

**STRATEGIES ADOPTED BY SMEs IN GLOBAL  
ENTREPRENEURSHIP: A CASE OF NAIROBI COUNTY**

**BY**

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## DECLARATION

This management project is my original work and has not been presented for a degree in any other university.

Signed..... Date.....

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D61/P/7243/2004

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

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## **DEDICATION**

To my Family, this project is affectionately dedicated to you for your support and understanding. To my husband Victor, my daughter Hope and to my parents, am truly grateful.

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## **ABSTRACT**

The changing global environment has led to more competition, increased product choice, increased customer demand, lower prices, product innovations and information technology. Companies face intense competition from domestic and foreign brands which is resulting in rising promotion costs and shrinking profit margins. Due to changes in the marketplace, companies must cope with the dynamic environment in order to survive. It is the new developments in the market environment that compelled the researcher particularly to conduct a study on the competitive strategies adopted by Small and medium enterprises in global entrepreneurship domiciled in Kenya. The study was a cross sectional survey whose population of interest consisted all the top 100 mid sized companies in Nairobi County for the year 2011.

Based on the study findings the challenges in strategy implementation are; Lack of financial resources, Poor advances in technology, Small business margins, and increased operational costs. On the other hand the challenges that are considered minor by the SME's are; Diminishing business returns, stringent regulatory framework, Competitor activity in strategy mimics and Lack of employee expertise.

It is therefore imperative that the management mobilize funds to improve on their information technology. Increased operations costs problem may be solved by adopting cost effective production and operations methods that emphasize on profit maximization at reduced costs.

## **CHAPTER ONE:**

### **INTRODUCTION**

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

The phenomenon of globalization puts pressure on small- and medium-sized firms (SMEs) to develop strategies for internationalization. Currently, SMEs are not yet represented in the international economy as much as large firms are Fujita (1998) even though their internationalization activities are increasing (Lamb and Liesch, 2002). In particular limited resources (financial, managerial, information, etc.) seem to frustrate the efforts of SMEs to internationalize (Baird, et al.1994; Buckley, 1989; Burpitt and Rondinelli, 2000; Fujita, 1998). By means of inter-firm cooperation, SMEs may, however, gain access to additional resources and enter markets or enhance revenues in a manner not possible for each firm alone (Contractor and Lorange, 1988; Burgel and Murray 2000).With some notable exceptions Bell(1995); Coviello and Munro(1997) empirical research on the internationalization process of SMEs has tended to ignore inter-firm cooperation.

The benefits of SMEs to Kenya are outlined in Kenya's Sessional Paper No.2 of 1992 (Government of Kenya,1992).The aim of Kenya Vision 2030 is to create a globally competitive and prosperous country with a high quality of living. It is expected that the country will be transformed into a newly industrialized middle income country providing a high quality of life to all its citizens. It is for this reason that the aspect of global entrepreneurship for SMEs cannot be overemphasized.

### **1.1.1 Global Entrepreneurship**

Entrepreneurship refers to the identification, evaluation, and exploitation of new business opportunities, which is at the very heart of the new business creation process (Shane and Venkataraman, 2000). Although there seems to be no single unanimously accepted definition of entrepreneurship, many assessments are unified by the notion that entrepreneurship is about creating or starting a new venture (Reynolds et al. 2005).

There has been growing interest in entrepreneurship among scholarly journals, college classrooms, and policy makers (Streb and Gupta, 2011). This trend has been accompanied by an increasing emphasis on issues related to international entrepreneurship owing to globalization and the removal or easing of trade restrictions between nations (Keupp and Gassmann, 2009). According to the global entrepreneurship monitor, there are two types of entrepreneurships namely necessity entrepreneurship and opportunity entrepreneurship. As stated by Reynolds (2009), necessity entrepreneurship are people who view entrepreneurship as the best option available and not necessarily the preferred option while opportunity entrepreneurship on the other hand are those who engage in entrepreneurship out of choice. A country's performance in the global economy depends on the mindsets of its people and how they are taught to think, deal with one another and work together (Smith, 1995).

Governments try to turn around this unfavorable situation by offering generous grants in order to attract investments into peripheral areas, though with rather meager success (Frenkel et al. 2003). While some research (i.e. the GEM reports) provides analyses of

entrepreneurship issues in different countries and between countries, there is a need to deal with comparisons between regions in same countries (Audretsch et al. 1999), (Johnson 2004) and (Verheul et al. 2009). Industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changing environment (Aosa 1992). They adopt strategies such as improved customer services, credit facilities, post-paid cards and provision of convenience goods and services.

### **1.1.2 Environment and Organizations**

An industry environment consists of a particular set of competitive forces that establish both opportunities and threats. The pattern of forces changes due to the actions of competitors. Porter (1980) uses this term to reference buyers, suppliers, substitute products (services), potential industry entrants, as well as strategic groups of directly competing firms. Strategic moves by any of these competitors can alter prevailing relationships and thereby change the pattern of forces in the firm's environment.

Response to environmental change can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness; secondly, use of real time response through issue management and thirdly, systematic management of resistance to change during strategic implementation (Ansoff and McDonnell, 1990). Ross (1996) posits that the firm has to learn, adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, brought about by globalization and trade liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

### **1.1.3 SMEs in Kenya**

There has been no consensus on the definition of SMEs and researchers have given various definitions. For example Kinjanjui (1996) defined them as firms employing between 1 and 150 persons. Soderbom (2004) and JICA and MOTI (2008) defined SMEs in Kenya as businesses employing between 10 and 100 employees. The definition varies from country to country. The broad Kenyan definition of SMEs includes micro enterprises. As per the International Finance Corporation (IFC) definition SMEs implies any business in the private sector which employs between 50-300 employees. For purposes of this paper we shall go as per the IFC definition of an SME.

