

**COMPETITIVE STRATEGIES AND PERFORMANCE OF MICRO AND SMALL  
ENTERPRISES IN NAIROBI COUNTY, KENYA**

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**DECLARATION**

This project is my own original work and has not been presented for the award of any degree in any University.

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**DATE**

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This research project has been submitted for the course examination with my approval as the University supervisor.

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## **DEDICATION**

This project is dedicated to my family for their support, love and encouragement.

May God bless you all.

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I would like to thank the Almighty God for giving me the opportunity and strength to pursue my education. It is through His abundant grace that has brought this research work this far. This work would have not been possible without my supervisor Dr Reuben Njuguna who guided me all along the process.

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## **ABBREVIATIONS AND ACRONYMS**

<b>GDP</b>	Gross Domestic Product
<b>GoK</b>	Government of Kenya
<b>ILO</b>	International Labour Organization
<b>IT</b>	Information Technology
<b>MFI</b>	Microfinance Institution
<b>PEST</b>	Political/Legal, Economic, Social and Technological
<b>RBV</b>	Resource-Based View
<b>RDT</b>	Resource Dependence Theory
<b>SPSS</b>	Statistical Package For Social Science
<b>SWOT</b>	Strength Weakness Opportunities Threat

## OPERATIONAL DEFINATION TERMS

<b>Cost Leadership Strategy</b>	a strategy allows the firm to be a low-cost producer and thus making more profits than rivals due to low costs of production and economies of scale
<b>Competitive Strategy</b>	it is mainly concerned with how a firm can gain advantage over others while carrying out its business
<b>Differentiation Strategy</b>	Differentiation as the second generic strategy allows a firm to offer unique products or services at a premium price pegged on the value added
<b>Performance</b>	refers to the process of measuring the efficiency, growth and effectiveness for an enterpreise
<b>Competitive strategies</b>	Involves the formulation and implementation of the major goals and initiatives taken the proprietors of SMEs to ensure they perform and grow.
<b>Strategy</b>	a combinationof competitive moves and business practices that managers use to ensure thatorganizational vision and objectivesare achieved
<b>Small and Medium Enterprises</b>	the segment of the labour market in developing countries thatconsist of workers who are self employed and has absorbed significant numbers of jobseekers
<b>Generic Strategies</b>	Porter's generic strategiesdescribe how a company pursues competitive advantage across its chosen market scope, there are three/four generic strategies, either lower cost, differentiated, or focus

## **ABSTRACT**

Small and Medium Enterprises (SMEs) is an important sub sector for the Kenyan economy like many other developing countries since it employs about 85% of the Kenyan workforce (about 7.5million Kenyans of the current total employment). The current constitutional framework and the new Micro and Small Enterprise Act 2012 provide a new window of opportunity through which the evolution of SMEs can be realized through the devolution framework, however, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy. Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. The study sought to establish the influence of competitive strategies on the organizational performance of SMEs in Nairobi City County, Kenya. The specific objectives were to determine the effect of low cost leadership strategy, differentiation strategy, focus strategy and combination strategies on performance of SMEs in Nairobi City county. The study was anchored on the following three theories which include Porter's generic strategies model, resource-based view theory, and resource dependence theory. Empirical literature reviewed scholarly studies on the porter's generic competitive strategies which included cost leadership strategy, differentiation strategy, focus strategy and combination strategies and their influence on financial performance of SMEs. The study used a descriptive research design. The population of study were youth owned SMEs in the 17 sub-counties in Nairobi City County that are operational. This consisted of 1115 respondents who were the proprietors of the enterprises. A Census was carried out for all the SMEs since the population was small. The primary data was collected by use of self-administered semi-structured questionnaire. Data analysis was done by use of descriptive statistics such as frequencies, percentages, mean scores and standard deviation with the aid of SPSS and presented through tables, charts, graphs, frequencies and percentages. The study realized that the Michael Porter's generic strategies of competitive advantage used in the study which include low cost leadership strategy, differentiation strategy, focus strategy and combination strategy significantly influenced the organizational performance of SMEs in Nairobi City County, Kenya. The variables explained 85.11% of the changes in organizational performance of the SMEs. A unit increase in low cost leadership strategy adoption by SMEs led to a 0.655 increase in organizational performance of the SMEs, a unit increase in differentiation strategy adoption led to a 0.876 increase in performance of the enterprises, a unit increase in focus strategy transformed to a 0.945 increase in performance of the firms while a unit increase in application of combination strategy by the SMEs led to a 0.860 increment in their overall performance. The study recommended improved capacity buildign among the SMEs and participation of stakehodlers in the growth of the small enterprises.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

The business world is encountering a rapid pace of change, unexpected technologies change and massive entries of new competitors. Firm's major concern is on their survival and their sustainability to remain competitive and profitable. For this reasons, firms needs to adapt to radical changes within the environment that is both radical and chaotic in nature. The only opportunity is for the organizations to have competitive advantage by continuously able to renew its competitive advantage in the market (Kitua, 2014).

It is imperative for firms to continuously adopt their activities in order to ensure survival (Porter 1980), firms expose themselves to the external environment, which is very volatile leading to new opportunities and challenges. To remain competitive firms needs to constantly review their strategies and approaches to maintain a sustained efficacy and competitiveness in order to exploit opportunities and threats in the market. In this regard, there is dare need for firms to be steadfast and proactive in their business execution and implementation of a sustained strategy to remain competitive. Success therefore calls for a proactive approach to business (Pearce & Robinson, 2007). Competition is critical to ensure a renewed business approaches and competitiveness.

The resource-based view theory emphasizes the firm's practices and resources as the fundamental determinants of performance (Ramos-Rodriguez & Ruiz-Navarro, 2004). Knowledge-based theory considers knowledge as the most strategically significant resource of a firm as it is difficult to imitate and source of sustained competitive advantage and corporate performance (Ludwig & Pemberton, 2011). Contingency theory argues that competitive strategies used by firms and time to time contextual and not a 'one-size-fits-all' (Meil ich, 2003). Thus, there is no one or single best way or approach to manage organizations.

SME managers, like any other managers, can use the feedback on performance to make adjustments to policies and other modes of organizational operations (Wadongo et. al., 2010). Fwaya (2006) views performance as a formula for the assessment of the functioning of an organization under certain parameters such as productivity, employee' morale and effectiveness.

Performance management and improvement is at the heart of strategic management because a lot of strategic thinking is geared towards defining and measuring performance (Nzuve and Nyaega, 2012). Odhiambo (2009) identified three approaches to performance in an organization which are the goal approach, which states that an organization pursues definite identifiable goals. This approach describes performance in terms of the attainment of these goals. The second approach is the systems resource approach which defines performance as a relationship between an organization and its environment. This concept defines performance according to an organization's ability to secure the limited and valued resources in the environment. The third approach is the process perspective which defines performance in terms of the behaviour of the human resource of an organization (Waiganjo et. al., 2012).

According to World Bank, (2013), SMEs are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP. The promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa. In Kenya these businesses play a central role in the economy and are a major source of entrepreneurial skills, innovation and employment. However, many SMEs still remain outside the formal banking sectors yet they play a key role in the economy of many countries. They create employment, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society (ILO, 2009). This study therefore sought to establish the competitive strategies employed by microfinance institutions in Nairobi City County and how they influenced their performance.

### **1.1.1 Competitive Strategies**

Competitive strategy has never been more important to the success of any organization in today's business environment. It does not matter what type of business one is in or whether you are small, big or just starting out, a company cannot survive without an adequate and focused strategy to beat the competition. Forming a successful business strategy involves creating a first-rate competitive strategy. How to succeed in today's rapidly changing competitive environment is a key question for many firms. The business environment is rapidly changing; i.e. markets, customer demands, technologies, global boundaries, products and processes. Different meanings of competitive strategy have been advanced by different scholars. According to Johnson and Scholes (2005) competitive strategy is concerned with the basis on which a business unit might achieve competitive advantage in its market. They stated that an organization can achieve competitive advantage by providing its customers with what they want or need, better or more effectively than competitors.

Porter (1980) defined competitive strategy as the search for a favourable competitive position in an industry. It deals exclusively with management's action plan for competing successfully and providing superior value to customers. Competitive strategy is the core of any firm's success and therefore businesses must develop a plan that addresses ways to compete in their respective markets (Ansoff, 1990).

However, some of these strategies are implicit, having evolved over time, rather than explicitly formulated. A company's competitive strategy consists of all the business approaches and initiatives that a firm undertakes to attract customers and fulfill their expectations to withstand competition pressures and to strengthen its market position. It deals with management action plans for competing successfully and providing superior value to customers. This enables it differentiate or put the company apart from its competitors (Thompson and Strickland, 2003).

Porter's competitive strategies deal with the core issues that many organizations are concerned with, namely efficiency (cost) and product/service quality. Generic strategies were used initially in the early 1980s and seem to be even more popular today. They outline the four strategic options open to organizations that wish to achieve a sustainable competitive advantage. Porter (1980) said that no single competitive strategy is guaranteed to achieve success and even some companies that have successfully implemented one of the Porter's competitive strategies found out that they could not sustain the strategy. A firm that engages in each generic strategy but fails to achieve any of them is 'stuck in the middle'. It possesses no competitive advantage. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiator or focusers will be in better positions to compete in any segment (Porter, 1980). With the changed competitive conditions facing the firm and its chosen strategy, it is mandatory that firms explore the necessary capabilities required to achieve competitive advantage.

### **1.1.2 Performance of SMEs in Kenya**

Small and Medium Enterprises (SMEs) contribute greatly to the economies of all countries, regardless of their level of development. About 80% of the labour force in Japan and 50% of workers in Germany are employed in the SME sector. With respect to developing countries and according to the ILO/JASPA (1998), the sector made a significant contribution to the gross domestic product of Uganda (20%), Kenya (19.5%) and Nigeria (24.5%). The term SMEs covers a wide range of perceptions and measures, varying from country to country and between the sources reporting SME statistics. Some of the commonly used criteria are the number of employees, total net assets, sales and investment level. However, the most common definitional basis used is employment, but, there is a variation in defining the upper and lower size limit of an SME (Ayyagari, Beck & Demircuc-Kunt, 2003).

In Kenya about 70% of the employment is absorbed into the SME sector. It is the main source of employment among Kenyan youths who are deemed otherwise unemployed. The sector has however faced a myriad of challenges ranging from limited funding, exposure, unfavourable regulations and competition from their established counterparts. (MSME, 2015).

An enterprise is considered to be any organized effort intended to return a profit or economic outcome through the provision of services or products to an outside group (Carland, Hoy, Boulton & Carland, 1983). The operation of an enterprise traditionally requires the investment of capital and time in creating, expanding or improving the operations of a business (Meredith, 2001). Small to medium enterprises are considered those enterprises which have fewer than 250 employees. In distinguishing between small and medium size enterprises, the small enterprise is defined as an enterprise which has fewer than 50 employees. These businesses are often referred to as SMEs and are associated with owner proprietors (Meredith 2001; Schaper & Volery 2004).

Mutula and Brakel (2006) argue that there is no universally accepted definition for small and medium enterprises (SMEs), the description of Small and Medium Enterprises (SMEs) varies from country to country. Most of the time the choice whether or not a company is an SME is based on the number of employees, value of assets or value of sales. In Kenya SMEs are described as any non-farm enterprise, formal or informal, with less than 50 employees, including sole proprietorships, part-time businesses, and home-based businesses (GoK, 2012).

