

**INFLUENCE OF COMPETITIVE STRATEGIES ON SMALL AND MICRO  
ENTERPRISES' PERFORMANCE: SURVEY OF ELECTRONICS SHOPS IN  
MACHAKOS TOWN AND ENVIRONS**

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## DECLARATION

This project is my original work and has not been presented for any academic award in any other university.

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## **DEDICATION**

I dedicate this research project to my wife, Grace and our three sons for their unwavering support to me. May God bless them abundantly.

## **ACKNOWLEDGEMENTS**

I take this opportunity to thank God for the grace of good health during the whole period of my study. Special thanks go to my supervisors; Prof. Robert Arasa and Dr. Margret Nганu who have guided me in putting together this research Project.

## TABLE OF CONTENTS

DECLARATION .....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENT .....	iv
LIST OF TABLES .....	viii
LIST OF FIGURES .....	ix
ABBREVIATIONS AND ACRONYMS .....	x
OPERATIONAL DEFINATION OF TERMS .....	xi
ABSTRACT .....	xii
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the study .....	1
1.2 Small and microenterprises (SMEs) .....	3
1.3 Statement of the Problem.....	9
1.4 Objectives of the study.....	10
1.5 Research questions.....	10
1.6 Significance of the study.....	11
1.7 Scope of the Study .....	11
1.8 Limitations of the study .....	12
CHAPTER TWO: .....	13
LITERATURE REVIEW .....	13
2.1 Introduction.....	13
2.2Theoretical literature review .....	14
2.3 Empirical literature Review .....	20

2.4 Summary of Literature review and Research Gaps .....	25
2.5 Conceptual Framework.....	26
CHAPTER THREE: .....	28
RESEARCH METHODOLOGY.....	28
3.1 Introduction.....	28
3.2 Research Design.....	28
3.3 Target Population.....	28
3.4 Sampling Design and sample size.....	29
3.5 Instrument of Data Collection.....	29
3.6 Pilot Test .....	30
3.7 Data Collection Procedures.....	30
3.8 Data Analysis and Presentation .....	31
3.9 Ethical Issues. ....	33
CHAPTER FOUR.....	34
RESEARCH FINDINGS ANALYSIS AND DISCUSSION.....	34
4.1 Introduction.....	34
4.2. Response Rate .....	34
4.3 Demographic information.....	34
4.4 Descriptive Statistics.....	37
4.5 Regression Analysis.....	44
CHAPTER FIVE .....	47
SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS.....	47
5.1 Introduction.....	47
5.2 Summary of the Findings.....	47

5.3 Conclusion .....	49
5.4 Recommendations.....	51
5.5 Areas for Further Study .....	52
REFERENCES .....	54
Appendix I: Letter to respondents.....	63
Appendix II: Questionnaire.....	64
Appendix III: Letter for NACOSTI permit.....	69
AppendixIV: NACOSTI permit.....	70

## **LIST OF TABLES**

Table 1: Sampling frame.....	29
Table 2: Response Rate.....	34
Table 3: Education Level of the respondents.....	35
Table 4: Practices for Low cost leadership strategy .....	38
Table 5: Practices for Differentiation strategy .....	40
Table 6: Practices for Focus strategy .....	41
Table 7: Practice of Hybrid Strategy .....	42
Table 8: Performance of Small and Micro Enterprises (SMEs) .....	43
Table 9: Model Summary .....	44
Table 10: ANOVA .....	45
Table 11: Coefficients.....	46



## **LIST OF FIGURES**

Figure 1: Conceptual framework .....	27
Figure 2: Gender of the Respondents.....	35
Figure 3: Duration business has been in operation .....	36
Figure 4: Nature of business .....	37

## **ABBREVIATIONS AND ACRONYMS**

**CBS:** Central Bureau of Statistics

**GOK:** Government of Kenya

**ILO:** International labor organization

**SMEs:** Small and Micro Enterprises

**NACOSTI:** National Commission for Science, Technology and Innovation

**OECD:** Organization for Economic Development

**PESTEL:** Political, economic, social, technological, ethical/environmental and legal

**ROI:** Return on investment

**SWOT:** Strengths, Weakness, Opportunities and Threats

**UNIDO:** United Nations Industrial Development Organizations

## OPERATIONAL DEFINITION OF TERMS

**Business performance indicators:** These are measures of effectiveness and efficiency of business activities or strategies toward achieving set objectives.

**Competitive advantage:** This is a situation where a firm's product or service is perceived by customers in its target market to be better than those of its competitors.

**Competitive strategy:** This is a concept that describes the most favorable competitive position by a firm within its industry competitive arena which can either be low cost, differentiated, or focus strategy.

**Electronics retail firm:** This is a retail outlet which offers sales and services on electronics equipment used for communication, recreation or entertainment

**Micro Enterprise:** This refers to a firm that employs between 1 and 9 employees

**Retail:** This is a business activity that involves the selling of goods or services to the consumers in relatively small quantities for their consumption and not resale.

**Small Enterprise:** This refers to a firm that employs between 10 and 49 employees

**Strategy:** This is concept adopted and used by any organization and which gives it a coherent direction towards achieving its organization objectives within a competitive business environment.

## ABSTRACT

Small and Microenterprise (SME) is a vital economic sector in Kenyan since it employs about 85% of the total Kenyan workforce. Competitive strategies practiced by SMEs determine their growth and longtime survival. This study intended to investigate the influence of various generic competitive strategies on performance of SMEs in Machakos Town and its environs. The study was guided by four objectives namely; influence of cost leadership strategy, influence of differentiation strategy, influence of focus strategy and influence of hybrid strategy on performance of Small and Micro enterprises (SMEs) in Machakos town and its environs. Semi-structured questionnaires were administered by the researcher on the respondents to collect data. The study employed census sampling technique on a population of 40 registered electronics retail firms in Machakos town. The target respondents for this study were either owners or managers of licensed electronics retail firms operating in Machakos Town. Reliability and validity of the research instrument was tested by conducting a pilot test on 6 respondents randomly selected from the target population. The collected data was analyzed and findings presented using tables and bar charts to help make comparison of data, identify relationship between practice of generic competitive strategies and SMEs performance. Multiple regression analysis was used to establish the nature and magnitude of the influence of practice of cost leadership strategy, differentiation strategy, focus strategy and hybrid strategy on SMEs performance in Machakos town. The R Square value for this study was 0.705; this range between 0 and 1. Analytically, this shows that 70.5% of variations in the dependent variable can be explained by the independent variables. This means 70.5% of variations in Performance of Small and Micro Enterprises (SMEs) can be explained by cost leadership strategy, differentiation strategy, hybrid strategy and focus strategy, while the remaining 29.5 % is associated with factors that are not within the scope of this study. From the findings in the regression analysis, if the factors Cost Leadership Strategy, Differentiation Strategy, Hybrid Strategy, Focus Strategy) were held constant Performance of Small and Micro Enterprises (SMEs) would be at 0.971. A unit increase in each independent variables would lead to an increase in Performance of Small and Micro Enterprises (SMEs) by value of its beta coefficient where beta coefficient for Differentiation, Focus, Hybrid and Cost Leadership Strategies are 0.184, 0.355, 0.764 and 0.306 respectively. The study revealed that SMEs practicing focus strategies concentrate on particular niche markets, understand unique customers needs then develop uniquely low-cost or well-differentiated products for the market. The study findings concluded that cost leaders tend to keep their costs low by minimizing on advertising, market research, and product development costs. The study concluded that differentiation strategy is best exploited by SMEs offering specialized services like repair of electronic household goods and mobile phones. The regression analysis explains only 70.5% of relationship between performance of SMEs in Machakos Town and cost leadership, differentiation, focus and hybrid strategies. This implies that 29.5% of variations on performance of SMEs in Machakos town and its environs are linked to other factors outside this study. More studies therefore need to be carried out to establish these additional factors and how they impact on performance of SMEs in Machakos Town.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Both small and established mega businesses across the world continuously experience stiff competition within their operating business environment due to globalization and market liberalization. Businesses therefore face challenges that require regular monitoring and evaluation of their strategic management. Success or failure of any business organization largely depends on its capability to formulate and implement a sustainable strategy that gives it advantaged opportunities to minimize threats towards achieving its organizational objectives within its evolving and turbulent market. To achieve this competitive advantage, business owners and managers seek to formulate and implement competitive strategies. The goal of every competitive strategy is to achieve sustainable competitive advantage (Salvador Vivas Lopes, 2005, Stalk & Lachenauer, 2004). Strategy formulation and implementation is key to success of any organization. Formulation and implementation of competitive strategy enables organization's management to remain committed in pursuing a particular set of actions to grow its revenue, customer base, market share and performance. Established organizations are known to put in huge amount of resources in formulating competitive strategies and an equal amount of focused energy in implementation of these strategies, However, SMEs which are considered as economic backbone of every country face the greatest challenges in formulation and implementation competitive strategy.

The dividends of healthy competitive strategies are paid in form of impressive performance indicators which include, ability to attain a set of business goals, ability to cost effectively secure the scarce but valued resources within its operating environment and efficient human resource management. For a sustained competitive performance, a business needs to have a proactive approach to business plan (Pearce & Robinson,2007). Various theories explain different approaches that businesses adopt to achieve and sustain competitiveness. The existence of different theoretical approaches means there is no single best approach to manage a business. The Michael porter's generic strategies model fronts 3 different strategies to attaining competitive advantage.

These strategies are low cost leadership, differentiation and focus strategies (Porter, 1998). These competitive strategies were initially developed for and applied by formal medium and large organizations which required human skills and resources for strategic planning.

Small and micro enterprises, SMEs are defined by a number of factors and criteria, such as location, size, age, structure, organization, number of employees, sales volume, worth of assets, ownership through innovation and technology (Rahman, 2001). In Kenya Small and Micro Enterprises (SMEs) are firms employing between 1 and 49 employees. A micro enterprise employs 1 to 9 employees while a small enterprise employs 10 to 49 employees (GoK, 2005). Small, medium and micro enterprises are considered backbone of economic growth in all countries. In both developed and developing countries, SMEs provide income and livelihood to majority of people while supplying goods and services to larger organizations. Pandya (2012) observe that Taiwan and Japan high economic growth this guided by dynamic Small and medium enterprises sector while the United States Commission's first report on SMEs (2010) noted that more than 99 percent of U.S. businesses are SMEs. The informal SMEs serve as important take off platforms for business into large scale formal modern production (Bridge & O'Neill, 2012). In developing African countries, small enterprises are engines of economic growth and employment in (Vijayakumar, 2013). According to Nendakulola (2015) small enterprises contribute to over 90% of African business activities and create over 50% of African employment. According to ILO (2000) the SMEs in Sub-Saharan Africa (SSA) operate small scale business whose activities have no division between capital and labor.

In Kenya, SMEs create 80% of total employment and contribute to approximated 18% of the nation GDP (Kithae, 2012). The use of local resources and technologies enables easy entry and participation of large numbers of local entrepreneur in SMEs economic activities. Besides creating jobs, Kachembere (2011) noted that small enterprises are playing pivotal role in promoting grassroots economic growth and equitable sustainable development, Muriithi et al (2012), observes that about 33 % of value addition on

manufacturing and retail trade in Kenya is done by SMEs. This hence means the enormous contribution by SMEs to the entire economy cannot be overlooked (Mbogo, 2011).

A survey by the Kenya National Bureau of Statistics (KNBS, 2017) indicates that approximately 400,000 micro and small enterprises do not celebrate their second birthday and few reach their fifth birthday raising concerns on sustainability of this critical sector. Arasti, Zandi, & Bahmani (2014) observed that in spite of the critical economic importance of the SME sector, all small enterprises across the world face common challenges which threaten their survival and weaken their performance. According to Kiveu & Ofafa (2013) common SME challenges include; limited access to resources and limited market access for their products, limited access to information and skills, unfavorable legal policy and regulatory environment. This study therefore investigated competitive strategies practiced by SMEs in Machakos town and how this influences the performance of SMEs dealing with electronics products and services in Machakos Town and its environs.

## **1.2 Small and microenterprises (SMEs)**

An enterprise provides products or services to an outside group in exchange of economic gain or profit (Carland, Hoy, Boulton & Carland, 1983). The definition of the small and micro enterprises varies from one country to another across different regions and economies. A firm classified as SME in Europe or United States may be classified as a medium or large enterprise in Kenya because of its high turnover in the Kenyan market environment. However, all the various definitions are generally based on number of employees, annual turnover or total assets. For example, in Europe small to medium enterprises are defined as having employees fewer than 250 employees while in United States such are defined as having employees less than 500 (Natarajan & Wyrick, 2011). A general guideline by the World Bank defines Small and Medium enterprises as those enterprises with a maximum of 300 employees, 150 million shillings in annual revenue and 150 million shillings in assets. The World Bank department of SMEs defines Small Enterprises as firms with up to 50 employees, and annual revenue of up to \$3 million.

