

**RESPONSES OF MICRO AND SMALL ENTERPRISES TO
BUSINESS OPPORTUNITIES IN KENYA: THE CASE OF
METAL WORKERS IN CIKOMI? A JUA-KALI IN NAIROBI. ^**

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A Management Research Project Report submitted in partial fulfillment of the requirements for the award of a Degree of Master of Business Administration (MBA), Department of Business Administration; School of Business: University of Nairobi.

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DECLARATION

This Research Project Report is my original work and has not been submitted to any other institution of higher learning for the award of any Academic Certificate or Degree.

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

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DEDICATION

This work is dedicated to my beloved wile Rosemary Akinyi.

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TABLE OF CONTENTS

Declaration	ii
Dedication	iii
Acknowledgements	iv
List of Tables	vii
List of Acronyms	viii
Abstract	ix
CAPTER ONE: INTRODUCTION	1
1.1 Background	1
1.1.1 Organization Responses and Business Opportunities	2
1.1.2 The Kenyan business Environment and Opportunities	6
1.1.3 Micro and Small Enterprises in Kenya	10
1.1.4 Micro and Small enterprises in Gikomba Jua Kali in Nairobi	11
1.2 The Research Problem	
1.3 Research Objective	14
1.4 Importance of the Study	
1.5 Overview of the Report	
CHAPTER TWO: LITERATURE REVIEW	15
2.1 The Business Environment	15
2.2 Micro-and-Small Enterprises	17
2.2.1 Neo-Classical Theories	18
2.2.2 Theory of Flexible Specialization	18
2.2.3 The Network Approach Theory	19
2.2.4 Characteristics of Micro and Small Enterprises	19
2.2.5 Environmental Challenges and Responses of Micro and Small Enterprises	
2.3 Kenya's Micro and Small Enterprises in the Business Environment	24

CHAPTER THREE: RESEARCH METHODOLOGY.....	28
3.1 Research Design	
3.2 Population	
3.3 Sampling.....	28
3.4 Data Collection Method.....	29
3.5 Data Analysis Method.....	29
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.....	30
4.1 Profile ofThe Enterprise and Entrepreneurs.	30
4.2 The Responses ofMSEs to the Available Opportunities.....	32
4.2.1 Strategic Responses.....	^
4.2.2 Operational Responses.....	^
4.3 Factors the Responses to an Opportunity by MSE Entrepreneurs.	35
4.3.1 Demographic Factors.....	35
4.3.2 Environmental Factors Analysis.....	38
4.4 Support Programmes needed by MSEs to appropriately respond.....	39
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	40
5.1 Discussions and Conclusions	
5.1.1 Responses to Opportunities	
5.1.2 Factors Influencing the Responses.....	43
5.2 Limitations ofthe Study.....	45
5.3 Recommendations for Further Research.....	45
5.4 Implications for Policy and Practice.....	45
REFERENCES.....	47
APPENDICES.....	54
Appendix A: Questionnaire.....	54
Appendix B: Letter of Introduction.....	59

LIST OF TABLES

Table 4.1.1 Age of the Respondent.....	30
Table 4.1.2 Level of Education.....	30
Table 4.1.3 Number of Employees.....	31
Table 4.2.1 Strategic Responses to Opportunities.....	33
Table 4.3.1 Cross Tabulation of Gender Vs Responses obtained.....	36
Table 4.3.2 Cross Tabulation of Age Vs Responses obtained.....	37
Table 4.3.3 External factors that Dictate the choice of an Opportunity.....	38
Table 4.3.4 Internal Factor Analysis.....	39

LIST OF ACRONYMS

Acronym	Meaning
B.A.I	British American Tobacco
CBS	Central Bureau of Statistics
CDF	Constituency Development Fund
COMESA	Common Markets for East and Southern Africa
DDF	District Development funds
DFI	Development finance Institutions
EPPO	Export Promotion Programs Office
GDP	Gross Domestic Product
ICDC	Industrial Commerce Development Corporation
ILO	International Labour Office
JLBS	Joint Loans Board Schemes
KAM	Kenya Associations of Manufacturers
KBS	Kenya Bureau of Statistics
KETA	Kenya Export Trade Authority
KEDS	Kenya Export Development Schemes
KFE	Kenya Federation of Manufacturers
KWFT	Kenya Women Finance Trust
KIE	Kenya Industrial Estates
NIC	Newly Industrialized Nations
NGO	Non-Governmental Organizations
SEFCO	Small Enterprises Finance Company
SEPPIP	Sessional Policy Paper Implementation Program
MSE	Micro-and-Small Enterprises
UNIDO	United Nations Industrial Development Office
WTO	World Trade Organization

ABSTRACT

Micro and Small Enterprises (MSEs) has become a major contributor to the world's *economy*. *Many countries* have embraced the sector as a significant contributor in employment creation, Gross Domestic Produce and a pool from which medium size and large firms can develop. The way in which the sector interacts with their business environment, and their continued survival and development has been the subject of debate for along time. In Kenya, Micro and Small Enterprises cut across all sectors of the economy and provide one of the most prolific sources of employment. A lot of business opportunities have been presented by Kenyan environment, and MSEs are expected to appropriately respond and grow.

This Report was a study of the responses of MSEs to their environmental opportunities, and its objective was to determine how Kenyan Small and Micro Enterprises respond. A survey method was used to study enterprises dealing in metal works in Gikomba Jua-Kali area in Nairobi. Their responses were considered appropriate for generalization due to their strategic location and the overwhelming attention they have received from the Government and private sector.

The study found out that several internal and external factors in the environment determine the identification and choice of an opportunity to be exploited by an entrepreneur. These include age of the entrepreneur, availability of capital, security etc. In responding to opportunities, strategic thought was found among proprietors except they were not written down. MSEs were found to respond to the opportunities **by** choosing to follow strategies peculiar to them such as networking and flexibility. **Some** elements of Michael Porter's generic strategies were also identified to be used **by** entrepreneurs in the sector. Operational responses to opportunities were found to **be** spontaneous as most MSEs are a one-man-show.

The study recommended that support be given to this sector in form of skills development programmes, culture change programmes and financial and marketing support. Further studies are required to cover other constituencies of MSEs on the same subject given that the sector is very wide by definition.

CHAPTER ONE: INTRODUCTORY

1.1 Background

Micro and Small Enterprises (MSEs) are found in almost all nations of the world. The desire to create small businesses is almost as widespread as the population of mankind in the world (Scarborough 1996). Studies done in USA showed that this is the age of the entrepreneur, and that more people are opening small businesses in USA and across the globe than are getting married. Micro and Small Businesses are not peculiar to one industry but are found in every sector of the economy, and every year several million thousand new ones are formed. They provide vital services and manufacture many needed products to their customers, while providing livelihood and jobs to their owners (Anderson 1993).

Researchers of Micro and Small Enterprises increasingly are agreeing that individual small enterprises can not be understood in isolation from the environment in which they operate. However there is less agreement on the nature of the interactions between the enterprise and the environment. Some writers perceive the interactions as consisting of small and large enterprises existing and competing on equal terms where [price and quality are the only variables, while on the other hand, some scholars see MSEs as being marginalized by large firms, and have little opportunities to advance in an economy completely dominated and controlled by large organizations (McCormick and Pedersen 1996). Between these extremes are other conceptions such as the Network theory which states that the MSEs' interactions with their environment is In networking based on personal relations, trust and reciprocity. McCormick and Pedersen (1996) indicated that networks of MSEs may result into creation of agglomerations of small and medium size interacting firms engaged in the same differentiated activity complex.

The general business environment is influenced by various factors such as globalization, changing consumer demands, changing suppliers, changes in political-economic conditions, competition and societal demands such as the need for environmental conservation. The result of these environmental conditions has been the emergence of both opportunities and constraints to the business community in general. It is also important to note that the environment is not static but keeps on changing.

Enterprises operating within dynamic business environment are affected either positively or negatively, such that they must carefully analyze the interactions between corporate policies and their environment in order to maximize efficiencies and take advantage of the opportunities (Kibera 1996). Countries usually have both market and non market environments. Market environment involve the interactions with households and other organizations free from government interferences. Non market environment include public and non public institutions. Both environments require different strategies for positive interactions and responses to capture the available opportunities (Daniels and Ernest 2001). A firm must understand what opportunities are in the business environment that is most crucial in determining its ability to create and sustain competitive advantage.

1.1.1 Organization Responses and Business Opportunities

Businesses are expected to respond appropriately to their environment by capitalizing on available opportunities to enable them survive and grow. If a firm does not respond appropriately to the opportunities presented by the business environment in which it operates, it most likely is heading for closure, especially with the current globalization trends. Kenyan firms, including Micro-and Small Enterprises, must take advantage of the opportunities in their business environment to grow and remain profitable (Republic of Kenya sessional Paper No.2 1996).

Many governments tend to have a greater influence of the environment in which businesses operate hence shape the nature of opportunities that will be available. Nations attribute their development to development in their industries (Porter 1990). The principle goal of government interactions with industries is to produce higher and rising living standard for its citizen, the ability of which depends on the productivity of its companies. A rising standard of living depends on the capacity of a nation's firms to achieve high level of productivity and increase over time (Porter 1998). To this effect governments encourage investments in their countries through creating enabling environment by way of policies and legislations, thus contributing to some opportunities available for enterprises to exploit. Under such conditions the firms are expected to relentlessly improve productivity in existing industries by rising product quality, adding desirable features, improving technology etc. in order to maintain competitiveness (Porter 1998).

Apart from opportunities created directly by government policies and legislations, market environment also offer a great deal of challenges such that businesses must analyze and respond appropriately to take advantage of the opportunities presented. The market environment includes: cultural and economic environments. (Daniels 2001). The Kenyan business environment, like any other, has physical, historical, economic, political-legal and socio-cultural dimensions, offering opportunities for enterprise growth and development (Kibera 1996). All these require appropriate responses by firms in order to survive and grow. Responses can either be strategic or operational.

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Strategy answers the fundamental questions of 'where do we want to go? ; Where are we now? ; and how do we get there?' Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include: Objective setting, which involve long term and short term goals; the vision and mission of the company; Strategic directions which addresses what business activities should the company concentrate in and where; Competitive strategy where by after considerations of the firm's competitive strengths and weaknesses vis-a-vis competition and customer needs, the company establishes a position of competitive advantage (Lowes and Sounderson 1994).

Firms are normally required to do an analysis of the environment before choosing the strategic responses that will enable it to grow. The firm may choose any of the generic competitive strategies. Cost Leadership can be achieved through efficiencies, cost reductions, overhead reductions etc. Differentiation may take the form of design or brand image, technology, quality, durability, after sale services, Distribution and market mix. Focus involves focusing on a particular buyer segment, or geographic markets. A firm failing to develop its strategies in any of the three directions is referred to by Porter (1998) as 'stuck in the middle' and suffers from lack of focus, low motivation, blurred corporate culture and conflicting set of organization arrangements.

