GROWTH STRATEGIES ADOPTED BY TOP 100 SMEs IN ICT IN KENYA

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

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This management project report has been submitted for examination with my approval as the university supervisor

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Dedication

This work is dedicated to my late father whose virtues of hard work, resilience, devotion and integrity have continued to drive and guide me through the long journey of my life

Abstract

Small and Medium Enterprises (SMEs) has been recognized as important contributors in the economy of many countries. It is vital for an SME to grow in order to remain competitive. According to researchers, there is no single theory which can sufficiently explain growth of an SME. Information Communication Technology (ICT) SMEs are no exception.

The objective of this study was to determine growth strategies pursued by SME ICT firms in Kenya. In addition the study explored the factors influencing choice of growth strategies pursued by these firms. The scope of the study was small and medium enterprise ICT firms operating in Kenya. The 25 firms under focus of this study are those listed among top 100 SMEs in a study conducted by KPMG and Nation Media in their annual study in year 2008 and 2009. Descriptive survey was used in the study. This study population focused on all 25 SME ICT firms listed in a survey "Top 100 Medium sized companies" conducted by KPMG and Nation Media in 2008 and 2009. Primary data was used in the study. A structured questionnaire was used to collect the data.

Data collected was analyzed using descriptive statistics. Percentages and frequencies were used to analyze questions on the profiles of the respondents. Mean scores and standard deviations were be used to analyze data to determine the growth strategies pursued. The data was presented in tables and frequency charts

The findings indicate, SME ICT firms have adopted various growth strategies in order to have a competitive advantage. Product development strategy was adopted by SME ICT firms to a large extent as a growth strategy. Most of the firms however have adopted a combination of various growth strategies with product development being adopted by a majority of the firms. Organic growth strategy on the other hand is more preferred by most of the SME ICT firms as a form of growth in comparison with inorganic growth strategy .On the factors affecting choice of growth strategies; corporate image has taken the lead. This is closely followed by competitive forces, and technological developments.

The study therefore found that all SME ICT firms pursue various growth strategies as a means to survive in the competitive corporate world.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Growth is a hot topic today and one of the top management agenda in most corporations worldwide. Profitable growth is considered to be a key driver of shareholder value, organizational vitality and competitive sustainability. Corporate growth is also important for the national economy as it is a key determinant of job creation and the general prosperity of a nation. As a matter of fact, growth is a precondition for the survival of a business firm. Growth is a necessary stimulant to most of the business firms. An enterprise that does not grow may, in course of time have to be closed down because of its obsolete products. For example, pagers vanished from the market because better technology product i.e. cell phones were introduced and pager businesses did not grow as cell phones.

The need for survival of many business enterprises in the competitive business environment has triggered the need for growth. Any business firm that fails to grow can't survive for long. A growing concern will be an innovator and can easily face the risk of competition. Thus growth is means of survival in a competitive and challenging environment. In Kenya in the ICT industry, for example Internet Service providers (ISPs) are facing stiff competion from the big telecommunication providers who are endowed with immence resources. These firms have plunged into provision of internet services. For the ISPs to survive they have rethought their growth strategies including merging, product development among others.

The need to take advantage of economies of Scale and expansion of the market have further motivated strategic growth thinking of firms.Growth of a firm may provide several economies in production, purchasing, marketing, finance, management etc. A growing firm enjoys the advantages of bulk purchase of materials, increased bargaining power, spreading of overheads, expert management etc. This leads to low costof production and higher margin of profit. This also ensures full utilization of plant capacity. Increase in demand for goods and services leads business firms to increase the supply also. population explosion and transportation led to increase in the size of markets which in turn resulted in mass production. Business firms grow to meet the increasing demand.
Expanding markets provide opportunity for business growth.

Increase of owners value coupled with presige and power of the owners and brand also have seen organisations take steps in adopting growth strategies. The owners of a company get the ultimate benefit of growth in the form of higher profits. They may direct the management to reinvest a substantial portion of the earnings in the business rather than paying them out. Capable management may on its own like to take carefully calculated risk and expand the size of the company.

1.1.1 Growth Strategies

Generally, the term 'business growth' is used to refer to various things such as increase in the total sales volume per annum, an increase in the production capacity, increase in employment, an increase in production volume , an increase in the use of raw material and power. These factors indicate growth but do not provide a specific meaning of growth. Simply stated, business growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output. Growth is a hot topic today and one of the top Corporate executives agenda worldwide. Profitable growth is considered to be a key driver of shareholder value, organizational vitality and competitive sustainability. Corporate growth is also important for the national economy as it is a key determinant of job creation and the general prosperity of a nation. It is however difficult to sustain profitable growth. Only 10 percent of companies with above-average growth will sustain it for more than ten years(Baghai, 1999). Another study by Bain&Company(Zook, 2004) found that 75 percent of growth initiatives fail or do not meet shareholders' expectations.

Growth strategies are the resources allocation strategies for a firm to survive and grow. Growth strategies , embodied in a variety aspect of a firm's operations such as product, Market investment and human resources management, consist of intensive growth strategy comprising Market penetration , Market development and product development. Related diversification strategy which includes forward-backward and horizontal integration and unrelated diversification strategy which means to enter new markets by new products (Ansoff, 1965)

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). Ansoff's strategy matrix shows that growth strategies can help firms identify their future strategic direction, assist them in planning for growth, assist them in formulating a strategy and knowing which markets and respective products to serve in the market for success and growth. According to (Mbaya, 2001), any organization needs a strategy because it defines the future success and sustained growth. Firms are threatened unless they adapt growth strategies to help them strengthen their competitive positions, furthermore they need to grow, expand into new markets and introduce new products that meet customer needs.

1.1.2 Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) have been defined differently in reference to their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location and the market share (Kasekende and Opondo, 2003). According to World Development Indicators Database Micro, small, and medium-size enterprises are businesses that may be defined by the number of employees. There is no international standard definition of firm size; however, many institutions that collect information use the following size categories: micro enterprises have 0-9 employees, small enterprises have 10-49 employees, and medium-size enterprises have 50-249 employees

International Finance Corporation (IFC) defines an SME as an organization that employs between 5 and 150 employees and/or has a turnover of between 8 million kenya shillings and 50 million Kenya shillings. The Government of Kenya has a different defination of SMEs; it defines SMEs as enterprises in the formal and informal sectors of the economy which employs between 1 and 50 employees (GOK, 1999). This defination by the Government does not factor firms' turnover or other financial considerations and also excludes enterprises in the agricultural sector. Further the Government defines enterprises with 1 to 5 employees as micro enterprises and those with 6 to 49 employees as small enterprises (GOK, 2003).

Statistical data about SMEs in Kenya is scanty. According to an IFC report, there were 43,271 enterprises in Kenya as of 2005 of which 77% or 33,355 were in the private sector. Again, out of these only 66% or 22,014 enterprises fit IFC criteria for SME defination. On the other hand

Kenya National Bureau of Statistics have a different set of statistics on SMEs. In a Government commissioned study "National Baseline Survey of Micro and Small Enterprises in Kenya" in 1999 to look at the prevalence of SMEs in Kenya, the report showed that there were 1.289 milliom SMEs. SMEs in Kenya face a number of challenges which threaten their growth and survival. The Government Economic Recovery and Strategy of 2003 identifies several primary constraints facing Kenyan SMEs. These include access to information, access to financial services, access to Markets, access to land and infrastructure, access to skills and technologies, trade regulations and forward and backward business linkages (GOK 2003)

The importance of SMEs in the Kenyan economy cannot be overemphasized . The bulk of employment in Kenya is provided by the SME sector. In 1999, Kenyan SMEs employed 2.4 million peopple creating 75% of all new jobs (GOK 1999). In addition, it is estimated that SMEs contribute 18% to the Kenya's GDP. This is more than double that of medium to large manufacturing sector which stands at 7% of GDP. SMEs provides the needed goods and services, competition and innovation as well as develop skills and promote enterprise culture necessary for private sector development (GOK 2003)

1.1.3 Information and Communication Technology

Information & Communication Technology (ICT) may be defined as computer hardware and software and telecommunications technology. ICT is the World's fastest growing economic activity; the sector has turned the globe into an increasingly interconnected network of individuals, firms, schools and governments communicating and interacting with each other through a variety of channels and providing economic opportunities transcending borders,languages and cultures. ICT has opened new channels for service delivery in areas such as e-government, education, e-health and information dissemination.