An SME is an entity that does not have public accountability or publishes general purpose financial statements for external users e.g. owners not involved in day to day management; Kenya Revenue Authority; existing and potential creditors; credit rating agencies and whose debt and equity instruments are not traded in the public market (A domestic or foreign stock exchange or over the counter market) and does not hold funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses such as banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks (ICPAK.com).

## **1.2 The Research Problem**

Internationalization for SMEs can be expensive, time consuming and a significant drain on scarce resources. Decision making processes related to choice of market, timing and

mode of entry are therefore important to understand from both a research and a managerial perspective (Coviello and Martin 1999).

The Kenyan SME sector has seen a paradigm shift in the last couple of years with intensified competition and entry of new well established players, changing regulatory provisions and prudential guidelines, financial sector deepening processes, changing consumer tastes and preferences and technological advancements.

Successful environment serving organizations are open systems in that continued organizational survival depends on its ability to secure rewards from its environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy. They further argue that a major escalation of environmental turbulence in the 1990's has meant a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new consumer's attitudes and new dimensions of social control and above all unprecedented questioning of firm's role in society (Ansoff and McDonnell ,1990).

Several studies have been carried out in Kenya, addressing the aspects of Kenyan firms and economic liberalization Oyoo (2002); Owiye (1999); Yatich (2001) and Kombo (1997).The literature cited indicates there has been no study focusing on the strategies adopted by SME in global entrepreneurship in response to environmental changes. Therefore the proposed study seeks to find out how SMEs in Kenya respond to the changes in the business environment. What are the challenges facing the SMEs in global entrepreneurship?

### **1.3 Research Objectives**

The objectives of this study were:

- (i) To establish the strategies used by SMEs in Nairobi County in global entrepreneurship.
- (ii) To determine challenges faced by SMEs in implementing these strategies.

### **1.4 Value of the Study**

The study will add to the body of knowledge, specifically in regard to strategies in the Kenyan SME sector and hopefully ignite the need for further research especially looking into competition arising in the sector. Policy makers will infer from the study on government initiatives for financial deepening and regional integration.

This study will provide managers and owners of SMES with information on the general factors that influence the activities in the industry and the types of strategies employed by their peer small enterprises. They will be able to infer the challenges faced by the SMEs and to prepare them accordingly in developing and implementing strategies that may help them deal with the challenges identified.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents literature from previous studies that have been carried out on global strategies adopted by organizations. It outlines the theoretical and empirical studies on global entrepreneurship and organization environment.

### **2.2 The concept of entrepreneurship**

Entrepreneurship refers to the identification, evaluation, and exploitation of new business opportunities, which is at the very heart of the new business creation process (Shane and Venkataraman 2000). Although there seems to be no single unanimously accepted definition of entrepreneurship, many assessments are unified by the notion that entrepreneurship is about creating or starting a new venture (Reynolds et al. 2005).

Empirical work has highlighted the role of entrepreneurship and new venture creation as a mechanism for employment creation, innovation and economic growth (Thurik and Wennekers, 2004). Nevertheless, the relationship between entrepreneurship and economic development is a rather complex one. Some evidence finds that the relative contribution of new ventures and growing firms to economic development is still controversial (Fritsch and Mueller 2004) and that it may impact the output differently across nations (Sternberg and Wennekers, 2005) and may also vary over time (Henrekson and Johansson, 2008). In this regard, there are several economic and noneconomic factors that influence entrepreneurial activities (Frederick et al.2009).



The institutional environment in a country, comprising formal and informal norms, rules, and values governing social and economic exchange, has a major influence on the rate and nature of entrepreneurial activity in any society (Chiles et al. 2007). Institutions can facilitate entrepreneurial behavior by making certain actions more viable than others (Kostova, 1999). The system of incentives and rewards, combined with social norms and cultural values, substantially influence the pursuit of entrepreneurship and the likelihood of new venture creation (Peng and Zhou, 2005). Entrepreneurial efforts on the part of enterprising individuals are more likely to actualize when the institutional environment is favorable for promotion of entrepreneurship (Bruton et al. 2008).

### **2.3 Global Entrepreneurship**

Nowadays not only large and well-structured firms can benefit from going international, but also small firms driven by inspired entrepreneurs can approach the challenges of the global value chain (Casson, 2005). However, international entrepreneurs cannot just be alert to the arising opportunities, they have also to be well prepared and knowledge equipped to make judgemental decisions in order to profit from the opportunities arising in the global market place (Casson, 2005). The changes in transportation and information and communication technology, along with cultural and political events, have driven the fall of barriers and costs to engage in international trade.

Geographical factors affect economic growth in the development of transportation routes and natural resources that encourage firms to locate in specific regions where

manufacturing costs are minimized, which subsequently evolve into industrial districts and then agglomerations (Marshall, 1895), and (Weber, 1909). It has been suggested that the geographical location factor may not effectively matter for high-tech companies since these firms deal with low weight/ high-value inputs and outputs (Cooper, 1993).

It is far from obvious that potential regional policies designed to maximize the number of startups in peripheral areas will have the desired effects on the regional economy. Lerner (2009) asserted that many entrepreneurship promotion programs were not effective, or even far more often than not, these public programs have been failures. Some ways in which governments can effectively promote the entrepreneurial sector is through policies that create an overall climate conducive to entrepreneurship and venture capital. Examples of such policies, according to Lerner (2009), include legal systems that recognize convertible preferred stock and legislation that facilitates technology licensing.

