn (1991) define strategy as the pattern or plan that integrates an organisation's major goals, policies and action sequence into a cohesive whole. According to Bateman and Zeithaml (1993), strategy is a pattern of actions and resource allocations designed to achieve the goals of an organisation while Ansoff and McDonnel (1990) define strategy as a set of rules for decision making that guide organisation behaviour and which will take the form of objectives, product or business strategy, organisation concept or operating policies.

Strategy entails a guideline to deal with situations (plan), consistency in behaviour (pattern), locating an organisation in an environment (position) and ingrained way of perceiving the world (Perception). A well formulated strategy will help to marshal and allocate a firm's resources into a unique and viable position based on its relative internal competences and shortcomings, anticipated change in the environment and contingent moves by opponents. For effectiveness, strategies should be clear, maintain the initiative to preserve freedom of action, ensure power is concentrated at the right place and time, provide responsible and committed leadership for each major goal and make use of speed, secrecy and intelligence to attack opponents at unexpected times (Mintzberg, Quinn & Ghoshal, 1998).

Strategic management is that set of managerial decisions and actions that determines the long-run performance of a firm. It includes environmental scanning, strategy formulation, strategy implementation and evaluation and control. It emphasises the monitoring and evaluation of external opportunities and threats in light of a firm's strengths and weaknesses. Its advantages include clearer sense of strategic vision for the firm, sharper focus on what is strategically important and improved understanding of a rapidly changing environment. To be effective, strategic management needs to be a formal process (Wheelen & Hunger, 2008).

2.2 Strategic Management Process

Strategic management is a process made up of three main components namely; strategy formulation which entails what to do, strategy implementation which deals with achieving results and strategy evaluation and control.

2.2.1 Strategy Formulation

Formulation entails development of long-range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses. It entails defining corporate mission to express reason for existence, specifying achievable objectives or desired results, developing strategies and setting policy guidelines for decision making (Wheelen & Hunger, 2008).

There are three levels of strategic decision making which must be well managed to achieve any strategic objectives: Corporate level is responsible for determining the businesses in which the firm should be involved, setting objectives and formulating strategies that span the activities and functional areas of these businesses; Business level translates the statements of direction and intent generated at the corporate level into concrete objectives and strategies for individual business divisions; Functional strategic managers address efficiency and effectiveness in operations. They develop short-term objectives and strategies in their respective functional areas (Pearce & Robinson, 2007). Strategic choices involve understanding the underlying bases for future strategy at both the business unit and corporate levels and the options for developing strategy in terms of both the directions and methods of development. At the business unit, decisions involve pricing and differentiation strategies, and decisions about how to compete or collaborate with competitors. At corporate level, decisions are concerned with the scope or breadth of an organisation (Johnson et al., 2008).

There is need for a systematic approach in choosing a strategy to pursue. For each strategy, it is necessary to carry out a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis of a firm's strengths and weaknesses, and the opportunities and threats to be encountered, if that strategy is adopted. The industry analysis is then applied to understand the nature of the industry the firm is operating in. Comparison of the SWOT analyses of the viable strategic options with the results of the industry analysis is done after which the strategy to adopt for each strategic option is identified with the aim to reduce or manage supplier power; reduce or manage buyer/customer power; come out on top of the competitive rivalry; reduce or eliminate the threat of substitution and reduce or eliminate the threat of new entry (Porter, 1985).

SWOT analysis is done to achieve a fit between the internal capability (strengths and weaknesses) and the external situation (opportunities and threats). It involves identification of opportunity and risk, determining a firm's material technical, financial and managerial resources, determining personal values and aspirations of senior management and acknowledgement of non-economic responsibility to society (Mintzberg, Quinn & Ghoshal, 1998).

The essence of formulating a strategy is to relate a company to its environment. The essence of a strategy lies in creating a competitive advantage faster than competitors can minimize the ones possessed today. The goal of competitive strategy is to find a position in the industry where the company can best defend itself against competitive forces or use them in its favour (Porter, 1985).

Competitive strategy is concerned with how a firm competes in a given industry or market. There are two sources of superior performance namely: locating an industry where industry conditions are good enough to allow a rate of return above the competitive level and having a firm attain a position of advantage viz a viz competitors within an industry to allow it to earn a return in excess of industry average. As competition intensifies, very few industry environments can guarantee same returns, hence the primary goal of a strategy is to establish a position of competitive advantage for a firm (Grant, 1998).

Understanding the structure of the industry plays a critical role in the formulation of competitive strategies. An industry is influenced by five forces namely industry rivalry, threat of substitutes, buyer power, supplier power and barriers to entry/threat to entry. Competitive strategy is about offensive or defensive actions to create a defendable position in an industry, to cope successfully with the competitive forces and thereby yield superior returns on investment for the firm.

2.2.2 Strategy Implementation

Strategy implementation is the process by which strategies and policies are put into action through the development of activities needed to accomplish a plan (programs), cost of programs (budgets) and sequence of steps or procedures. Implementation is done mostly by middle and lower level managers and often involves day-to-day decisions in resource allocation. Implementation involves organising for action including aligning the organisation structure, understanding the firm's life cycle, business reengineering and designing jobs. It further calls for staffing, directing and staff development (Wheelen & Hunger, 2008).

Implementation is thus concerned with achieving results through organisation structure and relationships made possible by division of labour, coordination of divided responsibility and effectiveness of information systems. It involves coordination of organisational processes and behaviour through measurements, motivation and incentives system, control systems and recruitment and development of managers (Mintzberg, Quinn & Ghoshal, 1998).

2.2.3 Strategy Evaluation and Control

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with the desired performance. The aim is to use information to take corrective action and resolve problems. It also helps pinpoint weaknesses in previously implemented strategic plans and thus stimulates the entire process to begin again. It encompasses behaviour controls through policies, rules and standard operating procedures, output controls through measurement of end results and input controls through measurement and management of resources (Wheelen & Hunger, 2008).

2.3 Challenges in Adoption of Strategic Management

Business environment is both internal and external. Internal environment consists of a firm's resources and competences. The external environment is divided into three categories namely: Operating/Competitive/Task Environment which comprises of competitors, creditors and suppliers, customers and labour; Industry Environment consisting of entry barriers, supplier power, buyer power, substitute availability and competitive rivalry and Remote/Macro Environment comprising of factors that originate beyond and usually irrespective of any single firm's operating situation such as political, economic, social-cultural, technological, environmental and legal factors (Pearce & Robinson, 2007).

Operating and competing in volatile environments will always be a challenge for companies, regardless of their size or years in operation. Frequent regulatory changes, transient competitiveness, shortening program lifecycles, competition, and high uncertainty are characteristic of business volatility. Responding strategically to these circumstances calls for identification of the firm's direction and scope over the long term to ensure it achieves advantage in a changing environment, through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson et al, 2008).

Managing activities internal to the firm is only part of the modern executive's responsibilities. The modern executive must also respond to the challenges posed by the firm's immediate and remote external environment which includes competitors, suppliers, increasingly scarce resources, government agencies and their ever more numerous regulations, and customers whose preferences often shift inexplicably. All the remote external factors must also be anticipated, monitored, assessed and incorporated into the executive's decision making (Pearce & Robinson, 2007).

