

**OPERATIONAL CHALLENGES IN THE GROWTH OF SMALL &  
MEDIUM ENTERPRISES IN KISUMU COUNTY, KENYA**

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A research project submitted in partial fulfillment of the requirement for the award of Masters of Business Administration (MBA) School of Business, University of Nairobi

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**DECLARATION**

Declaration by candidate:

This Research Project is my original work and has not been presented to any other institution for the award of any academic Diploma or Degree.

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This Research Project has been submitted for examination with my approval as the University supervisor.

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I acknowledge my supervisor for guiding me through the entire process. Your great mentorship helped me put my strengths, my experience, my skills and knowledge to work in line with my vision and determination to success. The Research Project is dedicated to the most important people in my life. To Mum, the woman who has shaped my heart and to you Dad, the man who formed my mind and for proving you were possible, this one is for you. To my dear wife Marcie, my son Joe Casey, and my two beautiful daughters Janice & Joeliane, whom I can only describe as –A PRICE, our story of great friendships, sorrow and successes encouraged me to stay on the path of intellectual and business honesty, refusing to write off my youthful ambitions as a child's dream, keeping my nose to the grindstone yet never lost sight of the hills...to put to work my vision and mission in perspective.

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## **ABSTRACT**

The small and medium-sized enterprise (SME) sector has an important role to play in developing economies, poverty alleviation and job creation, and this can only be realized through growth of the sector. To determine the operational challenges in the growth of SME's in Kisumu County. Specifically the study aimed to assess the impact of Supply chain and capacity planning in the growth of SME's in Kisumu County, to determine how Logistics and inventory control impact on the growth of SME's in Kisumu County, to ascertain the impact operational structure and production in the growth of SME's in Kisumu County and to establish the role of information communication and technology in the growth of SME's in Kisumu County. This research adopted a descriptive survey design where the population of interest in the County SME were visited and data collected through questionnaire, interview and conversation analysis. The target population for this study was 7000 SME's from all the licensed businesses within kisumu County (Data from single business permit licenses kisumu county council 2012). Stratified Random Sampling procedure was used for this research as it enabled the population of interest if not homogeneous to be subdivided into groups or strata so as to obtain a representative sample. It also gave each SME in the population an equal chance of being selected. The researcher used a questionnaire as the primary data collection instrument. The organised data was interpreted on account of concurrence and standard deviation to objectives using assistance of computer packages especially SPSS and Microsoft Excel to communicate research findings. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Majority of the respondents argued that all the above factors were almost equally very important to the growth of the business as they all greatly influenced the efficiency and effectiveness of the product/production/ service offering of the business. The management of the SMEs should ensure efficient and effective organizational and operational factors since they have impact in the growth of the business in provision of services, goods and market reach to a great extent. Still on the organizational and operational factors, the management should ensure an efficient location of facilities, efficient management structures and then an optimum capital base.

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## ACRONYMS AND ABBREVIATIONS

<b>3PL:</b>	Third Party Logistics
<b>BPO:</b>	Business Process Outsourcing
<b>CA:</b>	Competitive Addition
<b>CBD:</b>	Central Business District
<b>CI:</b>	Continuous Improvement
<b>COMESA:</b>	Common Markets for Eastern and Southern Africa
<b>ERP:</b>	Enterprise Resource Planning
<b>FKE:</b>	Federation of Kenya Employers
<b>GDP:</b>	Gross Domestic Product
<b>GNP:</b>	Gross National Product
<b>GOK:</b>	Government of Kenya
<b>JIT:</b>	Just In Time
<b>KCC:</b>	Kenya Co-operative Creameries
<b>MITI:</b>	Management Institute of Trade and Industry
<b>NEP:</b>	New Economic Policy
<b>R and D:</b>	Research and Development
<b>SAP's:</b>	Structural Adjustment Programs
<b>SC:</b>	Supply Chain
<b>SCM:</b>	Supply Chain Management
<b>SCOC:</b>	Supply Chain Operational Capabilities
<b>SME's:</b>	Small and Medium Enterprises
<b>SMIDEC:</b>	Small and Medium Industries Development Corporation
<b>SPSS:</b>	Statistical Package for Social Science
<b>TQM:</b>	Total Quality Management
<b>VA:</b>	Value Addition
<b>WIP:</b>	Work In Process

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Small and Medium Enterprises (SME's) contribute to macroeconomic goals of nations and their growth is essential for a competitive and efficient market, labor absorption, and production. Costs, resources, labor and energy have to be harnessed through operational efficiencies and other sector interventions such as creation of an enabling legal and policy framework, access to markets facilitation, capital investments, training, infrastructure development, capacity building, taxation and technology adaptations in meeting overall business objectives (Eeden, 2006).

Operations, has a key role in enhancing competitiveness and growth of small and medium enterprises through efficiency and effectiveness of processes, systems, and strategic integration with corporate strategy in ensuring customer satisfaction both with the products, services, or result (Brian Sher, 2002). Operations employ a coordinated and economical application of resources to minimize, monitor and control the impact of internal or external factors and to maximize the realization of opportunities and objectives for growth (Bennet, 2010). Key external challenges in the business and political environment, globalization and liberalization of trade, competitiveness, innovations in new technologies within supply chains necessitates development of efficient models and policy frameworks requiring integration of multiple structured approaches to operations management. This is to enable the sector meet its growth objectives and sustainability.

Operation resources and processes can have a set of capabilities which can be harnessed and exploited in the market place and aims to increase the content of value adding activities in a given process which should be aligned with market opportunity for optimal enterprise growth and productivity (Iambin, 2010). Ideally, SME's should find parts of the market which are attractive to their product/service offering and which allow them to exploit their core capabilities (Shelly, 2006). Identification of core competencies and selection of market niches which are valued by the customer cannot be easily imitated by competitors and a combination of management experience, sales and distribution flexibility, integration of supply chain sourcing, high quality innovative products, exceptional customer service and speedy delivery of products/services to customers should be their distinguishing characteristics and sources of competitive

advantage (CA) hence affecting quality, speed, dependability, flexibility and costs of products/ services. Production, purchases, transportation, and storage of inputs or outputs would also be enhanced through capacity planning and work design methodologies (Brian Sher, 2002).

It has been argued that the main problem for SME's in developing countries is not their small size but their isolation, which hinders access to markets, as well as to information, finance and institutional support (Amyx, 2006). Design and management of products, processes, services and Supply chains, acquisition, development and utilization of resources, operational structures and constraints in technology logistics in supply chains, are some of the problems experienced by SME's (Shelly, 2006). Internal limitations, including land, plant layout and structure, capital shortage, cost of credit, high energy costs, facilities location, materials handling and transportation, equipment selection and replacement, Inventory quality control and communications have hindered the growth of SME's. Despite the fact that some SME's have declined or stagnated, others have been growing and are successful (Eeden, 2004).

### **1.1.1 Operational challenges and growth of SME's**

There are several conceptual and empirical challenges in the study of firm operations. In research, firm operations have been integrated in many ways and different measures have been used to determine their impact on overall objectives. Operations, has a key role in enhancing competitiveness & driving innovation and growth for small and medium enterprises (Cater, 2009). It focuses on carefully managing processes of production of goods and services, their distribution through efficient business operations and effective utilization of resources, labor, and energy. Efficiencies in capacity management of purchases, inventory scheduling and control, storage, logistics and evaluations lead to total quality outputs in production processes (Krajewski and Ritzman, 2006). Challenges in these areas of operations impact on SME capability for growth and sustainability in meeting management objectives of customer service in respect of product specifications, timing, cost control, planning and risk management of assets, supplier/ customer partnerships, and talent development. Focus therefore is on production strategy, competitive dimensions, design considerations, and capacity planning and flexibility (Hill, 2006).

In production, all business functions need to be optimized for manufacturing processes to achieve maximum efficiency (Johnson, 2010). Efforts spent in improving operating processes and tools should help make informed decisions to avoid overruns, planned downtime and changeovers. Challenges to operations of manufacturing processes can be mitigated by Technology considerations optimizing customer order fulfillment and adoption of lean processes leading to reduced cycle times, reduced waste in work in process (WIP) and final holding stock (Kim, 2006).

Enterprise Resource Planning (ERP) connectivity should offer seamless information flow, labor and resource utilization, product and parts traceability, ensuring compliance and protection to fraud leading to cost reduction of goods, reduced time to markets and delivery flexibility (Kim, 2006). There is need for development of Continuous Improvement (CI) systems and Value Addition (VA) for sustainability and growth of the SME sector. Delivery systems include the facilities and equipment, infrastructure (Job, design, skill) and processes (Transportation networks, logistics) for delivering goods or services to customers (Johnston and Clark, 2008). They are more closely aligned to organizational practices or operations within a particular SME which are instrumental in expanding service content in ensuring expected outcome is received by the customer (Heskett, 2003). Customers need to receive their goods timely thus the need for delivery speed and flexibility (Krajewski, 2006).

There is need to develop integrated delivery systems of multiple channels of distribution which produce service effects to customers (Sousa and Voss, 2006). Growing automation, self service, outsourcing and off-shoring have created new operational challenges in the delivery systems that affect the design requirements of service delivery (Heinneke and Davis, 2007). The purpose is to have processes that consistently deliver high quality services to drive customer satisfaction and retention while maintaining process efficiency (Johnson and Clark, 2006) hence gaining a competitive edge in the market place (Verma, 2006).

SME's face challenges in Supply Chain (SC) inefficiencies while making sourcing decisions. Rising transportation costs, and risks of inventory disruptions have to be factored in total products costs (Ogulin, 2008). Restructuring of current SC conditions is necessary to increase performance improvements for growth. SME owners or managers need to evaluate cost or

growth tradeoffs by developing collaborative strategies and forming deeper relationships with SC partners in meeting increasing customer expectations and timely responses to domestic and global markets for expansion of their firms (Zulkiffli, 2009). This can be through new product launches, outsourcing/ global sourcing, acquisitions, asset management and risk identification & mitigations. Supply chains must be periodically redesigned in response to market changes and new regulatory requirements. Internal biases have to be discarded for mutually agreed values through use of new technology capabilities to better current operating levels and maximize opportunities for growth (Kallio, 2010). There is need to manage across functional teams, speed benchmarking efforts and enhance use of best practices in management of supply chains.

SME's need to keep and develop talent, and efficiently source for specific skill sets critical to drive key competencies for SC roles necessary in meeting demands of the growing markets (Brian Sher, 2006). This could be achieved through talent acquisition, training and career development. Inventory management drives revenues and efficiency for firm's growth (Hill Joyce, 2006). Firms with high volume, high variability environments need to monitor their inventory planning systems to avoid unnecessary stock outs and greater inventory costs. Efficient lean systems should ensure shorter lead times, reduced total delivery costs, increased profitability and increased customer satisfaction levels leading to growth of the firms (Wilson, 2010). However revenue loss from stock outs and cancelled orders due to reduced inventory leads to service failures, longer lead times and flexibility challenges affecting customer retention.

Too much capital tied to inventory leads to lost productivity and higher warehouse, labor & safety costs, profit erosion from write offs and obsolete inventory. There is need for SME's to monitor lead times and supply chain variability ( demand and on-hand inventory levels) for market growth and efficiencies through application of technology collaboration tools to optimize inventory management initiatives which impacts on customer service, revenues and costs (Adejimi, 2009).

### **1.1.2 SME's in Kisumu County, Kenya**

SME's account for typically 70 per cent of employment and over 60 per cent of GNP and though supply chains may be dominated by large organizations, they are reliant on a host of SME's via reseller agreements, partnerships, and group investment forums ( SACCOs) for their cash flow

demands and market share (Economic survey 2006). Whilst SMEs have a strong focus on the requirements of the markets they serve, for financial reasons this focus tends to be directed at maximizing short-term sales opportunities rather than optimizing long-term supply chain growth (Persona, 2006). Consequently, the growth of individual SMEs is dependent upon their ability to develop internal enterprise control systems, which should be aligned with the wider needs of their customers and the supply chain rather than being merely narrowly focused on servicing the next order (Selen and Soliman, 2002). Despite their significance, statistics indicate that three out of five SME businesses fail within the first five years of operation (Kenya National Bureau of Statistics, 2007). Of those that are left, four out of five fail within the next four years. They are either closed down, liquidated, merged, acquired, change direction or become a new business. Of the remaining businesses, only 15% will be making a profit, the remaining will barely be surviving (SMIDEC, 2009). To this end, the National youth sector programs, Gender empowerment policies and budgetary initiatives to foster growth and rapid development of the SME sector is laudable in achievement of Kenya's vision 2030.

Small and Medium Enterprises are defined in terms of their characteristics. These include size, capital investment, number of employees, turnover, management structure, market share, locations and type of business (Kasekende and opondo, 2008). Knowledge of these factors and their overall impact within the supply chains should enable better management of purchases, inventory quality and control, warehousing locations and layouts, transport logistics and evaluations, internal or external management structures, all geared towards effective and efficient utilization of resources for optimal business growth and productivity ( Esellar,2007). The SME industry in Kisumu is characterized by the employment of between 4 to 75 employees and capital assets of about Ksh.50,000/= to ksh.15 million( FKE, Kisumu ). Boasting over 7000 players with license revenues of about ksh.80 million ( Kisumu county council single business permit records, 2012), and accounting for about 80% of the county workforce, it is no doubt that the SME sector is the key driver of Kisumu county economy. Myriad challenges compound to inhibit the lateral growth of SME's in Kisumu County.

