

Contents

LESSON TWO.....	2
1. BUSINESS ENVIRONMENT.....	2
1.1. Learning Objectives.....	2
1.2. Introduction.....	2
1.3. Meaning of Business Environment.....	2
1.4. Importance of Business Environment.....	3
2. CLASSIFICATION OF BUSINESS ENVIRONMENT.....	4
2.1. Micro Environment.....	4
2.2. Macro environment.....	5
2.3. Internal/ Immediate environment.....	11
3. EMERGING ISSUES IN BUSINESS ENVIRONMENT.....	12
4. DEFINITION OF MICRO SMALL AND MEDIUM ENTERPRISES.....	17
5. CHALLENGES FACED BY SME's IN KENYA.....	17
6. GOVERNMENT EFFORT TOWARD ENHANCING SMES GROWTH IN KENYA.....	19
7. SAMPLE QUESTIONS.....	21

LESSON TWO

1. BUSINESS ENVIRONMENT

1.1.Learning Objectives

1. Understand components of environment.
2. Recognize the importance of analyzing each of these components of the environment
3. Analyze the elements of entrepreneurial culture and the cultural habits that promote entrepreneurship development
4. Discuss common reasons why small businesses fail
5. Outline Government strategies in supporting the SME sector.

1.2.Introduction

Understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. For an enterprise to be competitive every entrepreneur has to scan the environment and prepare the business in line with the forces surrounding it. The entrepreneur has to formulate and implement a value creating strategy. This strategy has to put into considerations the external environment where the new venture will be housed. To survive in this environment an entrepreneur has to come up with a strategy that is sustainable and competitive in the market. This sustainable competitive advantage has a window depending on the speed with which competitors are able to duplicate or substitute your product or service.

Because, the environmental factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies. Hence it is important to learn about the various components of the business environment. In this chapter, we shall learn about the concept of business environment, why small businesses fail and government strategies in supporting the SME sector. The three key environments that influence the development of an organization include:

- i. The micro environment
- ii. The macro environment
- iii. The organization's immediate environment.

1.3.Meaning of Business Environment

Business environment can be defined as the surround of a business. It includes all those things that lie outside the business but can greatly affect its operations and people's decision to buy or not to buy products.

As stated earlier, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the colour television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

1.4. Importance of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.

As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- a) **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.
- b) **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- c) **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

- d) **Image Building:** Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.
- e) **Meeting Competition:** It helps the firms to analyze the competitors' strategies and formulate their own strategies accordingly.
- f) **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

2. CLASSIFICATION OF BUSINESS ENVIRONMENT

2.1. Micro Environment

Consists of forces close to the company which affect its ability to serve its customers. The major components of this environment include the customers, competition, labour, suppliers and international issues.

- a) **Customers-** It reflects the characteristics and behavior of those who buy what the firm provides. Developing such profiles help management generate ideas on who are the customers and how to improve customer acceptance of organizational goods and services
- b) **Competitors-** These are firms whom you target the same customer. The purpose of competitive analysis is to help map out who are your competitors and appreciate their strengths, weaknesses, opportunities and threats and also predict what strategies they are likely to adopt.
- c) **Labour-** This influences supply of workers available to undertake organizational tasks. The focus area is skills levels, trainability, desired wage rate and average age of potential workers are important to the operation of the organization.
- d) **Supplier-** Includes all variable related to those who provide resources for the organization. The focus area is how many vendors offer specific resources for sale, the quality offered, the reliability of deliveries, credit terms are important in managing an organization effectively and efficiently.
- e) **International-** Comprises of all factors related to international implications of organizational operations. These include laws, political practices, culture, and economic environment that prevail in the foreign countries.

2.2.Macro environment

Consist of larger societal forces that affect the whole micro environment. These include political, economical, social – cultural, technological, ecological/ environmental/ ethical and legal factors (PESTEL)

a) Legal Environment

It is made up of laws used by government to regulate the business activities and behavior as well as the process by which the laws are enforced. The laws of the country regulate the business practice in a country, the manner in which business transactions are executed and regulations involved in any parties.

