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## The Impact of Remote Working on the Profitability of Small and Medium-Sized Enterprises in Nairobi City County

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### Abstract

The practicality of remote working in small and medium-sized enterprises that make up the bulk of Kenyan businesses and employ a significant proportion of the population is yet to be extensively researched on. This study examined the impact of remote working on the profitability of small and medium-sized businesses in Nairobi City County using an experimental research design. Primary and secondary qualitative and quantitative data were collected using a questionnaire and from business records and analysed for mean and variance to determine whether remote working does indeed impact small and medium-sized enterprises' profitability. A comparison of any changes in the profitability variables between businesses which implemented remote working and those which did not informed whether remote working has an impact on profitability. The study revealed a growing trend of remote working among Nairobi's SMEs, with the majority offering this option, predominantly through hybrid models. In conclusion, remote work offered both opportunities and challenges for SMEs in Nairobi. Its success hinged on addressing technological limitations, fostering clear communication, and ensuring adequate support for remote workers. The study recommended that SME managers invest in reliable technology infrastructure, offer training and support for employees, and establish clear expectations and communication channels.

**Key words:** *Remote Work, Small and Medium Enterprises, Profitability, Kenya*

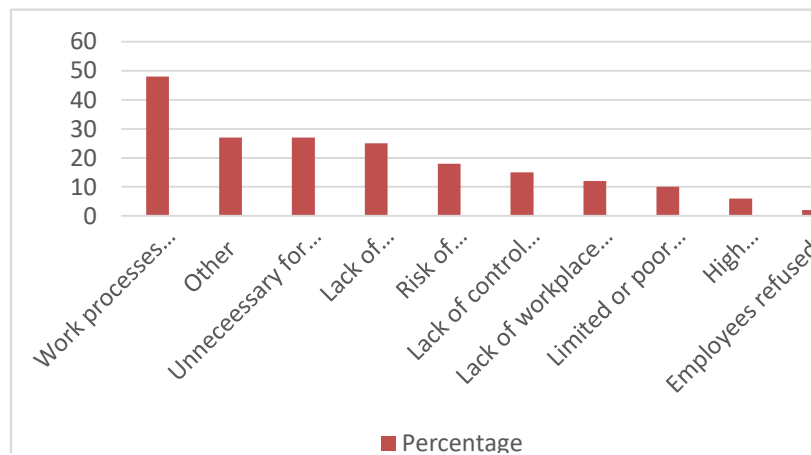
### 1. Introduction

The development of employment policies at the National and County Government levels is a dynamic and continuous process, which requires empirical data to inform policy review and encourage adoption of changes. Potential policy implications brought about by the study include the implementation of remote working as a formally recognized workplace policy by the Ministry of Labour and Social Protection. This will go a long way in ensuring that employees working in SMEs that adopt the model are not exploited through skewed working hours or exploitative remuneration. Supportive infrastructure including better access to remote work-enabling technology and communication capability through the Ministry of Information Communications and Technology, Innovation and Youth Affairs is a further potential policy implication from the findings of this study.

The feasibility of adopting remote working based on the nature of the business in question is an important consideration point. Ideally, service-based SMEs would benefit greatly from remote working since there is no physical stock that requires looking after and selling. This makes such businesses naturally suited to adopt remote working. This study intends to examine the applicability of remote working across different business types, gauging its success based on their profitability over time.

#### 1.1 Remote Working Adoption among SMEs

The uptake of remote working in Kenya was driven largely by the onset of the pandemic and as such, most reasons for its adoption were related to COVID-19. An average of 29% of Kenyan employees was able to work remotely owing to public health regulations (ILO & FKE, 2022). Among the reasons provided by employers for the unwillingness to take up remote working are presented in Figure 1.



**Fig.1: Remote Working Non-Uptake Reasons in Kenya**  
 Source: International Labour Office, 2022

### 1.2 Profitability levels of small and medium-sized enterprises

In Kenya, 7.4 million active SMEs contribute about 30% of the country's GDP and have a total nationwide workforce of about 15 million people (Kenya Bankers Association, 2021). In Kenya and by extension in Nairobi City County, small businesses consist of enterprises with 10 to 49 full-time employees while medium-sized businesses have between 50 and 99 full-time employees.