The strategic directions a firm may choose include Market penetration strategy, Market development strategy, Product development strategy or Diversification strategy. This could also be described as Horizontal growth, Vertical growth, Conglomerate growth or internationalization (Ansoff 1990). In deciding on which direction to grow the firm

must also determine to what extent it must expand externally and internally. Internal growth involves expanding a firm's internal capabilities such as production, distribution and marketing facilities. External growth may include mergers and take-over. While a firm may seek to expand its business in one of the various ways it may also choose to rationalize and restructure (Ansoff and McDonnell 1990).

Some indicators of strategic moves of a firm in response to opportunities and threats in the environment include: situations where Competitive advantage grows out of continuous improvement, innovation and change. In the home government is integral to the process of perceiving the opportunity for innovation and successfully implementing it. It is upon the firm to position itself such that it is able to improve and innovate while taking advantage of the national environmental opportunities, and overcoming organization inertia. The other thing is that competitive advantage must involve the entire value system i.e. all activities, suppliers, channels and buyers. A competitive advantage emanates from continuously new ways of managing the value chain, firms can restructure channels, or integrate with suppliers or combine activities with buyers. For international advantage, there may be formation of world class clusters as asset for the firm. Other indicators of strategic moves are relentless improvements, continuous upgrade of advantage sources, and a global approach to strategy (Portei 1998). A company's actual strategy is either planned intended or adaptive reactions to changing circumstances (Thompson 1998). Adaptive reactions may be common with MSLs than multinationals.

Many governments have always viewed industrialization as growing from small firms to large ones. However, the Flexibility theory argued that flexible specialization and co-existence is necessary between large and small industries to balance the economy. Pedersen observed that in this co-existence small firms always focus in market niches not served by large ones. Because these niches are very unstable, MSLs use three strategic options to respond to the opportunities in the business environment. These include: Flexible Specialization by investing in multipurpose machines and skilled Labour; or Minimize investment in machinery but use unskilled Labour who can be hired and fired at short notices; or employ no Labour but rely on own or family Labour. All these strategies require networking (McCormick and Pedersen 1996)

Operational responses are the day-to-day running of the organization. These are activities required to create and deliver a product. In most organizations, whether private or public, small or large, production or services, the bulk of their human and financial resources are invested in their operational functions. Within operation is included all those activities required to create and deliver a product or services, from procurement through conversion to distribution. Operational activities are just waiting to make up for delays or problems. They are non-strategic in nature and some are just routinely done on a daily basis.

In most cases organizations respond by *adjustments of their processes* and resources (Galloway 1990). For example if the government increases wages, the organization will react by reducing the workforce or increasing their working hours. For small and micro enterprises the response will be instant. The market place drives corporate strategy which in turn drives operations. The direct production resources dealt with in operation involve the 5-*Ps* of operation: People, Plants, Parts, Process and Planning and control systems (Galloway 1990). Operations in large firms start from assessing customer needs and expectations which are then translated into orders and further into outcomes.

Regardless of the original intent, companies often find themselves doing things they didn't plan on doing but are somehow required for survival (Baumback 1988). External forces in the environment always shape operations. Large firms always respond by adjusting on the 5 *Ps* of operation, for example resorting to retrenchments or process efficiency. On the other hand Micro and Small Enterprises find it very difficult to respond to the ever changing environmental demands. Many problems in the MSE sector are inherent in the small size of the enterprises and the environmental factors such as funding, taxation, personnel, and patent abuse etc. (Baumback 1988).

The scope of operational responses to business opportunities of a firm depends on the problem areas in the industry. There are several common problem areas which are recurrent in many industries. These include Inventory management; Scheduling and timings; Capacity management; Design and planning; Process/ system design and specifications; Location of facilities; Lay out of facilities and materials; Work and job design; Remuneration systems; Operation control; quality and reliability; maintenance and replacements and performance measures, thus Operations Managers must work in

collaboration with all other departments. In small organizations like MSEs, all the areas will be the responsibility of one person (Baumback 1988).

1.1.2 The Kenyan Business Environment and Opportunities

The Micro and Small Enterprise industry has been in the focus of Kenyan Government, the Private sector and NGOs since Kenya's independence in 1960s. During this time a lot of changes in the operating environment of many businesses, including the Micro and Small Enterprises, have been taking place. As the changes gained momentum, the MSE sector seemed to experience mainly horizontal growth with very minimal vertical growth pattern (McCormick and Pedersen 1996), (CBS, ICEG and K- Rep 1999). During the structural adjustment period in Kenya of the 1980s many people left formal employment due to retrenchment and joined MSE sector as the only alternative source of employment. The government also realized the potential of the sector in providing employment to its population, and since then has been providing enabling environment to allow Micro and Small Enterprises transform into medium size companies. Private sector and NGOs have also been supporting this sector in various other ways as explained in Republic of Kenya (1986), Republic of Kenya (1989), Republic of Kenya: sessional paper No 2s of (1992, 1996, and 2005).

Business sectors in Kenya respond differently to the opportunities with varied results depending on the choice of the responses strategy and the type of industry involved. Some Firms have closed down or relocated to other countries because they perceive threats to outweigh opportunities, while at the same time, others still find and tap opportunities for growth. Multinationals find it easier to respond to environmental opportunities due to their large size and economies of scale, while Micro-and-Small Enterprises may find it very hard to do so. A base line survey in Kenya on National Micro and Small Enterprise by CBS, ICEG and K- Rep (1999) found out that vertical growth is negligible among Micro and Small Enterprises yet many of them have sprung up due to increased horizontal growth. The same sentiments were shared by Waweru (2002) who also did a study in Kenya and found out that MSEs pursue horizontal growth pattern in order to reduce perceived business risks.

Despite substantial funds that have been poured into the sector by the Kenyan Government and NGOs, together with a number of market and non-market business opportunities available to the MSE sector to enable them graduate into medium size organizations, not much has been achieved. Very few Micro-and Small Enterprises are able to graduate into the formal medium businesses. Kenya still lacks enterprises employing between 10 and 50 persons representing the missing middle in Kenya's economy, yet MSE sector has been looked at as the very source of growth into this category (Republic of Kenya: Sessional paper No 2 of 1992, 1996, and 2005).

It has been the ambition of the Kenyan government that every Kenyan benefit fully from the fruits of independence by improved quality of life that matches that of developed nations. To realize this dream, the government has been drawing up plans that would take the country forward (Republic of Kenya: Sessional paper No 2-P992, No 2 1996 and No.2 2005). The long term objective of the government has been to have a sustainable economic growth and a rapid employment creation through Industrialization. The idea is to transform Kenya into a prosperous industrialized nation.

The strategy the government chose to pursue is a Joint venture with both its internal and external investors (Pearce and Robinson 2001). In this strategy the contribution of the government has been to act as a facilitator of private enterprise growth, by establishing conducive policy environment; Sound Micro economic management; maintaining the rule of law together with social and political stability; Investing in physical infrastructure and human resource development; Guarding against human exploitation and environmental degradation; and pursuing Kenya's interests in international agreements and relationships. The private sector must seize the opportunities created by the government and take the initiative to invest in productive enterprises that create jobs and a competitive industrial sector. Also for industrial transformation to take place the private sector must nurture an industrial culture and a reward system that cherishes devotedness, honesty, hard work, discipline and sacrifice (Republic of Kenya: Sessional Paper No 2 1996).

As a result of government focus on growth of its industries, a number of opportunities have been created which enterprises, particularly Micro-and Small Enterprises, can appropriately respond to and capture. These include: Liberalization of the information sector which has created diverse opportunities in mobile phone services, the internet, electronic and print media resulting into quick information (low, cheap knowledge acquisition, advertising and E-business opportunities (Republic of Kenya: Sessional Paper No 2 1996). In a bid to encourage investment the government has provided incentives which include: investment allowances for establishing new factories outside Nairobi and Mombassa; exemption of import duty on machinery for rural areas; relaxation of quantitative import restrictions which has favored MSEs; and establishment of rural development funds such as CDF or DDF: (Republic of Kenya: Sessional Paper No. 2 1996 and 2005).

On the political scene Kenya is one of the nations in the world which is considered to be stable with a peaceful socio-political environment conducive for trade and industrialization. Though corruption is still rated high, the advantages of peace outweigh effects of corruption since the entrepreneurs can do business freely and-even expand to other parts of the country without fear. This has opened a larger internal market to be exploited by entrepreneurs particularly MSEs.

A survey on employment and income in small and micro enterprises by CBS: ICETi; and K- Rep.(1999) indicated that majority of entrepreneurs (80%) have at least some formal education. The most recent attempt to improve literacy is the free primary education. The government is also currently offering technical training in the various institutions such as youth polytechnics, NYS, training school, National Polytechnics and industrial training being offered by Directorate of Industrial Training (Republic of Kenya: Sessional Paper No. 3 1996). This focus on developing human resources in Kenya has provided opportunities for technology development and sound enterprise management.

In order to promote demand the government has encouraged formation of Export oriented bodies such as KETA (Kenya Export Trade Authority), KEDS (Kenya Export Development Scheme; EPPO (Export Promotion Programs Office, Kenya National Chamber of Commerce and Industry, National Trade Shows etc. These associations are

available for consultation and assistance to the business community as a whole including MSEs. This has created opportunities in export markets. The government has also encouraged inter-industrial linkages and offered opportunity for market in the public sector, though this requires that the enterprises be registered under registrar of companies first. To encourage international buyers to have confidence in the Kenyan products the government has established Kenya Bureau of Standards (K.I.S.S) which is recognized internationally as a quality control institution. The Kenyan government is also a member of regional and world trade bodies such as WTO, COMESA and East African Community, which has provided expanded market for Kenyan products. (Republic of Kenya: Sessional Paper No. 2 1996)

Since independence a considerable financial institutional growth has been realized to support MSE sector. Over 48 institutions work in the areas of credit, training, technology and infrastructure development as a result of the MSE sector asking for credit support (ILO 1972). Institutions providing small-scale credit to MSEs include Commercial banks, Development Finance Institutions (DFI) and Non-Governmental organizations (NGOs). Banks which were initially very difficult have evolved their lending schemes to accommodate MSEs. DFIs also targeting Micro and Small enterprises include Kenya Industrial Estates (KIE), Small Enterprise Finance Company (SEFCO), Industrial Commerce and Development Corporation (ICDC) all of which were created to finance the MSE sector. There are also over 30 NGOs interested in financing the sector such as K-Rep, PRIDE International, Kenya Women Finance Trust (KWFT) and others (McCormick and Pedersen 1996).

Apart from business opportunities created by the government, there are those created by market environment which are varied in nature. Small and Micro Enterprises are expected to take advantage of them and grow. These include: the physical location of Kenya on the eastern coast of Africa with a port of entry providing transit trade to other countries in the continent. A lot of business opportunities to trade in other countries of Africa can be realized by Kenyan MSEs in this area. Being in the equator agro-business opportunities also exist (Kibera 1996).