Managing both the internal and external environment calls for establishment of a systematic or structured way of implementing strategies and making strategic decisions. Macro environment should be analysed through what is popularly known as PESTEL analysis (Political, Economic, Social, Technological, Environmental/Ecological and Legal factors). Political factors include government stability, taxation policy, foreign trade regulations and social welfare policies. The main Economic factors are business cycles, Gross Domestic Product trends, interest rates, money supply, inflation, unemployment and disposable income while the Social factors are population demographics, income distribution, social mobility, lifestyle changes, attitude to work and leisure and levels of education. Technological factors include government spending on research and development, industry focus on technological development, speed of technology transfer and rates of technology obsolesce. The Environmental/ecological factors identified are environmental protection laws, waste disposal and energy consumption while Legal factors are mainly legislations and protection of intellectual property (Johnson et al, 2008).

There are five forces in the industry environment which must likewise be addressed for the success of an organisation strategy namely; entry barriers, supplier power, buyer power, substitute availability and competitive rivalry (Porter, 1980). The power of supplier should be reduced or managed. Suppliers supply the organisation with what is required to produce the product or service, and include labour and sources of finance. Their power is strongest where they are few and dominant, where there are lower switching costs and where they are able to cut out buyers who are acting as intermediaries (Johnson et al, 2008). Bargaining power of suppliers can reduce profitability of the firm and industry thus making them unable to recover costs (Pearce &Robinson, 2007).

Threat of new entrants must be reduced or eliminated. Barriers to entry are factors that need to be overcome by new entrants if they are to compete successfully. High barriers are good for the incumbents because they protect them from new competitors coming in. They include scale and experience, access to supply or distribution channels, expected retaliation, legislation or government action and differentiation (Johnson et al, 2008).

Threat of new entrants will be minimised if barriers to entry are high and a newcomer expects sharp retaliation from entrenched competitors (Pearce & Robinson, 2007).

There should be deliberate move to reduce or manage buyer/customer power. Buyers are the organisation's immediate customers, not necessarily the ultimate consumers. Their influence is highest where there are few large ones, switching costs are low and where they have facilities to supply themselves (Johnson et al, 2008). Bargaining power of customers can force down prices, force improvement in quality or better service and play competitors against each other (Pearce & Robinson, 2007).

The threat of substitution should similarly be reduced or eliminated. Substitutes can reduce demand for a particular class of products as customers switch to the alternatives. Managers often focus on their competitors in their own industry, and neglect the threat posed by substitutes (Johnson et al, 2008). A firm should seek to come out on top of the competitive rivalry. Competitive rivals are organisations with similar products and services aimed at the same customer group. Factors affecting the degree of rivalry in an industry include competitor balance, industry growth rate, high fixed costs, high exit barriers and low differentiation (Johnson et al, 2008).

Pearce and Robinson (2007) in their analysis of the operating environment argue that firms can influence the operating environmnent than remote environment. They argue that the success of an organisation will depend on how best it is able to manage its operating environment which is made up of its competitive position, customer profiles, suppliers, creditors, human resources and labour relations. Competing for the same customers will require all competitors to react to and anticipate competitors' actions (Bateman & Zeithaml, 1993). The traditional approach of segmenting customers is based on customer profile constructed from geographic, demographic, psychographic and buyer behaviour information (Pearce & Robinson, 2007). Instead of having many suppliers, organisations are having fewer who have made long-term commitments (Bateman & Zeithaml, 1993). The firm should seek to understand whether the creditors fairly value and are willing to accept the firm's stock as collateral, the perception of the firm as having an acceptable record of past payment, strong working capital position and creditors' ability to extend the necessary Lines of Credit. A firm's access to required personnel is affected primarily by its reputation as an employer, local employment rates, ready availability of people with needed skills and its relationship with labour unions (Pearce & Robinson, 2007).

2.5 Strategic Management in SMEs

Owners or managers of SMEs rarely articulate the business strategy or engage in any formal planning. There is however a strong relationship between the owner/manager and strategy pursued by small firms. The strategy chosen will mostly reflect the priorities of the owner (Carter, & Jones-Evans, 2006).

Although strategic management has mostly been applied in large organisations, it cannot be ignored in small businesses. Small businesses spend almost twice as much of their research and development budget on fundamental research as do large firms and are 13 times more innovative per employee than large firms. The reasons for lack of strategic management practices in many small businesses vary from lack of enough time to prepare the plans, unfamiliarity with strategic planning, lack of skills and lack of trust and openness on the part of owners. The underlying reason for new small businesses failure appears to be an overall lack of strategic management, beginning with inability to plan a strategy to reach the customer and ending with a failure to develop a system of controls to keep track of performance. Writing a business plan (entrepreneur's version of strategic plan) improves chances of success. It is the test to see whether an idea is really an opportunity (Wheelen & Hunger, 2008).

Because of their size and particular characteristics, SMEs need a different approach to strategic management. Their strategic management procedure should; entail relatively short planning horizon, be informal and not overly structured, encourage participation of employees and outside parties, avoid early setting of objectives as it will interfere with creative thinking and focus on strategic thinking, not just planning. It should link long-range goals to day-to-day operations (Scarborough & Zimmerer, 1996)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Intoduction

This chapter identifies the research design and defines both the population and sample of the study. It identifies the data collection instruments as well as procedures for collection and analysis of the data.

3.2 Research Design

This research applied descriptive survey design. The major purpose was a description of the state of affairs as it exists at present (Kothari, 2003). The aim of the study was to deduce the strategic management practices as currently applied. It involved collection of primary data.

3.3 Population

The population of this study was the firms operating within the Kariobangi Light Industries in Nairobi. The number of firms licensed by the Nairobi City Council to operate in the area is 160. They are involved in various industrial activities including fabrication of metal products, flour milling, casting or machining of metal parts, soap and detergent making, recycling among others (Nairobi City Council, 2010).

3.4 Sample Size

The study narrowed down to those industries that fall in the category of SMEs and which are 70 in number (Nairobi City Council, 2010). These firms are involved in different sectors of the economy and they were stratified according to products or services they offered. For the sake of objectivity, only those categories that had more than 5 firms were considered namely: engineering works (6), weighing scales assembling (6), paint mixing

(12) and bakeries (20). From each stratum, 75% of the firms were randomly selected for the survey to give a total sample of 33 firms.

3.5 Data Collection

The study mainly relied on primary data collected through structured questionnaires with both closed and open-ended questions and personal interviews. Given that many of the owners/managers of SMEs had no formal training in the sectors they are involved in, and many did not view strategic management in a formal and structured way, it was necessary to guide the respondents as they filled the questionnaire. The purpose of the study was clearly explained to the respondents after introductions. The respondents were then briefly taken through the questionnaire after which a date for the interview was agreed upon. Follow-up was done through personal visits and telephone calls where applicable. The questionnaire had three sections. Part one dealt with general background information concerning the firm. Part two dealt with strategic management practices by the firms, while part three tackled factors that determined the choice of strategy by the firms. Target respondents were the owners or managers.

3.6 Data Analysis

Answers were checked for completeness and adequacy. Data concerning the firms' general background information, nature of strategic management practices applied and factors influencing choice of strategy was coded and entered into excel sheets and analysed for frequency distribution to enable generalisation of findings based on the pattern of responses. The information was then presented using tables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings and discussions from the data collected from respondents. The study involved interviewing the players in the field, analyzing the data provided for consistency and seeking clarification where it was felt there were contradictions. Personal interviews were administered to allow respondents to familiarise with the concept of strategic management. Out of the targeted sample of 33 firms, 18 responded, translating to a response rate of 55%. All the 18 respondents answered the questions put across except that on annual turnover where 3 did not provide information.