SME performance and by extension profitability, especially in Nairobi City County, is influenced by innovation, leadership and financial constraints (Waithaka, 2017). Process innovation can be considered as inclusive of making alterations to traditional work culture and the uptake of remote working.

Innovativeness, transformational leadership and transactional leadership in that order have been observed to have a statistically significant effect on business performance and ultimately on profitability (Yildiz et al., 2014). Transactional leadership references the interaction between group members and a group leader in undertaking tasks. Transformational leadership entails reaching organizational targets through altering employee attitudes (Yildiz et al., 2014).

Financial limitations include insufficient savings, high interest rates on loans as well as the inability to provide collateral, which commercial banks require upfront and insufficient supporting documentation (Mumin, 2018; Kenya Bankers Association, 2021). Up to 46% of SMEs rely on loan uptake as the primary source of expansionary capital (Kenya Bankers Association, 2021).

## 2. Statement of the Problem

Exploratory research has studied the effects of remote working on business performance. These include effects on employee engagement (Lee, 2018); the long-term applicability of remote working (Zhang, Gerlowski & Acs, 2021) and business performance before and after remote working became a pandemic-influenced necessity (Gibbs, Mengel & Siemroth, 2021). According to Lee (2018), high levels of employee engagement due to being allowed to work remotely have been proven to increase employee performance. Gibbs et al. (2021) on the other hand postulates that business performance as measured by actual hours worked and time allocated to work while working remotely shows marginal improvement. However, direct linkage between profitability and remote working, with specific application to SMEs remains largely an uncharted area.

This study sought to bridge this knowledge gap by providing empirical data on the impact of remote working on the profitability of SMEs in Nairobi City County. This was through an experimental research design. The aim was to determine whether the uptake of remote working has any impact, positive or otherwise, on the business performance variables which jointly constitute profitability. The overall rationale was that profitability was dependent on performance variables. The business performance variables considered were the net revenue, gross profit margin, return on assets and return on capital employed. The study also provided information on the characteristics of SMEs for which the remote work model is suitable. The pool of respondents involved SMEs in finance (e.g. micro-lenders and debt-collection agencies), education (schools and colleges); ICT (e.g. software development businesses) and trade (e.g. book shops and gift shops). The choice of these was due to the increased likelihood of them maintaining financial records covering the study period. While existing studies cover developed economies, this study focused on Kenya as a developing economy. Ultimately, the findings and generalizations from the study could be implemented in large businesses in both the private and public sectors to improve the adaptability and competitiveness of the Kenyan economy.

## 3. Research Objective

The general objective of the study was to determine the impact of remote working on profitability of small and medium-sized enterprises in Nairobi City County.

#### 4. Literature Review

##### 4.1 Theoretical Review

###### 4.1.1 The Risk Theory of Profit

Frederick Hawley postulated the theory in 1893. According to his work, profit to an entrepreneur is seen as the reward for taking on risk and where risk is ignored then there is no entrepreneurship, which is the foundation of any business (Hawley, 1893). The risk theory of profit advocates for the need for businesses to consider risk as necessary to obtaining profit. In addition to that, despite insuring against it, risk is only transferred but not altogether avoided by a business (Hawley, 1893).

The risk theory of profit has its strength in including uncertainty in a business's consideration of its profitability. Elements of the business environment beyond a business's control can have significant effects on profitability as noted by this theory. However, its weakness is evident in its assumption that bearing risk is the major contributing factor to profit in a business, assuming that businesses exist solely to seek out and manage risk, without which they would cease to be profitable and would shut down. This is a very narrow view of the purpose of a business.