The ICT industry in Kenya is characterised by stiff competition. This competition is caused by higher entry barriers at the top of the industry and low entry barriers at the lower level. For the small scale enterprises all that is required to get into business is adequate capital and Government licences. On the other hand entry at the top is coupled with expensive licences to operate in addition to a host of regulations and controls.

The top players in the industry comprise the telecommunication players. These include Safaricom, Orange Telkom, Zain and Yu-Essar Communications. These players are engaged in stiff competition through tariff structures and other product offerings geared towards controlling the market. Of the four players, Safaricom which is state and public owned controls about 78% of the market share with the other players sharing out the 22%. This domination by one of the players has precipitated strict controls and regulation by the Government through Communications Commission of Kenya (CCK) as to level the playing ground.

On the other hand, the small scale players are involved in reselling the products from the big players and other international sofware and hardware manufacturers. Also the medium enterprises are involved in provision of IT solutions, Software development and resale, Hardware integration and Support services. A majority of the Medium enterprises are foreign franchises or are partially foreigh owned. Others are appointed distribution channels of multinational ICT firms such as Cisco, Microsoft, Oracle and IBM.

The Government has continued to liberalise the ICT sector (Waema, 2007). The sector has spured economic growth in other sectors of the economy in the country as a result of automating and injecting efficiency. With the government support of the sector as demonstrated by various incentives such as tax waivers on computers and regulatory controls coupled with the the landing of the fibre optic cable, enormous investment opportunities have emerged. SME entrepreneurs have therefore plunged into the industry and established such businesses as sofware development, infrastructure development and integration, IT products distribution, internet service provision, hardware sales and support and offering outsourced services among others as discussed above.

1.1.4 ICT Firms among Top 100 SMEs

The Top 100 mid-sized companies Survey ('Top 100 Survey') is an initiative of KPMG East Africa and Nation Media Group. The Survey seeks to identify East Africa's fastest growing medium sized companies in order to showcase business excellence and highlight some of the most successful entrepreneurship stories. Essentially, a 'Top 100 Mid-sized Company" ('Top 100 Company') is one which ranks ahead of its peers in terms of revenue growth, profit growth, returns to shareholders and cash generation/ liquidity

This study focusses on ICT firms listed in the studies conducted in 2008 and 2009. The 25 ICT firms listed therein ranked top of their peers in the industry in terms of revenue growth, profit growth, returns to shareholders and cash generation/liquidity. According to the study A Top 100 company is one which has succeeded in progressively growing its market position in the industries in which it operates and over time, this growth has translated into both returns for its shareholders and a fairly sound financial position . (Top 100 Companies. Retrieved 24th June, 2010 from, http://www.kenyatop100.co.ke/section.asp?id=11)

ICT being one of the fastet growing sectors in the industries has attracted alot of investors notably SMEs. This has been necessitated by enormous growth of big ICT firms especially in the telecommunication, software and industries and therefore presenting investment opportunities to the SMEs in form of distributorship and franchising of services. However a number of these SMEs are engaged in innovative product and services development which have seen them compete with the big players.

1.2 Statement of the Problem

Firm growth is a central focus area in strategy, organizational and entrepreneurship research. Much research effort has been targeted particularly at investigating the factors affecting firm growth focusing on small medium enterprises and listed firms. This being one of the fastest growing sectors in the economy, research to shed light on the growth strategies pursued is of great importance to the players in the sector, the Government and researchers. This is particularly important with the arrival of fibre optic technology and various incentives by the government aimed at encouraging investment in the sector.

There is no single theory which can adequately explain small business growth, and according to Smallbone *et al.*, (1995) little likelihood of such a theory being developed in the future. This is because of the heterogeneity that exists in the various types of SMEs but also because of the range of factors that can affect growth, which may interact with each other in different ways in different circumstances.ICT as one of the heterogeneous classes warrants a study to understand its growth. In many ways the field of entrepreneurship and small medium sized firm research seems no closer to understanding the dynamics of small business growth after decades of empirical studies (Lowe and Hensen, 2004).

Studies done in the past have presented varying findings. Watts et al. (1998), suggests that the most appropriate growth strategies are product development and market development in line with Ansoff's growth matrix. Similar indications are forward by Smallbone et al., (1995) mentioning basic strategy of high growth firms as to build on an established product base and market position by identifying new markets for existing (or slightly modified) products, or by developing new products or services for existing customers. Wanyande (2006) found that Internet Service providers in Kenya pursue a combination of growth strategies largely borrowed from Ansoff's growth strategy matrix.

Related studies have been done and have mainly focused on Ansoff's growth strategies. Such studies include determination of the extent of application of Ansoff's growth strategy (Njoroge, 2003 and Kiilu 2004), these studies were however organizational and industry specific. (Njoroge, 2003) on a study on the application of diversification strategy on the Nation media group, indicated a related form of diversification as a widely applied growth strategy. (Wanyande, 2006) in her study to determine the extent on which Ansoff's growth strategy is applied by internet service providers (ISPs) found that Ansoff's growth strategy is widely applied for the achievement of growth. Her study also concurred with (Engel, 2002; McCarthy 2000; Pearce and Robinson 2001) both who had argued on the achievement and growth of organization using Ansoff's growth strategy is eminent and players in the industry define and focus on how to achieve growth.

Whilst the issue of growth in small firms and other organizations is topical and well researched, the literature on growth of small and medium ICT firms is sparse and therefore a need to explore the small and Medium ICT firms in Kenya. This study is to contribute in filling the gap by exploring the small and medium ICT firms' growth strategies adopted by

SME ICT firms in Kenya. The study will mainly focus on SME ICT firms listed among the top 100 companies in a survey conducted by KPMG and Daily Nation in year 2008 and 2009.

1.3 Research Objective

The research objectives of this study are;

a. Determine growth strategies pursued by SME ICT firms in Kenya

1.4 Significance of the Study

ICT being one of the major drivers of the economy in Kenya and the world at large, this study will be of importance to various stakeholders. Among the stakeholders that will find the study important are ICT industry players, Small and medium enterprises, Government, Educationists and academicians, Students and entrepreneurs.

The Government have in recent times spirited up some effort to promote gowth of ICT sector. This has been demnstrated by various incentives and regulatory controls introduced recently by the Government meant to spur up the growth. Some of the notable incentives includes tax waivers on computers and setting up of a regulatory authority. The Govermnent's has been motivated by realisation that ICT is a key driver of the Kenyan economy.

The report will be of great value to the investors in the industry. It help them understand the various growth strategies in the industry and the factors that determine the strategies to be adopted. The report will also act as a motivation to the industry players to adopt specific business models to strategically position themselves in the competitive business environment.

The entrepreneurs will find the report very significant in understanding the dynamics of growth in the industry. This will assist them in planning and strategising on the business models to adopt to steer their enterprises to growth. On the other hand the report will shed light on the available business opportunities in the ICT industry.

The academic fraternity will find the report important in helping them understand one of the fastest growing sectors of the economy. In effect it will open up research and study opportunities in areas not adeqautely covered in the report.

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategy

A strategy to an organisation is, amongst other things, a plan of how the organisation can achieve its goals and objectives (Davies 2000; Mintzberg 1996), it is a 'commitment of present resources to future expectations' (Drucker 1999). The aim of strategic management is to decide on organisational goals, the means of achieving those goals, and ensuring that the organisation is sustainably positioned in order to pursue these goals. Furthermore, the strategies developed provide a base for managerial decision making (Browne 1994; Porter 1980; Robbins et al. 2000).

Strategy is a long term plan of action to achieve a particular goal, most often "Winning" (Thompson et al, 2007). Strategy is differentiated from tactics or immediate actions with resources at hand by its nature of being extensively premeditated and often practically rehearsed. No business exists in a vacuum. It is constantly subjected to forces of change including economic, competitive, environmental or political. All organizations regardless of size are environment dependent. They constantly depend on the external environment for their inputs and hence their outputs. Ansoff (1987), notes that the environment is constantly changing. Hence for organizations to survive, they have to constantly adopt their operations to reflect the new external environment and hence strategy is key.

According to (Hitt, Ireland and Hoskisson, 1997), strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. An effectively formulated strategy marshals, integrates and allocates a firm's resources, capabilities and competencies so it can cope with the changing external environment. Aosa (1998) defines strategy as solving a strategic problem which is a mismatch between internal characteristics of an organization and its external environment.

Grundy (2003) posits that strategy is a system concept, which gives coherence and direction of a complex organization. Mc Donnel (1999) defines strategy as a set of decision – making rules for guidance of organizational behavior. The four distinct types of such rules includes yardsticks (objectives) by which the present and future rules for developing the firms. Relationships with its external environment, rules for establishing the internal relations and process within the organization and the firm's operational policies.

