ENVIRONMENT AS A MODERATOR OF THE RELATIONSHIP BETWEEN BUSINESS STRATEGY AND PERFORMANCE: A CASE OF SMALL AND MEDIUM ENTERPRISES IN KENYA

By

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A Management Research Project Submitted in Partial Fulfilment of the requirement for the Masters of Business Administartion Degree, Faculty of Commerce, University Of Nairobi

September 2003

DECLARATION

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

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Date: 27/01/05

DEDICATION

To my parents, you saw a vision and made it your mission to accomplish it. Your efforts over the years are a testimony of how a small Spackle can emanate in a mighty frame.

To my late mum, your words of wisdom that "if one desire something the whole world conspire to make it happen" were not in vain.

ACKNOWLEDGEMENTS

Mr. Jackson Maalu, my supervisor whose patience and continuous review has made it possible for me to complete this paper.

To my employer Safaricom Limited, for the great flexibility and financial support.

Martha, my wife who has painstakingly and dutifully edited and critiqued the paper to ensure correctness and quality. Lynn my daughter for her company through out the study.

To all managers and staff of the firms whom made up my sample, who have made this paper a reality by sharing their experience and important information with me.

Friends, who assisted me during this study, may God almighty richly bless the work of your hands and put you on the way of those seeking assistance. I sincerely appreciate.

ABSTRACT

For Kenya, integration into the global economy through economic liberalization, deregulation, and democratization has been seen as the best way to overcome poverty, unemployment, dismal economic growth and general decline in Economic development. Crucial to this process is the development of a vibrant private sector being touted in every policy paper, in which the hitherto eclipsed Small and Medium Enterprises (SMEs) play a pivotal role. This in Kenya can be likened to the calling of a new order of things which Machiavelli noted thus, "there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of new order of things"

Most notably, in Kenya, SMEs development objectives have been linked to efforts aimed at poverty alleviation, employment creation and increased economic growth mainly in the context of shrinking job opportunities and formal economy as well as the dwindling international investors and suspension of aid on which basis the tenets of energized economic growth was based by the Government. Unfortunately, Globalisation and Liberalisation brought challenges that extrapolation could not address and new factors had to be introduced into the process of management and as a result many SMEs had to scale down their operations or fold up all together, the study revealed.

The study further revealed that, SMEs represent an element of competition and counters monopolistic tendencies, provides consumers with a broader menu of products and contributes to competitive pricing. Managers in this sector are, beyond the overarching worries triggered by the political instability, dilapidated infrastructure, slow pace of formulation and enactment of policies, share some specific anxieties beyond their control or ignorance.

SMEs, the study revealed, continue to position themselves by leveraging their strengths by formulating and implementing sound strategies despite hash environmental factors. It is therefore possible, if SMEs policies are developed consciously and purposefully with little Government attention they can claim their rightful role as engines of Economic development and help achieve the millennium goals. This is witnessed by their continued supply of goods to the market that compete with large industries despite the hash environmental conditions in which they operate and seek to endure. Their potential should be used as an ingrained way of perceiving their economic role.

The findings of this study suggest that performances of SMEs vary with choice of business strategy they adopt and that the relationship between strategy types and the performance of SMEs is moderated by environment. Therefore, Managers' understanding of the environment, which have become an enduring myth, is of outmost importance. Environment affecting SMEs will need constant review and analysis of its effect to the business if the business is to remain competitive, fulfil its mission, attain its vision and post a notable bottom line-Performance! The novelty and the speed of the developments in the environment call for real time continuous preoccupation with the strategic issues throughout SMEs operations as no policies are well documented to guide them. Those who pretend that the same kind of policy approach can be applied no matter what environment are either naive or charlatans and their operations are doomed. To survive therefore, it seems, SMEs must be able to quickly create, deploy, and implement breakthrough strategies that help them to continually anticipate and meet current and future challenges, maximize on the performance and withstand any environmental adversity. The onus is therefore on SMEs to design individual framework to follow and produce the expected results.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Businesses of all sizes practice some form of strategic management. Businesses use strategic management to formulate as well as implement strategy in order to compete successfully. Sharplin (1985) stressed that strategic management is applied for the purposes of moulding, directing and relating an organisation effectively to its environment. Cauwenbergh and Cool (1982) considered strategic management as the most critical element of the management of organisations because it explains success and survival to a large extent. In recent years the nurturing of Small and Medium Enterprises (SMEs) have become the dominant themes of development economics. This re-discovery of the importance of the spirit of free enterprise was undoubtedly prompted by the failure of centrally planned socialist economies. It was also enhanced by the achievement of impressive prosperity by certain East Asian and Western countries as a result of mobilizing the creative energies of SME and by reaping the benefits of relatively unconstrained competition. (Nude, 1999).

There is no generally accepted definition of a small business because the clarification of businesses into large-scale is a subjective and qualitative judgement. In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees. In Britain, small-scale business is defined as that industry with an annual turnover of 2 million pounds or less with fewer than 200 paid employees.

In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, small and medium-scale enterprises are defined as:

promotion of free enterprise and self-sufficiency by creating and spreading wealth to the grassroots level and as a result enhance economic and political stability.

In many developing economies it has been found that the large-scale enterprises have had limited success in generating job-creating economic growth. The concentration of economic power and the capital-intensive nature of large business and manufacturing organizations were in many instances in direct conflict with more generally held goals of social and economic development. SMEs in contrast were found to employ a large proportion of the human capital. They also provide a productive outlet for expressing the entrepreneurial spirit of individuals and to assist in dispersing economic activity throughout a country.

MacGaffey (1998) shows that the lack of state support for business activities forces survival strategies to new heights as entrepreneurs provide missing infrastructure, use substitute currencies, and pursue unusual trade networks to maintain "the second economy" in the absence of the first. The scope of these entrepreneurial enterprises encompasses large and small firms, mostly in the informal sector, because there is previous little left of the formal sector. Daniels (1998) questions whether the supply of labour (human capital) hypothesis (surplus labour with limited skills and access to capital) or the market demand hypothesis (entry influenced by consumer demands for SMEs) holds. In this case both influence entry into commerce, but the labour supply hypothesis is supported by evidence from low-profit SMEs in which people turn to these informal sector enterprises as alternative income sources in a declining economy

The business sector in Africa especially SMEs frequently suffer from harassment by government officials. Demolitions in Nairobi bear testimony, where even licensed small businesses are threatened with demolition and closure. Even within the formal sector private enterprises often do not find a conclusive environment within the financial system, reducing tariff restrictions, providing adequate infrastructure (Himbara, 1998), producing educated skilled human capital (Nude, 1998), ensuring access to technology, and creating markets (Blewett and Farley, 1998). Specifically focusing on policy, Himbara (1998:219-232) departs from conventional interpretations that hold that colonial governments used restrictive policies to impede the development of indigenous African Enterprises and to restrict them to a few types of industries. He maintains that such interpretations are myths and argues that instead of impeding or obstructing African entrepreneurs, British colonial policy in Kenya fostered an indigenous entrepreneurial class by promoting SMEs in the informal sector as a base from which an indigenous capitalism could develop.

Government policy in Kenya encourages their people to establish medium-, and large-scale businesses in commerce and industry, but Himbara argues, most Kenyan Africans are not yet ready for the step. He attributes the stagnation in the private enterprise sector to policies that impose "capitalism from above". These policies benefit reigning politicians and high-level civil servants rather than indigenous private sector businesspersons. The misunderstood colonial approach was vindicated in the 1980's when the government began to integrate the small-scale and informal sectors into its overall policy regime. Kenyan Government established a strategy for small enterprise development in Kenya towards the year 2000. Government of Kenya. (1989).

Informal sector in Kenya is considered one of the major contributions to the economy of the country. It is reported to have created 500,000 jobs a year. However, little is done to support this vital sector to enhance its performance amid environmental constraints.
Kenya s informal sector in the last few years has rightfully earned recognition as a major contributor to the growth and development of the economy, especially with slowing down the expansion of the traditional formal sectors. New People African Feature Service - Issue n. 83 - February 1999

While SMEs potential to narrow the income gap, generate employment, stimulate economic growth and alleviate poverty, which are part of the wider national economic goals, has been widely acknowledged by the policy-makers, this sector still remains handicapped in more than one way. Failure to remove bottlenecks for the SMEs can largely be traced to the obsession by the government to promote large industrial concerns, mainly foreign investments, at the expense of the struggling SMEs. But with time, the government is increasingly coming to terms with the inadequacies of the large industrial concerns in addressing domestic economic problems and has been incorporating policies aimed at boosting this sector in its documents.
The most important example being Sessional Paper No. 2 of 1992, which addressed specific means of promoting the sector and how to link the big industries SMEs. The same emphasis is also apparent in the Development Plan of 1997-2001.

Nevertheless much remains to be accomplished for the informal sector to withstand competition and spur industrialisation in the country in the next millennium.

Importance of the sector in the Kenyan economy can hardly be gainsaid. In a labour force of 14 million, it is estimated that 61 % of those working outside smallholder agriculture are employed here. And in urban areas, 35 % of households participate in small business, with the %age being even higher, 59 %, in smaller urban centres. About half a million job-seekers, inclusive of 10,000 university graduates, are spewed into the tight labour market annually, but given the sluggish growth of the formal sector which employs a mere1.6 million people, it is becoming patently clear that only the enhancement of the informal sector can salvage the situation. New People African Feature Service - Issue n. 83 - February 1999

The promotion of the sector has the stated dual purpose of balancing regional growth and increasing income per capita, which has nose-dived since independence, from $470 to $270. At the same time the public sector has been trimming off some of its labour force and employment has virtually been frozen. Despite all the discourse on promoting the sector, fundamental hurdles remain on its path, and if the stated goal by the government to achieve the status of a newly industrialised nation by the year 2020 is to be achieved, more concerted efforts to improve it are necessary.

Foremost amongst them is availability of credit to SMEs investors who are usually given short shrift by established banking institutions, which prefer big business. Business financing in terms of start-up and capital for continued operation is often cited as the greatest problem for small business development. As such, in Kenya start-up capital is a barrier to entry in most entrepreneurial activities it is obvious that most existing and potential investors here are not in a position to offer collateral, let alone afford the current higher interest rates.

The current banking regulations on collateral hamper the growth of micro-finance banking and hence legislation should be enacted to facilitate setting up micro-finance banks, which will operate on modified rules.

Further, on the question of donors funding, a report by an International Centre for Economic Growth (ICEG), while proposing a widening in the range of donors, says that funds should be strictly monitored to ensure at least 60 % reach the intended Enterprises before approval by the proposed Department of Small Enterprise Development (DSDE), in the ministry of national planning and Small Enterprise Development Authority (SEDA). This would also prevent duplication of programmes by mushrooming agencies and fit within the national strategy.

SMEs also face the problem of lack of quality access to the requisite information. While there has been effort to promote information flow by the government as recommended in Sessional Paper No. 2, 1992 to adequately redress the situation, this remains a major barrier to the growth of the sector.

In the past few years a number of commendable moves have been recorded on this count. The Ministry of Planning and National Development has established an information unit called Information Management Section to provide information on available opportunities and is working with UNDP towards establishing an accessible database. Also, K-Rep Holdings in 1993 established ARIFU Centre with the aid of UNDP and DFID, which contains valuable data for Sector.

All the same, for proper dissemination of information, the government and the NGOs participants in the sector will have to establish a proper channel of sharing consumable information, preferably through the establishment of a network accessible to rural areas.

The Central Bureau of Statistics (CBS) in collaboration with government departments, especially those dealing with the Sector, are said to be working together towards achievement of this goal. In the past the quality and diversity of the MSE products stunted growth of the sector both on the domestic market, where most of it is consumed, and the export market.

But with the help of the Kenya Bureau of Standards (KBS), the sector can boost its sale in both markets and achieve its goals, that is, if KBS customise its standards for the sector so that it does not present an extra barrier to progress, particularly with the globalisation of the economy in mind. Quality issue is already being addressed by, among others, KIRDI, who have set up the Leather Development Centre, Textile Training Institute and the Engineering and Design Development Centre (EDSE). But more input on this score is needed. Poor quality packaging will also have to be addressed. While this has received little attention at policy-making level, despite policy framework existence, the Institute of Packaging (Kenya) is set to establish a national college of packaging and printing technology. The SMEs produce goods that are to a large extent similar, and more research and support is re-acquired to produce diversity to allow more competition and expand the market.

