

**COMPETITIVE STRATEGIES AND ORGANIZATIONAL PERFORMANCE IN
SMALL AND MEDIUM ENTERPRISES LISTED AT THE NAIROBI
SECURITIES EXCHANGE**

BY

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DECLARATION

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

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DECLARATION BY THE SUPERVISOR

This project has been submitted to the University of Nairobi with our approval as University Supervisor

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DEDICATION

To my family. Thank you for your support and love.

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ABSTRACT

The main aim of competitive strategies is enabling a company to attain a position in the market that is profitable and sustainable while dealing with the forces that determine competitiveness in the sector the company is operating in. This means that organization needs to know what causes the competition and work towards developing strategies that enhance the organizational performance of their respective firms. The importance of SMEs in the economy is on the rise globally with the increase in deliberate policies of the government and legislations that aim to nurture the small enterprises as the driving force for the growth of the economy and creation of more job opportunities. The main aim of the study was to establish how competitive strategies used by SMEs influence organizational performance. This study utilized cross sectional qualitative survey research design. The target population for this study was the four chief operations managers (or their equivalents) at the four SMEs listed on the Nairobi Securities Exchange. The four SMEs are Nairobi Business Ventures, Home Afrika, Atlas Support and Flame Tree. The four managers formed the population of the study and so the study was a census. This study utilized an interview guide. Qualitative data was collected and analyzed using content analysis. The study found that the SMEs applied the use of differentiation strategies, cost leadership strategies and focus strategies which are competitive strategies. With the implementation of these competitive strategies by the companies, sales turnover and return on investment increased; the level of customer satisfaction, and product/services delivery time improved. The study also found that product/ services innovation and quality of product/ services improved to a great extent. For learning and growth the study found that application of communication strategies, use of technology, and enhances employee skills improved. The study therefore concludes that the competitive strategies used by SMEs positively influence the performance of the company. Managers of the companies should be aware of the needs of clients and provide them with product and services this will increase competitiveness of the company. The study also recommends that the companies should use holistic approach in strategy implementation this will increase the employee participation and therefore have a positive influence on the general performance of the company. SMEs should regularly review their marketing strategies and policies to ensure that they are up to date with the current trends in the market and they are effective. SMEs face various challenges, with the most pressing challenges being competition, lack finance. This means that the government has to provide incentives, subsidies as well as set up a conducive business operating environment for SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

A strategy refers to a plan for a long period of time to be followed with the aim of attains a particular goal (Thompson and Strickland, 2007). Strategies are different from immediate acts because they are first mediated using and they are often rehearsed and meditated. Strategy can be said to be said to be searching deliberately for an action that will enable the company to attain competitive advantage. Clearly, strategy must add value, or in other words enhance competitive advantage. Also, organizational performance represents the way the company is organized to reach its objectives, goals and aspirations and the way it manages to reach them (Marmouse 1997). Performance refers to the result of a task since it provides a strong link to the strategic goal of the company, level of client satisfaction and its contribution towards the economy (Salem, 2003). Consequently, performance of an organization is measurable empirically. Carton (2004) links performance with context. Accordingly, he states that, performance id an idea that is contextual and relates with the case that is being investigated.

This study was anchored on three theories; the first was the resource based theory which argues that firms acquire competitive advantage depending on the resources they possess and develops the capacity to acquire and implement product market strategy. The second was the contingency theory which opines that companies are faced with a very high level of uncertainty regarding the environment in which they are operating in, for instance, because of varying prices and rents, they could try to ensure that they are stable by cost

control or any other strategic moves that enhance competitiveness (Koberg and Ungson, 1987) and the efficiency structure theory which states that firm's profitability becomes higher than the rest because of their efficiency. X-efficiency and scale-efficiency hypothesis are the approaches in ES.

In China, Yan (2015) conducted an assessment of competitive strategy and business environment. He discovered that cost leadership strategy was the strategy utilized by most SMEs in China. Continentally, Uchebulamet *al* (2015) examined competitive strategy and performance of selected SMEs in Nigeria. The recommendation provided in the study was that managers of the companies must have the knowledge of the needs of clients and provide them with the products and services that will meet those needs; this will ensure that the company remains competitive. El-Shobery, El-Iskandrani & Hegazy (2010) investigated the way SMEs in Egypt performed through the promotion of human factors in styles of quality management and recommended that firms adopt a holistic approach in strategy implementation. Here in Kenya, Njoroge (2015) examined strategies that are applied in marketing and the way SMEs in Matuu town, Machakos County, Kenya performed. He discovered that customer relationship strategies also affect the performance of SMEs, and recommended that SMEs should regularly review their marketing strategies and policies to ensure that they are up to date and they are effective. In the review process SMEs should incorporate creative and innovative strategies which will improve the overall performance of the enterprises.

1.1.2 Competitive Strategy

Some of the strategies employed by organizations to ensure their sustainability include differentiation strategy, whereby products are made different from the ones provided by

the rivals and this is done with the aim of making customers value the product and affect their decision. In a 2015 study in the Kongowea area of Mombasa, Kenya, Njoroge (2015) discovered that differentiation is the most common used strategy by SMEs in that area. In addition, there is the strategy of cost leadership in this strategy, the design of the business, produces and markets a product that is comparable in an effective manner than the rivals do, the hope is that through diverting the marketing efforts to a single segment of the market and having marketing mix that is specifically tailored for this niche, they will have the ability of meeting the needs of the targeted individuals/markets in a more effective way.

Another way in which a company can deal with increased competition is by entering new markets using the same products they deal with. The new markets that these businesses may venture in are those that they are currently not serving or are located in other regions/areas (geographically). Market entry strategies may include acquisitions, strategic alliance and joint ventures. Also companies could decide to develop new products to deal with the competition; through this technique, risks are reduced by diversifying as a way to respond to competition. It's not necessary that the strategies be related, they could be unrelated. With the increase in level of competition, this particular strategy provides low costs, market power that is defensive and offensive. Through backward integration, the company moves close to the suppliers while forward integration moves close to the clients. Through forward diversification businesses are acquired but not in the current market or product scope (Pearce and Robinson, 2003). When implemented, these strategies confer competitive advantage to an organization.

1.1.3 Firm Performance

Marmouse (1997) states that organizational performance represents the manner in which the company is organized to reach its objectives, goals and aspirations and the way it manages to reach them. Performance is a result of the activities since it provides a strong link with the strategic objectives of the company, client contention and contribution to the economy (Salem, 2003). Consequently, performance of an organization is measurable empirically. Carton (2004) links performance with context. Accordingly, he states that, performance is an idea that is contextual are relates to the case that is being investigated. Performance and its continuity is what all companies focus at since it's the only way that will enable the company to grow and make a progress. Performance of an organization is very important factor is studies related to management and it is argued to be highly significant pointer on performance of a company (Corina et al., 2011).

1.1.4 Small and Medium Enterprises in Kenya

In Kenya and just like the rest of developing countries a business with employees that do not exceed 100 is categorized as an SME (UNCTAD, 2001). the importance of SMEs in the economy has been increasing in the past years globally this is because the government have increased its deliberate policies and other legislations that aim to nurture SMEs as the drives for the growth of the economy and creation of job opportunities. It is approximated that the contribution of SMEs in all the enterprises is 90% and also its rate of employment is high. SMEs also increase productivity of the sector and exports.

In Kenya, hailing of SMEs is done because of their support in the promotion of the growth of the economic grassroots and development that is sustainable and equitable. The role that is played by the SMEs in the economy of Kenya is very crucial. Based on the

Economic Survey (2016), the contribution of SMEs was more than 50% in job creation in that year of 2015. However, SMEs face many challenges. These include raising capital to finance their operations, particularly in the light of interest rate capping, a harsh business environment, partly caused by unpredictable politics, competition from rivals and high operating costs. Given the important role played by SMEs to the economy of any country, an assessment of the competitive advantage and its impact on the performance of SMEs should be investigated. Accordingly, this study seeks to assess the competitive advantage and its impact on the performance of SMEs listed on the NSE.