Although Economic environment has been doing poorly previously due to corruption and bad governance (Government of Kenya 2004), Kenya's economy is currently stable compared to what it was, and there is evidence of growth. This situation is more promising in terms of investment and entrepreneurial opportunities for Micro and Small Enterprise. Socio-cultural environment in Kenya is such that there are about 43 tribes with different tastes for different consumer commodities. There are also different social classes, different age groups and extended family ties in Kenya (Kibera 1990). This presents a wider range of opportunities for products to satisfy all this diversity.

In terms of technological environment, we are in the computer age where most technologies are computerized for efficiency and precision to the satisfaction of consumers (Kibera 1996). The use of such technology is now affordable and MSEs can now engage them to gain competitive edge over new entrants. Technology transfer has also been made easier by improved communication, the internet, air transport and infrastructure development. Many Kenyans now traveling abroad are expected to bring back new technology which would then diffuse into the small enterprise sector. This has offered good opportunity for developing Kenya's technology to match other countries. Improvements in knowledge and the need to travel and do business have also encouraged urbanization which has been a very significant aspect in creation of opportunities. Many people who move to town centers are job seekers and/or are in low economic class and depend entirely on the MSE who they consider to meet their immediate needs (Ouma 1990)

1.1.3 Micro-and Small Enterprises in Kenya.

A National baseline survey by CBS, ICEG and K-Rep (1999) found out that there are about 1.3 million MSEs countrywide employing 2.3 million people, 26% of which are involved in non-farm activities. About 66% of all MSEs in Kenya are found in urban centers. The role of MSE sector in Kenya is mainly provision of employment to the working age population, and making significant contributions to GDP. A study on gender preferences indicated that males tended to concentrate on "Jua Kali" activities by its technical definitions and females on commodity sales in the markets. The mean age of proprietors was found to be 16-33 years, showing that the majority are young (Ouma 2002).

The level of education of MSB proprietors is relatively high with the average years spent in school being 9.41. Those who have not gone to school contribute only 2% and those with the highest education (high school) 3%. Most of them i.e. 84% (excluding those who never went to school and those with incomplete education) are literate. 36% completed secondary education, 29% completed primary school and 16% did not complete secondary school (Ouma 2002). Most of the MSEs 80.5% are individually owned, 10% partnerships and 9.5 begin as family enterprises.

1.1.4 Micro and Small Enterprises in Gikomba-Jua Kali in Nairobi

Nairobi is the capital city of Kenya, housing the largest number of MSEs in the country. It has the largest open air- market in East Africa called Gikomba. Nearly all traders in this market are categorized as Micro and Small Enterprises. The market has all kinds of enterprises representative of the Kenyan MSEs. MSEs in Gikomba can be classified in to the one- digit International Standards of Industrial Classification (ISIC grouping) as: Manufacturing, Trade, Transport, Services, Financial institutions, and Water-works (Ouma 2002).

Gikomba-Jua Kali is located along Jogoo Road, bordering Kamukunji grounds, Shaurimoyo estate and Bama market. Entrepreneurs in this place deal mainly in metal works, making all sorts of metal goods from metal boxes, pans, cans, energy saving jikos etc. The majority of the entrepreneurs are male mainly manufacturing by hand, although women are also owners of enterprises but employ men to do the molding work. Most of the businesses here can be classified as Micro as they employ below 10 people. However there are some which qualify to be classified as Small, employing more than 10 people. The entrepreneurs here are members of an association called Gikomba Jua-kali Association with a membership of 1125 entrepreneurs (Association secretary-2007). This number normally changes frequently as new members are registered and others quit. The Government, NGOs and private organizations such as B.A.T have for along time focused a lot of resources in this place with the hope of providing opportunities to enable MSEs in the area to graduate into small or larger companies (Republic of Kenya Sessional Paper No 2 1996).

1.2 The Research Problem

The operating environment of any organization is always very dynamic such that time and again new opportunities and threats emerge. Although changes in the business environment may create different challenges to varying industries, the way in which the industry players respond will determine their performance. According to Porter (1998), businesses which fail to do an environmental analysis to identify opportunities, threats, strengths and weaknesses, will not have competitive advantage over others and are destined to fail. Evaluating the opportunities is the starting point of all growth of the business as the entrepreneur will understand what business strategy can tap the environmental opportunities, resources required and costs and returns expected. Once the opportunity is identified the entrepreneur is expected to develop a business concept in response to exploit this opportunity. This strategy will then determine failure or success of the organization (Stevenson 1989).

In Kenya there have been various opportunities that Small and Micro Enterprises could take advantage of and grow to medium and large firms, creating employment and income to the excess labour in the country. The very dynamic market environment fueled by globalization and changing consumer and supplier demands has brought with it various challenges and opportunities too. Despite these opportunities since independence, the results have been unsatisfactory for MSEs in terms of vertical growth. Only very few MSEs have actually graduated to the formal sector, while only very few live to celebrate their third anniversary (McCormick and Pedersen 1996).

If the responses to the environmental opportunities are inappropriate and many MSEs fail to meet their business objectives, Kenya stands to lose on contribution to GDP; job creation; a pool of skilled and semi skilled workforce for future industrialization; linkage among various socio - economical sectors; a cushioning from damping; indigenous contribution to Kenya economy; rural - urban balance and ability to adopt quickly to global market changes (Republic of Kenya: sessional paper No 2 1992). The way in which the sector responds to the various opportunities in the environment requires a study to facilitate both government and private organization support to the sector. The study seeks to answer the question: How do the Micro and Small Enterprises in Gikomba Jua kali in Nairobi respond to the business opportunities in Kenya?

1.3 The Research Objective

The objective of the study was to determine how the Micro and Small Enterprises respond to the business opportunities in Kenya.

1.4 Importance of the Study.

Kenya government has relentlessly strived to give a lot of attention to this sector with the hope that it will transform the nation to be industrialized (Republic of Kenya: Sessional Paper No 2 1992, 1996, 2005). Continued research in this sector has always enabled the government to adjust its strategies of improving the sector. Many studies have been done on MSEs, however not much has been done on their responses to what the business environment offers in terms of opportunities.

Secondly there have been much academic pre-occupations with the Informal and Micro Enterprise Sector, and the government policy priorities. These academic perspectives on the MSEs are very different from the policy approaches even though academics are frequently tempted to hope that their work has strong policy consequences. However it is evidenced that these academic literature, rich and varied, are a considerable distance from the interest and ambitions of the many different constituencies of MSEs. The views of those who work in this sector are fundamentally absent from the current debate about the sector. We know some of the surveyed views that are felt to be important in the policy arena such as access to credit, training, infrastructure etc (McCormick and Pedersen 1996). "However we need to know how MSEs respond to the opportunities in their business environment. Lastly this study on the responses of MSEs to business opportunities will add up to the knowledge about Kenyan MSEs that will facilitate government's policies focused on growth of the sector.

1.5 Overview of the Report

The study is organized into five main chapters. Chapter one introduces the study by giving background information about the research subject. It covers organization responses to business environments; opportunities in the environment and Small and Micro-enterprises in Kenya and specifically in Gikomba-Jua kali market. The objectives of the study, its significance and a statement of research problem are also stated here. In chapter 2 all related literature in the subject is reviewed. It summarizes the concepts around responses of organizations to business environment and highlights

some studies on MSEs in their Kenyan environment. Chapter 3 presents the methodological framework used in the study. It outlines the research design, the population of interest, sampling methodology, and data collection and analysis methods. Chapter 4 contains data analysis and findings and how they integrate with the research problem, their relation to other research on the subject and applications for further research. Chapter 5 contains summary, conclusions and recommendations.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Business Environment.

The business environment is dynamic and keeps on presenting Hotti opportunities and challenges to organizations that operate in it. Factors that influence the business environment include: the government, socio-economic factors and globalization. Organizations must survive *by analyzing the environmental* dynamics; identifying the opportunities and responding in a way that ensures their survival and growth.

A new age paradigm is emerging in the business environment where governments are expected to do less. They should reduce their responsibilities, privatize public setyices where practicable and reform their own operations (Self P -1998). What has been driving this change is the question as to why some nations are seen to be more prosperous than others (Porter 1990). According to Porter a better question would be "Why does a nation become the home base for so many of an industry's world leaders"? While struggling to answer this question, governments try to encourage investments in their countries to meet high productivity level that would guarantee improved living standards. It is the decisive characteristics of a nation that would allow its firms to create and sustain competitive advantage in a particular field.

The environment has been found to influence modern competitiveness of firms within it. The environment can influence and be influenced by the determinants of competitiveness. The four determinants are; firms strategy structure and rivalry, factor conditions; demand conditions and related and supporting industries. Factor conditions are affected through subsidies, policies towards capital markets, .policies towards education, etc. (Porter 1990). The government has been found to acts as a regulator, buyer, and shapes supporting industries and hence plays a very important role in determining the environmental conditions (Republic of Kenya: SFPIP-1996). The determinants measure the extent to which the national environment is a fertile one for competing in an industry. In most cases the environment keeps on shifting resulting in to a highly unpredictable situation (Steincr and John 1997), "Sunk worker" case. Social and political stability in the business environment also play a very significant role in influencing the industrialization process.

Globalization of business environment is fast catching up with every entrepreneur, and has created a new situation where new kinds of jobs are becoming available; new industries are created; production, consumer and trade is changing; markets are unsettled; and economic policies are shifting in any business environment creating all kinds of opportunities for organizations to take advantage of (Ilickman 1992).

Having a favorable business environment with opportunities is not assuring success for an organization. It is up to the enterprises to seize the opportunities in the environment through strategies that tap both national and international advantages. Porter's study of over 100 industries world wide showed that successful firms that enjoyed sustained competitive advantage manifest certain underlying behavior of exploiting business environmental opportunities. Though (their strategies differed, their character and trajectory overtime were similar (Porter 1998). However small business owners' were found to deal with many unknowns and no available research on activities help them make decisions (Torrence 1987). The subject of small firms' growth in relation to business environment remains an area where scholars have limited understanding; hence they have resorted to survey methods of data collections to obtain any information. (Scott, Gibb, Lewis and Faulkner 1990)

Martin Brinks and Andrew Jenmings in their study of 100 firms in the U.K. concluded that small firms tend to start up during economic recession when large companies tend to retrench (Binks and Coyne 1993). They identified reasons that made people start up Small Enterprises as: retrenchment in large firms; Management buy-outs; new technology available; forced discoveries due to job insecurity; new entrants and the 'Black Economy. McCormick and Pedersen (1996) observed that the motives for starting MSEs include: income generation, presence of market opportunities, desire for independence, expertise and forced entrepreneurship. Iain Milne and Marcus Thompson in "The Infant Business Development" by Scott, Gibb, Lewis and Faulkner (1990) observed that small businesses have very short life cycles and knowing their needs will enhance support to the sector. They concluded that the help MSEs need include: Premises, Finance, People, Materials and Service. They don't need bureaucracy, as government agencies normally waste their time since time to them is at premium. Whenever they employ others they expect employees to strive like them yet employees require structured employment conditions.