##### 4.2 Empirical Literature

In a study to compare employee productivity before and during remote working in the COVID-19 pandemic period, Gibbs et al. (2021) used 10,000 sample units and a panel data structure within an information technology firm. The data points used were the hours worked, time allocated to work and employee characteristics. The study found that remote working increased the time worked by between 1.6 and 1.9 hours but their productivity decreased by 0.3 percentage points. More experienced and longer tenure employees were also noted to have increased the time they allocated to work. With regard to employee characteristics, output and productivity depended on whether employees had children or not, regardless of the employee's sex. While the sample size was sufficient and panel data structure allowed for a better before and after condition comparison, a weakness of the study is that the nature of the job of the employees involved in the study naturally allowed for the implementation of remote work. Additionally, all the sample units were employees of the same company. It follows that the results could have been biased with employees providing responses likely to represent the company in the best possible image. The results could also be inapplicable when affected in a business which is not naturally suited to employ remote working. The current study differs by relating time spent working remotely to business profitability as opposed to employee productivity.

##### 4.3 Conceptual Framework

The framework captured conceptualization and the relationship between variables. Whether there was full or blended remote work, the number of hours or days remote work was allowed and whether remote work as a policy was taken up or not were the cause variables. The effect was the change in profitability as captured by the variables net revenue, gross profit margin, return on assets and return on capital employed.

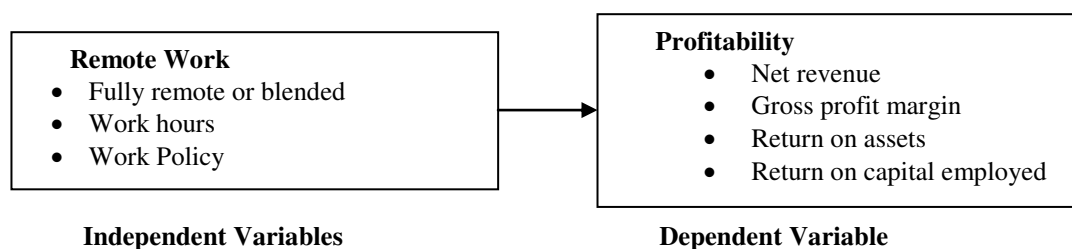


Fig. 2: Conceptual Framework

#### 5. Research Methodology

The study took an experimental design. Using this research design, the study sought to investigate the association between working remotely and the profitability of SMEs in Nairobi City County.

#### 6. Research Findings and Results

##### 6.1 Types of Remote Working in Small and Medium-Sized Enterprises

The study sought to explore the various types of remote working arrangements implemented by SMEs in Nairobi. This section presents the distribution of businesses across different sectors, the workforce size of these enterprises, and the specific remote

working models adopted. Furthermore, the extent to which businesses have formally integrated remote work as a policy and the average duration of remote work per week are also examined. The analysis presented herein aims to shed light on the prevalence and diversity of remote working practices within the SME sector in Nairobi.

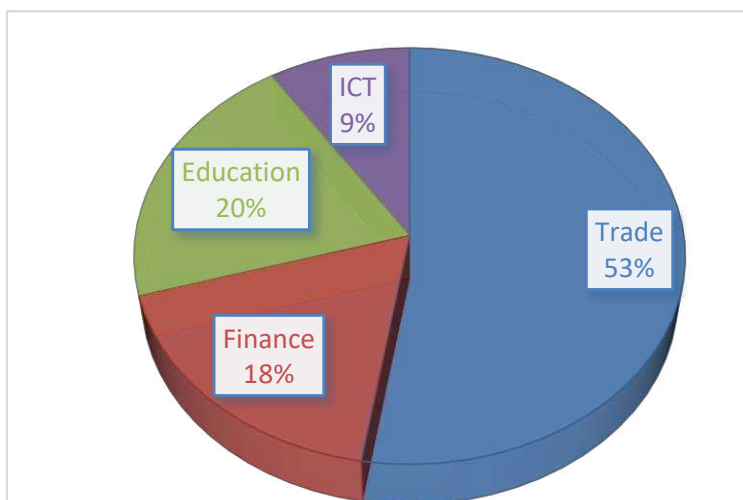


Fig. 3: Sector That Respondent's Business Operate In

103 respondents who made up the majority at 52.5% indicated that their businesses operated in the trade sector. SMEs involved in finance made up 17.9% with 35 respondents while education had 40 respondents (20.4%), and ICT had 18 respondents (9.2%). This distribution highlights the predominance of trade-related businesses among the surveyed SMEs in Nairobi. This finding aligns with the city's status as a major commercial hub in East Africa, with trade playing a significant role in its economy.