Global entrepreneurship has certain phases namely: - International Entrepreneurship and International Opportunities. International entrepreneurship is distinctive and it has several challenges like uncontrollable economic, political and social factors, international trade agreements and barriers, the role and impact of culture in international entrepreneurship and the purpose and aspect/content of a global business plan characterizing the international business environment (Hisrich, 2009).

When entering the Global Market, there are key aspects in building a global business plan that an entrepreneur should consider i.e. selecting the international business opportunity,

addressing international legal concerns and selecting appropriate entry modes (Hisrich, 2009). It is vital to use both primary and secondary country data to select the appropriate foreign market to enter. There are also political risks of managing a global venture and the role of intellectual property as an important instrument to protect the intellectual property from a fierce global competition. The timing and scale of operation concerning market entry is also important (Hisrich, 2009).

In addition, when managing the Global Enterprise there are challenges the international entrepreneur and/or venture face when managing specific aspects such as monetary systems, marketing, research and development activities and human resources of the global enterprise (Hisrich, 2009). Global strategic planning is a key area in managing a global enterprise. It includes the organizational structures available for global firms. Family-owned businesses face several challenges in the global competitive landscape such as the succession, leadership and the role of family culture, among others (Poza, 2007).

## **2.4 Organization Environment**

Change is inherent in contemporary organizations and its management is not only critical to organizational success and survival but is also at the core of the field of organization development. In responses to global competition and a rapidly changing business environment, corporate strategies have interested various scholars who have studied the strategies of firms over the years. Lessard (1990), indicate that the challenges faced by a company can be from economic, political, legal, social and cultural factors. The major

drivers of change include changing patterns of customer demand, increases in customer bargaining power and pressure on costs (May et al., 1997).

Environmental development such as liberalization and globalization has intensified competition in the local market. This development in the external business environment has resulted to firms' internationalization (Ansoff and McDonnell, 1990). Many organizations have taken steps that can only be detrimental in the long run. Management, in many cases, sees workers as costs to be cut rather than assets to be developed and consequently organizations aim to increase shareholder value by a kind of corporate anorexia (Price, 1996). This has led to downsizing, outsourcing as many functions as possible and creating statistical evidence of productivity from fewer people.

Technology has made the globe smaller with the development of internet services, air and water transport. This has made the cost of operating in geographically dispersed countries, relatively cheap due to the large market gained by marketing products outside the domestic market. The organization therefore, is bound to lower its costs since it will enjoy greater economies of scale (Devesky, 1997). There is no doubt that managers who insist on scanning the environment through outdated organizational structures and practices sooner or later are led to the wrong conclusions about the state of affairs of the external environment. As a result, wrong conclusions lead to wrong decisions and overall strategic choices (Donaldson, 1982).

Organizations are dynamic and complex systems. In order for these systems to maintain a symbiotic relationship with their environments they must develop the appropriate sensitivity towards the changes and differentiations of their environments. The adaptive behaviour of the organization is based on the assumption that the organization is a living system, which is characterized by the ability of morphogenesis (Buckley, 1968). That is, depending on the degree of dynamic change of the environment it can adapt its structure accordingly. In order for an organization to succeed in developing the necessary complexity, in relation to external environment, it creates a communication system capable of processing the necessary quantity and complexity of data, which it absorbs from its environments (Boyd, 1989).

The structure of the organization is nothing more than the communicational patterns and practices (Horti, 1958). These communicational patterns and practices are established and stabilized up to the point that change takes place in the complexity of the environment. According to (Miller, 1988) structure of an organization should be viewed as a system of coding and decoding of data which flows into and out of the organization.

## **2.5 Concept of Strategy**

Strategy is the direction and scope of an organization over the long-term, which ideally matches resources to its changing environment and its particular markets so as to meet stakeholders' expectations (Johnson and Scholes, 1993). The purpose of strategy is to provide directional cues to the organization that enable it to achieve its objectives while

responding to the opportunities and threats in the environment (Schendel and Hofer, 1979).

Strategy is a pattern that can be observed from a stream of actions and decisions. The term emergent strategy holds that strategy can only be observed after the event that it governs (Mintzberg, 1983). There are two extremes of strategy; the completely deliberate strategy and the completely emergent strategy. In practice however, strategy tends to be a mix of the two. Thomson and Strickland (1992) advance that strategy is the managerial action plan for achieving the objective. It is a pattern of moves and approaches devised by management to produce the targeted outcomes.

## **2.6 Growth Strategies**

Ansoff's growth strategy matrix was first published in the Harvard Business Review in 1957 and remains a popular tool for analyzing growth. It is a strategic grid that can help firms identify their future strategic direction, and is often used when firms are planning for growth. Ansoff's Matrix categorizes four separate strategies, but importantly also emphasizes the degree of risk of each approach. To portray alternative corporate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering growth via existing products and new products, and in existing markets and new markets, four possible product-market combinations from Ansoff's matrix presents four main strategic choices - Market penetration, Market development, Product development and Diversification.

Market Penetration is a strategy of expanding sales based on existing products in existing markets. This is the strategy of penetrating more deeply into the same market. Essentially the same good or service is being promoted / pushed harder onto the same target customer group. This strategy is reliant on the fact that there is some untapped potential to increase sales in the same market. This may mean that customers can be persuaded to buy the product more regularly, switch from a competitor, or encourage customers in the target market who may not have yet started to buy the product to do so (Lancaster, 1988). In this cell, the products remain unchanged and no new customer segments are pursued. Instead, the company repositions the brand, launches new promotions or otherwise tries to gain market share and accordingly, increase revenue (Kotler, 2000).

Market development consists of marketing present products to customers in related areas. These customers could represent untapped verticals, virgin geographic or new opportunities. The company targets new geographic areas, domestically and internationally, identifying potential new customer groups, seeking additional distribution channels and developing new locations (Pearce and Robinson, 2001).