Pearce and Robinson (1997) defined it as the building of deference against competitive forces, or as finding of positions in the industry where competitive forces are weakest. Porter (1980) states that strategy is basically about competition and the means by which an organization tries to gain a competitive advantage. Quinn (1980) defines strategy as a plan that puts together an organization's major goals, policies and action sequences. Hill and Jones (2001) adds that the strategies an organization pursues have a major impact on its performance relative to its peers.

Porer (1985) argues that a strategy is the organization's route to competitive advantage that will have a bearing on its performance. Hussey (2000) believes that the five elements that are necessary for strategic success include analysis, creative strategic thinking, strategic decision process, implementation and capabilities of decision leaders. Mitzberg's (1976) notion of strategy is "a pattern in a stream of decisions" He argues that even if a firm cannot name its strategy, the pattern of their decisions over time would define its real strategy.According to Johnson and Scholes (1998) strategy is the direction and scope of an organization over the long term. A firm achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations.

Hax and Majlnf (1991) defined strategy as a multidirectional concept that embraces all the critical activities of the firm; providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. The central thrust in strategy is to achieve a long term sustainable advantage over key competitors of the firm in every business in which it participates since management is a pragmatic results oriented activity, it remains important to ask whether an abstract concept such as strategy, can usefully contribute to a firm's performance. Ansoff (1990) notes that the history of business abounds with clear examples of deliberate and successful use of strategy. A keen observer and can always discern a unique strategy in a majority of successful firms. Strategy is a potentially very powerful tool for coping with the conclusions of change which surround the firm today; but it is complex, costly to introduce and costly to use. Nevertheless, there is evidence that it more than pays for itself. Strategy is a tool which offers significant help for coping with turbulence confronted by firms whether for profit (Njogu, 2004; Nyakiore 2004, Kokwaro, 2004); as well as non profit organizations (Ratemo, 2004) and a broad specrum of social organizations (Ansoff, 1990). Therefore, strategy merits serious attention as a managerial tool that can help steer an organization during times of turbulence and uncertainities.

For any organization to have a competitive edge over competition, it has to have a good understanding of the external and internal forces that impacts it. Externally, a firm must identify the industry attractiveness, trends and characteristics of the competitors'. This generates opportunities available and threats to deal with. Internally, a firm must access its competitive capabilities which produce strengths and weaknesses that have to be further developed and corrected (Hax and Majlf, 1991).

Ansoff and McDonnell (1990) notes that strategy is a very important tool for coping with the conditions of change which surrounds the firm today as it prepares the firm to face its complex external environment, while its corporate capability develops responsiveness to anticipated threats and opportunities. They therefore advises that strategy aligns organization with its external environment and seeks to bridge the gap between the current position of the organization to its future intended direction using a set of decision making rules to guide such behavior.

It is also important to know when recourse to an explicit strategy becomes important. Pearce (2001) and Robinson (2002) have argued that it is necessary to formulate strategy when rapid and discontinuous changes occur in the environment of the firm. This may be caused by saturation of traditional markets, technological discoveries inside and outside the firm, and/or a sudden influx of new competitors. Under these conditions, established organizational traditions and experience no longer suffice for coping with the new opportunities and threats. When a firm is also confronted with discontinuities, strategy becomes a key rescue management tool. An explicit new strategy also becomes necessary when the objectives of an organization drastically changes as a result of new demands imposed on the organization by the society or the market (Cole, 2005)

Strategy is therefore key to organizations to obtain a viable match between the external environment and the internal capabilities. It assist the firm to exploit the its capabilities to shed off the weaknesses thereby exploiting the available opportunities and confronting the threats effectively. The role of strategy however, is not to be viewed as just passively responding to opportunities and threats posed by the external environment, but as continuously and actively adapting the organization to meet the demands of a changing and turbulent environment.

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2.2 Growth Strategies

Growth strategies focus resources on seizing opportunities for profitable growth. According to Brian (1996), evidence suggests that profits grow through increasing revenues. Growth strategies assert that profitable growth can be actively targeted and, managed. Growth strategies alter a company's goals and business processes to challenge conventional wisdom, identity emerging trends and build business. According to Charan et al (1998), growth can be achieved through different methods. Deciding on which method is a strategic choice. Growth strategies include; internal development, acquisitions and joint development. Internal development means developing the strategy by the firms themselves. When the long –term strategy of a firm is based on growth though acquisition of one or more similar businesses operating at the same stage of production for example marketing chain, its grand strategy is horizontal integration. When strategy of a firm involves the acquisition of businesses that either supply the firm with inputs or serve as a customer for the firm's outputs, verticle integration is involved (Johnson and Scholes, 2002).

Acquisition is the most popular means of diversifying into another industry according to (Thomson and Strickland 2002). Not only is it a quicker way to enter the target market than trying to launch a brand – new operation from scratch. It also offers an effective way to handle such entry barriers as acquiring technological experiences, establishing supplies relationships, becoming big enough to make rivals efficiency. This is a less risky undertaking since it is buying into a successful business, one fewer competition and can buy expertise. Types of joint development include; joint ventures, strategic alliances, franchising and licensing (Charan et al, 1998).

Growth is a precondition for the survival of a business firm. The reasons driving enterprises towards growth are valid from enterprise to enterprise including need for survival in the competitive business environment. The need to enjoy economies of scale by organisations is also a factor that motivates firm to grow. The desire by the business owners to reap handsome returns, increase in demand for goods and services leads enterprises to increase the supply. Other factors precipitating firm growth include development of modern technologies, prestige and power associated with big enterprises and need for self sufficiency in terms of marketing of raw materials or marketing of products.

Growth strategies are currently among topics in the literature which have been widely discussed in recent years. Most theories discuss growth strategies that can be adopted and their influence on competitive advantages and success of firms (Robins and Wiersema, 1995).Growth Strategy refers to a strategic plan formulated and implemented for expanding firm's business. For smaller businesses, growth plans are especially important because these businesses get easily affected even by smallest changes in the marketplace. Changes in customers, new moves by competitors, or fluctuations in the overall business environment can negatively impact their cash flow in a very short time frame. Strategic Planning gives a formal direction to the business. Strategic planning is necessary to take care of the additional efforts and resources required for faster growth.

2.2.1 Forms of Growth

Business growth can take place in many ways. Broadly, various types of growth can be divided into two broad categories – organic and inorganic growth.

Organic growth can also be termed as internal growth. It is growth from within. It is planned and slow increase in the size and resources of the firm. A firm can grow internally by ploughing back of its profits into the business every year this leads to the growth of production and sales turnover of the business. Internal growth may take place either through increase in the sales of existing products or by adding new products, asset replication, exploitation of technology, better customer relationship, innovation of new technology and products to fill gaps in the market place. It is a gradual growth process spread over a few years (Bruner, 2004). Internal growth is slow and involves comparatively little change in the existing organization structure. It can be planned and managed easily as it is slow. The ways used by the management for internal growth include; intensification; diversification and modernization.

On the other hand, Inorganic growth strategies refer to external growth. It involves a merger of two or more business firms. A firm may acquire another firm or firms may combine together to improve their competitive strength. External growth has been attempted by the business houses through the two strategies i.e mergers and acquisitions and joint ventures.It is fast and allows immediate utilization of acquired assets. Bruner (2004), it is less risky as it does not result in expansion in capacity. Firms that choose to grow inorganically can gain access to new markets and fresh ideas that become available through successful mergers and acquisitions.Acquisitions can take a variety of forms. They can be either mergers or consolidation of assets or equity (Damodaran, 2002).

A merger refers to the absorption of one firm by another, i.e acquiring firm retains its name and identity, and it acquires all of the assets and liabilities of the acquired firm. The acquired firm ceases to exist as a separate business entity. As opposed to this is a cosolidation, a new firm is created, both the acquiring and the acquired firm terminate their legal existence and become part of a new firm. Here, the distinction between the acquirer and the target firm is not crucial. Mergers can further be classified into Horizontal, verticle and conglomerate mergers. Horizontal takes place between two firms in the same line of business. Verticle merger on the other hand involves companies at different stages of production and Conglomerate merger involves companies in unrelated lines of businesses (Damodaran, 2002).

Acquisition of stock refers to purchase of a firm's voting stock in exchange for cash, shares, or other securities; this may be a private offer from the management of one firm to another. Acquisition of assets refers to a method of acquisition where a firm can acquire another firm by buying all of its assets. Generally, a formal vote of the shareholders of the selling firm is required. Acquisition of assets avoids the potential problem of having resisting minority shareholders, which can occur in an acquisition of stock (Bruner, 2004).Proxy contests occur when a group of sharehoders attempts to gain controlling seats on the board of directors by voting in new directors.

