

**CHALLENGES FACING BUSINESS LINKAGES BETWEEN SMALL AND MEDIUM ENTERPRISES AND MOBILE TELEPHONE COMPANIES IN KENYA.**

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**ABSTRACT**

The SME sector in Kenya is faced with many challenges and constraints including linkages with large enterprises. Business linkages give SMEs the opportunity to participate as suppliers, distributors or retailers in commercial value chains which can help increase local job and wealth creation, enhance skills and capacity, add purchasing power and generally stimulate economic activity and development-contributing in the process, to quality of life. Despite the critical roles played by the business linkages in distributor SMEs in the mobile telephone industry in Kenya, they have been experiencing challenges leading to low- performance or non-compliance with agreed terms. The study aimed to explore the challenges facing business linkages between SMEs and Mobile telephone companies in Kenya. The study used a descriptive research design to ascertain and be able to describe the characteristics of the variables of interest in a situation. Descriptive design helped in collection of qualitative and quantitative data to determine challenges facing business linkages between SMEs and Mobile telephone companies in Kenya. The population of this study was 164 Small and Medium enterprises. Fisher formula and simple random sampling technique were used to select the sample size of 114 respondents. Self-administered questionnaire were used to collect primary data. Quantitative data collected was analyzed by the use of descriptive statistics means, standard deviations and frequencies. Qualitative data was analyzed using content analysis and presented in prose form. Inferential statistics correlation and regression were conducted to establish the relationship between challenges facing SMEs and business linkages between SMEs and Mobile telephone companies in Kenya. The study revealed that failure by SMEs to understand the technological market, ineffective network among the SMEs, poor intra-organizational as well as inter-organizational skills; small size of the market, low market technology and lack of knowledge on target market hinders enterprise linkage ability. Lack of information on market products, poor market accessibility and customer contacts also hinder SMEs linkages. The study concludes that business linkages between SMEs and mobile phone companies constraints due to lack of skills, technology and finance as well as a high costs incurred. The study concludes that engagement of mobile phone with local SMEs is a salutary lesson for SMEs that there is an onus on SMEs that want the access to expertise, access to markets, especially international markets, and access to technology. Firms have to take responsibility for them to take advantage of the benefits of business linkages and aim at achieving standards. Linkages with other firms help SMEs to learn new and better production methods and can help to increase SME employment.

Recommendation to management in organizations on the challenges related to the lack of accessibility of funds, market capacities, information and the cost are simplified as follows. SMEs should be encouraged to enter into closer relationships with large mobile phone companies as they can have the potential of having effective business linkages. Recognizing that access to finance is a perennial problem for SMEs business linkages, the firm's management needs to seek out better ways to have access to fund to the existing business linkage. Developing a strategy to face the challenge of SMEs business linkages is important to win contracts and when they do have difficulties sustaining acceptable performance levels is achieved.

**Keywords:** *Business Linkages, Small And Medium Enterprise, Mobile Telephone Companies in Kenya.*

### Introduction

SMEs have been noted to play a significant role in promoting economic growth in Less Developed Countries, developing and developed countries (Hayton, 2005). It is often argued that governments should promote SMEs because of their greater economic benefits compared to large firms (Hallberg, 2000). Research by the World Bank and United Nations has shown that the expansion of employment and entrepreneurial opportunities is the single most important pathway out of poverty. The SMEs can thus raise their productivity and employment levels by upgrading and integrating into broader production networks and value chains (Nelson, Ishikawa and Geaneotes, 2009).

SMEs can also serve as an impetus for economic diversification through their development of new and unsaturated sectors of the economy (Gatt, 2012). They play an important role in the Kenyan Economy. The sector contributed over 50 percent 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 (Bowen, Morara and Mureithi, 2009).

Business Linkages between large and small companies, defined as channels through which enterprises influence each other's economic performance, are crucial to the success of a market economy the so-called "spillovers" of know-how and technology from foreign-invested enterprises to the SME sector is often one of the main benefits of linkages to development. If the linkages between the two categories of enterprises are strengthened, the benefits of direct investment in the host economy will most likely be boosted as well (OECD, 2005). Linkages can be perceived as either a part of a wider network of social relationships, or more specifically as

interaction between individuals and organizations (McCormick and Atieno, 2002). Linkages can be classified into contracts, collaborations, contacts, and associations.