1. Elements of Legal Environment

- i. The law of contracts
- ii. The law of employment
- iii. The law of property rights eg. Intellectual property
- iv. The permit to trade in particular business
- v. The building laws
- vi. Reporting requirement related to taxation
- vii. The local government policies and by laws
- viii. The Company's Act
- ix. The Cooperative Act

2. Problems on Laws and Regulations affecting SMEs

- i. Discriminatory regulations
- ii. Too many regulations to observe
- iii. Harassments by local officials an regulations enforcers
- iv. Too many licenses
- v. Regulation introduces excessive paper work
- vi. Enforcers and entrepreneurs are not aware on applicable regulations
- vii. Business contracts cannot be enforced
- viii. Many fees and taxes to pay
- ix. Lengthy process of business registration

3. Mitigating Strategies

- i. Formation of associations to lobby on behalf of the entrepreneurs.
- ii. Attend workshops and training for awareness creation

- iii. Buy in bulk to cut down on cost

b) Ethical Environment

It's concerned with moral principles and values which govern beliefs actions and decisions.

1. Evidence Of Ethical Behaviour

- i. High standard of integrity
- ii. Confidence
- iii. Confidentiality and accuracy of the information
- iv. Modest hospitality
- v. Gift packs are of small value
- vi. Quality
- vii. Concern for the environment.

2. Benefits of Ethical Business Conduct

- i. Maintain clients
- ii. Improved company image
- iii. Reputation is enhanced
- iv. Quality is upheld
- v. Gives business competitive edge
- vi. Ability to comply with the laws of the land
- vii. Efficient use of resources
- viii. Increased profitability

c) Economic Environment

It consists of factors that affect consumers' purchasing power and spending patterns.

1. Elements of economic environment

- i. Inflation- an increase in prices of goods and services without a corresponding increase in output.
- ii. Money supply-quantity of money in circulation which is controlled by central bank.
- iii. Interest rates- rate charged by commercial banks on the money that it lends
- iv. Exchange rates and controls- exchange of one's country currency with another determined by supply and demand for currency.
- v. Import and export control.
- vi. Taxes - tax is compulsory payment by individuals to the state so that the state can provide the necessary services.

- vii. Subsidies- incentives which are given to encourage production of a good or a service.
- viii. Gross Domestic Product (GDP)- Total value of goods and services produced in a country in one year.
- ix. Income levels- Per capita income and distribution. Spending habits of the people.

2. Factors Affecting the Economic Environment

- i. State of the economy
- ii. Government policies
- iii. Climatic conditions
- iv. Good infrastructure development
- v. Good laws and regulations
- vi. Distribution of income in the country
- vii. Government incentives those given to entrepreneurs
- viii. Taste and preferences
- ix. Political stability
- x. Security
- xi. Income of the people that affect purchasing power
- xii. Social cultural factors

3. Mitigating Strategies

- i. Look for new markets
- ii. Form trade associations like Jua Kali Association.
- iii. Source for cheaper sources of raw material
- iv. Embrace appropriate technology for production, distribution and marketing

d) Social – Cultural Environment

Cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences and behaviors'. People grow up in a particular society that shapes their basic beliefs and values.

1. Elements of Social Cultural Environment

- i. Social factors e.g. Family, religion, social roles, and status, reference groups
- ii. Cultural factors- values, beliefs, customs, lifestyle
- iii. Social – class- the class one belongs to.

2. Importance of Social Cultural Environment

- i. Determines customer needs
- ii. One's lifestyle determines the type of business
- iii. Change in lifestyle determines customer needs
- iv. The social roles and status affect one's behavior.
- v. Identify who makes decisions on what is bought in the family to target in the marketing effort
- vi. Status of the people determines the business type
- vii. Status of the people will affect pricing strategy.

e) Entrepreneurial Culture

Culture is a set of values, perceptions, attitudes, beliefs, customs, and behaviors' shared by members of a group or society.

It is also a collective programming of the mind which distinguishes the member of one group or category of the people from another.

Entrepreneurial culture is a way of embracing the concept of finding new opportunities in business and gathering the necessary resources to fill the opportunity.

Why the **Entrepreneurial culture**

- i. It enhances economic growth
- ii. It enhances job creation
- iii. It acts as a primary source of innovation
- iv. It has direct influence on internalization in terms of technology, human development, capital and information flow.