Market development strategy consists of marketing present products, often with only cosmetic modifications to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media (Doyle, 1994). Several specific approaches are: Opening additional geographic markets (regional expansion, national expansion and international expansion), attracting other market segments (developing product versions to appeal to other segments, entering other channels of distribution and advertising on other media).

Product development strategy involves marketing new products to existing customers. The company grows by innovating, gradually replacing old products with new ones; the firm develops potential new products based on customer wants and needs through new product technologies and developing different product quality levels. This strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself (Pearce and Robinson, 2001). In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share (Gultinan and Madden, 1997). Egan and Thomas (1998) stated that loyal customers are return customers and therefore are very valuable to the business. Many could be very receptive to new products produced by the business.

Diversification is a strategy which takes the organization away from its current market or product or competencies. There are two types of diversification; related and unrelated. In related diversification, the company enters a related market or industry. In unrelated diversification, the company enters a market or industry in which it has no relevant experience (Johnson and Scholes, 2002). Strategy in diversification growth opportunities is strategy to identify opportunities that would add attractive businesses that are unrelated to the company's current business and the pursuit or the acquisition of additional brands to broaden product offering. Gultinan and Madden (1997) add that diversification strategy involves the development of new products for new markets and consequently is the most risky of the four options.



It is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact this quadrant of the matrix has been referred to by some people as the “suicide cell”. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return according to (Doyle, 1994). Other advantages of diversification include the potential to gain, a foothold in an attractive industry and reduction of overall business portfolio risk. Whether the firm promotes this strategy will depend on the situation of the market, the business’ cash reserves and the skills of staff to take on new product lines. Kotler (2000) states that diversification growth makes sense when good opportunities can be found outside the present.

Firms that grow through diversification into more unrelated business will do so by sacrificing profitability, as the competencies of the company to produce adequate returns on investments in business ventures that they have little expertise in can lead to a decline in profitability. Furthermore, growth brings in positive returns only to a certain extent, beyond which the firm’s managers will sacrifice the wealth of its stockholders to achieve higher growth. By testing the relationship between firm growth strategies and performance, it would be clear if there exists a significant relationship between the two constructs (Hill and Jones, 1995).

## **2.7 Generic Competitive Strategies**

The best strategy of an organization is ultimately a unique construction, which reflects its particular circumstances. Porter (1990) has presented three internally consistent generic

strategies, which can be used singly or in combination to create a strong position in the long run. The three strategies are; overall cost leadership, differentiation and focus.

An organization stuck in the middle of competitive strategies must either take steps to achieve cost effectiveness or at least cost parity, which involves aggressive measures to develop the process. Alternatively, it must differentiate itself to achieve some uniqueness. The third strategy is to focus itself on a particular target market. Effectively implementing any of these strategies requires total commitment and supporting arrangements. A large organization can, however, have more than one primary target in its departments or subunits and pursue more than one approach, if there are different environments, competitive situations and supporting organizational arrangements in these sub units (Kettunen, 1999).

A strategy of overall cost leadership is an appropriate choice in markets where the price level is relatively low defined by the public sector funding bodies or due to a hard competition in the market. Low cost also provides a defense against input cost increases. Achieving a low overall cost position often requires favorable access to input (Kettunen, 1999). The differentiation strategy is achieved creating something perceived as being unique in the market. An organization may differentiate itself within several dimensions. The strategy of focusing on a particular customer group or segment of the product line may take several forms. The focus can be on a geographic market, an occupational group, at organizational level or a type of education. The functional policy is developed to serve a particular target very well. It is assumed that it is possible to serve the narrow strategic

target more efficiently or effectively than other organizations which are operating more broadly. The focus strategy may mean reducing the customer list to the main leading customers or chains.

Where the company targets the whole market, the targeting is referred to as extensive. The marketer has to design an offering and image to occupy a distinct place in the mind of the target market. This is referred to as product or service positioning (Kotler, 2003). The result of positioning is the successful creation of a customer-focused value proposition that explains why the target market should buy the service (Barkowitz et al. 2003 and Johansson 2002). The positioning strategy that would give a marketer such advantage requires adequate market research (Middleton, 1998) and (Craven, 1991).

Corporate expansion into a new market is one of the fundamental forms of strategic variation among business organizations but it is also among the least understood outcomes of the inter - organizational environment, where incentives and constraints abound (Aldrich, 1979). He observes that one can view corporate expansion as a form of constrained adaptation to growth opportunities.

## **CHAPTER THREE:**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methodology that was used to carry out the study. This includes the research design, population and sample design, data collection methods research procedures, data analysis and presentation methods.

#### **3.2 Research Design**

The research design for this study was a cross sectional survey. Donald and Pamela (1998) observe that a cross sectional survey design is concerned with finding out who, what, which and how of a phenomenon. According to Mugenda and Mugenda (1999) a descriptive research is a process of collecting data in order to test hypotheses or answer questions concerning the current status of the subjects in the study.

This design was deemed appropriate in this study since it involved the procedures of collection and analysis of data from members of the sample, in this case, business entrepreneurs located within Nairobi County and whose businesses appeared in the KPMG top 100 mid sized companies 2011.

#### **3.3 Target population**

The target population of interest was the top 100 companies in 2011 as per the report done by KPMG under Top 100 Mid-Sized company survey, Kenya. The study was carried out in Nairobi. Nairobi was chosen as the area to be covered by the study mainly

due to the fact that all the SMEs have their head office in Nairobi where the researcher could reach conveniently. The names and addresses of SMEs in Kenya in the top 100 were obtained from the website of Kenya Top 100 mid-sized companies.