This study, with its emphasis mainly on economic/business relationships, focuses on linkages between firms rather than linkages constituting a wider network of social relations. Both theoretical and empirical evidence suggests that specific social relations are among the factors that affect economic activities (Longenecker, Petty, Moore, & Palich, 2006). In developing countries, business linkages between large firms and SMEs include procurement, distribution and sales. These relationships can allow large firms to reduce input costs while increasing specialization and flexibility. They can also increase local integration and rooting providing access to local knowledge and spurring growth and development in the local SME sector, bringing about positive social and economic impacts in the wider community (Jenkins, Akhalkatsi, Roberts and Gardiner, 2007).

SMEs, in general are constrained in terms of infrastructural sources such as technology, finances, marketing and human resources, gender inequality, limited access to information and limited linkages with large enterprises, among others (Republic of Kenya, 2005). The ability of SMEs to compete in the global market depends on their access to these resources and those SMEs which have better access to these infrastructural resources are able to exhibit better economic performance (Jenkins *et al*, 2007). In the past few years, the Information and Technology Sector has emerged as a steadily growing contributor to the Kenyan economy. Since 2000, the sector has outperformed all other in the Kenyan economy, growing on average by approximately 20% annually (World Bank Economic Update, 2010).

According to Kenya's communications regulator in their Quarterly Sector Statistics Report (June 2012), Kenya has a mobile penetration of 75.4% in October, 2012. This figure is significantly higher than the African average of 65% (Peachey and Roe, 2004). The mobile industry has experienced explosive growth in a relatively short time, Coverage has expanded and mobile phone subscriptions in developing countries have increased by over 500% since 2000 (Gray, 2007).

According to Communications Commission of Kenya (2013) as at March 2013 the four mobile operators namely Safaricom Ltd, Airtel, Essar-Yu and Orange had a market share of 65.1%,

16.9%, 10.9% and 7.1% respectively. This study looks at the challenges that are faced by SMEs in their Business linkages with the mobile telephone companies in Kenya which are Safaricom ltd, Airtel, Essar telecom (Yu mobile) and Orange. It will focus on the distribution side of the business linkages as we look at SME distributor's linkages with the mobile companies in a very important and growing mobile telephony industry.

### Statement of the Problem

The SME sector in Kenya is faced with many challenges and constraints including business linkages with large enterprises (RoK, 2005). As clearly stated in the sessional paper No. 2 of 2005, linkages between SMEs and large enterprises in Kenya are either weak or non-existent leading to inadequate technological transfer and development, poor information flow, weak sub contracting arrangements and inadequate marketing opportunities to promote expansion and growth of SMEs. Business linkages give SMEs the opportunity to participate as suppliers, distributors or retailers in commercial value chains which can help increase local job and wealth creation, enhance skills and capacity, add purchasing power and generally stimulate economic activity and development-contributing in the process, to quality of life (Jenkins and Ishikiwa ,2009). Although the Kenyan mobile telephone industry is steadily growing, the business linkages between the large companies and SMEs in this sector face great challenges as it accounts for only 15 percent of success in the industry (Olive, 2010).

The SMEs in the mobile telephony sector in Kenya have experienced failure with a loss of 12% of the total income due to constraint in networks (CCK, 2010). The low level of success of the SMEs has been attributed to lack of effective linkages decisions made by the SMEs management (Maxfield, 2007). Despite the critical roles played by the business linkages in distributor SMEs in the mobile telephone industry, they have been experiencing challenges leading to low-performance or non-compliance with agreed terms (Matinde, 2012).

With an increase of about 2.5 million subscribers yearly, there is a critical need for SMEs distributors to maintain effective business linkages with the mobile telephone companies to improve growth. Linkages are very important to the Kenyan economy as they create employment for Kenyans and business opportunities for SMEs (Gatt, 2012). This study therefore sought to establish the challenges being faced by distributor SMEs in their business linkages with mobile telephone companies in Kenya namely Safaricom ltd, Airtel, Yu mobile and Orange.

### Objectives of the Study

#### General Objective

The study sought to explore the challenges facing business linkages between SMEs and Mobile telephone companies in Kenya.

### Specific Objectives

- i. To determine the extent to which accessibility of funds affects business linkages between SMEs and Mobile telephone companies in Kenya.
- ii. To establish the extent to which information accessibility affects business linkages between SMEs and Mobile telephone companies in Kenya.
- iii. To explore how marketing capacity affects business linkages between SMEs and Mobile telephone companies in Kenya.
- iv. To assess how costs of linkages affects business linkages between SMEs and Mobile telephone companies in Kenya.