The relatively high representation of businesses in the trade sector is consistent with recent economic surveys in Kenya, which have shown trade to be a major contributor to the country's GDP (KNBS, 2023). This sector encompasses various activities such as wholesale and retail trade, import and export, and distribution of goods and services, making it a significant source of employment and income generation in Nairobi.

However, the findings of this study differ from some reports that emphasise the growing importance of the ICT sector in Kenya's economic development. While ICT is represented in the study sample, it constitutes a smaller proportion compared to trade. This discrepancy could be attributed to the study's focus on SMEs, which might be less likely to be involved in the technology sector compared to larger firms. Additionally, the definition of the "ICT" sector might vary across studies, leading to different results.

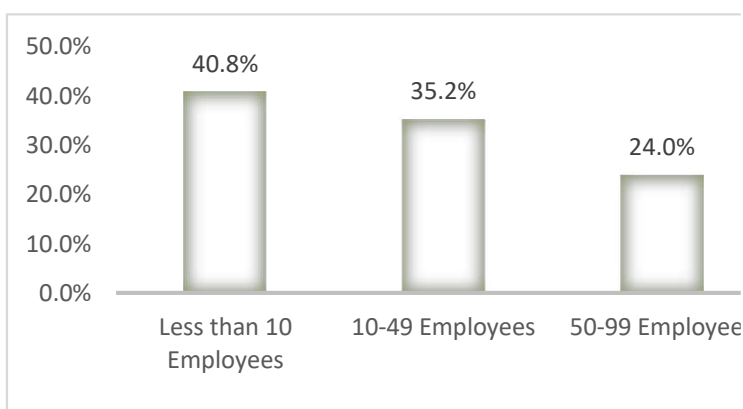


Fig. 4: Number of Employees in the Business

Of the surveyed businesses which made up the SME respondents, 80 (40.8%) had less than 10 employees and these made up the majority. These were followed by 69 SMEs with 10-49 employees (35.2%), while 47 SMEs (24.0%) operated with 50-99 employees. This distribution indicates that small-scale enterprises with fewer employees dominate the SME landscape in Nairobi. This is consistent with the definition of SMEs in Kenya, where businesses with less than 50 employees are classified as small enterprises.

The findings align with recent studies on the structure of the SME sector in Kenya. The Kenya Economic Survey 2022 (KNBS, 2022) reported that micro and small enterprises account for over 98% of all businesses in the country, highlighting the significant contribution of small-scale businesses to the economy. This dominance of smaller enterprises can be attributed to various factors such as low barriers to entry, limited access to capital for larger businesses, and the prevalence of informal businesses in the economy. However, the findings differ from some studies that have reported a higher concentration of medium-sized enterprises in specific sectors or regions of Kenya. For example, a study by the International Labour Organization (ILO, 2019) found that medium-sized enterprises were more prevalent in the manufacturing sector, while this study focuses on a wider range of sectors in Nairobi. Additionally, the definition of "medium-sized enterprises" can vary across studies, leading to different classifications and results.