Across the world, growth and Performance of Small and Micro Enterprises (SMEs) (SMEs) is key to the nations' economic and social development since they are actively involved at all levels of business value chain; from supply, production, distribution and aftersales support. According to the United Nations Industrial Development Organizations, 90 percent of all business in private sector are small enterprises (UNIDO, 2000). In both developed and developing economies, small businesses are recognized as the main sources of employment. The Organization for Economic Development (OECD, 1996) indicates that over two third of European Union job and up to 50 percent of United States jobs are provided by micro to medium enterprises. According to GOK (2015) the SME sector offer 82.7 percent of the total employment in Kenya, SMEs mobilize surplus raw materials and others resources left out by formal medium and large enterprises and serve closed markets that require only small-scale production. Increased GDP and creation of employment in developed economies is largely attributed to contribution of small enterprises and which act as poverty reduction tools (Mbugua *et al.*, 2013).

Arasti, Zandi, & Bahmani (2014) observed that in spite of the critical economic importance of SME sector, all small enterprises across the world face common challenges which threaten their survival and weaken their performance. According to Kiveu & Ofafa (2013) common SMEs challenges include; limited access to resources and limited market access for their products, limited access to information and skills, unfavorable legal policy and regulatory environment.

### **1.2.1 SMEs Performance measurement**

The purpose of any business strategy is to improve the organization performance. SMEs performance indicators therefore measure the effectiveness and efficiency of business strategy in meeting the intended organization objectives. King and McGrath (2002) view business performance in terms of effectiveness and efficiency. Indicator of effective organization performance is accomplishment of the set objectives while efficiency indicator is prudent use of minimum resources to attain maximum SMEs performance.



Business performance measurement plays the role of converting strategies into results. Selecting the right performance measure leads to realization of meaningful results. Until 1990s, organization performance measurement was based only on its financial indicators (sales and profitability). An efficient SME strive to achieve and sustain low production cost of its high quality products and services and runs an efficient distribution channels that ensures products reach the end users at minimal cost and at the right time. This result to increased SME financial gains (sales volumes or profits), and non-financial gains like increased customer loyalty, brand, increased market share, and create value for the organization's shareholders. Non-financial measures also determines SMEs' performance. Non-financial measures include; employee motivation, quality of product/service and customer satisfaction (Maylor, 2010). A balanced scorecard theory Isoraite (2008) is used to measure organization financial and nonfinancial performance in terms of profitability or ROI (for financial measurement), customer base (for customer satisfaction), new skills for product innovation and internal operational processes for efficiency.

### **1.2.2 Small and Micro Enterprises (SMEs) In Kenya**

Kenya's Small and micro Enterprises Act of 2002 defines Micro enterprises as business entities that have a maximum annual turnover of Ksh 500,000 and employ less than 10 people, while Small enterprises have annual turnover of between 5 million to 50 million shillings and employ 10 to 49 employees. The small and micro enterprises are usually concentrated along major Kenyan highway and towns. The widespread unemployment and retrenchments of workforce by both public and private sector has led to rapid growth rate of SMEs. Many retrenched workers and college graduates seek alternative employment in SMEs sector.

Globalization and market liberalization have forced large enterprises to seek cheap labor and sub contract informal SMEs sector to increase their market penetration (Maloney and McLaughlin, 1999). This fact is clearly demonstrated by mushrooming of SMEs and mobile money agents across every town and hamlet in Kenya. During the Small

Enterprises Presidential roundtable hosted by Strathmore University in October 2018, the President of Kenya recognized the key role played by SMEs on the national economy. He pointed out that the sector has big growth opportunities if well supported by both the county and central governments. The president reiterated on the need to develop solutions to challenges facing the SME sector since it is a key vehicle to realizing industrialization, one of the Kenya government's big 4 agendas.

SME sector has been credited for its vital role in alleviating poverty through generation of employment, embracing innovation, provision of alternative goods/services and enhancing competition as reported by Economic Survey (2017). SMEs are known to spur economic activities outside urban areas where big enterprises are largely concentrated there by providing solutions to uneven development and reduce rural urban migration (Blackburn, 2016). According to National Baseline Survey (1999) Kenya had 1.3 million SMEs employing 2.4 million people.

At the county level, according to Business Daily (2012), SMEs create direct and indirect jobs especially for the youthful population dispelling the myth that only formal employment can provide a source of livelihood. The taxes and other levies paid by individual SME once pooled together contribute significantly to the annual development and recurrent budgets for counties and central governments. To underscore the importance of SMEs in Kenya, Small and micro Enterprise Act of 2012, provides for new rules and institutions to promote SMEs including office of the Registrar of SME, tribunal for conflict resolution and SME Fund. The Act also provides for the establishment of the SMEs Authority, a platform for promoting entrepreneurship culture and formalization of SMEs.

In the recent years, SMEs have encountered new competition from formal and established large firms whose activities have infiltrated into niche markets once considered as a preserve for SMEs (Ntakobajira, 2013). Another significant challenge is the negative perception towards small firms. According to Nguyen and Waring (2013), small enterprise sector has struggled with negative perception from the potential clients that they lack ability to provide quality services and capacity to undertake

simultaneous projects making them less competitive during award of business. Other challenges contributing to SMEs failure include; lack of strategic planning, poor Leadership(Waihenya, 2014) and lack of finance (Makewa, 2017). However and regardless of the high failure rate, the enormous contribution of the SMEs to the economy cannot be overlooked.

### **1.2.3 Small and Micro enterprises (SMEs) in Machakos Town**

Machakos County is one of the 47 administrative Counties located in eastern part of Kenya with estimated area of area of 6,208 square kilometers. Most parts of the county experience a semi-arid type climate. According to survey report by Kenya national bureau of standard(KNBS, 2015), Machakos County is predominantly inhabited by the Akamba community with average population density of 177 persons per square kilometer. There are 8 sub-counties namely; Machakos Town, Kathiani, Masinga, Mavoko, Kangundo, Mwala, Matungulu, and Yatta. Machakos county economy is heavily supported by the SMEs who dominate almost all sectors of the economy including education, wholesale, retail trade, hospitality and even agriculture. Despite its proximity to Nairobi city, Machakos town lacks large and medium manufacturing industries and majority of businesses in Machakos town comprises of SMEs. Majority of existing SMEs engage in retail economic activities. The SME sector in Machakos is highly fragmented and involves thousands of small producers and traders.

Machakos town is the county administrative center and as such it is the county's economic hub with majority of retail outlets located there and offering diverse products and services. Products offered by SMEs in Machakos town include; clothing, foodstuff and hospitality, electrical, electronics, pharmaceuticals, beauty products, books stores, mobile money and IT services. This study was meant to investigate how use of competitive strategies influence performance of SMEs trading in electronic products and services in Machakos town and its environs.

### **1.2.4 SMEs competitive strategies and competitive Advantage**

Despite the critical contributions by SME to Kenya's economic development, the sector

is characterized by a myriad of challenges limiting its long-term growth and survival. The major obstacle is ever increasing market competition. The survival and success of small and micro enterprises is crucial since they are known to be the main drivers of economic growth and economic stability (Lange, Ottens & Taylor, 2000). According to Waihenya (2014), the resulting competition leads to decreased retail prices, decreased customer base and consequently erosion of existing profits. The easy entry into SME sector by many players has increased industry competition in Machakos town and its environs.

According to Barney (2014), a firm becomes competitive once it achieves a comparative advantage over similar firms in the same market. A business with competitive advantage possesses key strategic competencies which enables it to offer its target customers better products or services than its rivals. SME gains competitive advantage once it's able to create superior value for its customers. Strategic planning helps SMEs identify and adopt unique strategic competencies.

Strategy is a concept developed by an organization and which gives it a coherent direction of growth. Strategy is used as decision-making rules necessary for guiding organizational behavior. Strategy in Greek words is "stratego and strategos" or generals and the work of generals (Warner, 2010). Strategy is about defeating the competition. Since no business firm operates in isolation, a strategy assists SMEs develop strategic framework on how to relate with its external environment. Strategy helps to align the SME's internal operational process with its external environment in order to spur its performance.

Strategy development starts with strategic analysis conducted by a business on its operating environment and which guides development and implementation of a competitive strategy. Analytical strategic tools including SWOT and PESTEL expose a business's internal strengths, weakness, opportunities, current and potential external threats. According to Pearce and Robinson (2007), various external factors influence choice of strategies. There is no common single best strategy for enhancing business

performance hence each SME needs to adopt one that resonates with its unique operating environment. The SMEs owners/managers need to put in place an evaluation system to continually monitor the adopted strategy's relevance, efficiency, effectiveness and resulting impact on SMEs' performance. Where gaps are identified, appropriate adjustment of the strategy is effected. Monitoring process continues throughout strategy implementation process until best desired performance is achieved.

### **1.3 Statement of the Problem**

In the recent years, SMEs have encountered new competition from formal established large firms whose activities have infiltrated into niche markets once considered as a preserve for SMEs (Ntakobajira, 2013). Several established supermarket chain have established footprints in Machakos town. Unlike these supermarkets majority of SMEs trading in electronics products operate small sized shops/stores with limited display space for their products and accessories. More competition has emerged from online shopping malls, some having local office and aggressive marketing and sales teams targeting social media users who form the bulk of middle income earners in Machakos town. This has made SMEs play the underdog role in the market.

Majority of SME owners and managers in Machakos town lack necessary strategic business skills critical for navigating this highly competitive and dynamic business environment. This is evidenced by high rate of SMEs failure (KNBS, 2017). Several studies have been carried out to investigate the influence of adoption of competitive strategies on SMEs' performance (Muthoni, Severina, 2018; Karanja, 2015; Isaboke, 2018; Kariuki, 2018; Ogot, 2014). However, these studies investigated competitive strategies practiced by general SME sector mainly in Nairobi city.

From the empirical review, no study on the influence of competitive strategies on performance of SMEs particularly those trading in electronics products and services in Machakos town has been conducted. This study sought to investigate how practice of competitive strategies influences performance of SMEs trading in electronics products and services in Machakos town and its environs. The SMEs performance was measured against their financial (sales turnover and profit margins) and non-financial (introduction

of new products, employee satisfaction, market share and customer satisfaction) measures. The findings and recommendations of this study will provide practical and useful performance enhancing information to existing SMEs in Machakos town and useful guidance to potential entrants into the electronics industry. The study sought to bring forth new theoretical, practical recommendations useful to policy makers in developing SME regulatory, taxation, supportive and training policies.

## **1.4 Objectives of the Study**

### **1.4.1 Main Objective of the study**

The main objective of the study was to establish the influence of practicing generic competitive strategies on performance of small and micro enterprises (SMEs) in Machakos Town and its environs.

### **1.4.2 Specific Objectives**

The following were the specific objectives of the study:

- (i) To examine the influence of cost leadership strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs.
- (ii) To determine the influence of differentiation strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs.
- (iii) To establish the influence of focus strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs.
- (iv) To establish the influence of hybrid strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs.

## **1.5 Research questions**

This study was guided by the following questions:

- (i) How does practice of cost leadership strategy influence performance of small and micro enterprises (SMEs) in Machakos Town and its environs?
- (ii) To what extent does practice of differentiation strategy influence performance

of small and micro enterprises (SMEs) in Machakos Town and its environs?

(iii) In what ways does practice of focus strategy influence performance of small and micro enterprises(SMEs) in Machakos Town and its environs?

(iv) To what degree does practice of hybrid strategy influence performance of small and micro enterprises (SMEs) in Machakos Town and its environs?

### **1.6 Significance of the study**

Managements of retail SMEs operating in Machakos town will benefit by understanding the various practical competitive strategies and how choice and adoption of these strategies enhance performance of the SMEs. The findings of the study will therefore offer managers and owners of existing SMEs with strategic approaches and solutions to competition challenges faced by electronic traders in Machakos town. Both the Machakos county government and central governments can make use of the study recommendations to develop or enrich necessary training programs for better SMEs' performance. The findings of this study also provide the SMEs policy makers with vital and useful information for developing SME regulatory, taxation, supportive and training policies. The findings of the study is of great significance to research institutions and universities since it will contribute to the pool of academic literature while providing further literature for future research on SMEs related studies.

### **1.7 Scope of the Study**

The study investigated the influence of practicing Michael Porter's generic strategies (cost leadership strategy, differentiation strategy, focus strategy) on performance of SMEs electronics retail sector within Machako stown and its environs in Machakos County in Kenya. The population of the study was 40 drawn from all electronic retail outlets licensed to trade and are operating within Machakos town and its environs. Census sampling research methodology was used since the target population was easily accessible. The study was done within a period of 2 months; October 2021 to

November 2021.