2.2.2 Ansoff Growth Strategies

Intensive growth strategies also refered to as Ansoff Product- Market expansion Grid involves raising the market share, sales revenue and profit of the present product or services. The firm slowly increases its production and so it is called internal growth strategy. It is a good strategy for firms with a smaller share of the market. The model which was proposed by Ansoff (1957) comprises most of the aspects which are assessed by many authors as major strategies for SME growth. One of the authors, Kotler, 2000), argued that the most common model for analyzing the possible strategic directors that organizations can follow is Ansoff's Matrix.

Figure 2.1 Ansoff Growth Strategies

PRODUCT

	Existing	**New**
Existing	Market penetration (increase Market Share)	Product Development (New or improved product)
New	Market Development (New customers, new markets, new segments or new countries for existing products)	Diversification (New products into new markets)

Market

Source: Kotler (2000). Marketing Management, Millennium Edition, New Jersey; Prentice Hall, pp 7

Ansoff's matrix strategy was published in the Harvard Business Review in 1957 and has remained popular since then. The model presents a strategic grid that can assist firms identify their future strategic growth direction, and is used when firms are planning for growth. The matrix itemizes four basic ways in which a firm can develop its portfolio of products and markets. It also emphasizes the degree of risk of each of approach. To present alternative cooperate growth strategies, Igor Ansoff presented a matrix that focused on the firm's present and potential products and market(customers). In this model, potential areas where competencies, and generic strategies can be deployed can be depicted in four broad alternatives; market penetration, market development, product development and diversification as presented above.

2.2.2.1 Market Penetration Strategy

Market penetration occurs when a company penetrates a market with its current products. It is important to note that the market penetration strategy begins with the existing customers of the organisation. This strategy is used by companies in order to increase sales without drifting from the original product-market strategy (Ansoff, 1957). This means expanding sales based on existing markets. (Lancaster, 1988) it involves the same services/product being pushed into the same larger consumer group.

Kottler (2000) explains this as a case where products remain unchanged and no new segments are pursued. Instead, the firm concentrates on enhancing its existing internal competencies as well as building new ones which would enable it push further into existing markets. McCarthy (2000) confers that market penetration means trying to increase sales of a firm's present produce in its present markets through a more aggressive marketing mix. The firm may try to increase the customer's rate of use or attract competitor's customers or current non users. This strategy is the easiest to pursue in the introduction and growth stages of an industry, as all competitors can grow and the perceived level of rivalry is low. At the mature and decline stages of product development however, continued growth comes through taking a share from competitors.

A market can be penetrated through adoption of a superior marketing mix (Salmon, 2001). To adapt to the opportunities and limitations imposed by the environment requires the use of certain variables including price, place, promotion and product. These variables present the working tools needed to penetrate a market. The overall objective is to unite these tools into an organized and integrated program (Engel, 2002) and the goal is to maximize long run return on company investment. Each of these variables contributes in a unique fashion to the overall objective of market penetration. According to (Stonehouse et al, 2006) firms should come up with product policies whose purposes are to adapt to the target market through design of products which successfully aims to satisfy the need, desires, attitudes and other influences which will motivate the target buyers. (Porter, 1980), also stresses that the product must be created and marketed with full awareness of competing brands, legal restrictions and probability estimates that economic circumstances will facilitate an adequate level of demand to provide a profit over the product life cycle.

A price policy is necessary to ensure that the service is offered to the prospective buyer at a price, which will produce an acceptable return on investment (Grundy, 2003). The price chosen must be carefully tuned to buyer willingness to pay or the resulting revenues will be insufficient to provide the necessary return on investment. According to (Sanchez and Heene, 1997) competitor's actions also assume critical importance, especially when a limited number of firms offer highly similar products. A price change by one is certain to be matched by others, and a price war will result. Likewise, economic conditions frequently affects the buyers willingness to pay a premium price for certain products.The place and time the product is available is also very key in market penetration. According to (Salmon, 2001), products must be available when and where the buyer dictates.

The appropriate marketing mix will be dictated by the target market. Firms should therefore explore the ways of identifying attractive market opportunities and developing appropriate strategies (Wanyande, 2006). Information communication and technology SMEs can use the strategy by striving to sell more of the same product or service in the current market and aim at trying to change incidental clients and regular clients into heavy clients. They can achieve this by improving on their quality and service delivery.

Campbell (2002) assents that competence development may be centered on improving efficiency so as to ward competitors. Pursuance of efficiency can be done through streamlined designs and reduction in overheads (Wanyande, 2006). Stonehouse et al (2002) explained that declining markets are more difficult to penetrate than those still in the growth stage. ICT firms in Kenya encounter a growing market and present an opportunity that is far from being fully exploited. The SME, ICT firms should strive to penetrate the market through efforts like repositioning the brands, launch of new promotions and advertising.

The advertising objective should be set whereby the primary objective should be to inform, persuade or remind the target audience (Kottler, 2000). I n order for SME ICT firms to pursue this strategy, the need to consider issues like growth by present market, strength of competitors, ability to increase volume of sales, ability of consumers to consume more frequently and strength of brand awareness. However in case of a declining market, ICT firms may consider the possibility of withdrawal so that they can redeploy resources to more lucrative markets. When they face serious challenges in penetrating the market, especially when the current market show signs of saturation, it may prudent to consider alternative ways of growth.

2.2.2.2 Diversification Strategy

Diversification strategy is distinct in the sense that when a company diversifies, it essentially moves out of its current products and markets into new areas. It is important to note that diversification may be into related and unrelated areas.

McCarthy (2002) says that diversification is a strategy that involves moving into totally different lines of business - perhaps to entirely unfamiliar products, markets or even levels in the production marketing system. Kleinschimidt (1986) describes diversification as a strategy that presents, the most challenging opportunities, as it involves both new products and markets.

This 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 (Doyle, 1994). It makes sense when good opportunities can be found outside the present (Kottler, 2000). Pursuing this strategy will depend on the market situation, the financial reserves and skills of staff to take on new product lines. The various reasons firms pursue this strategy includes risk reduction, earnings stability, synergy, growth, adapting to customer needs and use of spare resources (Whiteley, 1997; Schulz, 1999). Also according to (Thomson and Strickland, 2000) diversification becomes an attractive strategy when a company runs out of profitable growth opportunities in its present business.

Mostly where firms have diversified many times, these moves are the result of acquisitions rather than new product program (Moore, 1993). Diversification can be applied by firms mostly two forms, related and unrelated diversification. Related diversification is when the product and/or services share some degree of common semblance with the existing ones. In this, the closeness of products offered could reduce the risk of diversification; as this strategy is the one that comes with uncertainty. In practice, related diversification means grow into similar industries, a forward or backward in a business existing supply chain.

Vertical integration describes either backward or forward integration into adjacent activities, which are concerned with the inputs into the company's current business. Backward integration is for example where a firm acquires a manufacturing firm on the organizations core inputs. According to Kottler (2000), unrelated diversification also referred to as conglomerate is diversifying into a completely different industry.

Johnson and Scholes (2002) argue that diversities also not make sense in economic terms but not for all firms, as for the same firm all the times, this depends on the availability of capabilities developed by the firm and the potential for transferring or sharing these capabilities to exploit new opportunities for adding value. Gultinan and Madden (1997) state that the only way to capitalize fully the available resources and capabilities is to diversity. However not all firms with capabilities will be able to identify and exploit opportunities in a value adding way.

2.2.2.2 Product Development

Another strategic option for an organisation is to develop new products. Product development occurs when a company develops new products catering to the same market. Note that product development refers to significant new product developments and not minor changes in an existing product of the firm. The reasons that justify the use of this strategy include one or more of the following: to utilise of excess production capacity, counter competitive entry, maintain the company's reputation as a product innovator, exploit new technology, and to protect overall market share. Often one such strategy moves the company into markets and towards customers that are currently not being catered for.

Growing firms are active in developing new products and services for existing customers taking steps to make their products more competitive and managing their product portfolio

(Smallbone et al. 1995). In some sectors, active product development is a prerequisite for high growth. According to Keogh and Evans (1998) Innovation is the first commercial application production of a new process or product. It is the whole process from invention through to commercial use. Technological innovation is the transformation of an idea into a new or improved seleable product or operational process in industry or commerce. Innovation is must for technology – based firms, not just to survive but to grow.