Of particular importance is the acquisition of modern technology and dissemination of the same to the grassroots, if the sector is to compete with large enterprises. The Sessional Paper No.1992 mandated Kenya Industrial Research Development Institute (KIRDI) to version-imported technology to local needs, but, given funding and information flow constraints, it still has not had the desired effect. It will be important that the government makes use of extension officers to the very basic level, in so that adapted and available technology can percolate downward for both the service and the manufacturing sectors.

Infrastructure is another major hindrance to the sectors performance According to most previous studies, the variables related to the site of the business establishment are "the" defining characteristics of informal sector activity (McCormick, 1988; Owning, 1992, Puma, 1990; King and Buddha, 1991). Expressed in another way, there is a systematic relationship between "site" and "industry type." This finding stands in opposition to the blanket "informal sector" proposals which up until now have been advocated by policy makers and others who are interested in assisting entrepreneurs in this sector. The paucity of infrastructure in terms roads, electricity and water available to SMEs is of great concern to the government of Kenya and the donor community. As such, the provision of basic infrastructure will surface as essential for the development of the three industries.

The growth of any Sector is largely technology led . However, in this Sector, the industries themselves do not generate their own technological spurts, that is, moving to higher echelons of technology (Juma et al, 1993). SMEs are moving toward the exhaustion of existing technological capacity. Presently these industries use technology learned from the formal sector through adaptation and adoption. Generally, a lack of understanding of science and engineering behind the technology used is evident.

Legislation has also hampered the growth of this sector. From double licence requirements bureaucratic laws that do dot favour the size of this sector. An Industrial Technology Development Fund (ITDF) has been proposed and it will go a long way in solving the funding limitations if implemented. But still the research on technology in the institutions of learning will have to be commercialised to avoid the prevalent waste on unnecessary innovation and also laws protecting all innovation strengthened. The public sector has reserved its procurement tenders for large enterprises mainly through complicated tendering process, which knocks out smaller institutions. For the SMEs to access these tenders, especially as the public sector privatise some of its functions, the process should be simplified and the government should encourage participation of the sector through enhancing the flow of information.

Sessional Paper No. 2 of 1992 says the government would promote linkages between big enterprises and Small ones for the benefit of the latter. Previously similar arrangement had been achieved through Ministry of Industrial Development initiative, where General Motors and East Africa Fine Spinners sub- contracted SMEs, but this came a cropper when UNIDO withdrew it's funding. Collaboration of the Kenya Chamber of Commerce and Industry (KCCI) with other interested parties is required to enable both sides to enhance such linkages. Setting up of an elaborate structure to manage and facilitate SMEs to the very level is necessary if the desired goals are to be achieved. This is to ensure that the sector does not develop parallel to the national goals of development and to keep SMEs in harmony with the fast-changing global scene.

It is instructive that environmental issues are receiving increased attention everywhere and the sector will have to keep abreast with the development.

At last the Kenyan government appears to have woken up to the reality: of this sector, which at its best is reported to have created 500,000 jobs a year. This will be the most viable way ahead for the economy. This change in approach was accompanied by a shift of focus towards a "rurally orientated smallholder" (ROSH) industrialization strategy, well articulated in Kilby (1975), Child (1976), House (1978), Noormohamed (1985), and Olofin (1990), among others.

While the World Bank (1992) and others have tended to favour the ROSH implementation strategy by assigning the major role to the private sector, there are those who favour its implementation by assigning a major role to government (Olofin, 1990, Noormohamed, 1985). Assigning the major role to the private sector has its appeal in the fact that the private sector has the resources needed to implement the strategy. But the proponents of assigning the role to the government are aware that in many developing economies, government is the major mover of the economy with only a small and sometimes weak private sector. Thus, they argue that assigning such an important role to the private sector would not work. Besides, for the strategy to produce an optimal effect on the well being of the people, the social environment has to be considered something the private sector may not be willing to do.

Kilby (1969) sees SMEs as a quasi sponge for urban employment and a provider of inexpensive consumer goods with little or no import content, serving an important pressure-releasing and welfare-augmenting function. SMEs also contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of the small-sector. The emergence of wholly modem small/medium-scale Kenyan industries is likely to be a prerequisite for any enduring industrialization. However, despite government efforts in Kenya to promote informal sector activity, not much progress seems to have been achieved, judging by the performance of the informal sector. Most previous studies throughout Africa treat the informal sector as essentially homogeneous in its characteristics (Morris and Pitt, 1995; Bewayo, 1995; Ekpenyong and Nyong; 1992). Recent research suggests that government policy should be more narrowly targeted to sub sectors within the informal sector (Parker and Torres, 1994).

1.2.1 Strategy, Environment and Performance Of SMEs

Strategic Management according to Ansoff (1990) is a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure from environmental surprises. Yet no organisation can predict with a degree of certainty how external environment will affect the implementation of its strategies to guarantee its anticipated performance and growth. The role of strategy is to match external environment with the firm's internal capabilities. Organization's exists in the context of complex commercial, economic, technological, cultural and social world. An understanding of the historical and environmental effects, as well as opportunities and other will exert threats to the organization of any size. In the recently concluded Second East Africa Business Summit held in Nanyuki, Kenya, the region's leading CEOs acknowledged that to achieve any sustainable business development and growth in the region, the role and success of SMEs was crucial. Indeed, the lack of this "missing middle" group of enterprises retards the growth and development of the region's economies.

Although the role of the individual country's governments in improving the SME sector was commended, delegating this role purely to the public sector would mean the private sector abdicating one of the areas where they can make an impact on the region's economy.
In Kenya, for example, the sector has the capacity to create the 500,000 jobs yearly, the target set by the NARC government.

Determined to play an active part in the sector, the CEOs analysed the key environmental problems facing SMEs that stager the implementation of well thought crafted strategies that not only inhibit expansion and growth but also distort performance, the bottom line-profits. This was with the aim of identifying key areas where the big firms could make the most impact as well as formulating time-specific action plans.

Among the environmental problems discussed that affect performance and growth were:

Lack of access to capital that the sector suffers from. The fact that lenders are still obsessed with collateral, especially for business loans, coupled with the delay in formalising rural capital assets, were seen as among the key obstacles hampering the sector's growth and development.

The recent emergence of small micro credit institutions and the role they are playing to support SMEs was acknowledged, but it was felt that there was still a gap in the financing of projects with higher capital demands.

The sector also faces the problem of low levels of training in numerous areas of business management, in addition to the lack of business opportunity awareness. A low standard of entrepreneurial education has resulted in a high business failure rate throughout the region.

The low level of skill and technical competence has also contributed to the sector's lack of innovation, growth and profitability.

The role of the public sector and its failures, particularly its lack of contract support, was one of the key areas discussed by the forum. Though governments account for over 35 per cent of the purchasing power in the region, they continue to display a preference for imported goods over those produced by SMEs. Furthermore, even when a government body buys local goods, the payment process is long and slow. (The East African Oct 2003)

1.2.2 SMEs and Economic Development

Until the early 1960s, many economists viewed the continued existence of small-scale industries in less developed countries as justified by scarcity of capital and administrative experience. It was often argued that with economic growth, modem forms of large-scale production would in one sector after another, supersede the small, traditional type of enterprise. In order to ensure an orderly transition, small industries were seen to deserve support, but mainly in sectors where modem methods could not be immediately applied.

In the mid-1960s a new approach to small to medium-scale enterprise (SME) development began to emerge due to several factors. First, there was growing concern over low employment elasticity of modem large-scale production. It was claimed that even with more optimal policies, this form of industrial organization was unable to absorb a significant proportion of the rapidly expanding labour force (Cherney et al., 1974; ILO, 1973). Second, there was widespread recognition that the benefits of economic growth were not being fairly distributed, and that the use of large-scale, capital intensive techniques was partly to blame (McCormick, 1988; House, 1981; Cherney et al., 1974). Third, empirical studies revealed that the causes of poverty were not confined to unemployment, and that most of the poor were employed in a large variety of small-scale production (Noor Mohamed, 1985).

This suggests a new role for small industries, in what has come to be labelled "the urban informal sector". Small, labour intensive industries were seen not only to increase employment, but also to increase the living standards of the poor. They were also thought to be capable of providing a new dynamic of economic growth. The new objective was not just to stop to retreat, but also to promote the small-scale sector (House, 1981; Schmitz, 1982; Giamartino, 1991).

Small-Medium Enterprises (SMEs) play a very important role in the economic and social development of both developing and advanced economies. It creates jobs, increases economic output and exports, improves income distribution, establishes the foundation of a market economy and contributes to economic growth and development.

Its contribution to the development of the economy is significant, for example, the SME sector accounts for 99 per cent of private businesses in Kenya. While the importance of large industrial, agricultural, mining and other enterprises for the growth of the economy cannot be denied; there is ample evidence that the labour absorptive capacity of the small business sector is high. SMEs account for most private sector jobs. The experience of other countries has shown that in periods of recession SMEs can partly outbalance the increase of unemployment. For example, SMEs contribution to Poland's economy during the recession in the mid-eighties substantiates the important contribution of the sector to economic development. The role of SMEs in the economy is also unique in a different way - in that it represents an element of competition and counters monopolistic tendencies, provides consumers with a broader choice and helps to push prices down. The SME sector's great flexibility drives it towards innovations and structural changes.

The sector is always conducive to social stability, economic prosperity, employment, resource utilisation, industrial modernisation and rural development. SMEs will continue to prosper and make important contribution as they are widely diversified, adaptable to peculiar local conditions, and complementary to other small medium business and to big enterprises.

Potential SMEs in Namibia during colonization for instance, were not encouraged or given the required support; SMEs that existed during this period were more for survival - a way of life - as there were very little employment opportunities for the majority of Namibians. Hence many operated informally, mostly in the retail trade and services industry sectors. This informal way of operation made it difficult to evaluate the economic contribution of the SME sector. Ngozi Awa, 1998

The SME Policy instituted by the Government shows the importance attached to this sector and the recognition given to its role in economic development [such as reducing unemployment]. It is hoped that this vital sector will now be given [in the real sense of it], the focus, attention and effective support that it deserves

Evidence from East Asian countries suggest that the SME sector can loom large and important in an economy and that when it does so both the economic growth and development and the income distribution performances can benefit greatly. Berry (2000) says that the biggest question is: to what extent does such impressive success owe itself to exogenous factors like, favorable environment, strategy, ability to respond to the environment, capital availability, managerial skills a culture which favours the business characteristics that are friendly to the development of SMEs, a topography conducive to a dense network of small firms, or a history which did not produce a lot of large enterprises. Although skepticism over Africa's potential success with SME development should be taken seriously, it should not be overdrawn. As of the early 1970's Korea, for example, was dominated by large, vertically integrated firms which did relatively little subcontracting and the SME sector was accordingly much less important than in Taiwan or Japan. Since that time however, SME output and employment has increased enormously in Korea. At the same time the level of inequality in the country has diminished. This experience is relevant to Africa.

For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part. The NARC Government in its Manifesto has acknowledged this, where private sector development will be a priority. A learning experience is that SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. There is a rich body of research on the development contribution of small enterprises. While not entirely without some controversial areas, there would appear to be widespread consensus on the following points:

SMEs (partly because of the industrial sub-sectors and product groups covered by them) tend to employ more labour-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of small enterprises that individual countries and the international community at large can make progress towards reaching the global target of halving poverty levels by the year 2015.

i. There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistributional pressure and by reducing economic disparities between urban and rural areas.

ii. SMEs are key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities, which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.

iii. SMEs are a seedbed for entrepreneurship development, innovation and risk taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.

iv. SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors. SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner. -UNIDO 2002

1.3 Statement Of The Problem

Economic reforms in Kenya commenced in the 1990's and covered the entire economy including gradual decontrol of prices, liberalizing the interest rates, the foreign exchange rates and privatization of state-owned enterprises. The Government policy on liberalization and privatization was articulated in the sector policy paper (government of Kenya (GOK), 1996/8). This policy document outlined the reform measures to be undertaken in all sectors of the economy in order to stimulate growth and development, specifically through the privatization of state owned enterprises. Since then we have witnessed a lot of changes. Almost all large companies have had to re-engineer, restructure or discontinue their operations, as their strategies seem not to work amidst rapid changes in the Environment, their justification being to improve performance. Government has changed focus to Small, Micro and Medium enterprises as the alternative sectors yet the same environment that has spelt doom to the large companies have the same impact to this sector.