### **1.8 Limitations of the study**

Data collection process faced challenges because not all the respondents understood all the questions in data collection instrument. The researcher addressed these challenges by availing to the respondents, the necessary and required clarification on data collection instrument. Some respondent were too busy and not willing to participate. To avoid inconveniencing business, the busy respondents were requested to give appointments during off peak hours.

Some target respondents were also reluctant to give information regarding their business performance. This limitation was addressed by assuring such respondents that the data collected was confidential and was to be used for academic work only.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents literature review on the generic strategies and performance of micro and small enterprises. It covers both the theoretical and empirical review of the literature related to the study. Theoretical review covers various theories applied by SMEs to develop competitive strategies and achieve superior performance in their competitive markets. These strategies include; Michael Porter's generic strategies, resource based theory and Porter's five forces. The sources of the information include, books, research papers, printed and internet sourced academic publications. Under empirical review the influence of Porter's generic strategies on SMEs performance is discussed by exploring relevant previous studies literature. The literature review summary is then used to formulate this study conceptual frame work.

#### **2.1.1 The concept of strategy**

An organization develops strategy to give it a coherent growth direction (Grundy 2003) and use it as a rule to guide its organizational behavior. Small and Micro Enterprises develop strategy to defeat the competition. No business operates in isolation, and a strategy assist to spur SME performance by aligning its internal operational process with external environment. A business develops strategy by first setting its business objectives or goals aimed at achieving its basic mission (David, 2007). SMEs managers and owners use strategies as yardstick to judge the present and future business performance.

Businesses use strategic business analytical tool SWOT to reveal internal strengths, weakness, and opportunities while PESTEL tool reveals current and potential external threats. According to Pearce and Robinson (2007), various external factors influence choice of strategies. There is no single best strategy for enhancing performance hence each SME need to adopt one that characteristically resonates with its unique operating environment. The SMEs owner and managers need to put in place an evaluation system to continually monitor if the adopted strategy is working as intended in delivering

efficient results. Where gaps are identified appropriate strategy adjustment is effected. Monitoring process continues throughout strategy implementation process until best the SME performance is achieved.

## **2.2 Theoretical literature review**

### **2.2.1 Porter's five competitive forces strategic framework- (PFCF)**

Porters(1980) five forces model identifies five competitive external forces which define general business competitive environment.PFCF is crafted on assumption that the external environment significantly influence strategy development.These forces including threat of new entrants into the market, threat due to substitute products, threat due to supplier's increasing bargaining power, threat due to increased consumer's bargaining power and competitors' rivalry affect SMEs'performance.According to Hua(2011), this framework attributes success of an organization's competitive strategy to its positioning within its operating environment and also its ability to overcome competitive forces and influence them to its favour .

The external forces affect business performance by influencing its product retail price, production costs, and required firm's investment capital. Increased consumer's bargaining power and existence of substitute products in the market influence price charged on firm's product or service(Porter,1985).Price reduction eats into the business profits while transferring low price dividends directly to its clientele. Buyers with higher purchasing power demand costly and differentiated service leading to increase in business production cost and over all investment capital.Increased suppliers' bargaining power determines cost of raw materials which consequently impacts on SME production cost, costs of product development, advertising campaigns and sales effort. SME sector is characterized by constant entry of new players resulting to increased business rivalry within the industry.The business rivalry influences prices and costs of product development,advertising and general sales effort cost.The basis of business rivalry, price war and size of competing forces influence the organization's revenue (Awuah,2011) and hence overall SME's performance.

### **2.2.1.1 Porter's five competitive forces Model and SME performance.**

The easy entry into SMEs sector by many new players increases the number of service providers resulting to increased industry competition. As competition increases, production, efficiency, quality, innovation and differentiation increases hence the consumers get more and better choices (Pringle and Huisman, 2011). Bargaining buyers increases as the services offered become more standardized and readily available, easily compare offerings and make more informed choices at lowered costs (Pringle and Huisman, 2011). The threat of new entrants places a limit on product's prices, effectively raising required investment capital which serves to scare away potential new entrants.

Threat from the growing numbers of substitute products is the most powerful and growing force particularly from numerous mega online platforms effectively placing competition into a global arena (Anand, 2012). SMEs competition intensifies due to price discounting, introduction of new products, advertising campaigns efforts and service improvements (Porter, 2008). According to Mguni (2013), business rivalry intensity reaches peak levels when competitors' power and sizes are roughly equal and the competitiveness of organizational performance depends on its strategic implementation. The decisions made by SMEs owners/managers to directly or indirectly interact with external factors influence the business growth (Kuratko and Hodgetts, 2014). Porter's five forces model can be used by SMEs to gather information on the potential external business threats, analyze it and develop competitive business strategies for competitive advantage. SME's ability to respond to prevailing local competitive conditions depends on effective and timely deployment of strategic approach.

### **2.2.2 Resource Based Theory (RBV)**

Resource based theory considers firm's internal organization and its resources as critical determinants in attaining competitive advantage (Hunt & Derozier, 2004). RBV assumes that firms are unique and deploy their resources to attain competitive advantage (Kostopoulos et al, 2002). The firm's internal resources are both tangible and intangible, categorized as physical, financial, human resources, firm's capabilities and competencies. Business develops capabilities through accumulation of skills and

expertise exercised through organizational processes. These capabilities enable organizations to strategically utilize their resources. RBV assumes that these resources are strategic in nature because they are valuable, inimitable and capable of realizing full potential of an SME.

RBV is a clear departure from Porter (1991) argument that firms performance depends on alignment to its external environment. RBV theory has been criticized for failing to recognize the environmental dynamics which is key guide in development of new organization resources (Barney 2007). Though RBV theory is discredited for not factoring in the unforeseen environmental influence, it complements other theories like Porter's five-force model and generic competitive strategies (Barney, 2007).

According to Barney (1991) key properties possessed by firms' resources include; being more valuable than of the competition, rarest amongst known and potential competitors, inimitable, and non-substitutable. Penrose (1959) contends that an organization is a collection of resources that are the heterogeneity and produce services that give a firm a distinctive trait. RBV theoretical model can be used by SMEs to develop competitive business strategies based on SME's ability to deploy its unique resources to respond to prevailing local business competitive conditions.

### **2.2.3 Porter's Generic Competitive Strategies**

Porter (2007) came up with generic competitive strategies useful to counter the market competitive forces. According to Michael Porter the three main types of competitive strategies which make an organization attain competitive advantage within their competitive environment are: cost leadership, differentiation and focus strategy. To achieve competitive advantage a firm creates a value for its buyers that exceed the firm's cost of creating it (Tanwar, 2013). Organizations achieve competitive advantage by making an informed choice on the type and scope of their competitive advantage strategies. Porter's generic strategies are useful in determining business strategic positions at the simple and broad level of organization scope. The choice of a competitive strategy by a firm is guided by different external forces prevailing within its

business environment.

### **(i) Cost Leadership strategy and Performance**

Cost leadership strategy is adopted by firm to become the low cost producer in an industry. SMEs pursue cost leadership strategy by improving on processes, increasing efficiency to lower production costs by lowering raw material costs through vertical integration or adopting optimal outsourcing (Johnson *et al.*, 2005). A low cost leadership strategy enables the SME to give big price discounts on its products and maximize on sales volumes. Low cost leadership strategy minimizes competition by enhancing industry entry barriers with new possible entrants requiring huge capital investment (Hyatt, 2011). Cost leadership strategy is common to large-scale business which enjoys economy of scale offering standard products with little or no differentiation. Such business take advantage of the low cost of production to sell at below-average prices (Barney, 2007). SMEs pursuing a cost leadership strategy become competitively advantaged hence gain high market share. Vertical integration and optimal outsourcing of cheap raw materials are some measures employed by firms to achieve cost advantage (McCracken, 2012).

Though cost leadership strategies are more viable for large firms because of economies of scale, SMEs can offer acceptable low prices by being cost focused within their market. The SMEs with sustained competitive advantage set high entry barriers for potential new entrants thus effectively thwarting off competition from similar firms. A small food outlet in an urban area can succeed by offering quick service on cheap food menu to price sensitive factory workers. Investing and utilization of technology leads to reduction in SMEs production and operation costs. Utilization of internet helps an SME to cheaply source for cheap products or raw material from anywhere around the globe.

### **(ii) Differentiation strategy and Performance**

Some firms achieve competitive advantage in their market by pursuing differentiation strategy. Such firms attain uniqueness in industry by offering products or services that are widely valued by buyers within a segment or group of segments in the industry. They

tailor the strategy to serving specific buyers to the exclusion of others. The perceived product quality and brand loyalty insulate the business from potential threats by industry competition (Grant, 2013). Business adopts this strategy where the target market is competitive and target customers have specific need which are under-served and customers are not price-sensitive. Besides the cost, the product real or perceived unique attributes provides value to customers (Barney, 2011).

SME differentiate itself in the crowded market by offering innovative products, superior customer service, running effective marketing promotions or building a strong brand name (Li & Zhou, 2010). SMEs pursuing differentiation strategy are able to realize higher profits due to the premium prices they charge for the value added (Porter, 1998). Such SMEs develop products and services that are unique and appeal to customers (Grant, 2013). The consumers freely pay the premium price for the differentiated products to cover the additional production costs and SMEs' efficient delivery system or superior customer services.

However differentiation strategy is not a single magical strategy to superior SME performance since competitors can imitate or customers change their preference (Hrebiniak, 2010). Differentiation strategy works best where buyers appreciate the intricate difference between differentiated SMEs' offerings and the competition's. The SME also achieves differentiation strategy through low cost investment on training employees on superior customer service, developing customer service policy and rewards to motivate quality customer service delivery. The premium product or service price paid by consumers, yields higher sales margin enabling SMEs build and position a strong brand in the market, get differentiated from the competition and establish a sustainable competitive advantage.

### **(iii) Focus strategy**

Focus strategy direct firm's effort at growing market share in a niche market which is overlooked or is not attractive to competition. Focus strategy has two variants derived from cost and differentiation strategy namely; cost focus and differentiation focus. A

differentiation focus strategy requires the presence of a buyer segment with demands for unique product attributes while a low cost focus strategy requires presence of a buyer segment with needs which are less costly to satisfy (Porter, 2010).

Relative position of an SME within an industry is determined by its competitive advantage (cost leader/differentiation strategies) and choice of competitive scope. The Competitive scope differentiates between SMEs targeting broad industry segments and those focusing on a narrow market segments. The SMEs with low market share become successful by pursuing market segmentation to focus on a small but profitable market niche (Porter 1985).

The customers' loyalty to the business acts as its insulation from new entrants and substitute products competition. Focus strategy requires SMEs to stay close to customers and constantly monitor their needs (Hyatt, 2011). However SMEs small production volumes translate into higher production cost leading to diseconomies of scale (Bauer & Colgan, 2011). This exposes such SMEs to possible competition risks from larger suppliers hence to minimize this threat, SMEs pursue focus strategy in market segments with minimal presence of substitute products or where competition from big firms is weakest.

#### **2.2.4 Balance score card (BSC) Model**

BSC model was developed by Kaplan and Norton (1992) to measure business performance. Balanced Scorecard (BSC) measurement tool measures firm's performance without exclusively focusing on one specific firm's activity at the expense of another. BSC is therefore used to measure firm's quantitative (financial) and qualitative (non-financial) indicators. Businesses' managers use BSC to get a comprehensive relationship between previous business actions and the current financial measures on one hand and how future financial performance is related to current operational measures (Kaplan and Norton 1992). BSC measures performance based on four perspectives (Drury and Kaplan 2004). The four perspectives include; financial measures, customer perspective measures, firm's operational measures and firm's innovation training and development.

Business financial indicators include; sales volumes and return on investment (ROI), Profit and inventory turnover while non-financial indicators include quality of customer service, market share growth, customer satisfaction and effectiveness in achieving set business goals. According to Moullin (2003), organization's performance is "how well the organization is managed" and the value the organization delivers for customers and other stakeholders. The performance measures used by individual business determine the extent of achievement of its set objectives. Performance indicators are analyzed to provide information on the quality of SME's processes in achieving the organization objectives on time and within the set budget (Peters, 2010). ROI is the result of dividing firm net income before tax by its total assets. ROI measures business efficiency by comparing incremental gain against the cost. ROI is a key indicator of whether adopted strategy is working or not.

Sales turnover is the total sales made by a business within a specific financial period. Higher business turnover is an indication of either increased sales volume or increased prices on sold unit products or services. On the other hand, market share price is a measure of firm's shareholder's wealth while customers' ranking survey and feedback acts as a measure of firm's performance. BSC help assess SME performance on customer satisfaction or price competitiveness on its products and services. The demand for the products and services is an indication of competitiveness in the market. Higher demand for product or service pushes up the price, an indication of higher SME's performance. Increase in customer base is an indication of enhanced SME performance. Operational measures help determine the efficiency of the SME's internal processes on service delivery while innovation and learning assess the impact of continuous improvement effort on employee satisfaction.