Although high growth firms are significantly more likely to possess products which managers judge to be innovative in some way than other firms, it may seem surprising that product innovation is not a more consistent characteristic of all high growth companies. The main reason is that the importance of product innovation to a firm's competitiveness varies considerably between industrial sectors.

For high growth firms, competitive tactics based on a combination of product differentiation and market focus are typical, with cost control as a necessary but not sufficient condition for growth. Fast growth SMEs tend to derive competitiveness from innovativeness and quality factors whereas slower growing or stable businesses are more likely to compete mainly on the basis of price. (Smallbone et al. 1995).

Collaboration with much larger organizations can provide resources, in the form of finance or expertise, as well as future sales, and international opportunities. Most of the time, risk of new product development is borne by SMEs and cannot easily be passed on to their customers. However, specialist services they offer within their network can open up other areas for collaboration such as problem solving or investigating new process methods. Collaboration with main customers coupled with other entrepreneurial activities which they may employ e.g. licensing and distribution arrangements. In technology based environment SMEs tend to take risks in developing new products and services and usually they finance if from reinvested earnings. (Keogh and Evans, 1998).

2.2.2.3 Market Development

When a company follows the market development strategy, it moves beyond its immediate customer base towards attracting new customers for its existing products. This strategy often involves the sale of existing products in new markets. This may entail exploration of new segments of a market, new uses for the company's products and services, or new geographical areas in order to entice new customers.

Growth oriented firms respond to new market opportunities. It includes new products or services to offer existing customers, obtaining new customers for existing products, or possibly diversification into other activities. Willingness and ability to respond to new market opportunities are a vital part of successful business development over an extended period of time.

However, developing new markets does not necessarily involve geographic market extension (Keogh and Evans, 1998; Smallbone et al., 1995). The extent to which this is necessary varies between locations, and also between industrial sectors, differences in the extent of local market opportunities (Smallbone et al., 1995). Within identified niches, the innovative capacity of these organizations means that they can constantly develop new products, services, or processes (Koegh and Evans, 1998). Growing firms in local locations remain active in extending their markets geographically, which is a reflection of their limited local market opportunities. Significant geographic extension of market at an early stage in the development of business can produce other demands on the company's resource base which those concerned with either running or advising small firms to address. At the same time, growth oriented firms are more likely to be involved in export markets. High growth firms are able to increase the breadth of customer base. These firms tend to have lower level of dependence on largest customers (Smallbone et al. 1995).

2.3 Summary of Literature Review

The literature review covers the concept of strategy, growth strategies, growth in finacial understanding and Ansoff's growth strategy matrix. The adaptation and application of growth strategy is of great essence to firms especially the SMEs. They assist managers to redefine the future, success and growth of their firms. Ansoff's strategy matrix shows that growth strategies can assist firms identify their future strategic direction; assist them in planning for growth, formulating a strategy market selection, which products to serve in the market for success and growth. SME ICT firms are in a growth stage since the industry is new and very dynamic. Selection of one or more growth strategies is therefore of paramount importance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the research methodology adopted so as to meet the objectives stated in chapter one of this study. The research setting, the population of interest, sample data collection, instruments and data analysis is discussed

3.2 Research Design

Descriptive survey was used to establish the growth strategies which SME ICT firms have adopted and factors that influence choice of growth strategies. According to David and Pamela (1998), studies concerned with finding out who what, which and how of a phenomenon are descriptive designs. According to Creswell (1994) and (cooper and Schneider, 1999) survey is the most appropriate research design in descriptive studies because the research findings are significant, not-biased and accurate.

3.3 Data collection

This study focused on all 25 SME ICT firms listed in a survey "Top 100 Medium sized companies" conducted by KPMG and Nation Media in 2008 and 2009 (Appendix II. The choice of these companies was preferred because it presented a list of companies that have registered growths in comparison of their peers in the industry.

Primary data was used in the study. A structured questionnaire was used to collect the data (Appendix I). The questionnaire was divided into two parts. Part A was used to collect data on the company profile while part B contained questions aimed at determining growth strategies adopted. The questions had Likert scale questions. The research assistants dropped the questionnaires at the respondents place and picked later. A follow up was done via phone and e-mails. The target respondents were senior managers in these companies who are also responsible for strategic decisions

3.4 Data Analysis and Presentation

Data collected was analyzed using descriptive statistics. Percentages and frequencies were used to analyze questions on the profiles of the respondents. Mean scores and standard deviations were be used to analyze data in part B in order to determine the growth strategies pursued. The data was presented in tables and frequency charts.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study from the questionnaires completed by the respondents. The questionnaires were divided into three sections. Section A collected data on company profile, Section B collected data on growth strategies and section C collected data on factors influencing growth strategic choices. The target of the study was 25 SME ICT firms in Kenya that were listed among the top 100 SME firms in 2008 and 2009. This was in a study conducted by KPMG Consultancy firm and Nation Media. Twenty one (21) questionnaires were filled and completed; this presented a response rate of 84 %

4.2 Demographic profiles of SME ICT firms

This encompasses information on ownership structure, the products and services offered the geographical presence at inception and current. Also the section seeks to explore the size of the firms in terms of their staff size.

4.2.1 Firm's ownership

This was intended to determine the ownership of SME ICT firms in Kenya. The forms of structure explored in this section are whether the firms are locally, foreign or a mix of the two. The section also seeks to explore the percentage of ownership.

Table 1: Organization Ownership

Ownership	Frequency	Percentage
Local	13	61.9
Foreign	0	0
Local and Foreign	8	38.1
Total	**21**	**100**

The ownership of the firms gives us an indication of the influence of choice of growth strategies and the practices adopted by the firms. According to the findings most of the SME ICT firms are locally owned as they constitute a 61.9% of the firms studied. The study also shows that SME ICT firms are not fully foreign owned. The firms studied with a mix of foreign and local ownership constitute 38.1%, this shows that some of the firms has adopted some growth strategies culminating from foreign ownership

4.2.2 Categories of products and services

This explores the products offered by SME ICT firms at inception and present. It compares these products offerings between the firms over time. It also seeks to explore the changes in product offerings over time.

Table 2: Products and Services

Product/Service	Frequency at Inception	Frequency at Present	% at Inception	% at Present
Software development	12	15	57.1	71.4
Hardware Assembly	11	11	52.4	52.4
Web applications	9	13	42.9	61.9
Security products	8	11	38.1	52.4
Systems Integration	11	15	52.4	71.4
Systems Maintenance	11	15	52.4	71.4
IS audit	8	14	38.1	66.7
IT forensics	8	11	38.1	52.4
Infrastructure Development	11	10	52.4	47.6

Training	13	17	61.9	81.0
Other(s) – please specify	0	0	0	0

Source: Research data

The study on the product and service categories intended to establish the change in product offerings at inception and current as the SME ICT firms grow over time. The result shows that most of the SME firms diversified over time and provided more product offerings. All the product offerings have a higher percentage currently at present than at inception. This means that various products are being offered by more firms than at inception.

Training service was offered by more firms at inception at 61.9% and also at present at 81% of the firms offering training as their main services. This is attributed to the fact that most of the customers are going for ICT knowledge and therefore there is a high demand for the service

Relatively new technologies have slowly grown in offerings by firms as they grow. Such services as IS Audit, IT Forensics and Security products has grown from a low of about 38% at inception to a high of 66.7% for IS Audit, and 52.4% for security products and IT forensics.

This result indicates that demand for new technologies has precipitated growth of SME ICT firms.

4.2.3 Geographical Scope

The study intended to establish the geographical spread of the firms over time since inception to present. This will give an indication of market development of the firms.

Table 3: Geographical Spread

Geographical Presence	Frequency at inception	Frequency at Present	% at Inception	% at Present
National (Within Kenya)	17	16	81.0	76.2
Regional (Africa)	4	4	19.0	19.0
International (Global)	0	1	0	4.8
Total	21	21	100	100

Source: Research data

The result shows that most of the SME ICT firms were started at National level (local) with an 81%. 19% of the firms started in other parts of Africa (Regional) and later established branches in Kenya; however none of the Local SME ICT firms started off at international level. As the SMEs have grown over time a number of them have gone international with a record of 4.8% of the firms registering a global presence. However there isn't a change in the companies going regional as the result indicates. The result shows that over time the SME ICT firms are geographically spreading which is a strong indicator of growth

4.2.4 Number of Employees

The research sought to establish the growth of SME ICT firms in number of staff over a period of time. The number of staff is an indicator of the firm size and therefore a comparison of the number of staff at inception and at present is a good measure of firm growth

Table 4: Number of Employees

Number of Employees	Frequency at inception	Frequency at Present	% at inception	% at Present
0-25	15	4	71.4	19.0
25-50	6	4	28.6	19.0
50-100	0	7	0	33.3
Over 100	0	6	0	28.6
Total	21	21	100	100

Source: Research data

The numbers of employees for most of the firms were between 0 and 25 represented by 71.4% of the firms within this range. With the growth of the SME ICT firms, the firms holding 0-25 employees dropped drastically to 19%. No firms had 50-100 and over 100 employees at inception but over a period of time firms with 50-100 employees were recorded by 33.3% while those with over 100 employees were recorded at 28.6% of the firms.