4.2 Firms Profiles

General questions were asked in this part to help in gaining an insight into the operations of the firms under survey and to also determine whether the firms surveyed met the criteria of categorisation as SMEs. The questions required respondents to provide names of the firms, title of respondents, highest level of respondent's education, number of years business has been in operation, the firm's business specialisation, number of staff members employed and the value of annual turnover. The tables that follow provide a summary of the findings.

4.2.1 Title of Respondent

Due to the nature of SMEs as highly centralised organisations, it was deemed necessary that the respondent should be the highest ranking individual as far as the day to day running of the firm is concerned. Thus the target respondent was the owner or where applicable, the senior most manager. The respondents were required to state their position in the firms and the responses were as follows:

Table 4.2.1: Title of Respondent

Title	Owner	Manager	Total
Frequency	12	6	18
Percentage (%)	67	23	100

Out of the eighteen respondents, 67% were the owners while 33% were salaried managers. Thus most of the firms are run by the owners. This could be due to the small size of most firms where structures are not well developed. Many owners have started these firms as an avenue for self-employment.

4.2.2 Highest Level of Education

The aim was to determine the highest level of education attained by the respondent. It was envisioned that there could be a relationship between the academic training of the owners/managers and the type of businesses they are involved in. The respondents were required to state their highest education level and the answers were as follows:

Table 4.2.2: Respondent's Highest Level of Education

Level	Primary	Secondary	Diploma/Certificate	Degree	Total
Frequency	0	4	12	2	18
Percentage (%)	0	22	67	11	100

Out of the eighteen respondents 78% were found to be fairly educated with at least a certificate level of education. Education levels among the owners/managers were not found to be directly related to the business specialization.

4.2.3 Number of firm's years in operation

The length of time a business has been in operation could be an indicator of the appropriateness of the management practices applied by the management. It would be expected that longer lives of firms is an indication of better management practices. The respondents were asked to state the number of years the firm has been in operation and the answers were as follows:

Table 4.2.3: Number of Years Firm Has Been in Operation

Years	0-1	2-5	6-10	11-15	>15	Total
Frequency	0	13	3	2	0	18
Percentage (%)	0	72	17	11	0	100

Many of the firms are relatively new with 72% of the firms surveyed having operated for between 2 to 5 years, 17% had operated for 6 to 10 years while 11% had operated for between 11 to 15 years. Most of the firms are within the same age bracket when the concept of strategic management had been well developed.

4.2.4 Business Sector

Strategic management practices could be influenced by the business sector in which a firm operates. The purpose was to ensure that as many sectors as possible are represented in order to identify if there were any strategic management practices unique to any of the sectors. All the respondents were asked to list the sector in which they operated and they stated as follows:

Table 4.2.4: Firm's Business Specialisation

Sector	**Bakery**	**Engineering**	**Paints Mixing**	**Weighing Scales Assembling**	**Total**
Frequency	7	3	5	3	18
Percentage (%)	39	17	27	17	100

Respondents were fairly representative of all the sectors in the sample with 39% operating bakeries, 17% in engineering and weighing scales assembling and 27% in paints mixing. Majority of the firms concentrated on few, easy to start, low capital industries.

4.2.5 Number of Employees

This study defines SMEs as enterprises employing between 10 and 100 staff members. The aim of this question was to ensure that the respondents were in the category of SMEs with employee establishment of between 10 and 100 employees. Respondents were asked to state the number of people they employed and the following were the findings:

Table 4.2.5: Number of People Employed

Employees	10	11-15	16-20	>21	Total
Frequency	3	13	2	0	18
Percentage (%)	17	72	11	0	100

All the firms surveyed met the classification as SMEs in terms of the number of employees. 17% had 10 employees, 72% had 11 to 15 employees while 11% had 16 to 20 employees.

4.2.6 Annual Sales (Millions of Ksh.)

SMEs are further defined as enterprises that have annual turnover of between Ksh. 500,000 to Ksh. 800,000,000. The aim of this question was to ensure that the respondents were in the category of SMEs with annual turnover of between Ksh. 500,000 to 800,000,000. Respondents provided the amount of annual sales as follows:

Table 4.2.6: Annual Turnover in Millions of Kenya Shillings

Sales	0-10	11-20	21-40	>100	Total
Frequency	15	0	0	0	15
Percentage (%)	100	0	0	0	100

All the firms that responded to this question had annual turnover of up to Ksh.10 million. However 3 firms, representing 17% of total respondents did not provide information on the turnover. Thus all the respondents met the criteria for classification as SMEs based on annual turnover.

4.3 Nature of Strategic Management Practices

The first objective of this study was to determine the nature of strategic management practices in SMEs operating at Kariobangi Light Industries. Strategic management practices are those practices that are aimed at placing a firm at a strong enough position to be able to enjoy a competitive position compared to competitors over the longterm. The practices vary from investment in the right resources, providing value for money spent by customers, diversification, differentiation, focus, relationship with stakeholders and investment in appropriate technology.

The questions were structured in a way that allowed even those firms that did not have a structured approach to strategic management to relate their practices to the long-term competitive advantages. Respondents were asked whether they had formal long-term plans and strategies and were taken through a situational analysis of their firms to understand their strengths, weaknesses, opportunities and threats. They were further required to rank themselves against the various strategic management aspects, with low score being for those that did not employ the specific practice, strong score for those that employed the practice and medium for those that moderately applied the practice. The practices are as summarised below.

4.3.1 Availability of Formal Long-term Plans and Strategies

Although in most situations, strategic management is a formal and structured process, there are situations where, due to prevailing conditions, the process may be informal and not structured. The question sought to find out whether the firms surveyed had developed structured strategic processes. Respondents were required to indicate whether a formal strategic management process was in place and the responses were as follows:

Table 4.3.1: Availability of Structured Strategic Management

Availability	Frequency	Percentage (%)
Available	1	6
Not Available	17	94
Total	18	100

Although most of the firms were found to be aware of or practicing strategic management, only 6% applied formal strategic management through development of long-term plans and strategies. The low levels of formal strategic planning processes in the SMEs could be due to the need to maintain flexibility due to size of businesses and volatility of environment within which they operate.

4.3.2 Use of Physical Resources

For a firm to be able to attain a competitive advantage over rivals, it may need to invest in physical resouces including plant, machinery and infrastructure in order to improve efficiency and quality. This way the firm remains in a strong position to readly deliver as per market needs. This question was meant to determine extent to which respondents relied on this practice for long-term survival and respondents were required to state the adequacy of their physical resources. The responses were as follows:

Table 4.3.2: Use of Physical Resources

Score	Frequency	Percentage (%)
Low	14	67
Medium	4	22
Strong	2	11
Total	18	100

Majority of the respondents, 67%, did not have adequate physical resources for the operations. Only 11% felt they had the required resources as compared to competitors while 22% were moderately equiped. Majority of the firms in the area are therefore not in a position to utilise physical resources as a source of competittive advantage and only 11% can be said to be in a position to compete over the long run through the use of physical resources.