### **2.3 Empirical literature Review**

The vital importance of SME sector to the nations' economy has attracted many studies by scholars on SMEs' competitive strategies both within and outside Kenya.



### **2.3.1 Cost Leadership strategy and SMEs Performance**

According to Strickland (2014), a firm pursuing cost leadership strategy strive to become a low cost producer in its industry for a given level of quality business achieve low operation cost by pursuing economies of scale, adopting appropriate technology; accessing cheap or readily available raw materials and labor. A business firm becomes a cost-leader if its competitive strategy grows into a rare inimitable sustained competitive advantage (Robert, 2001). To become an established retail player, Wal-Mart aggressively followed a cost leadership strategy that involved making consistent efforts to reduce costs and developing economies of scale (Tanwar, 2013).

Yan (2010) investigated the influence of competitive strategy and business environment on performance of Chinese SMEs in construction industry. The parameters used to measure competitive performance were sales/profit volumes (Cheahetal, 2007), firms efficiency (Davies and Walters, 2004), business growth and sustainability. Among the competitive strategies investigated included differentiation and innovation. The results from this study showed that cost strategy has significantly positive relationship on over all SMEs performance.

A similar study was conducted in Kenya, by Mumbua (2013) who investigated the various competitive strategies that SMEs based in Mombasa County, Kenya adopt to gain competitive advantage over other larger sized firms. The study was done on SMEs based in Mombasa county. The result of the study revealed that SMEs in Mombasa County apply mostly differentiation and innovative cost-reduction strategies to enhance their efficiency thus gaining competitive advantage. Ondiek (2016) carried out a study on generic competitive strategies influencing growth of SME SMEs segment at Barclays bank of Kenya Ltd. The study investigated influence of cost leadership, differentiation and focus strategy on the growth of the SMEs SMEs segment at Barclays Bank of Kenya. The result of the study indicated low cost strategy is the best strategy that leads to improved SMEs by SMEs which can be achieved by use alternate channels for self-service as there are no costs involved and no extra resources required.

According to Chepkwony (2008), SMEs seeking to gain competitive advantage through

cost leadership strategy aim at reducing production and operation cost without negatively altering quality of the product or service. Dulo(2006) noted that manufacturing firms pursuing cost leadership strategy seek economy of scale by purchasing large volumes of raw materials, automating mass production of a limited range of products and services. To reduce operation cost, these firms are strategically established where cheap labor is available and cut on advertising cost. According to Anwar (2013), Positioning a firm as a low cost leader makes it vulnerable to risks such as: of imitation by late entrants with advantage of low cost learning, erasing of past learning and investments by new technology, failure to respond to customers' preferences due to excessive concerns for cost minimization and firms inability to maintain cost leadership due to inflation

### **2.3.2 Differentiation strategy and SMEs performance**

The high cost of maintaining differentiation strategy makes a small businesses pursue differentiation strategy based on one or combination of price and superior service it believes are valued by its customers. A study by Weiss and Cilliers (2014) sought to explore how small business operating in Soweto South Africa gain competitive advantage over established large retail chains. The study focused on impact of adoption of differentiate on strategy on SMEs competitiveness and sustainability. The study found that sustainable SMEs regularly conduct competitor analysis to identify crucial differentiating elements for competitive advantage. SMEs pursue differentiation strategy to achieve sustainable competitive advantage by offering flexible price, extending shopping hours, personalizing client attention, maintaining close client relationships and offering variety of quality products. The study established that the successful SMEs use elements of differentiation better than competition to gain competitive advantage. According to Chepkwony (2008), SMEs use differentiation strategy to enhance their products image and quality. For a differentiation strategy to achieve and maintain a higher product selling price, the SME needs to add value and unique features on its products.

### **2.3.3 Focus strategy and SMEs performance**

A study by Waema (2013), sought to establish effects of competitive strategies on

performance of dairy firms in Kenya. The result of the study done on a population of fifteen dairy firms showed that all the three competitive strategies including; lowcost, focus and differentiation enhance firms' performance. However the result of the study showed that focus strategy had a bigger positive impact on firms' performance compared to other two strategies. The study therefore recommended focus strategy as the most competitive strategy for dairy farmers.

Another study by Isaboke (2018) to establish the influence of competitive strategies on the organizational performance of SMEs in Nairobi County, Kenya targeted proprietors of youth owned SMEs within the 17 sub-counties of Nairobi County. The result of the study showed that use of Michael Porter's generic strategies helped SMEs gain competitive advantage and improved SMEs' performance. The increase in organization performance was seen to be dependent on choice of strategy. SMEs which adopted focus strategy recorded higher performance than those adopting differentiation and low cost strategies.

Njau (2013), carried out a research to establish influence of Porter's generic strategies on organizational performance of tertiary institutions in Nyeri town. The study sort to establish how low cost, differentiation and focus strategies impact on tertiary institutions' revenues, student enrolment, break-even of new courses, graduation rates, ranking and industry reputation. The result of the study revealed that focus strategy has greater positive effect on the performance of the tertiary institutions. Institutions focus on offering evening and weekend classes to working students as well as tailoring a programs targeting a particular segment of students. A study by Chepkwony (2008) on factors influencing marketing strategies by SMEs in Eldoret town revealed that firms employ focus strategy to achieve competitive advantage by concentrating on a specific market or product niche where their product is in high demand. Muthoni and Severina (2018) conducted a study to establish if leveraging on competitive strategies influence attainment of competitive advantage by SMEs in Nairobi County. The study sought to find out how innovation and focus strategy influences the competitive advantage of SMEs operating in Toi Market, Nairobi. The findings showed

that those SMEs engaging in other competitive strategies (differentiation and low cost) did not reap much in terms of improving their competitiveness unlike those employing innovation and focus/ niche strategies. Kombo (2007), in a study to investigate strategy employed by firm within competitive motor industry revealed that firms make regular critical adjustments in their strategic approaches. The strategies include segmenting and targeting clients with new differentiated products as well as developing superior customer service. Certo and Peter (2007), indicated that a focus strategy can be employed by an aggressive SMEs that has no the financial/human resources to carry out involve large scale marketing effort.

#### **2.3.4 Hybrid strategy (Differentiation Cost Leadership mix) and SMEs performance**

Businesses operating in low-profit potential industries also become successful through integration of both the costleadership and differentiation strategies (Hall, 1980). This integrated strategy enables the small firms gain a high level of customer loyalty, which in turn insulates them from potential competition (Barney, 2014). Leitner and Guldeberg (2010) conducted a study on effect of traditional generic strategies of cost-efficiency and differentiation on performance on small and medium enterprises in Australia. The study examined performance of SMEs with no clear strategy and those using combination of strategies. The result of the study revealed that SMEs adopting combination strategies outperformed companies employing stand-alone low cost or differentiation strategies in profitability and growth.

Oyedijo (2012) did a study on impact of adoption of competitive strategies on 92 paint manufacturing SMEs performance in Southwestern Nigeria. Firms' performance measurement was based on three parameters including; profit growth, sales growth and customer complaints. Using collected data, the SMEs were grouped together based on their strategy orientations; differentiation (28) low cost (33) and hybrid strategies (31). Results of data analysis revealed a significant difference between the performances of SMEs using standalone strategies (differentiation or low cost) and firms using mixed strategies. The study found adoption of mixed strategies gave SMEs strategic flexibility

leading to superior performance as opposed to stand alone strategies.

## **2.4 Summary of Literature review and Research Gaps**

The empirical literature review shows that SMEs performance is greatly influence by use of porter's generic business strategies. The review reveals that competitive strategies need to be viewed on dynamic perspective since competition is never static. The review also demonstrated that there is no single best magical strategy applicable to all SMEs. Every SME that strive to achieve competitive advantage must first analyze and understand uniqueness of its operating competitive business environment. The review done on various studies on SMEs performance conducted in Kenya and beyond reveals findings where either cost leadership, differentiated or focus strategy are recommended for improved performance. However, the context of the reviewed literature was on general SMEs performance with no clear focus on SMEs dealing with electronics in Machakos county and in Kenya. Various studies gaps have been identified as outlined here below.

Leitner and Guldeberg(2010), conducted a study on generic strategies on performance on small and medium enterprises in Australia revealed that better performance was realized with practice combination of competitive strategies than those adopting a single strategy. The finding were however limited to Australia general small and medium enterprises and not SMEs Machakos town or in Kenya. The findings by Muthoni and Severina (2018) study to establish if leveraging on competitive strategies influence attainment of competitive advantage by SMEs in Nairobi County showed innovation and focus strategies did not impact much on SMEs competitiveness. This study narrowed on innovation and focus strategies leaving out the cost and differentiation strategies. The findings were also limited to Nairobi's general SMEs competitiveness and not performance

A study by Njau (2013) on effect of generic strategies on performance of tertiary institutions in Nyeri established that adoption of Porter's generic strategies increased students' enrollment and institutions' revenues. The findings were however limited to tertiary institutions located in Nyeri county. Omar and Omundi (2017), Isaboke (2018) studied the influence of competitive strategies on performance of Small and medium

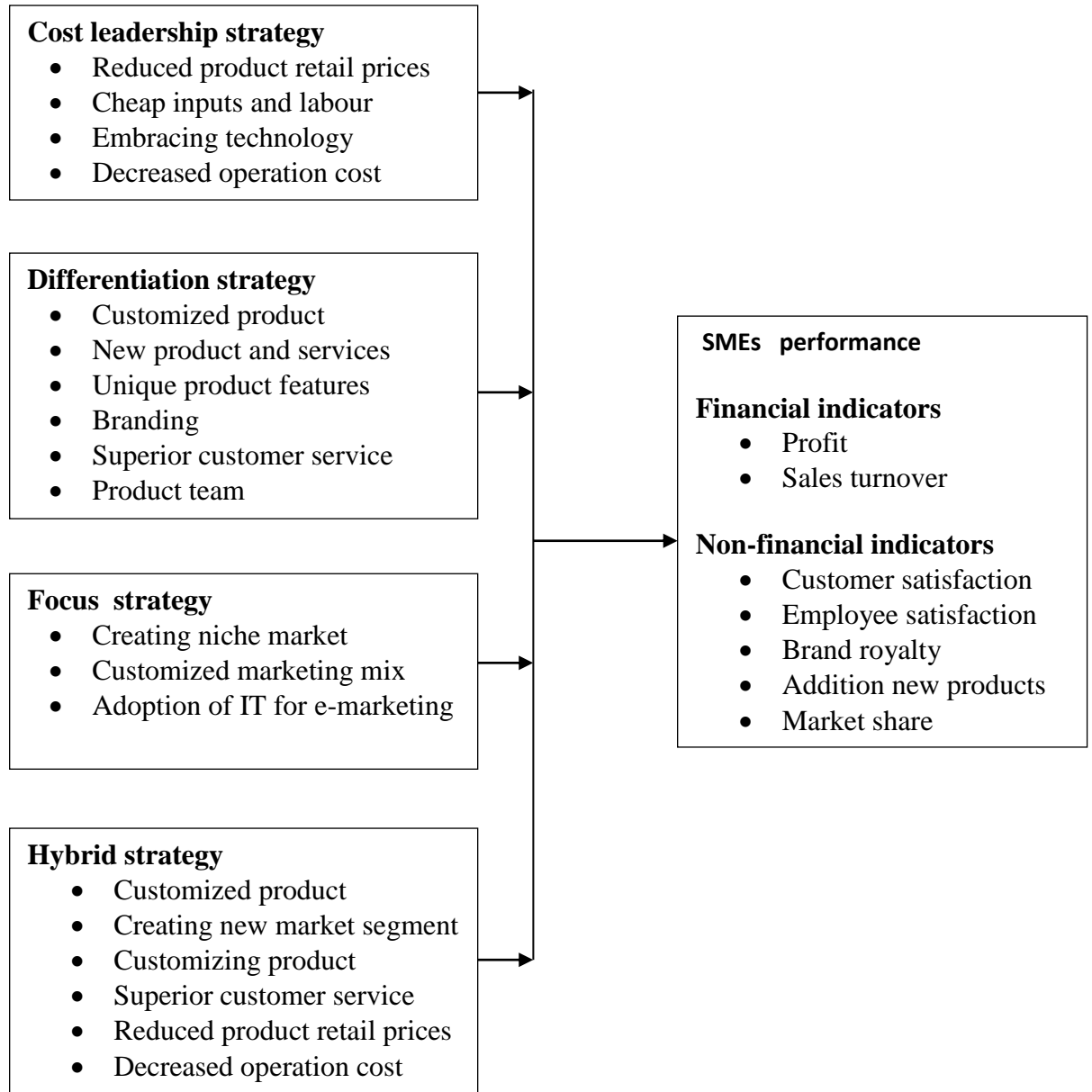
enterprises in Nairobi central business district. The studies established that adoption of generic strategies has a positive and significant influence on SMEs performance. The study scope was wider to cover medium enterprises and findings were also limited to SMEs in Nairobi. Mumbua (2013), studied influence of competitive strategies on performance of Small and medium enterprises in Mombasa county. The findings of the study revealed that SMEs practice both differentiation and innovative cost-reduction strategies resulting to an improved performance. The study scope was wider to cover medium enterprises and findings were also limited to Mombasa county. From the review of all the studies done every SME environment is unique and competitive strategies used by one SME in one market may not automatically work for another SME in another market. The literature and research reviews shows there is a study gaps since no study has been done to establish influence of competitive strategies on performance of SMEs trading in electronics products and services particularly in Machakos town and hence the need to carry out this study.