2.2 Micro and Small Enterprises

The definition of Micro and Small Enterprises is not easy, and many people have given varying definitions to it. The Small Business Administration in USA tried to define it by the number of employees and annual revenues, however such definitions make so many exceptions that they become meaningless (Anderson 1993). ILO (1992) defined MSEs as including very small scale units producing and distributing goods and services consisting of independent, self employed producers in urban areas of developing countries, some of which employ family labor and or a few hired workers or apprentices; that labour with very little capital or none at all and which utilizes low level technology and skills. They are for most parts not registered and un-recorded in any official statistics. They tend to have little or no access to organized markets, to credit institutions or to many public services and amenities. They are not recognized, supported or acquired by the government.

In the Kenyan context many people define MSEs as the informal or the 'Jua Kali' Sector. CBS, Republic of Kenya (1986) defines it as consisting of "self employed persons in open markets, in market stalls, in underdeveloped plots or on stalls, on street pavements within urban centers. Others refer to MSEs as 'Jua Kali', which is a synonym to all kinds of jobs that people do to earn some extra income outside formal employment for those employed and small and micro business activities for those without formal sector jobs. In the Kenyan context Jua Kali refers to manufactures and repairs enterprises e.g. tinsmiths, shoe makers, motor vehicle repairs etc, and traders in open air markets selling all commodities and services (Ouma 2002). Ministry of Technical Training and applied Technology delines Jua Kali technically as all those business activities that use technical skills and know-how to manufacture goods, or in provision of services.

All the businesses included in the definitions above are MSEs. However the working definition includes other attributes such as in the sessional paper No 2 of (1992), which defines MSEs as all those business which employ between 1-50 workers. Small enterprises are those that employ 1-10 workers while micro enterprises employ 1-10 workers. This definition also includes small scale farmers located in the rural areas, however this study excludes them. For purposes of this study we will use the latter definition in Republic of Kenya: Sessional Paper No 2s (1992 and 2005).

Much of the discussions about the Micro and Small Enterprises have for a long time been based on the perception that industrialization of countries is a process leading from small scale to large scale production. The irony was that Micro and Small Enterprises continued to exist. This existence was viewed as an anomaly to be avoided (McCormick and Pedersen 1996). For this reason developing countries have always invested in the sector as the primary source of industrialization. Kenya being one such *country has* perceived the MSE sector as an intermediate to industrialization (Republic of Kenya: Sessional Paper No 2 1992). From the 1980s this kind of perception started changing gradually and people started embracing the role of Micro and Small enterprises in the economy. New theories were developed around Small firms which include: Flexible specialization theory; Network Theory and Theories of informalization and regulation schools (McCormick and Pedersen 1996). These theories recognized the co- existence of all production sectors.

2.2.1 Neo-Classical Theory

It considers that both small and large organizations are independent economic units producing for the markets on the basis of the forces of demand and supply. This will mean that small enterprises are marginalized by the large ones. Under this theory small enterprises are considered to have very limited chances of advancing and are likely to remain where they are. This theory may look relevant to the developing countries like Kenya where multinationals dominate the market and expanding to even the small niches previously served by MSEs,"as in the case of banking industry (McCormick and Pedersen 1996).

2.2.2 Theory of Flexible Specialization

This theory is based on the flexibility approach where prosperity is achieved by moving away from a rigid mass production of standard goods to a more innovative and flexible system of multipurpose machines operated by skilled workers able to respond to the continuous changes in the environment (McCormick Pedersen 1996). Here skilled workers operate general purpose machines capable of making a wide range of products that can serve different market niches. McCormick and Pedersen argued that this flexibility allows organizations to adapt to even disruptive circumstances which are a common feature in modern world. Flexibility of this kind requires trust between the owner and the employee as the worker will know all about the organization.

Large scale productions require large and stable markets to be profitable. McCormick and Pedersen (1996) identified that developed countries have been able to achieve stable social systems but not stable markets hence to achieve stability of markets; large firms opt out of the small unstable markets and leave them to niche producers or sub-contractors. Small firms venturing into these niches have three strategic options: They may invest in multipurpose machinery and employ skilled labour to create stable production in a fluctuating market; or they may minimize investment in machinery and employ cheap labour which can be fired and hired without problems; or in smallest and most unstable markets enterprises may survive on semi-subsistence economy relying only on family labour (McCormick Pedersen 1996).

2.2.3 The Network Approach Theory

In between the two extremes of pure market and pure hierarchy approaches a number of conceptions of relationship between the enterprise and its environment have emerged. This concept sees the relationship as a network. This networking may take different forms: Primary hierarchical network with larger organizations; or as equitable networks of small and medium firms collaborating to achieve flexibility and collective efficiency; or as cooperative unions; or as equitable social support networks; or patron-client relationships (McCormick Pedersen 1996). These networks usually compete with large organizations and are sometimes internationally linked.

2.2.4 Characteristics of Micro and Small Enterprises

According to ILO (1972) Micro and Small Enterprises are considered to have unique characteristics which influence the way they respond to their business environment. They are normally found in small underdeveloped niches of the market. They are not able to compete with large organizations in mass markets. Their markets normally have low entry costs and low exit costs as well, and are usually unregulated due to their sizes (ILO 1972). They rely heavily on indigenous resources which also influence their location. Majority of MSEs are family owned and in most cases are a one person band. The problem with the one-man show is that it is difficult for the owner-manager to know everything and be able to carry on the jobs which in large organizations are done by different functions (Torrence 1987).

Micro and Small Enterprises are small scale in operations making their survival be relatively more sensitive to environmental dynamics than larger organizations (Slandworth and Curran 1976). Because of their small sizes, their owners normally deal with many unknowns since they do not have the resources to investigate the market before taking the risk. Their sizes also influence the speed and magnitude with which they establish their markets (Torrence 1987). Lack of money is also a factor in their size constraining research and expansion, which result in operating under-capacity during excess demand. Entrepreneurs in this sector lack time as they work with limited resources and make decision alone, and "now" (quick reaction time). The danger is that it makes the situation very volatile as they could also lose all their investment in only one decision (Torrence 1987).

2.2.5 Environmental Challenges and Responses of Micro and Small Enterprises,

fn general Small businesses around the globe face similar environmental challenges which in turn present them with both opportunities and threats. The survival of the enterprises will in turn depend on the way they respond to the environmental challenges. Anderson (1993), in the book "Managing Small Businesses", identified these challenges as : Competition from local and imported goods, Globalization, Financing, Legal problems, Accounting knowledge. Location of business. Personnel, Economic environmental issues, Planning, Capital and management skills etc. A combination of these challenges always constrains the enterprise towards failure. To go with these challenges, the enterprisers faced with a situation of uncertainty of income, risk of losing the entire business investment, long hours and hard work, and low quality of life until the business is established. This normally has an effect on the social life of the entrepreneur (Scarborough 1996).

In response to the environmental challenges small firms take different strategies depending on the nature of the challenges. Brian Fraser(1968), in the book 'A Business of Your Own ', indicated that most businesses which survive the severe competition from the large companies do so through choosing the strategy of specialization and supply of the niches often left out with the large firms. They specialize in doing what large firms can not do. The same sentiment was also echoed by McCormick and Pedersen (1996). In Kenya Micro Enterprises go further by offering tailor-made products and services to their customers (Ouma 2002).

In his study of Small Enterprises in Scotland Reid (1993) identified several strategic measures small enterprises take when faced with various challenges. When setting the prices in response to environmental challenges small firms take into account the volume of sales expected and set price as a percentage mark-up on unit direct cost and use flexibility in production process to improve profitability. In pricing strategy the small firms do not rival their competitors when demand increase, instead they respond to high demand by first increasing overtime to increase productivity, followed by increased capacity through recruitments, and then by lengthening of the order book and subcontracting, then increasing prices and finally buying other firms. However, in times of reduced demand, small firms respond first by increasing sales efforts, followed by reducing overtime, then reducing capacity, then efforts to improve productivity then price cuts and finally reduce stockholding and working time (Reid 1993). Okanda's (1995) study of the strategies employed by micro and small enterprises in Kenya highlighted that some enterprises respond to opportunities through manipulation of stock and employees by establishing the peak periods or seasons and employ worker who can be fired during low seasons.

Reid (1993) also found out that small firms do not engage in formal research but sometimes do advertising of their products to increase demand; however they usually do not vary their advertisements with the changing business conditions such as depressed demand or recession. Many MSE proprietors believe that quality in their products will help in increasing demand more than advertising (Okanda 2005). A study by Reid (1993) also showed that some firms responded to the challenges by investing in technology and innovations of new product lines or sometimes imitations. McCormick and Pedersen (1996) found out that enterprises may invest in flexible technology to be able to change with changing environment while keeping investments low and reducing on waste of capital.

Location has also been used by Micro and Small Enterprises as a response strategy. In Scotland where a study was done by Reid (1993) it was found out that the typical firm locates in markets with low industrial concentration for fear of competition, and only try to maintain a competitive edge by quality of service, efficiency, reliability, quick delivery, service efficiency, competitive pricing and vigorous selling. MSEs Entrepreneurs may also decide to locate near supplies especially where factors of

production are important and expensive to transport. They chose locations where supplies are abundant to reduce supplier's switching costs. A study done in Kenya by Okanda (2005) confirmed that location is being used by MSEs who located near supermarkets to capitalize on the customers who came for shopping and do not find all they needed from the supermarket. Many MSEs in Kenya locate on high traffic pavements of the towns. Visibility is used by many micro enterprises in Kenya as a key consideration in location (Okanda 2005); however the Small firm's location may change over time due to flexibility.

In Porter's (1998) theory of competitive advantage, small firms display the characteristics of the firm at an early stage in their lifecycle, but they spend their time and effort on the niches (Reid 1993). The competitive advantage framework for MSEs thus lies in the segment of the small firm's natural domain. They are too small to act at generic level but Reid modified Porter's theory to depict Small firms as actors in their segments which are part of the wider market of the firm. Porter's analysis of the fragmented markets may provide insight to the small firm environment (Porter 1998). The small firm owners normally use their skills to overcome some of the negative features of fragmented markets which include: low barriers to entry, limited scale economics, limited scope of learning, volatile sales hence high inventory costs, limited bargaining power, Scale diseconomies, etc. Owner managers may try to respond to these challenges by trying to circumvent them through innovations, low cost strategies, and high quality standardization to reduce customer diversity. Other strategies that may be used include product differentiation or specialization by product type, customer type, order type, and adopt bare-bones/ no fill approach (Reid 1993).

The competitive forces of Small and Micro Enterprises are much like that of the Porter's five competitive forces (Porter 1998). They include Rivalry among existing firms; the threat of new entrants; bargaining power of suppliers; Bargaining power of buyers; and potential substitute products. Porter's three generic strategies may be used by the MSEs to respond to the challenges brought by these competitive forces. These are Cost leadership, differentiation and focus. Those not choosing one of these but try all or two are said to be 'stuck in the middle'.