Enterprise owners don't have, and never develop the most basic operations and capacity management skills critical to the growth of their firms (Oketch, 2010). Lack of planning, locations, layout of facilities, and poor management of inventory are posited as the main causes of failure in production businesses (Tomecko and Dondo, 2007). Lack of capital and high cost of credit has also been identified as one of the most serious constraints facing SMEs and hindering their development and growth (Kiiru, 2011). Because of their small size and small capital investments, many SME's lack the critical leverages to undertake large projects and don't display a greater variety of products hence end up with minimal growth potential and face under /over staffing , survival risk and lack of sustainability (Amyx, 2007).

Often larger companies are selected and given business for their clout in the industry and name. Their very size do not allow them access to financial resources, lack trained personnel and are driven by short-range management perspectives (Persona, 2006). They lack formalized governance systems and structures of management. Company style and culture is heavily influenced by owners or managers and therefore is more opportunistic than strategic, manage through trial and error resulting in reduced productivity, decrease in cost effectiveness, customer management & product innovation, profitability, service quality, reputation, brand value, earnings quality and compliance measures (Longenecker, 2006). Lack of skilled labor affects some SME's that require specialized workforce especially in manufacture, Technology and healthcare. This leverage ideally increases business support.

Many SME's are located in environments hindering market access and are not conducive for business growth because of costs due to lack of office space within the CBD and high goodwill rates, non availability and costly labor & materials, are exposed to security risks and are out of their market reach hence lack operational and competitive advantages (Oketch, 2010). Provision and availability of social amenities like electricity, roads network, clean water and sanitation are critical infrastructure necessary for business growth (Tomecko and Dondo, 2007). Many facilities and office layouts are usually small and crowded and lack capacity planning hence employee productivity, facilities efficiency, and overall output is compromised. Products specifications and range are not overly known and customer service and satisfaction is not guaranteed (Persona, 2006).

Delivery dynamics and flexibility including transportation of goods to markets, and materials handling is hampered by poor infrastructural development and costly delivery systems (Quayle, 2008). Lack of inventory management schedules and capacity planning dynamics increases costs of doing business (Hill Joyce, 2006). Transporters shun their businesses because of the many drop-off points in a single consignment which increases their running costs and delays their delivery of goods. Again, Production scheduling, inventory management, quality control and inspection, traffic and equipment maintenance policies are not efficient or are lacking (Van Wezel, 2006).

Supply chain sourcing becomes difficult and expensive due to lack of knowledge in logistics feasibility, lack vertical/ horizontal relationships with both suppliers and customers and don't enjoy credit facilities due to lack of recognition and high failure rates hence don't grow to the expected potentials (Kiiru, 2011). SMEs are subjected to a high frequency of change both in medium and short-term demands making the balancing of the supply chain network dynamics a difficult task, often compounded by internal competency issues (Vaaland and Heide, 2007).

Many SME's offer inadequate services and lack skills to add value to their type of businesses or to their primary product/service ( Lambin, 2010). They have little impact on productivity compromising output quality leading to reduced revenues and turnover due to loss of repeat business (Quayle, 2008). They engage in economic activities simply because their next door neighbor is doing the same hence lack markets for their products or services. This inhibits the growth of their enterprises.

Economic factors affect profit, growth and effective operations of SME's. Land as a factor of production is a vital component in the success or growth of firms. In Kisumu County, there is difficulty in acquiring land for investments and most leases are often paid six months in advance with goodwill of thousands of shillings providing no flexibility (Kenya Investments Authority). The regulatory framework is rigid and is not able to effectively accommodate the emerging needs of the sector. Other external challenges include changes in the business and political environment, globalization, recession, inflation and interest rates, competitive forces, social and Technology innovations changing the way businesses are conducted (Longenecker, 2006).



There is a substantial orientation towards the domestic rather than international market place and many firms miss on the foreign exchange variability from the lucrative export business. Many SME's are in the same related businesses competing unfavorably for clients and markets. Sustainability and survival for growth is compromised ( Registration of businesses; kisumu local authority single business permit ,2012). Therefore, the development of competitive and resilient SME's should be an integral component of initiatives in Kisumu County. It requires SME's to raise efficiency levels, strengthen inter-firm linkages, and respond timely to market demand changes. Greater integration into the global and regional economies should provide an opportunity for SME's to participate in the International supply chain activities (MITI, 2006).

## **1.2 Problem Statement**

The small and medium-sized enterprise (SME) sector has an important role to play in developing economies, poverty alleviation and job creation, and this can only be realized through growth of the sector. Constraints especially in production processes, capacity planning and considerations, delivery systems , supply chain capabilities, inventory quality and control dynamics, technology and management structures, affect their efficiencies , market share and competencies. Determination of these factors should help bring to the fore the dynamics of SME growth and the reasons for their failure. Knowledge of the extent to which these challenges impact on the growth of SME's should help address their mitigations (researcher).

What has been researched and written on small-scale enterprises reveals that the growth of a number of SME's is less than satisfactory. Research conducted in Nairobi by Nyambura (2007) established the most highly ranked problems facing small enterprises in the manufacturing sector were markets, inventory scheduling, control, and transportation logistics. In a study carried out in Machakos, Mbuvi (1983) established that family size which is a component of culture had an effect on business growth. Large families were found to withdraw large sums of money from the business to support their families with food, clothing, education and other needs leaving little to finance business operations. Wasonga (2008) conducted a study on the significance of training & skills required to be effective in management of small and micro enterprises (SME's). Mulinge (2009) did a survey on operations practices adopted by SME's dealing in clothing and footwear.

Findings from these studies and government reports (Economic survey,2006,2008) on the state of affairs of small scale enterprises reveals numerous problems and constrains that affect their growth and operations and the research gaps do not adequately address the operational challenges in the growth of SME's in Kisumu County and thus intervening measures and policy development have not been effectively formulated hence the reasons for my study (Researcher). The question is, to what extend do operational challenges affect the growth of SME's in Kisumu County and what organizational factors are critical success factors in the growth of SME's? Its significance is to serve as a guide to people who wish to set up businesses in Kisumu County.

### **1.3 Research Objective**

To determine the operational challenges in the growth of SME's in Kisumu County.

#### **1.3.1 Specific Objectives**

- i. To assess the impact of Supply chain and capacity planning in the growth of SME's in Kisumu County
- ii. To determine how Logistics and inventory control impact on the growth of SME's in Kisumu County
- iii. To ascertain the impact operational structure and production in the growth of SME's in Kisumu County
- iv. To establish the role of information communication and technology in the growth of SME's in Kisumu County

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

It enabled focused intervention strategies by management and also coordinate efforts aimed at facilitating effective and efficient operations, cut costs and drive growth through knowledge and application of good management practices, structure & workforce management systems, improve Production efficiencies, drive flexible supply chain distribution systems and manage inventory.

Policy makers through policy advocacy and investment facilitation contributed to business development of the county markets, enhance capacity building and accelerate achievement of vision 2030 by helping solve problems of unemployment, alleviate poverty reduction and

increase county incomes through value addition and contribute to the Gross Domestic Product (GDP). SME'S will also stand a better chance of survival, growth, and gain competitive advantage in the global business environment. The study also contributed to the body of knowledge assisting researchers and academicians from their application and knowledge of appropriate approaches in mitigating these challenges. It also opened up areas for further research whose findings could further enhance SME development.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Small and Medium Enterprises are characterized in terms of their turnover, number of employees market share, asset base and capital investments. The scope of their activities is grouped into formal and informal sectors where formal SME's are registered & covered under tax net and the informal, which have no proper registration and avoid payment of taxes (Esellar, 2007). The importance of high performing, highly efficient and responsive SME's in meeting market demands, creating efficiencies and driving sustainable competitive advantage has been a focus of policy makers and researchers around the world (Shelly, 2004). SME's need to manage production, suppliers, procurement processes, transportation networks, and inventory systems through efficient operational processes (Morash, 2008).

Operations have to be more efficient in improving resource utilization and optimization of core processes through use of technology to reduce cycle times, increase return on capital and integration of business functions for growth. Sustainability of emerging markets requires driving change smartly, acting decisively and remaining flexible to market demand dynamics (Brian Sher, 2010). SME's have to transform their operations for competitive advantage, by adopting emerging supply chain management solutions (Tracey, 2006).

The importance and contribution of SME's to achieving macroeconomic goals of nations, especially in developing nations and a complex global environment in which SME's survive, grow and thrive is, therefore, considered an important objective of policy makers in both developed and emerging economies around the world (Shelley, 2006). Historically, the small business sector plays an important role in the process of labor absorption and entrepreneurial creativity to promote local development , create wealth for citizens, promote technical knowhow and complement government efforts (Lambin, 2010). The success and growth of small businesses is therefore critical to maintaining a robust economy, bolstering democracy, self-reliance and independence (Bennet, 2009).

## **2.2 SME Development and challenges in Kenya**

The development of SME's started from the early 1970s when there was the introduction of the New Economic Policy (NEP) in the country. The purposes of this policy were to improve people's welfare and restructure ethnic economic imbalances (Saleh and Ndubisi, 2006). The need in strengthening SME development was crucial since it was expected to be an integral component to achieve sustainable economic growth and develop country status by the year 2030 (MITI, 2006). In 2008, the development of SME's represented 80% of total business establishment in the country (Economic survey, 2009). The Government also allocated over 17 billion for 198 SME development programs across all economic sectors and other stimulus programs to cushion them from the adverse global economic crisis. In response, the number of applications for grants and financial schemes increased and SME's could improve their own capabilities, market access, and the quality of products and services to fulfill a lot of demands from society (SMIDEC, 2009).

During the economic and political crisis in 2007/8 SMIDEC was co-opted to carry out a survey for evaluating, giving recommendations and taking measures to alleviate the adverse economic impact on SME's. The result of the survey for the fourth quarter of 2008 indicated that more than 57% had their sales export and sales domestic affected by the economic crisis (SMIDEC, 2009). The results also proved that the political environment created numerous challenges for SME's to cope with. But generally, most SME's in many counties continued to face severe and numerous problems and challenges which inhibited their lateral growth (Saleh and Ndubisi, 2006). Some of the major challenges faced by SME's were business versus personal considerations, business planning or lack of it, decision making information, management experience, people, cash flow, profitability, and succession planning (Bentley, 2006).

Wang (2008) determined that there was a much larger set of advantages which could drive businesses to success. A geographical advantage if the business or production facility was closer to the market, a Technological advantage for easier communication, cost reduction, and rapid reach, a Legal advantage with laws protecting certain industries, a capital advantage if they had access to more capital than their competitors and a cheap labor advantage if they could access

cheap labor locally or in other countries. Today, we are seeing trends towards more competitive forces hence enhancing SME development ( Brian Sher, 2006). There is the removal of worldwide industry protection, international deregulation, opening of trade barriers/ trade borders, a communication explosion and cheap technology, easier access to financing, more small enterprises competing effectively with large companies, and privatization of diverse industries( Shelly, 2006).

### **2.3 SME Establishment Factors**

The number of small and medium enterprises has been increasing rapidly for the last two decades with the majority based in county areas. According to the national and small enterprise baseline survey Government of Kenya (GoK, 2009), about 1.3 million small enterprises were operating in Kenya employing about 2.4 million people. Their share to GDP was estimated at 18.8% second to agriculture having increased from 13.8 in 1993. Economic strategy for wealth and employment creation 2003 – 2007 (GoK, 2008) indicated that about 70% of all households engaged in some form of small business activity with the majority depending on their business for all household income.

A comparison of the Kenyan SME sector to the Southern African countries such as Malawi, Zimbabwe, Lesotho and Swaziland shows similar trends where 60% of SME's are located in the rural areas (Daniels, 1992). A number of factors have contributed to the rapid expansion in the sector. One of the factors is the general decline in the economic performance of Kenyan economy as a result of recession and liberalization of the 1980's. This resulted in the need for a number of large companies to adjust to the economic realities by becoming lean through retrenchment and downsizing. The effect of this was massive job losses and reduced employment opportunities in the formal sector ( Kasekende and Opondo, 2008).

Another factor was the effect of the World Bank and IMF Structural Adjustment Programs (SAP's) of the 2008s. The reforms by the two institutions recommended as a condition for receiving aid that the government plays a facilitating role rather than intervention and controls in the public companies.

This led to reduced government role in public companies like Kenya Co-operative Creameries, marketing and Cereals Boards, Telecommunication sector, Energy sector among others. Liberalization of trade, abolition of price controls of essential consumer goods and reduced barriers to trade, encouraged small private sector participation in small and micro enterprises who found opportunities in niche areas that the large corporations had abandoned (Saleh and Ndumbisi, 2006). The third factor was the hard economic situation in the country leading to those even employed to engage in small enterprises to earn extra income and make “ends meet”( Kenya bureau of statistics, 2007). The fourth factor was the increased numbers of school leavers who could not find employment in the formal sector hence engaged in small business for a living ( Researcher).The other factor was government support and the entrepreneurial wave that was prevailing in the country ( Economic survey, 2006).

Due to the SME’s recognition and their potential to solve the unemployment problem and create wealth, considerable support programs had to be put in place by the government and the private sector to assist small enterprises improve their growth performance. However, despite the apparent operations in the establishment of small and micro enterprises and the efforts made to improve growth, a number of the enterprises have either stagnated or closed down with a few recoding some level of success (Dondo, 2011).