As alluded to earlier in this chapter, In Kenya, SMEs operate in all sectors of the economy, including manufacturing, trade and service subsectors. Almost two-thirds of all SMEs in Kenya are located in the rural areas with only one-third found in the urban

areas. The sector is perceived as the engine of growth as it is key in the generation of employment & income, provision of goods & services & as a driver of competition, industrialization and innovation. It comprises of about 75 % of all businesses, employs 4.6 million people (30%) and accounts for 87% of all new jobs and contributes 18.4 % of the GDP (GoK, 2009).

Despite the opportunities presented by globalization, the results have been unsatisfactory for SMEs in terms of their growth. This is evidenced by baseline survey; undertaken by Central Bureau of Statistics (2004) which indicated that there is high rate of failure and stagnation among many SMEs. The survey reveals that only 38% of the SMEs are expanding while 58% have stagnated and that more micro and small enterprises are most likely to close in their first three years of operation. This is confirmed by the study conducted by the Institute of Development Studies University of Nairobi on behalf of Ministry of Planning (2008) which used a sample of businesses operating in Central Kenya. The study revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth.

Although management and owners of SMEs develop new ideas and solutions, they rarely utilize a formalized logistical strategy, along with overall business objectives which can contribute to the success and the survival management of the enterprise. They therefore face critical constraints that inhibit their growth, competitiveness and performance (GoK 2008).

### **1.1.3 SMEs in Nairobi City County**

The national baseline survey (National Baseline Survey, 1999) indicated that about 17% of the total SMEs are located in Nairobi. According to the licensing record provided by Nairobi county licensing office (2014) there were 825 SMEs based in Nairobi County operating in service and manufacturing sectors. The contribution of SMEs to job creation in the country is regarded as immense. Analysis by county shows that Nairobi County recorded a 5.4 increase in job creation in 2011 in the SMEs sector (Republic of Kenya, 2012). Like in any other part of the country SMEs in Nairobi have high mortality rates with most of them not surviving to see beyond their third anniversaries (RoK, 2005).

Despite limited knowledge, skills and capital base, the SMEs have not come up with strategies to ensure they remain aloft in the competitive business environment in the City. Those who have come up with strategies in making them competitive have ended up not implementing them well or lacking capacity to make them successful.

### **1.2 Statement of the Problem**

According to Covin, (1991), there is a relationship between strategy and performance, while Chell, Haworth and Brearley, (1991) acknowledged that strategies which result in high performance are identified with activities that include emphasis on product quality, product and service innovations that meet changing customer needs are associated with market share increase arising from attracting new customers and retaining existing ones. Activities associated with high performing strategies also include emphasis on use of technologies, discovery of new markets, excellent customer service and support, extensive advertising, use of external finance, emphasizing cost effectiveness and concern with employee productivity (Vickery, Droge & Markeland, 1993).

SMEs struggle to operate, manage and improve their businesses efficiently in order to deliver quality products and services consistently and on time. This is because in most enterprises the application of business strategies requires a host of expensive and time consuming changes both in the organizational culture and structure hence many owner / managers have had to overlook some necessary and critical business strategies. This has had a devastating negative effect on their performance as it has resulted in poor service delivery, increased internal inefficiencies and negative bottom line; and most importantly reduced contribution to the gross domestic product (GDP), creation of job opportunities and also the overall individual organization performance.

The concept of business growth is still a grey area as there is yet to be a conclusive approach and definite indicators of business growth despite the fact that it is every entrepreneur's wish to have their businesses grow. Thus the subject of business growth is a fertile area for a study in the Kenyan context (Kemei (2011)). Reviews examining impacts of microfinance have concluded that, rigorous quantitative evidence on the nature, magnitude and balance of microfinance impact is still scarce and inconclusive. It is widely acknowledged that no well-known study robustly shows any strong impacts of microfinance (Aghion and Morduch (2010)).

Makena (2011) studied on the financial challenges faced by SMEs and found that inadequacies in access to finance are key obstacles to SMEs growth. Kemei (2011) studied on the relationship between competitive strategies and financial performance of SMEs. The findings were that positive and significant relationships have been established between MFIs loans and SMEs performance. Kimoro (2011) in a study on the impact of microfinance strategies on women empowerment found that microfinance has led to expansion of freedom of choice of women. A

survey of the financial constraints hindering growth of SMEs by Koech(2011) found that the factors affecting growth were capital market, cost, capital access, collateral requirements, capital management and cost of registration. Cooper(2012) studied on the impact of competitive strategies on the growth of SMEs in Nairobi and found a strong positive impact. This study therefore sought to establish the influence of competitive strategies on the performance of SMEs in Kenya with a special focus on youth enterprises in Nairobi City County.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The general objective of the study was to determine the influence of competitive strategies on the performance of SMEs in Kenya.

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives:

- (i) To find out the influence of cost leadership strategy on performance of SMEs in Nairobi County.
- (ii) To determine the role of differentiation strategy on performance of SMEs in Nairobi County.
- (iii) To establish the effect of focus strategy on performance of SMEs in Nairobi City County.
- (iv) To assess the influence of combination strategies on performance of SMEs in Nairobi City County.

### **1.4 Research Questions**

The study sought to answer the following research questions;

- (i) What is the influence of cost leadership strategy on the performance of SMEs in Nairobi City County?

- (ii) How does differentiation strategy affect the performance of SMEs in Nairobi City County?
- (iii) What is the relationship between focus strategy and the performance of SMEs in Nairobi City County?
- (iv) How do combination strategies affect the performance of SMEs in Nairobi City County?

### **1.5 Significance of the Study**

This study adds to the growing body of knowledge on strategic management in developing countries by offering a perspective of the practice of strategic management in the financial performance of SME sector in Kenya. The results will be useful to the governments in developing countries. The SMEs can gain from the study as the results show best practices in strategic management as well as understand the factors that affect strategic management in the performance of the SMEs. The major research findings of this study will provide the opportunity for the individual small enterprise managements and assess their competitive strategies with other players in the industry in the Country, which will help them to identify the shortcomings and strengths of their competitive strategies. Researchers and academicians in the field of strategic management will find this study a useful guide for carrying out further studies in the area.

### **1.6 Scope of the Study**

This study was done among SMEs in Nairobi City County, Kenya. The population consisted of all employees and proprietors of SMEs in the County. The study sought to determine the role of competitive strategies on organizational performance of SMEs in Nairobi City County.

### **1.7 Limitation of the Study**

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their enterprises. Some even turned down the request to fill questionnaires. The researcher obtained an

introductory letter from the University and assured them that the information they gave was to be treated confidentially and it was to be used purely for academic purposes.

The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had since the research instruments did not bear their names.

### **1.8 Organization of the study**

This research proposal comprises of three chapters. Chapter one involves background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and significance of the study, limitation of the study, assumptions of the study and organization of the study.

Chapter two reviewed literature which includes theoretical review, empirical review, research gaps and the conceptual framework. Chapter three dealt with research methodology which explains the research design, target population, sampling design, rationale for sample selection, data collection instruments, questionnaires, validity of the research instrument, reliability, data analysis and ethical considerations while chapter four had presentation of findings and discussions. Chapter five entailed summary of findings, conclusions and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presented the literature review on strategies management practices and organizational performance. It summarized the information from other scholars who have carried out their research in the same field of study. The chapter presented the theoretical review, empirical review, summary, the research gaps and the conceptual framework.

#### **2.2 Theoretical Review**

The study was anchored on three theories which include Porter's generic strategies model, resource-based view theory and resource dependence theory.

##### **2.2.1 Porter Generic Strategies Model**

This model was described by Michael Porter in 1980. Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three/four generic strategies, either lower cost, differentiated, or focus. A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope.

Porter wrote in 1980 that strategy targets either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business ranging from SMEs to multinationals. Porter claimed that a company must only choose one of

the three or risk that the business would waste precious resources. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies, and market focus strategies of porters. Competition in an industry is influenced by various forces in the business operating environment. Porter attempted to summarise these forces as the rivalry among existing firms, threat of new entrants, substitute products or services, increased bargaining power of suppliers and bargaining power of buyers. A firm's products/services are affected by its suppliers, substitutes, buyers, potential entrants and industry competitors. For suppliers and buyers, these have a bargaining power on a firm's products/services whereas the potential entrants and substitutes pose a threat to the firm's products and services.

He further came up generic competitive strategies to counter these competitive forces (Barney, 2007 & Porter, 1998). Porter's generic strategies are useful in determining strategic positions at the simple and broad level of organisation scope. The basis for Porter's model was the industry structure and positioning within the industry. These strategies were cost leadership and differentiation, while the third strategy, focus was based on these two strategies. Focus is the firm's choice of competitive scope. This scope distinguishes between firms targeting broad industry segments and firms focusing on narrow segments.

Cost leadership as a strategy allows the firm to be a low-cost producer and thus making more profits than rivals due to low costs of production and economies of scale. This becomes an advantage for the firm, especially those that are first-movers or those that have ease of access to raw materials or factors of production. They usually focus on being the low cost producer in an industry for a given level of quality, and then sell these products at either the average industry price to earn profits higher than rivals or below the average prices in order to gain or increase

their market share. These firms take advantage of their low cost of production to be able to sell at below-average prices (Barney, 2007; Porter, 1998). In case of price wars, such firms can maintain profitability when the rivals continue to suffer losses.

Cost leadership as a strategy, is used by firms that target broad markets. Firms undertaking cost leadership strategy acquire cost advantage by improving processes, increasing efficiency, and gaining access to lower production costs or material costs either through vertical integration or adopting optimal outsourcing (Porter, 1998, Johnson *et al.*, 2005). Differentiation as the second generic strategy allows a firm to offer unique products or services at a premium price pegged on the value added. The value added is usually a perception of the products by the buyers. The added value and utility of that product as perceived by that buyer enables the product to be differentiated at a cost that covers the extra value or features in it.

Differentiation results from the way a firm's products or services and the related activities affect the buyers' activities. This strategy is incorporated with the value chain framework to strengthen its application in firms' activities. All activities in the value chain (actions or characteristics that add value to a product or service) contribute to the buyer value. The cumulative costs in the value chain determine the value cost that is usually a premium price charged for the product or service (Porter, 1998). Firms that successfully implement the differentiation strategy gain by increasing their internal strengths through highly skilled and creative product development teams as well as having access to the leading scientific research due to innovation. They also gain in improving their reputation for better quality and continued innovation. Differentiation strategy enables firms to achieve higher profits due to the premium prices charged for added value (Hax&Majluf, 1996; Porter, 1998).

The third generic strategy is focus which combines the above two generic strategies. This strategy is based on serving a certain clientele to the exclusion of others in the market. These are basically buyers with unusual needs as the target market and thus the firm offers to dedicate its services or products to serve them. Application of these strategies varies in firms and it is greatly affected by the industry characteristics (Porter, 1998). This strategy enables firms to concentrate on a narrow market segment to either achieve the above two strategies of cost leadership and differentiation. It is based on the assumption that the particular needs of the narrow group of customers can be better met by focusing entirely on this group (Barney, 2007; Porter, 1998).

Firms that adopt this strategy gain a high degree of customer loyalty, which in turn discourages competing firms from attempting to compete directly with them. This strategy may, however, make firms to achieve low volumes of production and customer numbers. It is characterised by lower bargaining power of suppliers though, and this means that the firm will tend to pass higher costs to customers since there is no much choice of substitutes for the product or service. This becomes disadvantageous to customers who have no choice but to buy at the price set by the firm (Barney, 2007; Johnson *et al.*, 2005).