4.3.3 Use of Financial Resources

Financial resources could be a major source of competitive advantage to most firms as they allow a firm to try different strategies without necessarily getting limited by finances. Firms that are financially endowed can effectively face competition better than those with weak financial base. The question sought to identify how firms measured their strengths and weaknesses based on financial positions. Respondents were required to state the extent to which they relied on financial strength for long-term survival. The responses were as follows:

Table 4.3.3: Use of Financial Resources

Score	Frequency	Percentage (%)
Low	17	94
Medium	1	6
Strong	0	0
Total	18	100

Majority of the respondents, 94%, felt vulnerable in the area of financial resouces while only 6% were moderately financed. None of the respondents felt they had adequate financial resources. Majority of the firms in the area are therefore not in a position to utilise financial resources as a source of competittive advantage. None of the firms surveyed felt that they could use their available financial resources as a source of competitive advantage.

4.3.4 Use of Human Resources

The strategic management process, starting with formulation to implementation and finally to control and evaluation requires human resources. It is the people who are charged with the task of ensuring that every strategy is successfully executed. This question was meant to determine extent to which respondents relied on human resources for success. Respondents were required to state how the levels of human resources gave them a competitive edge over their rivals. The responses were as follows:

Table 4.3.4: Use of Human Resources

Score	Frequency	Percentage (%)
Low	1	6
Medium	9	50
Strong	8	44
Total	18	100

Out of all the respondents, 50% considered the human resources they had as moderately affecting their competitive position compared to competitors while 44% considered themselves to be highly advantaged in human resources compared to competitors. Only 6% felt weak in this area. Majority thus felt that their human resources played a role in giving them a competitive advantage.

4.3.5 Use of Relevant Skills

Some strategies require specialised skills to execute. The aim of this question was to determine the relevance of the existing skills in the successful execution of an organisation's goals and objectives. Respondents were required to state the relevance of existing skills in positioning the firms at an advantage compared to competition. The responses were as follows:

Table 4.3.5: Use of Relevant Skills

Score	Frequency	Percentage (%)
Low	0	0
Medium	7	39
Strong	11	61
Total	18	100

Out of all the respondents, 61% considered their skills superior to competitors' while 39% thought they were moderately skilled. None of the firms felt vulnerable in the area of right skills. Most of the firms therefore had the right skills for the operations of their firms.

4.3.6 Providing Products at Low Costs

Provision of products at lower prices is one of the generic strategies of ensuring that a firm remains competitve. This question was meant to determine extent to which respondents relied on low cost strategy for long-term survival.

All the respondents considered their costs high. None of the respondents thought their products to be competitive in terms of costs thus none applied low cost as a source of competitive advantage.

4.3.7 Strategic Business Location

Location of a business could be advantageous to a firm in relation to supplies, infrastructure or market. This question was meant to determine extent to which firms enjoyed advantages as a result of their location. Respondents were required to state how their firm's location provided a source of competitive position. The responses were as follows:

Table 4.3.7: Strategic Business Location

Score	Frequency	Percentage (%)
Low	8	44
Medium	7	39
Strong	3	17
Total	18	100

Out of all the respondents, 44% felt disadavantaged in terms of their business location while 39% were moderately satisfied. Only 17% considered the location of their business as a strong strategic advantage to them. Kariobangi is a designated area for Light Industries and firms that opt to operate from the area may not have much room to change the situation as far as location is concerned.

4.3.8 Maintaining Loyal Customers

Customers are the reason firms are in business. Any strategy that a firm chooses must have the interest of customers as the main consideration. The aim is to ensure that customers perceive an enterprise in good light for continued success. This question was meant to determine extent to which respondents relied on customer loyalty for long-term survival. The responses were as follows:

Table 4.3.8: Maintaining Loyal Customers

Score	Frequency	Percentage (%)
Low	8	44
Medium	6	34
Strong	4	22
Total	18	100

Only 22% considered customer loyalty as an advantage compared to competitors with 44% responding that customer loyalty was not favouring them while 34% felt customers were moderately loyal. Customers are moderately and in some cases not loyal to any of the firms.

4.3.9 Provision of Varied Products and Services

Giving customers a variety of products from which to choose can be a big source of competitive advantage to many businesses. This question was meant to determine extent to which respondents relied on producing varied products for long-term survival. The responses were as follows:

Table 4.3.9: Availability of Varied Products and Services

Score	Frequency	Percentage (%)
Low	11	61
Medium	2	11
Strong	5	28
Total	18	100

About 61% of all respondents did not consider themselves advantaged in the area of producing varied products. Only 28% were in a position to provide a variety of products. Most of the firms are thus engaged in production of a single product.

4.3.10 Product Differentiation

For a firm to enjoy competitive advantage, customers must be able to differentiate its products from those of competitors. This question was meant to determine extent to which respondents differentiated their products from those of competitors. Respondents were required to state whether their products were different from the others in the market. The responses were as follows:

Table 4.3.10: Level of Product Differentiation

Score	Frequency	Percentage (%)
Low	12	72
Medium	2	11
Strong	3	17
Total	18	100

About 72% of the respondents were of the view that their products were not differentiated from competition, 11% were moderately differentiated while 17% felt they were well differentiated. Most of the firms therefore provided goods and services to customers that were identical to those of competitors.

4.3.11: Reacting to Competitor Action

Businesses operate in an ever changing environment where players keep on changing their strategies to reflect market dynamics. A firm must therefore be keen on the actions that are taken by competitors. The actions by competitors might affect other firms in the industries in one way or another or might not have any effect at all. Only those that have an effect on other firms should be considered in reviewing strategies. Respondents were required to state how actions by competitors affected their practices and the responses were as follows:

Table 4.3.11: Reacting to Competitor Action

Score	Frequency	Percentage (%)
Low	1	6
Medium	5	28
Strong	12	66
Total	18	100

Out of all the respondents, 66% said that reaction to competitor action was a strategy they employed for survival, 28% were moderately affected by competitor actions while 6% never employed reaction to competitor action as a strategy. Actions of competitors are therefore keenly watched by majority of the firms and determine the practices employed.

4.3.12 Provoking Competitor Action

Firms may force competitors to act in a certain way that gives them the desired results. This is however possible with a dorminant player who will provoke action that in the end benefits the firm at the expense of competitors. Respondents were asked to state the extent to which they influenced the action of competitors to the respondents' advantage. None of the firms surveyed provoked competitors to behave in a certain desired way. None of the firm was therefore dorminant enough in its field to effectively pursue this approach.

4.3.13 Maintaining Good Terms with Creditors/Suppliers

For long-term sustainability, some firms establish good relationships with the suppliers of goods and services. Through this approach, they are assured of availability of their goods and services on top of better terms of engagement with the creditors and suppliers. Respondents were required to state their satisfaction with their suppliers and creditors. The responses were as summarised below:

Table 4.3.13: Mantaining Good Terms with Creditors/Suppliers

Score	Frequency	Percentage (%)
Low	5	28
Medium	7	39
Strong	6	33
Total	18	100

Only 33% of respondents felt they were in a position to use their relationship with creditors as a source of competitive advantage while 39% could moderately use their relationships with creditors/supplies as a source of competitive advantage. Thus most of the firms to some extent ensure they are in good terms with their suppliers or creditors.