#### **2.4 Critical success factors for growth**

As stated in the introduction, many SME’s face numerous challenges whose mitigations can form the foundations of business growth. It is worth to note that some of the big businesses today started as SME’s and have become the key divers of the Kenyan economy. A case in point is safaricom ltd and Equity bank whose contribution to the GDP and as employment avenues is immense. In a study by the Kenya Institute of Supplies Management (2008), key challenges in processes used in procurement of supplies from SME’s in bidding for and winning tenders on a sustainable basis were conducted. The results highlighted five key factors whose contribution had major impact in the SME growth in Kenya. These factors are also inspired from previous studies by Zulkifli (2009). These are Government policies, Supply Chain Operational Capabilities, Logistics, Technology and structure capabilities.

### **2.4.1 Government Policies**

Government Policies can positively or negatively affect growth and development of SME's. Taxation is critical in funding public amenities and infrastructure but the level of tax rates have to be carefully chosen so as not to hurt the growth of firms and to avoid ambiguity in tax compliance (Economic survey, 2006). In economies where it is difficult and costly to pay taxes, larger shares of economic activity end in the informal sector where businesses pay no taxes. According to a study by Johnson (2010) on small scale business operations and taxation, non uniformity and high rates overburdens formal SME's prohibiting their growth. Trade liberalization policies have also exposed many SME's to external competition especially importation of cheap goods from china and COMESA countries.

Licensing and Registration of small firms is cumbersome for starting businesses leading to high startup costs. These issues are often cited in surveys (Economic surveys GoK) as constraints for business growth. When governments change its policies, it affects SME's directly or indirectly.

### **2.4.2 Supply Chain Operational Capabilities (Scoc)**

SME's need to be more competitive in bidding for and winning tenders and delivering products, works and services on a sustainable basis (Ogulin, 2008). Supply chains need to develop and improve based on their capability, supply chain objectives, including transportation networks, inventory optimization, policy development, safety stock, design facility type & location, sales / operations planning, make versus buy decisions, and leverage all internal or external and third party tools (Zulkiffli, 2009). This would ensure development of lean processes and operational transformations for efficient and effective business processes for developing channel distribution networks (Gill and Allerheiligen, 2006), distribution planning (Waller, 2006), and delivery processes (Kallio, 2010). Capital injection into SME's businesses for their start ups, purchases/ investments in efficient supply chains or expansion for growth is critical. In a study by Mills (1995) on credit needs, it concurs that SME market is strategic but differ on methods of access to finance they adapt to reach these markets. SME's are not valued for business banking by lenders because of lack of collateral and high failure rates (Tomecko and Dondo, 2007). Mismatch on types of financing provided by banks in particular long term lending and working capital facilitation that SME's needed for growth was apparent (Kiiru, 2011).



### **2.4.3 Logistics Capability**

Logistics capability is a framework for identification of non value added costs, and therefore brings about improvements for cost reduction, asset optimization, information & process standardization, organization structure & working capital improvements for revenue enhancements and performance (Lynch, 2010).

It develops and improves procurement capabilities, warehousing and transportation management, driving competitive advantage through improved procurement policies, processes, sourcing/supplier relationship management, contract/ outsourcing policies and technology enablers (McGinnis and Kohn, 2008).

It helps firms and clients locate facilities, relocate plants/ warehousing, design work systems, manage inventory stores and optimize manufacturing and market access. Logistics sustainability improves inventory levels, performance goals, pricing and distribution networks, structuring transportation and supply planning (Ellinger, 2010).

Logistics helps product development and innovations to cut costs, accelerate design and introduction of new products into the markets. It increases service offering through responsive and flexible delivery systems and enables new capabilities through learning and knowledge of management systems, hence building the foundations for future growth (Cho *et al.*, 2008).

The adoption of third party logistics (3PL) or logistics outsourcing, would improve an SME's capability in logistics activity (Cho, 2008). Most scholars ascertain that SME's growth and logistics capability are related to each other either in the context of traditional or new markets development (Ellinger, 2010; Morash, 2006).

However, different SME's have different capabilities in managing their logistics activities. Some SME's are less efficient in their logistics operations than other SME's in the same region (Goh and Ang, 2010). Today, the growth of 3<sup>rd</sup> party logistics (3PL) and Business Process Outsourcing (BPO) activities are some of the latest trends among firms in Kenya (Sohail and Sohal 2008).

#### **2.4.4 Technology Capability**

Technology Capability enables firms to cut costs by streamlining expenses and improving bottom lines by increasing efficiency and organizing a lot of information. Use of (ERP) methodologies keeps all components (vendors, warehouses and networks) connected, ensuring customer service and production planning (Sun and Howard, 2006). Technology plays an important role in the success of supply chain management through use of web based software, and hand held devices applications hence useful for updates, communication and feedback.

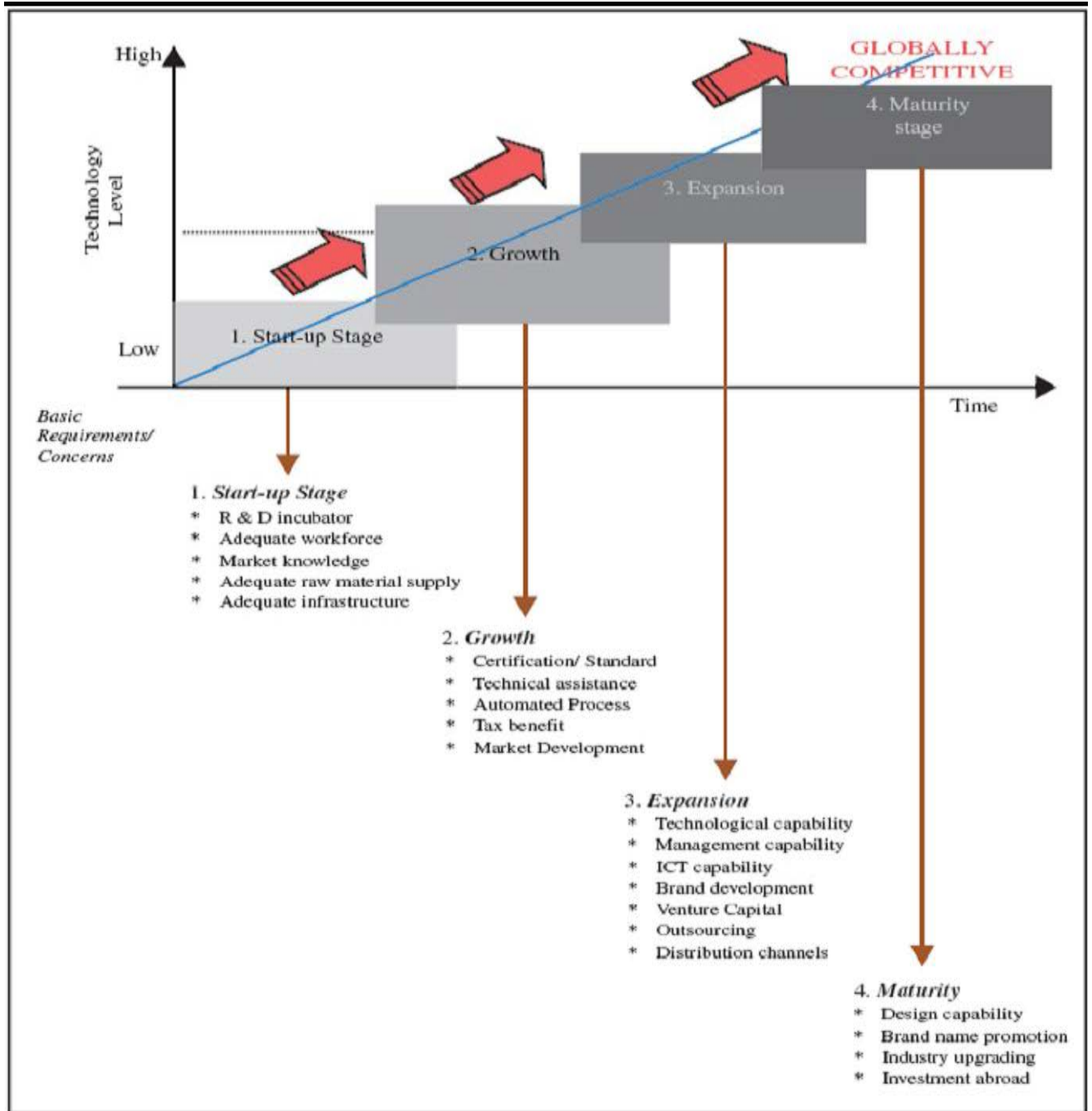
It breaks barriers between global partners for ease of reach for increasing markets through ease of procurement and communications systems, exchange of data for business collaboration ensuring quality customer service through lean production systems and better use of existing resources. This increases production, performance and profit margins (adejimi, 2009).

Leverages include optimization & decision support tool empowering firms to spot saving opportunities, web based strategic sourcing for projects, & supplier portals, online collaborative channels for efficient exchanges, support for multiple and complex contracts reducing off catalog pricing & buying. It also ensures compliance with monitoring systems, provides project & document audit trail reports, and is useful for alerts, notification, tracking & linking for rapid corrective action, improvements and adjustments. It is also useful for end to end pay automations, self service & employee requisitioning and for best practice templates for acceleration and improvement of sourcing effectiveness (Researcher).

Handfield and Withers (2008) claims that technology capability is applied differently depending on different situations. The type and size play an important role in defining the function of information communication and technology usage in a firm. The usage rates of information communication and technology are different between small and large firms, and also between socialist and capitalist firms (Dawe, 2009; Handfield and Withers, 2008). Furthermore, small firms should give more consideration on the adaptation of new technology rather than large firms (Kennedy and Hyland, 2008).

Usually, small firms do not realize the importance of collaboration and establishment of a good relationship with external parties such as government, Universities and public research institutions in developing technology applications (Researcher).

Figure 2.1: Phases of enterprise development & Technology uptake of SME's

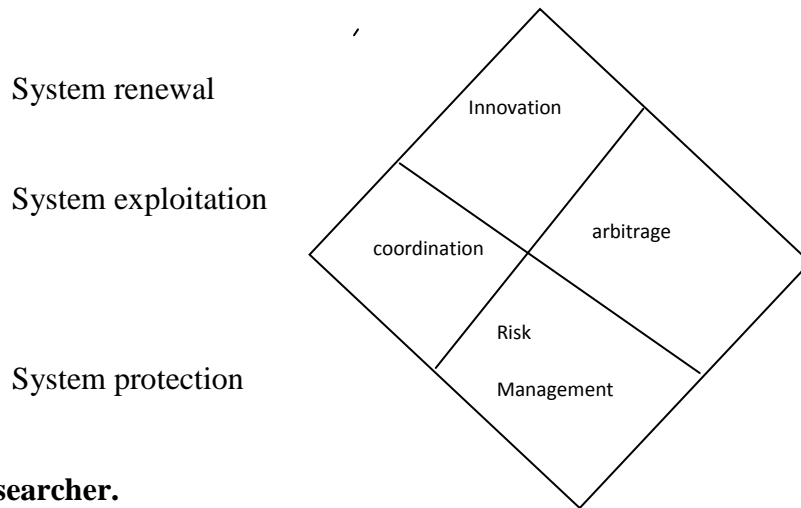


Source: SMIDEC (2002)

### 2.4.5 Structure Capability

There are two important operational structures that contribute to the prosperity of SME's: internal and external structure. The internal structure is the allocation or assignment of roles and relationships within the SME's (Bowersox and Daugherty, 2007, p.71). It entails the usual logic of division of labor into functions and departments (vertical) to managing emerging supply needs and responsiveness to market changes (Kumagai and Kleiner, 2007). In addition, there are several scholars who focus on 'empowerment' as another aspect of structure capability (Kumagai and Kleiner, 1995; Mills, 1995; Pastor, 1996; Pechlivanidis and Katsimpra, 2006) as a form of modification to structure to adapt to market changes.

Externally, SME's have to manage transactions by using the potential of the value added facilities. As companies outsource noncore activities, they depend on external suppliers & service providers. Managing across boundaries becomes challenging due to lack of knowledge about skills of the external firms hence the need for managing integral functions across functional teams. This ensures customer value is created and delivered.



**Source: Researcher.**

In summary, by focusing on the controllable factors within SME's, a framework can be devised to assist Owners-Managers to overcome high failure rates and give SME's an opportunity to get into the growth phase in the organizational life cycle. An integration of the external factors should also be undertaken.