In summary, Porter argues that firms are able to succeed in adopting multiple strategies by creating separate business units for each of the above strategies since customers often seek multi-dimensional attributes of a product to derive maximum utility. These can be a mix of quality, convenience, price and style, among other features of a product or service (Barney, 2007; David *et al.*, 2001). The application of this theory by SMEs is likely to steer their competitiveness to ensure they performance in whichever industry they are in.

### **2.2.2 Resource-Based View Theory**

The resource-based view (RBV) of Wernerfelt (1984) suggests that competitiveness can be achieved by innovatively delivering superior value to customers. The extant literature focuses on the strategic identification and use of resources by a firm for developing a sustained competitive advantage (Barney, 1991). International business theorists also explain the success and failures of firms across boundaries by considering the competitiveness of their subsidiaries or local alliances in emerging markets (Luo, 2003). Local knowledge provided by a subsidiary or local alliance becomes an important resource for conceptualizing value as per the local requirements (Gupta *et al.*, 2011).

In strategic management research, RBV theory has emerged as one of the theoretical perspectives used to explain persistency in inter-firm performance differences (Barney and Griffin, 1992). According to RBV theory, firms have collections of unique resources and capabilities that are valuable, rare, inimitable and non-substitutable and which are able to provide them with a sustainable competitive advantage. Hence, resources are tangible and intangible assets that are either owned or controlled by a firm, whereas capabilities refer to its ability to exploit and combine resources through organizational routines in order to achieve its objectives (Amabile *et al.*, 1996). For this study, by applying RBV theory, it is important to investigate how internal and external resources can be influenced by competitive strategy and enable an organization's capabilities to enhance innovation performance (Galbreath 2005).

According to Nahapiet and Ghoshal (1998), the term "intellectual capital" refers to the knowledge and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice", while social capital is defined as "the sum of the actual and potential resources embedded within, available through, and derived from

the network of relationships possessed by an individual or social unit". Intellectual capital is a valuable resource in the form of accumulated knowledge which is embedded within an organisation, while social capital resides in the relationships firms have with their network partners. Nahapiet and Ghoshal (1998) argued that innovation is the ultimate outcome of the creation of new knowledge which results from the combination and interaction between intellectual capital and social capital of firms. SMEs also are endowed with these two sets of capital or resource that require effective and efficient management to ensure the enterprises competitive favourably and perform.

### **2.2.3 Resource Dependence Theory**

The resource dependence theory was postulated by Pfeffer and Salancik in 1978. Organizational success in resource dependency theory (RDT) is defined as organizations maximizing their power (Pfeffer 1981). Research on the bases of power within organizations began as early as Weber (1947) and included much of the early work conducted by social exchange theorists and political scientists. Generalization of power-based arguments from intra-organizational relations to relations between organizations began as early as Selznick (1949). RDT characterizes the links among organizations as a set of power relations based on exchange resources.

RDT proposes that actors lacking in essential resources will seek to establish relationships with (i.e., be dependent upon) others in order to obtain needed resources. Also, organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them. Within this perspective, organizations are viewed as coalitions alerting their structure and patterns of behaviour to acquire and maintain needed external resources. Acquiring the external resources needed by an organization comes by decreasing the organization's dependence on others and/or by increasing other's dependency on it, that is, modifying an organization's power with other organizations (Jones, 2011).

Although RDT was originally formulated to discuss relationships between organizations, the theory is applicable to relationships among units within organizations. RDT is consistent with ecological and institutional theories of organizations where organizations are seen as persistent structures of order under constant reinterpretation and negotiation, interacting with an indeterminate environment of turbulence and a multitude of competing interests.

Weber (1947) indicates that resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy.

The theory argues that organizations depend on resources, these resources ultimately originate from an organization's environment, the environment, to a considerable extent, contains other organizations, the resources one organization needs are thus often in the hand of other organizations, resources are a basis of power, legally independent organizations can therefore depend on each other and power and resource dependence are directly linked. Organizations depend on multidimensional resources: labor, capital and raw material. Organizations may not be able to come out with countervailing initiatives for all these multiple resources. Hence organization should move through the principle of criticality and principle of scarcity. Critical resources are those the organization must have to function. An organization may adopt various countervailing strategies like associating with more suppliers, or integrate vertically or horizontally (Michael, 2013).

Resource dependence concerns more than the external organizations that provide, distribute, finance, and compete with a firm. Although executive decisions have more individual weight than non-executive decisions, in aggregate the latter have greater organizational impact.

Managers throughout the organization understand their success is tied to customer demand. Managers' careers thrive when customer demand expands. Thus customers are the ultimate resource on which companies depend. Although this seems obvious in terms of revenue, it is actually organizational incentives that make management see customers as a resource.

Resource dependence theory effects on nonprofit sector have been studied and debated in recent times. Scholars have argued that Resource dependence theory is one of the main reasons nonprofit organizations have become more commercialized in recent times. With less government grants and resources being used for social services, contract competition between private and nonprofit sector has increased and led to nonprofit organizations using marketization techniques used mainly in the private sector to compete for resources to maintain their organizations livelihood. Scholars have argued that the marketization of the nonprofit sector will lead to a decrease of quality in services provided by nonprofit organizations (Jones, 2011).

Similarly to SMEs their resources emanate from the international sources, owners or proprietors, or externally who may include MFIs or donors. The stakeholders in either environments are key in ensuring the enterprises succeed. The proper utilization of the resources by SME owners most of whom are not informed and with limited management skills, tend to misuse them or not even identify them this works against their competitiveness. Competitive strategies therefore are meant to place the SMEs in a better position to remain aloft in the even growing and competitive business environment (Kioko, 2012)..

### **2.3 Empirical review**

Adeleke *et al.* (2008) defines strategic management practice as the process of examining both present and future environments, formulating the organizations objectives, implementing and controlling decisions focused on achieving these objectives in the present and future

environments. According to Thompson and Strickland (2003), strategic management practice is the process whereby managers establish an organization's long-term direction, set specific performance objectives, develop strategies to achieve these objectives in the light of all the relevant internal and external circumstances, and undertake to execute the chosen action plans.

### **2.3.1 Cost Leadership Strategy and organizational performance**

Cost leadership is a concept developed by Michael Porter, utilised in business strategy. It describes a way to establish the competitive advantage. Cost leadership, in basic words, means the lowest cost of operation in the industry (Wikipedia, 2016). It is a strategy used by businesses to create a low cost of operation within their niche. The use of this strategy is primarily to gain an advantage over competitors by reducing operation costs below that of others in the same industry. Cost leadership is a business strategy that allows a company to become the lowest cost producer within an industry. The use of this strategy is primarily to gain advantage over competitors by reducing operation costs below that of others in the same industry. Sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors.

A firm pursuing a cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors. If cost-leadership strategies can be implemented by numerous firms in an industry, or if no firms face a cost disadvantage in imitating a cost-leadership strategy, then being a cost leader does not generate a sustained competitive advantage for a firm. The ability of a valuable cost-leadership competitive strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate (Robert, 2001). Beyond existing competitors, a cost-leadership strategy also creates benefits relative to potential new entrants. Specifically, the presence of a cost leader in an

industry tends to discourage new firms from entering the business because a new firm would struggle to attract customers by matching or even undercutting the cost leaders' prices. Thus a cost-leadership strategy helps create barriers to entry that protect the firm and its existing rivals from new competition.

In many settings, cost leaders attract a large market share because a large portion of potential customers find paying low prices for goods and services of acceptable quality to be very appealing. The need for efficiency means that cost leaders' profit margins are often slimmer than the margins enjoyed by other firms. However, cost leaders' ability to make a little bit of profit from each of a large number of customers means that the total profits of cost leaders can be substantial (Anderson, 2014).

In some settings, the need for high sales volume is a critical disadvantage of a cost-leadership strategy. Highly fragmented markets and markets that involve a lot of brand loyalty may not offer much of an opportunity to attract a large segment of customers. In both the soft-drink and beer industries, for example, customers appear to be willing to pay a little extra to enjoy the brand of their choice. Lower-end brands of soda and beer appeal to a minority of consumers, but famous brands still dominate these markets. A related concern is that achieving a high sales volume usually requires significant upfront investments in production and/or distribution capacity. Not every firm is willing and able to make such investments (Michael, 2015).

Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be expensive in the long run. A relative lack of market research can lead cost leaders to be less skilled than other firms at detecting important environmental changes and trends. Meanwhile, downplaying research and

development can slow cost leaders' ability to respond to changes once they are detected. Lagging rivals in terms of detecting and reacting to external shifts can prove to be a deadly combination that leaves cost leaders out of touch with the market and out of answers (Hudson, 2016).

Cost leadership strategies are only viable for large firms with the opportunity to enjoy economies of scale and large production volumes and big market share. Small businesses can be "cost focused" not "cost leaders" if they enjoy any advantages conducive to low costs. For example, a local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage. Innovation of products or processes may also enable a startup or small company to offer a cheaper product or service where incumbents' costs and prices have become too high. An example is the success of low-cost budget airlines who, despite having fewer planes than the major airlines, were able to achieve market share growth by offering cheap, no-frills services at prices much cheaper than those of the larger incumbents. At the beginning low-cost budget airlines chose "cost focused" strategies but later when the market grew, big airlines started to offer the same low-cost attributes, and so cost focus became cost leadership. A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future(Gamble, 2010).

### **2.3.2 Differentiation Strategy and performance**

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions it to meet those needs. It is an approach under which a firm aims to develop and market unique products for different customer segments.

Usually employed where a firm has clear competitive advantages, and can sustain an expensive advertising campaign. It is one of three generic marketing strategies that can be adopted by any firm (Porter, 1980).

A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. These could include patents or other Intellectual Property (IP), unique technical expertise, talented personnel, or innovative processes. Successful differentiation is displayed when a company accomplishes either a premium price for the product or service, increased revenue per unit, or the consumers' loyalty to purchase the company's product or service (brand loyalty). Differentiation drives profitability when the added price of the product outweighs the added expense to acquire the product or service but is ineffective when its uniqueness is easily replicated by its competitors. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors (Hambuck, 1983).

Differentiation strategy is not suitable for small companies. It is more appropriate for big companies. To apply differentiation with attributes throughout predominant intensity in any one or several of the functional groups (finance, purchase, marketing, inventory etc..). This point is critical. For example GE uses finance function to make a difference. You may do so in isolation of other strategies or in conjunction with focus strategies (requires more initial investment). It provides great advantage to use differentiation strategy (for big companies) in conjunction with focus cost strategies or focus differentiation strategies.

A differentiation strategy calls for creating a product or service with sufficiently distinctive attributes that it sets your business apart from the competition. If your differentiation strategy works, you may be able to charge your customers a premium for your product or service. However, such a strategy may backfire without sufficient market acceptance. You also face other risks that can impact your bottom line. Every company would like to think that it stands apart from the competition in the eyes of its customers. A company that employs a differentiation strategy does so with the intention of creating a product or service that is valued and perceived by its customers as unique and better than the competition. Companies that succeed in implementing a differentiation strategy have one or a combination of the following attributes: leading scientific research, highly skilled and creative product-development personnel, a strong sales force and a strong reputation for quality and innovation (Kiechel, 2010).