### Literature Review

#### The Resource Based Theory

Resource based theorists contend that the assets and resources owned by companies may explain the differences in performance. Resources may be tangible or intangible and are harnessed into strengths and weaknesses by companies and in so doing lead to competitive advantage. Fletschner and Kenney (2011) noted that the resource-based view seeks to bridge the gap between the theories of internal capability of the firm on one hand and external competitive strategies on the other. It treats organizations as potential creators of valued capabilities and postulates that the assets and resources of the firm have to be viewed from a knowledge-based perspective (Cole, Sampson & Zia, 2009).

Resources are either property-based or knowledge-based (Wiklund and Shepherd, 2004). In this respect, property-based resources are tradable and non-specific to the firm while knowledge-based resources are the ways in which firms combine and transform tangible input resources. Therefore, knowledge-based resources may be important in providing sustainable competitive advantage (Croson and Gneezy, 2008). Age and education are two common sources of knowledge-based resources, which influence access to credit (Cutura, 2007). Other, sources of knowledge-based resources that have the potential to influence access to credit include family

business history, entrepreneurial experience, industry specific know-how, training and social capital (Lore, 2007). This theory investigated the effect of accessibility to funds on business linkages between SMEs and mobile telephone companies.

### Decision Theory

Decision theory in its classical form focuses on choices individuals make among options, which typically are payments to be received subject to uncertainty and at different points in the future. For example, an individual may have to choose among an earlier and smaller payment and a later, larger payment. Or he may have to choose between a sure amount (say the payment of 45 dollars for sure) or a random payment, called a lottery, (say the payment of 100 dollars with 50 per cent probability, and zero with the complementary probability). Combinations of these two basic components are possible: an individual may have to choose between two lotteries at two different points in time. The preferences of an individual over options like the ones we described are summarized by a utility function, which assigns a single number to each option; the individual chooses the option with the largest number (Aldo *et al*, 2012).

Decision Theory identifies the essential elements determining behavior as two attitudes, one towards decision making under uncertainty and the other towards the allocation over time of rewards and penalties. When specific functional forms are assumed for an individual's utility, that individual is completely described by a risk aversion level and a discount factor. Extensions of the simple theory, like Prospect Theory or the theory of ambiguity aversion, increase the number of parameters and the complexity of the representation of preferences, but the basic structure is unchanged (Maxfield, 2007). This theory guides the study in knowing and understanding the concept behind making of decisions in regards to accessing the credit facilities by women entrepreneur. The theory explains how entrepreneurs are hindered from information accessibility in the market.

### Social Capital Theory

The evolution of social capital section revealed that there appears to be consensus on the intellectual history of the concept and although there was controversy over the first use of the term, there now appears to be an agreement on this point. Different authors see the role and value

of the contemporary authors work on social capital differently. There is presently no commonly agreed definition of social capital however many authors stress the importance of basing the operationalization and conceptualization of the concept on a thorough definition (Maxfield, 2007).

Several influential studies have suggested that social capital's roots are buried in centuries of cultural evolution (Fukuyama 1995; Putnam et al. 1993). Other investigators suggest that social capital can be created in the short term to support political and economic development (Tandler and Freedheim 1994). Aldridge, Halpern et al (2002) suggested that the main determinants of social capital include history and culture; whether social structures are flat or hierarchical; the family education the built environment, residential mobility, economic inequalities and social class, the strength and characteristics of civil society and patterns of individual consumption and personal values.

Pantoja (1999) identified a different set again including family and kinship connections, wider social networks of associational life covers the full range of formal and informal horizontal arrangements networks, political society, institutional and policy framework which includes the formal rules and norms that regulate public life, social norms and values. The majority of these claims originates in applied theory and stem from much work done on other concepts such as network analysis, civic society, cultural studies, education, psychology, and many others. Even where empirical research has been performed, the findings have questionable validity.

### Transaction Cost Theory

Transaction cost theory has proven an essential framework for decisions on the vertical boundaries of a firm. Transaction costs are the costs associated to the division of work. Wang (2004), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins. Variables that describe a transaction are, among others, the specificity, the uncertainty, and the frequency of the transaction, whether an asset or a service is only or much more valuable in the context of a specific transaction (Kauffmann, 2005).