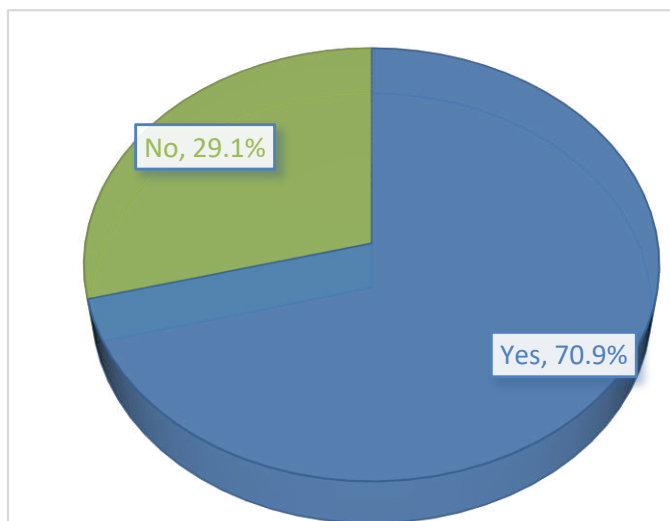


Fig. 5: Whether the Business Offer Remote Working as an Option to Employees

Out of 196 respondents, 139 (70.9%) of the surveyed businesses reported offering remote working as an option to their employees, while 57 (29.1%) did not. This indicates a significant adoption of remote working practices among SMEs in Nairobi. This finding suggests that many businesses have recognized the potential benefits of remote work and have implemented it as part of their operational strategies.

This observation aligns with recent trends in the global workforce, where remote work has gained popularity, especially after the COVID-19 pandemic (ILO, 2023). The adoption of remote work by a significant proportion of SMEs in Nairobi could be attributed to various factors, such as the need for flexibility, cost savings, and access to a wider talent pool.

However, the findings of this study differ from pre-pandemic studies in Kenya, which showed a limited uptake of remote work due to concerns about productivity, technology infrastructure, and cultural resistance (Onyango et al., 2018). The COVID-19 pandemic appears to have accelerated the adoption of remote work, as businesses were forced to adapt to lockdowns and social distancing measures. This suggests a potential shift in the perception and acceptance of remote work in the Kenyan business landscape.

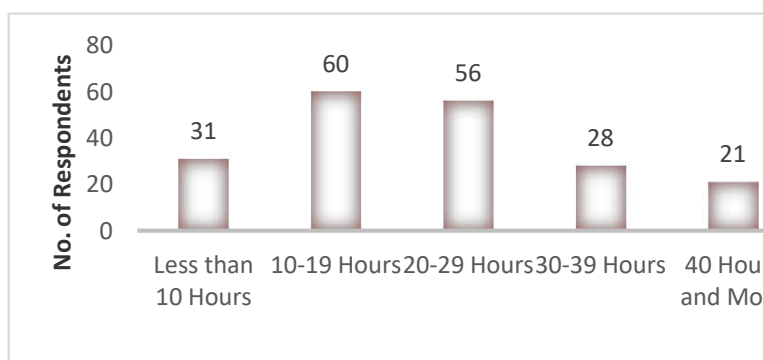


Fig. 6: Approximate Number of Hours per Week Remote Working Was Implemented

The majority of SMEs in Nairobi City County (30.6%) implemented remote working for 10-19 hours per week as illustrated by 60 respondents. 56 respondents reported implementing it for 20-29 hours, representing 28.6% of the total respondents. 31 SMEs offered remote working for less than 10 hours weekly (15.8%) while 40 hours and more of remote working had the least implementation with 21 respondents (10.7%). This distribution reveals a diverse range of remote work implementation levels among Nairobi's SMEs. The most prevalent approach appears to be a hybrid remote work arrangement, with employees working

remotely for a portion of the week. This suggests a balance between in-office and remote work, possibly reflecting a desire to maintain some level of in-person interaction while still reaping the benefits of remote work flexibility.

The findings align with recent trends in global work arrangements, which have seen an increase in hybrid work models (Deloitte, 2023). However, the study's results differ from some pre-pandemic studies in Kenya, which showed a limited uptake of remote work due to concerns about productivity and technology infrastructure (Onyango et al., 2018). The COVID-19 pandemic seems to have catalysed a shift towards more flexible work arrangements, with SMEs embracing remote work to varying degrees.