One positive of a successful differentiation strategy is that the company may charge a premium for its product or service. The company does so with confidence because of a highly developed and strong corporate identity. The company can readily pass along higher supplier costs to its customers because of the lack of substitute or alternative products on the market. Having a loyal customer following helps stabilize the company's revenue and lessens the impact of market downturns because of customer loyalty in good times and bad. A company that succeeds in implementing a differentiation strategy must worry about competitors' copying its business methods and stealing away its customers. In addition, implementing a differentiation strategy is costly. It may take years before a company achieves a strong brand image that sets it apart. During that time, the company faces the risk of changing consumer tastes or preferences. In such a case, the company may not have sufficient customer demand to offset its higher costs, which may lead to a loss (Gamble, 2010).

A differentiation strategy may not be ideal for every company. It is difficult to maintain differentiation for an indefinite amount of time because of competition. Many companies attempt to find the right balance by competing on such things as price, service and quality, or on any combination of attributes that it believes are important to its customers to gain a competitive advantage. For example, a company that differentiates itself based on price may sacrifice quality to attract customers who are price sensitive. During market downturns, the company may enjoy higher sales than one that competes based on differentiation quality.

### **2.3.3 Focus strategy and organizational performance**

This is a marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment. A focus strategy is usually employed where the company knows its segment and has products to competitively satisfy its needs. Focus strategy is one of three generic marketing strategies. See differentiation strategy and low cost strategy for the other two. Focus or niche strategy involves segmenting markets and appealing to only one or a few groups of customers or industry buyers. It is a marketing strategy in which a company concentrates its resources on entering or expanding in a narrow market or industry segment. Focus strategy identifies the market segments where the company can compete effectively. The strategy matches market characteristics with the company's competitive advantages to select markets where a focus of the company's resources is likely to lead to desired sales volumes, revenues and profits. The premise is that the needs of the group can be better serviced by focusing entirely on it and this enables the firm enjoy customer loyalty (Gamble, 2010).

Successful companies leverage competitive advantages in the marketplace to achieve high levels of performance. They either attain overall market leadership by differentiating themselves from competitors or dominate market segments where they focus their efforts. Focus strategy identifies the market segments where the company can compete effectively. The strategy

matches market characteristics with the company's competitive advantages to select markets where a focus of the company's resources is likely to lead to desired sales volumes, revenues and profits. Low production cost is an effective competitive advantage, but it doesn't apply in all markets. The key is to segment your market into sections that you can reach at low cost and that are cost-sensitive. Once you have identified market segments in which consumers are looking for the lowest prices, you can use focus strategy to concentrate the company's resources there. Ideally, the cost of reaching those consumers is low, allowing you to maintain your price advantage while focusing on increasing sales.

Some consumers prefer to pay more to get better quality. If you have a superior design, more expertise or access to higher-quality materials, you may have a competitive advantage on product quality. In this case, you have to identify market segments that will buy your higher-priced products. Focus strategy lets you concentrate promotional resources on the sectors that match your quality advantage. Since you are no longer competing on low price, you can cover the higher costs involved in identifying and reaching these high-value segments. If your competitive advantage includes selling a well-known brand, you have to use focus strategy to make sure you are reaching the consumers who have a positive image of the brand, need the product and can afford to buy it. Some brands, such as detergents, cut across many market segments while others, such as sports-related brands, require more focus. Focus strategy for brands involves targeting promotional activities to let those consumers who are interested in the brand know that it is available from your company.

Companies can compete on service by emphasizing customer satisfaction. Focus strategy for companies that develop a service competitive advantage relies less on market segmentation and more on assigning resources to increase excellence in customer service. Customer service

focused on high levels of customer satisfaction implies hiring employees with good people skills, training them in customer relations, training them on the products they are supporting and monitoring for rapid response times. Because such customer service is expensive, companies focused on customer service as a competitive advantage avoid the lowest-cost market segments but can do well in high-value sectors (Panayides, 2003).

This dimension is not a separate strategy for big companies due to small market conditions. Big companies which chose applying differentiation strategies may also choose to apply in conjunction with focus strategies (either cost or differentiation). On the other hand, this is definitely an appropriate strategy for small companies especially for those wanting to avoid competition with big one. In adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialised needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. A focused strategy should target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment (Payadise, 2003).

#### **2.3.4 Combination Strategy and organizational performance**

The Porter Generic Competitive Strategies (1980, 1985) of overall cost-leadership, differentiation and focus on strategic management research cannot be overemphasized. Low cost and differentiation strategy may be compatible approaches in dealing with competitive forces (Allen & Helms, 2006; Miller, 1992; Spanos, et al., 2004), and postulated the

pursuit of what has been termed 'hybrid', 'mixed', 'integrate', or 'combination' strategies (Kim et al., 2004; Spanos et al., 2004). These 'hybrid' strategies are the ones which combine low cost and differentiation elements (Gopalakrishna & Subramanian, 2001; Proff, 2000).

A combination competitive strategy involving high level of emphasis on both cost-leadership and differentiation strategies simultaneously should be distinguished from "stuck-in-the-middle" strategy where a firm fails to successfully pursue both cost-leadership and differentiation strategies (Acquaah & Ardekani, 2006). A combination strategy has been shown to be viable and profitable (Kim et al., 2004; Miller & Dess, 1993; Wright *et al.*, 1991). Since cost-based and differentiation-based advantages are difficult to sustain, firms that pursue a combination strategy may achieve higher performance than those firms that pursue a singular strategy. Pursuit of a differentiation strategy for low-cost firms will help minimize.

Implementation of combination strategy based on Porter's model: success built on lost opportunity in industrial lubricants. Prakash R. Awade their vulnerability due to reliance on cost-based advantages only (Yasai-Ardekani & Nystrom, 1996). A hybrid strategy seeks simultaneously to achieve differentiation and low price relative to competitors. This success strategy depends on the ability to deliver enhanced benefits to the customers with low price while achieving sufficient margins for reinvestment to maintain and develop bases of differentiation. This is, in fact, the strategy Tesco is trying to follow (Explorer, 2010).

A best cost provider strategy giving customer more value for the money by offering upscale product attributes at a lower cost than rivals. Being the best cost producer of an upscale product allows a company to under-price rivals whose products have similar upscale attributes. This option is a hybrid strategy that blends elements of differentiation and low-cost in

a unique way (Thompson et. al, 2012). According to Ireland (2011), most consumers have high expectations when purchasing a good or service. In general, it seems that most consumers want to pay a low price for products with somewhat highly differentiated features. Because of these customer expectations, a number of firms engage in primary and support activities that allow them to simultaneously pursue low cost and differentiation. Firms seeking to use this use the integrated cost leadership/differentiation strategy (Ireland et.al, 2011).

This new, hybrid strategy, may become even more important-and more popular-as global competition increases. Compared to companies relying on a single generic strategy, companies that integrate the generic strategies may position themselves to improve their ability to adapt quickly to environmental changes and learn new skills and technologies. This would more effectively leverage core competencies across business units and product lines and would also help produce products with differentiated features or characteristics that customers value and provide these differentiated products at a low cost, compared to competitors' products. This is because of the multiple, additive benefits of successfully pursuing the cost leadership and differentiation strategies simultaneously.

Differentiation enables the company to charge premium prices and cost leadership enables the company to charge the lowest competitive price. Thus, the company is able to achieve a competitive advantage by delivering value to customers based on both product features and low price (Learning. O, 2009). Acquah&Ardekani (2006) justified that the implementation of a combined competitive strategy is not only feasible, but will also generate superior incremental performance over the implementation of single competitive strategies. The implementation of a combined competitive strategy results in multiple sources of competitive advantage for example, economies of scale and brand/customer loyalty, as compared to

advantages gained through pursuit of single competitive strategies. Moreover, the pursuit of a combined competitive strategy, and each of the single competitive strategies will generate superior incremental performance over the inability to successfully pursue any of the singular competitive strategies.

Furthermore, firms that pursue a differentiation strategy may also be able to achieve a low-cost position by emphasizing efficiency in their value creating activities, thereby further strengthening their competitive position vis-a-vis their rivals. The success of Japanese companies such as Toyota, Canon, and Honda has been attributed to the simultaneous pursuit of cost leadership and differentiation strategies (Ishikura, 1983),

Successful organizations adopt a combination of competitive aspects to build a Hybrid Strategy.

## 2.4 Summary of Literature Review and Research Gaps

**Table 2:1 Research Gaps**

<b>Author</b>	<b>Year</b>	<b>Topic</b>	<b>Findings</b>	<b>Research gap</b>
Robert	2001	Cost leadership strategy and performance of firms	The strategy is rate and costly to imitate and therefore challenging to generate and sustain competitive advantage	The study only pokes holes on the strategy but does not indicate the influence it has on performance
Gamble et al et al et al	2010	Applications of cost leadership strategy	Large firms can apply the cost leadership strategy but small firms need to employ cost focused strategy	The study suggests an alternative strategy but not the effect of cost leadership strategy on performance
Panayide	2003	Focus strategy and market penetration	For firms to penetrate well in the market they focus less on	The study did not point out the influence of focus strategy on

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Explorer	2010	Hybrid strategy and firm competitiveness	market segmentation and more on customer service Success depends on ability to delivery enhanced benefits to customers with low price but ensuring profits are made	performance but only when it can be used The study is conditional but does not indicate the cause-effect outcome
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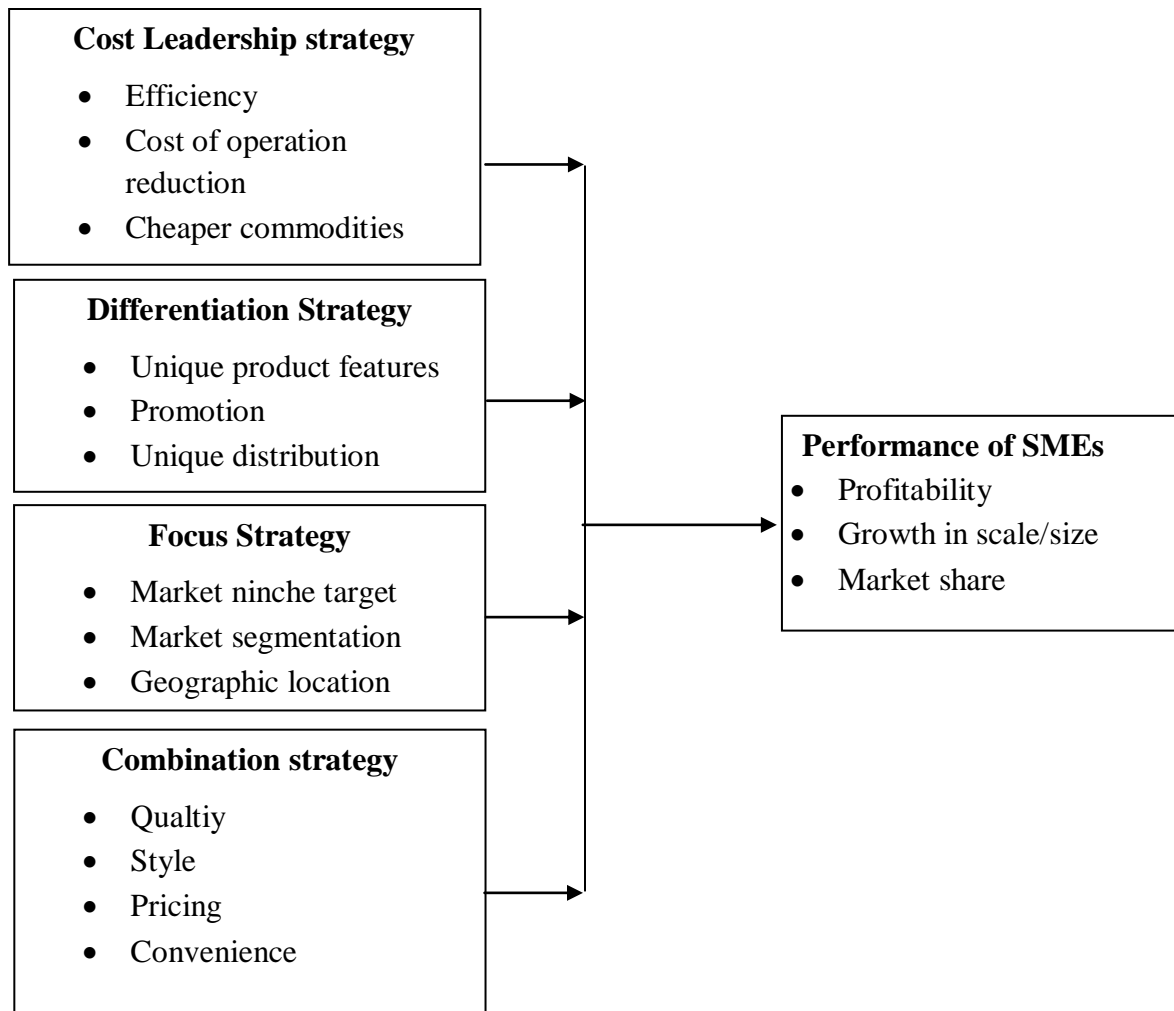
*Source: Resaercher and Literature Reviewed*