1. Cultural Habits that Promote Entrepreneurial Development

- i. Money orientation- This person knows the value of money and knows how to make money.
- ii. Future orientation- A society that has foresight of the future, they forego the immediate profit or satisfaction in favour of large future rewards.
- iii. Time consciousness- Knows the right time to undertake an entrepreneurial activity and uses time wisely.
- iv. Work ethics- a culture that values honesty is important because customers stick in a business because of the trust.
- v. Hard work- This distinguishes between successful and un successful entrepreneurs.

- vi. Social status – A culture that accords social ranks based on achievement and not by circumstances of birth. For example the caste system in India where people are divided into classes.
- vii. Ideal competition- Flourishes under a climate of competition that stimulates better ways of doing things and the customer benefits.
- viii. Reward- appreciates humble beginning and reward those who achieve as a result of hard work

2. Factors That Inhibit Entrepreneurial Development

- i. Religion- It controls behavior. Some Christians will not engage in entrepreneurial activities
- ii. Language- It may pose a communication barrier.
- iii. Personal Relationships- Married people may not engage in some entrepreneurial activities due to family commitments.
- iv. Attitude towards innovation- Some cultures are not aware of the importance of innovation towards entrepreneurial development. Others resist change for fear of losing the status quo hence inhibiting entrepreneurship.
- v. Networks- Lack of proper networks that will provide necessary information to start, run and manage a business.
- vi. Technology- It limits entrepreneurship development because many people have not acquired technical skills and knowledge to handle emerging technologies.
- vii. Beliefs- Beliefs in the existence of all powerful forces that control all destinies tend to hinder entrepreneurial development.
- viii. Mentality- Believing that imported goods are better than locally produced goods hence killing creativity.
- ix. Extended family issues- Family members wanting free things and unlimited credit breeding laziness and hinders entrepreneurship.
- x. Child rearing practices- An authoritative way of bringing up children discourages the children from taking up initiatives, exploring their surroundings and asking questions.

f) Technological Environment

It's found in various forms both small and large business, service and manufacturing sector, state institutions, educational institutions, multinational organizations.

- i. Technology is the ways and means of production

- ii. Application of scientific knowledge in production

1. Strategies to Cope with Technological Environment

- i. Mergers and acquisitions
- ii. Reduction of labour force
- iii. Reduction in capital investment
- iv. Employment of skilled labour
- v. Training of employees in emerging technology

g) Political Environment

It's concerned with policies pursued by Government.

1. Components of Political Environment

- i. Political stability
- ii. Political system e.g. capitalism, socialism and market economy
- iii. Political climate being favourable
- iv. Policies pursued by Government
- v. Political risk
- vi. The Acts of Parliament and by-laws

2. Significance of Political Environment to a Business

- i. Helps a business determine where to locate, sell through an agent in a given country
- ii. Financial assistance given to entrepreneurs determined by political environment
- iii. Good environment leads to more investment in the country
- iv. Trade unions can influence Government policies, terms and conditions of employment, wages and salaries
- v. Can influence tastes and preferences of people e.g. importation of certain products
- vi. Political stability may lead to increased production and increased GDP
- vii. Restrictions of importation of some goods may reduce competition in the local market
- viii. Can determine strategies to be used by entrepreneurs in their businesses

3. Coping with Political Issues

- i. Forming associations to lobby Government on policy issues
- ii. Supporting Government of the day on its initiatives
- iii. Tax planning
- iv. Mergers and acquisitions

- v. Retrenchment of employees

h) Physical Environment

1. Components of Physical Environment

- i. Infrastructure within the firm
- ii. Layout plan of the firm
- iii. The temperatures
- iv. Noise, light and vibration
- v. Weather
- vi. Climatic forces

2. Effects of Physical Environment

- i. Determine the location of the business
- ii. Determine the type of business to be located in a certain place
- iii. Determine if business performance will be affected by the layout of the business
- iv. Locate the business near the sources of supply
- v. Identify if noise, lighting, vibration can affect productivity of employees
- vi. Determine if the workplace layout can lead to accidents
- vii. Determine the organization structure

3. Coping with Effects of Physical Environment

- i. Use alternative technology or power.
- ii. Relocate business near the sources of supply
- iii. Design a good layout to avoid accidents and minimize costs
- iv. Locate the business in designated places
- v. Should observe safety rules in the factories

i) Ecological Environment

Ecological relates to the rules and regulations that concern the environment. Issues covered include; pollution, waste disposal, recycling of useable materials and protection of wildlife and wildlife preserved areas, workplace safety and hazards and the general quality of life. An entrepreneur needs ecological information due to sustainable development of his business which has to do with meeting the needs of the present generation without compromising the needs of the future generation.