According to Tanabe & Watanabe (2005) goods and services are of a high specificity, if the supply is limited and unique and if there is no comparability. A threat to breach the contract can be seen as untrustworthy, since there is no alternative. A lock-in of one transaction party leads to a hold up. Low specificity exists, if there is a range of homogeneous services or goods and supply are secured. Since goods or services are comparable and competition exists, there is no pricing problem. Furthermore, high competition may imply motivation and quality (Stevenson and St-Onge, 2005). For organization to effectively achieve success in distribution linkages, the firm incurs transaction costs. Hence theory of cost of transaction forms a critical foundation in investigating challenge facing firm in distribution linkages.

### Empirical Review

The distribution process includes the physical handling and distribution of goods, passage of title and the buying and selling negotiations between producers and middlemen and between middlemen and consumers (Fletschner, Anderson & Cullen, 2010). In the theory of marketing mix, place (distribution) determines where the product will be sold and how it will get there. Gray, (2007) hold that distribution channels evolved through the utilization of national resources contained within an area of trade. A study carried out by the International Labour Organization (ILO), for example, put access to finance as the major obstacle facing SME intermediaries in the mobile telephone industry.

Moreover, SMEs have limited access to formal sources of credit and other economic resources and therefore, there is a shared view among proponents of financial market that with proper access to such a financial resource, SME intermediaries are more likely to discharge their roles and responsibilities more effectively (Brau and Woller, 2004). Hashemi, Schuler and Riley (2006) identified key components to be important in analyzing the business success of SMEs which includes the characteristics of the entrepreneurs; the characteristics of the SMEs; and the contextual elements of SME development.

Langowitz, and Minniti, (2007) made a cross national intersectional study of the key success factors of 152 SMEs in Singapore and 164 SMEs in Australia. Wole, (2009) carried out a follow-up study of 37 new manufacturing firms in Ethiopia and studied the determinants of the future success of the firm in the short term and in the long term. Langowitz and Minniti (2007) explored the importance of a set of success factors by studying a sample of 300 small



manufacturing firms in Japan. Ledgerwood (2009) investigated the effect of various management practices on small firm performance by studying 369 small businesses in the retail, service, and manufacturing industry in Australia.

Studied distribution planning and financial performance of small mature firms in the dry cleaning business and found that distribution planning in successful high-growth small firms. Lawrence (2005) explored the relationship between market orientation and the performance of manufacturing SMEs in eight industry sectors. Kapunda (2007), in a study on factors affecting the performance of female owned SMEs, found that SMEs had difficulties in raising the necessary finance, as well as in competing and accessing markets when compared with their male counterparts. The study also observed that the other challenges faced by SMEs included on-payment of outstanding accounts by clients, stiff competition and lack of market for their goods or services. McAdam and Kelly (2002), in a study of factors which contribute to the perceived success or failure of SMEs in Botswana, reported that human resource development, managerial background and organizational development had significant influence on the performance of SMEs.

The study also found relationships between the Perceived Critical Success/Failure Factors (PCSFs) and some firm specific demographic variables such as ownership status, experience and operating period. Jorosi (2006), in a study that investigated the information needs and information seeking behaviour of SME managers in the manufacturing sector in Botswana, found that SME managers valued customer and competition information. Managers devoted a significant amount of time to actively seek information on customers and competition. Their information sources were largely determined by availability and ease of use, and the managers used both personal and impersonal sources of information.

Mansor and Mat (2010), based on a study of 436 SMEs business establishments in the state of Terengganu in Malaysia, observed that environmental factors influence linkages in SME's' involvement in entrepreneurship include access to credit markets, experience, availability of technically skilled labour force, market access, and government regulations. SMEs intermediaries are observed to be constrained in their access to formal financial credit as they are perceived to be risky borrowers due to lack of adequate collateral.

Mattsson, and Wallenberg (2003) found that limited access to markets remains a severe constraint to SME intermediaries growth and competitiveness in developing countries owing to a shrinking domestic market due to globalization. Limited access to market information makes SMEs less aware of opportunities in the market. SMEs face difficulties accessing markets due to limited market information, poor marketing capacity and poor market research leading to a discrepancy between the supply and demand. According to Rao, Kreighbaum, Hawes, Jon (2003) the importance of ICT to SMEs cannot be undermined. Failure by SMEs in mobile telephone industry to adopt and implement advanced development in technology will have a negative impact on enterprise performance and eventually the financial institutions may fail to fund the business operations.

### Data Analysis/Findings

#### Regression analysis

The study sought to determine the extent to which challenges facing SMEs in telecommunication industry affected SMEs business linkage.