## **2.5 Conceptual Framework**

The study was aimed at establishing the influence of competitive strategies on SMEs performance in electronics products and services. The dependent variable of this study is performance of SMEs in Machakos town while the independent variables are the generic competitive strategies. Fig 1 below explains the conceptual framework.

**Independent variables**

**Dependent Variable**



**Figure 1: Conceptual framework**

Source: NjugunaS(2020).Cost Leadership Strategy And Organizational Performance.

*Journal of*

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256-

## **CHAPTER THREE:**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter details the methodology used in the study. These stages include design that was adopted, description of target population, sampling technique, data collection instrument, data collection procedures, pilot testing, validity and reliability of data collection instrument, data analysis and data presentation.

#### **3.2 Research Design**

This study employed a descriptive research design (Creswell, 2009). Primary data was collected and used to describe the influence of competitive strategies on SMEs performance. Descriptive survey research design is most suitable since it is economical and efficient. Use of questionnaires in the study enables to efficiently and economically collect large amount of data from a sizeable population. Questionnaires were used to collect statistical data on research issue that may be useful to policy makers, SMEs owners and academicians. Babbie (2002) recommends descriptive survey method for collecting data on phenomena that cannot be observed directly and does not need experimentation. Descriptive survey determines and reports things the way they are (Mugenda & Mugenda, 2003). Descriptive survey has been used in other relevant studies investigating relationship between competitive strategies and performance of SMEs (Abdikadir, 2017; Waema, 2013; Muthoni and Severina, 2018).

#### **3.3 Target Population**

According to Cooper and Schindler (2014), population is the total collection of elements with common observable patterns and characteristics that the researcher wishes to make some inferences. The population under study consisted of forty electronics retail outlets licensed by Machakos county government. The target population consisted of all the 40 electronics outlets obtained from Machakos county Single Business Permit licensing office and which are operating within Machakos town and environs. The respondents of



this study were 40 managers or owners of the targeted electronic retail shops in Machakos town CBD and residential estates as shown in table below

**Table 1: Sampling frame**

<b>Electronics shop Location</b>	<b>No. of Managers/owners</b>	<b>Sample</b>
CBD	25	25
Residential area	15	15
<b>Total</b>	<b>40</b>	<b>40</b>

Source: Machakos county Single Business Permit licensing office

### **3.4 Sampling Design and sample size**

A good sample should be a representative of the population (Cooper & Schindler, 2011).The study employed a total population census sampling technique.The choice of census sampling approach was guided by various reasons including;need to increase the accuracy of results and easy accessibility of target population.The census sampling approach was adopted on the total population of 40electronicsretailshops in Machakos town. The choice of total population census was informed by the fact that the population under study is small. Therefore, sample Size = 40 electronics shop.

### **3.5 Instrument of Data Collection**

The study used questioners to collect primary data. Questionnaires are effective tools used to collect data from available respondents who are willing to co-operate (Saunders et al, 2016). This study also obtained secondary data from literature including published journals,and other documents within formation relevant to this study. Data was collected using questionnaire with close ended questions.The choice of closed ended questionnaires is meant to give the respondents a standardized test on influence of competitive strategies on performance of SMEs in Machakos town and its environs.The questionnaire were administered to SMEs’ owners or managers within Machakos town, Machakos and its environs who are actively involved in running of the SMEs on daily basis(Kothari, 2004; Mugenda&Mugenda, 2003).

### **3.6 Pilot Test**

A pilot test is conducted to provide proxy data for selection of a probability sample and detect weaknesses in design and instrumentation (Cooper & Schindler 2010). This study pilot tested on 6 respondents who were randomly selected from the same population but who were not be part of the study sample representing 15% of total population. According to Connelly (2008), a sample population of 10% and above from the target population of is enough for piloting. A pilot study helps the researcher to identify research questions likely to make to respondents uncomfortable and uneasy (Saunders, Lewis, & Thornhill, 2016)

#### **3.6.1 Reliability**

According to Bunyasi (2015) validity and reliability are two factors which must be considered while designing a study, during examination and evaluation of the quality of outcome of the research study. A measuring instrument is reliable if only little variation over time is found after repeated trials (Zikmund, 2003). For purpose of testing reliability of the research instruments, 6(six) respondents from target population were selected for a pilot testing. The research tool was adjusted appropriately after conducting the pilot testing.

#### **3.6.2 Validity**

Validity is a test measure of research instrument to determine its effectiveness in measuring what is actually needed to be measured (Kothari, 2004). The content validity is a measure of the degree to which data collected adequately represents the content of all factors under study. Opinions of experts in the field of study and those of my supervisors were sought to establish the validity of the study research instrument.

### **3.7 Data Collection Procedures**

The researcher got a letter from the Machakos University to enable for the application of data collection authorization permit from National Commission for Science, Technology

and Innovation (NACOSTI). The researcher also sought permission to carry out research from the Machakos County government. The questionnaires were administered by visiting and hand delivering the questionnaires to the respondents in their business premises. To increase the response rate, each respondent was briefed on the purpose of the study and requested to voluntarily participate.

### **3.8 Data Analysis and Presentation**

According to Kombo and Tromp (2006) data analysis is a process of examining collected data, and then making inferences and deductions. The collected quantitative data was coded and entered into Statistical Packages for Social Sciences (SPSS Version 24.0) and analyzed using descriptive statistics. Use of Statistical packages software aid researcher in statistical data exploration and analysis. The information was displayed using bar charts, graphs and pie charts and in prose-form. Such displays helped make comparison of data, identifying relationship, key patterns and trends. This helped shed light on the relationship between practices of cost leadership, differentiation and focus strategies, hybrid strategies and SMEs performance in Machakos town.

The study conducted a multiple regression analysis to establish the nature and magnitude of the relationship between the competitive strategies and performance of SMEs in Machakos town. The multiple regression analysis helped pick weight that the independent variables (competitive strategies) had on dependent variable (SMEs performance). The multiple regression analysis therefore used to shed light on the relationship between cost, leadership, focus, differentiation, hybrid competitive strategies and performance of SMEs in Machakos town and its environs. Below is the multiple regression equation used;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

$Y$  = SME Performance. (Dependent variable)

$\beta_0$  = Constant

$\beta_1$  = Coefficient of cost leadership strategy

$\beta_2$  = Coefficient of differentiation strategy

**$\beta_3$**  = Coefficient of focus strategy

**$\beta_4$** = Coefficient of hybrid strategy

$\epsilon$  – error term

**X1** =cost leadership strategy (Independent variable 1)

**X2**=Differentiation strategy (Independent variable 2)

**X3**=Focus strategy (Independent variable 3)

**X4** = Hybrid strategy (Independent variable 4).

To determine the influence of individual independent variable on SME

performance, the following single linear regression model was used;

$$Y = \beta_0 + \beta_1 X_1 + \epsilon \dots \dots \dots i$$

$$Y = \beta_0 + \beta_2 X_2 + \epsilon \dots \dots \dots ii$$

$$Y = \beta_0 + \beta_3 X_3 + \epsilon \dots \dots \dots iii$$

$$Y = \beta_0 + \beta_4 X_4 + \epsilon \dots \dots \dots iv$$

Where;

**Y**= SME Performance. (Dependent variable)

**$\beta_0$** = Constant

**$\beta_1$** = Coefficient of cost leadership strategy

**$\beta_2$** = Coefficient of differentiation strategy

**$\beta_3$**  = Coefficient of focus strategy

**$\beta_4$** = Coefficient of Hybrid strategy

$\epsilon$  – error term

X1 =cost leadership strategy (Independent variable

1) X2=Differentiation strategy (Independent variable

2) X3= Focus strategy (Independent variable

3) X4 = Hybrid strategy (Independent variable 4).

### **3.9 Ethical Issues.**

The respondents of the study were persons (Owners and managers) who are well informed and conversant with what the study sought and those authorized to share information on the SME they own or work for NACOSTI research permit was obtained before commencing data collection. The researcher used an introduction letter to seek respondents consent before presenting a questionnaire. The researcher provided necessary and timely clarifications on the study to respondents where such was demanded. The names of the respondents were kept anonymous and information shared kept confidential and only used for the purpose of this study.

## CHAPTER FOUR

### RESEARCH FINDINGS ANALYSIS AND DISCUSSION

#### 4.1 Introduction

The study sought to determine Influence of practice of generic competitive strategies on performance of small and micro enterprises (SMEs) in Machakos Town, Machakos County, Kenya specifically the study looked at cost leadership strategy, differentiation strategy, focus strategy, hybrid strategy and performance of Small and Micro Enterprises (SMEs). This chapter presents the data analysis and interpretation of study findings.

#### 4.2. Response Rate

The results presented in Table 2 indicated that out of 40 questionnaires administered, 38 were completed and returned constituting to 95.0% response rate. The study employed a drop and pick later technique to administer questionnaires. Only one respondent with decision making roles was picked from shops with more than one branches. The commendable 95% response rate was sufficient to draw study implications based on research objectives.

**Table 2: Study Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Returned questionnaires	38	95.0
Unreturned questionnaires	2	5.0
<b>Total</b>	<b>40</b>	<b>100</b>

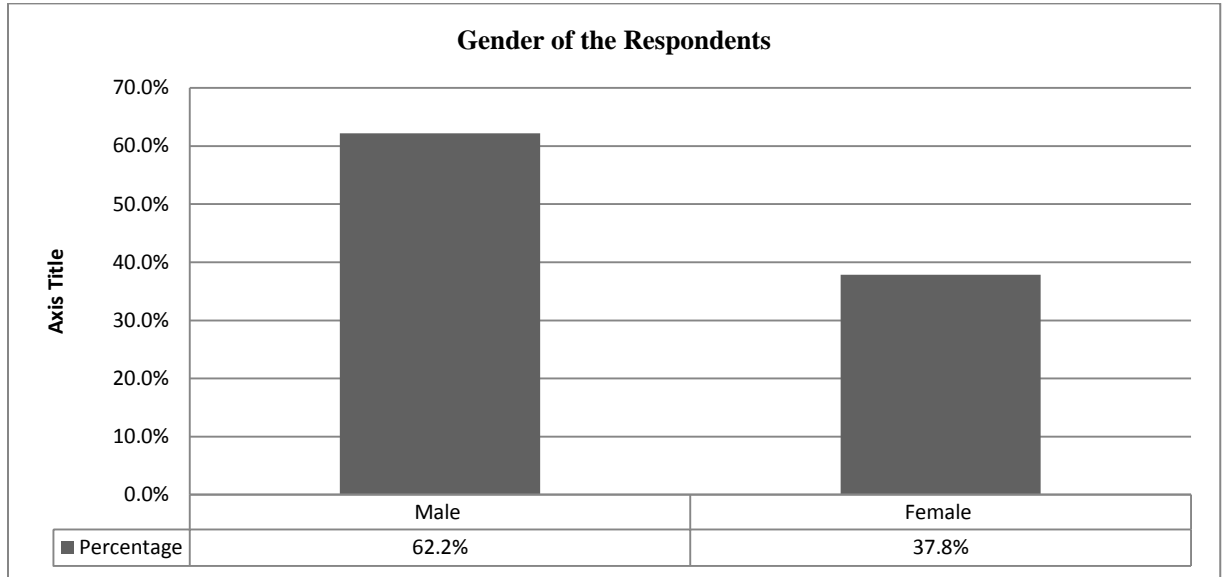
#### 4.3 Demographic information

For better understanding of the research demographics of the population, the study enquired about the gender, education level and work experience of the respondents.

##### 4.3.1 Gender of the Respondents

Figure 4.1 presented below provides that majority, 62.2% of the respondents were male, and the remaining 37.8 % were female. This implies majority gender composition

working in the Small and Micro Enterprises (SMEs) was male implying that, more men were involved in running of electronics firms in Machakos town.