2.3. Internal/ Immediate environment

The level of an organization's environment which exists inside the organization has immediate implications for managing the organization.

1. Components of Internal Environment

- i. Organization aspect- communication network, organization structure, record of success, objectives , policies, procedures, rules and ability of management team
- ii. Personal aspect- labour relations, recruitment practices, training programs, performance appraisal system, incentive systems, labour turnover
- iii. Market aspect- market segmentation, product strategy, pricing strategy, promotion strategy and distribution strategy
- iv. Production aspect- plant facility layout, research and development, use of technology, purchasing of raw materials, inventory control and use of subcontracting
- v. Financial aspect- liquidity, profitability and investment opportunity

2. Significance of internal environment

- i. Enhances efficiency within the firm
- ii. Enhances profitability of the firm
- iii. Firm achieves stipulated goals and objectives
- iv. Firm can diversify to other markets increasing its sales
- v. Increase in sales turnover
- vi. Workers are motivated
- vii. Firm is able to recruit the best personnel
- viii. Through segmentation, a firm can improve its sales by focusing on a particular market segment

3. EMERGING ISSUES IN BUSINESS ENVIRONMENT

The business environment since a couple of decades has witnessed a radical change mainly due to rapid development in transportation and communication network, innovation of new knowledge, globalization of business, a combination of multi-cultured professionals and so on. Therefore, managers must be able to adjust to the new emerging challenges. The following are the major challenges for the management:

a) Growing Urban Population

The United Nations predicts that urban populations will grow by 72% in 2050. This growth will mainly happen in African and Asian countries and the rural population will fuel this growth. In developed countries, current infrastructure will not be enough to keep up with this growth and in emerging

economies new cities will form. Cities will want to use data and cloud technology to help promote efficient city management and communication.

There are two implications as a result of rapid urban growth. The first implication is that megacities (cities with more than 10 million residents) will have more influence on nations due to their size and constituent voting power. The second is that as these cities grow there will be a greater demand for resources to build infrastructure, educate residence, provide security and promote employment opportunities.

b) Global Warming

Companies have noticed that the climate is changing because of the rise in extreme weather and sea levels. This change is making it harder for traditional farming and creating a greater demand of resources. Companies are already thinking about responses to this trend. For example, Coca-Cola sees water scarcity in the future as a threat to its sustainability. This threat has caused Coca-Cola to initiate an initiative to restore the US watershed by returning water to the National Forest System. Weather changes and population growth both drive resource scarcity. The National Intelligence Council predicts that by 2030 we'll need 50% more energy, 40% more water and 35% more food.

Due to these changes we are likely to see an increase in regulation directed towards conservation and sustainability. We should also see an increase in conflicts around the world as access to resources is decreased. These changes will make securing resources through collaboration all the more fundamental and we could also see new industries being developed and existing ones transforming.

c) Demographic Changes

Populations are growing older in developed countries while other countries are experiencing an increase in their overall growth rate. This change will affect the labor force making it more difficult for companies to acquire talent in developed countries. Almost two-thirds of CEOs are concerned that there are not enough skilled laborers to meet demand. Over 90% of companies are changing the way they attract and retain employees.

The implications of this demographic change are that governments may have to increase taxes in order to care for the elderly and companies may have to revise their business models due to an increase in pension costs. Workers may also have to improve their skills or learn new ones in order to stay competitive in the job market.

d) Emerging Markets Gain Power

Over the past few hundred years, the West has been the economic powerhouse. Now developing countries, are gaining more influence due to increases in population, exports, and innovation. As these countries trade and invest within themselves, we are likely to see them grow at a more rapid rate. India and China could see large increases in their middle classes. This poses a great opportunity for car manufactures. $\frac{3}{4}$ of Americans own vehicles while only about 2% in India and 6% in China own at least one vehicle.