4.3.14 Use of Focus Strategy

A firm may opt to focus on a specific market segment for long-term benefits. This ensures that its resources and efforts are effectively directed to the right market and thus ensure the needs of that segment are well catered for. This question was meant to determine the extent to which respondents relied on the focus strategy for long-term survival. Respondents were required to state the extent to which they applied the focus strategy to attain competitive advantage and the responses were as follows:

Table 4.3.14: Use of Focus Strategy

Score	Frequency	Percentage (%)
Low	2	11
Medium	9	50
Strong	7	39
Total	18	100

Only 39% of respondents strongly used the focus strategy as a way of achieving competitive advantage while 50% applied it moderately. The rest (11%) did not use the strategy. Most firms have moderately utilised the focus strategy.

4.3.15 Lobbying

Firms, mostly the dorminant ones can use their influence to ensure that policies, rules and regulations are established in their favour. This ensures that their interests are well taken care of in the long-term hence a source of competitive advantage. Respondents were required to state how they used the power of lobbying for their long-term benefits.

None of the respondents considered lobbying as a strategy for competitive advantage. Firms in the area are neither dorminant nor well organised to pursue their common long-term interests through lobbying.

4.3.16 Investment in Technology

The use of appropriate technology promotes efficiency and quality and could assure a firm of long-term business success. This question was meant to examine how firms employ the right technology to ensure that they are better placed to compete in the market. Respondents were required to state the extent to which they utilised technology to attain a competitive edge over their rivals and the responses were as follows:

Table 4.3.16: Investment in Technology

Score	Frequency	Percentage (%)
Low	1	6
Medium	5	28
Strong	12	66
Total	18	100

Out of all the respondents, 66% felt that they had the appropriate technology for their needs, while 28% were moderately satisfied with their level of technology. Only 6% did not have the right technology. Given that most firms stated that they were not financially adequate, it can be concluded that most of the firms surveyed do not require capital intensive technology.

4.4 Factors Influencing Choice of Strategy

The second objective of the study was to determine the factors that influenced the choice of strategy adopted by firms at Kariobangi Light Industries. Respondents were required to identify the factors that influenced the choice of their strategies. A score of low was awarded where the listed factor was minimally applicable while a score of high reflected strong relevance of the factor to the firm. A score of medium meant that the factor was moderately relevant to the firm. The below listed factors were identified.

4.4.1 Availability of Right Skills

Some strategies my require technical know how on the part of people formulating or implementing the strategies. The question sought to know how availabilty of skills affected the choice of a given strategy. Respondents were required to state how availability of the right skills affected the choice of strategies they employed and the responses were as below:

Table 4.4.1: Availability of Right Skills

Score	Frequency	Percentage (%)
Low	5	28
Medium	11	61
Strong	2	11
Total	18	100

Only 11% of the respondents considered availability of skills before settling on a strategy while 61% considered it moderately. Those who did not rank skills as a main consideration in settling on the right strategies comprised 28% of the total respondents. Thus people with the right skills are readily available for majority of the firms. Further the strategies employed may not require very highly skilled personnel.

4.4.2 Availability of Labour

Some strategies may be labour intensive at the formulation or implementation stages. Firms must ensure that they have the right number of employees for successful execution of strategies. Respondents were required to state how availability of the human resources affected the choice of strategies they employed and the responses were as below:

Table 4.4.2: Availability of Labour

Score	Frequency	Percentage (%)
Low	1	6
Medium	10	56
Strong	7	38
Total	18	100

Only 38% of the respondents considered availability of labour before settling on a strategy while 56% considered it moderately necessary. The balance of 6% did not rank human resources as a main consideration in settling on the right strategies. Thus majority of strategies applied were moderately labour intensive.

4.4.3 Financial Resources

Some strategies may demand high financial input in their formulation or implementation. Firms must ensure that they match the strategies with required finances for efffectiveness. Respondents were required to state how availability of financial resources affected the choice of strategies they employed and the responses were as below:

Table 4.4.3: Financial Resources

Score	Frequency	Percentage (%)
Low	0	0
Medium	5	28
Strong	13	72
Total	18	100

Out of all the respondents, 72% considered availability of finances before settling on a strategy while 28% considered it moderately necessary. None of the respondents felt financial considerations were irrelevant in the choice of strategies. Thus majority of strategies applied required financial input.

4.4.4 Physical Resources

Some strategies may require specialised machinery, equipment and infrastructure. It is up to the managers of a firm to ensure that physical resources do not become a limiting factor for successful execution of strategies. Respondents were required to state how availability of physical resources affected the choice of strategies they employed.

All the respondents considered availability of physical resources before settling on a strategy, thus all the strategies applied required some form of physical resources.

4.4.5 Customer Needs

Customers are the main focus of any business and any strategies implemented should be aimed at meeting customer needs. Respondents were required to state how customer needs affected the choice of strategies they employed.
All respondents considered customer needs before settling on a strategy thus all strategies have customer needs as a major consideration.

4.4.6 Competitor Action

Some strategies may provoke reaction from competitors and a firm must ensure it is in a position to deal with any competitor response. Respondents were required to state how actions of competitors affected the choice of strategies they employed and the responses were as below:

Table 4.4.6: Competitor Action

Score	Frequency	Percentage (%)
Low	1	6
Medium	10	56
Strong	7	38
Total	18	100

Only 38% of the respondents considered competitor action before settling on a strategy while 56% considered it moderately necessary. Only 6% did not rank competitor action as a main consideration in settling for the right strategies. Thus majority of strategies applied recognised the power of competition.

4.4.7 Supplier Action

Suppliers play a very critical role in the running of businesses, more so where they are in a position to dictate their own terms. Some strategies may also be fully dependant on supplier actions. Respondents were required to state how supplier power affected the choice of strategies they employed. The responses were as below:

Table 4.4.7: Supplier Action

Score	Frequency	Percentage (%)
Low	5	28
Medium	7	38
Strong	6	34
Total	18	100

Only 34% of the respondents considered actions by suppliers before settling on a strategy while 38% considered it moderately necessary. Only 28% did not rank supplier action as a main consideration in settling on the right strategies. Thus majority of strategies applied were either moderately or strongly affected by supplier actions meaning that suppliers are relatively powerful in the market.

4.4.8 Blocking New Entrants

Some strategies may be employed with a view to blocking new entrants into the market. Respondents were required to state how intents of blocking potential competitors affected the choice of strategies they employed and the responses were as below:

Table 4.4.8: Blocking New Entrants

Score	Frequency	Percentage (%)
Low	0	0
Medium	3	17
Strong	15	83
Total	18	100

A massive 83% of the respondents considered the need to block new entrants before settling on a strategy while 17% considered it moderately necessary. Thus majority of strategies applied were also aimed at ensuring new competitors do not enter the market

4.4.9 Availability of substitutes

Availability of substitute products determines the type of strategies to adopt in most of the cases. Different strategies may be required where there are no substitute products. Respondents were required to state how availability of substitute products affected the choice of strategies they employed and the responses were as below:

Table 4.4.9: Availability of substitutes

Score	Frequency	Percentage (%)
Low	5	28
Medium	3	17
Strong	10	55
Total	18	100

Out of the total respondents, 55% considered availability of substitutes before settling on a strategy while 17% considered it moderately necessary. Only 28% did not rank substitutes as a main consideration in settling on the right strategies. Thus majority of strategies applied were also designed to deal with competition from substitute products.