### **3.4 Sampling Design**

The sample was selected from a representative number of SMEs located within Nairobi County. The study used a simple random sampling technique in which every member of the population had an equal chance of being selected. A total of 30 SMEs were selected for response to the interviews since it was not possible to interview the entire population of top 100 SMEs due to constraints of time and financial resources. The sample of the 30 SMEs was selected via simple random sampling technique making it possible for every member of the entire population to have an equal chance of being selected.

From each of the 30 SMEs selected two respondents were interviewed to give a total of 60 responses. The two selected respondents included the chief executive officer and a general manager involved in the day to day running of the business. The groups of respondents were expected to give reliable information on the strategy and challenges faced.

### **3.5 Data Collection**

Primary data that is quantitative and qualitative was collected from primary sources using face to face interviews. The chief executive officers in the organizations selected were

considered as the respondents because they were involved in the strategy formulation and implementation processes in their respective organizations.

Face to face interviews were considered appropriate because it gave the researcher an opportunity to interact with the respondent and get an optimal response rate while allowing for review of the responses for completeness at the end of each session. Secondary information was also obtained to reinforce collected data through desk research on review of SMEs strategy.

### **3.6 Data Analysis**

The data was entered into a worksheet. Data cleaning was undertaken to ensure that all questions were filled and done so correctly. This also included consistency check to ensure that instructions were followed especially for routing questions.

Data in Part A was analyzed using frequencies and percentages to summarize the demographic profiles of the respondents. Data in part B and C was analyzed using mean scores standard deviations, frequencies and percentages to outline the various strategies adopted by the SMEs in global entrepreneurship.

## CHAPTER FOUR:

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

The objectives of this study were to establish the strategies used by SMEs in Nairobi County in global entrepreneurship and to determine challenges faced by SMEs in implementing these strategies. The data from the completed questionnaires were summarized and presented in tables. Percentages and mean scores were used to summarize and describe the data.

#### 4.2 Response rate

Out of the 30 interviews planned, 27 were conducted. The average response rate was therefore, 90%. The pattern of the response is presented in table 1

**Table 1: Response Rate per ownership classification of organization**

<b>Org. Classification</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Small domestic owned firm	6	22%	22%
Large domestic owned firm	15	56%	78%
Small foreign owned firm	2	7%	85%
Large foreign owned firm	4	15%	100%
<b>Total</b>	<b>27</b>	<b>100%</b>	

(Source:Field data, 2012)

Majority of the respondents at 56% were from large domestic owned firms, 22% were from small domestic owned firms, 15% were from large foreign owned firms while 7% were from small foreign owned firms.

**Table 2: Distribution of respondents by legal ownership**

<b>Org. Ownership</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Sole proprietorship	0	0%	0%
Partnership	1	4%	4%
Limited Company	26	96%	100%
<b>Total</b>	<b>27</b>	<b>100%</b>	

(Source:Field data, 2012)

96% of the respondents were from a limited liability company and 1% associated with a partnership.

**Table 3: Distribution of respondents by organizational ownership structure**

<b>Org. Ownership</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Family owned	3	11%	11%
Privately owned (various families)	22	81%	92%
Publicly owned (various families)	2	8%	100%
<b>Total</b>	<b>27</b>	<b>100%</b>	

(Source:Field data, 2012)

81% of the respondents were from various privately owned companies, 11% were from family owned enterprises while 8% were from various families publicly owned companies.



**Table 4: Response by Number of years of organizational operation in Kenya**

<b>Number of Years in Kenya</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Less than 5 years	4	15%	15%
5 to 15 years	15	56%	71%
16 to 30 years	3	11%	82%
31to 50 years	3	11%	93%
Over 50 years	2	7%	100%
<b>Total</b>	<b>27</b>	<b>100%</b>	

(Source:Field data, 2012)

56% of the respondents' enterprises have operated in Kenya for between 5 to 15 years, 15% have operated for less than 5 years, 11% have operated for between 16 to 30 years and 31 to 50 years respectively while 7% have operated for over 50 years.

**Table 5: Response by Number of organizational Employees**

<b>Number of Employees in Org</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative percent</b>
Less than 5 Employees	0	0%	0%
5 to 15 Employees	4	15%	15%
16 to 30 Employees	13	48%	63%
31 to 50 Employees	3	11%	74%
Over 50 Employees	7	26%	100%
<b>Total</b>	<b>27</b>	<b>100%</b>	

(Source:Field data, 2012)

48% of the respondents' organization has 16 to 30 employees, 26% have over 50 employees, 15% have 5 to 15 employees and 11% have 31 to 50 employees.

### 4.3 Competitive Strategies

#### 4.3.1 Corporate strategy

**Table 6: Corporate strategy**

<b>Corporate Strategy</b>	<b>Frequency</b>	<b>Percent</b>
Yes	27	100%
No	0	0%
<b>Total</b>	<b>27</b>	<b>100</b>

(Source: Field data, 2012)

From table 6 above, it can be inferred that the SME's under study have in place corporate strategy according to the findings.