## **2.5 Conceptual Framework**

A conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical/ synthetical aspects of a process or system being conceived. It is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The interconnection of independent and dependent variables completes the framework for certain expected outcomes. The independent variables include; cost leadership strategy, differentiation strategy, focus strategy and combination strategy while the dependent variable is performance of SMEs in Nairobi City County.

**Independent Variables**  
**Competitive strategies**

**Dependent Variables**



**Figure 2:1 Conceptual Framework**  
*Source: Researcher, 2018*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology that were used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that were used to select the sample size. It also describes how data was collected, analyzed and presented.

#### **3.2 Research Design**

Kothari (2004) defines research design as the framework that explains how the problem under study will be investigated to solve it. A descriptive survey design was adopted in order to provide an outcome that is clear as well as characteristics that are linked with it at a specific point in time. The relevance of descriptive survey in this particular study is the essence that it does not require several rounds of monitoring but rather focuses on one point in time. According to Cooper & Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. This study was therefore able to generalize the findings to all the enterprises.

#### **3.3 Target Population**

A population is defined as a complete set of individuals, cases or objects with some common observable characteristics, (Mugenda & Mugenda, 2003). The population for this study were all the proprietors of SMEs in Nairobi City County. The target population for the study was therefore 115 respondents.

**Table 3:1 Target Population**

<b>Cluster</b>	<b>Population</b>	<b>Percentage</b>
Established SMEs	37	32.17%
Medium enterprises and growing	28	24.35%
Small and young start-ups	50	43.48%
<b>Total</b>	<b>115</b>	<b>100%</b>

*Source: Nairobi City County, 2018*

### **3.4 Sample size and Sampling Design**

Sampling techniques provide a range of methods that facilitate in reducing the amount of data that needs to be collected by considering only data from a sub-group rather than all possible cases or elements. Since the population is small, the study adopted a census study to incorporate the entire population in the sample. Therefore the sample was equally 115 respondents.

### **3.5 Data Collection Instruments and Procedure**

According to Kothari (2004), data collection procedures are strategies employed in research to ensure credible, valid and reliable data is obtained to inform the research findings. A semi-structured questionnaire was used to collect primary data from the respondents. The study administered the questionnaire individually to all respondents of the study. The study exercised care and control to ensure all questionnaires issued to the respondents were received and achieved this, the study maintained a register of questionnaires, which were sent, and those that were received. The questionnaire was administered using a drop and pick later method.

### **3.6 Validity and Reliability of the study**

#### **3.6.1 Validity**

Validity is a measure of the degree to which data obtained from the instrument accurately and meaningfully represent the theoretical concept and in particular how the data represents the variables. Where validity has been established, any inferences made from such data will be accurate and meaningful (Mugenda&Mugenda, 2003). The validity of a study increases by using various sources of evidence (Yin, 2003). The first phase of this research employed the econometric technique to investigate the relationship between competitive strategies and performance of SMEs. The data was collected from the proprietors' of the SMEs. This issue confirmed the validity of the data and relevant results.

#### **3.6.2 Reliability**

Cronbach's Alpha was applied to measure the co-efficient of internal consistency and therefore the reliability of the instrument. In order to check reliability of the results, the study used Cronbach's alpha methodology, which is based on internal consistency. Cronbach's alpha measures the average of measurable items and its correlation. SPSS software was used to verify the reliability of collected data. Overall scales' reliability of the present situation and the desirable situation was tested by Cronbach's alpha, which was above the acceptable level of 0.70 (Hair et al., 1998). Alpha above the value of 0.7 is considered acceptable (George &Mallery, 2003). Construct validity technique was used to test the validity of the instrument.

### **3.7 Data Analysis and Presentation**

Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 22) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing the percentages of variations in response as well

as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS (Version 22) to communicate research findings. Content analysis was used to test data that was qualitative in nature or aspect of the data collected from the open ended questions. In addition, the study conducted a multiple regression analysis. The multiple regression equation was;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where;

Y= Performance of SMEs.

$B_0$  - intercept coefficient

$\varepsilon_i$  - error term (extraneous variables)

$X_1$  - cost leadership strategy

$X_2$  - Differentiation strategy

$X_3$  - Focus strategy

$X_4$  - Combination strategy

$\beta_1, \beta_2,$  and  $\beta_3$  = regression coefficients

However, qualitative data was analyzed using a likert scale of 1 to 5 based on weights for the degree of influence of independent variables on the dependent where 1 was for Not at all, 2 for Low extent, 3 for moderate extent, 4 for greater extent and 5 very greater extent

### **3.8 Ethical Considerations**

Informed consent was obtained from all those participating in the study. Those who were not willing to participate in the study were under no obligation to do so. Respondents' names were

not indicated anywhere in the data collection tools for confidentiality and information gathered was only used for the purposes of this academic study. Research authority was sought from NACOSTI and Kenyatta University Graduate school and permission granted. The refereed materials and sources were cited accordingly.

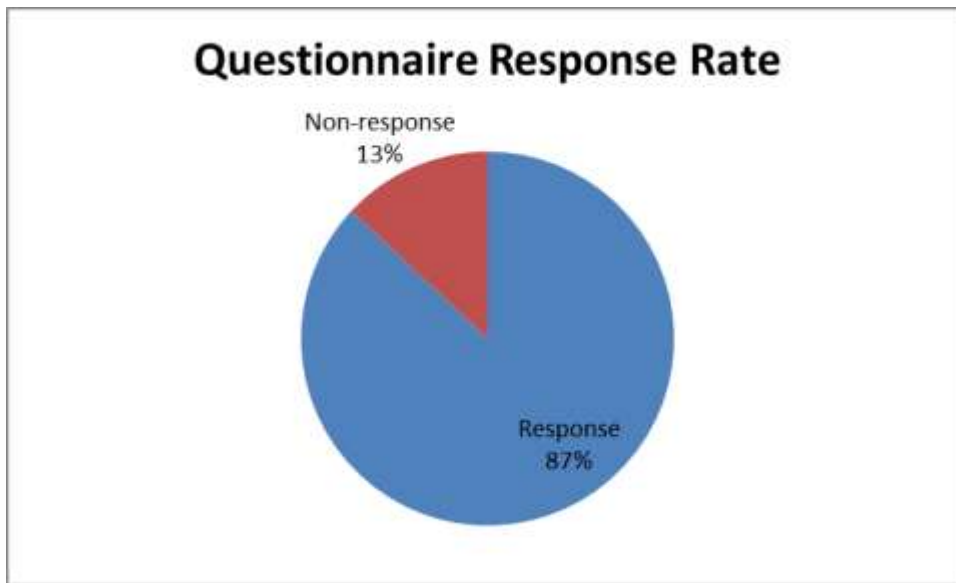
**CHAPTER FOUR**  
**DATA ANALYSIS AND PRESENTATION**

**4.1 Introduction**

This chapter presents the analysis of the collected data, the results and the ensuing findings. Frequency tables and pie charts are presented to illustrate the analysis and interpretation of the data.

**4.1.1 Questionnaire Response Rate**

As mentioned earlier, out of the selected sample of 115 respondents, 15 (i.e. 13.043%) did not respond, hence only 100(86.96%) questionnaires were used in the subsequent analysis. This correlates with Mugenda and Mugenda (2003) recommendation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This clearly shows that the response rate in this study was excellent.



*Figure 4:1 Response rate*

*Source: Field data, 2018*

#### 4.1.2 Validity and Reliability of Research Instruments

In order to determine the reliability of the research instruments, a pretesting was conducted by the researcher. A Cronbach Alpha was used to determine reliability where a coefficient of 0.7 or more indicated that the research instruments were reliable. The findings are indicated in table Table 4.1 below;

**Table 4:1 Validity and Reliability of Research Instruments**

<b>Variables</b>	<b>No. of Items</b>	<b>Cronbach Alpha</b>
Cost leadership strategy	6	0.756
Differentiation Strategy	5	0.809
Focus strategy	6	0.855
Combination strategies	6	0.911
<b>Performance of SMEs</b>	5	0.833

*Source: Researcher, 2018*

From Table 4.2 above, the Cronbach Alpha for performance is 0.833, cost leadership strategy is 0.756, differentiation strategy is 0.809, focus strategy is 0.855 while for combination strategy it was 0.911. Since all the coefficients of Cronbach Alpha were above 0.7, this indicates that the research instruments were reliable.

#### 4.2 Background Information

The study sought to establish the background information on what the firms dealt in, number of employees they had, type of ownership and category of enterprise from the respondents who were proprietors of youth owned SMEs in Nairobi City County. The names of the firms were randomly based on the 100 enterprises in the County.