SMES in Kenya as is the case worldwide plays a crucial role in the Economic development yet no policy seems to be developed to not only identify their importance but also to highlight their obstacles, monitor their performance and growth. The same policies that were in existence during the glorification of large enterprises are the same despite the change of focus to SMEs as the engine for economic growth. What has actually happened in Kenya is the change of Focus towards SMEs without change of Policy. This macro policy instruments tended to:

i. Encourage investment in highly protected but inefficient, capital-intensive and large-scale industries;

ii. Discourage investment in labour-intensive enterprises;

iii. Introduce distortions of factor markets, which in most cases are manifested in terms of differential impact on costs of factor inputs facing different size enterprises, and encourage lobbying which often resulted in bias against SMEs. (Tesfachew, 1992).

International experience indicates that any comprehensive SME development strategy should contain definite objectives and programs. Being a very heterogeneous one, the SME sector should not be expected that the same policy package would be optimal across all branches, across African countries at different levels of development, between SMEs which are subcontractors and those which are part of clusters, producers of tradable versus producers of non-tradables. It must also be recognized that in some areas, understanding of what good policy may be, remains incomplete for lack o f p olicy e xperiments and careful analysis. These caveats aside, this a sizeable sector that cannot be ignored yet all studies done to date have not addressed the sector.

The SMEs in Kenya are operating in an environment that is not conducive for them to implement their strategies and realise a good performance to energize the economic growth. This is therefore a setback for Kenya's economic growth, which leads to various questions. How can SMEs operate when there is no improvement in technology development and transfer through participatory group extension and private sector development, without new markets for labour intensive manufacturers, services and agro products, without support measures targeted at providing adequate infrastructure and development of technical and management capacity for this growing sector, without access to finance and sound SMES operational guidelines policies on taxes and investment policies among others.

It is, therefore, against this background that this study seeks to verify in a systematic manner the environment as a moderator of the relationship between business strategy and performance in small and medium enterprises in Kenya

1.4 Objective Of The Study

This study seeks to determine the environment as a moderator of the relationship between business strategy and performance in small and medium enterprises in Kenya

1.5 Importance Of The Study

This study will be beneficial to various groups:

i. Small and Medium enterprises' entrepreneurs – Give them an insight on strategy development and how environment acts as a moderator of the relationship between business strategy and performance in small and medium enterprises in Kenya.

ii. Academicians – This study hopes to shed light on the nature and operations of SMEs in Kenya, add to the body of knowledge and hopefully stimulate further research.

iii. Policy makers - Guide policy makers in policy formulation and implementation in future.

CHAPTER TWO: LITERATURE REVIEW

2.1 Environment

Organizations large and small are environment-dependent. No organization can exist without the environment. They depend on the environment for their survival and they have to scan the environment in an *effort* to spot budding trends and conditions that could *eventually affect* the industry and adapt to them (Thompson & *Strickland,* 1993). Failure to do this will *lead* to serious strategic *problem* characterized by the maladjustment *of* the organization's performance growth (Ansoff, 1984).

Environment can be dynamic (uncertainty of environment) and hostile (intensity of competition). Both these two dimensions can be used to assess the organizational environment of SMEs. The uncertainty of environment refers to the five forces (competitors, customers, suppliers, regulators and associations) that are likely to influence a business organization. The degree of uncertainty of these five forces can range between from "predictable" to "most unpredictable".

The intensity of competition refers to the competitive factors (price competition, product competition, technological competition, competition in distribution, manpower, and raw materials) that can affect all firms in an industry as well as the profitability of the industry. This can be measured through the intensity of competition measured on a scale ranging from "none" to " very intense competition".

Organizations exist within amidst volatile external environment and therefore change in such an environment bring with it a new opportunities and threats. Inadequate adjustment to environmental changes will make organizations experience a 'strategic problem' or a 'strategic misfit'. The strategic problem can only be removed by responding to the changes. Sustainable strategy must be one that is hard to be imitated by competitor and provides a firm with a competitive advantage. The sources of sustainable superior performance lie internally, rather than externally, in simply positioning the firm in the right markets the dynamic, hostile and competitive nature of markets means that long-term survival of firms is only possible if firms adopts and adapts to successful strategies. Businesses can be equated to a species of biological evolution. The process is so ruthless such that only the fittest survive and the powerless become extinct. The emerging paradigms are a stimulus response to the ever-changing business eco-systems, thus compelling firms to fine-tune and revitalize strategic moves for competitive advantage. The new paradigms in strategic making, requires thinking in parts of whole systems-that is, seeing your business as part of a wider economic ecosystem and environment. The heart of strategy is to understand these evolutionary patterns. The organization has to be visionary.

Defining organisational environment is not an easy task. Different researchers have used different approaches, definitions and dimensions of environment in their studies to determine its influence on organisational performance. According to Drucker (1977), environmental influences such as economic forces can set limits to what management can do as well as create opportunities for management's action. However, they do not by themselves determine what a business is or what it does. As such, a business enterprise does not only have to identify these forces and manage them, but also adapt itself to the forces of the environment. In the context of the contingency framework, many authors (Venkatraman and Prescott, 1990; Hitt et. al, 1982; Prescott, 1986; Hitt and Ireland, 1985 and 1986; and Hofer, 1975) considered environment as one of the important contingency factors. Porter (1980 and 1985), Griffin (1987), Robbins (1992 and 1996) described environment as those institutions or forces (such as suppliers, customers, competitors, government regulatory agencies, public pressure) outside the organisation, but over which the organisation has little control, and that these forces can potentially affect the organisation's performance. Duncan (1972) defined environment as the physical and social factors that occur outside an organisation which are relevant in the decision-making process of the managers and are often characterised based on levels of dynamism, heterogeneity, and /or complexity.

However, according to Lenz (1980), there is no widely held consensus concerning how organisational environment should be assessed and which Aspect Ratings of the environment affect performance. Lenz noted that empirical studies generally employ two methods. The first method, which is usually taken along two dimensions such as from stable to shifting and from homogeneous to heterogeneous which, uses perceptual measures to assess environmental complexity and uncertainty. The second method uses relatively objective measures to assess the relevant environmental factors such as demographic trends that can influence the goal attainment of an organisation.

Using the contingency approach, several empirical studies have provided the evidence that suggest environments are major determinants of performance in large firms. Lenz (1980), Stanwick and Pleshko (1995), Porter (1980 and 1985), Golden et. al (1995) and Manu and Sriram (1996) found that environment has strong influence on performance in large firms. At the same time, Li and Simerly (1998), Venkatraman and Prescott (1990), Hitt et. al (1982), Prescott (1986), Hitt and Ireland (1985 and 1986), and Hofer (1975) found that organisational performance (success) depends upon a contingent relationship between business strategy and environment.

In further supporting this view, Miller and Friesen (1983) stressed that organisations must not only change, avoid or control their structure to deal with additional information processing requirements caused by dynamic, hostile or complex environments, but also they must review their strategy-making processes to fit environment, structure and strategy. However, in the aggregate, empirical studies have not provided support for the relationships between business strategy, environment and performance in SMEs (Kim and Choi, 1994; Shane and Kolvereid, 1995; Kotha and Nair, 1995; Chowdhury and Lang, 1996; Chen and Hambrick, 1995).

It is therefore evident from the above that SMEs may formulate and develop their strategy taking into account all environmental factors but at the stage of implementation there appears move complicated issues that make the Strategy ineffective thereby jeopardising their performance

Table 1: Comparison Rank of Environmental factors to Business Performance in Kenya

ENVIRONMENTAL FACTOR	Rank
Lack of Credit	1
Lack of Demand	2
Lack of Infrastructure	3
High Utility Prices	6
Lack of Support Services	4
Import Competition	5
Technology	3

Source: Matambayla and Wolf. "Performance of SMEs in East Africa: Case Studies from Kenya

2.2 Business Strategy

Johnson and Scholes (2001), defined strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of its resources within a changing environment, to meet he needs of the markets and to fulfil shareholder expectations. Strategy is a multidimensional concept that embraces all the critical activities of the firm, irrespective of its size, providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. The concept of strategy became a business vocabulary in the 1950s when the response to environmental discontinuities became prevalent. In the early days strategy definition followed the military usage and was seen as "the science and art of deploying forces for battle".

Strategy is a multidimensional concept that embraces all the critical activities of the firm, providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. Johnson and Scholes (2001), defined strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configure ration of its resources within a changing environment, to meet he needs of the markets and to fulfil shareholder expectations.

Mintzberg and Quinn (1998) defined strategy as "a pattern in a stream of decisions". Strategy in a pattern of actions emerging from past decisions". Strategy is a pattern of actions emerging from past decisions of the firm. However, Arnoldo and Nicolas (1996) argued that strategy should be formed in cognisance of the past heritage of the firm, but at the same time it should be forward looking. They argued that strategy making is a deliberate balance between learning from the past and shaping new courses of action to lead the organization toward a future state.

Thompson and Strickland (1998) pointed out that an organization's strategy consists of moves and approaches devised by management to produce successful organizational performance. That strategy is a management's game plan for the business. Without a strategy, there is no established course to floe, no roadmap to manage by, no cohesive action plan to produce the intended results. The 1980s and 1990s have been characterized by discontinuous and unpredictable business environment. An organization must restructure itself to meet the new activities and to respond to external environment. Restructuring attempts to harmonize the organization's existing structure to the strategy requirements. Change in strategy has become frequent and so has restructuring of the organization. Pearce & Robinson (2000) pointed out that at the heart of restructuring trend is the notion that some activities within a business value are more strategically critical to the success of the business strategy than others. Organizational restructuring is all about changing the organization, the equivalent of self-administered surgery with no aesthetic and no insurance of long-term health.

The strategic management literature emphasises on the important role of business strategy in both large and small firms (David, 1994 and 1999, Wheelen and Hunger, 1995 and 1999, and Rue and Holland, 1989). Firms use business strategy to outline the fundamental steps that they plan to follow in order to accomplish their objectives. The literature indicates that organisations can have a single strategy or many strategies, and that these strategies are likely to exist at three levels: corporate level strategies (such as grand or master strategies); business level strategies (competitive strategies); and functional level strategies. Although the literature suggests that strategies are developed at the three different levels, theoretical and empirical studies of the relationship between strategy and organisational performance have mainly emphasised on business strategy (Lee, 1987).

Business strategy can be operationalised by using Porter's three generic strategies of low cost, product differentiation and niche. This can be chosen by ranking their suitability to the business ranging from "least applicable" to "most applicable",

Previous empirical research on the strategy/performance relationship has mainly focused on large firms. These studies provide strong evidence that suggests business strategies are associated with the performance of large firms (Hofer and Schendel, 1978, Wood and Laforge, 1979; Lee, 1987; and Kotha and Nair, 1995). Although most of the empirical studies centre upon large firms, a small body of research indicates that business strategy can also influence the performance of smaller firms.

In the context of SMEs, Giglierano (1987) noted effective business strategies depended on the type of business as well as the products they developed. Giglierano claimed that SMEs that adopted particular business strategies seem to achieve better performance.

Forrest (1990) observed that small firms have to develop new strategies to react to the changing nature of business as reflected in such factors as increasing competition, both national and international, the increasing internationalisation of markets, and new global competitors.

Dollinger and Golden (1992) examined four collective strategies (confederate, conjugate, agglomerate and organic) and found agglomerate and organic collective strategies to be the most frequently employed strategies among small businesses. In another study, Baird, Lyles and Orris (1994) proposed international strategy for small firms and found that the international strategy is positively related to return on sales, but negatively related to growth.

In an attempt to study the strategic behavior of small firms, Kim and Choi (1994) found innovativeness, efficiency and versatility as the three most successful strategy types. However, the authors stressed that in selecting the choice of strategic focus, managers in SMEs must consider the industrial environment. Porter (1980) noted that a firm can gain its competitive advantage by producing value to its customers. Porter emphasised that a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors.

Porter concluded that business strategies based on these activities are known as generic strategies. Furthermore, according to Porter, the three generic business strategies are low cost, differentiation and focus (niche). In a low cost strategy, the firm attempts to reduce cost and increase profit as well as sales by using economies of scale, scope and technology. In a differentiation strategy, the firm emphasises on developing ways to make products appear unique and different. Finally, in a niche (focus) strategy, the firm focuses on product development and marketing efforts in a particular market segment that the firm has a cost or differentiation advantage.

Using the Porter's three generic competitive strategies (low cost, differentiation and focus), Schroeder, Congden and Gopinath (1995) indicated the linkage between the generic strategies and manufacturing technology. In addition, Mosakowski (1993) found that entrepreneurial firms that adopted focus and differentiation strategies performed better than firms that does not use these strategies.