**Figure 2: Gender of the Respondents**

#### 4.3.2 Education Level of the respondents

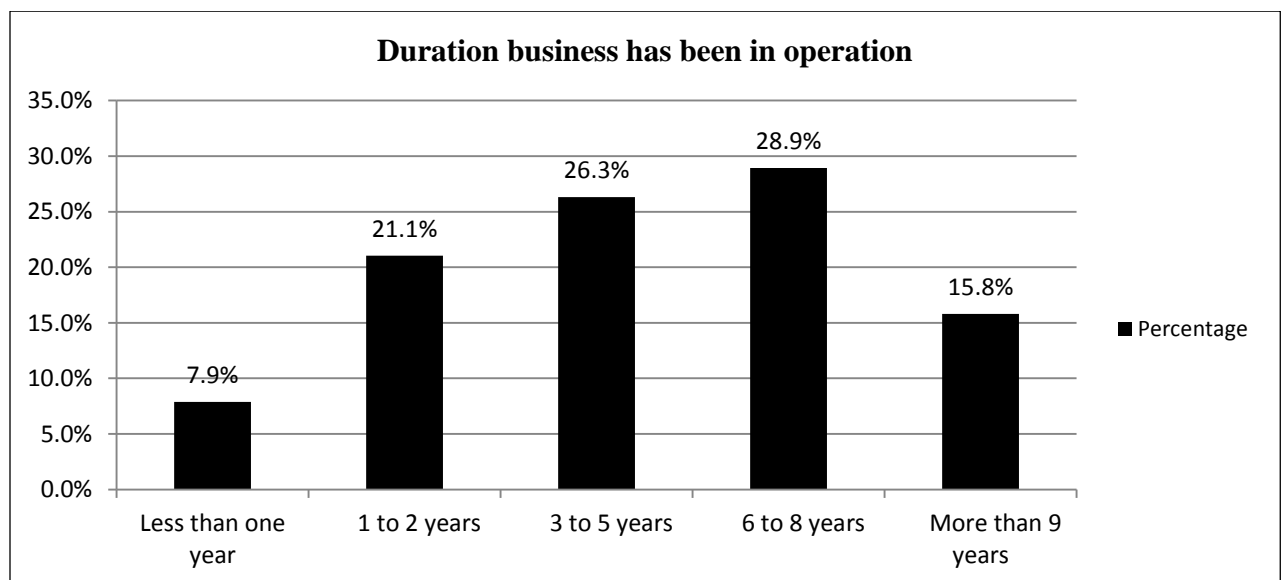
From Table 3 below, majority of the respondents had a Secondary School followed by university qualification as indicated at 65.8% and 23.7% respectively while primary school education level were 10.5%. This implied that majority of the respondents who provided required information to carry out this research had secondary school qualification indicating they understood well customer needs and market dynamics.

**Table 3: Education Level of the respondents**

Education level	Frequency	Percent
University	9	23.7%
Secondary School	25	65.8%
Primary School	4	10.5%
<b>Total</b>	<b>38</b>	<b>100.0%</b>

### 4.3.3 Duration Business has been in Operation

The respondents were requested to indicate the number of years they have been in business. The finding shown in figure 3. Shows that 7.9% of the respondents had operated for less than a year, 21.1% for between 1- 2, 26.3% for between 3- 5 years, and majority 38.9 % for 6-8 years with only 15.9% of the respondents having worked for period of more than 9 years. This implied that the majority of the respondents understood well key competition strategies to have survived in competitive machakos county business.



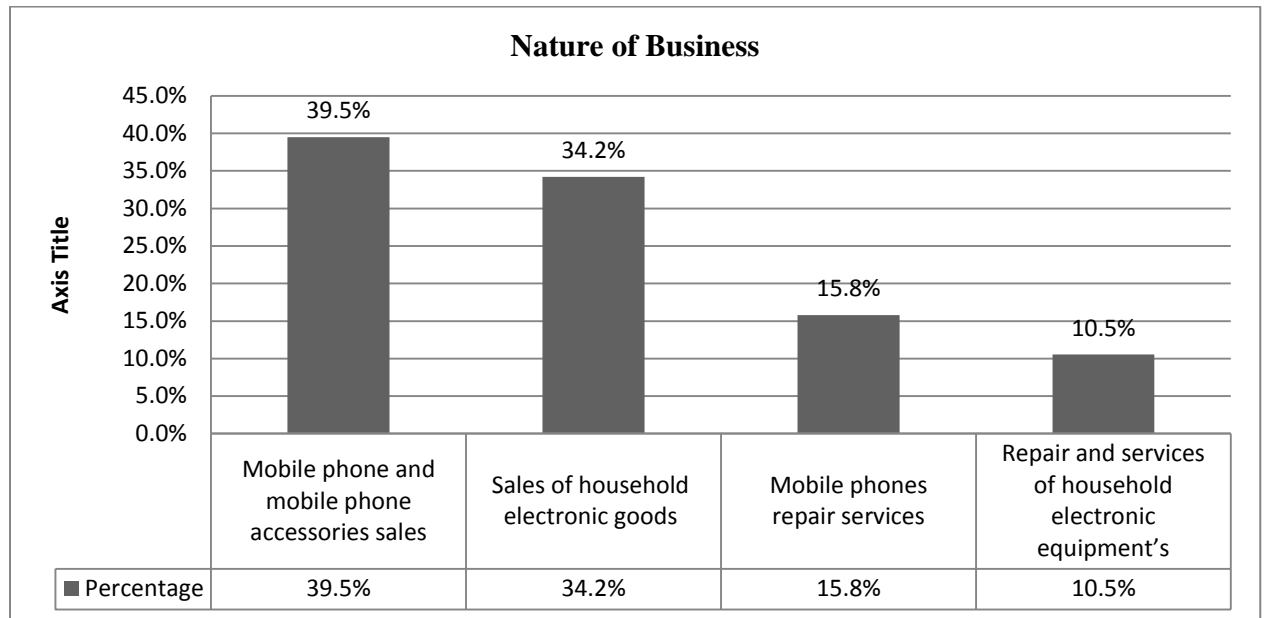
**Figure 3:Duration business has been in operation**

### 4.3.3 Nature of business

The respondents were requested to indicate types of products or services offered in their respective outlets within Machakos Town and its environs. The findings are shown in figure 4. From the finding, respondents from Mobile phone and mobile phone accessories sales, Sales of household electronic goods, Mobile phones repair services and Repair and services of household electronic equipment's were 39.5 %, 34.2%, 15.8% and 10.5 % of the respondents. This was an indication that majority of the SMEs in Machakos Town and



its environs were in mobile phone and house hold electronics business an indication that key competitive strategies must be used for their growth and long term survivor.



**Figure 4: Nature of business**

#### 4.4 Descriptive Statistics

Descriptive statistics are a set of brief descriptive coefficients that summarizes a given set of data, which can either be a representation of the entire population or a sample. The measures used to describe the data set are measures of central tendency and measures of variability or dispersion.

##### 4.4.1 Cost Leadership Strategy

The respondents were asked to indicate the extent in which cost leadership strategy influence performance of small and micro enterprises (SMEs) in Machakos Town, and its environs. From table 4, majorities of the respondents agreed that cost leadership strategy decreases operational/distribution costs which were supported by mean score of 3.63 and standard deviation of 0.58. To moderate extent the respondents provided that strategy approach enables the SMEs to having low cost products for mass market hence increases sales with had a mean score of 3.97 and standard deviation of 1.14. The study further

established that use of economies of scale in sourcing and or producing Sourcing for cheap labor supported by a mean of 4.05 and 0.94.

The study revealed that through Cost Leadership Strategy adoption of relevant and modern technologies and equipment reduces SMEs operation cost which had a mean of 4.18 and standard deviation of 1.00. To great extent the respondents agreed that low cost leadership strategy influence performance of SMEs business through increased efficient as was supported by a mean of 3.92 and standard deviation of 1.06. This implied that for as long as the cost leader has and sustains a sizeable market share and high volume there will be reduction in cost and will likely result to increased customer satisfaction and high profits. The findings of the study were in agreement with those of Waihenya, (2014) that Cost leadership is an effective business-level strategy where a firm offers low prices, provides satisfactory quality, and attracts enough customers to remain profitable.

**Table 4: Practices for Low cost leadership strategy**

<b>Statements</b>	<b>N</b>	<b>Mea n</b>	<b>StD</b>
Decreasing operational/distribution costs	3 8	3.63	0.58
Having low cost products for mass market	3 8	3.97	1.14
Reducing and discounting on retail prices	3 8	3.58	0.63
Sourcing for cheap products and input (raw materials)	3 8	3.82	0.85
Use of economies of scale in sourcing and or producing	3 8	4.05	0.94
Sourcing for cheap labour	3 8	3.92	0.93
Modern business processes and procedures that helps control costs	3 8	4.03	0.96

Adoption of relevant and modern technologies and equipment	3	4.18	1.00
	8		
Low cost leadership strategy influence performance of your business	3	3.92	1.06
	8		
<b>Overall</b>		<b>3.90</b>	<b>0.89</b>
			<b>9</b>

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#### 4.4.2 Differentiation Strategy

Respondents were required to rate how differentiation strategy elements are practiced in their (SMEs) in Machakos Town. The table below shows the mean scores obtained on differentiation strategy activities was relatively high. The study shows that for the better services SMEs should as well focus on developing after sale service which had a mean score of 3.92 and standard deviation of 0.81. The respondents agreed that differentiation strategy enables SMEs to customize/design products for specific market segment to serve different customer needs which was supported by mean of 3.79 and standard deviation of 1.10. To moderate extent the study shows that unique packaging or colors to differentiate products for easy identification by the customers as well brand royalty which was supported by a mean score of 3.74 and standard deviation of 1.16.

The study established that under differentiation strategy, SMEs in Machakos Town should focus on creating a unique brand image of (SMEs) business (Logo/colors) for easy identification, uniqueness and brand association which was supported by a mean 3.97 and standard deviation of 1.01. To moderate extend the respondents agreed that known customers should be given credit and flexible payment programmes to cushion them against hard economic times as well creating a long-term relationship with customers which was supported by a mean score of 3.68 and standard deviation of 1.03. The findings imply that SMEs in Machakos town should have effective sales and marketing, so that the market understands the benefits offered by differentiated offerings. The study findings concurred with the findings of Omar & Omundi, (2017) that, to make a success of a differentiation strategy, organizations need good research, product development and innovation as well the ability to deliver high-quality products or services.

**Table 5:Practices for Differentiation strategy**

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>StD</b>
Developing after sale service	38	3.92	0.81
Customizing/designing products for specific market segment	38	3.79	1.10
Introducing new products and services besides the ordinary	38	4.05	0.89
Using special packaging or colours to differentiate products	38	3.74	1.16
Sourcing for highly skilled labour	38	3.32	0.69
Developing superior customer service than competition	38	3.71	1.14
Creating a unique brand image of your business(Logo/colours)	38	3.97	1.01
Delivery services	38	3.53	0.99
Customer complaints and responsiveness programmes	38	3.68	0.69
Credit and flexible payment programmes	38	3.68	1.03
Differentiation strategy influence performance of your business	38	4.00	1.08
<b>Overall</b>		<b>3.76</b>	<b>0.962</b>

#### **4.4.3 Focus Strategy**

Various statements on the role of focus strategy on performance of small and micro enterprises (SMEs) in Machakos Town and its environs were identified and the respondents were requested to indicate the extent they agree with each of the statements using a scale of 1 to 5 where; 1= SD - Strongly Disagree 2=D - Disagree, 3=N - Neutral, 4=A - Agree and 5= SA - Strongly Agree. Mean and standard deviation were calculated for ease of comparison and generalization of findings. The finding presented in Table 6 below; indicated that Selling unique products exclusively to high end market segment enables SMEs maximize on profits as well serve different customers markets with different unique product items which was supported by a mean of 3.47 and standard deviation 0.75. The study findings established that practicing marketing mix including focus pricing and focus product placement for each market segment was key and allowed SMEs in Machakos to perform better.This was supported by a mean score of 3.50 and standard deviation of 0.85.

Study finding strongly indicated that in focus strategy, use of IT marketing activities (e-business) enable SMEs in Machakos access a rich customers base for enhanced sales

which was supported by a mean of 3.63 and standard deviation of 0.93. The respondents indicated that through the focus strategy, marketing efforts focused on high potential market enable the SMEs to focus on specific products and services needs and was supported by a mean score of 4.00 and standard deviation of 1.21. This implies that a focused strategy requires offering unique product/services with features which fulfill the demands of a narrow market. The study findings concurred with those of Njau (2013) that focused low-cost strategies for a narrow markets are defined in different ways in different settings. Some firms adopt a focused differentiation strategy concentrate their efforts on a particular sales channel while others target particular demographic groups.