#### 4.3.2 The extent to which the corporate strategies are applied by the SME's.

**Table 7: The extent to which the corporate strategies are applied by the SME's**

<b>Corporate Strategies Applied</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Percentage</b>
Give discounts for repeat customers	4.32	0.92	89%
Reward frequent customers	4.27	0.72	89%
Create membership for regular customers	3.87	1.59	67%
Maintain high quality of Services	4.87	0.35	93%
Implementation of customer feedback System	3.79	0.81	70%
Regularly educate customers about various Organizational services	3.50	1.81	52%
Introduce differential tariffs based on level of repeat services	3.41	1.69	42%

(Source: Field data, 2012)

Results on the extent to which SME's have applied corporate strategies were as follows; Giving discounts for repeat customers Mean 4.32 (large extent), (0.92), (89%), Reward frequent customers 4.27 (large extent), (0.72) and (89%), Create membership for regular customers 3.87 (large extent), (1.59) and (67%), Maintain high quality of Services 4.87 (very large extent), (0.35) and (93%), Implementation of customer feedback System 3.79 (large extent), (0.81) and (70%), Regularly educate customers about various organizational services 3.50 (moderate extent), (1.81) and (52%), Introduce differential tariffs based on level of repeat services 3.41 (small extent), (1.61) and (42%). The implication of the findings is that the SME's attempt to maintain high quality of services for continued business survival and growth. The least corporate strategy used by the companies was found to be introduction of differential tariffs based on level of repeat services.

#### **4.3.3 The extent to which the SME's adopt a focus generic strategy**

**Table 8: The extent to which the SME uses the focus generic strategy**

<b>Application of Focus generic strategy</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Percentage</b>
Target a specific geographic market	3.80	0.60	62%
Target a specific sector in the economy	3.50	0.37	44%
Concentrate on main leading customers	4.50	0.59	80%
Open new geographical branches	3.60	0.35	55%

(Source: Field data, 2012)

The findings showed the following scores: Target a specific geographic market 3.80 (large extent), (0.60), and (62%), Target a specific sector in the economy 3.50 (moderate extent), (0.37), (44%), Concentrate on main leading customers 4.50 (very large extent), 0.59, and (80%), Open new geographical branches 3.60 (large extent), (0.35) and (55%).

#### 4.3.4 Application of differentiation strategies

**Table 9: Application of differentiation strategies**

<b>Application of differentiation strategies</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Percentage</b>
Develop services targeted to existing Customers	3.89	0.52	70%
Develop unique customer service Levels	4.20	0.62	78%
Develop services according to the needs of the Customers	3.87	1.59	66%
Differentiate service features for different customer Preferences	4.00	0.35	75%
Develop different service quality levels that suit The customer pocket	4.79	0.81	90%
Develop organizational brand image to Create uniqueness	3.00	1.81	41%
Develop organizational technology leadership Positioning	4.41	0.69	85%

(Source: Field data, 2012)

Results on the extent to which the SME's have applied differentiation strategies were as follows; Develop services targeted to existing Customers 3.89 (large extent), (0.52),

(70%), Develop unique customer service levels 4.20 (large extent), (0.62) and (78%), Develop services according to the needs of the Customers 3.87 (large extent), (1.59) and (66%), Differentiate service features for different customer preferences 4.00 (large extent), (0.35) and (75%), Develop different service quality levels that suit the customer pocket 4.79 (very large extent), (0.81), and (90%), Develop organizational brand image to create uniqueness 3.00 (small extent), (1.81), and (41%), Develop organizational technology leadership Positioning 4.41 (very large extent), (0.69) and (85%).

#### 4.4 Strategy implementation challenges

**Table 10: Strategy implementation challenges**

<b>Perception on strategy implementation challenges</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Percentage</b>
Lack of financial resources	4.89	0.22	95%
Poor advances in technology	4.50	0.62	88%
Small business margins	3.87	1.59	66%
Diminishing business returns	3.50	0.35	45%
Increased operational costs	4.79	0.81	90%
Stringent regulatory framework	3.00	1.81	41%
Competitor activity in strategy mimics	3.41	0.69	44%
Lack of top level management commitment	3.90	0.65	70%
Lack of employee expertise	2.56	1.56	32%

(Source: Field data, 2012)

Results on perception of the challenges in strategy implementation were as follows: Lack of financial resources 4.89 (very large extent), (0.22) and (95%), Poor advances in technology 4.50 (very large extent), (0.62), (88%), Small business margins 3.87 (large extent), (1.59) and (66%), Diminishing business returns 3.50 (small extent), (0.35), and (45%), Increased operational costs 4.79 (very large extent), (0.81), and (90%), Stringent regulatory framework 3.00 (small extent), (1.81), and (41%), Competitor activity in strategy mimics 3.41 (moderate extent), (0.69), and (44%), Lack of top level management commitment 3.90 (large extent), (0.69) and (70%), Lack of employee expertise 2.56 (small extent), (1.56) and (32%).

#### 4.4.1 Executives' perception on attributes in small and medium enterprises (SME's)

**Table 11: Executives' perception on attributes in SME's operations**

<b>Executives perception on business operations</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Percentage</b>
How to communicate with customers	4.56	0.12	89%
Leadership in customer service	3.80	0.52	86%
Technology leadership	3.57	0.59	68%
Market Share leadership	3.50	0.35	45%
Logistic service leadership	4.79	0.81	90%
Cost effective service delivery	4.00	0.81	75%
Efficiency in service delivery	4.69	0.69	78%
Innovation in service delivery	3.90	0.65	70%

(Source: Field data, 2012)

From the table 11 above, it can be deduced that the following attributes in global small business rank high; Business service leadership (4.79), (0.81), (90%), How to communicate with customers (4.56), (0.12), (89%). Efficiency in service delivery (4.69), (0.69), (78%) and Innovation in service delivery (3.90), (0.65), (70%). Other scores were as follows; Leadership in customer service (3.80), (0.52), (86%), Technology leadership (3.57), (0.57), (68%), Market Share leadership (3.50), (0.35), (45%), Cost effective service delivery (4.00), (0.81), (75%).

## **CHAPTER FIVE:**

### **DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The objectives of this study were to establish the strategies used by SMEs in Nairobi County in global entrepreneurship and to determine challenges faced by SMEs in implementing these strategies. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

#### **5.2 Summary of Discussions**

From the findings, it can be deduced that majority of the small and medium enterprises in global entrepreneurship have corporate strategy. The findings imply that majority of the SMEs face various challenges while implementing their corporate strategy.