This shift in economic power may create more competition on a global scale while reducing the influence of Western markets. This could make talent and businesses seek opportunities abroad placing established markets at a disadvantage for growth. Western governments may notice large companies leaving to settle in emerging markets in order to gain a tax break. This could cause governments to lower taxes in order to keep large companies from moving abroad.

e) Advances in Technology

New technological developments are creating totally new industries. These breakthroughs have come from advances in new technology, research and development, and mobile technology. Companies are tackling with these changes by attempting to anticipate how they will affect consumer trends.

The implications for advances in technology are that there will be fewer barriers for virtual businesses, thus creating more competition; and the ability to force and use this technology will be a necessity instead of just an advantage.

f) Globalization

The introduction of the network in transportation, communication, and economic interdependency has tied the people of the world together and causing the globe to shrink. Any quality product or service produced in one part of a country can easily reach all parts of the world without any restriction or barriers. Especially, multinational companies are global players in business not only to survive but also to run proper business operation. Globalization brings the concept of keen competition among the entrepreneurs of the world. Therefore, present managers have to work by considering the global perspective. They must be innovative and adjustable according to the changing environment.

g) Development of Environmentalism

Environmental issues are major issues in management these days. These issues involve deforestation, global warming, depletion of ozone layer, toxic waste, and pollution of land, air, and water. These environmental issues may not be a matter of interest to an enterprise, especially in developing countries. But, these matters draw the attention of different social, business and political institutions. The

mainstreams of politicians and social activists around the world have picked up the environmental banners.

The green movement has spread in Europe, North America and other parts of the world to maintain the environmental ecology. Therefore, the present managers have the challenge to develop creative ways to make a profit without harming the environment in the process of production.

h) Quality and Productivity

Quality and productivity are also emerging issues of the business world in the present scenario. In the past, many managers assumed that they could increase output only by decreasing quality. However, present managers have come to the conclusion that such an assumption is almost always wrong. They have recognized that quality and productivity are inter-related to each other. The introduction of quality enhancement program provides broadly three positive results to the management. Firstly, the number of defects will be decreased causing the low return of defects from customers. Secondly, when the number of defects goes down, the involvement of resources to rework on the defectives will decrease resulting in minimized wastage of resources. Thirdly, when employees become responsible for maintaining quality, it reduces the need for quality inspectors as a result of which efficiency and effectiveness of the organization will improve. The maximization of productivity ultimately minimizes per unit cost of output.

i) Ethics and Responsibility

Ethics and social responsibility have become growing concerns for managers today. Ethics is an individual's personal beliefs about what constitute right and wrong. It is developed through family, experience, personal values and morals, and situational factors. The most vital ethical concern of modern managers is to know how an organization treats employees, how employees treat the organization and also how the organization treats other economic agents like customers, competitors, suppliers, unions etc. It is a part of the managerial function to use leadership, culture, training, codes and guidelines to help employees and other economic agents to maintain ethical behavior, which is ever changing.

Although the concept of social responsibility has developed from the entrepreneurial era, more stress is being given in present times. Social responsibility is the set of obligations that an organization has to fulfill towards the society.

j) Workforce Diversity

Workforce diversity is an increasing trend in the organization because of change in population dimension. There are several dimensions of diversification; however, the important ones are age, gender, and ethnicity. The overall age of the workforce is increasing. Similarly, more women are also getting involved in the workplace. The diversification in the workforce can affect an organization differently. From one angle, it can be the source of cost advantage, the source of resource acquisition, marketing, creativity, problem solving and system of flexibility. From another angle, it could be a source of conflict in an organization.

k) Innovation and Change

The innovation of new knowledge to fulfill the expectations of stakeholders is increasing day by day. It has become a fact of everyday life for everyone in business operation. At present, management change is a critical challenge to the competitors, customers, employees, suppliers, and lenders. It is an important responsibility of managers to handle such change in a scientific and practical way. They have to improve the quality of products and service to fulfill the changing need of customers. Besides, managers can use a variety of tools to harmonize the working environment of the organization like an implementation of the reward system, development of entrepreneurship, and organization culture.