Rivalry is normally considered between firms of the same size competing for the same customers. In natural setting there may be found larger firms competing in the same niches with MSEs. Reid found that if the market is a growing one then rivalry is less hostile. However if the market is saturated the larger firms will facilitate better organized markets and dominate. In that situation small firms will not attempt to rival, instead they increase subcontracting to increase their bargaining power. Other factors *that may increase rivalry among firms include low entry barriers, high exit costs, and diversity among competitors (Reid 1993).*

Micro and Small Enterprises respond to challenges of bargaining leverage of customers through product differentiation, low pricing, and innovation aimed at rising switching cost to customers. However *Reid found that small enterprises and their customers are matched in bargaining power and neither is more powerful.* Price sensitivity was found to be low among MSE customers as MSE proprietors work hard to create good buyers. They have been able to convince customers that quality of their products is good hence saving on advertising cost (Reid 1993).

Bargaining power of suppliers is also another competitive environmental challenge. MSEs respond to this by avoiding overdependence on one supplier. To enable them remain price competitive the principle cost drivers must remain low. They achieve this by exercising higher bargaining power over suppliers. Reid (1993) found that forward integration is non-existent between MSEs and their suppliers.

Potential entrants and substitute products possess a huge threat to the whole industry in question since they may even replace the industry as a whole. Most MSEs studied responded to this threat by keeping technological progressiveness, encouraging innovation and trying to achieve flexibility in order to remain economically viable. The only disadvantage with technological advancement is that it may not bring immediate superior price advantage, thus personal service still remains an important strategy. Some MSEs have also attempted to respond by seeking a Group-Institution approach to lobby restriction of substitutes and new entrants by government (Reid 1993).

2.3 Kenya's Micro and Small Enterprise in their Business Environment

The MSB sector in Kenya has had a slow vertical growth and the sector is biased towards domestic markets, is heavily reliant on imported inputs, and is capital intensive using obsolete technology (UNIDO 1986). Poor incentives, Restrictive Legislations, poor capital markets, weak demands, protectionist policies and lack of market information are some of the factors that have hindered growth and development of this sector in Kenya (Republic of Kenya: Sessional Paper No 2 of 1992, 1996 and 2005). Other factors from the entrepreneur's point of view include: Poor advices, lack of tools, poor marketing, poor book keeping, and lack of skilled personnel. Wakali (1999) in her study in Kenya found out that much of the support given to MSEs are not the ones much needed by them. McCormick and Pedersen (1996) on a study of the Barriers to Small firm Growth as evidenced in Nairobi's Garment Industry identified some factors that could determine growth in the MSE sector as: Risk and owners responses to risk; increasing demand by all means possible e.g. export, Marketing, advertising, innovations, increasing economies of scale through coming together; Spirit of entrepreneurs/up, easy access to resources and supportive Government Policies.

McCormick and Pedersen's study in Kenya showed that enterprises that adopt flexible specialization approach normally survive by minimizing investment on machinery. Studies however show that even when profits are high entrepreneurs are reluctant to invest in business expansion by investing in modern machinery and skilled labor; instead they may increase casuals "or diversify into buying land (McCormick and Pedersen 1996). This is in line with another study in USA by Stanworth (1976) who found out that most small firms are not oriented towards growth and remain small because of owner's intention. They argued that growth require bureaucracy which made them quite their former jobs. McCormick and Pedersen (1996) also found out that the current Kenyan environment support both flexible manufacture and mass manufacture, although the business environment in Kenya appears to push entrepreneurs to destructive activities with a lot of time spent in going around systems. They further observed that Kenyan environment is highly ethnic oriented which present a lot of business opportunities and threats for Kenya's firms to respond to. The government has also made efforts to create enabling environment for growth of small and micro enterprises.

Despite the government's efforts to offer technical training to the MSE proprietors, National Baseline survey results (1999) still indicated that only 25% of the MSE proprietors have received any form of technical training. While a survey done earlier by K- Rep research paper series (1995) on employment and income in micro and small enterprises in Kenya showed that only 26% had received technical training. A survey on MSEs by SEPPIP (1996) indicated very high percentage of MSE operators as lacking skills. Education has been considered by government as an agent for change particularly regarding the MSE sector (Kenya 1988). The technology curriculum in the 8.4.4 system of education has not improved anything as it is overloaded as observed by Obura P.A. in (McCormick and Pedersen 1996).

Technology policy in Kenya had stressed development of indigenous technology with little from outside. Studies by Oyuga B.O and U. D'Lima (1992) noted that on the job trainings take place in a variety of ways among MSEs, and that formal education is not prerequisite for becoming an apprentice in the view of proprietors. They also observed that proprietors do not prefer higher education as they are quickly dissatisfied with Jua kali work. As to level of satisfaction, most MSE operators are satisfied and proud of whom they are (McCormick and Pedersen 1996).

The Research and Development Institutions in Kenya mainly meant to develop appropriate technology have not been utilized by the MSE sector. This has been because the R & D institutions have not been set up by need assessment but by student interest or personal interests of researchers. These formal research institutions have been found to work as death pits to innovation especially those from the Jua Kali sector, 'the capacity for innovation is there among MSEs, but such innovative ideas are dismissed by formal research institutions as "technology tinkering" which they fail to assess and document. In the end MSE operators have also neglected the government institutions as ineffective (SEPPIP 1996). When investigated on whether scientific and technological research diffuses into the commercial sphere in Africa it was found out that there is no diffusion (McCormick and Pedersen 1996, NCST 1990). It indicated that MSE sector is neglected by the institutions.

A baseline survey result by CBS, ICEG and K- Rep (1999) indicated that MSEs use of media in advertising is very minimal. Almost half (49.2%) respondents surveyed said they have not done anything to promote their products or services, while 4.2% said that the quality of their products or services as well as customer satisfaction was the main methods of promotion and advertising. This means that 91.4% do not do any active marketing. The same survey indicated that linkages between MSEs and non -MSEs is very weak. The only linkages found were between MSEs themselves and individuals and only in the utilities sector (water and electricity) that some linkages were found.

The government public procurement act has not been reviewed to enable MSEs to supply government. However the government allows them supply only if they register their businesses with the Attorney General. Survey result indicated that only 1.7 % of MSE businesses were registered and only 39.4% were operating with license from local authorities. This is characteristics of MSEs yet is the source of many of their problems especially with local authorities (CBS, ICEG and K- Rep 1999). A study by Waweru (2002) in Kenya indicated that the majority of MSEs (67%) did not have license from government authorities consequently they are continually being harassed, it means their operational responses has been that of hide and seek. The study alluded that many MSE proprietors prefer working from semi-permanent premises to cut on cost of doing business. Further Findings were that MSEs entrepreneurs prefer to market their products within their locality only.

For products to get acceptance in international markets (they must meet the ISO 900 standards of quality testing. So far the government has established the Kenya Bureau of Standards (KBS) which is recognized by international markets. Many MSEs were found not to use KBS to improve their products as they fear being closed down: (Republic of Kenya: Sessional Paper No 2-1996). Very few small enterprises in floriculture and carvings export their products and most MSEs were found to concentrate in local market (SEPIP-1996).

The Kenyan Finance system is now very diverse and borrowing by MSEs is not a big problem. However the majorities of MSEs do not go for Financing but use their own resources both as start up capital and consequent investment according to Ouina (2002), Ondiege in (McCormick and Pedersen 1996). Ondiege attributed lack of knowledge to

the lack of borrowing since he also found out that they use cheap tools and have very low assets in their businesses, yet entrepreneurs have always responded that lack of capital is one major problem they have. In his survey of those who had borrowed majority used it in improving the business.

A study on strategic responses by firms facing changed environmental conditions on motor vehicle franchises in Kenya by Konibo (1997) indicated that many firms changed strategies, goals, Missions, policies and structures to suit the structural adjustment programs of the 1990s. Firms made strategic responses by : adjusting on product values and after sales services to differentiate their products; following both high price and low price strategies ; increased advertising; increased distribution points; cost reduction ; R&D etc with resultant profitability. Diversification strategy is common in MSEs Where operators sell foodstuff, but on one side offer second hand clothes. In large firms this is similar to conglomerate diversification.

CHAPTER THREE: RESEARCH MEHTODOLOCY

This chapter Deliberates on how the research study was designed. It covers the Population of the study, The Sample and Sample design, Data collection method and Data Analysis technique.

3.1 Research Design

The research was a survey of Small and Micro-enterprises located in Gikomba-Jua kali. The survey design was most appropriate for the study as it was possible to make comparison at the same point in time across the population in question.

3.2 Population

The target population of interest comprised of all micro and small manufacturing enterprises dealing in metal works in Gikomba-Jua Kali area in Nairobi, it included all businesses that were based within the Jua Kali area who were members of Gikomba Jua kali Association. The number of employees was used to define the size of firms as in McCormick and Pedersen (1996) where Micro and Small Enterprises were defined as firms that have less than 50 employees. The study adopted this definition as it is the official definition by the government. Nairobi has the highest population of MSEs in Kenya. According to the National Baseline Survey by CBS/ICEG and K-REP (1999), Nairobi and Mombassa contribute about 16% of MSE population in Kenya. Gikomba Jua kali Micro and Small Enterprise manufacturing activity is as old as Kenya, and has gone through all the environmental challenges and opportunities the business environment has presented since independence. They have also been receiving a lot of attention from the government, private firms, and NGOs. Because of their location in Nairobi, age and received attention, their responses to the environment were considered appropriate for generalization to all MSEs in Kenya.

3.3 Sampling

Sampling unit was the enterprise. After considering that the nature of manufacturing activities in the study area was almost similar across many enterprises, a sample of 90 enterprises was chosen for the survey. This sample was considered large enough to provide a general view of the responses of small and micro-enterprises in Gikomba-Jua kali to the opportunities. It provided a good basis for reliable and valid generalization

and conclusion. Due to the way enterprises were organized, a random sample of firms was picked from the area by numbering the firms first, where a total number of 129 firms were numbered. The starting point was determined through the use of random numbers. There-after every 12th firm was picked until all the 90 samples were chosen. Those firms which refused or could not respond to the questionnaire were replaced by the researcher with those within reach, and among the population of the study using convenience sampling method. This was done to maintain the sample population at 90.

3.4 Data Collection Method

The study's stated objective required mainly primary data for its realization. This data was collected using semi-structured Questionnaire administered by the researcher and his assistant. The questionnaire consisted of closed-ended and open ended questions. The open-ended questions were aimed at qualitative data while the closed-ended questions were meant to obtain quantitative data. The questionnaire was divided into six sections. Section (A) obtained data on the background of the enterprises and the entrepreneurs. Section (B) obtained data on response strategies to the Opportunities available for MSEs to exploit. Section (C) gathered data on the factors that dictate the choice of an opportunity by a particular MSB. Section (D) obtained data on the existing threats that a business opportunity may present to a firm. Section (E) gathered data on firm's strength analysis in their responses to opportunities and Section (F) collected data on entrepreneur's current perceived opportunities and their responses (See appendix A).