In developing six business strategies (harvest, build, cash out, niche, climber and continuity) for businesses in consumer markets and four (low commitment, growth, maintenance and niche) in industrial markets, Galbraith and Schendel (1983) concluded that only the build strategy type (consumer), growth (industrial) and niche (both) appear appropriate.

The role of strategy is to match external environment with the firm's internal capabilities. Organization's exists in the context of complex commercial, economic, technological, cultural and social world. An understanding of the historical and environmental effects, as well as opportunities and other will exert threats to the organization. According to Kathleen and George (1998), there are two opposing theoretical perspective of the environment, the Executives in different organizations perceive the same environment differently, due to differences among their organization's structures and processes. The second argument is that a variety of social processes induce common perception within and among subpopulation of organizations inhabiting the same environment.

Strategy crafting is therefore largely influenced by top manager's perception of their organization's environment. Every organization has a unique environment, even organizations within the same industry has environments unique to themselves.

Mintzberg and Quinn (1998) pointed out strategy evolve constantly, partly in response to an ever-changing environment, partly from managers' effort to create new opportunities and partly from fresh ideas about how to make the strategy work better.

Environment is the key for firm's success; it can be relatively stable or turbulent. Each level of environment has different characteristic requiring different strategies with different firm's capability. For survival, an organization may choose to take any of the three strategic postures, shaping, adapting, or reserving the right to play.

According to Courtney (1997), shapers aim to drive their industries towards a new structure of their own device, for example setting standards and creating demand for their products. Adapters react to opportunities the market offers. Win through speed, agility and flexibility in recognizing and capturing opportunities in existing markets. Reserving the right to play is a special form of adaptation. Invest sufficiently to stay in the game but avoid premature commitments.

The different levels of uncertainty confronting firms today are so high that they need a new way of thinking about strategy. Courtney (1997) proposed a 'More comprehensive strategy Tool Kit' that offers managers more rigorous and systematic thought about uncertainty facing their firms. The strategic tool kit involves scenario-planning technique, game theory, systems, systems dynamics, and agent based models (understand complex interactions in the market) and real-options (value investment). The novelty and the speed of the developments in the environment call for real time continuous preoccupation with the strategic issues throughout the year as opposed to only at the planning or plan review stage.

2.3 Performance

All enterprises, both for-profit and non-profit, which find themselves in a complex and rapidly changing environment, should identify major environmental trends, and particularity, possible major full-time discontinuities (breakthroughs in technology) which appear to have a major impact on the organization.

The strength and weaknesses, which develop in organizational capability mismatch, need to be identified and a list of the internal trends developed for example, size, complexity, structure systems communications, and capacity, which can have both positive and negative impact on the efficiency and/ or on the responsiveness to the environment.

Internal trend identification is key especially in fast-growing small firms and medium sized firms. Experience has it that at certain sizes, major weaknesses develop in organizational capability to handle new complexities brought about by size like the loss of control and perspective by the founding entrepreneur.

Although, many studies as noted below have found that different companies in different countries tend to emphasise on different objectives, the literature suggests financial profitability and growth to be the most common measures of organizational performance in relation to its environment over a period of time.

Nash (1993) claimed that profitability is the best indicator to identify whether an organisation is doing things right and hence profitability can be used as the primary measure of organisation success. Further, Doyle (1994) pointed profitability as the most common measure of performance in western companies. Profit margin, return on assets, return on equity, return on sales are considered to be the common measures of financial profitability (Robinson, 1982; Galbraith and

Schendel, 1983). Abu Kassim et. al (1989) found sales, sales growth, net profit and gross profit were among the financial measures preferred by the Malaysian manufacturing firms.

Accounting figures can reveal inefficiency in performance; inefficiency of the firms' strategy and general threats caused by macro-economic factors like inflation, interest rate and foreign exchange rates. But that is not all. Threats, Opportunities and future strengths and weaknesses should be continuously identified. The trends should be regularly reviewed to ensure identification of sudden, fast and potentially surprising changes.

Therefore, the onus is to every SME to continuously appraise the environment and identify issues/factors that can impact on performance and act/manage them immediately. According to Ansoff (1990) there are four different SIM practices

i. **Simple environmental impact analysis**

It analyses one event at a time and does not concern itself with their interdependence.

SWOT analysis is necessary through continuous surveillance of environment-these can be identified from three sources, external environment, internal capability trends, and performance trends. Continuous surveillance ensures identification of sudden, fast potentially surprising changes.

ii. **Cross Impact Analysis**

This is more complex procedure, which estimate the likelihood of simultaneous occurrence of several events. This analysis produces clusters of events that are likely to impact on the firm and facilities identification and preparedness of probable future disaster scenarios or opportunities

iii. Issue Ranking Approach

Here, impact and urgency of events are estimated and presented as strategic to the top management who together with planning staff sort issues into four categories.

Highly urgent issues of far reaching effect which require immediate attention

Moderately urgent issues of far reaching effect, which can be resolved during the next planning cycle (i.e. Postponable issues). Non-urgent issues of far reaching effect which require continuous monitoring (i.e. Delayable issues) issues that is false alarms and can be dropped from further considerations (i.e. minor issues). The urgent issues are assigned for study and resolution, either to the existing organization units or to special task forces.

Strategy has sometimes been described as one % theory and ninety nine % implementation. In order to achieve its strategic goals and objectives, an organization often needs not only a formal plan for implementation of its strategy, but also the capability to move a large body of people from one attitude to another. The strategic process is rooted in both an awareness of current reality and a powerful vision of what the organization is trying to create. Organizations that successfully transform themselves communicate a very clear vision about what they are, what they want to achieve, and what part they play in the wider world. It is this powerful sense of vision that anchors the change process.

Change has always been with us, although it is only comparatively recently that the notion of change management has been elevated to an important business concept. This clearly reflects the increasingly turbulent business environment; scarcely a day goes by without a major organization re-inventing itself, or otherwise embarking upon a path of transformational change (whether through Total quality, process redesign, downsizing or good old-fashioned restructuring initiatives). Over the last decade, radical change programmes have spread rapidly from the private sector to the public sector, voluntary bodies, charitable organizations and, inevitably, into our personal lives. It is probably not surprising, therefore, that organizations have turned their attention to the process of change itself and how best to motivate their people to make the desired level of change.

Most of us fear change. Rather than managing change, it is probably more correct to say that we cope with change, we adapt to it as best we can and, if we are fortunate, we turn it to our advantage. In reality, "managing" the process of change is an illusion. It suggests that we can control or limit the effects of outside events, which are, in the short term, often beyond our control. More seriously, at a deeper level, it ignores our part in creating those events in the first place. Our best organizations do not manage changes thrust upon them, they are instrumental in creating those changes. They recognize their place as co-creators of their destiny.

Ondiege (1995) identified a number of factors that affect the growth of the SME sector. These factors include credit, accessibility, technical training, business training and management, marketing infrastructure and technology. These factors are all viewed to be important for the sector's sustainable development. In another study Namusonge (1998) identified credit, technological capabilities, entrepreneurs and regulatory environment as critical factors or relatively significant in SME growth performance

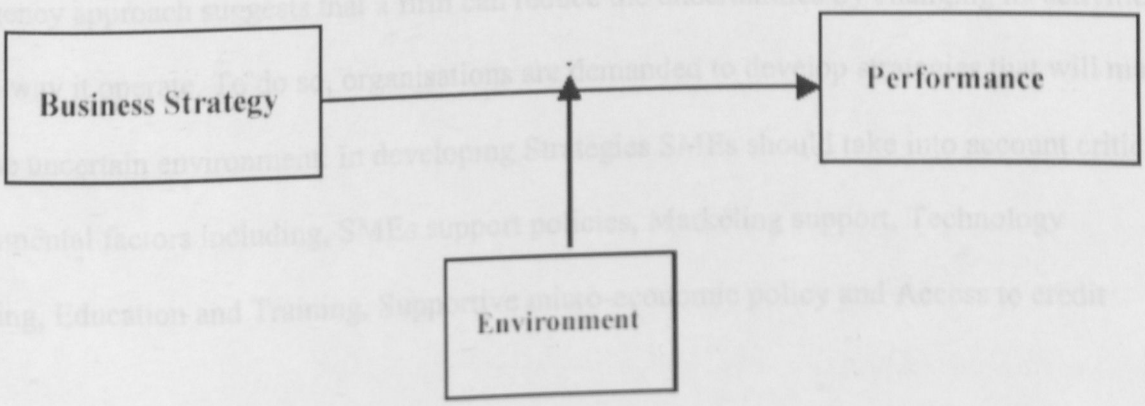
There is no magic template for our actions, which will depend on the complex inter-relationships between the factors influencing events.

Those who pretend that the same kind of change medicine can be applied no matter what the context are either naive or charlatans. *Financial Times (1996)*

2.4 Relationship Between Business Strategy and Performance

Good business strategy leads to good performance, as without strategy a firm can only be reactive as opposed to being proactive. The following figure 1 presents the research model of the study. The model below demonstrates this relationship:

Figure 1: The Research Model



2.4.1 The Contingency Framework

The contingency framework states that the performance (success) of a particular firm depends on how well it is able to deal with the contingency factors (situational) such as the environment. The contingency framework proposes that developing an effective strategy should begin by first understanding and knowing the firm's environment. In line with the concept of alignment in the contingency approach, the model suggests that business strategy must be aligned to the environment if the organisation is to perform well. A firm that adopts a business strategy that fit with its environment tends to perform well. A different organisation within a different environment will require a particular business strategy. Organisations with a business strategy that does not fit the environment will perform poorly and need to change the business strategy.

The contingency framework views that organizations must adapt to their organisational environment in order to survive and prosper. Organisational environment is believed to be able to influence organisational performance and growth. This is because the dynamics of the environment create uncertainties for organisations. Uncertainties of the organisational environment are threats to an organisational performance. If a firm is to be rational, it must strive to reduce uncertainties. The contingency approach suggests that a firm can reduce the uncertainties by changing its activities and the way it operate. To do so, organisations are demanded to develop strategies that will match or fit the uncertain environment. In developing Strategies SMEs should take into account critical environmental factors including, SMEs support policies, Marketing support, Technology upgrading, Education and Training, Supportive micro-economic policy and Access to credit

Schumpeter (1934:19) SME development are greatly about 'substantive freedom' to engage in acts of creation. These acts may be creative in the sense that they are unprecedented or they may be a synthesis of other's creative activities into 'new combinations'."Klaas Havenga 2001-05-04

2.4.2 Environment as a moderator

The contingency framework views that organizations must adapt to their organizational environment in order to survive and prosper. Organisation environment is believed to be able to influence organizational performance. This is because the dynamics of the environment create uncertainties for organizations. Uncertainties of the organizational environment to an organizational performance. If a firm is to be rational, it must strive to reduce uncertainties. This contingency approach suggests that a firm can reduce the uncertainties by changing its activities and the way it operate. To do so organizations are demanded to develop strategies that will match or fit the uncertain environment.

In order to test these relationships between business strategy, environment and performance this study will develop the following hypotheses

i. The performance of SMEs will vary with the choice of business strategy adopted.

ii. The environment (Uncertainty of environment and intensity of competition) will moderate the relationship between business strategy and performance of SMEs.