l) Knowledge Management

In this competitive environment, knowledge has become power. The society expects new ideas, new things, and creativity in product or service from any organization. To fulfill such social expectations, the manager has to accumulate knowledge and ideas from all members involved in the organization. A model manager must be flexible to manage knowledge and should also consider the situational factor.

m) COVID-19 Pandemic

This pandemic affects both health and economic sectors. It has affected the way business is being done. Businesses cannot perform existing contractual obligations, crisis's on existing employment relationship, crises on the operations of businesses in Kenya. This has lead to downsizing or total closure of businesses especially private schools. Hotels air travel.

4. DEFINITION OF MICRO SMALL AND MEDIUM ENTERPRISES

Micro enterprise is any firm, trade, service, industry or a business activity, formal or informal that has an annual turnover that does not exceed Kenya Shillings 500,000 and employing (or rather engaging) 1-9 people. The total assets and financial investment or the registered capital of the enterprise does not exceed Ksh 10 million in the manufacturing sector and does not exceed Ksh 5 million the service and farming sector.

Small enterprise is any firm, trade, service, industry or business activities that post an annual turnover of between Ksh500, 000 and Ksh5 million and have an employee list of 10 to 50. In the manufacturing sector, investment in plant and machinery should be between Ksh 10 million and Ksh 50 million and registered capital of the enterprise between Ksh 5 million and Ksh 25 million in the service and farming sector.

Medium enterprise is therefore a firm that employs between 51-100 employees and a capital investment of not more than Kshs 30 million

Kenya like other developing countries, the economy is driven by SMEs constituting 98% of all businesses in Kenya, contributing 30% of jobs annually and 3% of the GDP

Most SME's are in the informal sector, common known as Jua Kali sector

5. CHALLENGES FACED BY SME's IN KENYA

1. Lending institutions are reluctant to lending to the sector especially at the inception stage
2. Limited market access, poor infrastructure
3. Inadequate knowledge, skills and
4. Corruption and other unfavorable regulatory environment
5. Lack of adequate managerial training
6. Rapid changes in technology
7. Lack of entrepreneurial skills
8. New laws and regulations
9. Competition from large firms
10. Bureaucratic procedures in business registration

11. High taxes

Despite the high failure rate of SME's the sector enjoys many advantages namely:

1. Contribution to the economy in terms of output of goods and services;
2. Creation of jobs at relatively low capital cost
3. Provide a vehicle for reducing income disparities
4. Develop a pool of skilled and semi-skilled workers as a basis for the future industrial expansion;
5. Improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy
6. Provide opportunities for developing and adapting appropriate technological approaches
7. Offer an excellent breeding ground for entrepreneurial and managerial talent
8. SMEs are believed to be the engine room for the development of any economy because they form the bulk of business activities in a growing economy
9. They are vehicles for poverty reduction
10. Access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings,
11. Facilitates stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration,
12. Enhances standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them.
13. Promotes the use of local raw materials requiring simple technology leading to use of local resources

14. They are closer to their clients
15. They are more flexible because of their small size and simple structures, ease in adopting change giving them the advantage of getting closer to their customer, known variation in the market way ahead.
16. Can easily detect and take advantage of small market niches
17. Make decision faster
18. Their small size makes it possible for them to know each other
19. Easier and faster to communicate.

Due to the small nature of SMEs poses challenges to their growth and existence. They face the following disadvantages;

- Finding funds is more difficult for them
- Due to the small employee number they may limit them in reaching a large number of customers and retain them
- Their cost are higher
- It is not easy for them to endure long period of crisis
- Low bargaining power with suppliers and clients
- Access less talent
- Have difficulty in accessing technology
- Lack of time to plan future projects
- Lack of skills
- Information overload
- Lack of direction and planning
- Working in the Business rather than Working on the Business
- Lack of creativity and Innovation
- Trying to do it alone – no successor
- Poor marketing

6. GOVERNMENT EFFORT TOWARD ENHANCING SMES GROWTH IN KENYA

For SME sector to grow there is need for the sector to adequately strengthen itself and come up with solid solutions that can be implemented. Despite the fact that there are certain self-advanced strategies

that can be adopted by the sector itself, there are also external efforts that can still be made (and are being made).