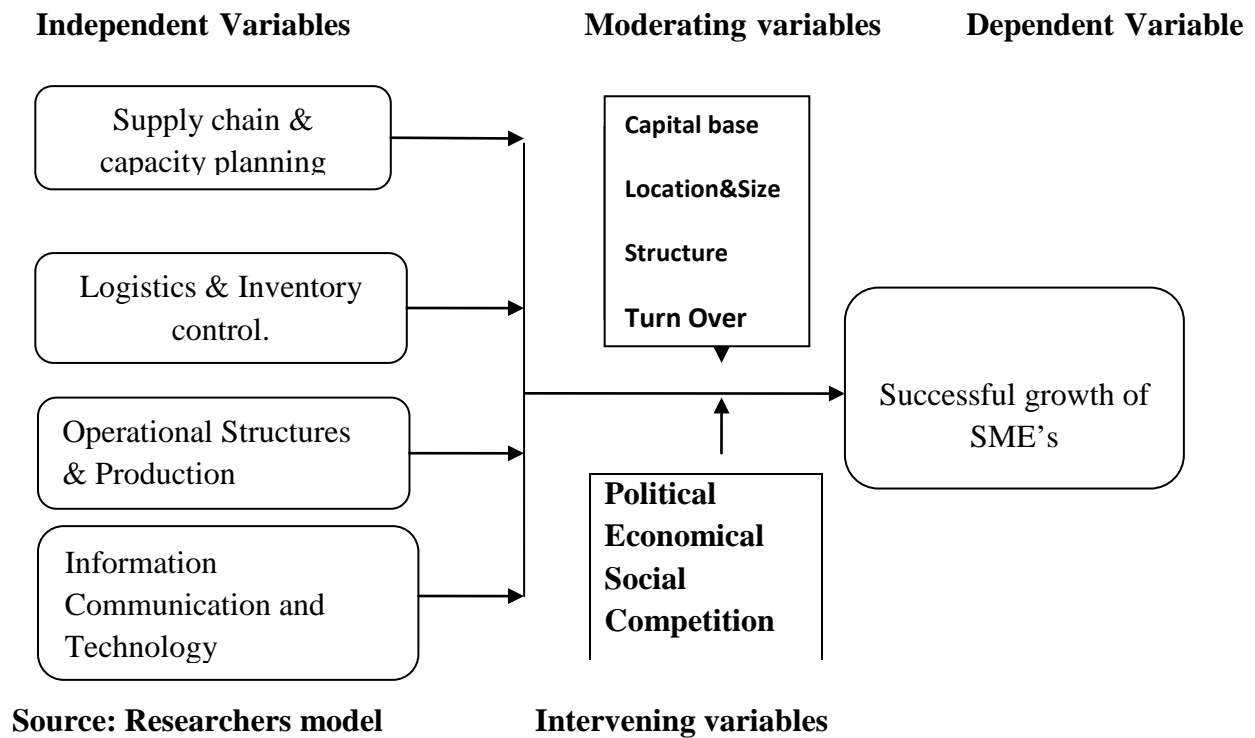
## 2.5 Conceptual Framework

A conceptual framework is a diagrammatical research tool intended to assist the researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. A conceptual framework is used in research to outline possible courses of action or to present a preferred approach to an idea or thought. It can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The interconnection of these blocks completes the framework for certain expected outcomes.

An independent variable is one that is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent a problem requiring explanation in an analysis, but are taken simply as given. The independent variables in this study will be:-access to business information services; lack of managerial training and experience; government policies and regulations; technological changes and capital input/access to finance.

A dependent variable is what is measured in the experiment and what is affected during the experiment, it responds to the independent variable. The dependent variable in the study will be SME growth. Other intervening and moderating variables are as listed.

**Figure 2.2: A Conceptual framework**



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presented the methodology that was used to collect data for the study. It covered the research design, the target population, data collection instruments and procedures. It required the researcher to understand and consider the unique characteristics of specific research subjects and the settings in which they are located (Devers 2000). Inference from this group was challenging because little has been understood about their operations, ownership, source of capital and key challenges that they face as they propel growth of the Kenyan/County economy ( Kasekende and Opondo,2003).

### **3.2 Research Design**

This research adopted a descriptive survey design where the population of interest in the County SME were visited and data collected through questionnaire, interview and conversation analysis. According to Cooper and Schindler (2006), a survey is concerned with finding out the what, where and how of a phenomenon and the research design is chosen because it enables the researcher to generalise the findings to the larger population. The design is deemed appropriate because the chosen SME is typical of many others and therefore stands as a representative of the whole class.

According to Mugenda and Mugenda (2006), a survey research study collects data in order to answer questions concerning the current status of the subject under study then using deductive reasoning and analysis of data generated, the researcher is able to generalise and formulate relationships, which is then used to develop theory leading us to some conclusion (muganda, 2010).

### **3.3 Target Population**

The target population for this study was 7000 SME's from all the licensed businesses within kisumu County (Data from single business permit licenses kisumu county council 2012). Looking at the whole organization ( SME) as a unit, allowed the researcher gain valuable knowledge on operational challenges in production, capacity planning, supply chains, inventory quality and control, organizational factors, growth prospects and potential benefits of operational

efficiencies within the SME environment. Kisumu was selected as the population sample area because it hosts a number of small and medium enterprises.

### **3.4 Sample Design**

Examination of a sample of 364 SME owners or managers from a total population of 7000 SME's was undertaken. The researcher used a table by Uma Sekaran pg 294 (sample size for a given population size) as inference. Stratified Random Sampling procedure was used for this research as it enabled the population of interest if not homogeneous to be subdivided into groups or strata so as to obtain a representative sample. It also gave each SME in the population an equal chance of being selected.

### **3.5 Data Collection**

The researcher used a questionnaire as the primary data collection instrument. The questionnaire was designed to give a brief background information of the SME's and is divided into sections representing the various variables adopted for study. For each section of the chosen study included closed structured and open ended questions which will collect qualitative and quantitative data. The open ended questionnaires were to give unrestricted freedom of answer to the respondents. The questionnaire was administered through drop and pick method or face to face interviews to the selected SME owners or managers. The researcher used assistants to distribute by hand the questionnaires to be completed by the selected respondents and the research assistants ensured high completion rates and return of the completed questionnaires.

### **3.6 Data Analysis**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive statistics was used to analyze the respondents' views about the operational challenges faced by SME's in Kisumu County. The data was then be coded to enable the responses to be grouped into various categories.

Data was then be grouped into frequency distribution to indicate variable values and number of occurrences in terms of frequency. Frequency distribution table were informative to summarize the data from respondents, percentages and other diagrams such as bar charts, histogram, grouped frequency distributions and pie charts were used during the analysis. The organised data

was interpreted on account of concurrence and standard deviation to objectives using assistance of computer packages especially SPSS and Microsoft Excel to communicate research findings. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

Codes and sample size numbers in each business category were used in the analysis of data (attached in Appendix III).



## CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETITION

### 4.1 Introduction

The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study

### 4.2 Response Rate

The study targeted to sample 364 SMEs. From the study, 240 out of 364 sampled SMEs filled in and returned the questionnaire contributing to 66% respectively. This commendable response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires.

**Table 4:1: Response Rate**

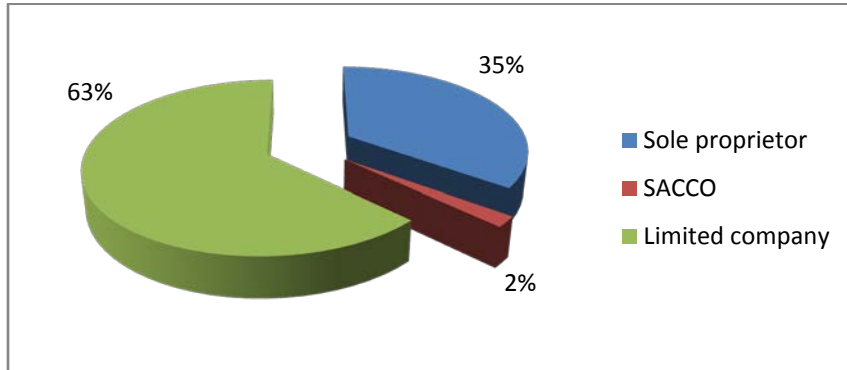
<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	240	66
Not responded	124	34
<b>Total</b>	<b>364</b>	<b>100</b>

*Source: Researcher (2013)*

### 4.3 Background Information

#### 4.3.1 Ownership Details

**Figure 4.1: Ownership Details**

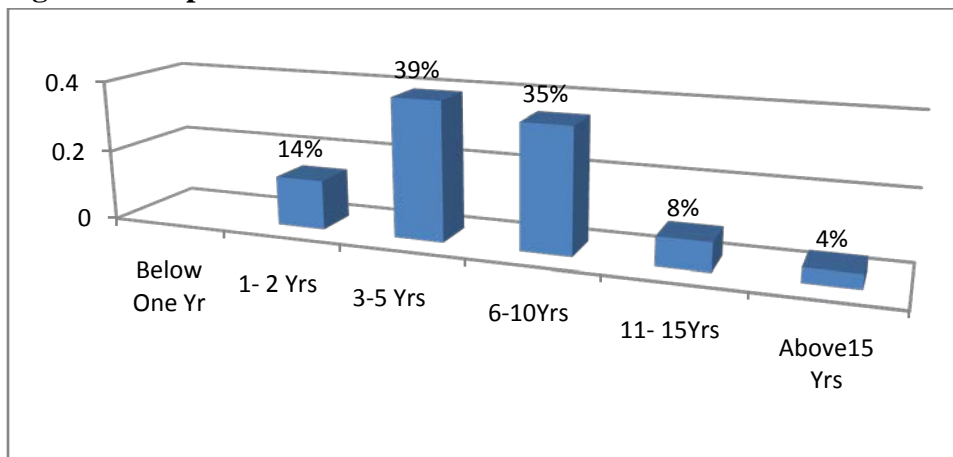


*Source: Researcher 2013*

On the ownership details, 63% of the respondents who were the majority cited that they were in limited companies, 35% stated sole proprietor and lastly 2% indicated SACCOs.

#### 4.3.2 No of years in operation

**Figure 4.2: Operation Years**

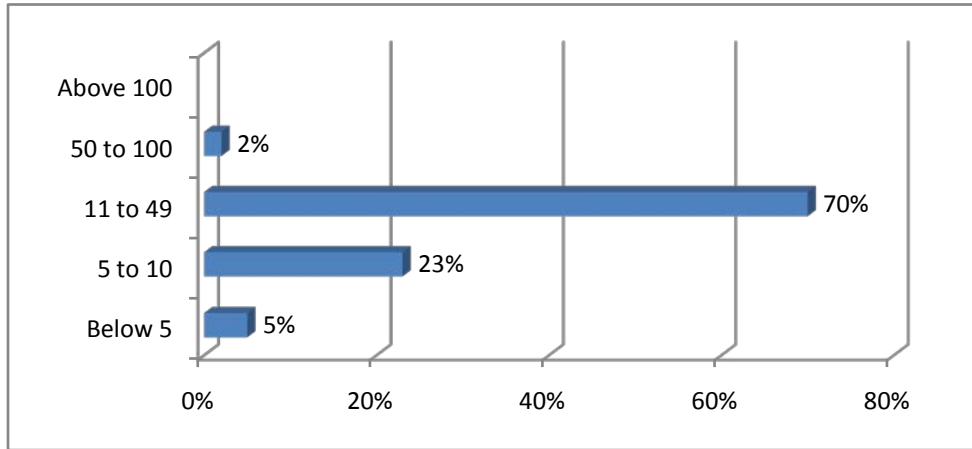


*Source: Researcher 2013*

According to the number of years in operation, 39% of the respondents who were the majority argued 3-5 years, 35% stated 6-10 years, 14% cited 1-2 years, 8% indicated 11-15 years and lastly 4% who were the minority stated above 15 years.

### 4.3.3 Total Number of Employees

Figure 4.3: Number of Employees

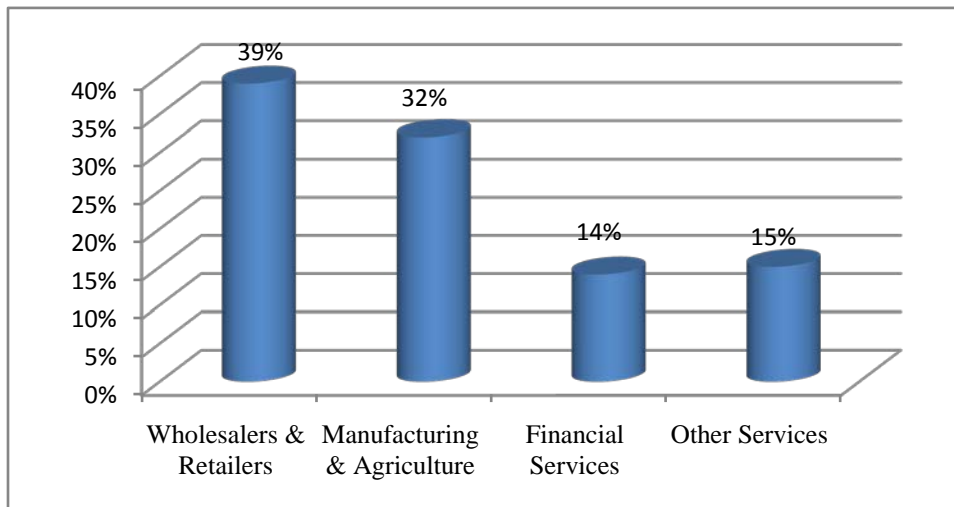


Source: Researcher 2013

On the number of employees, 70% of the respondents who were the majority stated 11-49 employees, 23% cited 5-10 employees, 5% indicated below 5, 2% argued 50-100 employees and lastly non that stated above 100 employees.

### 4.3.4 Type of Business

Figure 4.4: Type of business



Source: Researcher 2013

According to the type of business, 39% of the respondents who were the majority argued wholesalers and retailers, 32% cited manufacturing and agriculture, 15% indicated other services which includes airline, hotels, education, health, commercial, general services and CFCs and lastly 14% argued financial services and related services.

Majority of the respondents stated that the business monthly turnover was above Kshs 500,000.