**Table 4. 1 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. Change	F
1	.821(a)	.674	.669	0.05	0.923	6	1.701	3.39	.01(a)	3

a Predictors: (Constant) Accessibility of funds, Information accessibility, Marketing capacities and Cost of Business Linkage

Dependent: Business linkages

From the table 4.13, R is the square root of R-Squared and is the correlation between the observed and predicted values of dependent variable implying that there was association of 0.821 between business linkages and challenges facing business linkages between SMEs and big companies. Adjusted R<sup>2</sup> in Table 4.12 is called the coefficient of determination which indicates

how the business linkages varied with variation in challenges affecting business linkages small and Medium Enterprises linkages which includes accessibility of funds, information accessibility, marketing capacities and cost of business linkage. From table 4.12, the value of adjusted  $R^2$  is 0.682. This implies that, there was a variation of 68.2% of challenges facing business linkages between small and Medium Enterprises and mobile phone companies at a confidence level of 95%. This clearly indicated that accessibility of funds, information accessibility, marketing capacities and cost affected business linkage among SMEs in mobile telecommunication industry.

#### ANOVA (b)

**Table 4.2 : ANOVA (b)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.1741	15	.207	5.191	0.01(a)
	Residual	5.2487	67	.059		
	Total	6.4228	82			

a Predictors: (Constant) Accessibility of funds, Information accessibility, Marketing capacities and Cost of Business Linkage

Dependent: Challenges of business linkages

The Total variance (6.4228) was the difference into the variance which can be explained by the independent variables (Model) and the variance which was not explained by the independent variables (Error). Table 4.15 shows F-test ( $F=5.191$ ,  $P=0.01 < 0.05$ ) which indicated that the model formed between factors affecting linkages and SME linkages level was a good fit for the data. The strength of variation of the predictor values challenges linkages in SMEs in telecommunication industry was significant at  $P= 0.01 < 0.05$ .

## Coefficients (a)

Table 4. 3 : Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.456	0.000		2.445	.001
	Accessibility of funds	-.534	0.593	-.632	2.712	0.003
	Information accessibility	-.768	0.890	-.723	.2.211	0.002
	Marketing capacities	-.345	0.542	-.461	1.859	0.001
	Cost of Business Linkage	-.821	.476	-.879	1.437	0.001

a Predictors: (Constant), Accessibility of funds, Information accessibility, Marketing capacities and Cost of Business Linkage

b Dependent Variable: Challenges of business linkages

The established regression equation was;

$$Y = 1.456 - .534X_1 - .768X_2 - 0.345X_3 - .821X_4 + \epsilon$$

Where: Y= Challenges of Small and Medium Enterprises linkages,  $X_1$ = Accessibility of funds,  $X_2$ = Information accessibility,  $X_3$ = Marketing capacities,  $X_4$ = Cost of Business Linkage and  $\epsilon$  = Error Term

The findings in Table 4.16 indicated that business linkages between small and medium enterprises and mobile phone companies would be at 1.456 holding challenges facing business linkages accessibility of funds, information accessibility, marketing capacities and cost of business linkage constant at zero. The study established that increase in inaccessibility of funds significantly affected business linkages between small and medium enterprises and mobile phones companies ( $r = -.534$ ,  $p = 0.003 < 0.05$ ).

The results in Table 4.16 on information accessibility, the study found that a unit increase in lack information accessibility would significantly affects business linkages small and medium enterprises and mobile phones companies ( $r = -.768$ ,  $p = 0.002 < 0.05$ ). From the regression results in Table 4.14 on market capabilities, the study found that there was market incapability significantly affected business linkages small and medium enterprises and mobile phones companies ( $r = -.345$ ,  $p = 0.001 < 0.05$ ). This implied that market incapability facing SMEs in telecommunication industry affects their linkages with mobile companies to a great extent.

Limited access to market information makes SMEs less aware of opportunities in the market. The findings concurred with Mattsson, and Wallenberg (2003) who found that SMEs face difficulties accessing markets due to limited market information, poor marketing capacity and poor market research leading to a discrepancy between the supply and demand

From the regression results in Table 4.14 on cost of business linkage, the study found that high cost of establishing business linkages significantly affected SMEs linkages with mobile phones companies ( $r = -.821$ ,  $p = 0.004 < 0.05$ ). This clearly indicated that inaccessibility of funds, lack of information accessibility, unimproved marketing capacities and high cost of business linkages constrained the business linkages between small and medium enterprises in telecommunication industry and the mobile phones companies.

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