A REVIEW OF SMEs STRATEGIC PLANNING FOR GROWTH AND SUSTAINABILITY IN KENYA: ISSUES AND CHALLENGES A review of SMEs strategic planning for growth and sustainability in Kenya: Issues and challenges

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ABSTRACT

As the world economy continues to move towards increased integration, some of the greatest opportunities for Small-to-Medium Sized Enterprises (SMEs) will derive from their ability to participate in the global marketplace while sustainably increasing their competitiveness. It is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However, there are considerable doubts about the quality of strategic planning and management in this very crucial economic development sector with policy-makers suggesting that there are particular weaknesses in innovation, a lack of financial acumen, marketing, entrepreneurial flair, practical planning and management knowledge, and human resource management. As a result, many firms do not reach their full potential and fail to grow. The present paper will therefore seek to employ exploratory desktop review to determine the SME Business development in Kenya with particular reference to Strategic Planning for SMEs Growth and Sustainability. The paper will in digging into the issue of Strategic Planning for SMEs, look into aspects such as SME Business Control Structure, Significance and Benefits of Strategic Planning for SMEs and show cause why SMEs fail to carry out Strategic Planning.

Key Words: SMEs, Global Marketplace, Competitiveness, Strategic Planning, Business Control, and Entrepreneurship

Introduction

As the world economy continues to move towards increased integration, some of the greatest opportunities for Small-to-Medium Sized Enterprises (SMEs) will derive from their ability to participate in the global marketplace while sustainably increasing their competitiveness. It is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However, there are considerable doubts about the quality of strategic planning and management in this very crucial economic

development sector with policy-makers suggesting that there are particular weaknesses in innovation, a lack of financial acumen, marketing, entrepreneurial flair, practical planning and management knowledge, and human resource management. As a result, many firms do not reach their full potential and fail to grow.

As in any country, SMEs do contribute to economic growth. However, there are challenges and opportunities that they face. This article reviews SMEs Strategic Planning issues and challenges affecting SMEs growth and sustainability in Kenya. Main areas to be included in the discussion are SMEs in the Agri-business sector, SMEs within the Manufacturing and Jua Kali sector, SMEs in the Information, Communication and Technology Sector and SMEs in the Transport Sector.

It is clear that as the world economy continues to move toward increased integration because of advances in communications technology, growth in developing countries, and reductions in trade barriers, some of the greatest opportunities for small businesses will derive from their ability to participate in the global marketplace (Alvarez, 1999). Within the developed and developing countries of the world, it is now generally accepted by policy-makers at local, regional and national level, that small to- medium sized enterprises (SMEs) are becoming increasingly important in terms of employment, wealth creation and the development of innovation (Nieman, Hough and Nieuwenhuizen, 2003; Vesper, Boden, and Roman in Carland, Carland and Ciptono, 1999).

On the other hand, there are considerable doubts about the quality of management in this sector, with policy-makers suggesting that there are particular weaknesses in innovation, lack of financial acumen, marketing, entrepreneurial flair, practical knowledge, values and psychological disposition of the entrepreneurs, and human resource management (Hodgetts and Kuratko, 1995). As a result, many firms do not reach their full potential and fail to grow, resulting in lost jobs and wealth for their region in which they are based.

A closer look at the organizational life cycle theory models reveals that there are between three to five stages that most organizations will go through. The Churchill and Lewis model (Timmons, 1990) suggests that four critical stages exist in the life of a SME where the stages are determined by the length of time the firm has been operative. Churchill and Lewis (Timmons, 1990) estimate the duration of each stage to be as follows: Stage 1 is the start-up phase and is 0-3 years in duration; Stage 2 is the growth phase and is 4-6 years in duration; Stage 3 is the maturity phase and is 6-9 years in duration; and Stage 4 being the stability phase is approximately 10+ years in duration. Coupled to each of these stages is a different set of business characteristics, challenges, managerial abilities and entrepreneurial needs that small businesses will have to face (Kuratko and Hodgetts, 1995).

Storey (2000) noted that politicians around the globe have, over the past decade, emphasized the importance of small enterprises as mechanisms for job creation, innovation, and the long-term

growth and development of economies. However, the media coverage in the European economy on business, in general, contains over 95% of column space for large businesses even though, in the European economy 95% of all firms are in fact small and provide more than half of all jobs in Europe, yet little media coverage is afforded to these entities. To this end, the Kenya Government has not been left behind in the clamor for a more structure, vibrant, resource-rich and self-endearing SME sector. The Kenya Government is committed to seeing a more vibrant and fast growing SME sector, that is increasingly self-sustaining and able to create opportunities for social and economic growth. This commitment is contained in the Economic Pillar of the Kenya Vision 2030.

The Kenya Vision 2030 is the new country's development blueprint covering the period 2008 to 2030 (NESC, 2009). It aims at making Kenya a newly industrializing, middle income country providing high quality life for all its citizens by the year 2030 (GoK, 2009). The Vision has been developed through an all-inclusive stakeholder consultative process, involving Kenyans from all parts of the country. The vision is based on three pillars namely: the economic pillar, the social pillar and the political pillar (NESC, 2009). This vision's programme plan comes after the successful implementation of the **Economic Recovery Strategy for Wealth and Employment Creation**.

The economic pillar aims at providing prosperity to all Kenyans through an economic development programme aimed at achieving an average Gross Domestic Product (GDP) growth rate of 10 % per annum the next 25 years (GoK, 2009). The social pillar seeks to build a just and cohesive society with social equity. The political pillar aims at realizing a democratic political system founded on issue-based politics that respects the rule of law, and protects the rights and freedoms of every individual in the Kenyan society (NESC, 2009).

While reading the Budget Speech for the Fiscal Year 2010/2011, the then Minister for Finance, Hon. Uhuru Kenyatta proposed the establishment of a Sh3.8 billion Revolving Fund whose objective was to encourage the growth of micro and small enterprises (MSEs) to enable this important sub-sector to support industrialization, employment creation and economic growth. More importantly, the creation of the Fund was also aimed at enlisting the partnership of commercial banks to lower lending rates and cost of borrowing in general. Consequently, the Fund for Inclusion of the Informal Sector (FIIS), also known as the SME Fund, was launched on March 14, 2011. The funds were disbursed to the participating banks on June 24, 2011. The three banks, selected through a competitive tender process (Equity Bank, Cooperative Bank of Kenya and K-Rep Bank) signed agreements committing to lend the funds in line with the objectives.

The Government recognizes the critical role that small and micro enterprises play in the development agenda. The Government also acknowledges that a significant barrier to the growth of MSEs, most of which are owned by the youth, is access to affordable credit and lack of basic minimum requirements needed by commercial banks in order to lend to the SMEs. Financial exclusion arising from lack of credit access and cost challenges eclipses the potential in SMEs to grow their businesses. The SME Fund, therefore, aimed to meet the twin objective of addressing