3.5 Data Analysis Method

To achieve the study's aims descriptive statistics was used to summarize and organize the data. The frequencies were converted to percentages to facilitate comparisons. Measures of central tendencies like standard deviations were applied for generalizations. The estimate procedures involved the use of statistical package for social sciences (SPSS). Calculations of parameter estimates, descriptive statistics and frequencies of various variables were obtained by use of the computer software. Although statistical methods would have given a clear cut basis for making conclusions, being an exploratory study, descriptive statistics provided a general view of the problem statement.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

The analysis and findings was guided by the objective of the stud) which was to determine the responses of micro and small enterprises to the opportunities in the Kenyan business environment. "I he responses have been summarized and presented in tables.

4.1 Profile of Enterprises and the Entrepreneurs

Gender and Age

Findings from the study showed that the majority of respondents were male, represented by 77.8% against 22.2% female entrepreneurs. This means that the metal works MSEs is still a male dominated industry among Micro and Small Enterprises.

Table 4.1.1 Age of the Respondent

	Frequency	Percent
21-30 years	27	30.0
31 -40 years	43	47.8
40-50 years	17	18.9
Over 51 years	3	3.3
Total	90	100.0

Source: Interview Data

Table 4.1.1: shows that the majority of respondents were of productive age between 21 to 40 years. Entrepreneurs who are over 50 years are very few in this sector, contributing only 3.3%.

Table 4.1.2 Eevel of Education

	Frequency	Percent
Primary education	16	17.8
Secondary education	65	72.2 .
University education	8	8.9
Did not go to school	1	1.1
Total	90	100.0

Source: Interview Data

In table 4.1.2 the researcher sought to investigate education level of the respondents. The majority of respondents (72.2%) were of secondary school level. The fact that

98.9% of the respondents had at least primary education is an indication that the level of literacy in this sector is high. It is also interesting to note that there were university graduates in the sector. This finding is in line with the National Baseline Survey CBS/ICEG and K-REP (1999) which found out that over two thirds of MSE entrepreneurs in Kenya were secondary school graduates. This same finding was also highlighted by Waweru (2002), who found out that the highest number of MSE operators (57%) were secondary school leavers, followed by primary school leavers (36%) and university graduates only 4%. The study also investigated on other professional training that the respondents had apart from the formal education, which could have influenced the identification and response to opportunities, and found majority to have attended some skills training, indicating good use of technical institutions in Kenya by entrepreneurs from this trade.

When the age of businesses was investigated it was found out that 27.8% are more than 15 years old, 11.1% are between 10 to 15 years . 40% between 5 to 10 years and 2.2% below 5years old. It therefore means that majority of businesses are between 5 to 10 years old. The above information was very important since the researcher was able to get accurate information from the majority of respondents as more than half had started their business before the year 2000, and they had the full knowledge of strategies and opportunities that has been present in the Kenyan business environment. The more time one is in business the more the experience and hence (the more accurate and appropriate a response to an opportunity).

Table 4.1.3 Number of Employees,

	Frequency	Percent
1-5	43	47.8
6-10	23	25.6
11-15	15	16.6
Over 15	9	10.0
Total	90	100.0

Source: Interview Data

According to the findings in Table 4.1.3, 73.4% of all enterprises in Jua kali area were of micro classification, while 26.6% were of small enterprise. This finding is in line with the Republic of Kenya: Sessional Paper No 2 of (1992) which said that Kenya is still missing enterprises employing between 11-50 people.

The researcher investigated on the reasons why the respondents decided to start their own businesses, which could also have influence on their identification and pursuit of an opportunity. It was found out that the majority of respondents, (42.2%), started business to supplement their income, 25.6% started their own business so that they can be their own boss, 24.4% said that it was because of lack of formal employment, 6.7% said because of their personal interests, while a small proportion comprising of 1.1% said because of other reasons.

The study indicated that majority of businesses were not registered by registrar of companies in Kenya. 55.6% said that their businesses were not registered, while 44.4% said that their businesses were registered. A similar finding was made by Waweru (2002), that 67% of MSB surveyed did not have formal licenses and any registration certificates for their businesses. According to her survey 88% of micro enterprises had not registered their businesses sighting lack of information, and the notion that their businesses are too small and are only safe if kept out of sight of the authorities.

Asked whether the premise on which the businesses were located was fixed or in open air, 48.9% said that it was fixed, 47.8% said that it was in open air, while 3.3% said others. The term fixed was however misunderstood to mean whether the city council allocated them the areas. From the researcher's observations, 100% of the premises were temporary structures and open air businesses located on government land allocated to the entrepreneurs.

4.2 The Responses of MSEs to Available Opportunities.

The researcher investigated on whether there were any opportunities that the respondents had identified in Kenya that would enable their business to grow. The majority of respondents, 53.3%, said that there were no opportunities identified, and only 46.7% said that there were some opportunities identified. The respondents who said that there were opportunities they had identified in Kenya today were requested by

the researcher to state those opportunities. The opportunity mostly identified was in the financial sector. They acknowledge that there are currently very many financial institutions in Kenya who are ready to give them loans which are unsecured. Other opportunities listed were: marketing opportunities as the local market has not been fully exhausted; expanding and having storage facilities in various provinces in Kenyan as social environment is peaceful and encourages market expansion: Advertisements in the media; and Producing different kinds of products were listed as existing areas where they currently could identify opportunities for business growth.

4.2.1 Strategic Responses

Table 4.2.1 Strategic Responses to the Opportunities

Strategic Responses	Weighted Mean	Std (lev
My business plan goes beyond one year for any opportunity I take.	1.24	0.43
In taking up an opportunity, my focus is to lower costs as much as possible.	1.34	0.48
Pin ready to involve more staff if a new profitable opportunity occurs.	1.16	0.37
I make my product features different for easier identification by customers.	1.28	0.45
In distributing my products, I focus on a small portion of the market	1.46	0.5
I monitor the market movements in products demand before making any products.	1.24	0.43
I'm ready to involve casual staff to fill any inadequacies in manpower during peak times.	1.2	0.46
I can give up a business unit that does not perform well to take up a promising opportunity.	1.2	.4
I focus on making my products unique in an identifiable market area.	1.24	>.43
I always look for the cheapest source of raw materials to be able to reduce costs.	1.57	0.5
I use very high quality raw materials to reduce customer complaints on quality.	1.36	0.48
I can merge with my competitor to take up opportunities for which have inadequate resources.	1.26	>.44
I promote my products to make them well known to the customers.	1.2	J.4
My customers' complaints guide my corrections on product quality.	1.22	0.42
In taking up an opportunity my customers guide my product design.	1.24	>.43
My main aim in business is to be the best in long term	1.26	.44
I am ready to involve experts in areas that I require advice	1.26	144
Grand Mean	1.28	>.45

Source: Interview Data

Respondents were asked to state to what extent they were using a number of strategies which were felt to indicate appropriate use of available opportunities in their business environment. This questionnaire was administered to all the entrepreneurs in the sample

population. Results were rated on a 5-point scale where 5= very great extent, 4= Great extent, 3= Moderate extent 2= very little extent and 1= not at all. The findings were presented in form of weighted means and standard deviations (Table 4.2.1).

The Grand weighted mean of 1.28 in the table is a clear indication that the majority of MSEs do not respond appropriately to the available opportunities in the Kenyan business environment. In all the strategic items which would enable MSEs capture the opportunities in the environment, the results indicate that they use them only to a little extent. A mean of 5 points would mean full use of the strategy while a mean of 1 point indicate non-use of that strategy.

Using the mean, I'm ready to involve more staff if a new profitable opportunity occurs had the lowest mean of 1.16 which means that this strategy is the least used among MSE entrepreneurs to capture the available opportunities in the business environment. The most used strategy by entrepreneurs is cost reduction. I always look for the cheapest source of raw materials to be able to reduce costs had the highest mean of 1.57, which means that a relatively higher number of the respondents used this factor. The other factors investigated had their mean ranging from 1.2 to 1.46, which means that of respondents used these factors only to a lesser extent.

4.2.2 Operational Responses

The respondents were also asked to state what they do on day-to-day basis in response to the opportunities in their environment. The majority said that they always vary the unskilled labour depending on demand and the opportunity. Flexibility on unskilled labour was mentioned by 85% of the respondents. They also mentioned that since they lack storage space they look for suppliers who can deliver inputs without delaying the process. This is crucial to them as any delays means wasted man-hours as the industry is highly labour intensive. To keep the manufacturing work going they however said that they normally keep some inventory. Investigation showed that such inventory can not last them longer than 1 week. Whenever an opportunity is identified the owner assigns duties depending on the urgency and priority of the opportunity. 75 % of respondents said that they respond by shifting their labour force or self effort in line with the perceived value and priority of the opportunity. Most of manufacturing work is done by hand and quality will depend on the individual employee. Other responses

mentioned include: subcontracting during high demand periods; sharing the opportunity with other members of the association working as a co-operative aimed at exploiting the particular opportunity and displaying the products in open air to attract customers.

4.3 Factors Influencing the Responses to an Opportunity by MSE Entrepreneurs.

4.3.1 Demographic Factors

The researcher investigated the various factors that could influence the choice and responses to an opportunity by the entrepreneur, tables 4.3.1 and 4.3.2 shows cross tabulations of gender and age with the responses obtained. These two items were felt by the researcher to have substantial influence on choice of response. It is evident from the results of Table 4.3.1 that majority of the respondents, both male and female, did not use the strategies to a great extent. Though there was a small disparity between male and female respondent interviewed of only 0.2 points on the grand mean, there is clear indication that gender has some influence on the choice and tapping of an opportunity. Female entrepreneurs have higher mean than their male counterparts indicating they have higher strategic response to opportunities. Women are thus more likely to benefit from the environmental opportunities than men. The study has however found out that both men and women agree of certain aspects which are important in the MSB sector. These include pursuing low cost of production, focusing on their niches, and tailor-making items to satisfy the range of customers they have to deal with.