2.4.3 Strategy as a fit

The Environment

The Environment usually refers to groups and forces outside of the organization. These include: -

i. the Market and the Industry

ii. the Customers, Competitors and Suppliers

iii. Government

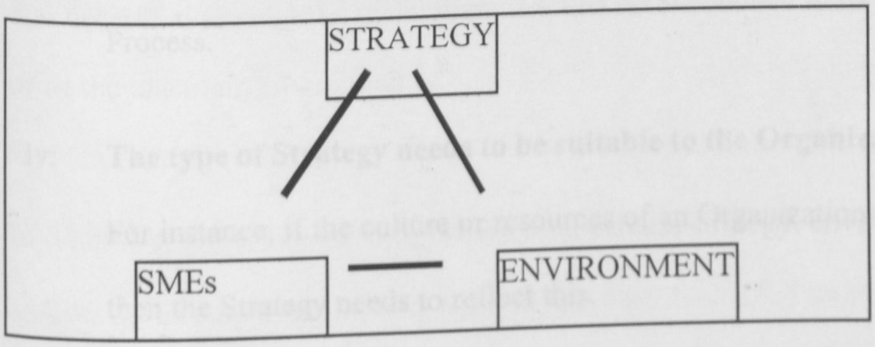
iv. Political, Economic and Social trends

v. Technology

Environmental forces are usually thought of as being outside the control of the Organization

The relationship between Strategy, the Environment and the SMEs can be depicted as a triangle

Figure 2 Strategy as a fit



A number of comments can be made around this model, with suggested courses of Action:

i. **An Organization tries to affect its Environment through its Strategy:**

so.... Formulate a Strategy to achieve your objectives.

ii. **Strategy is affected by both the Environment and the Organization.**

so.... Monitor the Environment and the Organization for threats and opportunities, strengths and weaknesses. Adjust your Strategy accordingly.

iii. **The type of Strategy (and Strategic Process) needs to be appropriate to the Environment.**

For instance, an unpredictable, rapidly changing environment may need a strategy, which has flexibility and no long-term commitments, and a Strategic Process, which can react quickly.

so.... Evaluate the characteristics of your Environment (predictable-unpredictable, complex-simple, stable-changing) and decide and adopt the right type of Strategy and Strategic Process.

iv. **The type of Strategy needs to be suitable to the Organization.**

For instance, if the culture or resources of an Organization restrict the Strategic options, then the Strategy needs to reflect this.

so.... Evaluate the characteristics of your Organization (flexible- inflexible, culture bound-innovative, inherited strategies and projects etc) and accept and adjust strategy accordingly (but see below also).

v. **The Organization needs to be appropriate to the Environment and the Strategy.**

so.... If the Organization is not 'a good fit' with the Environment and your Strategy, then change the Organization.

In conclusion, SMEs are a major feature of the economic landscape in all developing countries today. This has been partly attributed to the success of SMEs in Italy, Germany, Japan and the Newly Industrialised Countries, which have promoted interest in the SME sector. Most notably, the experience of the industrialised countries has inspired research on SME development and promotion in the developing world. As a result of their belated discovery by policy makers, SMEs have acquired new dimensions and are now recognised as an important element of the economic recovery programme and at the same time wheels of fortune towards industrialisation in Kenya. More specifically, SME development objectives have been linked to efforts aimed at poverty alleviation, employment creation and increased economic growth mainly in the context of shrinking job opportunities in the public sector and formal economy as well as the dwindling international investors and suspension of aid.

From the above it is clear that a lot of legislation is in place to try help SMEs in all Aspect Ratings but in reality there is poor coordination amongst the stakeholders, such as Investment Promotion Centre, Kenya Chambers of Commerce and Industry, Kenya Association of Manufacturers, and Kenya Government. Apart from internal wrangling, there is a clear lack of institutional capacity to handle the trade support services that SMEs need. The existing framework is not the panacea if this sector is to claim its position in the Kenya economic development and bridge the gap of the missing middle, compete favourably with the other sectors and improve their performance.

CHAPTER THREE: RESEARCH METHODOLOGY.

3.1 Population and Sample Of Study

This study comprises of all manufacturing SMEs in Kenya. Kenya industrial and development Research Institute (KIRDI) has published a directory with 696 SMEs manufacturing firms in Kenya. (Kenya directory of Manufacturing Industries 1997). This was used to define the population. A random sample of 50 firms constituted the sample of which 22 (44%) firms responded.

3.2 Data Collection

The questionnaire was administered via in-depth interviews using a structured questionnaire; the data for the study was collected through personal face-to-face interviews with the managers of the various SMEs

The questionnaire was structured in 3 key parts, Environment, Business Strategy (Cost, differentiation and Focus) and Performance.

3.3 Data Analysis

Performance was evaluated by using the actual figurers of sales volume, the amount of assets, the amount of equity, the number of employees, return on investment (ROI), return on sales (ROS) and return on assets (ROA) over a period of time.

The growth (average rate) was measured by taking the average % change in the performance measures (sales volume, the amount of assets, the amount of equity, and the number of employees, ROI, ROS and ROA) for over period of time.

To test hypothesis 1, which was to determine whether, the performance of SMEs vary with choice of business strategy they adopt. ANOVA procedure was used.

Regression analysis was used to test hypothesis 2, which stated that the relationship between strategy types and the performance of SMEs is moderated by Environment.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This study was set to evaluate the environment as a moderator of the relationship between business strategy and performance. It focused on the small and medium sized enterprises in Kenya. This study explored "strategy" the primary tool that business owners or managers now use to guide enterprises in their turbulent existence. Effective application of the strategic approach is neither simple nor mechanistic. For managers, converting an inspired strategic idea into integrated action throughout an enterprise is the most difficult part of the job. A business strategy is a roadmap for the business manager, a way of knowing what lies ahead and how the parts are interconnected. A business strategy sets forth the mission of the enterprise. It reflects the choice of the key services that the organization will perform, and the primary basis for distinctiveness in creating and delivering such services. Because the mission is the overriding aim of the enterprise, the strategy serves as a guide to managers in deciding what to do and what not to do, and it is the rallying theme for co-ordinating diverse activities.

Enterprises depend on the environment in an effort to spot budding trends and conditions that could eventually affect the industry and adapt to them. Business organisations exist amidst volatile external environment and therefore change in such an environment bring with it new opportunities and threats. The role of strategy is to match external environment with the enterprise's internal capabilities.

The study considered several variables that affect a business organization as explained below and their effect on the Business operations and hence performance.

4.2 Components of Environment

Environment is the key for firm's success, it can be relatively stable or turbulent. Each level of environment has different characteristic requiring different strategies with different firm's capability. The role of strategy is to match external environment with the firm's internal capabilities. This is because Organizations exists in the context of complex commercial, economic, technological, cultural and social world. An understanding of the historical and environmental effects, as well as opportunities and other will exert threats to the organization. According to Kathleen and George (1998), there are two opposing theoretical perspective of the environment, the Executives in different organizations perceive the same environment differently, due to differences among their organization's structures and processes. The second argument is that a variety of social processes induce common perception within and among subpopulation of organizations inhabiting the same environment. In this study environment has been divided into two sections uncertainty of environment and intensity of competition.

4.2.1 Uncertainty of environment

This refers to the difficulty of predicting environment due to the dynamism of its components. This uncertainty is pegged on two extreme ends, stable and turbulent. A Firm needs to carefully monitor/understand the effect of each of this forces on its operations and adjust its strategies accordingly. This section sought to find the degree at which a firm can predict each of them and therefore adjust its strategies to achieve its objectives. Environment has many players each playing a different game with the sole purpose of outwitting the others player/s. It therefore becomes very difficult to predict the effect of these factors to the organization.

4.2.1.1 Competition

All firms compete with each other for business. Competition can be defined as those firms that have products/services that are similar or can be substituted for the business products in the same area.

The extent of competitive rivalry will depend on:

i. The number of competitors and their size.

ii. The rate of growth in the industry.

iii. The levels of product differentiation.

iv. Any entry/exit barriers.

Firms were asked to rate predictability of competition in influencing business organisations as shown below;

Table 2: Rating predictability of competition in influencing business organisations.

Aspect Rating	Frequency	Percentage (%)
Not Predictable	4	18.2
Low Predictable	10	45.5
Moderate	5	22.7
High	2	9.1
Very High	1	4.5
Total	22	100

Source: Research Data

Table 2 shows that firms cannot predict competitors influence on business organizations with ease 18.2 cannot predict competitors influence on their business organizations while 45.5 percent indicated that they can lowly predict competitors influence business organizations and 22.7 percent moderately. About 13.6 seem comfortable in predicting competitors influence. Which is mainly due to monopolistic nature of their business, high level of product differentiation and barrier to entries. Some industries are highly concentrated, with only a few competitors. This suggests that competitors or competition is very important when a business organization is formulating its strategy. Many former monopolies now face competition. As the number of companies in a market sector grows, competition increases. Liberalization also increases competition a factor that has lead to a lot of exits by many companies who could not adopt in the market.

The level of competition will be influenced by the number and types of competitive tools used by competitors. Once a company has analysed its particular competitive environment and decided which factors in that environment it can or must adapt, it should then be able to strengthen its market position.

Monitor your competitors, look at the strategies they adopt and apply them to your business. Information will be available from direct observation or external sources such as salespersons, customers, and trade publications amongst others.

4.2.1.2Customers

Customers consume goods and services. They determine the demand of products and services. They form the market. A business organization should study and keenly lean their customers. This way it is easier to anticipate their expectations and meet them with ease.

By asking the respondents how Customers affect their business the answer was almost synonymous as presented in the table below.

Table3: Rating predictability of customers in influencing business organisations influence on business organisation

Aspect Rating	Frequency	Percentage (%)
Low	1	4.5
Moderate	1	4.5
High	9	41.0
Very High	11	50.0
Total	22	100

Source: Research Data

Table 3 show that it is easier to predict customers influence on business organization. 91.0 percent indicated that they could predict customer's influence on business organization. This has led to the phrase used by many organizations that customer is the King. This suggests that customers are a major indication of the business success as efforts are geared towards identifying their needs and addressing them. Hence, the more the number of customers a business organization has, the greater the chance of better performance if a good bond exits and customers identify with the organization. Customers change their lifestyles and demands. The manager should not only be proactive in gauging the dynamic customer demands but also be able to identify their tastes and preferences as the social economic environment change. This also helps him retain the customers changing products by offering an equal satisfying alternative. Therefore, customers must not only be persuaded but must also be maintained if the performance of the business organization is to be maintained and enhanced.

Changing population structure is an important consideration in business planning and decision-making. This defines the target market and helps identify the business and product positioning. To accomplish this the manager needs to study and monitor the following factors, which have a direct impact on the business. Giamartino, G. 1991

i. Birth Rate

ii. Age of Population

iii. Population Mobility

iv. Employment Trends

v. Labour Skills

vi. Home Ownership

vii. Retirement Age

4.2.1.3 Suppliers

They are key to any business as they supply the inputs. Regardless of how a business organization resolves its make-or-buy problems, some sort of goods must be purchased. Consequently, issues of dependence on outsiders, choice of specific suppliers, and the logistics of supply have to be confronted.

Table 4: Rating predictability of suppliers in influencing business organisations.

Aspect Rating	Frequency	Percentage (%)
Not Predictable	2	9.1
Low Predictable	2	9.1
Moderate Predictable	6	27.3
Highly Predictable	6	27.3
Very High Predictable	6	27.3
Total	22	100

Source: Research Data

Table 4. show that it is possible to predictable suppliers influence on business organization. 54.6 per cent of business can predict supplier influence on their business organizations. Suppliers are business partners who should be carefully selected to avoid negative influence on business. Hence, suppliers should be more carefully vetted to ensure continuity in business operations and business organizations should expect more help from them. This therefore suggests that suppliers could be 'partners' with business organizations by ensuring that there is dependable quality, just-in-time deliveries and getting involved in designing the work.

4.2.1.4 Legislation

Businesses must operate within the law. Laws cover starting up business, employee recruitment and conditions of service, how goods and services are advertised and sold and how businesses compete within the market. Business organizations are affected directly and indirectly by political legal influences at all levels of government. In addition to serving as regulatory bodies, governments also represent a major factor in the private sector through fiscal policy. Taxation, and government spending can present both opportunities and threats, depending upon the nature, timing, and position of the impacted enterprise and, of course, fiscal policy can have dramatic impact on the overall economic climate of the business.

Table 5: Rating predictability of Legislation in influencing business organisations.

Aspect Rating	Frequency	Percentage (%)
Not Predictable	1	4.5
Low Predictable	4	18.2
Moderate Predictable	5	22.7
High Predictable	9	40.9
Very High Predictable	3	13.6
Total	22	100.

Source: Research Data

Legislation is most of the times already in existence before business operations start. It is therefore possible to predict how it impacts on business organizations. This is clearly indicated by Table 5. 54.5 percent indicated that they can predict highly and very highly how legislation influences their businesses. 22.7 percent can moderately predict its influence on their businesses. This suggests that legislation influence can be fairly predicted. It also suggests that assessing and forecasting the political legal environment require creativity and s ensitivity t o i ndustry- s pecific m atters. S MEs however, should develop an understanding of possible future policies of the government in which they operate as they have many different political agendas as these policies could directly or indirectly affect any possible future strategy. A prudent manager should lay strategies to overcome this, may be my involving the business in social responsibilities or sponsorships otherwise the issue of launching a new product or accessing a new market for example may be difficult.

4.2.1.5 Business Associations

Business Associations represent those bodies formed by the given industry players. For example, The Kenya Association of Manufacturers (KAM). Their work is mainly to lobby for favourable legislations and offer forums where members can learn from experiences, exchange ideas, among others.