The study therefore indicates that firms grown in number of employees over time which is a good indicator of the firms overall growth. It can also be deduced that firms normally engage a small number of employees at inception and the number grows as the firms grow. 13 of the firms studied have grown from small enterprises to medium enterprises currently recording 50 employees.

4.3 Firms Growth Strategic Choices

In this section, the research sought to establish the growth strategies adopted by SME ICT firms. A likert scale of 1-5 (where 5= very large extent and 1= Not at all), was used to determine the extent to which growth strategies were adopted by SME ICT firms

4.3.1 Market Penetration Strategy

Market penetration strategies analyzed are frequency of usage, attraction of customers from competitors and cross-selling to existing customers

Table 5: Frequency of usage

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Give incentives to dealers	1 (4.8%)	1 (4.8%)	4 (19%)	7 (33.3%)	8 (38.1%)	4.0
Offer bulk discounts	3 (14%)	4 (19%)	7 (33.3%)	3 (14.3%)	4 (19%)	3.0
Offer incentives to sales force	1 (4.8%)	1 (4.8%)	7 (33.3%)	3 (19%)	8 (38.1%)	3.8
Mean						3.6

Source: Research data

On the frequency of usage strategy under market penetration, giving incentives to dealers was adopted to a very large extent, at a mean of 4.0. This was closely followed by offering incentives to the sales force and offering bulk discounts moderately with a mean of 3.8 and 3.0 respectively

The result shows that Giving of incentives to dealers was the choice of many SME ICT firms in realization of market penetration strategy. This is meant to motivate the dealers so that they can aggressively market the products to open up more market. Overall frequency of usage was moderately adopted by SME ICT firms with a mean of 3.6

Table 6: Attracting Customers from Competitors

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Lowering prices below competitor	6 (28.6%)	5 (23.8%)	5 (23.8%)	3 (14.3%)	2 (9.5%)	2.5
Offer free added services charged by competitors	1 (4.8%)	6 (28.6%)	6 (28.6%)	3 (14.3%)	5 (23.8)	3.2
Offer value added services that are not offered by competitors	1 (4.8%)	4 (19%)	9 (42.9%)	3 (14.3%)	4 (19%)	3.2
Mean						3.0

Source: Research data

On the attraction of customers from competitors, offering free added services charged by competitor's strategy and offering value added services that are not offered by competitors were moderately adopted by most of the SME ICT firms at a mean of 3.2. Lowering of prices was not a priority by most of the firms as this recorded a mean of 2.5.

The results show that offering of free value added services and value added services not offered by competition are emphasized. This is meant to attract customers and assist the firms gain a competitive advantage over the competition.

Overall attraction of customers from the competitors was moderately adopted by SME ICT firms with a mean of 3.0

Table 7: Cross Selling to existing customers

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Selling other products not in main corporate product lines e.g phones	4 (19%)	7 (33.3%)	4 (19%)	2 (9.5%)	4 (19%)	2.8

Source: Research data

On the cross selling, the result shows that selling other products not in the main product lines strategy was adapted to a less extent with a mean of 2.8. This shows that firms were not very keen in diversifying into products outside their product line

Table 8: Market Penetration Strategy

Strategy	Mean	Standard Deviation
Frequency of Usage	3.6	0.83
Attracting customers from competitors	3.2	0.93
Cross Selling to existing customers	2.8	1.701
Average Mean/Standard Deviation	3.2	1.2

Source: Research data

Frequency of usage was the growth strategy adopted by a majority SME ICT firms moderately with a mean of 3.6. Attracting customers was also moderately adopted with a mean of 3.2. Cross selling to existing customers was not at all adopted; it registered a mean of 2.8

Since the standard deviation is less than 1in frequency of usage and attracting customers it means that both strategies were adopted in a relatively similar way. However cross selling to existing customers registered a standard deviation of >1, which means its adoption was varying with the other two.

On the overall Market penetration was moderately adopted by SME ICT firms with a mean of 3.2.

4.3.2 Market Development Strategy

Market Development strategies studied included conversion of non users to users and Expanding to new regions

Table 9: Convert non users to users

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Special offers to existing customers on new users they recommend	0 (0%)	3 (14.3%)	2 (9.5%)	9 (42.9%)	7 (33.3%)	4.0
Lower prices for non-users	3 (14.3%)	7 (33.3%)	4 (19%)	5 (23.8%)	2 (9.5%)	2.8
Attach special benefits e.g extra month free service	3 (14.3%)	2 (9.5%)	6 (28.6%)	7 (33.3%)	3 (14.3%)	3.2
Mean						3.3

Source: Research data

On conversion of non users to users, a mean of 4.0 adopted the strategy of offering special offers to existing customers on new users they recommend to the firm to a large extent. Attaching special benefits was moderately adopted with a mean of 3.2.However lowering of prices for non users was not all adopted as it registered a mean of 2.8.

Overall conversion of non users to users was moderately adopted by SME ICT firms with a mean of 3.3.

Table 10: Expand to new Regions

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Open branches in other towns/within Nairobi	3 (14.3%)	6 (28.6%)	3 (14.3%)	2 (9.5%)	7 (33.3%)	3.2
Offer services to existing customers moving to new towns	0 (0%)	4 (19%)	7 (33.3%)	5 (23.8%)	5 (23.8%)	3.5
Offer special discounts to new customers in new towns	0 (0%)	4 (19%)	7 (33.3%)	6 (28.6)	4 (19%)	3.5
Open new branches outside kenya	7 (33.3%)	5 (23.8%)	4 (19%)	3 (14.3%)	2 (9.5%)	2.4
Mean						3.2

Source: Research data

Offering services to existing customers moving to new towns and offering special discounts to new customers in new towns were moderately adopted strategies at a mean of 3.5. Opening of branches in other towns and in Nairobi were also adopted moderately at a mean of 3.2. However opening new branches outside Kenya was not all adopted as this recorded a mean of 2.4

Overall expansion to other regions strategy was moderately adopted with a mean of 3.2

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Table 11: Market Development Strategy

Strategy	Mean	Standard Deviation
Convert non users to users	3.3	0.86
Expand to new Regions	3.2	0.86
Average Mean/Standard Deviation	3.25	0.864

Source: Research data

Conversions of non users and expansion to new regions were moderately by SME ICT firms with mean scores of 3.3 and 3.2 respectively. The standard deviation for the two is below 1, this means both strategies were adopted in a relatively similar scale.

Overall Market development strategy was moderately adopted by ICT SME firms with a mean of 3.25

4.3.3 Product Development Strategy

The strategies studied under product development strategy includes offering of modified versions of hardware/software and offering of tailored products specifically to needs of customers

Table 12: Modified Versions of existing products

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Offer new versions of hardware or software	0 (0%)	1 (4.8%)	3 (14.3%)	7 (33.3%)	10 (47.6%)	4.2
Offer improved procedures for services	0 (0%)	2 (9.5%)	2 (9.5%)	9 (42.9%)	8 (38.1%)	4.1
Mean						4.15

Source: Research data

Offering of new versions of hardware and software and offering improved procedures are to large extent adopted at a mean of 4.2 and 4.1 respectively as strategies to achieve growth. The two strategies are geared towards achieving offering of modified existing products strategy.

On the overall modified versions of existing products strategy is adopted to a large extent with a mean of 4.15

Table 13: Tailored products specifically to needs of customers

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Offer bundled services /products	0 (0%)	1 (4.8%)	9 (42.9%)	7 (33.3%)	4 (19%)	3.7
Offer new technologies to customers at special rates	0 (0%)	1 (4.8%)	2 (9.5%)	9 (42.9%)	9 (42.9%)	4.2
Mean						3.95

Source: Research data

Offer of new technologies to customers is to a large extent at a mean of 4.2 adopted by majority of SME ICT firms as a growth strategy to achieve the offering of tailored products specifically to needs of customers. Offering of bundled services on the other hand is moderately adopted with an average of 3.7

On the overall tailoring of products specifically to the needs of customers is moderately adopted by SME ICT firms with a mean of 3.95

Table 14: Product Development Strategy

Strategy	Mean	Standard Deviation
Modified versions of existing products	**4.15**	**0.99**
Tailored products specifically to needs of customers	**3.95**	**0.86**
Average Mean/Standard Deviation	**4.05**	**0.925**

Source: Research data

Modifying versions of existing products were adopted by SME ICT firms to a large extent at a mean of 4.15. Tailoring of products specifically to needs of customers was on the other hand moderately adopted by SME ICT firms with a mean of 3.95.The standard deviation is below 1 and therefore it means the strategies were adopted in a relatively similar way.