## 4.4 Operational Challenges

### 4.4.1 Organizational and Operational Factors

**Table 4.2: Organizational and Operational Factors**

Statements	Mean	Std deviation
Size	4.5600	.79253
Location of facilities	4.3200	.90285
Management structures	4.5067	1.10983
Capital base	4.4267	.85698
Type or nature of business	3.9733	1.11468
Turnover	3.1067	1.09758
Layouts and work design	3.6400	1.19277
Quality of products or services	4.6933	.93250
Production capability	4.4133	.91671
Capacity planning and Management	4.3067	1.09017
Supply chains	3.3733	.92668
Lean or Just In Time management systems	4.3600	.93923

Technology applications	4.7400	.89805
<b>Total</b>	<b>54.92</b>	<b>12.77056</b>
<b>Average</b>	<b>4.224615</b>	<b>0.982351</b>

*Source: Researcher 2013*

On the operational challenges the organizational and operational factors had an impact in the growth of your business in provision of services, goods and market reach to a great extent in that the size had impact to a very great extent with a mean of 4.5600, location of facilities influenced to a great extent with a mean of 4.3200, management structures had impact to a great extent with a mean of 4.5067, capital base influenced to a great extent with a mean of 4.4267 and then the type or nature of business influenced to a moderate extent with a mean of 3.9733. In addition the turnover had impact to a moderate extent with a mean of 3.1067, layouts and work design had influence also to a moderate extent with a mean of 3.6400, quality of products or services had influence to a very great extent with a mean of 4.6933 and then product capability had influence to a great extent with a mean of 4.4133. Lastly capacity planning and management had impact to a very great extent shown by a mean score of 4.7067, Supply chains had impact to a moderate extent shown by a mean score of 3.3733, lean or Just In time management systems influenced to a great extent shown by a mean score of 4.3600 and then technology applications had impact to a very great extent with a mean score of 4.7400.

Majority of the respondents argued that all the above factors were almost equally very important to the growth of the business as they all greatly influenced the efficiency and effectiveness of the product/production/ service offering of the business

#### 4.4.2 Sources of Competitive Advantage

**Table 4.3: Sources of Competitive Advantage**

	Quality		Speed		Dependability		Flexibility		Cost	
	f	%	f	%	f	%	f	%	f	%
Transportation logistics	48	20	65	27	19	8	50	21	58	24
Warehouse locations & layouts.	62	26	50	21	10	4	53	22	65	27
Workforce coordination	65	27	43	18	17	7	53	22	62	26
Adoption of Technology	72	30	70	29	26	11	24	10	48	20
Production Processes	70	29	62	26	17	7	24	10	67	28

*Source: Researcher 2013*

According to the operational factors that impact in the supply chain in the business, on the transportation logistics 27% who were the majority argued it had impact on speed, 24% stated cost, 21% cited flexibility, 20% indicated quality and lastly 8% stated dependability. On the warehouse locations & layouts 27% who represented the majority argued it had impact on the cost, 26% cited quality, 22% stated flexibility, 21% stated speed and then 4% dependability. In workforce coordination 27% the majority cited that it influenced quality, 26% stated cost, 22% indicated flexibility and 18% argued speed and then 7% indicated dependability. According to adoption of technology, 30% who were the majority cited it had impact to quality, 29% stated speed, 20% argued cost, 11% indicated flexibility and then 10% stated flexibility. Lastly, on production processes 29% stated it had influence on quality, 28% cited cost, 26% indicated speed and 10% cited flexibility and lastly 7% argued dependability. Majority of the respondents argued that SME's should consider the management of the overall activities of the organization, product quality and lastly time and cost of production to enhance their competitiveness for growth.

#### 4.4.3 External Challenges

**Table 4.4: External Challenges**

	Mean	Std deviation
High costs of energy	4.44	.757
Infrastructural development or lack of it	4.49	.723

Phase of Technological change	4.28	.923
Political uncertainties	4.16	1.12
Recession and other economic factors	4.25	.973
Rigid regulatory environment	4.41	.916
Social factors	4.24	.942
<b>Total</b>	<b>30.27</b>	<b>6.354</b>
<b>Average</b>	<b>4.324286</b>	<b>0.907714</b>

*Source: Researcher 2013*

Business activities were affected by the external challenges to a great extent shown by a mean score of 4.3243 in that infrastructural development or lack of it had impact to a great extent as shown by a mean score of 4.49, high costs of energy had impact to a great extent as shown by a mean score of 4.44, rigid regulatory environment had impact to a great extent as shown by a mean score of 4.41, phase of technological change had impact to a great extent as shown by a mean score of 4.28, recession and other economic factors had impact to a great extent as shown by a mean score of 4.25, social factors had impact to a great extent as shown by a mean score of 4.24 and lastly political uncertainties had impact to a great extent as shown by a mean score of 4.16.

#### **4.4.4 Organizational Factors**

**Table 4.5: Organizational Factors**

	<b>Mean</b>	<b>Standard deviation</b>
Size and workforce concerns	3.9467	1.21803
Product development and Quality service	4.4133	.91671
Procurement and Inventory management	4.0933	.93250

Poor management skills & lack of collaboration efforts	4.3867	.78660
Lack of planning	4.4267	.80829
Lack of capital & access to credit	4.0133	1.19111
Costly transportation systems & logistics	3.6400	1.19277
<b>Total</b>	<b>28.92</b>	<b>7.04601</b>
<b>Average</b>	<b>4.131429</b>	<b>1.006573</b>

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*Source: Researcher 2013*

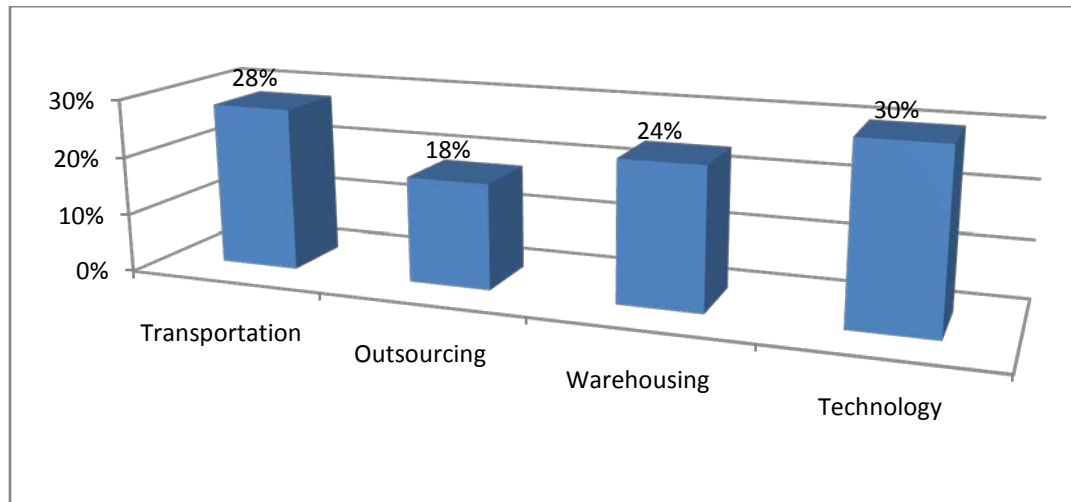
The organizational factors affected the critical successful growth of the business to a great extent as shown by a mean score of 4.1314 in that size and workforce concerns had impact to a moderate extent as shown by a mean score of 3.446, product development and quality service had impact to a great extent as shown by a mean score of 4.4133, procurement and inventory management had impact to a great extent as shown by a mean score of 4.0933, poor management skills and lack of collaboration efforts had impact to a great extent as shown by a mean score of 4.3867, lack of planning had impact to a great extent as shown by a mean score of 4.4267, Lack of capital and access to credit had impact to a great extent as shown by a mean score of 4.0133 and lastly costly transportation systems and logistics had impact to a great extent as shown by a mean score of 3.6400



## 4.5 Logistics Capability

### 4.5.1 Logistics Capability

**Figure 4.5: Logistics Capability**



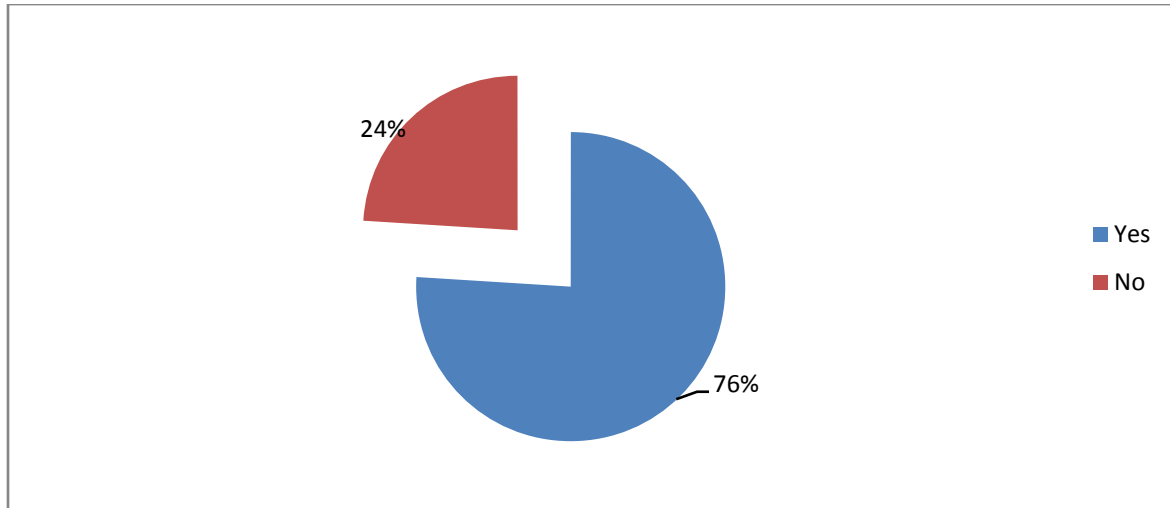
*Source: Researcher 2013*

On the logistics of increasing revenues and market share and at the same time reducing any associated costs, 30% of the respondents who were the majority argued that technology re-engineering of business processing outsourcing (BPO) contributed to increasing revenues and market share and at the same time reducing any associated costs, 28% argued transportation networks, 24% stated warehousing inventory management systems and lastly 18% the minority indicated outsourcing third party logistics(3PL).

## 4.5.2 Management Capabilities of Stocks and Warehouses

### 4.5.2.1 Inventory quality, control and channel distribution

**Figure 4.6: Inventory quality, control and channel distribution**

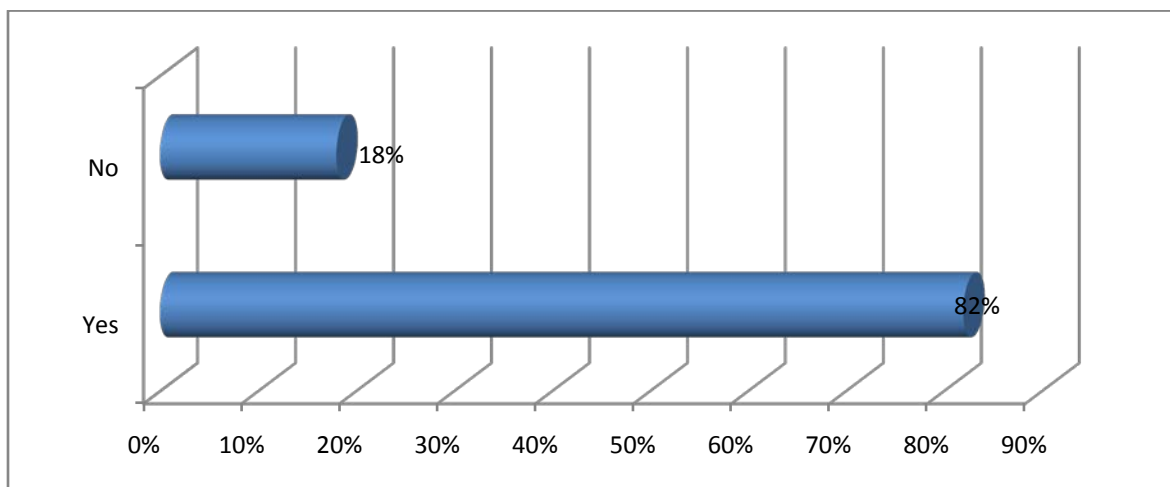


*Source: Researcher 2013*

On capabilities in management of stocks and warehouses, 76% who were the majority of the respondents stated that they used Inventory quality, control and channel distribution through development of just in time (JIT) systems while 24% cited not at all.

### 4.5.2.2 Quality Dimensions

**Figure 4.7: Quality Dimensions**

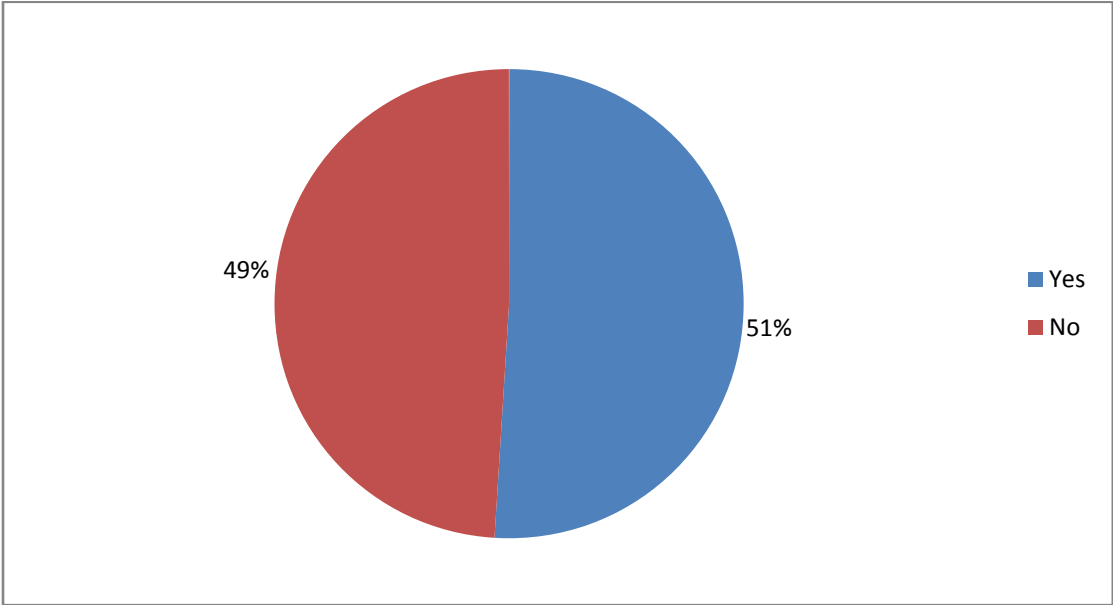


*Source: Researcher 2013*

On the quality dimensions 82% the majority respondents indicated that there was pressure to increase quality dimensions through Total Quality Management (TQM) systems while 18% the minority stated not all.