**Table 6: Practices for Focus strategy**

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>StD</b>
Selling unique products exclusively to high end market segment	38	3.47	0.75
Using different marketing mix for each market segment	38	3.50	0.85
IT marketing activities (e-business)	<b>38</b>	3.63	0.93
Focusing marketing efforts in high potential market	38	4.00	1.21
<b>Overall</b>		<b>3.65</b>	<b>0.935</b>

#### **4.4.4 Hybrid Strategy**

The respondents were asked to indicate the extent to which the various factors of hybrid strategy affect performance of SMEs in Machakos Town. The findings shown in Table 7, indicated that the SMEs should focus on Improving on customer service and after sale service so as ensure customer complain and complements are handled correctly and on time had a mean score of 3.53 and standard deviation of 0.82 .To extent the study findings showed that offering low retail product prices and discounts increased market share which was supported by mean of 3.95 and standard deviation of 1.12.

The study findings further provided that respondents moderately concurred that offering both high-end and low-end customized products and services enabled SMEs to offer diversified products and services without customer discrimination hence increased sales had a mean score of 3.53 and standard deviation of 0.68. Relatively the study revealed that practicing hybrid strategy which had a score of 3.95 mean and standard deviation of

1.12, influence performance of SMEs business through reaching different customers base and needs which in turn allows for customer repeat visits hence boasting sales. This then implies that pursuant of simultaneous low Cost and Differentiation approaches is fundamental for the short-term performance and long-term survival of the SMEs operating in a dynamic market environment. The study findings were consistent with finding of Oyedijo (2012) that adoption of mixed strategies gave SMEs strategic flexibility leading to superior performance as opposed to single stand alone strategies.

**Table 4.2: Hybrid Strategy**

<b>Statements</b>	<b>N</b>	<b>Mea n</b>	<b>StD</b>
Improving on customer service and after sale service	3 8	3.53	0.8 2
Offering low retail product prices and discounts to increase market share	3 8	3.95	1.1 2
Introducing new products and services in new markets	3 8	3.95	0.8 9
Offering both high-end and low-end customized products and services	3 8	3.53	0.6 8
practice of Combined strategy influence performance of your business	3 8	3.95	1.1 2

#### **4.4.5 Performance of Small and Micro Enterprises (SMEs)**

The study sought the extent to which the SMEs relate with the stated indicators on their performance. These indicators include reduction in operation costs, annual/monthly sales turnover, number of clients served monthly/annually, the net profit realized per month or per year, customer satisfaction, employees turnover, new products or services and Market share size. The results indicated Micro & Small trading enterprises in Machakos Town registered an increase in profitability level due to implementation of generic competitive strategies practices systems from which 40.00% of the respondents agreeing and 40.00% of respondents strongly agreeing .

The level of operating Cost reduction in Micro & Small trading enterprises with 27.69% of the respondents were neutral 43.08% of the respondents agreed and 20.00% of the respondents strongly agreeing. The study indicated that generic competitive strategies in Micro & Small trading enterprises in Machakos Town registered an increase in market share due to diversifying customer needs, focused customer services and products with 50.77% of the respondents agreeing and 18.46% of the respondents strongly agreeing with 3.08% of the respondents disagreed. This implied that to reduce operating costs, SMEs need to standardize the product and achieve a humongous output. This reduces the overheads and spreads fixed costs throughout. The study findings were in line with those Ndungu, (2018) that to maintain SMEs performance over the value chain, the firm should achieve control over all functional groups like procurement, finance, and inventory.

**Table 8: Performance of Small and Micro Enterprises (SMEs)**

<b>Performance indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Annual/monthly sales turnover	1.54	9.23%	9.23%	40.00	40.00
	%			%	%
Number of clients served	3.08	9.23%	7.69%	53.85	26.15
monthly/Annually	%			%	%
Cost reduction per month or per year	4.62	4.62%	27.69	43.08	20.00
	%		%	%	%
Customer satisfaction	4.62	10.77	29.23	36.92	18.46
	%	%	%	%	%
Employees turnover	4.62	6.15%	24.62	49.23	15.38
	%		%	%	%
New products or services	3.08	6.15%	9.23%	47.69	33.85
	%			%	%
Market share size	3.08	9.23%	18.46	50.77	18.46
	%		%	%	%

#### 4.5 Regression Analysis

The study found in the table below that, the R Square, which is the coefficient of determination used to measure the dependent variable variations and their effect on the dependent variables had a value of 0.705. The R Square has value between 0 and 1. Analytically, this shows that 70.5% of variations in the dependent variable can be explained by the independent variables. This means that 70.5% of variation in Performance of Small and Micro Enterprises (SMEs) is explained by cost leadership strategy, differentiation strategy, hybrid strategy and focus strategy, while the remaining 29.5% is associated with factors that are not within the scope of this study. This study hence identifies these four variables as important generic competitive strategies of which determine Performance of Small and Micro Enterprises (SMEs).

**Table 9: 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>	.858a	.736	.705	.491

**a. Dependent Variable:** Performance of Small and Micro Enterprises (SMEs)

**b. Predictors: (Constant)** Cost Leadership Strategy, Differentiation Strategy, Hybrid Strategy, Focus Strategy

##### 4.5.1 Anova

F Test was done through one way Anova to test the effect of all the independent variables on the dependent variable in a simultaneous manner. From a statistical perspective, the F-Test is done to determine whether there is a joint effect of independent variable on the



dependent variable. The results of the Anova test are presented in the tables below. The critical value for the analysis was 2.257 computed through the use of k-1 numerator (4) and N-k denominator (37) degrees of freedom. The F value calculated was 23.054 which is greater than the F Critical Value 2.257, Additionally, the significance value obtained is 0.000, which is less than the set value of 0.05.; Owing to the fact that the F value is greater than the critical value, and the significance level is lower than the set level, it can be concluded that cost leadership strategy, differentiation strategy, hybrid strategy, focus strategy factors have a significant effect on the Performance of Small and Micro Enterprises (SMEs)

**Table 10:ANOVA**

	<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	Regression	22.249	4	5.562	23.054	.000 <sup>b</sup>
	Residual	7.962	33	.241		
	Total	30.211	37			

**a. Dependent Variable:** Performance of Small and Micro Enterprises (SMEs)

**b. Predictors: (Constant),** Differentiation Strategy, Focus Strategy, Cost Leadership Strategy Hybrid Strategy

#### 4.5.2 Beta Coefficients

The established regression equation was

$$Y = 0.971 + 0.306X_1 + 0.184X_2 + 0.355X_3 + 0.764X_4 + \varepsilon$$

From the findings in the regression analysis, if the factors Cost Leadership Strategy, Differentiation Strategy, Hybrid Strategy, Focus Strategy) were held constant Performance of Small and Micro Enterprises (SMEs) would be at 0.971.

A unit increase in Differentiation Strategy would lead to an increase in Performance of Small and Micro Enterprises (SMEs) by 0.184. A unit increase in Focus Strategy would lead to an increase in Performance of Small and Micro Enterprises (SMEs) by 0.355. A unit increase in Hybrid Strategy would lead to an increase in performance of Small and Micro Enterprises (SMEs) by 0.764. A unit increase in Cost Leadership Strategy, would

lead to an increase in Performance of Small and Micro Enterprises (SMEs) by 0.306. The studies were in agreement with those of the generic focus strategy based on choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The model is given as follows;

**Table 11:Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.971	.414		2.342	.001
Cost Leadership Strategy	.306	.245	.342	1.248	.000
Differentiation Strategy	.184	.160	.267	1.147	.003
Focus Strategy	.355	.211	.442	1.678	.002
Hybrid Strategy	.764	.169	.703	4.523	.000

### Optimal Model

$$Y = 0.971 + 0.306X_1 + 0.184X_2 + 0.355X_3 + 0.764X_4 + \varepsilon$$

Where:-

Y= Performance of Small and Micro Enterprises (SMEs)

$\beta_0$ =constant

$X_1$ = Cost Leadership Strategy

$X_2$ = Differentiation Strategy

$X_3$ = Focus Strategy

$X_4$ = Hybrid Strategy

$\varepsilon$ =Error Term

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter describes the summary of the study, conclusions, and recommendations of the study. The main purpose of the study was to investigate the influence of practicing generic competitive strategies on performance of small and micro enterprises (SMEs) in Machakos Town and its environs Machakos County, Kenya. The study sought to determine the influence of independent variables: cost leadership strategy, differentiation strategy, focus strategy, hybrid strategy on performance of Small and Micro Enterprises (SMEs) on Performance of Small and Micro Enterprises (SMEs).

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

In this chapter, the researcher makes a summary of the study then draws a conclusion and gives recommendations based on the research findings and analysis done in the previous chapter. The summary is a brief overview of the research process while the conclusion is the report of the crucial findings and the recommendations are suggestions and advice based on the research findings. The main purpose of the study was to determine the influence of generic competitive strategies on performance of Micro & Small trading enterprises in Machakos town.

##### **5.2.1 Cost Leadership Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study objective was “To examine the influence of cost leadership strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs. The study finding indicates that cost leadership has positive influence on performance as indicated by ( $\beta_1=0.306$ ,  $p=0.000<0.05$ ). The study answered the research question on how practice of cost leadership strategy does influence performance of small and micro-enterprises (SMEs) in Machakos Town and its environs. The study established that by adopting cost leadership strategy, a Small and Micro Enterprise (SME) sets out to become low a cost producer in its industry and hence improve on their performance. The sources of cost advantage varies and depend on the structure of the industry. Cost

advantage sources include, pursuit of economies of scale, proprietary technology, seek access to cheap raw materials, cheap labor and other factors. A low cost Small and Micro Enterprise (SME) must therefore find and exploit all sources of cost advantage. Once a firm achieves and sustains cost leadership, then it becomes an above average performer in its industry, and it is able to command prices at or near the industry average

### **5.2.2 Differentiation Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study objective was To determine the influence of differentiation strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs. The study finding indicates that differentiation Strategy has impact on performance as indicated by ( $\beta_2=0.184$ ,  $p=0.003<0.05$ ). The study answered the research question: to what extent does practice of differentiation strategy does influence performance of small and micro enterprises (SMEs) in Machakos Town and its environs. The study found that SME pursuing differentiation strategy selects one or more attributes that many buyers in the industry perceive as important, and uniquely positions itself thus improving its performance. SME is rewarded with a premium price for uniqueness of its products and services. Differentiation drives profitability when the product price outweighs the product cost or service but is ineffective when its uniqueness is easily replicated by competition. Successful brand management also results to perceived uniqueness even when the physical product is the same as competitors warding off competition and improving SMEs' performance.

### **5.2.3 Focus Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study objective was "To establish the influence of focus strategy on performance of small and micro-enterprises (SMEs) in Machakos Town and its environs. The study finding indicates that Focus Strategy has influence on performance as indicated by ( $\beta_3=0.355$ ,  $p=0.002<0.05$ ). The study answered the research question: in what ways does practice of focus strategy influence performance of small and micro enterprises (SMEs) in Machakos Town and its environs. The study revealed that SMEs which adopt focus strategies concentrate on particular niche markets and, understand the dynamics of that market and the unique needs of customers then develop uniquely low-cost or well-

specified products for the said market. SMEs serve customers in their market uniquely well, resulting to strong brand loyalty amongst their customers. This in turn makes the particular market segment less attractive to competitors. In adopting a narrow focus or segmentation strategy, the SMEs ideally focus on a few target markets which have distinct groups with specialized needs resulting to increased customer base, increased income flow and improved performance.

#### **5.2.4 Hybrid Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study objective was “To establish the influence of hybrid strategy on small and micro-enterprises (SMEs) in Machakos Town and its environs. The study finding indicates that cost Hybrid Strategy has greatest influence on performance as indicated by ( $\beta_4=0.764$ ,  $p=0.000<0.05$ ). The study answered the research question; To what degree does practice of hybrid strategy influence performance of small and micro enterprises (SMEs) in Machakos Town, and its environs. The study found that pursuit of either cost leadership or differentiation strategy alongside the main SMEs focus strategy is essential. Pursuing either Focus strategy as stand alone is not normally enough since an SME is small firm that is unable to fully focus on one broader market. The study established that the dynamic market requires SMEs employ mixed strategies for growth and longtime survivor.

### **5.3 Conclusion**

From the findings, the study concludes that:

#### **5.3.1 Cost Leadership Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study findings concluded that cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development activities. The cost leadership approach improves SMEs performance but has short term benefits and is expensive in the long run. Lack of market research can lead to cost leaders being less skilled than other firms at detecting important environmental changes and trends. Downplaying research and development effort can slow cost leaders' ability to respond to market 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 its customers.

### **5.3.2 Differentiation Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study findings concluded that a differentiation strategy enhances SMEs performance. 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 enables it to satisfy these needs in ways that are difficult to copied by competition. This is achieved through patents or other Intellectual Property (IP) or possession of unique technical expertise. Successful differentiation strategy is achieved when the SME accomplishes either a premium price for the product or service, increases revenue per unit, or win consumers' brand loyalty on its product or services.