Overall product development strategy is adopted to a large extent by SME ICT firms with a mean of 4.05

4.3.4 Diversification Strategy

This strategy is studied by exploring getting into business that are related and getting into businesses that are not related.

Table 15: Get into businesses that are related

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Offer training on the company's product line	0 (0%)	1 (4.8%)	4 (19%)	8 (38.1%)	8 (38.1%)	4.1
Offer consultancy on deployment, maintenance on the product lines	0 (0%)	1 (4.8%)	5 (23.8%)	7 (33.3%)	8 (38.1%)	4.0
Sell other related hardware, software and utilities	0 (0%)	0 (0%)	4 (19%)	7 (33.3%)	10 (47.6%)	4.3
Mean						4.13

Source: Research data

In getting into businesses that are related, SME ICT firms to a large extent adopted selling of other related hardware and software with a mean of 4.3. Offering training on companies' product lines and consultancy on deployment were also adopted to a large extent at a mean of 4.1 and 4.0 respectively

This result therefore shows that most ICT firms prefer to diversify in related businesses. This is less costly to the firms and provides an easy access to the market since the firms are familiar with the existing markets.

On the overall getting into related businesses as a form of diversification strategy is adopted to a large extent with a mean of 4.15.

Table 16: Get into businesses that are not related

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Offer/sell services/products that are not related to your business e.g publishing	5 (23.8%)	8 (38.1%)	3 (14.3%)	3 (14.3%)	2 (9.5%)	2.5
Offer other services that can utilize your skills and synergies	2 (9.5%)	2 (9.5%)	5 (23.8%)	5 (23.8%)	7 (33.3%)	3.6
Mean						3.05

Source: Research data

Offering other services that can utilize your skills and synergies strategy was adopted by firms moderately a mean of 3.6.Offering services and products that are not related to the business was not all adopted by SME ICT firms, this registered a mean of 2.5.

This shows that firms were not very kin in diversifying in unfamiliar services or goods due to the inherent risks that goes with such ventures.

On the overall getting into unrelated businesses was moderately adopted with a mean of 3.05.

Table 17: Diversification Strategy

Strategy	Mean	Standard Deviation
Get into businesses that are related	**4.13**	**0.86**
Get into business that is not related	**3.05**	**0.99**
Average Mean/Standard Deviation	**3.59**	**0.925**

Source: Research data

In the diversification strategy, getting into related businesses was adopted to a large extent with a mean of 4.13.However Getting into unrelated businesses is moderately adopted at an average of 3.05.The standard deviations were however below 1 and therefore both strategies were adopted in a relatively similar magnitude.

Overall diversification strategy was moderately adopted with a mean of 3.59.

4.4 Organic and Inorganic Growth Strategies

This explores the two forms of growth adopted by various SME ICT firms. Various strategies of the two forms are explored

Table 18: Organic Growth Strategy

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Sustain increase in revenues produced by use of the company's assets.	0 (0%)	0 (0%)	6 (28.6%)	8 (38.1%)	7 (33.3%)	4.0
Increase sales volumes	0 (0%)	0 (0%)	1 (4.8%)	8 (38.1%)	12 (57.1)	4.5
Increase products outputs	0 (0%)	0 (0%)	5 (23.8%)	7 (33.3%)	9 (42.9%)	4.2
Mean						4.2

Source: Research data

Organic growth strategy by SME ICT firms was to a large extent achieved through increased sales volume with a mean of 4.5.Organic growth through increase of product outputs and sustenance of increase in revenues produced by use of company assets are also adapted to a large extent with means of 4.2 and 4.0 respectively.

On the overall organic growth form of growth strategy is adopted to a large extent with a mean of 4.2

Table 19: Inorganic Growth Strategy

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Strategic alliance – have collaborative working relationship	0 (0%)	4 (19%)	1 (4.8%)	8 (38.1%)	8 (38.1%)	4.0
Joint Venture – have partnership or co-ownership	4 (19%)	0 (0%)	7 (33.3%)	6 (28.6%)	4 (19%)	3.3
Merger – have merged with other companies	7 (33.3%)	2 (9.5%)	7 (33.3%)	3 (14.3%)	2 (9.5%)	2.6
Acquisition – have acquired or have been acquired	5 (23.8%)	6 (28.6%)	5 (23.8%)	3 (14.3%)	2 (9.5%)	2.6
Mean						3.13

Source: Research data

Inorganic growth strategy is achieved to a large extent through strategic alliances and collaborative working relationship with a mean of 4.0. This is followed by joint venture relationship moderately at a mean of 3.3. However mergers and acquisitions were not all a choice of many SME ICT firms as they recorded a mean of 2.6. The results indicate that strategic alliances are the choice of the majority of the firms.

On the overall inorganic form of growth strategy was moderately adopted by SME ICT firmas with a mean of 3.13.

Table 20: Overall Growth Strategic Choices

Growth Strategy	Mean	Standard Deviation
Market Penetration	3.2	1.2
Market Development	3.25	0.86
Product Development	4.05	0.925
Diversification	3.59	0.925
Organic	4.2	0.86
Inorganic	3.13	0.99
Total Mean/Standard deviation	3.57	0.95

Source: Research data

Product development strategy was in the overall adopted by SME ICT firms to a large extent with a mean of 4.05. However other strategies including diversification, market development and market penetration were adopted moderately with means of 3.59, 3.25 and 3.2 respectively.

On the form of growth strategy most of the SME ICT firms adopted organic form of growth to a large extent with a mean of 4.2 and moderately adopted inorganic form of growth at a mean of 3.13. This is an indication that firms SME ICT firms prefer to utilize the internally generated resources to grow their businesses.

Since most of the standard deviations are below 1, it means the SME ICT firms have adopted various growth strategies in a relatively similar way.

Therefore most of the SME ICT firms have adopted a combination of various growth strategies product development being adopted by a majority of the firms.

4.5 Factors Influencing strategic growth choice

This section explores at the factors influencing strategic choices of SME ICT firms. Various factors including political and regulations, competitive forces, technological developments and internal factors were studied

Table 21: Factors influencing strategic growth choice

Strategy	Not at all (1)	Less extent (2)	Fairly large extent (3)	Large extent (4)	Very large extent (5)	Mean
Competitive forces	0 (0%)	0 (0%)	3 (14.3%)	8 (38.1%)	10 (47.6%)	4.3
Technological developments	0 (0%)	2 (9.5%)	4 (19%)	3 (14.3%)	12 (57.1%)	4.2
Shareholders interest	3 (14.3%)	4 (19%)	4 (19%)	6 (28.6%)	4 (19%)	3.2
Government policy and decisions	0 (0%)	3 (14.3%)	5 (23.8%)	5 (23.8%)	8 (38.1%)	3.9
Power of Management	0 (0%)	3 (14.3%)	6 (28.6%)	6 (28.6%)	6 (28.6%)	3.7
Surplus financial resources	3 (14.3%)	0 (0%)	5 (23.8%)	9 (42.9%)	4 (19%)	3.5
Customer powers/demands	0 (0%)	0 (0%)	5 (23.8%)	7 (33.3%)	9 (42.9%)	4.2
Supplier powers	0 (0%)	3 (14.3%)	9 (42.9%)	4 (19%)	5 (23.8%)	3.5
Utilization of excess assets	0 (0%)	2 (9.5%)	0 (0%)	13 (61.9%)	6 (28.6%)	4.1
Market factors e.g. size,	0 (0%)	0 (0%)	4 (19%)	10	7 (33.3%)	4.1

availability				(47.6%)		
Risk levels	0 (0%)	0 (0%)	5 (23.8%)	10 (47.6%)	6 (28.6%)	4.0
Corporate image	0 (0%)	0 (0%)	0 (0%)	13 (61.9%)	8 (38.1%)	4.4

Corporate image has to a large extent influenced the choice of growth strategic choices for most of the SME ICT firms this is represented by a mean of 4.4. This is closely followed by competitive forces, customer powers, utilization of excess assets, market forces and risk levels with mean scores of 4.3, 4.2, 4.1, 4.1 and 4.0 respectively.