Table 4.3.1 Cross Tabulation of Gender Vs Responses obtained

	Gender		Difference
	Male	Female	
Strategic Responses	Weighted Mean score	Weighted Mean score	
My business plan goes beyond one year for any opportunity I take.	1.21	1.42	0.21
In taking up an opportunity, my focus is to lower costs as much as possible.	1.10	1.48	0.38
I'm ready to involve more staff if a new profitable opportunity occurs.	1.16	1.08	0.08
I make my product features different for easier identification by customers.	1.42	1.06	0.36
In distributing my products, I focus on a small portion of the market.	1.23	1.78	0.55
I monitor the market movements in products demand before making any products	1.20	1.23	0.03
I'm ready to involve casual staff to fill any inadequacies in manpower during peak times.	1.20	1.71	0.51
I can give up a business unit that does not perform well to take up a promising opportunity.	1.12	1.31	0.19
I focus on making my products unique in an identifiable market area.	1.24	1.24	0
I always look for the cheapest source of raw materials to be able to reduce costs	1.56	1.58	0.02
I use very high quality raw materials to reduce customer complaints on quality.	1.21	1.65	0.44
I can merge with my competitor to take up an opportunity for which have inadequate resources.	1.28	1.22	0.06
I promote my products to make them well known to (lie customers.	1.20	1.24	0.04
My customers' complaints guide my corrections on product quality.	1.21	1.20	0.01
In taking up an opportunity my customers guide my product design.	1.14	1.43	0.29
My main aim in business is to be the best in long term.	1.23	1.29	0.06
I am ready to involve experts in areas that I require advice.	1.26	1.26	0
Grand Mean	1.2(1	1.40	0.20

Source: Interview Data

Table 4.3.2 Cross Tabulation of Age Vs Responses obtained

	Weighted mean scores		Differences
	Below 40 years	Above 40 years	
Strategic Responses			
My business plan goes beyond one year for any opportunity I take	1.72	1.02	0.7
In taking up an opportunity, my focus is to lower costs as much as possible.	1.24	1.56	0.32
I'm ready to involve more staff if a new profitable opportunity occurs	1.12	1.18	0.06
I make my product features different for easier identification by customers.	1.47	1.12	0.35
In distributing my products, I focus on a small portion of the market	1.46	1.47	0.01
I monitor the market movements in products demand before making any products	1.60	1.04	0.56
I'm ready to involve casual staff to fill any inadequacies in manpower during peak times.	1.20	1.20	0
I can give up a business unit that does not perform well to take up a promising opportunity	1.40	1.08	0.32
I focus on making my products unique in an identifiable market area.	1.38	1.12	0.26
I always look for the cheapest source of raw materials to be able to reduce costs	1.57	1.57	0
I use very high quality raw materials to reduce customer complaints on quality	1.37	1.35	0.02
I can merge with my competitor to take up an opportunity for which have inadequate resources.	1.28	1.24	- 0.01
I promote my products to make them well known to the customers.	1.20	1.20	0
My customers' complaints guide my corrections on product quality.	1.21	1.24	0.03
In taking up an opportunity my customers guide my product design	1.62	1.01	0.61
My main aim in business is to be the best in long term	1.67	1.10	0.57
I am ready to involve experts in areas that I require advice	1.34	1.02	0.32
Grand Mean	1.40	1.20	0.20

Source: Interview Data

Table 4.3.2 also shows some disparity in the responses obtained from the different age brackets. Most of the respondents who used the above strategies were within the age below 40 years. This is an indication that age of the entrepreneur effect the choice and response to a particular opportunity.

4.3.2 Environmental Factors Analysis.

Entrepreneurs were asked to state to what extent a number of factors affected their choice and responses to an opportunity in their business environment. Table 4.3.1 analyses external factors while table 4.3.2 analyses finding on internal factors. The responses were analysed using the mean and the standard deviations.

Table 4.3.3 External Factors that Dictate the Choice and Responses to an Opportunity

External Factors considered	Weighted Mean	Std dev
Before taking up a business I consider the financial resources available	3.42	0.64
The competition existing in the market dictates our choice of an opportunity	1.84	0.78
My choice of an opportunity depends on its ability to last longer	2.22	1.04
Desirable opportunity is one that has not been exploited by another	2.34	1.02
The accessibility of the market determines my choice of an opportunity	2.26	1.10
The government regulations dictates the attractiveness of an opportunity	2.60	1.05
The security concerns in taking up an opportunity is an important consideration before making a choice	2.92	0.92
Before taking up an opportunity I consult an expert to do the analysis	1.26	0.79
I can only take one business at a time and not more	3.00	1.28

Source: Interview Data

Consideration of financial resources available had the highest weighted mean of 3.42, which means that the majority of respondents considered it to a very great extent when responding to an opportunity. Consulting an expert for advice had the lowest weighted mean of 1.26 which means that the majority of respondents consider current knowledge in their environment as the list factor influencing their responses to opportunities.

Other Environmental factors considered were: the competition existing in the market, the opportunity's ability to last longer; opportunity has not been exploited by others; the accessibility of the market and the security concerns in taking up an opportunity are important consideration before making a choice, had their means ranging from 1.84 and 3, which means that the respondents consider them to some extent. The government regulations and the number of opportunities available had their mean as 2.6 and 3 respectively, meaning that the respondents were neutral on these factors dictating the choice of an opportunity. Other factors considered to affect choice of opportunity are cash flows, strict regulations, and lack of expansion space.

Table 4.3.4 Internal Factors Analysis

Internal Factors Considered	Weighted IMean	Sid dev
We can respond very quickly to an opportunity because no hierarchy in decision making	3.31	1.71
We can give good customer care since we have plenty of time to devote to customers	1.68	0.62
Our products have strong position in the market	1.48	1.03
Before we take up a business, we consider the cost implications	1.96	0.86
We take any business that offer profits, even if we don't do it ourselves	2.28	1.21
We can obtain enough manpower to take up any additional work	2.20	0.90
We consider the prospects of the market before making a decision to take up an opportunity	2.98	1.43

Source: Interview Data

Using the mean the researcher found out that we can respond very quickly to an opportunity because no hierarchy in decision making had the highest weighted mean of 3.31 meaning that the majority of respondents considered this factor to a very great extent, while our products have strong position in the market had the lowest mean of 2.48 which means that the majority of respondents considered this to a lesser extent. Basing on this information, it was clear that the respondents considered all the other factors to some extent as the means for all the factors was less than 2.5.

4.4 Support Programmes needed by MSEs for Appropriate Responses

The support programs that were found to increase the respondents' take up of the opportunities were; marketing programs, where they said that since they have limited time to perform proper marketing; this support is need if their businesses must grow. The same marketing support is required for taking their products to international markets such as neighbouring nations. This factor was mentioned by almost all the respondents. Another factor that featured prominently was financial assistance from donors to lend them money with affordable structures. They said that although there are a lot of financial institutions ready to lend them money their interest rates are still high especially if one is investing in a new opportunity. They think the Kenyan government should introduce Jua Kali development fund like CDF or Youth Funds. Education to the entrepreneurs was still felt to be an important need. They need education support on the job where they don't have to leave their work-place to go to the classroom since many of them work all the time.

CHAPTER I IVE: SUMMARY, DISCUSSIONS AND CONCLUSIONS:

5.1 Discussions and Conclusions

The summary discussions and conclusions in this section were guided by the objective of the study, which was to determine the responses of Micro and Small Enterprises in Gikomba Jua kali to the Business opportunities in Kenya.

From the study it was established that there is strategic thought in the minds of MSI entrepreneurs whenever an opportunity has been identified. The analysis and findings have shown that they have some form of vision as to where they want the business to be in future. Though not written, the vision guides the entrepreneurs in responding to an opportunity. They were found to perform environmental analysis whenever they identify the opportunity. This is normally done informally and not put in a business document paper. Many of them explained that they must look around before going for an opportunity. This is in line with a report done in Nairobi by Okanda (2005) who identified unwritten strategic planning among MSEs.

5.1.1 Responses to Opportunities

The responses were presented in form of percentages, weighted means, standard deviations and cross tabulations (Table 4.2). From the analysis and Findings MSI ; do not respond appropriately to the available- opportunities in the Kenyan business environment. The grand weighted mean of only 1.28 against a maximum Of 5.00 (inappropriate responses (Table 4.2.1) is a clear indication of this fact. Since 53.3% of entrepreneurs indicated that they were not aware of the opportunities, it can also be concluded that they are even less concerned about the opportunities, or have not been exposed to the opportunities, this result comes at a time when the Kenya government, NGOs and private sectors have focused a lot of attention to the MSE sector (Republic of Kenya Sessional Papers No 2 of 1992, 1996, 2005). The Sessional Paper No 2 of (1992) was meant to provide a policy framework for promoting Small Scale and Jua kali Enterprise development in Kenya. The sessional Paper No 2 of (.1996) which also aimed at industrial transformation to the year 2020 viewed Micro and Small Enterprises as the starting point from which the government embarked on providing enabling

environment for MSEs to transform to large organization. Despite (lie two sessional papers the MSE sector was found not to graduate into medium and larger organizations. Though the government may not have met all the necessary policy structures that created 100% enabling environment, we all agree that certain aspects were addressed and opportunities became available for exploitation by MSEs. Some of, the opportunities detailed in the introduction of this report include: improved infrastructure, peace and stability, increased lending by financial sector, improved literacy and technology support, marketing support in international markets etc.

Apart from the opportunities by the government, continued changes in the social-cultural environment has also brought other opportunities, findings by a Baseline Survey by CBS/ICEG and K-REP (1999) showed that the MSB sector have not been responding well to the environment. When tie Government published Sessional Paper No 2 (2005) the same problems of 1992 were repeated indicating that the sector did not move an *inch to the right direction*. Policy makers seem not to have realized (he stagnation in the sector and are going ahead repealing (lie same strategies of (992 in *the 2005 paper*.

The most used response strategy by MSEs to capture the available opportunities in their environment as indicated in the study is the flexibility approach, where Micro and Small Enterprises in responding to their environmental opportunities chose to minimize investment in machinery and rely on unskilled labour, which can be hired and fired at short notice. Some indicated that if they have to invest in technology they prefer a flexible one which can be used to do other jobs. I lie metal-works in Gikomba however is a labour intensive industry and entrepreneurs were not interested in buying machinery. This finding is in line with Flexibility Approach Theory that slates that MSEs use flexibility approach to survive in their environment (McCormick and Pedersen 1996). The study indicated that the response strategy to opportunities by MSEs of cost leadership approach is relatively more frequently used. A study done by Reid (1993) that showed that MSEs consider pricing least in their bid to capture growth opportunity; instead they go for increasing capacity first. They respond to high demand by first increasing overtime to increase productivity. I his is then followed by increased capacity through recruitments, and then followed by lengthening of the older book, subcontracting, then increasing prices and finally buying other firms. I lowever in times

of reduced demand, small firms will respond first by increasing sales efforts, followed by reducing overtime, then reducing capacity, then efforts to improve productivity then price cuts and finally reduce stockholding and working time (Reid 1993). Okanda's study of the strategies employed by micro and small enterprises in Kenya highlighted that some enterprises respond to opportunities through manipulation of stock and employees by establishing the peak periods or seasons and employ workers who can be fired during low seasons (Okanda 2005).

The study also found out that Micro and Small Enterprises respond to opportunities by focusing on small portion of the market. Most of the enterprises studied were manufacturing items meant to be sold in particular market niches not supplied by large organizations. For example, Gikomba Jua Kali MSEs have specialized in manufacturing school metal boxes sold to school children only. Multinationals do not venture into this niche. An investigation by Reid (1993) also found out that many small enterprises survive by concentrating on niches left un-served by large organizations.

Majority of respondents said that they focus on creating unique features in their products. The only draw-back to this strategy is the fact that most of their innovations were not secret, and immediately an entrepreneur comes up with a new innovation the rest will copy and make the same thing, lowering the benefits of such innovations. They also use innovations to imitate new entries into their market hence discouraging such competitive forces, as some said that they could look at a new product and try to make a similar one. This imitation strategy has worked for the Micro and Small Enterprises in responding to the threat of competition from outside.