4.4.10 Available Technology

Technology affects implementation of many strategies in that it could determine how effective the strategies turn out to be. Respondents were required to state how availability of the right technology affected the choice of strategies they employed and the responses were as below:

Table 4.4.10: Available Technology

Score	Frequency	Percentage (%)
Low	1	6
Medium	5	28
Strong	12	66
Total	18	100

A total of 66% respondents considered availability of appropriate technology before settling on a strategy while 28% considered it moderately necessary. Only 6% did not rank technology as a main consideration in settling on the right strategies. Thus majority of strategies applied factored in the available technology.

4.4.11 Political considerations

Some strategies may be dependant on the political climate at a given time. Firms ensure that they are not on the wrong side of the political situation. Respondents were required to state how political considerations affected the choice of strategies they employed.
None of the respondents factored political considerations in their choice of strategies hence political issues did not have direct effect on the operations of businesses in the area.

4.4.12 Economic Factors

Some strategies may be affected by economic variables such as interest rates, inflation, unemployment and business cycles. Respondents were required to state how economic variables affected the choice of strategies they employed.
All the respondents stated that economic considerations affected the choice of their strategies hence majority of strategies applied are linked to the economic situation.

4.4.13 Environmental Considerations

Some strategies may require firms to adhere to environmental rules and regulations. Respondents were required to state how physical environment affected the choice of strategies they employed and the responses were as below:

Table 4.4.13: Environmental Considerations

Score	Frequency	Percentage (%)
Low	3	17
Medium	7	38
Strong	8	45
Total	18	100

Out of all the respondents 45% factored environmental considerations in settling on a strategy while 38% considered it moderately necessary. Only 17% did not rank environmental considerations as a main factor in settling on the right strategies. Thus environmental considerations affect many of the strategies adopted.

4.4.14 Legal Factors

Some strategies have legal implications more so the bylaws of the local authorities and acts of parliament. Respondents were required to state how legal implications affected the choice of strategies they employed and the responses were as below:

Table 4.4.14: Legal Factors

Score	Frequency	Percentage (%)
Low	7	38
Medium	8	45
Strong	3	17
Total	18	100

Only 17% of the respondents considered legal implications before settling on a strategy while 45% considered it moderately necessary. A total of 38% did not rank legal as a main consideration in settling on the right strategies. Thus legal considerations only moderately or minimally affected the choice of strategies.

4.4.15 Social Factors

Firms operate in a social setup and have obligations to the society. Some strategies may be harmful to the society or may promote better societal standards. Social factors include lifestyles, education levels and income distribution. Respondents were required to state how social factors affected the choice of strategies they employed and the responses were as below:

Table 4.4.15: Social Factors

Score	Frequency	Percentage (%)
Low	4	22
Medium	5	28
Strong	9	50
Total	18	100

Out of all the respondents, 50% considered social factors before settling on a strategy while 28% considered it moderately necessary. Only 22% did not rank social factors as a consideration in settling on the right strategies. Thus majority of strategies applied had social considerations.

4.4.16 Views on Importance of Strategic Management

Respondents were also asked to give their opinions on the importance of strategic management to the long-term survival of their businesses. This question was designed to gauge their understanding of the concept of strategic management after going through the entire questionnaire and ensuring they understood its application. The responses were as below:

Table 4.4.16 Views on Importance of Strategic Management

Importance	Yes	Not Sure	No	Total
Frequency	15	3	0	18
Percentage	83	17	0	100

Out of all the respondents, 83% felt that strategic management had a place in the success of their businesses while 17% were not sure of the role of strategic management in their success. Thus most of the players at Kariobangi Light Industries recognise the importance of strategic management.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings of the study and draws conclusions from the results obtained. It further provides recommendations on how best to improve the competitive position of the firms surveyed. It highlights the limitations of the study and identifies areas that were not covered by the study.

5.2 Summary

Strategic Management is one of the newest concepts in management. Its relevance has gained currency with increased competition among industry players where firms aim at gaining competitive advantage over rivals in order to remain viable over the long-term. There is no uniformly agreed approach to strategic management. Every organization, regardless of size and nature develops and implements its own management concepts bearing in mind its unique situation.

The objective of the study was to determine the strategic management practices in SMEs operating at Kariobangi Light Industries and to also find out factors that determined the choice of strategies. Data was collected through structured questionnaires and personal interviews. The sample of the study was 33 firms and the response rate was 55% representing 18 firms. Many of the firms are run by professionals in the various fields. Most of the firms were started after the year 2000 when strategic management practices were already well established. Most firms though concentrate in similar businesses. Their staff establishment and annual turnover are within the range of SMEs.

Majority of the firms did however not have formal strategic management mechanisms hence their application is more ad hoc than planned. Firms in the area do not generally have much unique strengths compared to competitors and are exposed to many similar weaknesses mostly due to limited capital. They list their preferred strategic management practices as ensuring customer satisfaction, maintaining good terms with suppliers and creditors, having the right personnel and skills, focusing on specific market segments, reacting to competitor actions and use of appropriate technology. Majority of firms are reactive in their strategies and few are willing to provoke competitor action.

Availability of financial and physical resources was found to be the main considerations in choosing any strategy. Other considerations were customer needs, need to block new entrants, availability of substitute products, availabilty of technology, economic factors as well as social and environmental factors. Most of the respondents however concluded that strategic management is the key to success of their business.

5.3 Conclusion

Although most of the firms were found not to have any formal strategic management mechanisms, they practised strategic management in their day to day running. They are able to clearly do their own SWOT analysis so that they employ strategies that fit their situations. Most have employed people with the right skills and rate their human resources as their main strengths. The main limitation of the SMEs is that most are operating in similar sectors, competing for the same target customers and lack the required resources. This has led to a lot of emphasis on customer satisfaction which most might consider a cheaper option than engaging in full throttle competition.

Lack of capital has limited the strategic options available to most firms leading to general lack of satisfaction with infrastructure thus high costs of production and lack of differentiation. Most of the firms are therefore not visibly engaged in aggressive strategic actions. They are more reactive than proactive to the environment.

Given the nature of the firms within the sector, any official policy should be flexible enough to allow relatively short planning horizon, encourage creative and strategic thinking and promote healthy competition without subjecting the firms to heavy capital outlay which might discourage investors from the sector.

5.4 Recommendations

It is clear from the study that resources are critical to the implementation of any successful strategies. Firms should diversify their sources of resources through such means as forming partnerships and credit unions. They should also organise themselves into a powerful group to lobby for favourable considerations during formulation of policies and legislations.

5.5 Limitations

Many of the SMEs are run more as personal rather than professional businesses. Availability of information is thus scanty. Out of the 33 firms earlier targeted for the survey, only 18 responded. Some of the respondents were still very reluctant to give any information.

The nature of the firms surveyed necessitated personal interviews which is a cumbersome, expensive and time consuming approach to data collection. Further, locating the firms was not an easy task due to lack of clear directions to their physical locations.

5.6 Suggestion for Further Study

Out of the 160 firms classified as Kariobangi Light Industries, only 70 fall in the category of SMEs. The rest which number 90 are classified as micro enterprises. Future studies should seek to determine strategic management practices within these enterprises and find out whether there is any relationship in strategic management practices between the SMEs and micro enterprises.