Table 6: Rating predictability of Business Organizations in influencing business organizations.

Aspect Rating	Frequency	Percentage (%)
None	1	4.5
Low	2	9.1
Moderate	3	13.6
High	10	45.5
Very high	6	27.3
Total	22	100

Source: Research Data

Table 6, shows that associations influence on business organisations are minimal because they are voluntary and therefore members are aware of their agenda. 72.8 percent indicated that they could predict associations' influence on business organisations. Therefore, it be suggested that, though associations may have an influence in a business, it is not a major factor to consider.

From the above on intensity of competition, it can be concluded that, in order to achieve success the companies have to adequately adjust to meet environmental challenges. Failure to do this will cause the company to experience a big strategic problem. This problem arises out of the mismatch between the output of the company and the demand in the market place. Strategy is useful in helping managers tackle the potential problems that face their companies (Aosa 1998). Strategy is a tool, which offers significant help for coping with turbulence confronted by business firms. Strategy requires to be taken *seriously* as a *managerial* tool, not only for the firm but also for a broad spectrum of social organizations (Ansoff & Mcdonnell, 1990). Pressure groups can also exert great influences over the way businesses operate. Unions are an example of a pressure group. Pressure groups, such as Karen and Rangata association (KARENGATA), operate in the consumer's interest to highlight bad business practice. Such groups can influence certain decisions like increases

in prices.

4.2.2 Intensity of competition

The intensity of competition refers to the competitive factors (price competition, product competition, technological competition, competition in distribution, manpower, and raw materials) that can affect all firms in an industry as well as the profitability of the industry. To measure this respondents were asked to rate intensity of competition caused by these factors on a scale ranging from "none" to " very intense competition depending on their views and experience.

4.2.2.1Price

One way to think of pricing is as a competitive weapon. By setting our prices higher, the same, or lower than competitor's prices, we are establishing a basic relation to the competitive market. We signal to both customers and competitors how we intend to play the game.

Table 7: Effect of price on intensity of competition.

Aspect Rating	Frequency	Percentage (%)
Moderate competition	5	22.7
High competition	10	45.5
Very intense competition	7	31.8
Total	22	100

Source: Research Data

Price influences greatly the business strategy adopted. Over 77.3 percent indicated that price is a major consideration while setting business strategies and is a basis of competition. Table 7 shows that price is a major factor to be considered in a business organization. That is, its consideration is vital in a competitive environment. It can therefore be suggested that price plays a major role in shaping the competition in the environment. Hence, business strategies adopted must consider the pricing strategy to be adopted by the firm.

4.2.2.2 Product

The starting point in clarifying the mission of almost any enterprise is to define the services it will provide. It may design and manufacture a broad range of physical products, or it may merely sell advice. But to continue to exist, it must provide some package of services for which some segment in society is prepared to pay.

Table 8: Effect of product on intensity of competition

Aspect Rating	Frequency	Percentage (%)
Moderate competition	3	13.6
High competition	9	40.9
Very intense competition	10	45.5
Total	22	100

Source: Research Data

Table 8 shows that 86.4 percent indicated that product determine to a large extent the intensity of competition. This suggests that the product offered by a business organization is a major factor to be considered if its survival is to be ensured. That is, the product is so central while formulating business strategies and in beating the competition in the environment.

4.2.2.3 Technology

The choice of technology depends not only on competition conditions but also on the availability of company resources to serve particular technologies. Hence, the chosen technologies shape the competitive environment in the market place. Thus, the business organisation must always put into consideration the appropriate technology to remain competitive.

Table 9: Effect of technology on intensity of competition.

Aspect Rating	Frequency	Percentage (%)
None	1	4.5
Low competition	2	9.1
Moderate competition	7	31.8
High competition	9	40.9
Very intense competition	3	13.6
Total	22	100

Source: Research Data

Table 9 shows that technology adopted in a business organization play a major role in determining its competitive edge. 40.9 percent indicated that technology is very important as a factor of competition. This suggests that technology must be put into consideration while formulating business strategies. It can therefore be concluded that technology adopted is important in beating the competition. This collaborates evidence that technological factors are probably the single most important influences that affect strategic decision-making. New technology not only brings new methodology of production or delivery of services but also brings about efficiency and the manager should be able to define the best system for the company.

It may mean capital outlay in the short run but guarantee cost reduction in the long run. SMEs must recognise and utilise new technologies in order to be seen as innovative and efficient market leaders.

4.2.2.4 Distribution

The distribution strategy would address the coverage of products to the consumers. The primary element of distribution goals and action plans is a definition of planned coverage or exposure of products addressed at higher levels of strategy.

Table 10: Effect of distribution on intensity of competition.

Aspect Rating	Frequency	Percentage (%)
Low competition	2	9.1
Moderate competition	9	40.9
High competition	8	36.4
Very intense competition	3	13.6
Total	22	100

Source: Research Data

Table 10 shows that distribution is a major factor in determining competitiveness in an industry. 50 percent indicated distribution results into high and very intense competition.40.9 percent indicated distribution results into moderate competition while only 9.1percent believe it results into low competition.

The issue is to get goods at the right time at the right time to meet demand. Taking into account perishibilty and fragility .The situation is made worst by the dilapidated infrastructure, unreliable rail transport and inadequate reliable firms that specialize with transport. This is collaborated by the hue and cry that was raised by all business community when Mombasa road was a nightmare and huge loses were incurred. This suggests that while formulating business strategies, distribution must be taken into consideration.

4.2.2.5 Manpower

Manpower is one of the most important resources a business organization requires if it has to remain competitive. Therefore, it is important that an organisation recruits the best so that it can be competitive in the industry. This is illustrated in the table below:

Table 11: Effect of manpower on intensity of competition.

Aspect Rating	Frequency	Percentage (%)
Low competition	4	18.2
Moderate competition	8	36.4
High competition	8	36.4
Very intense competition	2	9.1
Total	22	100

Source: Research Data

Table 11 shows that manpower contributes significantly to the competitive edge of a business organization. This suggests that it is important to put into consideration manpower resources while formulating business strategies. Hence, the organisation must get the best if it has to remain competitive.

4.2.2.6 Raw Materials

The corporate task is to make the combined whole more valuable than the sum of the independent parts. This therefore calls for maximum utilisation of raw materials in order for a business organization to compete effectively.

Table12: Effect of raw materials on intensity of competition.

Aspect Rating	Frequency	Percentage (%)
None	1	4.5
Low competition	5	22.7
High competition	9	40.9
Very intense competition	7	31.8
Total	22	100

Source: Research Data

Table 12 shows that 72.7 percent indicated that raw materials contribute significantly in determining the competitive edge of a business organization. This suggests that raw materials availability and utilization is key while formulating business strategies.

4.3 Strategy adopted by SMEs

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation, and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent.

4.3.1 Cost Leadership

This strategy calls for being the low cost producer in an industry for a given level of quality. Firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share .In the event of a price war, the firm can maintain some profitability while the competition suffers losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more cheaply will remain profitable for a longer period of time. Firms were asked to rate their prices in the market and the responses were as listed below;

Table 13: Rating of prices in the market.

Aspect Rating	Frequency	Percentage
Lowest	5	22.7
Below average	10	45.5
Average	4	18.2
Above average	2	9.1
Highest	1	4.5
Total	22	100

Source: Research Data

Table 13 indicate that firms set prices that are low compared to their competitors. 68.2 percent indicated that their product prices are below average, while only 9.1 percent indicated that the product prices are above average. This suggests that setting prices is important while formulating business strategy. The market prices shape the competitive environment in the market place. Hence, organisations must put into consideration the prices of similar or supplementary products if they have to remain competitive. Firms were asked to rate their prices in the market.

Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. If competing firms are unable to lower their costs by a similar amount, the firm may be able to sustain a competitive advantage based on cost leadership. To gauge the cost of production, process efficiencies and cost of raw materials firms were asked to rate them and the responses were as listed below;

4.3.1.1 Cost of Production

Cost of production involves all the inputs required to achieve a final product. These include raw materials, labour and overheads. The cost of production will affect the price of the product and hence, the organisation revenue and profitability.

Table 14: Rating of cost of production.

Aspect Rating	Frequency	Percentage (%)
Average	12	54.5
Above average	8	36.4
Highest	2	9.1
Total	22	100

Source: Research Data

Table 14 shows that the cost of production is considered as average. This suggests that the cost of production though important may not be highly considered while formulating business strategy.

4.3.1.2 Cost of Materials

This refers to the direct cost incurred in procuring raw materials. It will include the cost of purchasing the raw materials and transportation.

Table15: Rating cost of raw materials.

Aspect Rating	Frequency	Percentage
Below average	1	4.5
Average	9	40.9
Above average	9	40.9
Highest	3	13.6
Total	22	100

Source: Research Data

Table 15 shows that cost of raw materials is important in determining the performance of a business organization. 81.8 percent indicated that cost of raw materials is important in business organization. This suggests that the cost incurred in purchasing raw materials will affect the performance of a business organization.

4.3.1.3 Process Efficiencies

This refers to how efficient inputs are converted to outputs. The technologies employed, quality of raw materials and labour may affect the process efficiencies.

Table 16: Rating of process efficiencies.

Aspect Rating	Frequency	Percentage
Below average	2	9.1
Average	10	45.5
Above average	9	40.9
Highest	1	4.5
Total	22	100

Source: Research Data

Table 16 shows that process efficiencies are considered important in business organizations. This suggests that the conversion process is very important in determining the performance of a business organization..

The overall conclusion from the above is that though firms have low pricing, they do absorb some costs for survival purposes as their production costs seem to e high as well as costs of raw materials. However, they seem to recoup the costs through process efficiencies.

4.3.2 Differentiation

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the product's unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily. Firms were asked to state how different their products are from the rest in the market and the results are presented in the table below.

Table 17: Difference of products.

Aspect Rating	Frequency	Percentage
Similar	2	9.1
Slightly different	10	45.5
Different	6	27.3
Very different	4	18.2
Total	22	100

Source: Research Data

9.1 percent of the respondents felt there was no difference while 45.5 percent indicated that there is slight difference while considering various products. This suggests that a business organization may need to have similar products like the ones offered in the market to partly to confuse customers with products of already established/household names. This has infact lead to various lawsuits where firms complain of copyright infringement by their rivals. According to Porter Firms that succeed in a differentiation strategy often have the following internal strengths:

i. Access to leading scientific research.

ii. Highly skilled and creative product development team.

iii. Strong sales team with the ability to successfully communicate the perceived strengths of the product.

iv. Corporate reputation for quality and innovation.

These attributes could be lacking to most firms hence the reluctance to differentiate.

4.3.2.1 Customers View of Products

The way customers view products of a business organization is important. This is because this view may determine the performance of the firm.

Table 18: Customers View of Products

Aspect Rating	Frequency	Percentage
Slightly different	12	54.5
Different	6	27.3
Very different	4	18.2
Total	22	100

Source: Research Data

Table 18 shows that customers view the products as only slightly different. This suggests that in general many products from different companies are viewed to be the same. Hence, an emphasis should be put in this consideration while formulating business strategy.

4.3.2.2 Communication of the Perceived Strengths

The strategist's primary concern with communication is to provide guidance to the firm's marketing specialists so that product communication assumes a form consistent with the overall business strategy. Communication may be to create awareness, to remind or even to emphasize the perceived strengths of the product.

Table 19: Communication Of The Perceived Strengths

Aspect Rating	Frequency	Percentage
Slightly different	13	59.1
Different	5	22.7
Very different	4	18.2
Total	22	100

Source: Research Data

Table 19 shows 59.1 percent see the perceived strengths as only slightly different. This suggests that communication of the perceived strengths of a business organization's products may not be that important. This implies that it may not affect the business organization performance.

In conclusion therefore firms are not using differentiation strategy being aware that the risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes.

4.3.3 Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Firms were asked to state how many segments their products focus as presented in the table below This refers to the business organization focusing on certain segments of the market.

Table 20: Focus Strategy

Aspect Rating - Segments	Frequency	Percentage
2	2	9.1
3	3	13.6
4	10	45.5
5 and more	7	31.8
Total	22	100

Source: Research Data

Table 20 suggest that segmenting the market is considered to be very important. 77.3 percent indicated that focusing on product segments is crucial in improving the performance of a business organization. This suggests that while formulating a business strategy, the organization must importantly focus on specific product segments.

