

EFFECTS OF STRATEGY DEVELOPMENT ON SUSTAINABILITY OF SME'S IN THIKA TOWN

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Abstract- The small and micro enterprises (SMEs) play an important role in the Kenyan economy, they are the sources of innovation in products, technology and services, provide a competitive check on existing firms, contribute to industries where optimal size is small and create jobs in formal and informal sectors..SMEs play a fundamental role in the economy, but despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation. This study aimed at examining the effects of strategy development on sustainability of Smes in Kenya while using Thika town as a case study. Kaplan and Norton (1992) Balanced Scorecard was adopted to create and test measures of sustainability appropriate to SMEs, Porters five forces of competitive position was also adopted. Data was collected from 50 small and Micro-enterprises within Thika town. The results showed that competition, financial resources, government regulations and entrepreneurial skills affect strategy development of SMEs. Majority of the SMES felt that high cost of business licenses, lack of sufficient capital, Changes in customer expectations and competition from existing and new competitors is are aspects that have an effect on sustainability of SMES.

Index Terms- SMEs, Strategy, Sustainability, Enterprises.

I. INTRODUCTION

Small Micro-Entrepreneurs have grown tremendously both in size and number playing a vital role in the development of transitional economies. According to Ministry of Trade survey of 2009, Kenya has about 1.6 million registered SMEs constituting 96% of all registered enterprises in the country. The small businesses employ about 75% of the total labour force and contribute to 20% of Kenya Gross Domestic Product (Nalo, 2008)

According to the Economic Survey (2006), the sector contributed over 50% of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007).Based on this statistics, the government Kenya has initiated efforts to encourage the development of small enterprises. This culminated in a national strategy for small enterprise development (Government of Kenya, 2006) that became an official government policy in2006. SMEs have the capacity to achieve rapid economic growth, while generating a considerable extent of employment opportunities (Reddy, 2001). SMEs create about 85 percent of Kenya's employment (African Economic Outlook, 2011 report).While the subsector constitutes close to 85 percent of employment, it only contributes about 20 percent of the total

GDP. This implies dismal performance of the subsector. The development trajectory of the subsector thus requires a system which holistically fosters SME development. More policy initiatives definitions towards revitalizing the SME sub-sector should not only be government engineered, but also enjoy the input of all stakeholders in all sectors of development. The effort from both private and public sector towards reinforcing the existent SME policy provisions is highly recommended based on the fact that all appear to recognize the SMEs' critical role in spurring not only self sustenance but also the country's economic boom. Thika town is one of the fast growing industrial towns whose businesses have been closing down during its infant stages and its location is to the proximity of the researcher. This study therefore sought to explore the effects of strategy development on sustainability of SMEs.

2. LITERATURE REVIEW

According to the (Kenya National Baseline Survey,1999) SME refers to any business in the private sector, which employs up to 50 employees. Small and medium business research represents a vast field of study that incorporates many disciplines from the social sciences in addition to business and thus adds to the complexity of undertaking research in this area (Giroux, 2008; Curran and Blackburn 2001). The study will be guided by two models and one theory that include;

Balance Score Card Model of measuring performance of firms developed by Kaplan and Norton is used to assess performance of firms in three perspectives: Consumer perspective, internal process, financial and innovation and learning perspectives.

Michael Porter's famous Five Forces of Competitive Position model provides a simple perspective for assessing and analyzing the competitive strength and position of a business regarding market entrants, Competitive rivalry, Supplier power, buyer power and product and technology development.

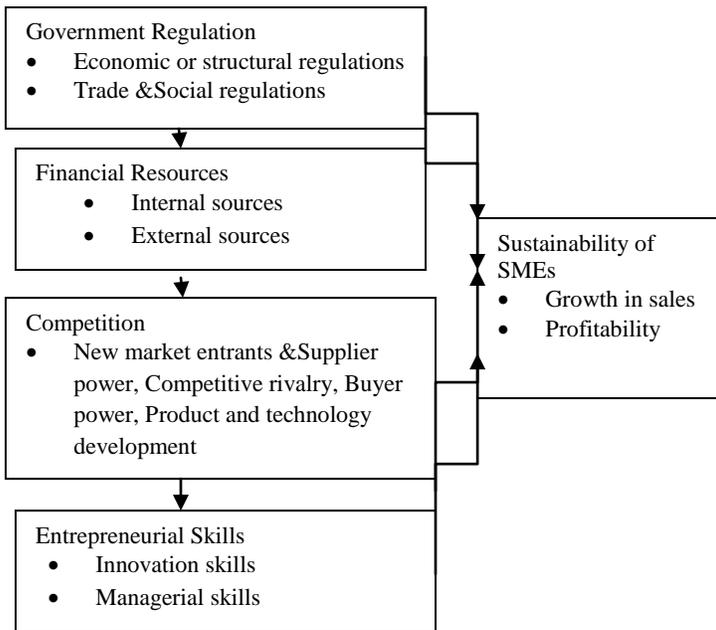
Ducker's Theory of Entrepreneurship considers entrepreneurship to be based on the same principles, whether the entrepreneur is an existing large institution or an individual starting. The rules are pretty much the same. These entrepreneurial skills include managerial and innovative skills.