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APPENDIX 1: LETTER OF INTRODUCTION

Maurice Kiruja

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Nairobi. **E-mail: mauricekiruja@yahoo.com**

Date: 1st October, 2010

To Whom It May Concern.

RE: QUESTIONNAIRE FOR PURPOSE OF RESEARCH PROJECT

I am a Master of Business Administration student at the University of Nairobi. As part of my degree requirements, I am undertaking research on Strategic Management Practices in Small and Medium Enterprises (SMEs) at Kariobangi Light Industries.

I have identified your firm in the sample for this study and I am requesting your assistance in answering the questions on the attached questionnaire.

I further wish to assure you that all the information provided will be used solely for academic purposes and will be treated with utmost confidentiality.

Your assistance will be highly appreciated.

Yours sincerely,

Maurice Kiruja.

APPENDIX 2: QUESTIONNAIRE

SECTION ONE: GENERAL BACKGROUND INFORMATION.

1. Name of business (Optional)..

2. Title of respondent (Tick One)

   Owner ( ) Manager ( ) Owner/Manager ( )

3. Respondent's highest level of education (Tick One)

   Primary ( ) Secondary ( ) Certificate/Diploma ( ) Degree or Higher ( )

4. Number of years business has been in operation (Tick One)

   0-1 ( ) 2-5 ( ) 6-10 ( ) 11-15 ( ) Over 15 ( )

5. Business activity (Products)

   i. Bakery ( )
   ii. Engineering Work ( )
   iii. Paints Mixing ( )
   iv. Weighing scales Assembling ( )

6. Number of employees (Tick One)

   0-10 ( ) 11-15 ( ) 16-20 ( ) 21 and Over ( )

7. Annual sales in millions of ksh. (Tick One)

   0-10 ( ) 11-20 ( ) 21-40 ( ) 41-100 ( ) 100 and Over ( )

SECTION TWO: NATURE OF STRATEGIC MANAGEMENT PRACTICES

8. Do you have formal long-term plans and strategies?

   No ( )　　　　　Yes ( )

9. How do the following factors advantage your firm compared to your competitors?
   i. Physical resources (Equipment and machinery)

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   ii. Financial resources

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   iii. Human resources

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   iv. Right skills

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   v. Business location

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   vi. Availability of ready and loyal market

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   vii. Low costs of production

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   viii. Variety of available products

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   ix. Uniqueness of products

      Low effect ( )　　Mild effect ( )　　Strong effect ( )
   x. Other strengths(Specify) ____________________________________

10. How do the following factors disadvantage your firm compared to your competitors?
   i. Lack of physical resources

      Low effect ( )　　Mild effect ( )　　Strong effect ( )

ii. Lack of financial resources

Low effect ( ) Mild effect ( ) Strong effect ( )

iii. Lack of human resources

Low effect ( ) Mild effect ( ) Strong effect ( )

iv. Lack of right skills

Low effect ( ) Mild effect ( ) Strong effect ( )

v. Poor business location

Low effect ( ) Mild effect ( ) Strong effect ( )

vi. Lack of ready and loyal market

Low effect ( ) Mild effect ( ) Strong effect ( )

vii. High costs of production

Low effect ( ) Mild effect ( ) Strong effect ( )

viii. Lack of product diversification

Low effect ( ) Mild effect ( ) Strong effect ( )

ix. Lack of unique products

Low effect ( ) Mild effect ( ) Strong effect ( )

x. Other weaknesses (Specify) ____________________________________

11. How strong are the following threats to your business?

i. Creditors/Suppliers actions

Low threat ( ) Mild threat ( ) Big threat ( )

ii. Customers change of tastes and preferences

Low threat ( ) Mild threat ( ) Big threat ( )

iii. Labour organisations/regulations

Low threat ( ) Mild threat ( ) Big threat ( )

iv. Rivalry from existing competitors

Low threat ( ) Mild threat ( ) Big threat ( )

v. Threat of new competitors

Low threat ( ) Mild threat ( ) Big threat ( )

vi. Conditions set by suppliers

Low threat ( ) Mild threat ( ) Big threat ( )

vii. Conditions set by buyers

Low threat ( ) Mild threat ( ) Big threat ( )

viii. Substitute products

Low threat ( ) Mild threat ( ) Big threat ( )

ix. Government policies- Government stability, taxation, projects

Low threat ( ) Mild threat ( ) Big threat ( )

x. Economic considerations- High interest rates, inflation, unemployment, short business cycles

Low threat ( ) Mild threat ( ) Big threat ( )

xi. Social factors –Income distribution, lifestyles, education levels

Low threat ( ) Mild threat ( ) Big threat ( )

xii. Relevant technology- Cost of technology, Lack of relevant technology

Low threat ( ) Mild threat ( ) Big threat ( )

xiii. Environmental considerations - Environmental laws, waste disposal

Low threat ( ) Mild threat ( ) Big threat ( )

xiv. Legal Factors- City council by-laws, parliament Acts

Low threat ( ) Mild threat ( ) Big threat ( )

xv. Other threats (Specify) ______________________________

12. How ready is your business to take advantage of the following opportunities in the market?

i. Changing customer tastes and preferences

Not ready ( ) Mildly ready ( ) Very ready ( )

ii. Increase in customer base

Not ready ( ) Mildly ready ( ) Very ready ( )

iii. First mover advantages

Not ready ( ) Mildly ready ( ) Very ready ( )

iv. Favourable economic prospects

Not ready ( ) Mildly ready ( ) Very ready ( )

v. Favourable political prospects

Not ready ( ) Mildly ready ( ) Very ready ( )

vi. Other opportunities (Specify) ______________________________

13. How do you use the following strategies in dealing with internal challenges?

i. Investment in Physical Resources

Not applied ( ) Moderately applied ( ) Strongly applied ( )

ii. Borrowing to Improve Financial Position

Not applied ( ) Moderately applied ( ) Strongly applied ( )

iii. Retaining profits to Improve Financial Position

Not applied ( ) Moderately applied ( ) Strongly applied ( )

iv. Retention of Staff

Not applied ( ) Moderately applied ( ) Strongly applied ( )

v. Employing Skilled People

Not applied ( ) Moderately applied ( ) Strongly applied ( )

vi. Ensuring Customer Loyalty

Not applied ( ) Moderately applied ( ) Strongly applied ( )

vii. Other strategies (Specify) ______________________________

14. How do you use the following strategies in dealing with external challenges?

i. Reacting to competitor action

Not applied ( ) Moderately applied ( ) Strongly applied ( )

ii. Provoking competitor action

Not applied ( ) Moderately applied ( ) Strongly applied ( )

iii. Customer satisfaction

Not applied ( ) Moderately applied ( ) Strongly applied ( )

iv. Maintaining good terms with creditors

Not applied ( ) Moderately applied ( ) Strongly applied ( )

v. Adherence to labour agreements

Not applied ( ) Moderately applied ( ) Strongly applied ( )

vi. Offering Products/Services at Low Costs

Not applied ( ) Moderately applied ( ) Strongly applied ( )

vii. Ensuring Products/Services are Distinguishable From Competitors

Not applied ( ) Moderately applied ( ) Strongly applied ( )

viii. Focussing on Needs of Specific Target Customers

Not applied ( ) Moderately applied ( ) Strongly applied ( )

ix. Lobbying

Not applied ( ) Moderately applied ( ) Strongly applied ( )

x. Other strategies (Specify) ______________________________

15. How often do you review your strategies?

Never ( ) Done but unscheduled ( ) Periodically ( )