4.3.3.1 Customer Loyalty

One of the key components of segmentation is customer loyalty. This refers to a situation where a business organization has been able over time to build loyal customers who will consistently buy the organizations' products. The responses received from the firms on customer loyalty are presented below.

Table 21: Customer Loyalty

Aspect Rating	Frequency	Percentage
3	6	27.3
4	12	54.5
5	4	18.2
Total	22	100

Source: Research Data

Table 21 indicate that most customers are loyal signifying most firms efforts to satisfy them. Loyal customers are important in determining the business organization performance because besides giving the firm confidence in its operations they guarantee returns and hence good performance. This suggests that business organizations should strive to build customers loyalty to ensure its long-term survival.

In conclusion it is clear that firms are aware that because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist.

Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. This is mainly possible to large firms rather than SMEs.

Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better.

4.4 Hypothesis One: Determination of whether Performance varies with Business Strategy.

Performance is the bottom-line that acts as a yardstick against which the ability of the business to survive is measured. The bases used for measuring performance are varied but universal. During this study the measures used were, growth in sales, Employment, equity, return on Assets (ROA) and return on sales (ROS).

Thompson and Strickland (1998) pointed out that an organization's strategy consists of moves and approaches devised by management to produce successful organizational performance. That strategy is a management's game plan for the business. Without a strategy, there is no established course to floe, no roadmap to manage by, no cohesive action plan to produce the intended performance!

The primary determinant of a firm's performance is the attractiveness of the industry in which it operates an important secondary d eterminant i s i ts S trategy. E ven t hough a n i ndustry m ay h ave below-average performance, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into the following strategies *cost leadership*, *differentiation*, *focus and growth*. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent

To measure the performance of the firms resulting from the strategies they adopt a hypothesis was used as stated below.

Hypothesis 1 stated that performances of SMEs vary with choice of business strategy adopted. It was tested using the one- way ANOVA analysis.

Table 22: Mean and standard Deviation of the external Environment variables.

1.Environmental variables	**Mean**	**SD**
(i) Competitors	3.4545	.9625
(ii) Customers	4.3636	.7895
(iii) Suppliers	3.0000	1.1547
(iv) Regulation	3.1364	1.0821
(v) Associations	2.6818	.7162
2.Intensity of Competition		
(i) Price	4.0909	.7502
(ii) Product	4.3182	.7162
(iii) Technology	3.5000	1.0118
(iv) Distribution	3.5455	.8579
(v) Manpower	3.3636	.9021
(vi) Raw materials	3.7273	1.2792

Source: Research Data

Table 22 presents the results of the descriptive statistical analysis of the uncertainty of environment and intensity of competition.

Table 23: Mean and Standard Deviation of the Average Performance Measures

Performance measures average	Mean	SD
Sales (M)	243.8	9.08
Employment	56.6	20.4
Equity	56.0	18.6
ROE	0.34	1.29
ROS	0.05	0.31

Source: Research Data

Table 23 presents the mean and standard deviation of the average performance measures.

Table 24: One-way ANOVA of Business Strategy By ROE Growth

Variable	Mean	F Ratio	Significant
Business Strategy		3.4654	0.0843
Niche	2.6364		
Differentiation	2.5455		
Growth	1.21825		
Low cost	3.6364		

Source: Research Data

Table 24 presents the results of the ANOVA analysis between the business strategies and the growth in ROE that are statistically significant. At 0.05 significant level, the F-value for growth in ROE is 3.4654 providing support for Hypothesis 1. This result indicates that there are significant differences in the mean growth in ROE.

Table 25: One-way ANOVA of Business Strategy By ROA Growth

Variable	Mean	F Ratio	Significant.
Strategy types:		4.2343	0.0456
Differentiation	0.8405		
Niche	2.395		
Low cost	2.5462		
Growth	6.8710		

Source: Research Data

The results in table 25 indicate that the ANOVA between the business strategies and the growth in ROA are statistically significant. At 0.5 significant level, the F-value for growth in ROA is 4.23. This result provides support for Hypothesis 1. This result suggests that there are significant differences in the mean growth in ROA among small and medium enterprises that adopted the different business strategies. This collaborates similar research, which indicated that organizations using strategic-management concepts are more profitable and successful than those that do not (*Schwenk* & Schrader, 1993).

4.5 Hypothesis Two: Determining whether the relationship between strategy types and the performance of SMEs is moderated by Environment.

Strategy prepares the firm to face its complex external environment and corporate capability develops responsiveness to anticipate threats and opportunities. The performance of an organisation will therefore be influenced the strategy in adopts to address these environmental complexities. The speed with which threats or opportunities develop is so rapid such that the period systems may not be capable of perceiving and responding to them fast enough, before the threat has made a major impact on the firm, or the opportunity has been missed.

Therefore, firms must turn their attention to crafting strategies that avoid any adversities brought by the environment. This hypothesis, sought to find out whether there is a relationship between a firms performance and its adopted strategy.

Hypothesis 2 states that the relationship between strategy types and the performance of SMEs is moderated by environment .The two factors considered here that encompass environment are uncertainty of environment and intensity of competition. Multiple regressions was used and the product of Environmental factors and business strategy was used as the interaction term as defined in below.

This method is used to yield a conservative estimate of the moderating effects environment has on the relationship between business strategy and the performance of small and medium enterprises. The equation for the moderated regression model is as follows:

$Y = A + X + Z + XZ$, where

Y = the dependent variable (average growth performance)

X = the independent variable (business strategy)

Z = the moderator variable (environment)

XZ = the interaction term

The purpose of the moderated analysis is to determine if adding the interaction term increases the explanation of variance [R square (R^2)] significantly. The results of the regression analysis for uncertainty of environment are presented in Table 25 below.

Table 26: Uncertainty of Environment as Moderator

Dependent variable	Without moderator (R^2)	Signf.	With moderator ($>R^2$)	Signf.
a. Average				
Sales	0.08	0.62	0.48	0.00
Employment	0.05	0.93	0.09	0.96
Equity	0.06	0.43	0.36	0.00
Net profit	0.03	0.35	0.12	0.07
ROE	0.04	0.85	0.09	0.85
ROA	0.08	0.72	0.12	0.09
b. Growth				
Sales	0.08	0.27	0.30	0.01
Employment	0.02	0.92	0.04	0.95
Equity	0.08	0.26	0.13	0.72
Net profit	0.01	0.84	0.07	0.16
ROE	0.21	0.04	0.12	0.06
ROA	0.20	0.03	0.30	0.02

Source: Research Data

The results of multiple regression analysis suggest that uncertainty of environment does moderate the relationship between business strategy and some of the performance measures namely sales and equity (average performance) and growth sales and growth ROA.

These results suggest that the relationship between business strategy and performance varies with the uncertainty of environment faced by the small and medium enterprises surveyed.

Table 26 presents the results of the regression analysis for the intensity of competition. The change in R square (R2) from the restricted regression model without moderator variable) to the full regression model (with moderator) is statistically significant at P< 0.05 for some growth performance measures (growth sales, growth net profit and growth ROA). The result of the other measures were not significant. The statistically significant results provide some support for Hypothesis 2.

Table 27: Intensity of Competition as Moderator.

Dependent variable	Without moderator (R^2)	Signf.	With moderator ($>R^2$)	Signf.
a. Average				
Sales	0.08	0.62	0.08	0.90
Employment	0.05	0.93	0.20	0.60
Equity	0.06	0.43	0.18	0.52
Net profit	0.03	0.35	0.10	0.00
ROE	0.04	0.85	0.24	0.40
ROA	0.08	0.72	0.18	0.38

b. Growth	Without moderator (R^2)	Signf.	With moderator (>R^2)	Signf.
Sales	0.08	0.27	0.50	0.00
Employment	0.02	0.93	0.04	0.95
Equity	0.08	0.43	0.12	0.60
Net profit	0.01	0.84	0.12	0.00
ROE	0.21	0.03	0.55	0.00
ROA	0.20	0.04	0.52	0.00

Source: Research Data

The results in table 27 above suggest that the relationship between business strategy and performance varies with the intensity of competition faced by small and medium enterprises surveyed.

External environment therefore requires a proactive manager who should be able to do the following:

i. Identify the phenomena that may have impact on the business. Look for warning signs
ii. Determine and identify the external environments for trends and patterns
iii. Classify and evaluate the observed phenomena as opportunities or threats
iv. Predict future directions of change in the external environment
v. Judging future and current trends in terms of impact on the business.

On the basis of the opportunities and threats that have priority for the organization, identify and adopt a relevant strategy.

CHAPTER FIVE: CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

5.1 Conclusions

The study sought to establish whether the performances of SMEs vary with choice of business strategy they adopt and that the relationship between strategy types and the performance of SMEs is moderated by environment. The study established that the performance of SME does vary with the choice of business strategy adopted. At .05 level of significance, the F-value for growth in ROE is 3.471 indicating that business strategies adopted affects the firms' performance. In addition, the business strategies and growth in ROA are significant at .05 level as the F-value is 4.23. This supports the fact that business strategies adopted affect business performance. Further, it also established that the environment moderates the relationship between strategy types and the performance of SMEs. The change in R square (R^2) from the restricted regression model without moderator to the full regression model with moderator is statistically significant at $P< .05$ for some growth measures (growth sales, growth net profit and growth ROA). Hence, enterprises should formulate strategies that position and relate it to its environment in a way that will ensure its continued success and make it secure from environmental surprises. However, as the findings indicate there is no business enterprise that can predict with a degree of certainty how external environment will affect the implementation of its strategies to guarantee its anticipated performance and growth. But it will be of utmost importance for an organization to try as much as possible to match external environment with its internal capabilities. Strategic response becomes vital for the small and medium enterprises just like other organization for not only survival but to remain profitable over the long term. The SMEs must be able to adapt to the changing environment. The environmental challenges, increased competition, production efficiencies and government legislation, among others have a bearing on the SMEs. The above challenges demands aligning business and objectives to ensure that SMEs achieve long-term goals effectively.

Strategies that need to be put in place to deal with these issues include: -

SMEs like all organizations in Kenya are open systems and operate in an environment, which is critical to their survival and success. The environment can be relatively static or turbulent and will vary in terms of changeability and predictability. Different environmental influences are bound to impinge on a firm's performance.

Changes in environmental influences usually signals the possible need for changes in a firm's strategy. Evidently, each level of environmental influence has distinct characteristics, requiring different strategies and organizational capabilities such as resources, competencies and structures. In a fast-paced, continually shifting environment resilience to Strategy formulation and implementation that considers the environment turbulence is ŏften the single most important factor that can distinguish those SMEs that succeed from those which fail.

The crux of this idea is that you can have business strategy yes, but what about those factors outside the control of SMEs yet they have direct impact on their performance? On the other hand one may ask whether SMEs will be the engine of economic development for Kenya or this will remain a dream or will each category of SME have to change or evolve from smaller to larger and from local to global in its methods and strategies or further, will the businesses have to move from nonstandard to so-called standard business practice, from low to high levels of capitalization, and, so on, to be the catalysts of development and change given the situation they find themselves in?

A number of important conclusions that can be used to harness Business strategy of this sector and improve the performance into a consistently potent force for economic progress and development amid volatile environmental conditions deduced from the study can be itemized below;

5.1.1 SMEs and Environment

Understanding of the External environment is of outmost importance as most time he may find himself at cross roads not knowing which direction to go. Actually the day to day decisions that occupy the manager most is not the internal environment but rather how to tackle the external environment, which is not only dynamic but also unpredictable. Ranging from law to politics, technology to competition external environment needs constant review and analysis of its effect to the business if the business is to remain competitive and attain its mission

If you sample most business missions they do not refer too much to the internal environment but rather to the external environment and how the business will strategise to fight it in the quest to achieve its competitive advantage.

Why bother about the external environment?

i. Managers need to be aware of external change

ii. Analysis enhances strategic planning. It improves market and industry analysis and understanding of international business.

iii. Analysis helps increase diversification helps resource allocation, risk management and energy planning.

iv. It focuses managers' attention on the primary influences of strategic change.

v. Provides time to anticipate opportunities and develop responses to change (early warning system).

vi. The need for analysis increases when a business is large, diversified, requires large investment, faces complex markets or has great competitive threat.