### 4.2.1 Enterprise Industry

The study sought to establish the industry to which they belonged. The findings were as presented in Figure 4.2 below;

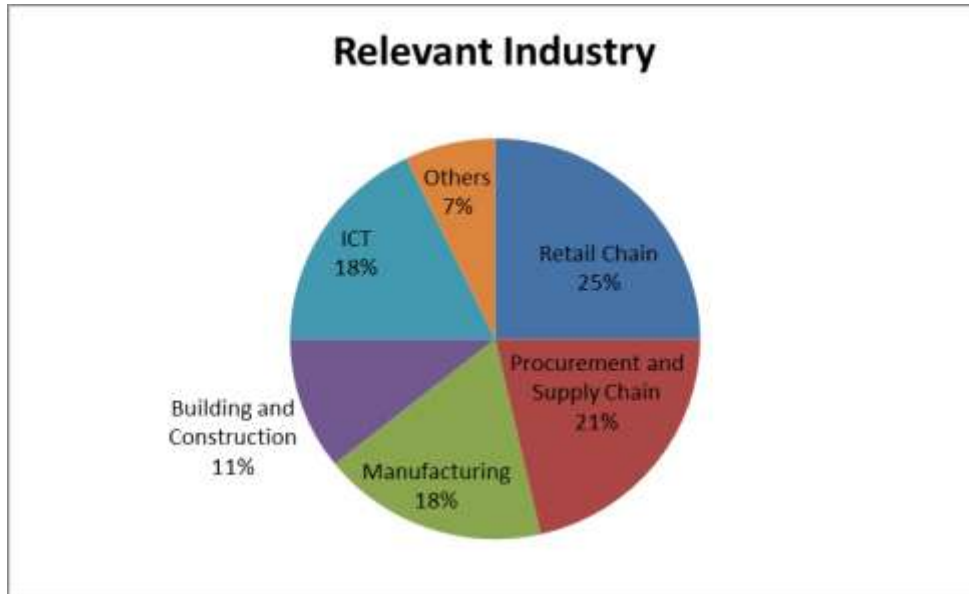


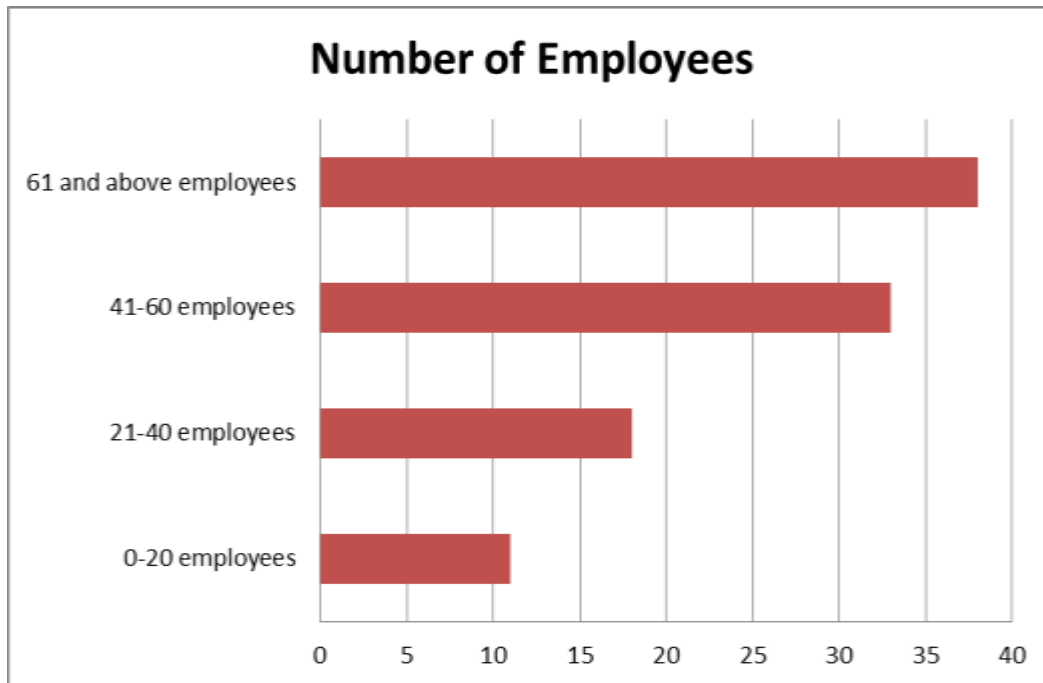
Figure 4:2 Industry to which the enterprises belong to

Source: Researcher, 2018

It was realized that 25% of the sampled enterprises were in the retail chain industry, 21% dealt with procurement, logistics and supply chain management, 18% were engaged in manufacturing, 11% in the building and construction industry, 18% in the ICT sector while 7% of them belonged to other sector like cosmetics, service and Jua Kali. This indicates that most of the SMEs are in the retail chain sector while the least were in the other sectors.

### 4.2.2 Number of Employees

The study further sought to establish the number of employees the SMEs had in Nairobi City County. It was realized that 11% of the firms have between 0-20 employees, 18% had between 21-40 employees, 33% had between 41-60 employees while 38% had 61 and above employees.



*Figure 4:3 Number of employees*

*Source: Researcher, 2018*

From the figure, majority of the SMEs sampled have 61 and above employees. This indicates that most SMEs in Nairobi City County have grown from small scale to middle and large scale.

#### **4.2.3 Ownership structure**

The study sought to determine the type of ownership structure among the SMEs in Nairobi City County ranging from sole proprietorship, partnership, company or any other. The findings were as illustrated below;

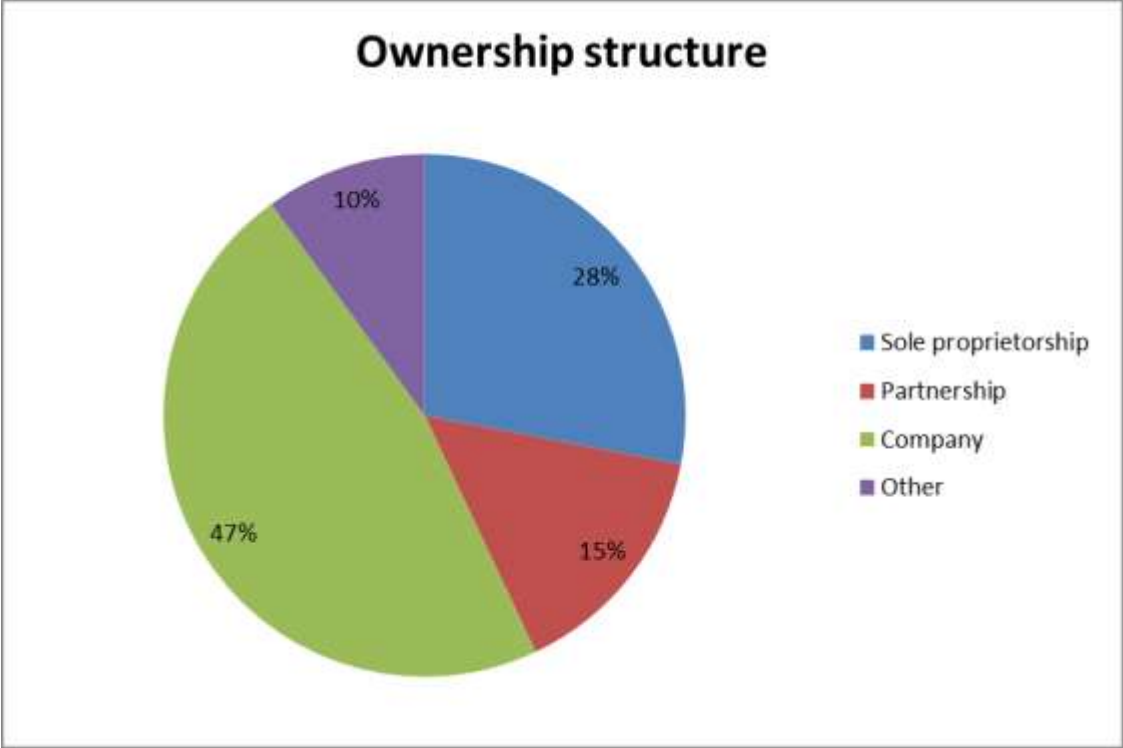


Figure 4:4 SME ownership structure

Source: Researcher, 2018

Figure 4.4 above indicates that 47% of the SMEs are private limited companies, 28% are sole proprietorship type of businesses either family or individual owned, 15% are partnerships while 10% are SACCOs, cooperative societies, foreign owned or a joint venture. A majority of the SMEs are formally registered as companies to enable them access formal businesses and transactions. This has given them an edge on the competitive environment of business.

**4.2.4: Enterprise Category**

The study further sought to assess the category to which the Small and Medium Enterprises belonged on a scale of either small and upcoming, medium or established and large. Most of the enterprises in Nairobi City County are medium (53%) while a few are established (15%) or small and upcoming (32%). This indicates that there is need for proper competitive strategies to aid in advancement of scale from small to medium and subsequently large.

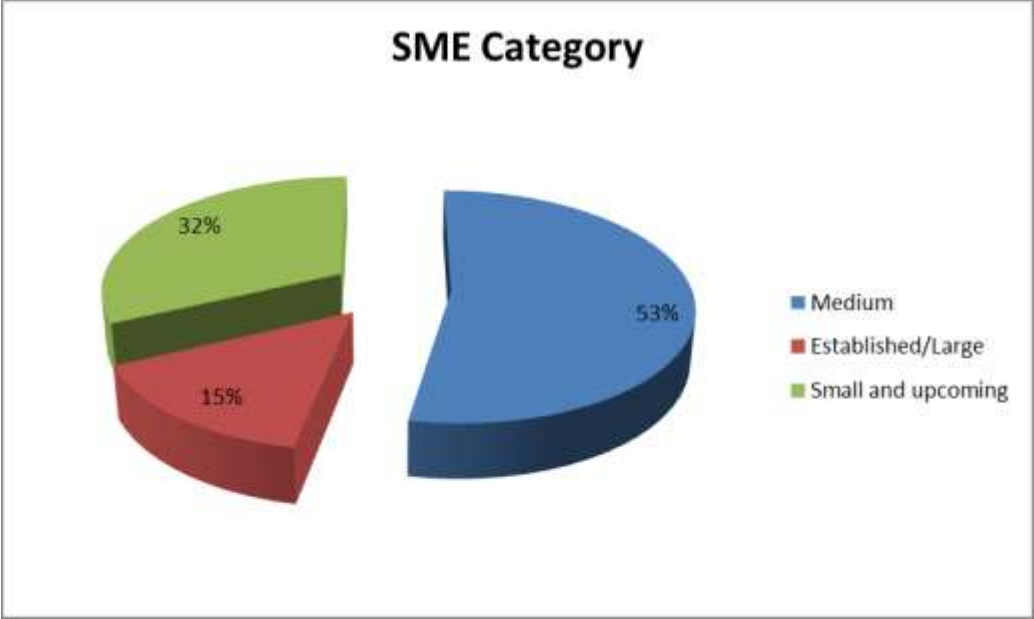


Figure 4:5 Category of SME

Source: Researcher, 2018

**4.3. Low cost leadership strategy**

The study sought to determine the extent to which the following indicators of low cost leadership strategy were adopted by the SMEs in Nairobi City County on a scale of 1-5 where (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all. The findings from the sampled respondents were coded and their mean and standard deviation calculated as tabulated below;

**Table 4:2 Low cost leadership strategy application**

Low cost leadership strategy	Mean	SDEV
Reduction of operational costs	3.55	0.688
Reduction of consumer prices	4.12	0.834
Offers and promotions	3.86	0.922
Improved deliveries and accessibility for customers	3.29	0.877
Reduced cost of transport	2.78	0.802

Source: Field data, 2018

From table 4.1 above, most of the SMEs in Nairobi City County have strived to reduce operational costs aimed at reducing the price of their products as indicated by a mean of 3.55, they have also employed reduced consumer prices to gain competitive advantage at a mean of 4.12. The enterprises significantly employ offers and promotions to gain market demand for their products as indicated by a mean of 3.86. The SMEs have also improved deliveries and accessibility of their goods and services to customers/and clients as indicated by a mean of 3.29 and standard deviation of 0.877. Additionally, the enterprises have also worked on reducing the cost of transport on their goods and resources to cut on the price of their final products as indicated by a mean of 2.78. This indicates that the SMEs have all embraced low cost leadership strategy although on reduction of cost of transport of them have not significantly reduced it which has made their cost reduction efforts in vain.

Due to increased competition in the SME industry, low cost leadership strategy has been a challenge since it has led to low profits and unsustainability given the expensive business environment. The respondents indicated that reducing the cost by either 1 shilling makes the product look cheaper than those higher but this needs to be coupled with other strategies. According to the study, the strategy can be more effect if combined with focus strategy. The SMEs should therefore ensure they identify their market segment. This concurs with Anderson(2014) whose study realized that large and established firms are the ones who can apply the lost cost strategy but small and medium sized enterprises will not get the strategy effective and competitive in the market.