In 2013, the Nairobi Securities Exchange relaxed the rules for listing on the exchange and created a new category known as Growth Enterprise Market Segment (GEMS), under which SMES were to list. Five companies took up the opportunities and listed in the Nairobi Stock Exchange. These are Home Africa, which is a real estate development company, Flame Tree Group, which deals with manufacturing of plastic products like the famous roto tanks, plus beauty products, Kurwitu Ventures, which is an investment company with a bias to Islamic banking, Atlas Support which deals with oil, gas and betting, and Nairobi Business Ventures, which deals with retail.

1.2 Research Problem

The focus of competitive strategies is to ensure that the company is profitable and sustainable; this is against the forces determining competition in the industry. This means that organization needs to know what causes the competition and work towards developing strategies that enhance the organizational performance of their respective firms. Conceptually, through performance, a strong link is provided on strategic objective of the company, client satisfaction and contribution to the economy. Performance

therefore pivots on competitive strategies of the firm. Successful competitive strategies results in greater performance and maintainable competitive advantage (Porter, 2004).

the importance of SMEs in the economy has been on the rise recently globally this is because of the increase in the deliberate policies of the government and other legislations that aim to nurture SMEs who drive the growth of the economy and creation of job opportunities. Kenya National Bureau of Statistics baseline survey (KNBS, 2012) revealed that almost two-thirds of the SMEs operate in the rural areas. The same study also revealed that a majority of these SMEs (70%) are in the trade sector (buying and selling of goods and commodities), followed by SMEs in the service sector accounting for 15%, while SMEs in the manufacturing sub-sector accounted for 13%. The collective group representing other service providers such as hotels, restaurants made up only 6% of SMEs in Kenya, while SMEs in the construction industry represented less than 2% of the total SMEs in the country. Overall, these SMEs account for 60% of GDP. SMEs play a crucial role in the Kenyan economy. But the SMEs sector is also highly competitive, and fraught with many challenges.

Accordingly, competitive strategies, which might confer competitive advantage to SMEs, are highly desirable. Competitive strategies are antecedent, subsequent and preparatory to the growth and sustainability of SMEs. Various scholars have investigated the nexus between competitive advantage and organizational performance. Rosli (2012) conducted an exploratory study of Malaysian SMEs vis-à-vis competitive Strategy. His study focused only on the manufacturing sector. In addition, his study was quantitative, thus lacked the input of qualitative data. Another gap in his study was he did not focus on

Porters generic model, instead focusing on human resource factors. He found out that much focus of the SMEs has been diverted to management of the company, marketing and management of HR; while less focus has been drawn to total innovation. To fill the gap left out by Rosli. This study was qualitative, and focuses on Porters generic model.

Yilmaz (2009) assessed competitive advantage strategies for SMEs, focusing on the tourist sector in Indonesia. He found out that a mixture of strategies was the best bet for success in the tourism sector. However, Yilmaz used secondary data only, and focused only on the hotel industry. Conceptually, Yilmaz used secondary data, and only focused on the hotel tourist industry. This study sought to fill that gap by focusing on SMEs outside the tourist industry, and by using primary data.

El-Shobery, El-Iskandrani & Hegazy (2010) investigated performance of organization of SMEs in Egypt using promotion of human factors and the quality of systems applied in management and recommended that firms adopt a holistic approach in strategy implementation. However, El-Shobery, El-Iskandrani & Hegazy followed a similar methodology to Rosli above, only focusing on human resource factors and completely ignoring Porter's generic model.

In addition, they contain several gaps that this study sought to fill. Given the importance of SMEs to the economy, a study to provide updated data of strategies that would give SMEs competitive advantage and enhance their organizational performance is pertinent. Accordingly, this study, which is a prolegomena for SMEs, aimed to fill the gaps and answer the following question: how do competitive strategies influence organizational performance of the SME in Kenya?

1.3 Objective of the Study

The objective of this study was to establish how competitive strategies used by SMEs influence organizational performance.

1.4 Value of the Study

It will inform the theory and praxis of policy makers, practitioners and in addition contribute to knowledge. The Kenya government as the policy maker will be updated on the information that is required in creation of policies and legislative frameworks aimed at helping SMES remain competitive. In short, the government as a policy maker may learn the legal and regulatory frameworks to effect so as to enhance the competitive advantages of SMEs.

It will also form a basis for future studies that will be concerned with the government and SMEs in Kenya. SMEs in Kenya may benefit by learning the strategies germane and relevant to their organization in terms of conferring competitive advantage. Consequently, they might know which strategies to utilize to enhance competitive advantage. In addition, this study might contribute to knowledge. Academic scholars and researchers will be able to get some information to support citation and also come up with themes for further research. It will also contribute theoretically, practically and methodologically.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature that relates with the topic under study is reviewed. It covers the theoretical framework, competitive Strategies for SMEs, and specifically for Nairobi Business Ventures, challenges faced by Home Africa, and finally, the empirical review. In addition conceptual framework is also presented.

The purpose of a theoretical framework is explaining, predicting, and understanding phenomena. In addition, theories challenging and extending the knowledge that exists within some set assumptions. Theoretical frameworks are the structure through which research is interpreted. In short, they are crucial in introducing and explaining why the research problem exists in the first. The following strategies guided the study.

2.2.1 Resource Based Theory

This theory of RBT was developed based on the theory of competitive advantage by Porter (Barney, 2002). Wernerfelt (1984) came up with the theory of competitive advantage which depended on the resources of the company that are either developed or acquired in the implementation of strategies of product market. Wernerfelt (1984) contributed mainly in creation of the RBT by recognizing the specific resources of the company and also competition between the companies depending on the resources that are important for the company to attain the advantage in the implementation of strategies of product market (Barney, 2002).

Resources are all the components that a company creates to performers of innovation (Amabile, 1997). Staff members require resources that are sufficient for them to be creative and develop an innovative climate; these resources are inclusive of funds, materials, knowledge, facilities, information and time to allow production of novel work and availability of training (Amabile, 1997). Competitive advantage is attained by those resources that are valuable, rare, inimitable, and ones that cannot be substituted (Gilley, McGee and Rasheed, 2004). This theory is vital in this study since its perspective of the company focuses on human capital in regard to knowledge, skills and competence. Accordingly, executive action can regulate and guide policies that maximize on knowledge, competence, skills, and other resources to cut costs to solve the issue of innovativeness (West & Farr, 1999).

This theory has been criticized in several ways, including the fact that it is only concerned with the how the company is organized internally and doesn't put into consideration the external factors such as the demand aspect in the market. The company might possess resources that are required for it to attain competitive edge, but if there is no demand, some scholars aver that mooted of resources can occur in terms of competitive advantage.

2.2.2 Contingency Theory

This theory indicates that a company that is faced with high levels of uncertainty regarding the environment in which it is operating in, it might be because of changing prices and rents will try to gain some stability by cost control or other strategies that enhances competitiveness (Koberg and Ungson, 1987). Understanding this framework is with the perspective of resources regarding the strategies of competitiveness. A company selects the resources that are available acquire and combine them. Those resources could

not be enough for the company to attain its objectives. The effect is that the company will perceive a gap in the current abilities they have and what they intend. Another cause of this gap could be external environments dynamics.

Because of the environment that is constantly changing, a company could be exposed to new opportunities and threats (Venkatraman, 1989). The effect of this is that the company will perceive a gap that exists between its current resources and what is required for them to exploit the emerging opportunities and deal with the threats. The intention of the company is to have a fit of its resources and the competitive environment through the acquisition of resources in the gap by various strategic moves such as outsourcing, internalizing etc. this theory makes a prediction of the decision to result to fit between the factors of the environment and those of the company. Uncertainty in the environment will not enable the company to predict if the resources will be needed in the future (Koberg and Ungson, 1987). There is a possibility that resources will lose value and fail to generate rents, or there would be imitations, substitutes which are of much higher value. In those instances, the company might decide that to achieve higher flexibility they will cut costs and not invest heavily.

Based on this theory, uncertainties in the environment or dynamism are antecedent to cost cutting measures, which in turn confer competitive advantage. It is agreed that great uncertainty in the environment results increased competitive strategies to enhance organizational performance. As a result of strategy, this theory imply great environment for the organization fit. Accordingly, the contingency theory is vital to this study for it postulates that competitive strategies are circumstantial and hinge on environment. Contingency theory, despite it obvious strengths, however falls short because it does of

correlating with other standard leadership measures. In addition, it does not explain what should be done when there is a leader/ situation mismatch in the work place.

2.2.3 Efficiency Structure Theory

The ES hypothesis states that a company becomes highly profitable because of their efficiency in comparison with the rest. X-efficiency and scale-efficiency are the two approaches within the ES; hypothesis. X-efficiency approach indicates that companies are highly efficient and have high profits because of the low cost and strategizing. Such companies have a higher share in the market which could be seen through high concentrations in the market, with no causal association from concentration to profitability (Athanasoglou et al., 2006). This particular approach of scale focuses on economy of scale and not distinction in technology of production and management. Large companies can obtain a low unit cost and high profits because of economy of scale; which enables the company to increase its market share and concentration which in turn increases their level of profits. Accordingly, the ES theory makes sustainability and profitability of firms a strategic imperative. Consequently, this theory is vital to this study since it makes means the efficient firm will have better organizational performance.

This theory, however, is not without criticism. Its emphasis on economies of scale largely apply to large firms, thus the theory lacks utility in terms of application to smaller firms. In addition, there is a limit to how low a firm can lower its prices.

2.3 Competitive Strategies for Small and Medium Enterprises

Clayton, (2003), indicated that for any firm to gain competitive advantage it is a process of interaction that starts with determining the current position of the company to what the company possesses and the position where the company wants to reach. he stated that the

distinction between a company and its rivals is what forms the foundation of its advantage and if the company is operational and does not depend on support from others is already having some advantages, regardless of how small or subtle the main focus is enlarging the scope of the advantage at the expense of another company.

Rosli, (2012), explained that the focus of competitive advantage is addressing the issue of the way a company needs to compete with rivals in a certain sector and outline the way businesses should compete in the same sector. Through this particular strategy, a company is able to attain competitive advantage over rivals. It's important to note that every sector including the banking sector have a structure that underlies it or economic and technical characteristics that leads to emergence of competitive forces. Thus, it's possible for a company to either better or erode the position it holds in the market by the strategies they follow. Competitive strategy tries to respond to the business environment and also tries to shape the environment in a way that it will favor it (Porter, 2003). It is crucial that the strategist position the company in a way that it will cope with the industry or influence the environment in a way that it will favor it.

Dirisu, Iyiola and Ibidunni, (2013), indicated that development of strategies of a business is concerned with aligning the needs of the clients with the ability of the company depending on the resources and skills available in the business organization which leads to core competence. they were in agreement that the idea is concerned with the undertakings of the business and those of other businesses or that is better than other companies therefore the strategy of competitiveness explain the distinct approach that the company intends to apply to be successful in its strategies in business. the company gains advantage over competitors in customer attraction and defends against forces from

competition and thus provide customers with that that they regard as being superior value at a low cost; services that are superior are those services that are worth a higher pay, or of offering at a best value representing an attractive combination of prices, quality, services, features and other attributes regarded as being attractive by customers (Ogotu& Samuel, 2011).

Porter, (1980), came up with 3 generic strategies of competition which are viable in the business environment in the long term; it presumes that being able to produce at a low cost in comparison to the rival is one of the techniques though which competitive advantage can be attained. Al-alak and Tarabieh, (2011), explained that it is a result of efficiency in developing large-scale companies as a result of their experience of tasks that are involved or by using power in leveraging low costs. they added that the competitive advantage is related to the value that customers see who either see specific attractive elements that are offered or have the feeling that all their needs are fulfilled better than what the rivals provide.

Additionally, Miller, (1993), gives the difference of the 2 kinds of differentiation advantage: market and innovation differentiation. Recent studies have questioned Porter's argument that strategies of differentiation and cost leadership are exclusively mutual (Dirisu et al., 2011) as companies can use both strategies. Despite this, they note that manufacturing organizations tend to see the strategies of differentiation as being very crucial and distinct way of achieving competitive advantage in contrast to the strategy of low cost. In the banking industry, an empirical study by Powers and Hahn, (2004), in the USA indicated that the techniques of competitiveness applied by banks in the financial service sector conform to the type of generic strategy and banks that follow the strategy

of cost leadership showed superior performance that was significant in comparison to those banks stuck in between. It was pointed out that some of the banks did pursue wide differentiation, differentiation of services to clients, or segmentation strategy were found to have returns that are above average which is not a common thing. The suggestion was that it is much harder to attain superior performance by businesses that follow other strategies than it is for the ones that follow the strategy of cost leadership.

This is contrary to findings in Kenya by Mugo, Wanjui and Ayodo, (2012), which showed that Equity Bank, one of the fastest growing banks adopted array of product differentiation strategies to increase profitability. It's instructive to note that Porter's generic strategies have been lauded and demonized in equal measure.

2.4 Empirical Review

Various scholars have investigated the nexus between competitive advantage and organizational performance. Rosli (2012) conducted an exploratory study of Malaysian SMEs vis-à-vis competitive Strategy. He found out that SMEs highly focus on manage of the company, marketing and management of HR and less focus is directed to total innovation. However, his study did not focus on Porters generic model, instead focusing on human resource factors. Yilmaz (2009) assessed competitive advantage strategies for SMEs, focusing on the tourist sector. He found out that a mixture of strategies was the best bet for success in the tourism sector. However, Yilmaz used secondary data only, and focused only on the hotel industry. El-Shobery, El-Iskandrani&Hegazy (2010) investigated performance of SMEs in Egypt by promoting factors of HR in systems of managing quality and recommended that firms adopt a holistic approach in strategy implementation. However, El-Shobery, El-Iskandrani & Hegazy followed a similar

methodology to Rosli above, only focusing on human resource factors and completely ignoring Porter's generic model.

Msangula (2017) analyzed the impact of loan interest rates on SMEs' performance and growth in Tanga city, focusing on vision fund, Tanzania. He concluded that low interest rates curtail the ability of banks to lend to entities with little collateral and security. Accordingly, he recommended that SMEs adopt cost control strategies to counter the low cash inflows. However, Msangula's study was limited to the effects engendered by interest rate capping. Neither did he consider strategies SMEs could adopt to counter the effects. Mumbua (2013) examined the competitive strategies applied by small and medium-sized firms in Mombasa county, Kenya. He discovered that differentiation was the most used strategy by Mombasa SMEs. However, Mumbua only studied SMEs in Mombasa, leaving a door open for another study in such as this one, which focuses on SMEs listed on the Nairobi Stock Exchange, focusing on Home Afrika. Mary (2011) analyzed competitive strategies and how they affect the way commercial banks in Kenya perform. It was revealed that banks must pay special attention to customer satisfaction as a growth strategy. However, her study focused on commercial banks, and not SMEs, which this study is focusing on.

Buil and Omundi (2017) examined competitive strategies for SMEs in the Central Business District of Nairobi. They found out that SMEs need to adopt and invest in strategies of cost leadership and mainly form linkage with those providing services, suppliers and other supplementary institutions because it will make it possible for them to attain competitive advantage. However, their study did not focus on SMEs on the Nairobi

Securities Exchange, but left it open ended, unlike the current study which focuses exclusively on SMEs on the securities exchange.

Uchegbulman and others (2015) examined strategies of competitiveness and the way SMEs in Nigeria performed. It was established that features of products and number of customer were related; customization of product and growth of sales, products that have been added value and growth of revenue. in addition, products of good quality affects ROI. However, their study limited itself to differentiation strategy, and did not investigate cost leadership and focus/niche strategy.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the methodology that was used is presented. It specifically covers the design that was used, the study's location, targeted population, procedures of sampling, tools used to collect data and procedures that were followed and lastly the analysis of data.

3.2 Research Design

This study utilized cross sectional qualitative survey research design. Mugenda (2008) posits that the research design can be applied in gathering information regarding the attitude of individuals, their opinion, habits or any variety of educational or social issues. This type of research design is not a methodology that is highly structured that is applied in gaining in depth information regarding individuals reasoning and motivations. The design by the virtue of being cross-sectional, gives a representation of the phenomena at a point in time (Lusweti, 2009).

3.3 Population of the Study.

Population is the set of elements, people or objects that are being researched with the aim of generalizing the findings of the research (Mugenda, 2008). The target population for this study was the four chief operations managers (or their equivalents) at the four SMEs listed on the NSE. The four SMEs are Nairobi Business Ventures, Home Afrika, Atlas Support and Flame Tree. The study was a census survey of four SMEs listed in the

Nairobi Securities Exchange. The target population of the study was 100 employees in different categories currently working with these SMEs in the head offices in Nairobi.

Table 3.1: Distribution of Target Population

Category	Population	Percent
Senior management	17	17
Middle level	32	32
Junior Staff	51	51
Total	100	100

Source: HRM Records (2016)

3.4 Data Collection

This study utilized an interview guide (Appendix II) which comprises a list of questions derived from the research question that the researcher poses to respondents (Lockesh, 1984). It is argued that interview guides provide the researcher with ample room for further questioning as the need arises. It therefore enables the collection of data that is quite insightful and that in depth addresses the issues under investigation.

3.6 Data Analysis

Qualitative data was gathered. Once collected, content analysis was used to analyze the data. Content analysis is a technique of analysis in which the researcher interprets the responses provided on the basis of similarities in reasoning. Out of this, the researcher is able to bundle together related arguments and construct very persuasive explanations to phenomena (Cooper & Schindler, 2000). It is noted to be a very strong method in studies in which the researcher is of the opinion that detailed information is necessary.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the data analysis, presentation of the findings and discussion of the findings obtained from the field. The background information of the respondents is presented as well as analysis based on the objectives of the study is presented.

4.2 Response Rate

The sample selected for the study was 100 respondents and all of them were issued with questionnaires to fill but only 86% filled and returned theirs which formed a response rate of 86%. According to Mugenda and Mugenda, (2003) the arte of response of 40% is considered not to be reliable a rate of 50% is considered poor, a rate of 60% is accepted for analysis and a rate of 70% is regarded to be good while that of 80% and above is considered to be excellent. Therefore, our case the response rate was considered excellent and suitable for analysis.

Table 4.1: Response Rate

Questionnaires	Frequency	Percent (%)
Response	86	86%
Non-response	14	14%
Total	100	100.0%

Source: Author, (2018)

4.3 Demographic Information

The study sought to determine the demographic information of the respondents by asking them to respond to various questions. Specifically the study sought to determine the age, work experience and their level of education. The results are presented below.

4.3.1 Age of the Respondents

The respondents were asked to indicate their age. The results are as presented in Figure 4.1.

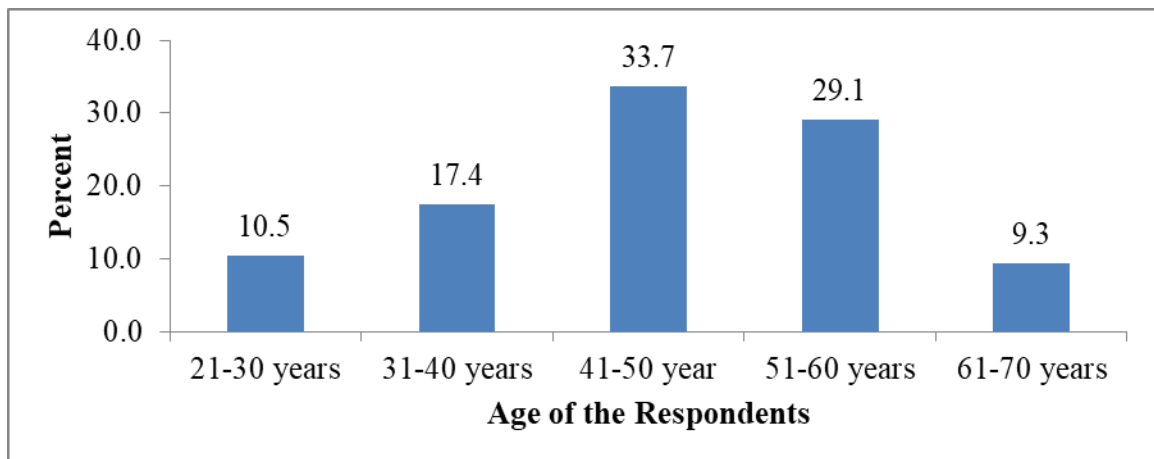


Figure 4.1: Age of the Respondents

From the findings in figure 4.1, 33.7% of the respondents were aged 41-50 years, 21.9% were aged 51-60 years, 17.4% were aged 31 to 40 years, 10.5% were aged 21 to 30 years, and 9.3% were aged 61 to 70 year. This showed the respondents were of varied aged with most (33.7%) being aged 41 to 50 years. The study sough their opinion regarding the topic under study.

4.3.2 Respondents Level of Education

The respondents were asked to indicate their highest level of education. The results were as presented in Figure 4.2.

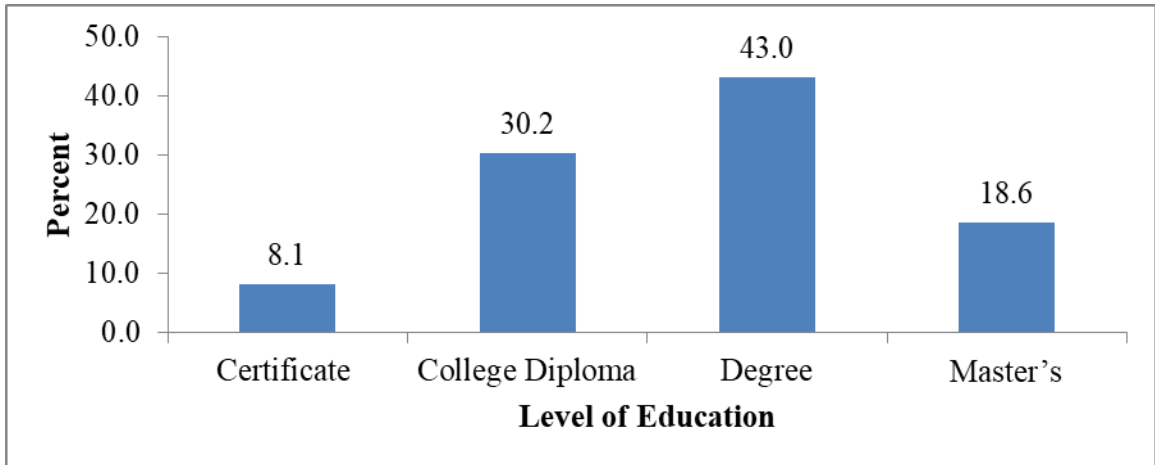


Figure 4.2: Respondents Level of Education

From the findings in figure 4.2, 43% of the respondents had degree as their highest level of education, 30.2% had college diploma, 18.6% had masters, and 8.1% had certificate. This shows that the respondents had acquired skills for the different positions they held in the company.

4.3.3 Respondents Length of Service in the Organization

The respondents were asked to indicate the length of time they have worked in the firm.

The results are as presented in Figure 4.3.

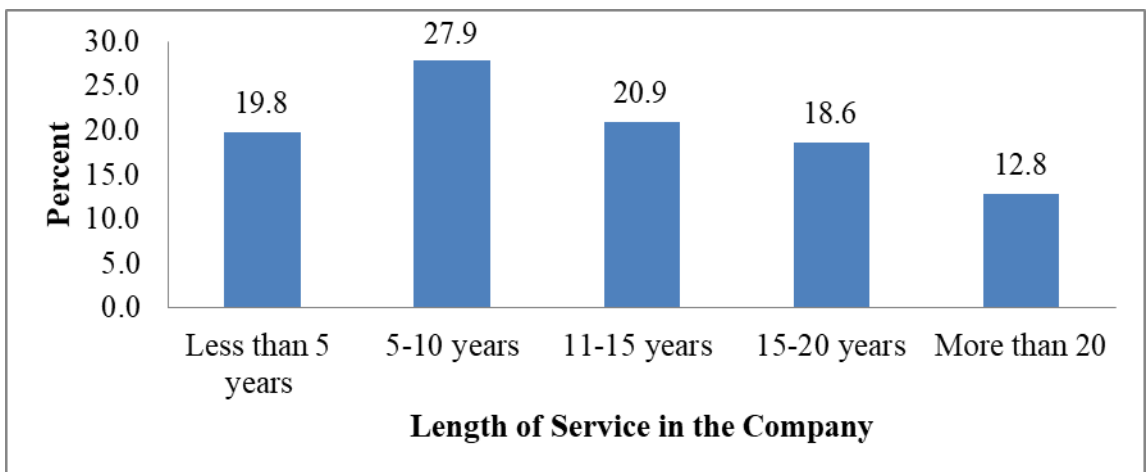


Figure 4.3: Respondents Length of Service in the Organization

From the findings in figure 4.3, 27.9% of the respondents indicated that they had worked in the organization for a period of 5 to 10 years, 20.9% indicated 11 to 15 years, 19.8% indicated less than 5 years, 18.6% indicated 15 to 20 years and 12.8% indicated more than 20 years. This is an indication that the respondents had worked in their organizations long enough to provide the information needed for this study. most (27.9%) had worked for a period of 5 to 10 years.

4.3.4 Length of Time the Companies have been Operational

The interviewees were asked the length of time their SMEs have been in operation.

From the responses provided by the respondents, Nairobi Business Ventures, was founded in March 2012 which implies it has been operational for six years; Home Afrika, was founded in July 2008 indicating that it has been operational for ten years; Atlas Support started in 2012 which implies it has been in business for a period of six years and Flame Tree has been in business for the longest time since it was founded in the year 1989 implying it has been operational for twenty nine years.

4.3.5 Company's Sector of Operation

Interviewees were asked the sector in which their business operated in.

The interviewees from Nairobi Business Ventures indicated that their company operates in Commercial and Service sector; Home Afrika operates in Investment, and they specifically deal with Property Development; Atlas African Industries Limited operates in Growth Enterprise Market while those in Flame Tree Group Holdings Ltd indicated that their company operates in Manufacturing and Allied. This is an indication that the

companies selected operated in different sectors and therefore the study was able to obtain varied responses from the different sectors.

4.3.6 Competitor Analysis

Interviewees were asked whether their companies carry out competitor analysis.

The interviewees indicated that they do perform competitor analysis because it is crucial for their business to succeed because it provides them with ability of identifying the trends in the industry and adapt to the campaigns of competitors in order to maintain their position in the market or out-compete the competitors.

Interviewees were asked whether they knew who their competitors were.

The interviewees further indicated that it couldn't be possible for them to perform the competitor analysis without knowing their competitors. They further indicated that there are several ways through which they identify the key competitors in the industry. Some of them were through research on the internet like looking up on the name of the business, product ideas and overarching business ideas. The main goal of the researching on their competitors is to cast a wide net and get a comprehensive view of the competitive landscape.

The interviewees from Nairobi Business Ventures which deals with shoes and their brand being Kshoe, indicated that their main competitor is the mitumba industry which sell their products a very low cost which makes majority of the clients to opt for it. For Home Africa, which is a property development company engaging in the real estate development in housing and commercial properties indicated that their key competitors are Suraya properties Group Limited, AMS Properties-This is one of the pioneers of the

property developers in Kenya, Nirbhau Gulshan Ventures Ltd, Chigwell Holdings and Ediface (Purple Haze), just to name a few. The interviewees from Flame Tree which is a company engaging in the design and manufacture of plastic bulk storage, processing and transportation tank systems, and also manufactures cosmetics indicated that their main competitors are crown paints Kenya, fine tread and allied industries ltd, general industries Kenya, Kenya association of manufacturers, crown paints ltd.

4.3.7 Challenges in Strategy Implementation

Interviewees were asked the challenges experienced in implementing the strategy (ies) mentioned.

The interviewees indicated that they face a number of challenges when implementing the strategies. These challenges include; planning the Sequence- the key challenge in implementation of strategies is to prioritize efforts and determine the time, sequence and the resources that are needed to ensure that the process is completed successfully; failing to establish the sequence that is appropriate can undermine the entire operation.

Lack of Resources- irrespective of the position of the business whether it was long established or it's a starting company, it has always been that there is no sufficient resources to perform everything it intends to accomplish. Another challenge is to align the members of the team; working as a team is very important to accomplish the the objective but inefficient communication among members of various departments or teams has been the reason for failure of strategies that have been seen to be the greatest.

Resistance to Change is another challenge. It is usually common to see that when there is a great change needed the level of resistance is high as well especially in cases where

there is need for reorganization of departments or adjustments of responsibilities for employees. The resistance undermines strategy implementation that is triumphal because the employees do not contribute their efforts fully.

4.4 Competitive Strategies

This section presents the responses of respondents on some of the strategies utilized by SMEs to gain competitive advantage. It presents the extent to which these strategies are utilized by the SMEs. A 5- point Likert scale was used where **1=Not at all 2= little extent 3= moderate extent 4= Great extent 5= Very great Extent.**

4.4.1 Differentiation Strategies

The respondents were asked to indicate the extent to which their company utilizes various aspects of differentiation in their company using the 5-point Likert scale. The results are presented in Table 4.2.

Table 4.2: Extent to which Companies Utilizes Differentiation

Strategy	1	2	3	4	5	Mean	Std. Dev.
Introducing new products	3	3	3	65	12	3.930	1.280
Constantly Improving existing products	3	3	6	65	9	3.860	1.273
Engaging customers using the latest technology	0	3	6	71	6	3.931	1.413
Using qualified staff to engage our customers	6	3	3	68	6	3.746	1.353
Fast and flexible in dealing with change	3	3	9	68	3	3.756	1.353

Source: Author, (2018)

From the findings in Table 4.2, the respondents indicated that their company to a great extent: engages customers using the latest technology as shown by a mean of 3.931, the company introduces new products as shown by a mean of 3.930, the company constantly improve existing products as shown by a mean of 3.860, their company is fast and

flexible in dealing with change as shown by a mean of 3.756 and their company uses qualified staff to engage clients as shown by a mean of 3.746.

Interviewees were asked to indicate whether their company tries to differentiate their products from those of rivals.

The interviewees indicated that their companies differentiate their products from those of rivals using various strategies which include Product Differentiation which includes difference in both perception and physical appearance which can be achieved by advertising. There are several forms that can be taken by differentiation of products which include their features, efficiency, performance, and to meet the specifications. Another form of differentiation their companies pursue is Service Differentiation where they differentiate their delivery and customer service, and other elements which support the business like training, installation and ease of ordering.

The interviewees indicated that they also differentiate distribution channels; which ensures that their products are always available, customers can access experts, ease in making orders and high customer service and also technical services. Another strategy is Relationship Differentiation which is mainly through the personnel of the company. Employees, and other associates that interact with customers can be competent, courteous, credible, reliable and responsive; these individuals are the link between the product and the customer. If the link breaks the business will be affected and it will get destroyed. Another technique is to differentiate price. Through this technique, the company is able to maximize its potential revenue through offering each segment distinct product at a different price.

4.4.2 Cost Leadership Strategies

The respondents were asked to indicate the extent to which their company utilizes various aspects of Cost Leadership Strategies in their company using the 5-point Likert scale. The results are presented in Table 4.3.

Table 4.3: Extent to which Companies Utilizes Cost Leadership Strategies

	1	2	3	4	5	Mean	Std. Dev.
Use of technology to lower the cost of service delivery	3	3	6	61	13	3.907	1.185
Sells comparable products more efficiently than its competitors	3	3	6	68	6	3.826	1.346
Outsourcing activities to other organizations with a cost advantage	3	1	9	61	12	3.907	1.182
Tight cost and overhead controls	3	3	3	68	9	3.895	1.347
Emphasis on maximum capacity utilization of resources to reduce wastage	0	3	3	74	6	3.965	1.487

Source: Author, (2018)

From the findings in Table 4.3, the respondents indicated that their company to a great extent; emphasizes to a great extent on maximum capacity utilization of resources to reduce wastage as shown by a mean of 3.965; uses technology to lower the cost of service delivery as shown by a mean of 3.907; outsources activities to other organizations with a cost advantage as shown by a mean of 3.907; tight cost and overhead controls as shown by a mean of 3.895 and sells comparable products more efficiently than its competitors as shown by a mean of 3.826.

Interviewees were asked whether they attempt to become the leaders in the sector they operate in by pursuing Cost advantages.

The interviewees indicated that their companies apply the use of cost advantage as a strategy to enable them becomes the leader/attain the competitive advantage. they added

that to be lowest-cost producer, the company applies high productivity levels; they utilize capital to its fullest capacity; applies bargaining power in negotiating low prices for inputs; techniques of production that are lean (e.g. JIT); effectively use technology in the process of production and accessing the distribution channels that are highly effective.

4.4.3 Focus Strategies

The respondents were asked to indicate the extent to which their company utilizes various aspects of Focus Strategies in their company using the 5-point Likert scale. The results are presented in Table 4.4.

Table 4. 4: Extent to which Companies Utilizes Focus Strategies

	1	2	3	4	5	Mean	Std. Dev.
Focuses on a specific market segment	3	3	3	74	3	3.826	1.497
Making brand and vision visible to our niche market	1	2	3	71	9	3.988	1.415
Making niche specific adverts and marketing drives	3	0	3	74	6	3.930	1.491
Establishing an organizational structure in place that enables niche customer centricity in business decisions	3	3	3	71	6	3.860	1.420
Training employees on the needs and mindsets of the focus market	3	3	3	65	12	3.930	1.280

Source: Author, (2018)

From the findings in Table 4.4, the respondents indicated that their company to a great extent; makes brand and vision visible to our niche market as shown by a mean of 3.988; makes niche specific adverts and marketing drives as shown by a mean of 3.930; train employees on the needs and mindsets of the focus market as shown by a mean of 3.930; establishes the structure of the organization that makes it possible for centricity of niche clients decisions of the business as shown by a mean of 3.860 and focuses on a specific market segment as shown by a mean of 3.826.

Interviewees were asked to indicate whether their business identifies segments that they can more profitably operate in.

The interviewees indicated that their company identifies the segments of the market that their business can perform best. They also provided ways through which they get to determine the segment that best suits them. One of them was through Recognizing Varying Needs of Clients and Customers based on their demographics, geographic, behaviour, and Psychographic bases (lifestyle, values, personality). The second method was through analysing needs to aid in determination of the niche- it is crucial for a business to analyse the needs and wants of various markets before they determine their own niche.

Conducting Extensive Research also enables the businesses to determine the segment that will enable them become more profitable. There are a number of resources that can be applied in obtaining information regarding how segmentation is to be done. Some of these resources are secondary sources and researches, publications on trade associations, sourcing information from key customers, through need analysis, etc.

Interviewees were asked which strategy their company pursues intensively.

The interviewees indicated that their companies use all the three strategies which are differentiation, identify segments, and Cost advantages. They further clarified that despite them applying all the strategies, the most applied one was the differentiation followed by cost advantage and lastly was the identity segment.

4.5 Performance

Respondents were asked to indicate the extent to which their organization performs in various aspects. Using a 5- point scale where: **1=Not at all 2= little extent 3= moderate extent 4= Great extent 5= Very great Extent.** The results area as presented in Table 4.5.

Table 4.5: Extent to which Organizations Perform

	1	2	3	4	5	Mean	Std. Dev.
Organization size: (Financial)							
Return on Investment	3	3	6	71	3	3.791	1.424
Sales Turnover	1	2	3	74	6	3.953	1.488
No. of Employees	1	0	3	79	3	3.965	1.612
Customers:							
Improved Customer satisfaction	3	3	3	61	16	3.977	1.201
Improved Product/Services delivery time	3	3	7	61	12	3.884	1.182
Internal Business Process:							
Product/ Services Innovation	3	3	3	65	12	3.930	1.280
Quality of Product/ Services	6	4	6	61	9	3.733	1.183
Learning and Growth:							
Communication strategies	3	3	4	58	18	3.988	1.142
Use of Technology	3	3	7	61	12	3.884	1.182
Enhance employee skills	3	3	6	68	6	3.826	1.346
High cost of credit	3	3	9	61	10	3.837	1.178

From the findings in Table 4.5, the respondents indicated that their companies performed to a great extent on aspects of organizational size (financial): number of employees as shown by a mean of 3.965; Sales Turnover as shown by a mean of 3.953 and Return on Investment as shown by a mean of 3.791. In respect to customers, the company

performed to a great extent with improved customer satisfaction as shown by a mean of 3.977, and improved product/services delivery time as shown by a mean of 3.884. Regarding the internal business processes the respondents indicated that their companies performed to a great extent with improved product/ services innovation as shown by a mean of 3.930 and quality of product/ services as shown by a mean of 3.733. in regard to learning and growth the respondents indicated that their companies performed to a great extent with application of communication strategies as shown by a mean of 3.988, use of technology as shown by a mean of 3.884, high cost of credit as shown by a mean of 3.837 and enhance employee skills as shown by a mean of 3.826.

Interviewees were asked the techniques they use to ensure that the business remains quite competitive in its industry.

The interviewees provided a number of ways through which their company remains competitive. One of the strategies was Providing Exceptional Customer Service. They indicated that majority of their customers test the competence of the company through their customer care and this makes it necessary for them to provide customer services that are great ensuring that the customer feels valued. They also added that honesty with customer also ensures that the company stands out especially in instances where the company doesn't have the ability of meeting the specific needs of the client; this builds trust.

Another techniques the interviewees indicated is Offering a Powerful Guarantee. Guaranteeing customers of products and services offered by the company draws them and therefore increases sales. It also communicates that the company is committed to standing

behind its product and therefore increases customer's confidence in investing in the company's products/services. Some of the ways is by offering a longer period for warranty than the period offered by the competitor; offering a refund for those clients who won't be satisfied by the product and guaranteeing that all queries will be handled within a day.

Another strategy was constantly being Innovative. Because of the increase in competition in the business environment innovation is important for the business to succeed because it provides a hedge and boosts the growth of the company and its profitability. Some of the ways of being innovative is by embracing green energy which is cheap, reliable and cost effective; improving product packaging and creatively organizing the workplace.

Interviewees also indicated that being easy to work with ensures that the company remains competitive. They indicated that being talented, educated, experienced is not enough to survive in today's competitive environment but rather having good communication skills, good attitude which influences how likeable one will be both professionally and personally. Other important qualities are being reliable, honest and also ensuring that your first impression to the customers is great-ensuring it exhibits professionalism.

Interviewees also indicated that another way of ensuring the business remains competitive is by narrowing down the target market. Narrowing down the target market helps the business to stand out from its competitors it also enables the business to narrow down the market, figure out the little details which include the challenges they face,

where they can be found, what their needs are, where they can be found and how to effectively deliver the company's message to them.

4.6 Correlation Analysis

Correlation analysis is the statistical tool that can be used to determine the level of association of two variables (Levin & Rubin, 1998). Correlation analysis is used to establish the strength of the relationship between the independent and the dependent variable. Correlation analysis will help to detect any chance of multicollinearity. Correlation value of 0 shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ± 1.0 means there is a perfect positive or negative relationship (Hair *et al.*, 2010). The values will be interpreted between 0 (no relationship) and 1.0 (perfect relationship). The relationship will be considered small when $r = \pm 0.1$ to ± 0.29 , while the relationship will be considered medium when $r = \pm 0.3$ to ± 0.49 , and when $r = \pm 0.5$ and above, the relationship will be considered strong.

Table 4.6: Correlations Coefficient

		Organizational Performance	Differentiation strategies	Cost leadership strategies	Focus strategies
Organizational Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	86			
Differentiation strategies	Pearson Correlation	.762**	1		
	Sig. (2-tailed)	.001			
	N	86	86		
Cost leadership strategies	Pearson Correlation	.811**	.383	1	
	Sig. (2-tailed)	.000	.059		
	N	86	86	86	

Focus strategies	Pearson Correlation	.763**	.479	.532	1
	Sig. (2-tailed)	.001	.055	.077	
	N	86	86	86	86

** . Correlation is significant at the 0.01 level (2-tailed).

The results revealed that there was a strong positive correlation between differentiation strategies and organizational performance of SMEs as shown by $r = 0.762$, statistically significant $p = 0.001 < 0.01$; there was a positive correlation between differentiation strategies and organizational performance as shown by $r = 0.811$, statistically significant $P = 0.000$; there was a positive correlation between focus strategies and organizational performance as shown by $r = 0.799$, statistically significant $P = 0.001$. This implies that differentiation strategies, cost leadership strategies, focus strategies with organizational performance are related.

4.7 Regression Analysis

Table 4.7: Model summary table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.826	0.682	0.669	0.18307

R is correlation coefficient, it show the strength of relationship between the study variables. R value ranges between -1 to +1. Correlation value of 0 shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ± 1.0 means there is a perfect positive or negative relationship .The values were interpreted between 0 (no relationship) and 1.0 (perfect relationship). The relationship was considered small when $r = \pm 0.1$ to ± 0.29 , while the relationship was be considered medium when $r = \pm 0.3$ to ± 0.49 , and when $r = \pm 0.5$ and above, the relationship was considered strong. The relationship was considered strong relationship as shown by R value is 0.826.

Adjusted R squared is coefficient of determination; it shows how much change independent variable cause on the dependent variable. The value of adjusted R squared was 0.669, an indication that there was variation of 66.9 percent on organizational performance of SMEs due to changes in differentiation strategies, cost leadership strategies and focus strategies.

This shows that that differentiation strategies, cost leadership strategies and focus strategies are the major factors accounting for change in the organizational performance of SMEs in Kenya

Table 4.8: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.324	3	3.108	33.618	.001 ^b
1 Residual	7.581	82	0.092		
Total	16.905	85			

Critical value = 2.716

In the analysis of variance table we want to see whether there is any significant relationship between the study variables, we compare the calculated F (33.618) again the Critical Value for F= 2.716, the critical value is obtained from the f distribution table, if the calculated value is greater than critical it means that differentiation strategies, cost leadership strategies and focus strategies affect organizational performance of SMEs.

Then to know whether the relationship is significant we check if the sign value in the above table is less than or equal to (≤ 0.05), if it satisfy the above condition it mean is significant. Our sign value is 0.001 which satisfy the condition this means that

differentiation strategies, cost leadership strategies and focus strategies all influenced organizational performance of SMEs.

Table 4.9: Coefficients

Model	Unstandardized		Standardized	t	Sig.
	Coefficients				
	B	Std. Error	Beta		
(Constant)	2.063	0.941		2.192	0.005
1					
Differentiation strategies	0.518	0.104	0.475	4.981	0.000
Cost leadership strategies	0.429	0.117	0.399	3.667	0.003
Focus strategies	0.416	0.098	0.378	4.245	0.001

Constant is that value (2.063) which shows the value of organizational performance of SMEs, when the four variables are held to a constant zero.

From the data in the above table the established regression equation was

$$Y = 2.063 + 0.518 X_1 + 0.429 X_2 + 0.416 X_3$$

On differentiation strategies value of 0.518 it shows that a unit increase in differentiation strategies would lead to an increase in organizational performance of SMEs in Kenya by a factors of 0.518,

On cost leadership strategies value of 0.429, it shows that a unit increase in cost leadership would lead to an organizational performance of SMEs in Kenya by factors of 0.429,

On focus strategies value of 0.416, it shows that a unit increase in focus strategies would lead to an increase in organizational performance of SMEs in Kenya by a factor of 0.416.

4.8 Discussion

The companies under study were found to apply the use of differentiation strategy with the aim of being the leader in the sector they operate in. Under the differentiation strategy there are various differentiation techniques which include engaging customers using the latest technology, introducing new products, constantly improving existing products, and using qualified staff to engage customers. The companies also differentiate their products, services, distribution channels and Relationship. The advantage of segmentation and differentiation is that it allows a business to come close to maximizing the potential revenue by offering each segment a differentiated product at a different price and therefore increasing its performance. The study findings agree with the findings of Clayton, (2003), who notes that the differences between a firm and its competitors are the basis of its advantage and if a firm is in business and is self-supporting, then it already has some kind of advantage, no matter how small or subtle thus the objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense.

Through the use of cost leadership strategy, the companies aim at maximum capacity utilization of resources to reduce wastage, use of technology to lower the cost of service delivery, outsourcing activities to other organizations with a cost advantage, tight cost and overhead controls and selling of comparable products more efficiently than its competitors. Another reason why companies adopt the cost leadership strategy is to

enable them to attain the competitive advantage. Rosli, (2012), explains that strategy enables a firm to gain competitive advantages over its rivals. It

Through focus strategies, companies are able to make brand and vision visible to niche market because they have been designed specifically for that particular niche. Employees are also trained to focus on the market makes niche specific adverts and marketing drives; train employees on the needs and mindsets of the focus market. Al-alak and Tarabieh, (2011), explain that this comes from large-scale organizations developing efficiency due to their repetitive experience of the tasks involved or using their power to leverage lower costs.

In order for the companies to determine the market segment that they will perform better, they conduct a thorough research of the market using various sources such as secondary data resources and qualitative research; Trade and association publications and experts; Basic research publications; Talking to key trade buyers about new product introductions and Conducting needs analysis from qualitative research with individuals and groups. The result is that the performance of the company will improve in well identified market segment. Porter's argument that cost leadership and differentiation strategies are mutually exclusive (Dirisu et al., 2011) as organizations may pursue elements of both types of strategy.

With the implementation of the competitive strategies by the companies, the organizational size (financial) which is the number of employees, sales turnover and return on investment increased. The level of customer satisfaction, and product/services delivery time improved. With regard to the internal business processes product/ services

innovation and quality of product/ services improved to a great extent. For learning and growth; application of communication strategies, use of technology, and enhance employee skills were increased to a great extent. Miller, (1993), distinguishes between two types of differentiation advantages: innovation differentiation and market differentiation.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

5.2 Summary of Findings

The study sought to establish how competitive strategies used by SMEs influence organizational performance.

5.2.1 Differentiation Strategies

The study found that companies: engages customers using the latest technology, introduces new products, constantly improve existing products, is fast and flexible in dealing with change and it uses qualified staff to engage customers. The study further established that companies differentiate their products from those of rivals using various strategies which include Product Differentiation which includes difference in both perception and physical appearance which can be achieved by advertising. There are several forms that can be taken by differentiation of products which include their features, efficiency, performance, and to meet the specifications. Another form of differentiation their companies pursue is Service Differentiation where they differentiate their delivery and customer service, and other elements which support the business like training, installation and ease of ordering.

The study further established that companies differentiate distribution channels; which ensures that their products are always available, customers can access experts, ease in making orders and high customer service and also technical services. Another strategy is Relationship Differentiation which is mainly through the personnel of the company. Employees, and other associates that interact with customers can be competent, courteous, credible, reliable and responsive; these individuals are the link between the product and the customer. If the link breaks the business will be affected and it will get destroyed. Another technique is to differentiate price. Through this technique, the company is able to maximize its potential revenue through offering each segment distinct product at a different price.

5.2.2 Cost Leadership Strategies

The study revealed that the companies; emphasizes to a great extent on maximum capacity utilization of resources to reduce wastage, uses technology to lower the cost of service delivery, outsources activities to other organizations with a cost advantage, tight cost and overhead controls and sells comparable products more efficiently than its competitors. The study further established that companies apply the use of cost advantage as a strategy to enable them becomes the leader/attain the competitive advantage. Additionally, to be lowest-cost producer, the company applies high productivity levels; they utilize capital to its fullest capacity; applies bargaining power in negotiating low prices for inputs; techniques of production that are lean (e.g. JIT); effectively use technology in the process of production and accessing the distribution channels that are highly effective.

5.2.3 Focus Strategies

The study revealed that to a great extent companies; makes brand and vision visible to our niche market; makes niche specific adverts and marketing drives; train employees on the needs and mindsets of the focus market; establishes the structure of the organization that makes it possible for centrality of niche clients' decisions of the business.

The study further established that company identifies the segments of the market that their business can perform best. They also provided ways through which they get to determine the segment that best suits them. One of them was through Recognizing Varying Needs of Clients and Customers based on their demographics, geographic, behaviour, and Psychographic bases (lifestyle, values, personality). The second method was analysing needs to aid in determination of the niche- it is crucial for a business to analyse the needs and wants of various markets before they determine their own niche.

The study also found that Conducting Extensive Research also enables the businesses to determine the segment that will enable them become more profitable. There are a number of resources that can be applied in obtaining information regarding how segmentation is to be done. Some of these resources are secondary sources and researches, publications on trade associations, sourcing information from key customers, through need analysis, etc.

The study also revealed that companies use all the three strategies which are differentiation, identify segments, and Cost advantages; despite them applying all the strategies, the most applied one was the differentiation followed by cost advantage and lastly was the identity segment.

5.2.4 Performance

The study found that companies performed to a great extent on aspects of organizational size (financial) which is the number of employees, sales turnover and return on investment. In respect to customers, the company performed to a great extent with improved customer satisfaction, and improved product/services delivery time. The study further established regarding the internal business processes that companies performed to a great extent with improved product/ services innovation and quality of product/ services. In regard to learning and growth the respondents indicated that their companies performed to a great extent with application of communication strategies, use of technology, high cost of credit and enhance employee skills.

The study also found that there are a number of ways through which companies' remains competitive. One of the strategies was Providing Exceptional Customer Service; majority of customers test the competence of the company through their customer care and this makes it necessary for them to provide customer services that are great ensuring that the customer feels valued. Also honesty with customer ensures that the company stands out especially in instances where the company doesn't have the ability of meeting the specific needs of the client; this builds trust.

Another techniques the interviewees indicated is Offering a Powerful Guarantee. Guaranteeing customers of products and services offered by the company draws them and therefore increases sales. It also communicates that the company is committed to standing behind its product and therefore increases customer's confidence in investing in the company's products/services. Some of the ways is by offering a longer period for warranty than the period offered by the competitor; offering a refund for those clients

who won't be satisfied by the product and guaranteeing that all queries will be handled within a day.

Another strategy was constantly being Innovative. Because of the increase in competition in the business environment innovation is important for the business to succeed because it provides a hedge and boosts the growth of the company and its profitability. Some of the ways of being innovative is by embracing green energy which is cheap, reliable and cost effective; improving product packaging and creatively organizing the workplace.

The study also revealed that being easy to work with ensures that the company remains competitive; being talented, educated, experienced is not enough to survive in today's competitive environment but rather having good communication skills, good attitude which influences how likeable one will be both professionally and personally. Other important qualities are being reliable, honest and also ensuring that your first impression to the customers is great-ensuring it exhibits professionalism.

Another technique of ensuring the business remains competitive is by narrowing down the target market. Narrowing down the target market helps the business to stand out from its competitors it also enables the business to narrow down the market, figure out the little details which include the challenges they face, where they can be found, what their needs are, where they can be found and how to effectively deliver the company's message to them.

5.3 Conclusion

The study found that the SMEs applied the use of differentiation strategies, cost leadership strategies and focus strategies which are competitive strategies. With the

implementation of these competitive strategies by the companies, sales turnover and return on investment increased; the level of customer satisfaction, and product/services delivery time improved. The study also found that product/ services innovation and quality of product/ services improved to a great extent. For learning and growth the study found that application of communication strategies, use of technology, and enhance employee skills improved. The study therefore concludes that the competitive strategies used by SMEs have a positive influence on organizational performance.

5.4 Recommendations

Managers of the organizations need to be strategically aware of the needs of clients and provide them with unique products and also services that will meet their needs. The study also recommends that the companies should use holistic approach in strategy implementation this will increase the employee participation and therefore have a positive influence on the general performance of the company.

The study also recommended that SMEs should regularly review their marketing strategies and policies to ensure that they are up to date with the current trends in the market and they are effective; this will ensure that the company is able to maintain its competitive advantage and thus profitability.

It is recommended that SMEs should consider various factors in coming up with competitive strategies. These are the operating environment factors as well as the competitive environment monitoring, which changes over short periods of time. SMEs have to develop ways in which they can collect information from the market, benchmark to make sure that they keep in contact with their customers; this will ensure that services and products are improved and that they are focused on the needs of the clients. This

ensures continuous improvement in services and products that are centered on the customers.

SMEs face various challenges, with the most pressing challenges being competition, lack finance. This means that the government has to provide incentives, subsidies as well as set up a conducive business operating environment for SMEs.

5.5 Limitation of The study

The study used questionnaires as the main instrument for collecting data. The study did not have much control on the respondents in regard to the information that was filled in the questionnaires. The respondents were reluctant to give full information for fear that it could leak to their competitors. Data collection was limited to two weeks which may not have been sufficient. The study explained to the respondents that the study was purely for academic in order to dispel any fear that the respondents were having. This was done to enhance collection of accurate data. The study employed a research assistant to help in data collection.

5.6 Suggestions for Further Studies

The objective of this study was to establish how competitive strategies used by SMEs influence organizational performance. The study focused on companies SMEs that are listed in NSE. Further research can be carried out using other strategies to establish the dynamism of competitive strategies applied by various types of firms to gain competitive advantage.

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APPENDICES

Appendix I: Letter of Introduction

Dear respondent:

I am a University of Nairobi student undertaking a Master's Degree in Strategic Management. As part of the requirement of my program, I am carrying out a study on **Competitive Strategies and Organizational Performance in Small and Medium Enterprises listed at the Nairobi Securities Exchange**. To achieve this, you have been invited to participate in this academic research by filling out the questionnaire. The information obtained will be used for academic purposes only and will remain confidential. The results obtained from the survey will be presented in summary form and will not disclose any individual or company information.

Thank you for your participation.

Appendix I: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1. Kindly indicate your age?

21-30 years

31-40 years

41-50 years

51-60 years

61-70 years

2. What is your highest level of education?

Certificate

College Diploma

Degree

Master's

3. Kindly indicate period you have worked at your firm?

Less than 5 years

5-10 years

11-15 years

15-20 years

More than 20

SECTION B: COMPETITIVE STRATEGIES

4. The following are some of the strategies utilized by SMEs to gain competitive advantage. Kindly indicate the extent to which they are utilized by your SME. Please indicate with a tick in the relevant column. **Rate on a 5- point scale where:**

1=Not at all 2= little extent 3= moderate extent 4= Great extent 5= Very great

Extent

Strategy	1	2	3	4	5	6
DIFFERENTIATION STRATEGIES						
Introducing new products						
Constantly Improving existing products						
Engaging customers using the latest technology						
Using qualified staff to engage our customers						
Fast and flexible in dealing with change						
COST LEADERSHIP STRATEGIES						
Use of technology to lower the cost of service delivery						
Sells comparable products more efficiently than its competitors						
Outsourcing activities to other organisations with a cost advantage						
Tight cost and overhead controls						
Emphasis on maximum capacity utilisation of resources to reduce wastage						
FOCUS STRATEGIES						
Focuses on a specific market segment						
Making brand and vision visible to our niche market						

Making niche specific adverts and marketing drives						
Establishing an organizational structure in place that enables niche customer centricity in business decisions						
Training employees on the needs and mindsets of the focus market						

SECTION C: PERFORMANCE

5. To what extent do you rate your organization performances on the following?

Please indicate with a tick in the relevant column. **Rate on a 5- point scale where:**

1=Not at all 2= little extent 3= moderate extent 4= Great extent 5= Very great

Extent

	1	2	3	4	5
Organization size: (Financial)					
Return on Investment					
Sales Turnover					
No. of Employees					
Customers:					

Improved Customer satisfaction					
Improved Product/Services delivery time					
Internal Business Process:					
Product/ Services Innovation					
Quality of Product/ Services					
Learning and Growth:					
Communication strategies					
Use of Technology					
Enhance employee skills					
High cost of credit					

Thank you. God bless you

Appendix II: Interview Guide

1. For how long has the SME been in operation?
2. What is the sector in which SME operates?
3. Do you carry out competitor analysis? Do you know who your competitors are?
4. How do you ensure that the business remains quite competitive in its industry?
5. Do you attempt to **distinguish** your products from those of your competitors?
6. Do you as a business **identify segments** that you can more profitably operate in?
7. Do you attempt to become the leaders in that sector by pursuing **Cost advantages**?
8. Between the three in questions 5, 6 and 7 which strategy does your company pursue intensively?
9. What challenges does the business experience in implementing the strategy (ie.) mentioned?