2.1 Research objectives.

1. To examine how government regulations affect sustainability of SMEs in Thika town.
2. To determine how financial resources affect sustainability of SMEs in Thika town.
3. To examine how competition affect sustainability of SMEs in Thika town.

4. To establish how entrepreneurial skills influence sustainability of SMEs in Thika Town.

2.2 Conceptual framework



2.3 Sustainability of SMEs

If a micro entrepreneur is able to maintain the business without affecting the quality of the product/service, with consistency in increasing turnover and profitability, such an attribute is called sustainability. Business sustainability requires firms to adhere to the principles of sustainable development (Delmar et al.2003) According to the World Council for Economic Development (WCED), sustainable development is development that “meets the needs of the present without compromising the ability of future generations to meet their own needs.” So, for industrial development to be sustainable, it must address important issues at the macro level, such as: economic efficiency (innovation, prosperity, and productivity), social equity (poverty, community, health and wellness, human rights) and environmental accountability (climate change, land use, biodiversity).

2.4 Methodology

The study adopted a survey research design. This is a systematic process of gathering information from a sample of respondents for the purpose of understanding and predicting some aspects of the behaviour of the population of interest (Mugenda and Mugenda 2006).

The survey design is important for the following reasons;

1. It provides broad capability of comparison which ensures a more accurate sample to gather targeted results in which to draw conclusions and make important decisions.
2. It describes the characteristics of a large population because the population involved was relatively large.

50 questionnaires were distributed,45 were found to be flawless and used for the study.

3. RESULTS AND FINDINGS

The findings indicate that majority of the Smes in Thika town are affected by the government regulations put in place by the government. The costs of obtaining business licences is high to any struggling Sme, many government agencies have come up with different operational licenses that makes the licences too many and costly to acquire. Smes are also finding it hard to register their businesses due to the many requirements required to register the businesses. This study therefore concludes that the governments need to be sensitive enough to pass and ensure that regulations placed on operating an SME does not hinder its growth rather it should promote growth of such industries. These findings are also supported by Masurel (2007) who argues that legislation and the desire to provide safe working conditions as the major motivating factors for SMEs to invest in improved sustainability performance

According to the views of the SMEs, financial resources were found to have an effect on the sustainability of SMEs. This is true as majority of the participants strongly agreed with every statement in table 4.3 below. For instance, a majority of 70%, n=35 strongly agreed that rent charged on business premises affected SME sustainability, 80%, n=40 strongly agreed that lack of capital also had the same effect and most importantly, all the SME operators 100%, n=50 unanimously agreed that access to bank and private loans affect the sustainability of SMEs. It is therefore clear that every aspect of financial availability and access to capital greatly influences sustainability of SMEs in Thika town. the main aspect of competition that influence sustainability of SMEs was the ability of competitors to access credit as this gives them a competitive advantage and forces other SMEs to close due to lack of customers as all the 100%, n=50 of the SME operators observed, aggressive advertisement by competitors (80%, n=40), well established businesses (60%, n=30), product diversification (56%, n=28), better human resource management by competitors (80%, n=40) were also some of the aspects of competition that the operators believed influenced sustainability of their business. Lastly, another aim of this research was to evaluate the influence of entrepreneurial skills on the sustainability of SMEs in Thika town and the findings showed that all the SME operators agreed that different aspects of entrepreneurial skills in Thika town influenced the sustainability of SMEs.

3.1 Model Summary

Based on the findings of this study, as shown in table 4.7 other factors held constant, government regulations, financial resources, competition and entrepreneurial skills influence sustainability of SMEs in Thika town by 68.9% as represented by the adjusted R² in table below 4.7. This shows that there are other variables not studied that affect sustainability of SMEs in the study area by 31.1%.

Table 1: Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
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1	.845 ^a	.715	.689	.71001
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3.2 Results of analysis of variance

Analysis of variance as in table 4.6 indicates a significance value of 0.001 which is less than 0.05% thus there was a significant relationship between the four independent variables under study and the sustainability of SMEs in Thika town. The F calculated value for the study at 95% confidence level is 128.186 also indicating a statistical significant relationship between variables under study. This indicates that there is a significant relationship between sustainably of SMEs and the four variables studied.

Table 2: Anova

Model	Sum of squares	Df	Mean square	F	sig
Regression	56.835	49	14.209	128.186	.001 ^a

4. Conclusion

It is therefore my conclusion that all matters investigated in this study which are government regulations, financial resources, competition and entrepreneurial skills influence sustainability of SMEs in Thika town. Based on the results, effective entrepreneurship skills is necessary for entrepreneurs to manage and sustain their businesses. Also government regulations imposed on SMEs hinder their growth instead of supporting their existence they become too costly for SMEs to afford. Effective competition can either build or bring an SME down, in this case SMEs are being affected by ineffective competition. For growth and expansion of any SME the study reveals that finances are the backbone of their growth and expansion.

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