#### **4.4 Differentiation Strategy**

The respondents were requested to rate the extent to which the following indicators of differentiation strategy have been adopted by their respective enterprises on a scale of 1-5 where (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all.

The findings were as tabulated in table 4.2 below;

**Table 4:3 Extent of application differentiation strategy**

<b>Differentiation Strategy</b>	<b>Mean</b>	<b>SDEV</b>
Extended market coverage to new areas	3.58	0.833
Adoption of IT	4.11	0.721
Improved products / services to its customers	3.99	0.903
Ventured from traditional business to new / different	2.33	0.874
Tailored products to suit specific requirements of our clients	3.77	0.692
Introducing new product to the market	2.69	0.844
Reviewed product / service prices to match or be lower than competitors	2.09	0.958
Rebranded our services / products to create market recognition	3.51	0.755

*Source: Field Data, 2018*

From table 4.2, it is evident that the SMEs have significantly adopted the differentiation strategy aimed at making them unique in the ever competitive business environment. Most of them have adopted new information technology to give them an edge as indicated by a mean of 4.11 and a standard deviation of 0.721 which indicates a significant deviation from the mean. The enterprises have also extended to new market areas that have not been reached by rivals at a mean of 3.58, improved their products/services to fit client/customer needs (3.99), rebranded the products to improve market recognition and preference as indicated by a mean of 3.51, tailored their products to suit specific requirements of their clients (3.77), introduced used and new products into the market (2.69). However the enterprises have not done well in reviewing their product/service prices to match or be lower than their competitors (2.09) nor ventured from traditional businesses to new or different ones as indicated by a low mean of 2.33. This indicates that the SMEs have strived to make their products unique and gain market share but have not worked on their prices which is a significant determinant of market demand.

Given the free market economy, this strategy proves to be challenging since other players take advantage of it and gain market demand. The SMEs strive to make their products unique, come up with new products, adopt technology, venture into other markets not reached by others entities but price has not been affected. There is need to coin this strategy with low cost leadership strategy for the enterprises to perform as indicated by Gamble(2010) in his study on SMEs in Pakistan.

#### 4.5 Focus strategy

The study also requested respondents to rate the extent to which the following indicators of differentiation strategy adopted by the Small and Medium Enterprises in Nairobi City County on a scale of 1-5 where (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all. The findings were coded, cumulated and averages and standard deviations calculated as indicated below to show the weight of each of the options taken by the respondents.

**Table 4:4 Extent of application of focus strategy among SMEs**

<b>Focus Strategy</b>	<b>Mean</b>	<b>SDEV</b>
Remained in same business and advanced in customer service	4.55	0.847
Have come up with product/service range to cater for all client categories	4.18	0.907
Extended to locations where customers emanate from	3.97	0.709
Enhanced efficiency and effectiveness	4.11	0.881

*Source: Field data, 2018*

From the table above, it is clear that focus strategy is extensively applied by most SMEs in Nairobi City County. The proprietors indicated that they remained in same business and advanced in customer service at a high mean of 4.55, came up with product/service range to cater for all client categories at a mean of 4.18, extended to locations where customers emanated from at a mean of 3.97 and enhanced efficiency and effectiveness in their operations at a high mean of 4.11. This indicates that the firms focused on their market segments and worked on their products and services to ensure they maximized the potential and demand of the market.

This strategy, according to the proprietors of the enterprises, proves to be effective since it promotes progressive development and growth of an SME from small, to medium to large. They have applied the strategy which has turned round their growth rate and general operational performance. This is in tandem with a study by Ireland *et al* (2011) who also realized that the strategy is effective for start-ups. However the strategy proves to be challenging if the market needs change and trends against the firm area of specialization. This calls for diversification and also a hybrid strategy either either differentiation or cost leadership.

#### 4.6 Combination Strategy

The study sought to determine extent to which Porter' generic strategy of combination has been adopted by the selected Small and Medium Sized enterprises in Nairobi City County on a scale of 1-5 where (5) Very large extent (4) large extent (3) moderate extent (2) less extent and (1) not at all based on the indicators tabulated below. The findings were as indicated in table 4.4 below;

**Table 4:5 Extent of adoption of Combination strategy by SMEs in Nairobi City County**

<b>Combination strategy</b>	<b>Mean</b>	<b>SDEV</b>
Improved customer service	3.66	0.881
Reduced prices relatively below our competitors but remained	2.44	0.907
Diversification to other business to remain aloft	2.10	0.699
Stakeholder involvement	2.19	0.801

*Source: Field data, 2018*

Table 4.4, evidently indicates that the SMEs in Nairobi City County, sparingly apply the combination strategy to gain competitive advantage. This theory calls for a hybrid of focus, differentiation or cost leadership strategies. The SMEs were however found to have improved customer service to gain customer loyalty given the competitive environment at a high mean of 3.66 but failed to reduce prices relatively to their competitors and remain solvent, diversify to other businesses and remain profitable and also involve stakeholders in management, operations and decision making as depicted by a low mean of 2.44, 2.10 and 2.19 respectively. The challenge in implementing this strategy is lack of balance on the two strategies merged given the limited skills and knowledge among the proprietors and also lack of cooperation from stakeholders and limited resources to help steer the implementation of the strategy as also indicated by Kiechel (2010).

#### 4.7 Organization Performance

The study sought to establish the degree of organisational performance as measured via various indicators among the selected SMEs in Nairobi City County on a scale of 1-5 where

(5) Very large extent (4) large extent (3) moderate extent (2) less extent and (1) not at all.

The findings were as tabulated below;

**Table 4:6 Organizational Performance of SMEs in Nairobi City County**

<b>Performance Indicators</b>	<b>Mean</b>	<b>SDEV</b>
Improved internal processes for increased efficiency	2.87	0.749
The employee turnover has reduced due to satisfaction	1.88	0.801
Customer loyalty has increased due to satisfaction	2.59	0.855
Brand recognition in the market has improved	3.25	0.799
Improvement of professionalism in customer service	2.77	0.688
Growth of employees/self in number and skills	3.44	0.913
Increased engagement with the public through open days	1.77	0.877

*Source: Field Data, 2018*

Table 4.5, indicates that the SMEs are generally not performing very well. They have however improved internal processes for increased efficiency (2.87), customer loyalty improved due to satisfaction (2.59), recognition of their brands significantly improved (3.25), their number of employess or owners improved in number and skills (3.44) and also improved in terms of handing customers with professionalism (2.77). The SMEs have also not done well in reducing employee turn over (1.88) and public or stakeholder engagement (1.77). Low engagement with the public has signifincatly contributed to poor performance since the enterprises are not in touch the source of their market and human resource.

#### **4.8 Regression Analysis**

The researcher conducted multiple regression analysis to establish the influence of competitive strategies on organizational performance of SMEs in Nairobi City County. The findings are indicated in subsequent sections;

**Table 4:7 Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
<b>1</b>	0.899	0.851	0.811	0.595

*Source: Field Data, 2018*

The table above indicates the model summary. From the findings, R was 0.899, R square was 0.851 and adjusted R squared was 0.811. An R square of 0.851 implies that 85.1% of changes in organizational performance of SMEs in Nairobi City County, Kenya is explained by the independent variables of the study. There are however other factors that influence performance of SMEs in Nairobi City County, Kenya that are not included in the model which account for 14.9%. An R of 0.899 on the other hand signifies strong positive correlation between the variables of the study.

**Table 4:8 ANOVA**

<b>Model</b>	<b>SS</b>	<b>df</b>	<b>MS</b>	<b>F</b>	<b>Significance</b>
Regression	638.04	6	560.4	676.015	0.0912
Residual	281.40	341	0.950		
<b>Total</b>	<b>919.44</b>	<b>347</b>			

*Source: Field data, 2018*

From the ANOVA table above, the value of F calculated is 676.015 while F critical is 489.465. Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.000 which is less than 0.05 and therefore statistically significant.

**Table 4:9 Regression Coefficients**

Model	Unstandardized coefficients		Standardized Coefficients	t	Sig
	B	Std Error	Beta		
Constant	7.49	0.674		8.012	0.000
Low cost leadership strategy	0.655	0.022	0.811	14.15	0.00
Differentiation strategy	0.876	0.033	0.120	11.04	0.000
Focus strategy	0.945	0.029	0.127	1.15	0.000
Combination strategy	0.860	0.031	0.384	4.42	0.000

Source: Field data, 2018

The resultant regression equation becomes;

$$Y = 7.49 + 0.655X_1 + 0.876X_2 + 0.945X_3 + 0.860X_4$$

Where Y is the organizational performance of SMEs in Nairobi City County, Kenya;  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  are the regression coefficients and  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  represent low cost leadership, differentiation, focus and combination strategies respectively.

This implies that when all the variables of the study are held constant, performance of SMEs in Kenya will be at the intercept which is 7.49. A unit improvement in low cost leadership strategy while all other factors held constant results in 0.655 increase in performance of the SMEs, a unit increase in differentiation strategy with other factors *ceteris paribus* leads to 0.876 increase in performance of the SMEs. Similarly a unit increase in focus strategy while other factor *ceteris paribus*, translates to a 0.945 increase in performance of SMEs in Kenya while a unit increase in adoption of combination strategy with other factors held constant leads to a 0.860 improvement in performance of SMEs in Kenya.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a summary of the findings of the study, conclusion and suggests some recommendations. At the end of this chapter suggestions for further study and research are suggested. These are areas that in future can be explored to further the knowledge and research on strategic management practices.

#### **5.2 Summary of the Findings**

##### **5.2.1 Low cost leadership strategy and organizational performance**

The study revealed that the most of the SMEs in Nairobi City County have employed the low cost leadership strategy to a significant level through reduction of operational costs aimed at reducing the price of their products, reducing consumer prices to gain competitive advantage, use of offers and promotions to gain market demand for their products, improved deliveries and accessibility of their goods and services to customers/and clients and also worked on reducing the cost of transport on their goods and resources to cut on the price of their final products. This indicates that the SMEs have all embraced low cost leadership strategy although on reduction of cost of transport of them have not significantly reduced it which has made their cost reduction efforts in vain.

##### **5.2.2 Differentiation strategy and Organizational performance**

The study revealed that the SMEs have significantly adopted the differentiation strategy aimed at making them unique in the ever competitive business environment. Most of them have adopted new information technology to give them an edge. The enterprises have also extended to new market areas that have not been reached by rivals, improved their products/services to fit client/customer needs, rebranded the products to improve market recognition and preference as indicated by a mean of 3.51, tailored their products to suit specific requirements of their clients,

introduced used and new products into the market. However the enterprises have not done well in reviewing their product/service prices to match or be lower than their competitors nor ventured from traditional businesses to new or different ones. This indicates that the SMEs have strived to make their products unique and gain market share but have not worked on their prices which is a significant determinant of market demand.

### **5.2.3 Focus strategy and organizational performance**

The study realized that focus strategy is extensively applied by most SMEs in Nairobi City County. The proprietors indicated that they remained in same business and advanced in customer service at a high mean of 4.55, came up with product/service range to cater for all client categories, extended to locations where customers emanated from and enhanced efficiency and effectiveness in their operations. This indicates that the firms focused on their market segments and worked on their products and services to ensure they maximized the potential and demand of the market.