Results on the extent to which SME's in global entrepreneurship have applied corporate strategies show that the companies have applied the following corporate strategies to a large extent; Giving discounts for repeat customers, Rewarding frequent customers, creating membership for regular customers, Maintaining high quality of Services and Implementation of customer feedback System. On the other hand it was found that regularly educating customers about various organizational services and Introducing differential tariffs based on level of repeat services were only applied to a moderate extent. The implication of the findings is that these global enterprises maintain high quality of services more than anything else. The management seems to assert that it is only through this that the firms may have a competitive edge over the others.



The implication of the findings on the extent, to which your organization uses focus generic strategy was that SME's in global entrepreneurship use the following focus generic strategies to a large extent; Targeting a specific geographic market, opening new geographical branches, concentrating on main leading customers, develop organizational technology leadership positioning, develop different service quality levels that suit the customer pocket and developing unique customer service levels. The strategies that were found to be applied only to a small extent were; Targeting a specific sector in the economy, developing services according to the needs of the customers, differentiating service features for different customer preferences and developing organizational brand image to create uniqueness.

Results on organization perception of the challenges in strategy implementation showed to a large extent that the enterprises face: Lack of financial resources, poor advances in technology, small business margins, lack of top level management commitment and increased operational costs. Based on the findings it may also be deduced that the following challenges have a small impact on the enterprises; diminishing business returns, stringent regulatory framework, competitor activity in strategy mimics and lack of employee expertise. The implication of the findings is that there is need to put more emphasis on improving technology, improving business margins and more emphasis on recruiting and training more staff on strategy.

From the findings, it can be deduced that the following attributes in small global entrepreneurship business are very important to the executive management; Business

service leadership, how to communicate with customers, efficiency in service delivery and innovation in service delivery, leadership in customer service, technology leadership, market share leadership and cost effective service delivery.

### **5.3 Conclusions**

Based on the findings on extent to which SME's in global entrepreneurship have applied corporate strategies, it can be deduced that the firms have embraced the following corporate strategies to a large extent; Giving discounts for repeat customers, reward of frequent customers, creation of membership for regular customers, maintenance of high quality of services and implementation of customer feedback systems. On the other hand the following corporate strategies have been applied by the firms to a small extent; regular education of customers about various organizational services, introduction of differential tariffs based on level of repeat services.

Based on the results on the extent to which the SME's uses focus generic strategy, the following conclusions may be drawn; SME's have used the following focus generic strategies to a very large extent; Target a specific geographic market, concentrate on main leading customers, develop services according to the needs of the customers, differentiate service features for different customer preferences, develop unique customer service levels and develop organizational technology leadership positioning.

Based on the results on organization perception of the challenges in strategy implementation it can be concluded that the major challenges in strategy implementation

are; Lack of financial resources, poor advances in technology, small business margins, and increased operational costs. On the other hand the challenges that are considered minor by the organizations are; Diminishing business returns, stringent regulatory frameworks, competitor activity in strategy mimics and lack of employee expertise.

The attributes in SMEs that were considered to be indicators to competitive advantage by the organizations were; Business service leadership, cost effective service delivery, how to communicate with customers, efficiency in service delivery and innovation in service delivery. Other competitive strategies that were considered to contribute to a firm's competitive advantage but to a moderate extent were; Technology leadership and market share leadership.

#### **5.4 Recommendations**

Based on the findings of this study it is quite evident that the management of SME's in global entrepreneurship have not fully embraced technology leadership and market share leadership. These enterprises should incorporate such strategies in order to have a competitive edge in the dynamic, turbulent and ever changing global marketplace. The findings of the study also revealed that the major challenges in strategy implementation are lack of financial resources, poor advances in strategy and increased operation costs. The enterprises should design appropriate resource mobilization methods which are cost effective in order to finance the strategy implementation as well as the routine operations of the entities.

For a company to have a competitive advantage in today's competitive environment, it has to embrace information technology. It is therefore imperative that the management of the SME's mobilize funds to improve on the information technology uptake. Increased operations costs problem may be solved by adopting cost effective production and operations methods that emphasize on profit maximization with cost minimization.

### **5.5 Limitations of the study**

The study was limited to the perspective of the SME executives (Chief executives and general managers' views) point of view only. Out of the target 30 SME's, 27 participated in the study. The response rate was therefore 90% with a non-response rate of 10%. Therefore the findings may have a marginal error as a result of the non response rate.

The researcher was forced to make several call backs in order to get hold of the respondents for an interview appointment the greatest challenge was that the respondents were Chief executives who cited lack of time and busy schedules. This had cost and time implications on the researcher.

The study was limited to SMEs based in Nairobi County and only those that were listed among the top 100 mid –sized companies. The study would have covered more SMEs including those in other Counties in Kenya so as to provide a more broad analysis.

### **5.6 Suggestions for further research**

The study was conducted in only 30 SME's, the findings can be verified by conducting the same study on a larger sample in order to validate the results. The study findings are according to the top management point of view. The middle managers views are as well

important and should be taken into account. Future researchers may conduct a study targeting the middle and top level management, employees as well as policy makers.

The data collection method used in this study was based on a questionnaire. Future research can be carried out based on focus group discussions in each SME organisation. This would involve having discussions in groups of about ten people with the researcher acting as the moderator. This would bring out the issue of corporate strategy better and would involve more employees of these organizations.