**4.5.2.3 Lead Time**

**Figure 4.8: Lead Time**

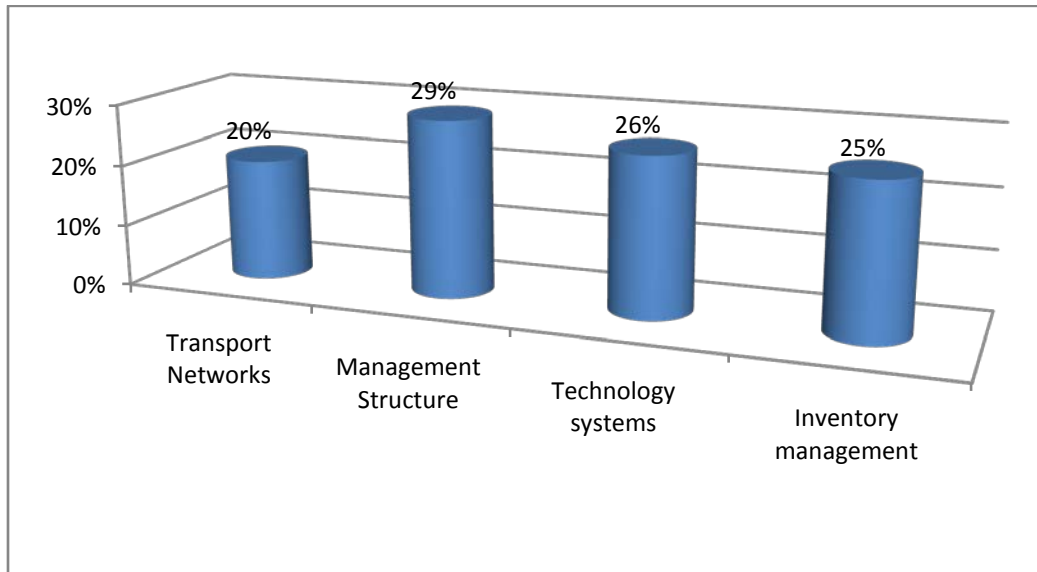


*Source: Researcher 2013*

On lead time, 51% of the respondents who were the majority cited that there was decrease in lead time (Time to market) through Lean management systems while 49% the minority stated not at all.

### 4.5.3 Infrastructure Logistics

Figure 4.9: Infrastructure Logistics



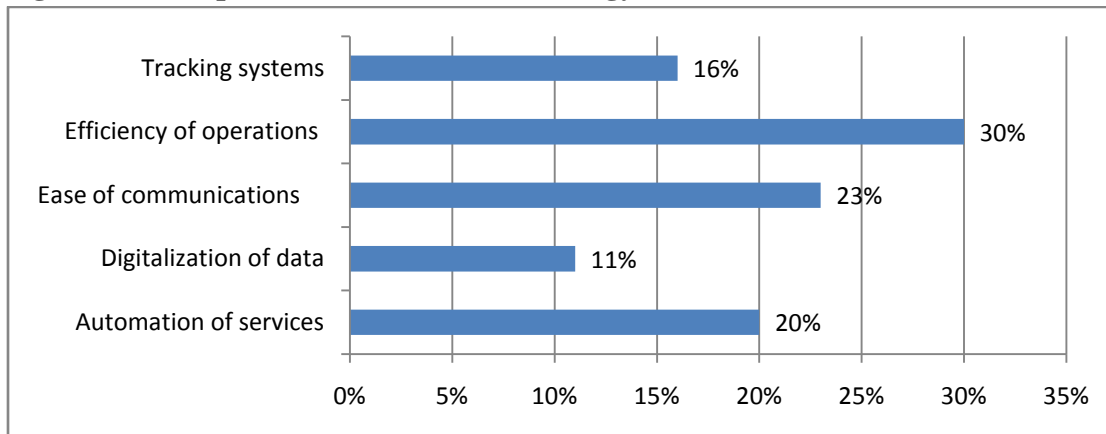
Source: Researcher 2013

On the infrastructure logistics, 29% of the respondents who were the majority argued that management structure had the most impact in the growth of the business, 26% cited technology systems, 25% indicated Inventory management and then 20% stated transport networks.

## 4.6. Information Communication Technology

### 4.6.1 Impact of information technology

Figure 4.10: Impact of information technology

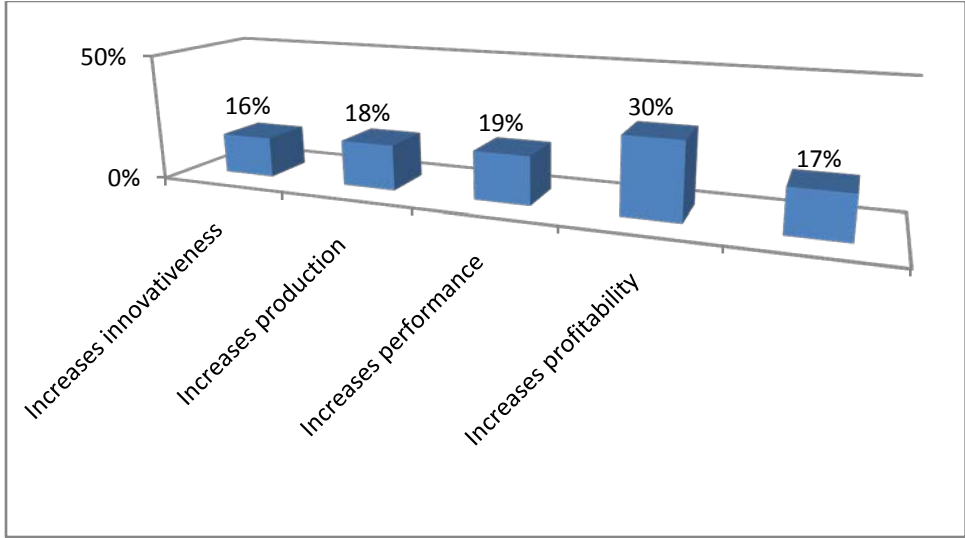


Source: Researcher 2013

On the impact of information communication and technology on the way business is conducted in the premises, 30% of the respondents who were the majority stated that efficiency of processes and cost reduction of operations had a lot of impact to the business, 23% cited ease of internal / external communications media and feedback, 20% stated automation of services, 16% argued tracking systems and then 11% who were the minority indicated digitalization of data.

**4.6.2 Benefits of Technology**

**Figure 4.11: Benefits of Technology**

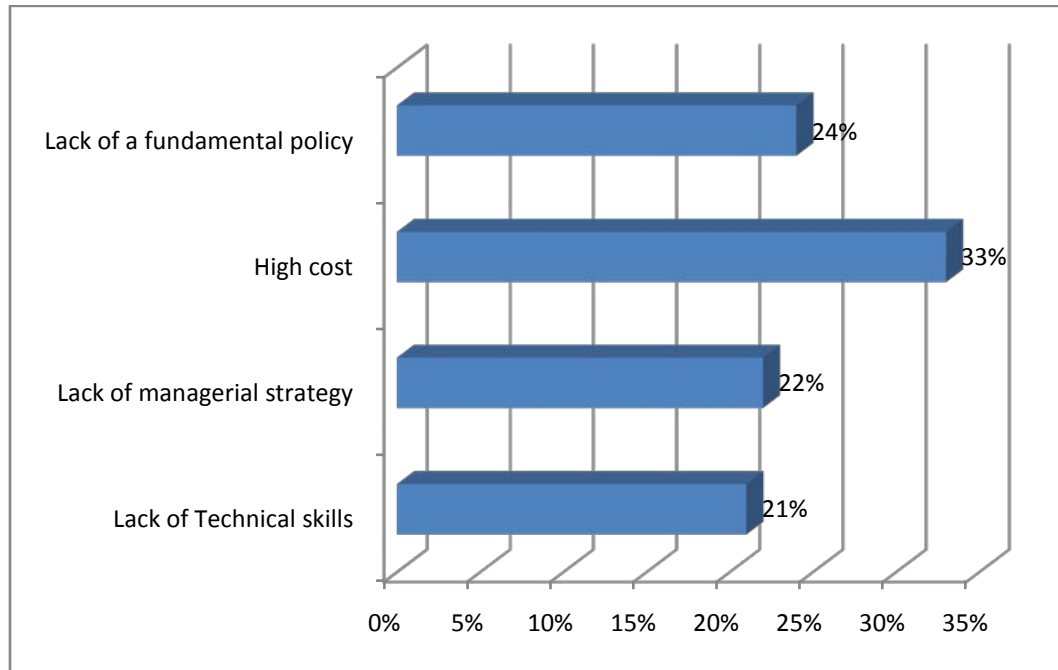


*Source: Researcher 2013*

On the benefits of technology within the business, 30% of the respondents who were the majority cited that it increased profitability through turnover and sales quality, 19% indicated it increased performance through faster decision making, 18% argued it increased production through optimal use of resources, 17% pointed out that it increased international trade through globalization leading to expansion, growth and survival and lastly 16% indicated that it increased innovativeness of products, service, and processes.

### 4.6.3 Challenges Hindering Adoption of Technology

Figure 4.12: Challenges Hindering Adoption of Technology



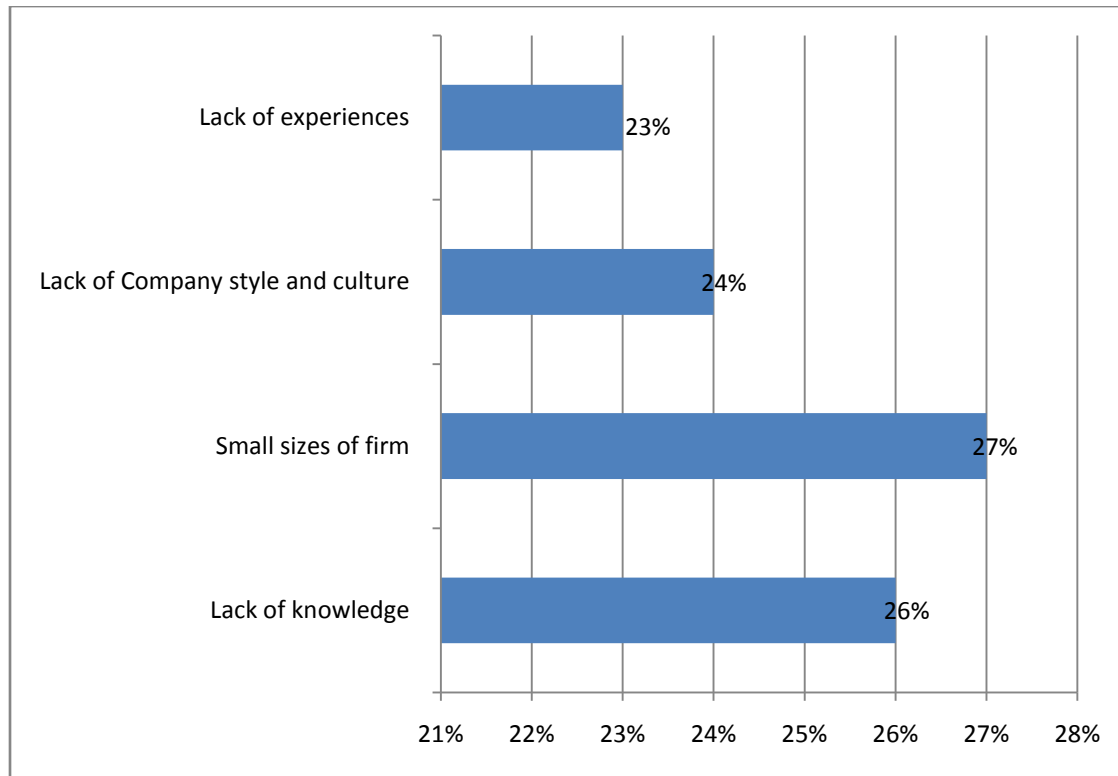
Source: Researcher 2013

According to the challenges that have hindered adoption of technology in the business, 33% of the respondents who were the majority cited that high cost of equipment and software hindered adoption of technology in the business, 24% cited lack of a fundamental policy on development of technology capabilities in the organization, 22% argued lack of managerial strategy and non collaboration and lastly 21% indicated lack of technical skills and knowledge.