This strategy, according to the proprietors of the enterprises, proves to be effective since it promotes progressive development and growth of an SME from small, to medium to large. They have applied the strategy which has turned round their growth rate and general operational performance. However the strategy proves to be challenging if the market needs change and trends against the firm area of specialization. This calls for diversification and also a hybrid strategy either either differentiation or cost leadership

### **5.2.4 Combination strategy and organizational performance**

It was realized that the SMEs in Nairobi City County, sparingly apply the combination strategy to gain competitive advantage. The SMEs were however found to have improved customer service to gain customer loyalty given the competitive environment but failed to reduce prices relatively to their competitors and remain solvent, diversify to other businesses and remain profitable and also involve stakeholders in management, operations and decision making. The

challenge in implementing this strategy is lack of balance on the two strategies merged given the limited skills and knowledge among the proprietors and also lack of cooperation from stakeholders and limited resources to help steer the implementation of the strategy.

### **5.3 Conclusions**

The study concluded that the Michael Porter's generic strategies of competitive advantage used in the study which include low cost leadership strategy, differentiation strategy, focus strategy and combination strategy significantly influenced the organizational performance of SMEs in Nairobi City County, Kenya. The variables explained 85.11% of the changes in organizational performance of the SMEs. A unit increase in low cost leadership strategy adoption by SMEs led to a 0.655 increase in organizational performance of the SMEs, a unit increase in differentiation strategy adoption led to a 0.876 increase in performance of the enterprises, a unit increase in focus strategy transformed to a 0.945 increase in performance of the firms while a unit increase in application of combination strategy by the SMEs led to a 0.860 increment in their overall performance.

The focus strategy was applied to a greater extent by the SMEs in gaining competitive advantage followed by differentiation, combination and the least applied strategy was low cost leadership strategy which proved to be challenging to the start-ups and medium SMEs due to limited resources, vast market and free market economy system which could not favour them.

Combination strategy had more challenge in application since it involved the hybrid of differentiation and focus strategy however the SMEs tried to focus on a given market, product, location and gain market share. This led to vast development and advancement in category of the enterprise from small to medium and ultimately large enterprises.

The SMEs were found to fast adopting changes in technology, customer preferences, government policy and market trends to remain aloft in the ever growing and competitive market. The study further realized that the strategies need to be intertwined for excellent results.

### **5.4 Recommendations**

It was recommended that in order to for the SMEs to grow in scale and profitability and also to compete favourably, they need to embrace Michael Porter's generic strategies of competitive advantage. However they need to be selecting and mix those that can work hand in hand. The focus strategy should be applied by most firms but also diversification of products, market and

customers is key in risk management given the ever changing market niche and trend. The SMEs further need adopt with the changes in government policy, technology, customer needs and requirements, market trends and forces to amecably apply the strategies and compete fairly.

### **5.5 Suggestions for Further Study**

The study recommends that further studies be done on the influence of combination strategies on performance of SMEs in Kenya, the analysis of the effect of customer engagement on the performance of SMEs in Kenya and a comparative study on the opportunities between SME development and strategic management in Kenya

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## APPENDIX I: QUESTIONNAIRE

I am an MBA student from Kenyatta University. As part of the requirements for the award of the Masters degree, am carrying out a study on the competitive strategies and performance of SMEs in Nairobi County, Kenya. I am therefore requesting that you assist in filing this questionnaire to inform the findings. Thank you

The answers provided for this questionnaire will solely be used for academic purposes and they will be treated with the highest level of confidentiality.

### Section A: Organisation Bio-Data (Optional)

1. Name of the Firm .....

2. What does your enterprise(s) deal with?

.....

3. How many employees does your enterprise have?

4. What is the type of ownership does your enterprise have?

Sole Proprietorship

Partnership

Company

Other (specify)

5. Categorize your enterprise on the following scale

Small and upcoming

Medium

Established and large

Other (specify)

### Section B: Low cost leadership strategy

6. The following are indicators of low cost leadership strategy, please indicate the extent to which your enterprise adopts them. Please tick in consideration of the key provided below.

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

<b>Low cost leadership strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Reduction of operational costs					
Reduction of consumer prices					
Offers and promotions					
Improved deliveries and accessibility for customers					
Reduced cost of transport					

7. Does your SME face any challenges in implementing this strategy?

Yes ( ) No ( )

Please explain.....

8. How can this strategy be more effective in making your SME profitable?

.....  
 .....  
 .....

**Section C: Differentiation Strategy**

9. The following are indicators of differentiation strategy, please indicate the extent to which your enterprise adopts them. Please tick in consideration of the key provided below.

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

<b>Differentiation Strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Extended market coverage to new areas					
Adoption of IT					
Improved products / services to its customers					
Ventured from traditional business to new / different					
Tailored products to suit specific requirements of our clients					
Introducing new product to the market					
Reviewed product / service prices to match or be lower than competitors					



<b>Combination strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Improved customer service					
Reduced prices relatively below our competitors but remained solvent					
Diversification to other business to remain aloft					
Stakeholder involvement					

16. What challenges do you face in implementing combination strategy?

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17. Please highlight any other strategies that the firm has employed to remain competitive in the market.

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**Section F: Organization Performance**

8. Organisation performance can be measured along various indicators; to what extent has your Organisation achieved improvement along the terms;

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

<b>Performance Indicators</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Improved internal processes for increased efficiency					
The employee turnover has reduced due to satisfaction					
Customer loyalty has increased due to satisfaction					
Brand recognition in the market has improved					
Improvement of professionalism in customer service					
Growth of employees/self in number and skills					
Increased engagement with the public through open days					

### **APPENDIX III: LIST OF SMES IN NAIROBI**

1. ATLAS PLUMBERS AND BUILDERS
- 2 TROPIKAL BRANDS AFRIKA
- 3 KEPPEL INVESTMENTS LTD
- 4 SHIAN TRAVEL
- 5 RUPRA CONSTRUCTION CO.
- 6 POWERPOINT SYSTEMS (E.A) LTD
- 7 CHEMICAL AND SCHOOL SUPPLIES
- 8 SATGURU TRAVEL AND TOURS
- 9 RADAR LTD
- 10 KENTONS LTD
- 11 AVTECH SYSTEMS LTD
- 12 SAI PHARMACEUTICALS LTD
- 13 KUNAL HARDWARE AND STEEL
- 14 CONINX INDUSTRIES LTD
- 15 R & R PLASTIC LTD
- 16 CAPITAL COLOURS C. D LTD
- 17 ASL CREDIT LTD
- 18 KANDIA FRESH PRODUCE SUPPLIERS LTD
- 19 FURNITURE ELEGANCE LTD
- 20 MURANGA FORWARDERS LTD
- 21 BBC AUTO SPARES LTD
- 22 DIGITAL DEN LTD
- 23 XRX TECHNOLOGIES LTD
- 24 NAIROBI GARMENTS ENTERPRISE LTD
- 25 CHARLESTON TRAVEL LTD
- 26 SPICE WORLD LTD
- 27 MASTER POWER SYSTEMS LTD

- 28 SOFTWARE TECHNOLOGIES LTD
- 29 KENBRO INDUSTRIES LTD
- 30 SKYLARK CREATIVE PRODUCTS LTD
- 31 GANATRA PLANT & EQUIPMENT LTD
- 32 SECURITY WORLD TECHNOLOGY LTD
- 33 SPECIALIZED ALUMINIUM RENOVATORS LIMITED
- 34 WINES OF THE WORLD LTD
- 35 VIRGIN TOURS LTD
- 36 ARAMEX KENYA LTD
- 37 CANON ALUMINIUM FAB LTD
- 38 PANESAR'S KENYA LTD
- 39 TYRE MASTERS LTD
- 40 LANTECH AFRICA LTD
- 41 WARREN ENTERPRISE LTD
- 42 AFRICA TEA BROKERS LTD
- 43 MERIDIAN HOLDINGS LTD
- 44 DUNE PACKAGING LTD
- 45 THE PHOENIX LTD
- 46 FAIRVIEW HOTEL LTD
- 47 SPECICOM TECHNOLOGIES LTD
- 48 PUNSANI ELECTRICALS & INDUSTRIAL HARDWARE LTD
- 49 BISELEX (K) LTD
- 50 VICTORIA FURNITURES LTD
- 51 GINA DIN CORPORATE COMM
- 52 AMAR HARDWARE LTD
- 53 MELVIN MARSH INTERNATIONAL
- 54 LANOR INTERNATIONAL LTD
- 55 SYNERMED PHARMACEUTICALS (K) LTD
- 56 SAHAJANAND ENTERPRISES LTD
- 57 VEHICLE & EQUIPMENT LEASING LTD
- 58 SILVERBIRD TRAVELPLUS

- 59 WAUMINI INSURANCE BROKERS LTD
- 60 KENAPEN INDUSTRIES LTD
- 61 HARDWARE AND WELDING SUPPLIES
- 62 ISOLUTIONS ASSOCIATES
- 63 MOMBASA CANVAS LTD
- 64 EAST AFRICA CANVAS CO
- 65 TOTAL SOLUTIONS LTD
- 66 PRINT FAST (K) LTD
- 67 OPTIWARE COMMUNICATIONS LTD
- 68 DEEPA INDUSTRIES LTD
- 69 ENDEAVOUR AFRICA LTD
- 70 TRAVEL SHOPPE CO LTD
- 71 KEMA (E.A) LTD
- 72 AMAR DISTRIBUTORS LTD
- 73 PWANI CELLULAR SERVICES
- 74 SHEFFIELD STEEL SYTEMS LTD
- 75 GENERAL ALUMINIUM
- 76 CREATIVE EDGE LTD
- 77 BROLLO KENYA LTD
- 78 TRIDENT PLUMBERS LIMITED
- 79 PHYSICAL THERAPY SERVICES LTD
- 80 PRAFUL CHANDRA & BROTHERS LTD
- 81 DHARAMSHI LAKHAMSHI & CO / DALCO KENYA
- 82 MADHUPAPER KENYA LTD
- 83 UNION LOGISTICS LTD
- 84 OIL SEALS AND BEARING CENTRE LTD
- 85 SKYLARK CONSTRUCTION LTD
- 86 BIODEAL LABORATORIES LTD
- 87 WARREN CONCRETE LTD
- 88 RONGAI WORKSHOP & TRANSPORT
- 89 COMPLAST INDUSTRIES LTD

- 90 KINPASH ENTERPRISES LTD
- 91 SIGHT AND SOUND COMPUTERS LTD
- 92 DE RUITER EAST AFRICA LTD
- 93 ACE AUTOCENTRE LTD
- 94 KENYA SUITCASE MFG LTD
- 95 HEBATULLAH BROTHERS LTD
- 96 MARKET POWER INT. LTD
- 97 NIVAS LTD
- 98 SIGMA SUPPLIERS LTD
- 99 IMPALA GLASS INDUSTRIES LTD
- 100 EGGEN JOINEX LTD `
- 101 MAACO ENTERPRISE LIMITED
- 102 ADVERTISING LIMITED
- 103 3M OVERSEAS EDUCATION ADVISORY CENTRE
- 104 A AND J INVESTMENTS CO. LIMITED
- 105 AADA CONSTRUCTION CO. LTD
- 106 AAJAB CLEANERS LIMITED
- 107 AARAFA COMMUNICATION SOLUTIONS LIMITED
- 108 AARI LIMITED
- 109 DON RIBIRIE LIMITED
- 110 DONATAN PREMIER CONTRACTORS(K) LTD
- 111 DONCHE ENTERPRISES
- 112 DONDAN HOLDINGS LIMITED
- 113 DONDER COMPANY LTD
- 114 DONEKS AGENCIES
- 115 DONKIN ENTERPRISES