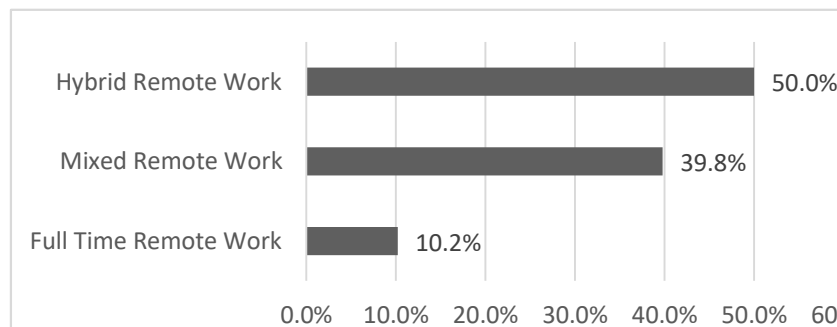


Fig. 7: Type of Remote Working That the Business Offered

Half of the SMEs which made up the respondents offered a hybrid model of remote working, where employees were required to report to the office on some days and work remotely on others. This was followed by a mixed model implemented by 78 respondent businesses (39.8%), where some employees were fully remote while others were fully on-site. Only a small proportion (10.2%, representing 20 respondents) of businesses offered full-time remote work where all employees worked remotely. This distribution suggests that hybrid remote working was the most popular model among SMEs in Nairobi, indicating a preference for a balanced approach that combines the benefits of both remote and on-site work. This approach likely allows businesses to maintain in-person collaboration and communication while providing employees with flexibility and autonomy.

The findings align with recent trends in global work arrangements, which have seen a growing preference for hybrid models (Deloitte, 2023). This trend is driven by factors such as increased employee demand for flexibility, cost savings for businesses, and the recognition that different tasks may be better suited for different work environments.

However, the findings differ from some studies that predicted a significant rise in fully remote work arrangements following the COVID-19 pandemic (Owl Labs, 2021). The relatively low adoption of full-time remote work among SMEs in Nairobi could be due to several factors, such as concerns about productivity, technology infrastructure, and the need for face-to-face interaction in certain industries. The dominance of the hybrid model suggests that SMEs in Nairobi are adopting a cautious approach to remote work, seeking to find a balance that works for both their employees and their business operations.

## 7. Conclusions and Recommendations

### 7.1 Conclusion

The study reveals a picture of the impact of remote working on SMEs in Nairobi. While the adoption of remote work has increased significantly, particularly in the wake of the COVID-19 pandemic, it has not been without its challenges. Technological barriers, concerns about performance management, and communication difficulties have posed significant obstacles for some businesses. However, the findings also indicate that many SMEs have successfully adapted to remote work, demonstrating resilience and innovation in the face of adversity. The study suggests that remote working can potentially contribute to improved work-life balance for employees and may have played a role in the rebound of financial performance observed in 2021. However, the relationship between remote work and profitability is complex and influenced by various factors, including industry type, business size, and the specific remote work model adopted.

### 7.2 Recommendations

To harness the potential benefits of remote work, SME managers should invest in robust technological infrastructure, ensuring reliable internet connectivity, providing access to necessary digital devices and software, and offering training programs to enhance digital literacy among employees. Additionally, clear communication channels and regular check-ins with remote workers can help mitigate feelings of isolation and maintain productivity. Managers should also establish clear performance expectations and provide regular feedback to ensure accountability and maintain high levels of performance in a remote setting. Embracing flexible work arrangements can further empower employees to balance work and personal responsibilities, potentially leading to increased job satisfaction and productivity.

Policymakers have a crucial role to play in creating an enabling environment for remote work. This involves investing in nationwide internet infrastructure, particularly in underserved areas, to ensure equitable access to digital resources. Additionally, providing incentives and support programs for SMEs to adopt remote work technologies and practices can help bridge the digital divide and enhance competitiveness. Policymakers should also consider developing legal frameworks that protect the rights and well-being of remote workers, addressing issues such as data privacy, cybersecurity, and work-life balance.

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