The environment encompasses both the uncertainty of environment and intensity of competition and presents a big challenge to the firms especially due to its unpredictable nature. However, some Managers are successful in analysing the external environment correctly. There can be a number of reasons for this:

i. Ability to organise effective scanning for warning signs and changes

ii. Managers' willingness to follow trends

iii. Ability to obtain significant appropriate information

iv. Promptness in responding to external events and ability to interpret them

v. Ability to respond quickly to trends

vi. Motivation of managers to discuss issues

vii. Establishing Management information systems to gather, inquire and inform about the business operations regularly

The management should remember to act on the External environment as follows:

i. Analysing the Organization's External Environment –Opportunities /Threats

ii. Evaluating the Organizational Capability

iii. Determining strategic Objectives

iv. Action Plan

From the study it can be concluded based on individual factors as itemized below;

5.1.1.1 Competition

From the interviews, SMEs are confined to their locality and have no access to regional markets for example. This makes competition intensive especially after liberalisation as they are forced to compete with imports subsidized from other countries especially south Africa. Overall there seems to be lack of well-defined and structured marketing channels for SMEs products. The most noteworthy factor in the area of business management was the absence of an aggressive marketing strategy, the study revealed. When firms are successful in introducing new ways to market their products, they can spark a burst of buyer interest, widen industry demand and increase product differentiation. COMESA, East Africa community are some of the emerging markets that could benefit this sector greatly. But whether the Government has modified tariff and trade restrictions to suit them remains to be seen.

Government's institutional and financial capability to deliver marketing support is generally weak or may not even exist in certain industries as evidenced by the poor performance of the Tourism industry. Strategies for providing marketing support should include decentralization of export marketing support so as to be able to respond to the enormous diversity of players and market mechanisms across sub sectors, as well as the provision of information to firms where to find buyers for themselves, rather than attempting to substitute for efforts by putative exportersthere is poor coordination amongst the stakeholders, such as Investment Promotion Centre, Kenya Chambers of Commerce and Industry, Kenya Association of Manufacturers, and Kenya Government. apart from internal wrangling, there is a clear lack of institutional capacity to handle the trade support services that SMEs need. SMEs could form strategic alliances, particularly networking with international partners to share information and experiences, with the intention of guiding exporters/SMEs to gain access to foreign markets. The government could also facilitate SME marketing and promotion activities like trade fairs and missions, conduct market research and surveys and help develop new export business, provide databanks and library services to SMEs with the intention of keeping them abreast of what is in the market, particularly those markets with the potential to become export targets. Most SMEs felt that the Government has duty to nurture them in return for the expected economic growth from this sector.

5.1.1.2 SME Legislation

Though, from the study legislation can be predicted with ease most SMEs adapt to them and operate within predetermined parameters. However, this is a major deterrent for purposes of business planning and forecasting, as legislation is a major variable in long-term view of business operations. SME development requires solid support systems where certainty of legislation affects their survival. There are a number of sessional papers published by the Kenyan Government but this has turned to be a leap service. Firms interviewed were of the view that an investment promotion center need to be established for this sector that will not only act as an advisory center for prospective investors in SMEs but also guide, direct and pay particular attention to the existing SMEs and guide Government on policy issues especially enactment and publication of bills beneficial to this sector. Take an example of the East African Community; no single legislation has addressed the need to protect the SMEs in Kenya as they are sandwiched between the large firms and Government interests. Such a center should act as a lobby for the needs of the sector to the Government. Those in charge of the main levels of policy formulation and execution are often unfamiliar with the varying situations and needs of specific groups of firms, defined by sector and by size. For informed, effective policy at national level this hurdle must somehow be overcome for example by providing more complete knowledge for the decision makers and including representatives of the SME sector at the policy making table. Policies of a micro-economic nature should aim to assist firms in becoming more efficient and competitive. This is confirmed by the response from 60% of the respondents who cannot predict how business associations would influence their businesses and this is basically due to lack of defined framework on establishment of such associations.

5.1.1.3 SME Technology Development.

This is an area where most firms are lagging behind. The efficiency can be improved by embracing new technology that will guarantee competitive advantage through minimal costs of production, through cost cutting in all areas including procurement by for example using JIT. Collective technical support could promote "high-intensity" technological learning supplying technical inputs directly to firms This could reduce the cost of production which 59% of SMEs revealed have an above average effect on their performance. The study also revealed that most firms do not have proper records and even measuring performance was difficult a factor that hindered obtaining some crucial information on growth due to manual record keeping.

The unstable and unpredictable conditions in which organizations have to operate today means that the ability to think strategically and to manage strategic change successfully is key competitive strengths for a sustainable competitive advantage. Technology is one of this fast track changes that poses novel problems especially if the firm has little experience. The era is e-commerce, needn't to say that most of this firms do not have a website where they can market or even publish their products and even communicating via e-mail was very difficult during the survey. The key to the continuing success of SMEs especially those, which produce tradable, is technology upgrading which will literally convert them to e-SMEs. The challenge of technological acquisition requires activist strategies at both the firm and collective levels, as this is core to competition.

5.1.1.4 SME Financial Support

Most firms had a single most problem, that of finance. They operate below capacity not because there is no market but they cannot raise capital to expand or position their products in both local and export markets. SMEs in Kenya, the study revealed are often "residual" businesses with lack of access to credit and financial means whereby risks can be absorbed and managed. For Example, most SMES revealed that during the last decade when donors had freezed aid to Kenya resulting into the soaring of interest rates and cost of borrowing they suffered a great deal. During this era banks and financial institutions were dealing only with large organizations, which can either provide collateral or be able to issue commercial papers and other financial instruments - SMEs were not a priority. Then comes the post 2002 general elections, a time now of excess liquidity and financial institutions shift from the large borrowers to the smallest borrow, the common man and packages all sorts of finances in their favour - again SMEs are not a priority. This is the scenario on finances that leads to the poor performance of this sector.

Government should enact policies that will compel the financial institutions to give some emphasis to this sector. It is a general feeling from the interviewees that a financial package like the supply of venture capital tailor made and designed to cater for this sector is seen as the panacea to it financial vows. The requirement to float shares in the Nairobi stock exchange for example is by itself prohibitive to this sector. Many SMEs could grow more efficiently and many potential entrepreneurs could enter the business world with better access to credit.

5.1.2 SMEs Strategies

As evident from the study strategies adopted are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, in this attempt it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage.

Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle."

However, there exists a viewpoint that a single generic strategy is not always best because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

The table below summarise the advantages of each strategy:

Table 28 Generic strategies

Cost Leadership	Differentiation	Focus
Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Source: Porter, Michael E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors*

5.1.3 SME Performance

According to Peter Drucker, "The focus of the organisation must be on performance. The spirit of the organisation is high performance standards, for the group as well as for each individual. The Organization must inculcate in itself the habit of achievement." SMEs need to be focused and concentrate on their strengths rather than going head to head with stronger and better-established enterprises outside their area of expertise. Following conclusion of the study, the task of building and maintaining a sustainable business model could never be described as a walkover as results published in this report testify. Get it wrong, and you could be staring down the loaded barrel of corporate failure. Get it right and you will earn the respect and loyalty of those who matter most to your business: your customers, your employees and your shareholders.

The secret of a sustainable business model for SMEs lies in an organisation's ability to identify the potential signs of decline and address them through strategies that actively promote longer-term survival an attribute this study reveals is lacking.

All too often, companies rely on short-term wins, such as rapid expansion or cost cutting to drive their businesses forward, forgetting to take a multi-angled view of the operation from the perspective of their customers, employees, managers or shareholders. This study does show that though SMEs know they have a problem they still want to protect their interest while suffering.

Sample this "ISP who does not bother to notify his clients that their servers are down, because the servers will be up and running soon enough" or the motorcar dealership attendant who informs a customer that "the only courtesy car the company has is not available to customers right now because the manager is using it".

Business success hinges on building strong internal capability that function well together and operate successfully as a whole. A company that recently introduced a new layer of externally recruited senior managers and "got it badly wrong. Silos began to develop among the different teams, and the fluidity was lost. The new managers failed to see their teams as internal resources and didn't have the skills to motivate or develop their staff".

SMEs can boost their chances of success by being vigilant and learning from each other's mistakes, keep longer term-goals in mind by regularly asking: What is this business trying to promote? What does this business need in order to (continue to) be successful? And, how can we track and measure that success? SMEs, the study revealed are not concerned with the effects Government legislation have on their operations for example until they are forced out of business by the same laws they ignored.

From the study most interviewees confirmed that it is difficult to predict the long-term view of their businesses. SMEs in Kenya should not manage by exception by going too far one way by focussing disproportionately on soft issues (Social responsibility, customer loyalty) or hard issues (cost-cutting and cost of production). Management should be balanced and relate to all social economic activities present at a point in time. SMEs should be Change Champion, always remember change imposed is change opposed. They should be champion for change by being adaptable to change and developing the right managers for the job, recognise innovation as being key to success. They should value their employees by putting them first and keep low morale at bay by ensuring that teams are developed and rewarded. They should open up a two-way dialogue by encouraging staff involvement and participating by avoiding a top-down approach where instructions are given and targets set without securing buy-in from employees. This, the study revealed is common as most of this business are run and managed by relatives of the shareholders or managers picked based on proximity to the shareholders.

SMEs should adopt a simple business model they should not seek refuge in jargon and complexity at the expense of transparency to avoid disclosure of operational ethics. Like households, the study revealed SMEs operate on a closed circuit with only few people able to fully understand their operations. SMEs should keep your approach fluid by sharing ideas and practices across functions so that processes remain solutions-driven and by constantly keeping customers and suppliers in the loop about changes, which may affect them.

5.2 LIMITATIONS

Some of the limitations included the availability of internal environment issues that the SMEs could be facing but could not be disclose. Finally, collecting data especially the financial data was very difficult especially disclosure of investments for computation of ROI (Return on investments). Hence, that section could not be comprehensively analysed as expected. A number of the respondents indicated that financial data was confidential and therefore may not be disclosed. Therefore comprehensive data was received from 22 (44%) SMEs out of 50 expected.

5.3 RECOMMENDATIONS

The study was conducted when the Kenyan economy is in recession and therefore the environmental factors considered are more uncertain in the present circumstance than in a normal environment. The Government is formulating many policies together with development partners that may affect SMEs. The study can therefore be repeated when the Economy is steady and these policies are enacted.

Again, Environment is universal and affects all businesses. Therefore, the study could be repeated looking at other Large or Micro business enterprises. For example, in manufacturing or service sector.

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APPENDIX 1.

INTERVIEW GUIDE/QUESTIONNAIRE

Designation of Respondent:______________________________

1. Name of Organisation (Optional)

2. Years of operation.----------------------

3. How many employees does your company have?

4. What is the ownership of the company?

   Local majority share holding

   Foreign majority share holding

5. How would you rate the predictability of the environmental factors below in influencing your business organization?

	Predictable	Low Predictable	Moderate Predictable	Highly Predictable	Very Predictable
Competitors	1	2	3	4	5
Customers	1	2	3	4	5
Suppliers	1	2	3	4	5
Legislation	1	2	3	4	5
Associations eg KAM	1	2	3	4	5

6. How would you rate intensity of competition caused by the factors below to your company

	None	Low Competition	Moderate Competition	High Competition	Very Intense Competition
Price	1	2	3	4	5
Product	1	2	3	4	5
Technology	1	2	3	4	5
Distribution	1	2	3	4	5
Manpower	1	2	3	4	5
Raw materials	1	2	3	4	5

7. How do you rate your prices in the market (tick one)

Lowest	Below Average	Average	Above Average	Highest

8. How would you rate your cost of production (Tick one)

Lowest	Below Average	Average	Above Average	Highest

9. How would you rate your cost of your materials (Tick one)

Lowest	Below Average	Average	Above Average	Highest

10. How would you rate your process efficiencies (Tick one)

Worst	Below Average	Average	Above Average	Excellent

11. Are your products different from others (Tick one)

Similar	Slightly Different	Different	Very Different	Completely Different

12. How do Customers view your products different from others (Tick one)

Similar	Slightly Different	Different	Very Different	Completely Different

13. How do your sales team communicate the perceived strengths of your product to Customers compared to competitors (Tick one)

Similar	Slightly Different	Different	Very Different	Completely Different

14. How many segments does your product focus (Tick one)

1	2	3	4	5 and more

15. How can you rate your Customer loyalty with 5 being Extremely loyal (Tick one)

1	2	3	4	5

16. Please complete for the following table based on your company operations in Kshs

	1999	2000	2001	2002	2003
Sales Volume					
Total Equity					
Net Profit					
Total Sales					

17 Please complete for the following table based on your company operations in

	1999	2000	2001	2002	2003
Number of Employees					

THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONAIRRE.