GROWTH STRATEGIES ADOPTED BY INCUBATED START-UP ENTERPRISES IN NAIROBI, KENYA

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DECLARATION

This research project is my original work, and has not been presented for the award of a degree in any other university.

SIGNED **DATE**

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

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DEDICATION

This study is dedicated to my family who are my support system in life and I for believing in me.

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I thank God for his grace throughout this MBA Programme.

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ABSTRACT

This research project was a study on the growth strategies adopted by Incubated Start-up enterprises in Nairobi, Kenya. The study also focused on the factors influencing the growth of incubated Start-up Enterprises. The study used a descriptive research design. The study targeted Incubated Start-up Enterprises operating in Nairobi, Kenya. The study selected a sample of 25 Incubated start-up enterprises through simple random sampling technique. The study collected primary data where a questionnaire was used as a tool to collect data. The researcher administered the questionnaires individually to all respondents. Descriptive statistics was used to summarize the data. This included percentages, frequency tables, bar graphs and pie charts. The study concluded that most of the enterprises had adopted growth strategies such as market penetration through customer service and after sale services among other strategies. The study further concluded that personnel competency, networking, customer attitude were the factors that had great influence in the growth of the enterprises. The study recommends that entrepreneurs should relook on their growth strategies by increasing their advertising expenditure as this will create awareness of their products or services to potential customers thus increasing their customer base as well as retain the already existing customers.

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ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
MES	Minimum Efficient Size
SBEs	Small Business Enterprises
SMEs	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the modern times, the business environment has become very dynamic which makes it critical for managers and entrepreneurs to make near perfect predictions and timely strategic adjustments failure to which a firm may be faced out. It is therefore due to this reason that many firms seek to grow, achieve sustainability and relevance. Thompson et al (2010) defined the strategy of a company as the way in which management seek to grow an organization, establish a loyal client base and outcompete its competitors, to respond to the changes in the market needs, how all the functional levels of the business will be operated and how to achieve the targeted levels of organizational performance.

Strategy is about the direction, market scope, competitive advantage, resources required, environmental factors, and the stakeholders of an organization. These aspects of strategy form the basis of strategic decisions. “The task of crafting a strategy therefore requires the management to develop a main strategy; appropriate the strategy overtime as events occur (adaptive/reactive strategy); and matching the organization’s business methods, ways and competitive strategies in close relation to its competencies and abilities” (Thompson & Strickland, 2003). The strategies give the firm a sense of direction and also act as a tool for guiding management in decision making. “Firms without strategy wonder with no clear direction, using resources on approaches on ventures that are not in line with other organization’s efforts” (Warner, 2010).

Wickham (2006) views growth as dynamic process that entails organization progress and transformation, and modifies how the firm relates with the environment it operates in. Growth strategies vary from one firm to another such that firms seek growth through expansion, increase in productivity, and increase in the revenue generated; increase in the sales turnover, and to attain sustainability. Kenya seeks to develop its economy through encouraging entrepreneurship in relation to her vision 2030 economic pillar. Such has seen the government allocate funds to the start-up enterprises to encourage the creation of new firms that will create and generate wealth as well as reduce the high rate of unemployment in the country through creation of jobs.

Higher learning institutions have also set aside hubs that nurture entrepreneurs such as, C4D Lab of The University of Nairobi, Incubation Centre at Kenyatta University and Climate Innovation Centre at Strathmore University. Other incubation centres include Fashion Torch Africa, Nailab and I-hub. This is therefore a strong indicator that emphases on the importance of entrepreneurship in the country.

1.1.1 Growth Strategies

Ansoff and Mcdonnell (1990) defined the term strategy as a set of decision-making rules: yardsticks by which the current and proposed future performance of the firm is measured; rules for developing the organization’s interaction with the external environment; rules for determining the processes and internal interactions within the organization; and rules that the firm follows in conducting its daily activities, for guidance of organizational behaviour. The rules of the strategy definition by Ansoff revolve around the firm’s objectives, business strategy, organization concept and operating policies. In addition Chandler (1962) defined strategy as a way of determining the basic long- term goals and plans of an organization, the implementation of the methods to be used to achieve the set goals and the allocation of the necessary resources required in achieving the already set objectives. Due to the environmental changes, long-term goals need to be reviewed overtime and new strategies or modification of the existing strategies made.

Porter (1980) defined strategy as the means by which an organization becomes competitive through gaining a competitive advantage. This is emphasized by Thompson & Strickland (2003) as they defined strategy as a plan management use in positioning the organization in its target market, successfully competing with their rivals, ensuring the customers’ needs are fully met and attaining a good overall business performance. This therefore implies that crafting of strategy as not a one-time event but as a never-ending process. Thomson & Strickland (2003) further explains that an organization’s strategy is partially shaped by choice and analysis conducted by the management and partially by the organization through learning by doing and adapting.

Other scholars introduced elements as they defined strategy namely: the 5ps of strategy by Mintzberg (1998) namely: plan, ploy, pattern, position and perspective; and Hussey (2000) five elements necessary for strategic success namely: analysis, strategic decision process, creative strategic thinking, implementation and capabilities of decision leaders. According to Thompson et al (2010), a strategy that aims to win has to match the organization's internal environment with its external environment, build a sustainable competitive advantage, and improve the overall organization's performance."Strategy is providing solutions to a strategic issue which can be as a result of the mismatch between internal features of a firm and its external operational environment" (Aosa, 1998). The role of strategy in an organization is seen as continuously proactive to improve the organization's performance and reactive to unforeseen developments due to the turbulent environment.

Wickham (2006) views an organization as multifaceted which therefore requires the entrepreneur to frequently perceive the growth and development of their enterprise from number of ways namely: the financial growth that link to the development of the enterprise as a commercial entity; strategic growth that relates to the changes that take place in the way in which the organization interacts with its environment as a whole and the profile of opportunities which the enterprise exploits and the assets it acquires to create sustainable competitive advantages; structural growth that relates to the organization's internal operations ; and the organizational growth that relates to the changes in the organization's processes, culture and attitudes as it grows and develops.

The term growth in business is used to refer to several activities such as increment in the annual total sales, rise in the capacity of production, rise in the employment opportunities, expansion in the volume of production, increment in the raw materials usage and power (Foster & Browne, 2006). Growth strategies are the ways in which a firm designs how to become more efficient and effective. It can therefore be derived that, business growth is an increase in a firm’s resources and output that leads to an expansion of the firm in relation to size or scale of operations of the enterprise.

According to Mankins and Steele (2005) strategic growth is a never ending process which monitors and controls the firm and the industry the firm operates in, competitors’ assessment and setting objectives and strategies to meet all existing and potential consumers, and thereafter re-assess all strategies yearly, half-yearly or quarterly (regularly) to determine whether the methods used in implementing the strategies is successful or needs replacement through modification or adopting a new strategy to match with the changing events.

Growth in firms takes two forms namely internal growth, which comes from within the firm which is a planned, slow increase of the firm’s resources which may include cost leadership, product leadership and differentiation; and the external growth. According to Thomson & Strickland (2003), organizations have a broad range of strategic freedom and can choose to either diversify broadly or narrowly, into either related or unrelated industries, through buying other firms, joining forces with another firm to form a joint venture or a merger, forming strategic alliances, or internally starting up a new company.

According to Murigi (2010), adoption and application of growth strategies is of paramount importance to firms. They assist firm’s management to redefine the future, create value, success and growth of the organizations. According to Mbaya (2001), top management decisions must focus on the future of the firms amidst competition and environmental turbulence. The benefits of growth strategies to organizations are abounding in the literature (Kotler, 2000; Johnson and Scholes, 2002).

1.1.2 Incubated Start-up Enterprises

According to Kidder (2012) most scholars define a start-up as any new firm which has been in operation for a short while and is usually in the phase discovering a product or a market whereas he expanded the definition of a start-up enterprise to be inclusive of any original new business venture by a founding team aimed at a high-growth, risk/reward profile, scalability, and market leadership. The start up phase comes to an end once a company achieves certain growth achievements, mainly when it becomes profitable, sells its shares publicly, or a firm acquires it.

According to Thom (2013), business incubation is a process that offers business support involving people and resources so as to escalate the development of successful and sustainable firms at their initial stages through the provision of targeted resources and services. Therefore, a business incubator is a facility designed to help entrepreneurs develop and establish their enterprise during the initial stage process (Achleitner & Engel, 2001). Achleitner & Engel (2001) further argue that business incubators cannot be compared to each other because they differ in their objective targets, business models, their sector specialization and shareholder structure.

A start-up can either end up being an SME or a global organization. "Business growth is important to the entrepreneurial success and the growth potential is one of the factors that distinguish the entrepreneurial venture from the small business' (Wickham, 2006). The difference between the two firms is the visions of the pioneers. An SME seeks growth and sustainability whereas a start-up may seek growth through market dominance.

Different countries identify small businesses by different rules, principles and standards. However, the expression small business enterprise is widely applicable to private trading commercial or industrial enterprises characterized by small investments, assets, operations, output, sales, number of employees and scope (Dave, 2008). According to The Institute for Development Studies (2012) the SME industry is a vibrant industry that avails employment both directly to the participants, and indirectly via the establishment of other firms providing them with support services. Despite the significance of start-up enterprises in the economy, there still is a high failure rate of the enterprises within its initial period of operation. This study will focus on the growth strategies that incubated start-up enterprises adopt to ensure the survival and growth of their business.

1.2 Research problem

Entrepreneurship in Kenya has been greatly emphasized in the recent past due to the benefits that arise from it. Entrepreneurs come up with business ideas that they later actualize by starting up companies thus leading to an increase employment opportunities, wealth creation and welfare improvement. Entrepreneurs seek to offer solutions to the existing problems in the society. They are change seekers and risk takers. It is estimated that SMEs contribute 56% of private sector employment and 36% of the Gross Domestic Product (GDP) worldwide (Arianoff, 2010).

Choice of strategy in a start-up enterprise plays a major role in determining the growth strategies that the firm will employ. According to Longenecker (2006) Failure to plan, funds misappropriation and lack of an appropriate management team have been cited as some of small enterprises business failures, which can be as a result of lack of strategy or poor choice of strategy thereof. Therefore, an entrepreneur needs to be thorough on conducting market research and consulting before he/she decides to start up a firm. This will enable the entrepreneur have a perfect strategic fit.

The area of start-up enterprises has in the recent past attracted more research attention for instance; Murimi (2014) conducted a research on the Factors affecting the success of start-up of youth enterprises in Nairobi county, and found out that more than half of the youths have not been trained on basic business skills therefore posing a great threat to the survival of small scale enterprises which needs to be addressed. Dauda (2010) did a survey on Strategic Management Practice and Corporate Performance of Selected Small Business Enterprises in Lagos Metropolis and found out that strategic management greatly influences the market share of SBEs. Also, enforcement of strategic management has a positive relationship with the profitability of an organization.

On the other hand, Murigi (2010) specifically identified that growth strategies mainly adopted were market penetration and development, product development and diversification, organic and inorganic growth. A further study conducted by Uma (2013) on role of SMEs in economic development of india concluded that not only the big business but even SMEs in India have to be responsible enough through meeting the standards, qualities, technological upgrade and the technical know-how needed in the global market. The above studies fail to address the growth strategies that a firm adopts at the start-up phase to grow and attain sustainability. While the rate at which start-up enterprises fail is high, the ones that survive and thrive mostly produce huge economic returns. What are the growth strategies that start-up enterprises adopt to ensure that they survive this phase?

1.3 Research Objectives

The objectives of this study are:

i) To establish the growth strategies adopted by incubated start-ups in Nairobi.

ii) To determine the factors influencing the growth of incubated start-up enterprises.

1.4 Value of the study

The study findings will benefit the young upcoming and already existing entrepreneurs in having a better understanding of the need for strategy and adoption of the right growth strategies in their firms. It will better their decision making skills through having an in-depth knowledge of the concept of strategy. The findings of this study will enable the entrepreneurs match the internal operations of their businesses with the external environment to improve on the firm's performance. Entrepreneurs will understand the business environment and the industry they want to venture in. This study will assist the start-ups, stuck at the SME stage; re-evaluate their strategies to facilitate their growth into large corporations.

Secondly the policy makers such as the industry, the government and the financial institutions as a whole will benefit from the findings of this study in policy making and credit lending; and at the firm level, the board shall benefit as well by ensuring that the managers appointed to execute the strategies achieve this and overtime formulate the strategies to match with the external environment. Financial institutions will also get to understand their clients mainly the start-ups who seek financial services from them. Other key role players such as the non-governmental organizations that target entrepreneurship through capacity building will use the findings of this study to identify the key areas that a lot of training needs to be done.

Lastly, this study shall also contribute to the various theories in strategic management. Researchers will use the findings of this study to conduct further research on the areas not covered by the study. This study will add on the already existing theoretical framework.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is an overview of previous literature that relates to the research questions. It is a summary of the various studies done by various scholars and theories that address the growth of firms, growth strategies adopted by Start-up enterprises as well as challenges these firms face.

2.2 Theoretical Foundations of the Study

Shane (2000), defined entrepreneurship as an activity that entails the invention, assessment and use of opportunities to introduce new goods and services, ways of coordinating markets, approaches, and inputs via systematic attempts that had not previously existed. Aldrich (1999) concluded that failure to organize the efforts by entrepreneurs leads to the failure of their firms. Start-up enterprises need to survive, grow and achieve operational excellence which leads to profit making. Kazmi (2008) maintained that a business has to have a detailed strategic plan in order to achieve success. This chapter explains some of the theories that closely relate to the growth strategies that start-up firms should adopt.

2.2.1 Theory of the Growth of the Firm

Theory of the growth of the firm by Penrose (2009) employs the resource based view. The theory differentiates services rendered by the resources allocated. Resources can in turn produce a variety of useful services which can modify the characteristics of the resources that will lead to the provision of other new services. This therefore considers the firm as a composition of productive resources determined by management (Penrose, 2009). Firms are therefore unique due to the differences in their factors of production. Theory of growth of the firm emphasis on the organization’s internal resources and to therefore understand the reasons for its growth, the organization as a whole should be examined. Kor and Mahoney (2000) further emphasises on proper matching of resources of the firm with opportunities.

According to theory on the dynamics of early firm growth, new firms are likely to be faced out and with age come their likelihood to survive, while for a whole unit of enterprises, the percentage of the firms continuing to grow falls with time as changes occur. Theory and evidence suggest that at most half of the number of new firms will grow to become self-sufficient, at least quarter will expand beyond the initial stage and among these; few will fail to have sustainable growth on their performance or bounce back from their reversal after early expansions. However this theory concentrates more on the firm's resources and fails to address the growth strategies that the firms can adopt hence a firm may have all the necessary resources but still fail to grow due to lack of appropriate strategies.

2.2.2 Stochastic Firm Growth Theory

The learning theory has more recently appeared in the economic literature. Geroski (1995) stated that the growth and survival of an organization greatly depends on the firm's ability and willingness to learn. Survival and post market entry performance of new enterprises has been empirically shown to depend on their ability to effectively adhere to the environment and apply the appropriate strategies. The learning and selection approach lays emphasizes on the ability of firms to learn, their ability to innovate as well as industries' attributes. The learning and selection processes models are: those of Jovanovic (1982), Ericson and Pakes (1995) and Pakes and Ericson (1998). The most notable feature of these models is that they determine a firm's chances to survive by considering the features of organizations and their efficiency levels.

Jovanovic (1982) model stated that firms determine their level of efficiency when they enter the market and commence on their operations, a learning process referred to as the Bayesian or passive learning process. Upon entering the market, the most efficient firms grow at a high rate until they reach a minimum efficient 'noisy' selection. These models introduce age as a variable for assessing the way in which a firm learns its economic efficiency.

Firms are specifically formed having a clearly defined number of employees and are affected by a reductive shock. Profit distribution at this initial stage is unknown and does not change with time. Gibrat's Law is accepted for the firms that are above the minimum efficient scale (MES) whereas the firms whose size normally is below the minimum efficient size reject Gibrat's Law. Jovanovic (1982) models the diverse behaviour of a firm's growth in relation to the size of the firm and their efficiency levels. Therefore, Changes in the size of a firm are important occurrences in a firm's cycle (Wissen, 2002).

On the other hand, Ericson and Pakes (1995) and Pakes and Ericson (1998), presented an active learning process where not only do firm know their level of efficiency when they enter and commence their operations in the market, but can also change it via investments. Firms can in each stage decide on whether to continue their operations in the market or exit, depending resources availability and the investment of their rivals. The theory emphasis on the firm's capacity to learn and hence a firm can constantly amend its strategies and adapt to the changing environment thus facilitating its growth.

2.2.3 Theory of Entrepreneurship

This theory is best known as the theory of economic development that focuses of entrepreneurship. The four main features of this theory are: circular flow; contribution of entrepreneurship; business life-cycle; and the end of capitalism. The main focus on this theory is the Contribution of entrepreneurship in an economy. In analyzing the growth and development process, Schumpiter (1942) idealized an entrepreneur as an innovator. The entrepreneur/ innovator play a key role in the process of development since he/she instigates progress in a society and carries it on forward. Schumpiter (1942) further states the difference between an entrepreneur and a capitalist as a capitalist provides the capital while the entrepreneur determines and oversees the use of the capital.

This theory also further explains the necessary skills required to perform the entrepreneurial purpose namely: Technical information which should be readily available to the entrepreneur for the introduction of new products and new combinations of the factors of production; and resource in form of capital to assist the entrepreneur have authority over the production factors which he/she requires the power to purchase in terms of credit and capital that he/she can borrow from banks and other financial institutions. In Schumpiter's (1942) concept, "people act as entrepreneurs while carrying out new combinations, and once they build their businesses lose the attributes of entrepreneurs leading them to settle down to running its operations as other people run their businesses" (Ekelund et al, 1990). This theory however, fails to address the strategies that entrepreneurs need to adopt to ensure the growth of their start up enterprises.

2.3 Growth Strategies

Start-up enterprises contribute greatly to the economic development through the generation and creation of wealth. Ansoff's (1965) model provides different levels of corporate strategies that focus on the growth of the firm. The model concentrates on two areas namely the product and the market as a tool to help organizations analyze and plan growth strategies and to attach levels of risks when assessing and comparing different strategies. In addition, Pearce and Robinson (2001) concluded that the achievement and growth of organization using Ansoff's (1965) growth strategy is eminent and players in the industry define and focus on how to achieve growth. These two areas consider the current and the new activities where the element of risk is established when choosing and plotting the coherent strategy for growth. The following are among the growth strategies that can be adopted by start-up enterprises;

Market penetration strategy where the business focuses mainly on the markets and products it knows well. The business can exploit insights on what the customers want and understand what the competitors are doing. This strategy has the lowest form of risk and less market research is required. The question businesses adopting this strategy need to ask themselves is whether the market is growing fast enough in order for the business to achieve its growth objectives. Lancaster (1988) defines the market penetration strategy as involving the existing services/product being sold to the same larger consumer base. Kottler (2000) explains market penetration as a situation in which the existing products are sold to the same market by enhancing its already existing internal capacities and building new ones which would enable it exploit further into existing markets and no new market segments are pursued. Mascarenas et al (2006) states that firm growth requires expanding what a firm currently does to a pool of potential customers.

Product development is a growth strategy where the enterprise aims at the introduction of new products into their already existing market. According to Watts et al (2008) the most appropriate growth strategies for any small enterprise are the ones concerning product and market development. In addition, Smallbone et al (2005) suggested that high growth can best be achieved through the identification of new markets for their existing products or through the development of new products or services for their existing customers.

Market research is very important while adopting this strategy since a firm seeks to introduce a new product in the market which broadens the firm's product base. This strategy plays to the strengths on an established business and emphasises on successful innovation. A firm adopting this strategy should ensure that it is the first to introduce the new product before its competitors does.

Market development growth strategy is where a business aims at selling its existing products to new segment markets. This can be achieved through aggressive marketing and some of the pricing strategies. Porter (2004) noted that marketing is most productive when it is an essential component of business strategy, defining how the organization aspires to involve customers, prospects and the competition in the market place for growth. Approaches to this strategy include but not limited to: new geographical markets, new distribution methods and different pricing policies to attract new customers in different market segments. According to Bauer and Colgan (2001), a large market can be achieved as a result of lower prices that lead to higher demand. A business can opt to adopt this strategy if its existing market is declining or has a slow growth rate. Beforehand, the business must ensure that its existing products will meet the customer needs of the new market. This strategy is more risky compared to product development especially where international markets are a target.

Diversification is a growth strategy where a business ventures into new markets by introducing new products. It can either be related or unrelated diversification. This strategy has the highest form of risk since there is no direct experience of the product or market and initially there are few economies of scale. However, if successful, the overall risk of the business is spread. Approaches to this may include but not limited to: innovation or acquire an existing business in the market. McCarthy (2002) says that diversification is a strategy that involves moving into new lines of business - perhaps to entirely new products, markets or even levels in the production marketing system. According to Thomson and Strickland (2001) diversification becomes an attractive strategy when a firm exhausts all profitable growth opportunities in its present business operations.

2.4 Factors Influencing the Growth of Incubated Start-up Enterprises

Start-up enterprises like any other organization are open systems and interact with the environment in which they operate in. There are several factors, both positive and negative, that influence the growth of start-up enterprises. Some of these factors are;

Start-up enterprises encounter challenges in hiring and retaining skilled graduates since they opt to work in large established companies that offer competitive salaries, job security and possible career growth. In order to achieve the demands of the dynamic work environment associated with start-up enterprises, it is important that small firms attract, retain and motivate competent personnel with necessary skills by establishing a strategic training plan alongside a budget specifically for training (Jameson, 2000). In addition, King (1998) stated that entrepreneurs with extensive human capital, in terms of education and (or) vocational training are advantaged in adapting their enterprises to the dynamic business environments.

According to Brush et al. (2009) marketing is also factor influencing the growth of companies where many businesses are faced with the challenge of establishing effective distribution channels, communication of product attributes, pricing of products and services, implementing sales and marketing strategies to expand their customer base and retain customers and constantly being involved in product development in order to increase and sustain sales. Lack of market information by some start-up enterprises limit their ability to market their products potential customers and expand their customer base.

There exists a difference in the management of start-up enterprises between owner/managers who differ in terms of their level of formal education; firms managed by owner/managers having a primary education level showed the least probability for growth, firms managed by owner/managers having a secondary level of education are probable to grow whereas firms managed by owner/managers who have diplomas, university degrees and professional qualifications had a greater probability for growth compared the other firms.

There exist entrepreneurs who are motivated in various ways to start up their businesses. Some of the factors of motivation by entrepreneurs that facilitate growth of the firm would be the need to create employment; attain finance freedom; and self-fulfilment. Schumpeter stated that business ownership is primarily motivated by need to the generate profits (Schumpeter, 1934).

Innovation is also another factor that influences the growth of a firm as is regarded as a key feature of Start-up enterprises that depends on the perception of the entrepreneur. “Companies that are innovative have the ability to respond within the confines of their knowledge about already existing products or services to meet the change in the customers’ needs in their market niche” (Levy & Powell, 2005). This urge to come up with something new is a driving factor to the growth of Start-up enterprises. Moore (2004) suggested that innovation as a business model is a most suitable growth strategy in mature markets whose products are in the maturity stage in the business life cycle.

The geographical location of the firm also influences the rate of growth of the enterprise. If the firm is located in a place whose infrastructure is well developed, then its rate of growth will be relatively high. Less developed areas are likely not to enhance the growth of star-up enterprises. This is evidence in the Kenyan economy since the urban areas have more start-up enterprises compared to the rural areas. According to Ronge, Ndirangu and Nyangito (2002) infrastructure is associated with the provision of accessible roads, adequate power supply, constant water supply, and telecommunication has been a major factor influencing the growth and development of small business enterprises.

Access to funds is also another factor influencing the growth of start-up enterprises. In the Kenya economy, very many microfinance institutions have been established, for example women's fund, Faulu bank, which support entrepreneurs financially. This has greatly led to the growth of start-up enterprises in the country. However upon the passing of the bank rates bill by the president in August 2016 that lowers to interest rates to about 14.5%, financial institutions may shy away from lending to start up enterprises since the risks involved do not much up to the returns. Kimathi (2009) emphasizes that small enterprises are held back from borrowing due to the tough lending conditions where most fail to provide the collateral requested by banks as a requirement to access loans.

Lastly, customer perception greatly influences the growth of a firm through the determination of the sales made by the firm. If customers positively perceive the firm and relates well with it, then the probability of its growth increases whereas if the customers negatively perceive the organization, the sales decrease leading to reduction in the revenue generated. According to Amyx (2005) one of the most significant challenges faced by start-up enterprises is the negative perception the market has towards small business enterprises. Competition is also another factor influencing the growth of start-up enterprises. The higher the competition, the less likely a start-up is expected to grow and vice versa.

Summary of the literature review

The literature review covers the growth strategies, theory of the growth of the firm, the stochastic firm growth theory, the theory of entrepreneurship and the various factors influencing the growth of start-up enterprises. The growth strategies mainly focus on market penetration and development, product development and diversification whereas the theories discuss about the resources of the firm, size of the firm and the entrepreneur roles in the firm respectively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the analysis of principle of methods, rules and techniques adopted in order to meet the objectives stated in chapter one of this study. Section 3.2 explain the research design that was used in the study, section 3.3 gives the target population, section 3.5 explains the methods that were used to collect data and finally section 3.6 explains the methods that were used to analyze the data, data reliability and validity.

3.2 Research Design

This study used a descriptive research design. The descriptive research was used to enhance a systematic description that is as accurate, valid and reliable regarding the responses on the growth strategies adopted by incubated start up enterprises. It was concerned with observing, describing, recording, analyzing and reporting conditions that exist. Cooper and Schindler (2006) stated that a descriptive research design attempts to define or describe a subject mostly by creating a profile of a group of problems, people, or events, through data collection and tabulation of the frequencies on research variables or their interaction.

Mugenda and Mugenda, (2003) argue that a descriptive survey method tries to collect data from members of a population and assist a researcher to get descriptive existing phenomena by asking individual questions about their perception. In addition, Koech (2011) used this research design to survey financial constraints hindering growth of SMEs in Kenya, she sampled 100 firms of similar nature of this study and came up with reliable findings. In this case, the main research problem was to find out the growth strategies adopted by incubated start up enterprises in Nairobi, Kenya.

3.3 Population of the Study

This research targeted Incubated Start-up enterprises in C4D Lab of The University of Nairobi (6), Climate Innovation Centre at Strathmore University (20), Nailab (14) and I-hub (5) Incubation centres. Mugenda and Mugenda, (2003) stated that the population targeted should have some noticeable attributes, to which the researcher intends to generalize the results of the study. There are a total of 45 incubated start-up enterprises in the above named incubation centres located in Nairobi.

3.4 Sampling Procedure and Sample Size

A sample size represented the entire population was selected and analyzed accordingly. The sample size should be unbiased so that the analysis conducted will be a true and fair representation of the population hence it shall be scientifically arrived at. Simple random sampling was used in selecting respondents.

The research applied simple random sampling that was in accordance to the incubation's share of the total targeted population to get the sample in each incubation centre. Therefore, 25 incubated start-up entrepreneurs were selected using simple random sampling procedure from each incubation centre. Questionnaires were administered to all entrepreneurs selected.

3.5 Data Collection

The main source of data was primary data collected from the respondents by use of a structured questionnaire. The questionnaire had open and close ended questions covering issues on the growth strategies adopted by incubated start up enterprises. Closed ended questions enabled responses to be limited to stated alternatives while open ended questions enabled respondents to express their views and attitudes freely in unbiased manner. The questionnaires were collected in readiness for data analysis.

The researcher administered the questionnaires to all the respondents of the study. Drop and pick later method was used to ensure that the entrepreneur got ample time to fill out the questionnaire.

3.6 Data Analysis

Completed questionnaires were edited for consistency and coded to enable the responses to be grouped in various categories. The quantitative data collected was analyzed using the statistical analysis. Percentages and frequencies were used to analyze questions on the profiles of the respondents. Mean scores, standard deviations and factor analyses were used to analyze data in section ii in order to determine the growth strategies Pursued and the factors influencing growth of the enterprises. The data was presented in tables, frequency charts and bar charts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents data analysis, results and discussion of the findings. Results have been discussed in line with research objectives stated earlier in chapter one. Data collected was analyzed and presented in form of tables and figures.

4.2 Response Rate

The study targeted 25 respondents at the various incubation centres in collecting data on growth strategies adopted by incubated start up enterprises. However, out of 25 questionnaires distributed 20 respondents completely filled in and returned the questionnaires contributing to 80%. This response rate was reached by the researcher through personally administering questionnaires by dropping them off and picking them at a later date once fully filled.

4.3 Data Presentation

4.3.1 Form of Ownership

The study required the respondents to indicate the legal business ownership of the incubated start up enterprises they operate as shown in figure 4.1.

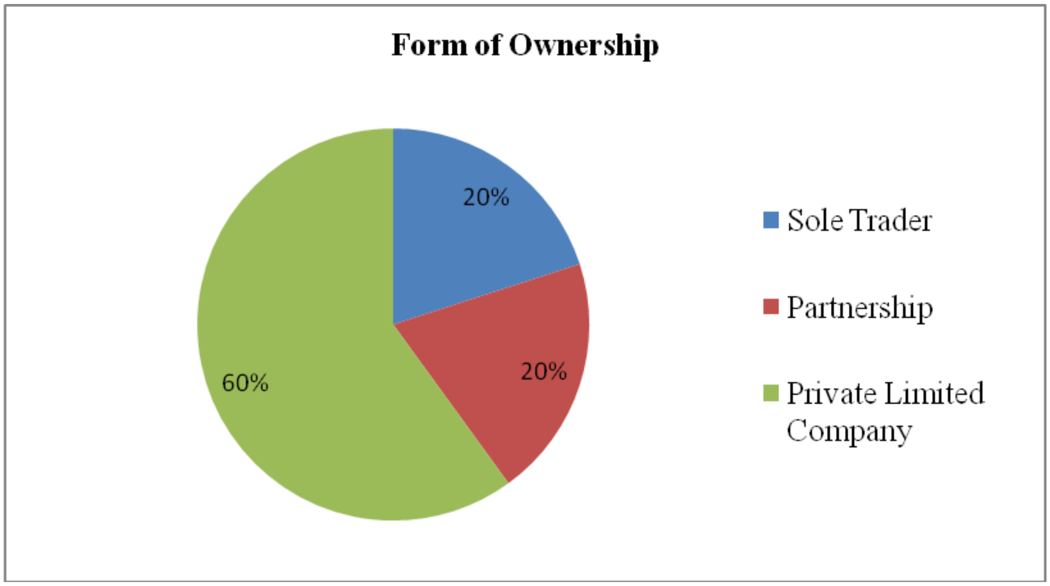

Figure 4.1 Legal Business Ownership of the Start-up Enterprises

According to above the results shown in figure 4.1, a big percentage (60%) of the respondents indicated that their start up enterprises were private limited companies, 20% of the enterprises were partnerships while 20% of the respondents operated sole trader owned start up enterprises

4.3.2 Level of education

The study further required the respondents to indicate their highest level of education. Figure 4.2 summarizes the findings of the level of education of the respondents.

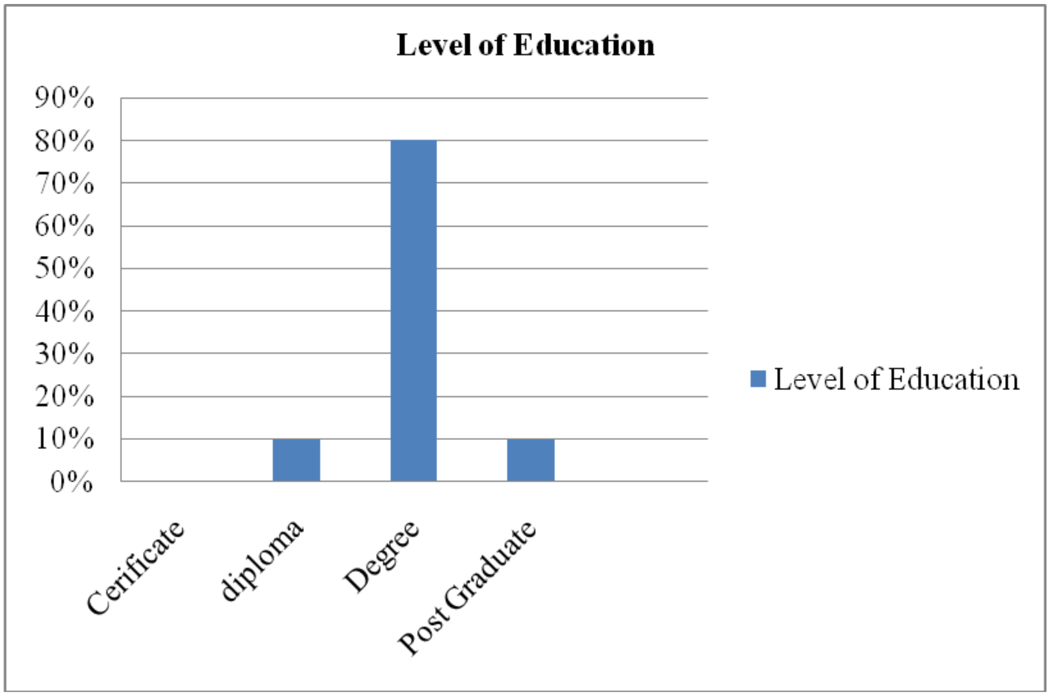

Figure 4.2 Highest Education Level of the Respondents

According to the figure 4.2, 80% of the respondents had degrees in various courses as their highest academic qualification, 10% had a diploma, 10% had post graduate as their highest academic qualification while none had a certificate as their highest academic qualification. This shows that most of the entrepreneurs had acquired some knowledge that could be important in management and running of the business.

4.3.3 Number of Employees

The researcher established the size of the companies in terms of number of employees. The results are shown in figure 4.3.

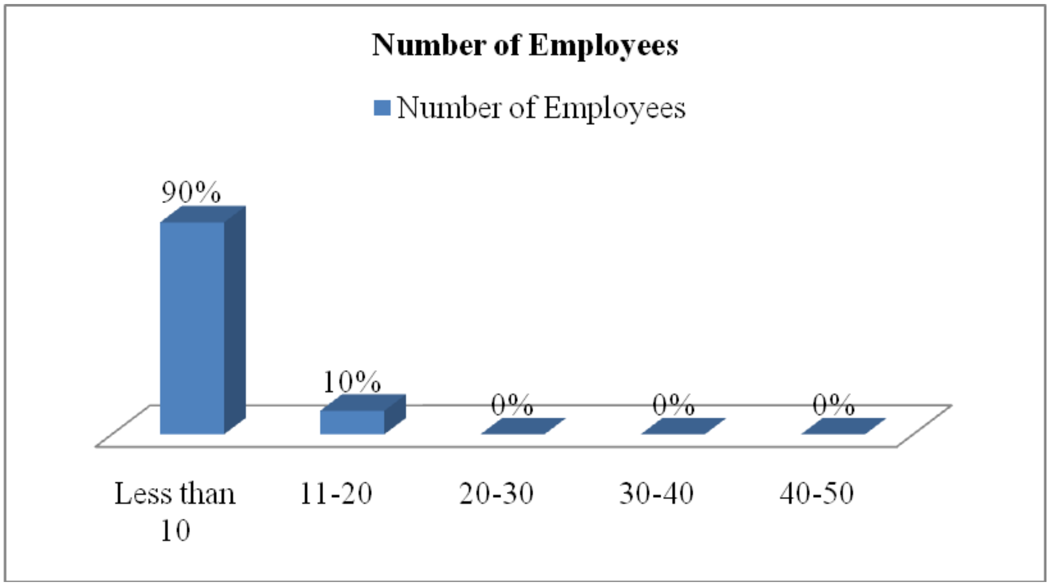

Figure 4.3 Number of Employees

Figure 4.3 show that 90% of the incubated Start-up enterprises had less than 10 employees, 10% of them had 11-20 employees and none had more than 20 employees.

4.3.4 Number of Branches

Figure 4.1 summarizes the study findings on number of branches that the incubated star-up enterprises have.

Table 4.1 Number of Branches

Branches	**Frequency**	**Percentage**
Only 1	16	80
2-5	4	20
More than 5s	0	0
Total	**20**	**100**

According to the study findings 80% of the entrepreneurs had only one branch, 20% had 2-5 branches while none had more than 5 enterprises.

4.3.5 Business Financing

The study sought to determine the source of financing greatly preferred by the incubated start-up enterprises. Figure 4.4 presents the results of this finding.

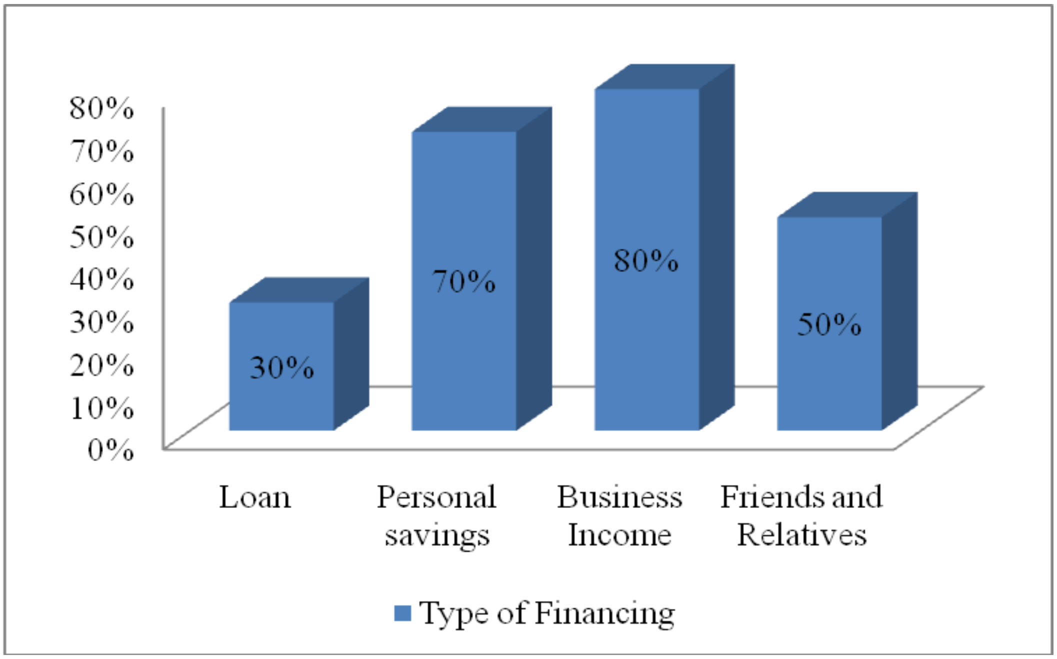

Figure 4.4 Source of Business Financing

Figure 4.4 show that business income (80%) and personal savings (70%) were the most preferred source of financing used by the incubated start-up enterprises whereas only 30% of the enterprises used loans as part of their financing.

4.4 Growth Strategies Adopted

The study focused on establishing the growth strategies adopted by incubated Start-up enterprises in Nairobi. Thus, the study asked the respondents whether their businesses had developed any of the listed strategies on growth and the findings presented in table 4.2.

Table 4.2 Growth Strategies Adopted by Incubated Start-ups

Growth Strategy	**Mean Score**	**Std deviation**	**Skew**
Outsourcing	2.40	1.142	0.038
Increase in advertising Expenditure	1.40	0.940	0.743
Social Media advertising	3.20	1.642	-0.355
Market segmentation	3.60	1.392	-0.489
Low Pricing strategy	3.40	1.046	-0.931
Customer service	4.20	1.281	-1.748
After sale services	3.90	1.744	-1.021
Product Development	3.80	1.436	-0.796
Re-branding	1.90	1.252	0.922
Diversification	2.70	1.593	0.201
Opening new branches	1.30	1.031	1.882
Total	**31.80**	**14.501**	**-1.554**

From the findings, market penetration strategies is effected through customer service as the most preferred strategy with a mean score of 4.20, followed by after sale services (3.90), Market segmentation (3.60), low pricing strategy (3.40) and social media advertising (3.20). The least preferred market penetration strategy was increase in advertising expenditure (1.40) and opening new branches (1.30).

Further, the findings of this study show that product development strategy (3.80) was also a preferred growth strategy while rebranding (1.90) was least preferred product development growth strategy. Market development has been adopted through customer service (4.20), after sale service (3.90) and low pricing strategy (3.40). Diversification (2.70) was on average preferred as a growth strategy by the incubated Start-up enterprises.

4.3.7 Factors Influencing Growth

The second objective of this study was to determine the factors influencing the growth of incubated start-up enterprises. Table 4.3 shows the extent to which the listed factors influence on the growth of incubated start-up enterprises.

Table 4.2 Factors Influencing the Growth of Incubated Start-Ups

Factors	**Mean Score**	**Std Deviation**	**Skew**
Personnel competency	4.70	0.470	-0.945
Marketing	4.60	0.680	-1.514
Managerial experience	4.10	0.852	-1.204
Strategic Leadership	4.50	1.236	-2.605
Education of the owner/manager	3.50	1.236	-0.744
Motivation of the owner	4.50	0.688	-1.076
Innovation	4.30	1.031	-1.319
Access of funds and resources	4.40	0.681	-0.712
Location of the firm	4.00	1.025	-0.650

Networking	4.70	0.657	-2.079
Competition	3.20	1.765	-0.464
Customers' attitude	4.60	0.681	-1.514
Total	**51.10**	**11.002**	**-13.827**

Personnel Competency, Networking, customer attitude and marketing had the most influence on the growth of incubated start-up enterprises with mean scores of 4.70, 4.70, 4.60 and 4.60 respectively. Education of the owner (3.50) and competition (3.20) had the least influence on the growth of the incubated start-up enterprises.

4.3.8 Network Relationships

In addition, the study requested respondents to indicate the extent to which their organizations related with some of the key players in their network from the supply chain, human capital to the end user of their products/services. The findings are shown in figure 4.5.

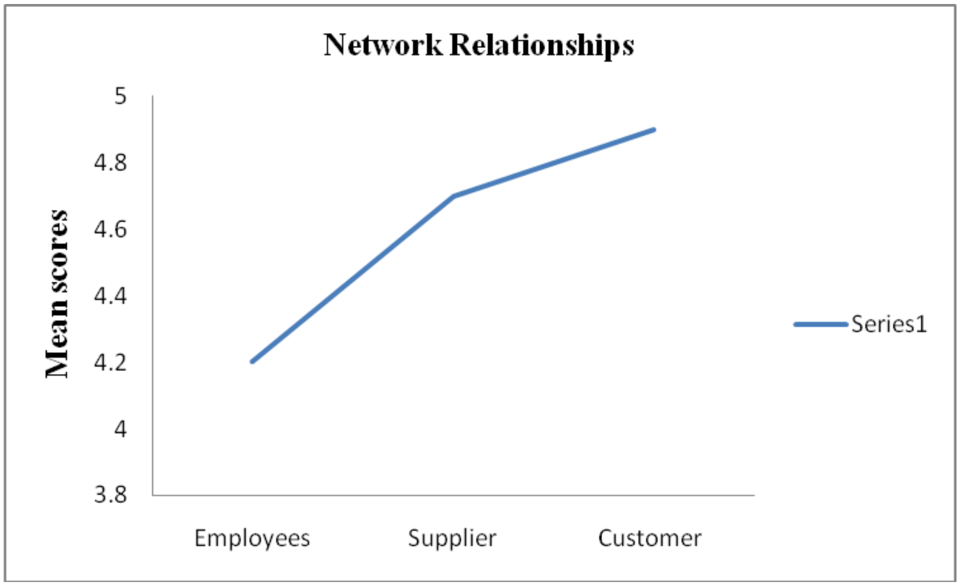

Figure 4.5 Network Relationships

From the findings, respondents indicated that customer relationship was emphasized to a very great extent as shown by mean score of 4.9, Supplier relationship was emphasized to a great extent as shown by mean score of 4.7 while the employees focus was to an extent emphasized on as shown by mean score of 4.2.

4.3.9 Rate of Growth to Business Performance

In conclusion, the study asked the respondents to rate the growth strategies adopted in relation to the performance of the organization. Figure 4.7 shows the results of the findings.

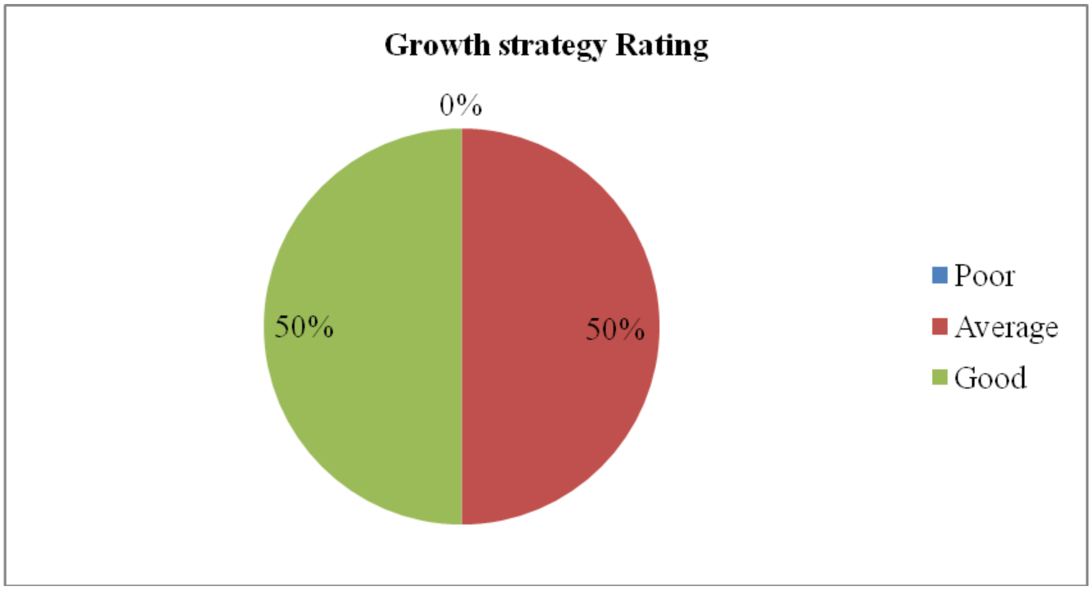

Figure 4.6 Growth Strategy Rating

Figure 4.6 shows that 50% rated the growth strategy Good, 50% Average and 0% poor.

4.5 Discussion of the Findings

According to Kidder (2012) most scholars define a start-up as any new firm which has been in operation for a short while and is usually in the phase discovering a product or a market. The study agrees with this definition since it found that the incubated start-up enterprises were between 1-3 years, majority had less than 10 employees and majority had only one branch. In addition, the study found that all the enterprises had developed a strategy on the growth of their firms which strongly agrees on the importance of strategy in an organization and also agree with Kazmi (2008) that strategy is a plan that is clearly detailed for a business to enable it become successful.

The study further found that customer service is one of the growth strategies mostly pursued where most of enterprises focused on meeting the customers' needs. The enterprises emphasized on this since their industry is still growing and majority of businesses is on referral basis. The findings on customer service agrees with Lovelock (1996) that businesses must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality service and innovation.

Other growth strategies preferred were after sale services, product development and market segmentation. This finding on market segmentation is in accordance with Mascarenas et al. (2006) argument that business growth requires expanding what a firm does to a more potential consumer. Watts et al (2008) suggested that the most appropriate growth strategies for a small firm are those concerning product and market development and from the findings of this study, product development, re-branding and market development through customer service and after sale services were preferred growth strategies by the enterprises.

According to Kimathi (2009) emphasizes that small enterprises are held back from borrowing due to the tough lending conditions where most fail to provide the collateral requested by banks as a requirement to access loans. The study findings show that majority of the start-up enterprises use a large percentage of their business income to finance their operations while a few use loans as part of financing. The study found that personnel competency and networking was an important factor that influenced the growth of the enterprise which agrees with Kor and Mahoney (2000) on proper matching of resources of the firm with opportunities.

In addition, Porter (2004) noted that marketing is most productive when it is an essential component of business strategy, defining how the organization aspires to involve customers, prospects and the competition in the market place for growth. The findings of this study show that marketing is a factor that greatly influences the growth of an enterprise. In the stochastic growth theory, Geroski (1995) emphasized that firm's growth and survival is dependent on its ability to learn was supported by the findings of this study as seen by the extent to which the enterprises valued networking with the suppliers, customers and employees which will facilitate communication and idea sharing.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the data findings on growth strategies adopted by incubated start-up enterprises in Nairobi, conclusions and recommendations. The chapter consists of findings, conclusions, recommendations, limitation of the study and area for further research.

5.2 Summary of Findings

The objectives of this study were to establish the growth strategies adopted by incubated start-up enterprises in Nairobi and to determine the factors influencing the growth of incubated start-up enterprises in Nairobi. The study shows that most Incubated start-up enterprises are managed/owned by degree holders, are between 1-3 years old, have less than 10 employees, have only one branch and are private limited companies.

The findings of this study clearly show that most of the incubated start-up enterprises have developed growth strategies. The study further found that market development through customer service and after sale services were the most adopted strategies, followed by product development and market penetration through market segmentation. Also, diversification was on average preferred as a growth strategy by the incubated start-up enterprises. The factors that greatly influenced the growth of the firms were personnel competency, networking, customers’ attitude and marketing while the least factors that influenced growth are education of the owner and competition.

The findings of this study show that the enterprise used various sources of financing, business income being the most preferred with the highest percentage, while loans being the least preferred financing with the least percentage. The enterprises rated the growth strategies as average and good in relation to the overall performance of their organization.

5.3 Conclusion of the Study

The findings of this study concluded that incubated start-up enterprises have already developed growth strategies to respond the environment in which they operate in, have identified the factors influencing their growth and seek to attain performance excellence through the adopted strategies. The enterprises main aim is to meet the customer needs hence have emphasized greatly on customer service and the after sale services they offer. To facilitate growth, the enterprises emphasized on personnel competency, networking, customer's attitude and marketing.

5.4 Recommendation of the Study

The study recommends that entrepreneurs should relook on their growth strategies by increasing their advertising expenditure as this will create awareness of their products or services to potential customers thus increasing their customer base as well as retain the already existing customers. This will lead to increase in the sales volume and the revenue generated by the enterprises.

Secondly, the study recommends that the incubated start-up enterprises should constantly monitor what their competitors are doing and be a step ahead of them. Further, the incubated start-ups should borrow heavily from the already established large corporations in the same industry and adopt their strategies or modify them. This will see them achieving sustainable competitive advantage and growth. The survey further recommends that for the business to realize the growth effectively, entrepreneurs must identify opportunities and capitalize on them and threats to minimize or avoid them. This will ensure survival and success of the incubated start-up enterprises to becoming large corporations.

Finally, the study recommends that the financial institutions should encourage borrowing by the enterprises as this will also facilitate the growth of the incubated start-up enterprises.

5.5 Limitations of the Study

The study was mainly to establish the growth strategies adopted by incubated start-up enterprises and to determine the factors influencing the growth of Incubated start-up enterprises but did not critically examine how the growth strategies are implemented within the enterprises. The study mainly focused on the incubated start-up enterprises in Nairobi and not start-up enterprises in general. The growth strategies pursued by incubated start-up enterprises could be different from what start-ups pursue in general. The study did not focus on other sectors such as large corporations which also greatly contribute to economic development.

The main limitation of study was the response rate of the targeted respondents for the fear that the information collected might be used for purposes other than for academic purposes, hence not reaching the targeted sample size. On the other hand, time and resources could not allow.

5.6 Suggestion for Further Study

The study suggests that further research should be done on the role of incubation centres to the economy and the impact they have on the incubated start-up enterprises. The study also suggests further research to be done on the implementation of the growth strategies adopted by incubated start-up enterprises. The same study should be duplicated for incubated start-up enterprises in other towns in Kenya other than Nairobi.

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APPENDIX I: QUESTIONNAIRE

Kindly answer all the questions by ticking or by providing the answers in the spaces provided.

Section 1: Background Information

1.Indicate the name of your business ……………………………………………….

2.What is the nature of your business?

Product firm [ ] Service firm[ ] Both[ ]

3. What is your highest level of academic qualification?

Post graduate [ ] degree [ ]

Diploma [ ] certificate [ ]

Any other (specify)…………………………………………………………………..

4. How long has your business been in existence? ……………………………………

5. What is the legal business ownership of this firm?

a) Sole trader [ ] c) Private limited company [ ]

b) Partnership [ ]

Any other (specify...

6. How many employees work in this firm?

Less than 10 [ ] 11-20 [ ] 20- 30 [ ]

30- 40 [ ] 40 – 50 [ ]

7. What does your business deal with?

…………………………………………………………………………………………

8. What is the main objective of your business

…………………………………………………………………………………………

9. How many branches does your business have?

Only 1 [ ] 2-5 [ ] More than 5 [ ]

Section 11: Growth Strategies Adopted by SMEs

1. How is your business financed? Indicate in percentage

   Loan…………………………........%

   Personal Savings...............................%

   Business income…………………...%

   Friends and relatives………………. %

   Others specify……………………..%

2. What is the value of your business of total assets…………………………………..
3. How much savings have you made from the last one year in Kshs…………………
4. What is the average monthly sales Kshs……………………………………….......
5. Has your business developed any strategy on growth?

Yes [ ]   No [ ]

6. Please indicate the extent to which following growth strategies have contributed to the growth of your firm. Where 1=Not contributed, 2=Least contributed, 3= Slightly contributed, 4= Moderately contributed and 5=Highly contributed.

Growth Strategy	1	2	3	4	5
Outsourcing					
Increase in advertising Expenditure					
Social Media advertising					
Market segmentation					
Low Pricing strategy					
Customer service					

After sale services					
Product Development					
Re-branding					
Diversification					
Opening new branches					

c) Other than the growth strategies listed in (b) table, list other methods that you might have used.

…………………………………………………………………………………………
……………………………………………………………………………………….

7. Please indicate the extent to which the following factors are important to the growth of your firm. Where 1=Not Important, 2= Slightly important, 3=Moderately Important, 4=Very important and 5=Most Important.

Factors	1	2	3	4	5
Personnel competency					
Marketing					
Managerial experience					
Strategic Leadership					
Education of the owner/manager					
Motivation of the owner					
Innovation					

Access of funds and resources					
Location of the firm					
Networking					
Competition					
Customers’ attitude					

8.To what extent do you emphasize on close relationships with the following? Use a scale of 1-5. Where 1-very low extent and 5, very great extent.

	1	2	3	4	5
Suppliers					
Customers					
Employees					

9. How would you rate the growth strategy adopted in your organization in relation to the performance of your business?

Poor [ ]   average [ ]   good [ ]

10. In your own opinion what would you suggest should be done for the growth strategies adopted by your business to be effective?

…………………………………………………………………………………………
…………………………………………………………………………………………

THANK YOU.