### **5.3.3 Focus Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study findings concluded focus strategy is key at achieving better performance of small and micro-enterprises (SMEs) in Machakos Town and its environs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected market segment and the resources and capabilities of the firm. Focusing SMEs marketing efforts on one or two narrow market segments and tailoring SMEs marketing mix to these specialized markets help meet the needs of that target market better. SMEs practice focus Strategy to achieve performance growth through product innovation and brand marketing rather than efficiency. A focused strategy target market segments that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.

### **5.3.4 Hybrid Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study findings established that performance of small and micro-enterprises (SMEs) in Machakos Town and its environs heavily depends on adoption of hybrid strategy. The key success factors for the implementation of hybrid strategies are innovative strength, close orientation towards customer needs and organizational learning. Hybrid strategies require SME to make consistent strategic decisions on how to pursue

competitive advantages and align its resources and capabilities accordingly. SMEs in Machakos adopt simultaneous strategies aimed at generating cost and differentiation advantages at the same time.

## **5.4 Recommendations**

### **5.4.1 Cost Leadership Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study recommends that the aim of cost leadership strategy should be to generate a comprehensive cost advantage within the industry in order to be able to offer products or services at a price below the market price. The key objective is to win market share by appealing to cost-conscious or price-sensitive customers. Successful implementation of a cost leadership strategy by SMEs in machakos is by leveraging economies of scale. SME Scaling is recommended for it has very significant impact on SME ability to become a cost leader. Scaling SME reduces costs by increasing the volume of supplies, which further reduce the cost of goods. To gain better bargaining power over its suppliers, SME stock orders should be significantly high so as to contribute to a larger share of its supplier's business operations. Cost leadership strategy is effective to SMEs in the wholesale sector.

### **5.4.2 Differentiation Strategy and Performance of Small and Micro Enterprises (SMEs)**

Differentiation approach by the SMEs should involve creating products or services that are perceived by customers as unique and which customers are willing to pay premium prices. The target market must either have buyers with unusual needs or else the production and delivery system serving the target market must differ from that of other industry segments. This means competition is not based on price but on quality. In order for such a strategy to work out, the study recommends that the SME should innovate distinguishing features that are difficult to copy by competitors. Differentiation strategy can best be exploited by SMEs offering the special services like repair of electronics gadgets and mobile phones since this requires specialized skills.

#### **5.4.3 Focus Strategy and Performance of Small and Micro Enterprises (SMEs)**

By adopting a narrow segmentation strategy or niche strategy, SMEs ideally need to focus on a few target markets or market segments with specialized needs. Focus strategies enable SMEs concentrate on serving a narrow market niche comprising specific customer group, geographical region, or product line. Depending with the niche market target group, firms can seek either a cost or differentiation advantage. The study recommends focus strategy for start-ups SMEs after a through market survey. The strategy is also recommended for SMEs in an increasingly competitive market.

#### **5.4.4 Hybrid Strategy and Performance of Small and Micro Enterprises (SMEs)**

The study recommends that SMEs view adoption of singular generic strategy as insufficient in today's competitive and dynamic market environments. Increased competition, products cost factor, effects of globalization as well as changing customer expectations require firms to adopt a multidimensional strategic approach. Most customers expect to get differentiated, high-quality products combined with excellent service all at a low price. Hybrid strategy that integrates cost and differentiation advantages represents a way for firms to respond to these changes in the competitive environment in a more flexible and effective approach and hence remain competitive. One way to achieve cost and differentiation advantage is mass customization aimed at producing customized products at a price similar to those of mass-produced products. Customization may be achieved through design or mixing-and-matching of components.

#### **5.5 Areas for Further Study**

This study sought to investigate influence of cost leadership strategy, differentiation strategy, focus strategy, hybrid strategy on performance of small and micro enterprises (SMEs) in Machakos Town and its environs in Machakos County, Kenya. From the finding of the study, practice of competitive strategies have a significant positive influence on performance of SMEs in machakos town and its environs. However, the regression analysis only explain 70.5% relationship between performance of SMEs in Machakos Town and cost leadership strategy, differentiation strategy, focus strategy and hybrid strategy. This implies that 29.5% of variations on performance of SMEs in Machakos Town are linked to other factors. More studies are therefore required to



establish these additional factors and how they impact on performance of SMEs in Machakos Town.

The study was only limited to SMEs within Machakos Town and its environs. Competitive strategies studies is a rich research field and more studies are recommended for other Kenyan towns. This is because competitive strategies are not static but evolve depending on the market trends.

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## APPENDICES

### Appendix I: Letter of Introduction

Reuben Njoroge  
P.O. Box 3307, 90100  
MACHAKOS, Kenya.

30th May 2019

Dear Sir/Madam,

#### **RE: REQUEST FOR RESEARCH ASSISTANCE**

Greetings. I am a Postgraduate student at Machakos University, pursuing Masters of Business Administration degree (Strategic Management Option). I am conducting an Academic Research Project study titled; **“Influence of Competitive Strategies on small and micro enterprises (SMEs) Performance: A Survey of Electronics Shops in Machakos Town and its environs”**, in partial fulfillment of the requirement for the Degree of Master in Business Administration (MBA) of Machakos university.

To make this research successful, I kindly request that you spare some of your valuable time (10-15 minutes) to complete this questionnaire to the best of your knowledge. To maintain anonymity, I request that you DO NOT write your name on the questionnaire. Your responses will be treated with the **confidentiality** it deserves and collected data will ONLY be used purely for academic purpose.

Thank you in advance for accepting to be a positive contributor to our society. Find attached copy of the introduction letter from Dean of School of postgraduate Machakos University. Results of this study will be vital to current and future owners/Managers of Small and Micro Enterprises.

Thank you  
Reuben Kimani Njoroge

## Appendix II: Questionnaire

### Introduction

This questionnaire consists of various questions aimed at collecting data for the purpose of the study. The study is aimed at investigating how competitive strategies influence sustainability and growth of SMEs in Machakos Town. In order to make this study valuable, kindly provide your feedback on questions below with openness and honesty.

Thank you

### PART A: Respondent Demographic Information

#### Instructions

Kindly answer below questions to the best of your understanding. Write your response in the space provided (put a tick where appropriate)

Respondent Characteristics	Characteristics Details	Tick (√)
2) Gender	Male	
	Female	
3) Highest Education level	Primary school	
	Secondary	
	University	
4) Working experience	Less than one year	
	1 to 2 years	
	3 to 5 years	
	6 to 8 years	
	More than 9 years	
5) Duration business has been in operation	Less than one year	
	1 to 2 years	
	3 to 5 years	
	6 to 8 years	
	More than 9 years	

### PART B. Nature of Business

#### Instructions

Kindly indicate by ticking (√) the nature of business you have been operating within the last 5 (five) year

**(6a)**What is the nature of your business?

Nature of business	Tick appropriately using (√)
Mobile phone and mobile phone accessories sales	
Sales of household electronic goods	
Mobile phones repair services	
Repair and services of household electronic equipments	

**(6b)** Kindly indicate whether you have changed the nature of your business within the last 5 (five) years

.....  
 .....

**(6c)** If yes in **6b** above, kindly indicate why you changed

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

**PART C: Cost leadership Strategy and SMEs performance**

**(7)** The practices listed in the below table are meant to achieve **cost leadership strategy** and improve performance of business. Kindly indicate by ticking (√) the extent to which your business practice this strategy on a scale of from 1 to 5, where: 1=Not at all, 2=Small extent 3= Moderate extent 4= Large extent 5 = Very large extent

Practices for Low cost leadership strategy	5	4	4	2	1
Decreasing operational/distribution costs					
Having low cost products for mass market					
Reducing and discounting on retail prices					
Sourcing for cheap products and input (raw materials)					
Use of economies of scale in sourcing and or producing					

Sourcing for cheap labor					
Use of modern business processes and procedures that help control and minimizes costs					
Adoption of relevant and modern technologies and equipment					
To what extent do you believe that practice of <b>low cost leadership</b> strategy influence performance of your business					

**PART D: Differentiation Strategy and SMEs performance**

9) The practices listed in the below table are meant to achieve **Differentiation** strategy and improve business performance. Kindly indicate by ticking (√) the extent of usage of each practice by your business on a scale of from 1 to 5, where: 1 = Not at all, 2 = Small extent 3 = Moderate extent 4 = Large extent 5 = Very large extent

<b>Practices for Differentiation strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Developing after sale service					
Customizing/designing products for specific market segment					
Introducing new products and services besides the ordinary					
Using special packaging or colors to differentiate products					
Sourcing for highly skilled labor					
Developing superior customer service than competition					
Creating a unique brand image of your business(Logo/colors)					
Delivery services					
Customer complaints and responsiveness programs					
Credit and flexible payment programs					
To what extent do you think usage <b>Differentiation</b> strategy influence performance of your business					

**PART E: Focus Strategy and SMEs performance**

11) The practices listed in the below table are meant to achieve Focus strategy and improve performance of business. Kindly indicate by ticking (√) the extent of adoption of each practice by your business on a scale of 1 to 5, where: 1 = Not at all, 2 = Small extent 3 = Moderate extent 4= Large extent 5= Very large extent

<b>Practices for Focus strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>

Selling unique products exclusively to high end market segment					
Using different marketing mix for each market segment					
IT marketing activities (e-business)					
Focusing marketing efforts in high potential market					

**PART F: Hybrid Strategy and SMEs performance**

**13)** Improved business performance is also achieved by adopting **Hybrid** strategy where more than one strategies are employed (i.e. Cost leadership, Focus and Differentiation).

**13a)** Do you adopt more than one strategy to enhance performance of your business. Kindly indicate with a YES or NO .

.....  
 .....

**13b)** If Yes in 13(a) above, Kindly indicate which mix of strategies you prefer adopting to enhance performance of your business

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

**13c)** Kindly indicate why you prefer combined strategies stated in **13b** above

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

**13d)** Kindly indicate by ticking (√) the extent of adoption of below practices by your business on a scale of 1 to 5, where: 1 = Not at all, 2 = Small extent 3 = Moderate extent 4 = Large extent 5 = Very large extent

<b>Practices for Combined strategy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Improving on customer service and after sale service					
Offering low retail product prices and discounts to increase market share and decreasing operational costs					
Introducing new products and services in new markets					
Offering both high-end and low-end customized products and services					
To what extent do you think practice of <b>Hybrid</b> strategy influence performance of your business					

### **PART G: Small and Micro Enterprise performance indicators**

**15)** The statements listed in the table below are indicators of a business performance. Kindly indicate by ticking (√) the extent to which you agree with each statement.

KEY: Use a scale of 1 to 5: Where: 1 = Don't know, 2=Don't agree, 3 = Slightly, 4 = Moderately, 5= Extremely

<b>Performance indicators</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>0</b>
Annual/monthly sales turnover					
Number of clients served monthly/Annually					
The net profit realized per month or per year					
Customer satisfaction					
Employees turnover					
New products or services					
Market share size					

**Thank you for your time**



**Appendix III: Letter for NACOSTI permit**



**MACHAKOS UNIVERSITY  
OFFICE OF THE DEAN GRADUATE SCHOOL**

Telephone: 254-(0)735247939, (0)723805929  
Email: [graduateschool@mksu.ac.ke](mailto:graduateschool@mksu.ac.ke)  
Website: [www.machakosuniversity.ac.ke](http://www.machakosuniversity.ac.ke)

P.O Box 136-90100  
Machakos  
KENYA

REF. MksU/GS/SS/011/VOL.1

8<sup>th</sup> September, 2021

The Director,  
National Commission for Science, Technology and Innovation,  
P.O Box 30623,  
NAIROBI

Dear Sir,

**RE REUBEN KIMANI NJOROGE (D53/10412/2017)**

The above named is a Masters student in the second year of study and has cleared course work. The University has cleared him to conduct a research entitled: "Influence of Generic Competition Strategies on Small and Micro-Enterprises (SMES) Performance: A Survey of Electronic Retail Shops in Machakos Town., Machakos County."

Kindly assist him with a Research Permit in order to undertake the research.


Thank you.




PROF. KIMITI RICHARD PETER, PhD  
DEAN GRADUATE SCHOOL

KRP/gm


# Appendix IV: NACOSTI permit

  
REPUBLIC OF KENYA

  
NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY & INNOVATION.

Ref No: **255640** Date of Issue: **04/October/2021**


**RESEARCH LICENSE**




**This is to Certify that Mr. reuben Kimani njoroge of Machakos University, has been licensed to conduct research in Machakos on the topic: influence of generic competitive strategies on small and micro enterprises (SMES) performance :A survey of electronics shops in Machakos town, Machakos county for the period ending : 04/October/2022.**

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Applicant Identification Number

  
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NATIONAL COMMISSION FOR  
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INNOVATION.

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