a) Ministry of Finance Role

The proposal to set up a revolving fund to provide low interest loans to Small and Medium enterprises should be a wake-up call to banks to lend on easier terms. This year's Kenya's budget hit Ksh 1 trillion mark. This budget incorporated SMEs factor as a move towards revitalizing the sector. However this is still a small amount by all means. With an estimated population of 40 million, were a trillion to be divided equally, each Kenyan should get about Sh.25,000. This is well above what an average worker gets in wages per month or profits from the Small and Micro Enterprises (SMEs) for which the Ministry extended a Sh3.8 billion credit line. Under the theme "towards inclusive and Sustainability Rapid Economic Development" the 2010 Budget set an ambitious target of spurring growth in every part of the country. The move by the government to support growth in SMEs sector is a new re-awakening based on what can be viewed as a gradual realization of the inherent potentials in the sector in spurring economic growth.

b) Efforts from CDF Kitty

Established in 2003 through the CDF Act in The Kenya Gazette Supplement No. 107, the fund was aimed at supporting constituency-level, grass-root development projects. The aim of CDF is to achieve equitable distribution of development resources across regions, a thorny issue that often threatens to stretch the Kenyan socio-ethnic fabric to its limits. Despite the controversy surrounding the misappropriation of the kitty, there are certain milestones that have been covered in rural development. Improvement of infrastructure and the undertaking of various other projects that have been under the CDF support has contributed to some extent to the growth of Small and Medium Enterprises in rural areas.

c) Stimulating SME Environment through Networking

A networking strategy can improve SMEs' position. When organized in networks or when they operate through professional organizations, SMEs can reap benefits on multiple levels. Certain organizations have been in the fore line in facilitating networks and partnerships in SME sector. For instance, UNIDO has played a key role in assisting business networks from various SMEs sectors and provided direct

assistance to professional organizations in Africa. In order to facilitate access to finance by these networking of SMEs, UNIDO partnered with local banks and credit associations and a new scheme providing mutual guarantee funds for the SME sector was developed. This scheme will provide loans at suitable conditions for projects in the manufacturing sector. SME networking, technical assistance and financial services need a conducive local environment to reap maximum benefits for SMEs. This is why the project has mobilized multi-stakeholder working groups (including local government, private sector representatives and civil society organizations), reinforced their managerial and technical competence, and entrusted them to coordinate the development of future joint initiatives. (UNIDO 2002).

d) Policy Approach

Policies should aim to encourage and promote the development of local technologies. Emphasis should be on the promotion of the local tool industry to reduce reliance on imports. SMEs are said to face a “liability of smallness.” Because of their size and resource limitations, they are unable to develop new technologies or to make vital changes in existing ones. Still, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for SMEs to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided. (Wanjohi, 2009). Policy initiatives in revitalizing the SME sub-sector should not be only government engineered, but all the stakeholders in development arena should take frontline.

e) Covid-19 Pandemic

Government is currently putting in place to support SMEs in dealing with the COVID pandemic effects on business. Such measures are tax relief, restructuring loans with financial / non financial institutions among others.

Conclusion

If Kenya wants a strong economy and a great future, the following key points require appropriate attention. Financial Rescue package to address SME funding issues, equipping entrepreneurs with technical and business skills, friendly investment climate, fighting the COVID epidemic and above all, implementation of sound SMEs policies. This is not all that there is to change the SME sector. It is a process that require critical measures being undertaken by all the sectors of development. This is a must for realization of an integral growth in the sub-sector.

7. SAMPLE QUESTIONS

1. After weeks of scanning the environment, Kamau has come up with an innovative business idea. He is eager to start the business immediately. However, a friend of his advised him to carefully analyze the idea before starting the business. Examine the benefits behind the advice offered to Kamau in new business start-ups.
2. Explain the challenges Kenyan entrepreneurs will have to deal with after the COVID 19 pandemic.
3. Jack Wright supply meat and meat products to numerous supermarkets in the city of Nakuru. They have won these tenders to supply these supermarkets for many years. Explain to Jack Wright on the government support services available.