### **5.7 Implications for Policy and Practice**

The findings of this study imply that most SME's in global entrepreneurship have a corporate strategy. Most of these firms in practice use similar strategies to maintain their competitive edge. There is thus a need to innovate new strategies of attracting, maintaining and retaining their individual competitive position in the marketplace. The implication of the findings is that there is need to put more emphasis on recruiting and training of staff in the entities with more focus on strategy development and implementation.

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## APPENDICES:

### Appendix One: Questionnaire

#### PART A.

##### General Information.

Please tick or fill as appropriate

1. Name .....(Optional)
2. Name of Business.....(Optional)

##### **Firm information:**

###### **1. How do you classify your organization?**

- Small domestic owned firm ( )
- Large domestic owned firm ( )
- Small foreign owned firm ( )
- Large foreign owned firm ( )

###### **2. Your organization is registered as a:**

- Sole Proprietorship ( )
- Partnership ( )
- Limited Company ( )

###### **3. Your organization is registered as a:**

- Family owned ( )
- Privately owned by various families ( )
- Publicly owned by various families ( )

###### **4. For how long has your organization operated in Kenya?**

- Less than five years ( )
- 5 – 15 years ( )
- 16 – 30 years ( )
- 31 -50 years ( )
- Over 50 years ( )

###### **5. How many employees does your organization have?**

- Less than 5 employees ( )
- 5 – 15 employees ( )
- 16 – 30 employees ( )
- 31 -50 employees ( )
- Over 50 employees ( )

#### PART B.

##### Competitive Strategies

###### **6. Does your organization have a corporate strategy?**

- Yes ( )  
No ( )

###### **7. Please, indicate the extent to which each of the following is applied by your organization on a scale of 1 – 5 where:**

- 5 = *Very large extent*
- 4 = *Large extent*
- 3 = *Moderate extent*
- 2 = *Small extent*
- 1 = *No extent*

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
○ Give discounts for repeat customers	( )	( )	( )	( )	( )
○ Reward frequent customers	( )	( )	( )	( )	( )
○ Create membership for regular customers	( )	( )	( )	( )	( )
○ Maintain high quality of Services	( )	( )	( )	( )	( )
○ Implementation of customer feedback Systems	( )	( )	( )	( )	( )
○ Regularly educate customers about various Organizational services	( )	( )	( )	( )	( )

**9. To determine the extent to which your organization uses cost leadership generic strategy, please indicate the extent to which each of the following is important to your business on a scale of 1 to 5.**

- 5 – *Very large extent*
- 4 – *Large extent*
- 3 – *Moderate extent*
- 2 – *Small extent*
- 1 – *No extent*

	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
○ Provide the services at lowest possible costs	( )	( )	( )	( )	( )
○ Provide the services at the lowest possible price	( )	( )	( )	( )	( )
○ Develop organizational cost efficiency	( )	( )	( )	( )	( )
○ Develop efficient scale facilities	( )	( )	( )	( )	( )

**10. To determine the extent to which your organization uses focus generic strategy, please indicate the extent to which each of the following is important to your business on a scale of 1 to 5.**

- 5 – *Very large extent*
- 4 – *Large extent*
- 3 – *Moderate extent*
- 2 – *Small extent*
- 1 – *No extent*

	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
○ Target a specific geographic market	( )	( )	( )	( )	( )
○ Target a specific sector in the economy	( )	( )	( )	( )	( )
○ Concentrate on main leading customers	( )	( )	( )	( )	( )
○ Open new geographical branches	( )	( )	( )	( )	( )

**11. To determine the extent to which your organization uses differentiation generic strategy, please indicate the extent to which each of the following is important to your organization on a scale of 1 to 5.**

- 5 – *Very large extent*
- 4 – *Large extent*
- 3 – *Moderate extent*
- 2 – *Small extent*

1 – No extent

	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
○ Develop services targeted to existing Customers	( )	( )	( )	( )	( )
○ Develop unique customer service Levels	( )	( )	( )	( )	( )
○ Develop services according to the needs of the Customers	( )	( )	( )	( )	( )
○ Differentiate service features for different customer Preferences	( )	( )	( )	( )	( )
○ Develop different service quality levels that suit The customer pocket	( )	( )	( )	( )	( )
○ Develop organizational brand image to Create uniqueness	( )	( )	( )	( )	( )
○ Develop organizational technology leadership Positioning	( )	( )	( )	( )	( )

**PART C.**

**Strategy Implementation Challenges**

**13. Please indicate the extent to which your organization perceives the following challenges in strategy implementation on a scale of 1 to 5.**

**Where:**

5; - to a very large extent

4; - to a large extent

3; - to some extent

2; - to a small extent

1; - to no extent at all.

<b>extent</b>	<b>Least extent</b>				<b>large</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Lack of financial resources	( )	( )	( )	( )	( )
Poor advances in technology	( )	( )	( )	( )	( )
Small business margins	( )	( )	( )	( )	( )
Diminishing business returns	( )	( )	( )	( )	( )
Increased operational costs	( )	( )	( )	( )	( )
Stringent regulatory framework	( )	( )	( )	( )	( )
Competitor activity in strategy mimics	( )	( )	( )	( )	( )
Lack of top level management commitment	( )	( )	( )	( )	( )
Lack of employee expertise	( )	( )	( )	( )	( )

**14. How does your organization executive management consider the following attributes in your business?**

	<b>Least important</b>		<b>Most important</b>		
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
● How to communicate with customers	( )	( )	( )	( )	( )
● Technology leadership	( )	( )	( )	( )	( )
● Market Share leadership	( )	( )	( )	( )	( )
● Logistic service leadership	( )	( )	( )	( )	( )
● Cost effective service delivery	( )	( )	( )	( )	( )

\*\*THANK YOU FOR YOUR TIME AND SUPPORT \*\*