16. How does the following influence review of your strategies?

i. Change in business vision

Low influence ( ) Moderate influence ( ) High influence ( )

ii. Failure to meet set objectives

Low influence ( ) Moderate influence ( ) High influence ( )

iii. Change in competitor actions

Low influence ( ) Moderate influence ( ) High influence ( )

iv. Change in consumer demands

Low influence ( ) Moderate influence ( ) High influence ( )

v. Government policies

Low influence ( ) Moderate influence ( ) High influence ( )

vi. Cost of doing business

Low influence ( ) Moderate influence ( ) High influence ( )

vii. New opportunities

Low influence ( ) Moderate influence ( ) High influence ( )

SECTION THREE: FACTORS INFLUENCING CHOICE OF STRATEGY

17. How does the following influence the choice of your strategies?

i. Available Skills

Low influence ( ) Moderate influence ( ) High influence ( )

ii. Availability of Labour

Low influence ( ) Moderate influence ( ) High influence ( )

iii. Availability of Financial Resources

Low influence ( ) Moderate influence ( ) High influence ( )

iv. Availability of Physical Resources

Low influence ( ) Moderate influence ( ) High influence ( )

v. Customer Needs

Low influence ( ) Moderate influence ( ) High influence ( )

vi. Competitor Action

Low influence ( ) Moderate influence ( ) High influence ( )

vii. Supplier Action

Low influence ( ) Moderate influence ( ) High influence ( )

viii. Blocking New Entrants

Low influence ( ) Moderate influence ( ) High influence ( )

ix. Availability of Alternative Products/Services

Low influence ( ) Moderate influence ( ) High influence ( )

x. Available Technology

Low influence ( ) Moderate influence ( ) High influence ( )

xi. Political considerations

Low influence ( ) Moderate influence ( ) High influence ( )

xii. Economic Factors

Low influence ( ) Moderate influence ( ) High influence ( )

xiii. Environmental Considerations

Low influence ( ) Moderate influence ( ) High influence ( )

xiv. Legal Factors

Low influence ( ) Moderate influence ( ) High influence ( )

xv. Social Factors

Low influence ( ) Moderate influence ( ) High influence ( )

xvi. Other influences (Specify) ___________________________________

18. In your opinion is strategic (long-term) management necessary for the survival of businesses in your sector?

No ( ) Do Not Know ( ) Yes ( )

APPENDIX 3: LIST OF SMES IN KARIOBANGI LIGHT INDUSTRIES

S.NO	BUSINESS NAME	BUSINESS SPECIALISATION
1	CAREVET SYSTEM LIMITED	ANIMAL FEEDS
2	HEMCO FEEDS	ANIMAL FEEDS
3	BOSS BAKERS	BAKERY
4	WEGA BAKERS	BAKERY
5	EUCLA BAKERS	BAKERY
6	MINA BAKERS	BAKERY
7	MASHI BAKERS	BAKERY
8	SUPA LOAF	BAKERY
9	BAKE & BITE BAKERS	BAKERY
10	PRIMAVARA PICKNICK	BAKERY
11	KIM'S SNACKS SHOP	BAKERY
12	BAKERS MALL	BAKERY
13	WILL BAKERS	BAKERY
14	AHADI BAKERS	BAKERY
15	LUANDA BAKERS	BAKERY
16	UMOJA ROYAL BAKERS	BAKERY
17	CORNER BAKERS	BAKERY
18	MASTER BAKERS	BAKERY
19	NICE CAKE BAKERS	BAKERY
20	N.K. BAKERY	BAKERY
21	BENEKA HOME BAKERS	BAKERY
22	EMMANUEL BAKERS	BAKERY
23	MAIKAR PRODUCTS	BEAUTY PRODUCTS REPACKAGING
24	NICELINE PRODUCTS	BEAUTY PRODUCTS REPACKAGING
25	RM PETROLEUM	BEAUTY PRODUCTS REPACKAGING
26	COFFEE & TEA MAINTAINANCE LIMITED	COFFEE MILLS SERVICING
27	SAMPHIL ENGINEERING WORKS	ENGINEERING WORKS
28	ODHIS MECHANICAL ENGINEERING	ENGINEERING WORKS
29	USALAMA ENGINEERING WORKS	ENGINEERING WORKS
30	NYAGAH MECHANICAL ENGINEERING	ENGINEERING WORKS
31	KIKO ENGINEERING AND DESIGN	ENGINEERING WORKS
32	JETHA METAL ENGINEERING WORK	ENGINEERING WORKS
33	OASIS FABRICATORS	FABRICATION
34	NAIROBI TECHNO SPORTS	FOOTBALLS MANUFACTURE
35	LASER CHEMICALS	INK REPACKAGING
36	LAIBUTA CHEMICALS	INSECTCIDES REPACKAGING
37	MOLAR PAINTS	PAINTS MIXING

38	UNITED PAINTS	PAINTS MIXING
39	SOLAI PAINTS	PAINTS MIXING
40	ELMCO PAINTS	PAINTS MIXING
41	ALPHA PAINTS	PAINTS MIXING
42	SEWECO PAINTS	PAINTS MIXING
43	PICASSO CHEMICALS	PAINTS MIXING
44	TAIGA PAINTS	PAINTS MIXING
45	DECO PAINTS	PAINTS MIXING
46	AQUA PAINTS	PAINTS MIXING
47	PRIME COATINGS	PAINTS MIXING
48	BENZOCHEM PRODUCTS	PAINTS MIXING
49	MUHARATA FOOD COMPANY	POSHO MILLS
50	KEJOFRA POSHO MILLS	POSHO MILLS
51	DAJOVETER ENTERPRISES	ROOF WASHERS MANUFACTURE
52	DOVE WAX LTD	SHOE POLISH MANUFACTURE
53	GUINEA TWO	SHOE POLISH MANUFACTURE
54	DOVE WAX III	SHOE POLISH MANUFACTURE
55	KANGAROO BRANDS	SHOE POLISH MANUFACTURE
56	ORION CHEMICALS	SHOE POLISH MANUFACTURE
57	SURE CLEAN PRODUCTS	SOAP MANUFACTURING
58	BENKEN HYGIENE PRODUCTS	SOAP MANUFACTURING
59	SIMBA SOAP	SOAP MANUFACTURING
60	RATILI ENGINEERING WORKS	WEIGHING SCALES ASSEMBLING
61	COMOROCK SCALES	WEIGHING SCALES ASSEMBLING
62	DAVID SCALES	WEIGHING SCALES ASSEMBLING
63	WILAD MOULD	WEIGHING SCALES ASSEMBLING
64	JUPITER SCALES	WEIGHING SCALES ASSEMBLING
65	WEIGHLAND ENTERPRISES	WEIGHING SCALES ASSEMBLING
66	ALTECH ENTERPRISES LTD	WORKSHOP
67	KIMANGU FABRICATORS	WORKSHOP
68	JUA KALI GENERAL WORKSHOP	WORKSHOP
69	CEJO INVESTMENT	WORKSHOP
70	COMAS ENGINEERING	WORKSHOP