## 4.7 Structure Capability

### 4.7.1 Challenges in Designing Appropriate Structures

**Figure 4.13: Challenges in Designing Appropriate Structures**

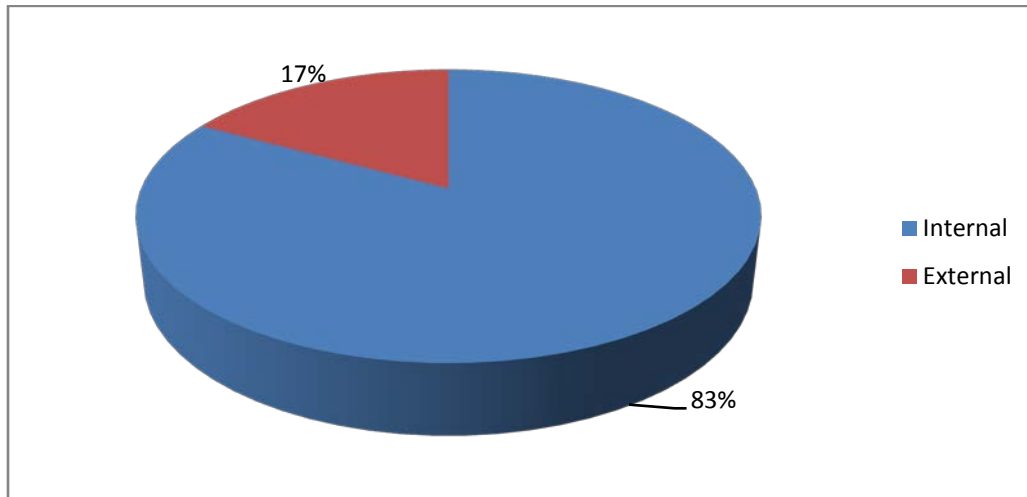


*Source: Researcher 2013*

According to the challenges encountered in designing appropriate structures, 27% who were the majority indicated that the great challenge was brought about by small sizes of firm hence owner managing through trial and error, 26% cited lack of knowledge on governance and management systems, 24% indicated lack of company style and culture hence no need for structure and lastly 23% stated lack of experiences on management structure capability.

#### 4.7.2 Use of Internal or External Personnel

**Figure 4.14: Personnel**

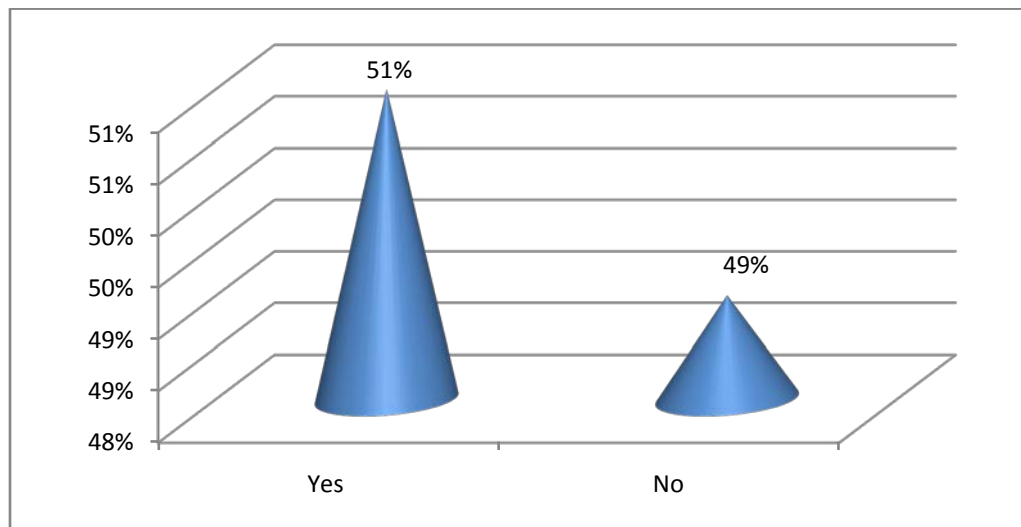


*Source: Researcher 2013*

On the use of internal or external personnel in the running of the business, 83% who were the majority cited they used internal personnel while 17% the minority indicated they used external personnel.

#### 4.7.3 Collaborative Strategies

**Figure 4.15: Collaborative Strategies**



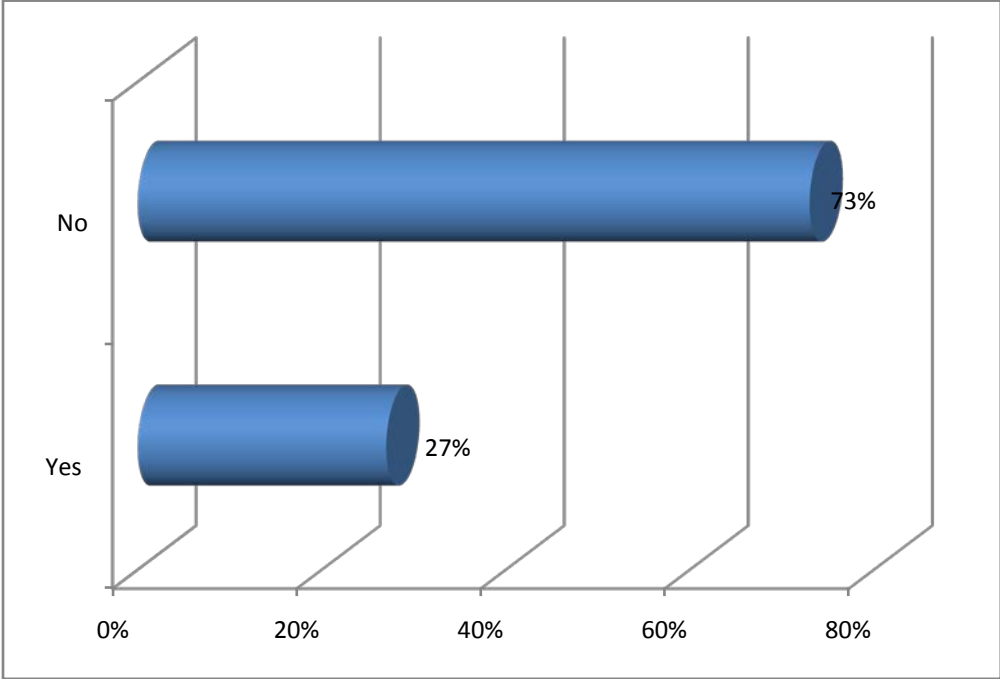
*Source: Researcher 2013*



According to the use of collaborative strategies, 51% of the respondents who were the majority cited that they used collaborative strategies by managing across teams while 49% argued not at all.

#### 4.7.4 External Experts and Suppliers Impact

Figure 4.16: External Experts and Suppliers Impact

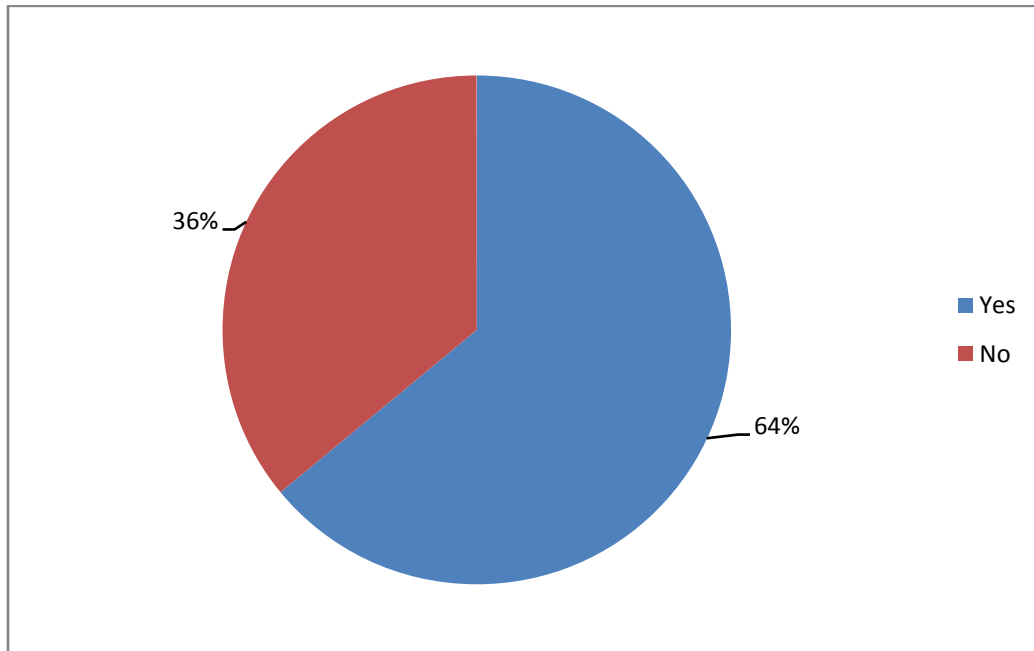


Source: Researcher 2013

According to the impact of external experts and suppliers on the business, 73% of the respondents who were the majority respondents cited that external experts and suppliers cannot impact the business better than internal employees while 27% the minority argued not at all.

#### 4.7.5 Networking Alliance Structures

Figure 4.17: Networking Alliance Structures



Source: Researcher 2013

According to the structures, 64% who were the majority respondents argued that structures offered a good networking alliance between trading partners or channel members and the enterprise while 36% cited not at all.

#### 4.8 Discussion

The study findings were in line with a study done by Mills (1995) on credit needs, it concurs that SME market is strategic but differ on methods of access to finance they adapt to reach these markets in that the organizational and operational factors had an impact in the growth of the business in provision of services, goods and market reach to a great extent in that the size had impact to a great extent, location of facilities influenced to a great extent, management structures had impact to a great extent, capital base influenced to a great extent and then the type or nature of business influenced to a moderate extent. In addition majority still argued that the turnover had impact to a moderate extent, layouts and work design had influence also to a moderate

extent, quality of products or services had influence to a great and then product capability had influence to a great extent.

According to the operational factors that had impact in the supply chain in the business, majority argued that transportation logistics had impact on speed. These findings correlated with Ogulin, (2008) findings in that SME's need to be more competitive in bidding for and winning tenders and delivering products, works and services on a sustainable basis . On the warehouse locations and layouts majority argued it had impact on the total cost. According to adoption of technology, majority of the respondents cited it had impact to quality of production. Majority of the respondents argued that SME's should consider the management of the overall activities of the organization, product quality and lastly time and cost of production to enhance their competitiveness for growth.

On the logistics of increasing revenues and market share and at the same time reducing any associated costs, majority argued that technology re-engineering of business processing outsourcing (BPO) contributed to increasing revenues and market share and at the same time reducing any associated costs the findings related to Saleh and Ndubisi (2006) for the results also proved that the political environment created numerous challenges for SME's to cope with. But generally, most SME's in many counties continued to face severe and numerous problems and challenges which inhibited their lateral growth

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECCOMEDATIONS**

### **5.1 Introduction**

This chapter covers the summary of findings, conclusion and findings of the study. The chapter is split into sections such as summary of findings, conclusion and recommendations.

### **5.2 Summary of findings**

The following were the summary of the research findings upon which the conclusion and recommendations of the study were made. The findings were summarized according to the specific objectives as follows.

Majority of the respondents cited that their businesses were in limited companies and they had operated in those businesses for a period of 3-5 years. Majority stated that their businesses had employed a total number of 11-49 employees. According to the type of business, majority of the respondents argued they operated as wholesalers and retailers.

On the operational challenges majority argued that the organizational and operational factors had an impact in the growth of the business in provision of services, goods and market reach to a great extent in that the size had impact to a great extent, location of facilities influenced to a great extent, management structures had impact to a great extent, capital base influenced to a great extent and then the type or nature of business influenced to a moderate extent. In addition majority still argued that the turnover had impact to a moderate extent, layouts and work design had influence also to a moderate extent, quality of products or services had influence to a great and then product capability had influence to a great extent. Lastly, majority argued that capacity planning and management had impact to a great extent, Supply chains had impact to a moderate extent, lean or just in time management systems influenced to a great extent and then technology applications also had impact to a great extent.

Majority of the respondents argued that all the above factors were almost equally very important to the growth of the business as they all greatly influenced the efficiency and effectiveness of the product/production/ service offering of the business.

According to the operational factors that had impact in the supply chain in the business, majority argued that transportation logistics had impact on speed. On the warehouse locations and layouts majority argued it had impact on the total cost. According to adoption of technology, majority of the respondents cited it had impact to quality of production. Majority of the respondents argued that SME's should consider the management of the overall activities of the organization, product quality and lastly time and cost of production to enhance their competitiveness for growth.

On the logistics of increasing revenues and market share and at the same time reducing any associated costs, majority argued that technology re-engineering of business processing outsourcing (BPO) contributed to increasing revenues and market share and at the same time reducing any associated costs. On capabilities in management of stocks and warehouses, majority of the respondents stated that they used Inventory quality, control and channel distribution through development of just in time (JIT) systems. Majority of the respondents indicated that there was pressure to increase quality dimensions through Total Quality Management (TQM) systems. On lead time, the majority cited that there was decrease in lead time (Time to market) through lean management systems. On the infrastructure logistics, majority argued that management structure had the greatest impact in the growth of the business.