Diversification did not appear to be very common among this particular MSE group, as many of them have been in (lies-same businesses since they begun. However many of them said that they can close up their businesses to invest in a different one that offer better opportunity for growth. Many firms that were opened and closed had their owners moving into other types of businesses rather than diversify. One of the reasons for this is that most manufacturing MSEs are labour dependence and involve a lot of supervision by the owner hence less time is left for another business.

Horizontal integration was used where two or more businesses come together to work as a single firm. The study found out that whenever there is a huge opportunity especially a market has been identified and an MSE entrepreneur does not have enough capacity to supply, they either sub-contract or join up with neighbors to supply that market. Many of them responded that they have no problem joining up with a competitor whenever an opportunity is available. This response was argued by McCormick and Pedersen (1996) to be a network approach where entrepreneurs network among themselves to achieve flexibility in capturing the opportunities in their environment. They also said they sometimes collaborate with major retail chains and supermarkets to display their materials and only get paid when the item is bought. This upward collaboration strategy was found to be useful in introducing their products to new markets and even to neighboring countries where the supermarket has branches. Other responses to opportunities mentioned were: promotions, some advertising, product displays and export through retail chains to neighbouring countries.

When responding to opportunities they are faced with the Porters five competitive forces (Porter 1998) which includes rivalry of current firms in the industry; threat of new entry; bargaining power of suppliers; bargaining power of buyers and potential appearance of substitute products. As a way of raising entry cost to new entrants MSEs invest in innovation and creativity where products are made with very many new designs, which also keep on changing day after day. They produce items with unique features which are designed as per customer demand. MSEs also defend their markets by networking with their customers and trying to give them tailor-made products. Since most MSEs are a one-man show, most responses are decided upon on need basis.

5.1.2. Factors Influencing the Responses

Several factors were found to influence the consideration of an opportunity. These include demographic characteristics, where gender and age were found to be the most influencing factors. Younger entrepreneurs identified opportunities requiring long term plans though many of them responded also that they can close their current businesses if they had a better opportunity or better formal employment. In the study majority of younger entrepreneurs started businesses to supplement income (42.2%) and due to lack of employment (24%). Such entrepreneur's responses may be interrupted by a more motivating opportunity like a good job. Older people were more contented and

would rather continue in their current businesses. This finding is in line with the National baseline survey by CBS/ICEG and K-REP (1999) which found out that the majority of Kenyan Small and Micro Entrepreneurs who are of 16-45 years are more innovative than older entrepreneurs. The age of the entrepreneur indicated some degree of experience, degree of effort and strength which influence degree of response to an opportunity. Surprisingly women were found to be more strategic in their approach hence are more likely to benefit from the opportunities than men.

Level of education of the entrepreneur was investigated as a factor influencing choice of opportunity. Almost all entrepreneurs had some form of formal education. Entrepreneurs with higher level of education made more informed decisions in responding to the opportunities than those with lower level of education. The same was true for entrepreneurs with technical qualifications. The national Baseline Survey CBS/ICEG and K-REP (1999) however found out that responses to the government created opportunity of developing technical skills through technical training institutions was low, where only 25% of MSE proprietors had received any form of technical training. The same findings were echoed by K- Rep research paper series (1995) which indicated that only 26% of MSE entrepreneurs had technical education.

Entrepreneurial characteristics that were found to have influence on choice of an opportunity include Age of the business, number of employees, registration of and recognition of business by authorities. Gichira (1991) highlighted that the constant harassment of the sector operators was due to lack of recognition by authorities through formal registration and licensing. This put them in situation of uncertainty which in turn affect the choice of an opportunity. The MSE sector in Kenyan has been characterized by continuous harassment by law enforcers the reason being lack of culture of following the law.

Environmental factors which were found to influence the choice and response to an opportunity can be grouped into two categories: External and Internal factors. Internal factors include: financial strength, skilled and unskilled labour, technical Know-how and new technology in line with that opportunity. The external factors considered were: competitor's actions, technological sophistication, competing forces in that particular market, infrastructure and accessibility to markets and supplies for the opportunity.

Government legislation and insecurity also came out as significant factors in the identification of an opportunity.

Some strengths highlighted as inherent in MSE sector are: the lack of hierarchy in decision making, flexibility in production processes, ability to have personal and good relationship with their customers and strong brand positions in their particular niches.

When weakness analysis was done, they were found to be weak in financial capability to enable them respond appropriately to opportunities without fear of loss of money or business. They also appeared to suffer capacity problems especially on increased demand, though they said they are ready to join up with competitors to take the opportunity as a means of capacity building. The lack of appropriate technology and skills also appeared to be their weak point in responding to available opportunities.

5.2 Limitations of the Study

During the study some limitations were encountered. These included lack of commitment by the respondents as they say they were very busy. Gikomba Jua kali is also a very noisy place which made it difficult to have good communication between the researcher and the entrepreneurs. These destructive noises together with lack of commitment could make the respondents answer questions without giving it much thought.

5.3 Recommendations for Further Research

A similar study should be undertaken focussing on small and Micro Enterprises in other areas apart from Gikomba market. The respondents should also be broadened to cover not only the metal workers but also other businesses that are carried out in Kenya. The study focussed only the Gikomba area, a similar study should be conducted in other market areas to obtain results for adequate comparison of the response and appropriate conclusion. Also research should be carried out to find out the factors that determine MSEs transformation from Micro to Small to Medium and then to Large organizations.

5.4 Implications for Policy and Practice

A lot of efforts have been spent only supporting the MSE sector in terms of marketing programs, financial support, improved infrastructure and provision of enabling environment to facilitate growth. What the study found to be the major hindrance to

growth of this sector are: ignorance; lack of strategy; lack of entrepreneurial culture and confidence of becoming larger. It is recommended that programmes be done to address the entrepreneur's managerial and technical skills development. There is need for sensitization on the need to seek information by the entrepreneurs to be able to cope with current global trends. Though MSB entrepreneurs have some vision they need training on strategic management principles to enable them gain competitive advantage over competitors from outside. A programme aimed at culture change to embrace entrepreneurship as a respectable profession, so that Kenyans can start becoming entrepreneurs rather than going to schools only to seek white collar jobs.

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APPENDICES

APPENDIX A: QUESTIONNAIRE.

SECTION A: ENTERPRISE PROFILE

1. Gender of respondent
2. Age
3. What level of education did you attain?(tick one)
 - 1) Primary education
 - 2) Secondary education
 - 3) University education
 - 4) Did not go to school
4. After your formal education what other professional training have you?
 - 1) Apprentice
 - 2) Polytechnic
 - 3) Diploma
 - 4) University
 - 5) None
5. When did you start this business
6. How many employees do you have
7. What was your reason for starting this business? (tick one)
 - 1) Lack of formal employment
 - 2) To supplement my income
 - 3) To be my own boss
 - 4) Personal interest
 - 5) Other (specify)
8. Is your business registered by register of companies?
 1. Yes
 2. No
9. Is the premise on which the business is located?
 - 1) Fixed
 - 2) Open air
 - 3) Other (specify)

SECTION 13: RESPONSE STRATEGIES TO OPPORTUNITIES

10. To what extent do you use each of the following Strategies to exploit the Business Opportunities in Kenya?

Use a 5 -point scale where: 1=Not at all, 2= Very little extent, 3=Moderate extent, 4= Great extent and 5=Very great extent

Statements	5	4	3	2	1
	Very great extent	Great extent	Moderate extent	Very little extent	Not at all
My business plans goes beyond one year for any opportunity I take					
In taking up an opportunity , my focus is to lower costs as much as possible					
I am ready to involve more staff if a new profitable opportunity occurs.					
I make my products features different for easier identification by customers.					
In distributing my products, I focus on a small portion of the market.					
I monitor the market movements in products demand before making my products.					
I am ready to involve casual staff to fill any inadequacies in manpower during peak times.					
I can give up a business unit that does not perform well to take up a promising opportunity.					
I focus on making my products unique in an identifiable market area.					
I always look for the cheapest source of raw materials to be able to reduce costs. -					
I use very high quality raw materials to reduce customer complains on quality.					
I can merge with my competitor to take up an opportunity for which I have inadequate resources.					
I promote my products to make them well known to the customers.					
My customers' complaints guide my corrections on product quality.					
In taking up an opportunity my customers guide my product designs.					
My main aim in business is to be the best in the long term.					
I am ready to involve experts in areas that I require advice.					

SECTION C: FACTORS THAT DICTATE THE CHOICE OF 'AN OPPORTUNITY.

11. To what extent is your choice of business opportunities in Kenya influenced by each of the following factors? Use a 5-point scale where, 1= Not at all, 2= Very little extent, 3= Moderate extent, 4= Great extent, 5= Very Great extent

Statements	Very Great extent	Great extent	Moderate extent	Very little extent	Not at all
Before taking up a business I consider the financial resources available					
The competition existing in the market dictate our choice of an opportunity					
My choice of an opportunity depends on its ability to last longer					
Desirable opportunity is one that has not been exploited by another					
The accessibility of the Market determines my choice of an opportunity					
The government regulations dictates the attractiveness of an opportunity					
The security concerns in taking up an opportunity is an important consideration before making a choice					
Before taking up an opportunity I consult an expert to do the analysis „					
I can only take one business at a time and not more					

SECTION D): THREATS

11. Do you consider (he existing threats that a business opportunity may present before taking an opportunity?

Yes ()

No ()

12. Show whether you agree or disagree with the following statements?

Statements	Agree	Disagree
My competitors actions can threaten my business decisions		
The technological sophistication in an opportunity determines my choice of an opportunity		
When there is not enough cash Hows, I may not take up an opportunity		
I do not take up an opportunity with strict regulations		
I cannot take up an opportunity because of less space for future expansion		

SECTION E: STRENGTH ANALYSIS

13. Indicate your level of agreement with the following statements

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
We can respond very quickly to an opportunity because no hierarchy in decisions making					
We can give good customer care since we have plenty of time to devote to customers					
Our products have strong position in the market					
Before we take up a business, we consider the cost implications					
We take any business that offer profits, even if we don't do it ourselves					
We can obtain enough manpower to take up any additional work					
We consider the prospects of the market before making a decision to take up an opportunity					

SECTION F: IDENTIFIED OPPORTUNITIES AND RESPONSES.

1. Is there any opportunity you have identified in Kenya that would enable your business to grow?

1. Yes

2. No

2. If yes above, list the opportunities below?

3. What are you doing on day-to-day basis in response to the above listed opportunities?

4. What support programs do you suggest that can increase your take up of (the) opportunities?

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s a Master of Business Administration (MIA) student of the University „of Nairobi.

He/she is required to submit as pad of his/her- couisewoik assessment a reseach project repoit on a management problem. We would like tlu students to do their projects on real problems affecting finns in Kenya. We would, therefore, appreciate il you assist him/her by allowing him/hei to * collect data in your organization f> i the lesearch.

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