According to the challenges encountered in designing appropriate structures, majority indicated that the great challenge was brought about by small sizes of firm hence owner managing through trial and error. On the use of internal or external personnel in the running of the business, majority cited they used internal personnel. According to the use of collaborative strategies, majority of the respondents cited that they used collaborative strategies by managing across teams. On to the impact of external experts and suppliers on the business, majority respondents cited that external experts and suppliers cannot impact the business better than internal employees. According to the structures, majority of the respondents argued that structures offered a good networking alliance between trading partners or channel members and the enterprise.

### **5.3 Conclusions**

The organizational and operational factors had an impact in the growth of the business in provision of services, goods and market reach to a great extent in that the size had impact to a

great extent, location of facilities influenced to a great extent, management structures had impact to a great extent, capital base influenced to a great extent and then the type or nature of business influenced to a moderate extent. The turnover had influence on operations to a moderate extent, layouts and work design had influence also to a moderate extent, quality of products or services had influence to a great and then product capability had influence to a great extent. Still on business operations, capacity planning and management had impact to a great extent, supply chains had impact to a moderate extent, lean or just in time management systems influenced to a great extent and then technology applications also had impact to a great extent.

Organizational factors affected the critical successful growth of the business to a great extent in that size and workforce concerns had impact to a moderate extent, product development and quality service had impact to a great extent, procurement and inventory management had impact to a great extent, poor management skills and lack of collaboration efforts had impact to a moderate extent, lack of planning had impact to a great extent, lack of capital and access to credit had impact to a great extent and lastly costly transportation systems and logistics had impact to a great extent. Technology re-engineering of business processing outsourcing (BPO) contributed to increasing revenues and market share and at the same time reducing any associated costs. On capabilities in management of stocks and warehouses, inventory quality, control and channel distribution through development of just in time (JIT) systems were used. There was pressure to increase quality dimensions through Total Quality Management (TQM) systems. There was decrease in lead time (Time to market) through lean management systems and also management structure had the greatest impact in the growth of the business.

On the impact of information communication and technology on the way business is conducted in the premises, efficiency of processes and cost reduction of operations had a lot of impact to the business. Benefits of technology within the business were that it increased profitability through turnover and sales quality. According to the challenges that have hindered adoption of technology in the business, high cost of equipment and software hindered adoption of technology in the business. Challenges that were encountered in designing appropriate structures included small sizes of firm hence owner managing through trial and error. Most of the SMEs used internal personnel. According to the use of collaborative strategies, most of the SMEs used

collaborative strategies by managing across teams. On to the impact of external experts and suppliers on the business, it was clear that external experts and suppliers cannot impact the business better than internal employees. Structures offered a good networking alliance between trading partners or channel members and the enterprise.

#### **5.4 Recommendations**

The management of the SMEs should ensure efficient and effective organizational and operational factors since they have impact in the growth of the business in provision of services, goods and market reach to a great extent. Still on the organizational and operational factors, the management should ensure an efficient location of facilities, efficient management structures and then an optimum capital base.

In addition the management of the SMEs should put in place high technology systems of business processing and outsourcing as it contribute to increasing revenues and market share and at the same time reducing any associated costs. The management should also put into place an effective mode of managing stocks and warehouses. It should upgrade inventory quality, control and channel distribution through development of high quality technology systems. To ensure high quality production on the SMEs there should be Total Quality Management (TQM) systems within the businesses. These would also help to reduce time and cost of production. To reduce the challenges brought about by communication methods within the SMEs, the management should ensure imposition of efficient information technology systems that would lead to efficiency of processes and cost reduction of operations in the business.

There should be creation of awareness on the benefits of use of lean systems; Just In Time Management Systems and Total Quality Management which are not used by most SMEs in Kisumu County despite the fact of having that capability in Management. Cost of Technology equipments should be lower to make it affordable and accessible to a majority of SME's. Proper training of Managers on management skills, structural and logistical capabilities are essential as SME's are as good as their management. Expansions of SMEs for creation of employment are critical as most of them use internal personnel in the running of their business. Absorption of human resource (labor) will go along way in mitigating the unemployment gap and create wealth for citizens. The research has not totally brought to light all the challenges facing SME'S in

Kisumu County for they are vast and cannot be explored within certain constraints i had to deal with during the study. Further research on these Operational challenges is advised.

### **5.5 Limitation of the Study**

There was no research or study without its own unique limitations, therefore the short comings of this research were:

There was reluctance and lack of cooperation on the part of the respondents in answering the questions in the questionnaire appropriately.

The fact that the method of study was through the use of questionnaires meant that it was mainly the opinion of the respondents that would elicit information; the sincerity of the respondents was not known or determined.

### **5.6 Suggested Areas for Further Research**

This study investigated the operational challenges in the growth of small and medium enterprises. More research should be carried out to find out the impact of both the operational and organizational factors to the financial performance of the small and medium enterprises in Kenya.



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**APPENDICES**

**Appendix I: Letter of Introduction**

.....

.....University

P. O. Box ....., Nairobi,

Kenya.

Dear Respondent

**REF: OPERATIONAL CHALLENGES IN THE GROWTH OF SMALL & MEDIUM ENTERPRISES IN KISUMU COUNTY, KENYA**

I am a Masters Student in ..... at.....University currently carrying out a research on operational challenges in the growth of small & medium enterprises in kisumu county, Kenya. The research is part of requirement for my program in the University.

Kindly fill the questionnaire as honestly as possible to enable this research to be successful. The information you give is needed purely for academic research and will be treated as confidential.

Your assistance and cooperation is highly appreciated. Thank you.

Yours truly

.....

## Appendix 11: Questionnaire

### Part A

1. Name of the SME :.....

Box Number [            ] Telephone [            ]

Office / facilities location:.....

Branches:.....

2. Ownership details

Sole proprietor [ 34% ] SACCO [ ] Limited company [ 63% ] tick as appropriate.

3. Designation:..... Departments:.....

4. No of years in operation:

Below One Yr [ ] 1- 2 Yrs [ ] 3-5 Yrs [ ]

6-10Yrs [ ] 11- 15Yrs [ ] Above15 Yrs [ ]

5. What is the total number of employees : Please tick as appropriate

Below 5 [ ] 5-10 [ ] 11-49 [ ] 50-100 [ ] Above100 [ ]

6. Type of business: ..... Please indicate.

7. Monthly Turnover kshs: ..... Please indicate.

### A. Operational challenges

1. Indicate whether the following organizational and operational factors have an impact in the growth of your business in provision of services, goods and market reach. Tick as appropriate. Use a scale where 1- no extent; 2- little extend; 3- moderate extent; 4- great extent 5-very great extent.

	1	2	3	4	5
Size					
Location of facilities					
Management structures					
Capital base					
Type or nature of business					
Turnover					
Layouts and work design					
Quality of products or services					
Production capability					
Capacity planning and Management					
Supply chains					
Lean or Just In Time management systems					
Technology applications					

2. To your knowledge, how do the above factors contribute to the efficiency and effectiveness of your product/production/ service offering? Briefly explain.

3. Which sources of competitive advantage for growth do the following operational factors impact in the supply chain in your business? Tick where applicable.

	Quality	Speed	Dependability	Flexibility	Cost
Transportation logistics					
Warehouse locations & layouts.					
Workforce coordination					
Adoption of Technology					
Production Processes					

4. What should SME's consider to improve their competitiveness for growth?

- i.
- ii.

5. To what extent is your business affected by the following external challenges? Use the scale where 1- To no extent; 2- To a little extent; 3- To a moderate extent; 4- To a great extent and 5 is to a very great extent

	1	2	3	4	5
Rigid regulatory environment					
Recession and other economic factors					
Political uncertainties					
Phase of Technological change					
Social factors					
Infrastructural development or lack of it					
High costs of energy					

6.The following are key organizational factors that contribute to the prosperity of SME’s. To what extent do these factors affect the critical successful growth of your business? Use the scale where 1- To no extent; 2- To a little extent; 3- To a moderate extent; 4- To a great extent and 5 is to a very great extent

	1	2	3	4	5
Lack of planning					
Poor management skills & lack of collaboration efforts					
Lack of capital & access to credit					
Size and workforce concerns					
Costly transportation systems & logistics					
Procurement & Inventory management					
Product development & Quality service					

### **B.Logistics Capability**

7.Which logistics capability does your SME’s concentrate on that contributes to growth in terms of increasing revenues and market share and at the same time reducing any associated costs?

- i. Transportation networks [ ]
- ii. Outsourcing third party logistics(3PL) [ ]
- iii. Warehousing inventory management systems [ ]
- iv. Technology Re-engineering of Business Processing Outsourcing (BPO) [ ]

8.Do your SME employ the following capabilities in management of stocks and warehouses?

- i. Inventory quality, control and channel distribution through development of Just In Time (JIT) systems. Yes [ ] No [ ]
- ii. Pressure to increase quality dimensions through Total Quality Management (TQM) systems. Yes [ ] No [ ]



- iii. Decrease lead times (Time to market) through Lean management systems.  
Yes [ ] No [ ]

9. Which of the following Logistics infrastructure has the most impact in the growth of your business? Tick as appropriate.

- i. Transport Networks [ ]  
ii. Management Structure [ ]  
iii. Technology systems [ ]  
iv. Inventory management [ ]

### **C.Information Communication Technology**

10. In what ways has information communication and technology fundamentally changed the way business is conducted in your premises? Tick as appropriate.

- i. Automation of services [ ]  
ii. Digitalization of data [ ]  
iii. Ease of internal / external communications media and feedback [ ]  
iv. Efficiency of processes and cost reduction of operations [ ]  
v. Tracking systems [ ]

11. What are some of the benefits of technology within your business?

- i. Increases innovativeness of products, service, and processes. [ ]  
ii. Increases production through optimal use of resources. [ ]  
iii. Increases performance through faster decision making. [ ]  
iv. Increases profitability through turnover and sales quality. [ ]  
v. Increases international trade through globalization leading to expansion, growth and survival [ ]

12. What are some of the challenges that have hindered adoption of Technology in your business? Tick as appropriate.

- i. Lack of Technical skills and knowledge. [ ]  
ii. Lack of managerial strategy and non collaboration. [ ]

iii.High cost of equipment and software. [ ]

iv.Lack of a fundamental policy on development of technology capabilities in the organization.[ ]

#### **D.Structure Capability**

13.What are the challenges encountered while designing appropriate structures in your business?

Tick as appropriate.

i. Lack of knowledge on governance and management systems. [ ]

ii. Small sizes of firm hence owner managing through trial & error. [ ]

iii. Lack of Company style and culture hence no need for structure. [ ]

iv. Lack of experiences on management structure capability. [ ]

14. Are you using internal or external personnel in the running of your business?

Internal [ ] External [ ]

15.Are you using collaborative strategies by managing across teams? Yes [ ] No [ ]

16. Do you believe external experts and suppliers can impact your business better than internal employees? Yes [ ] No [ ]

17.Do your structures offer a good networking alliance between trading partners or channel members and the enterprise? Yes [ ] No [ ]

**Thank you for your participation.**

### Appendix III: Sample after Random Stratification

<u>CODE</u>	<u>REGISTERED BUSINESSES</u>	<u>SAMPLE SIZE.</u>	<u>BUSINESS ACTIVITY</u>
110	603	29	Medium trader,shop or retail service
115	2658	130	Small trader,shop or retail service
120	39	2	Kiosk or temporally construction
195	1166	57	other wholesale/retail traders
220	11	1	Semi Permanent informal trader
305	37	2	Group transport company
310	17	1	Medium transport company
315	63	3	Small transport company
320	19	1	Independent transport operator
330	11	1	Medium petrol filling station
335	21	1	Small petrol filling station
360	45	2	Medium storage facility
365	90	4	Small storage facility
380	10	1	Small communication company
395	15	1	Other transport and storage
415	147	7	Small agricultural
495	10	1	Other agricultural &forestry
515	33	2	Medium lodge & restaurant

518	31	2	Small lodge & restaurant
524	32	2	Medium lodging house (class B/C)
527	61	3	Small lodging house (class B/C)
543	37	2	Medium rest with bar/membership
546	51	2	Small restaurant with bar
552	41	2	Medium eating house/snack bar
555	109	5	Small eating house /Snack bar
564	10	1	Medium traditional beer seller
567	166	8	Small traditional beer seller
610	48	2	Medium professional service firm
615	118	6	Small professional service firm
620	10	1	Independent technical operator
630	34	2	Medium financial services
635	15	1	Small financial services
695	877	43	Other professional/technical services
715	45	2	Medium private education institution
720	108	5	Small private educational facility
740	29	1	Health clinic
745	12	1	Traditional health services/herbalist
795	29	1	other education/ health facilities
815	19	1	Small industrial plant

825	135	7	Medium workshop/service repair
830	354	17	Small workshop/service repair
895	<u>18</u>	<u>1</u>	Other manufacturer/factory
<b>TOTALS</b>	<b><u>7384</u></b>	<b><u>364</u></b>	

#### **Appendix IV: Budget for Project Writing and Preparation**

ITEM	ESTIMATE(KSHS)
Developing proposal	10,000
Transport	8,000
Information and data gathering/collection	2,000
Data analysis	20,000
Editing	2,000
Printing and Binding	8,000
Labor	20,000
Miscellaneous	5,000
Total	75,000

**Appendix V: Time Frame/Schedule**

	<b>MONTHS/2013</b>						
<b>ACTIVITIES</b>	January	February	March	April	May	June	July
Collecting information and developing a research topic	■	■					
Writing and developing research proposal		■	■	■			
Correcting and typing research proposal			■	■	■		
Collecting and analyzing data						■	
Writing the research report, typing ,corrections and editing						■	■
Binding report for submission						■	■