Other factors studied moderately influenced growth strategies, these are Government policy and decisions, power management, surplus financial resources, supplier powers and shareholders interest with means registered at 3.9, 3.7, 3.5, 3.5 and 3.2 respectively

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study is aimed at determining the growth strategies adopted by SME ICT firms. Data was collected by self administered questionnaire through drop and pick method. Data was collected from twenty one (21) out of twenty five (25) respondents which constitute a response rate of 84%.

The research laid emphasis on the key growth strategies which are market penetration, market development, and product development, and diversification, organic and inorganic growth. In this chapter, discussion of the analyzed data, conclusion and recommendations are presented.

5.2 Summary

The objective of the study was to research on the growth strategies adopted by SME ICT firms that were listed among the top 100 SMEs in a study conducted by KPMG and Nation Media. A questionnaire based on the literature and prior knowledge of the industry together with discussions with key players was used as the instrument of data collection.

The data was analyzed by computing the relevant descriptive statistics. Section A and C of the questionnaire was analyzed using frequency distributions and percentages while section B was analyzed using mean scores and standard deviations. Frequency distribution tables were also used to analyze the data.

From the analysis, most of the SME ICT firms have adopted various growth strategies in order to survive in the competitive business environment. Among the growth strategies adopted include market penetration, market development, product development, diversification, organic and inorganic growth strategies.

On market penetration strategy frequency of usage strategy was adopted by SME ICT firms to a large extent as compared with others among market penetration strategies. This is mainly achieved through aggressive marketing of the existing products. The target in this case is existing customers and also new customers.

On Market development, Conversion of non users is practiced by a majority of SME ICT firms to a large extent as compared with expansion into new regions. This is achieved by targeting non users through adverts and promotions. Also by going through users by encouraging users to share experiences results to conversion therefore growing a market share

In the diversification strategy, getting into related businesses is preferred by a majority of the firms than engaging into unrelated businesses. This is largely influenced by the inherent risks associated with engaging into unrelated businesses. It is also less expensive exploring into related businesses. Experience in related businesses also contributes greatly to ease of diversification and therefore related business diversification is the preference for most of the firms

Product development growth strategy involves development of new products and improvement of existing products. This is largely achieved through modifying versions of existing products. In the ICT industry, ICT products mainly software and hardware undergo changes to reflect changing customer needs. To meet these needs existing products are modified and upgraded over time. This improvement of the existing products is both time saving and less costly and therefore is the preferred means by most of SME ICT firms.

Organic growth strategy by SME ICT firms to a large extent achieved through increased sales volume. It also closely followed to a large extent by increase of product outputs and sustenance of increase in revenues produced by use of company assets. On the other hand Inorganic growth strategy is achieved to a large extent through strategic alliances and collaborative working relationship. This is also closely followed by joint venture relationship. However mergers and acquisitions were not a choice of many SME ICT firms. The results indicate that strategic alliances are the choice of the majority of the firms in inorganic growth.

Organic form of growth is however a choice of majority of SME ICT firms. This mainly attributed to the fact that most of the firms prefer to utilize the internally generated resources to grow their market share

On the overall Product development strategy was largely adopted by SME ICT firms however other strategies including diversification, market development and market penetration were moderately adopted. Since there aren't very large deviations in the study results it can be deduced that most of the SME ICT firms have adopted a combination of various growth strategies with varying degrees.

Corporate image has to very large extent influenced the choice of growth strategic choices for most of the SME ICT firms.4. This is closely followed by competitive forces, customer powers, utilization of excess assets, market forces and risk levels Other factors studied moderately influenced growth strategies, these are Government policy and decisions, power management, surplus financial resources, supplier powers and shareholders interest . These factors vary from one firm to the other.

5.3 Conclusion

From the research findings as presented in chapter four, SME ICT firms have adopted various growth strategies in order to have a competitive advantage. Among the strategies adopted are market penetration, market development, product development, organic growth and inorganic growth.

Product development strategy was adopted by SME ICT firms to a large extent as a growth strategy. However other strategies including diversification, market development and market penetration were moderately adopted. Most of the SME ICT firms have adopted a combination of various growth strategies with product development being adopted by a majority of the firms.

Organic growth strategy on the other hand is more preferred by most of the SME ICT firms as a form of growth in comparison with inorganic growth strategy. On the factors affecting choice of growth strategies, corporate image has taken the lead. This is closely followed by competitive forces, and technological developments.

5.4 Limitations of the Study

The study was intended to cover all SME ICT firms listed in the top 100 study by KPMG and Nation Media in 2008 and 2009. Despite a response rate of 84%, some limitations and challenges were experienced.

Unavailability of key target respondents was a challenge. This resulted to interviewing some junior staff who was delegated to by the seniors. This posed a challenge since some of these staff was not privy to some information.

Some respondents also viewed the exercise with some suspicion due to the stiff competition in the market place. This resulted to delays in completion of the questionnaires.

5.5 Suggestions for future Research

There is an opportunity for a similar study on growth strategies adopted by ICT firms. The study should focus on the growth of the ICT industry in Kenya as a whole. This is particularly important because a phenomenal growth has been experienced in the industry and therefore there is need to understand it better.

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APPENDIX I

RESEARCH QUESTIONNAIRE

PART A: COMPANY PROFILE

1. Name of Company ______________________________
2. Year of Incorporation ______________________________
3. Ownership of the company, tick where appropriate
    i. Locally owned [ ]
    ii. Foreign owned [ ]
    iii. Both locally and Foreign owned [ ]

    If iii, indicate the percentage of ownership

    Locally owned [ ]
    Foreign owned [ ]

4. ICT products /Services offered (Please tick against the services offered at inception and Present in the table below)

ICT Products/Services Offered	At Inception	At Present
Software development		
Hardware Assembly		
Web applications		
Security products		
Systems Integration		

Systems Maintenance		
IS audit		
IT forensics		
Infrastructure Development		
Training		

5. Describe the Geographical scope of your organization at inception and present, tick where appropriate

Geographical presence	**At Inception**	**At presence**
National (within Kenya)		
Regional (Africa)		
International (Global)		

6. Number of employees, tick where appropriate

Number of employees	**At Inception**	**At present**
0 – 25		
25 – 50		
50 – 100		
Over 100		

PART B: Firms Growth Strategies Choice

7. Listed below are the probable growth strategic choices that your company has adopted. To what extent has your firm made such choices? Please rank them using the key guideline below

   [1] – Not at all

   [2] – To a less extent

   `[3] – To a fairly large extent

   [4] – To a large extent

   [5] – To a very large extent

i. Market Penetration Strategy

Strategy	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
Frequency of Usage					
Give incentives to dealers					
Offer bulk discounts					
Offer incentives to sales force					
Attracting customers from competitors					
Lowering prices below competitor					
Offer free added services charged by competitors					

Offer value added services that are not offered by competitors					
Cross Selling to existing customers					
Selling other products not in main corporate product lines e.g phones					

ii. Market Development Strategy

Strategy	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
Convert non users to users					
Special offers to existing customers on new users they recommend					
Lower prices for non-users					
Attach special benefits e.g extra month free service					

Expand to new Regions					
Open branches in other towns/within Nairobi					
Offer services to existing customers moving to new towns					
Offer special discounts to new customers in new towns					
Open new branches outside kenya					

iii. Product Development Strategy

Strategy	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
Modified versions of existing products					
Offer new versions of hardware/software					

Offer improved procedures for services					
Tailored products specifically to needs of customers					
Offer bundled services /products					
Offer new technologies to customers at special rates					

iv. **Diversification Strategy**

Strategy	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
Get into businesses that are related					
Offer training on the company's product line					
Offer consultancy on deployment, maintenance on the product lines					
Sell other related hardware, software and utilities					
Get into business that is not related					
Offer/sell services/products that are not related to your business e.g publishing					
Offer other services that can					

utilize your skills and synergies					

v. **Organic Growth Strategy**

Strategy	**Not at all** **1**	**To a less extent** **2**	**To a fairly large extent** **3**	**To a large extent** **4**	**To a very large extent** **5**
Sustain increase in revenues produced by use of the company's assets.					
Increase sales volumes					
Increase products outputs					

vi. Inorganic Growth Strategy

Strategy	Not at all 1	To a less extent 2	To a fairly large extent 3	To a large extent 4	To a very large extent 5
Strategic alliance – have collaborative working relationship					
Joint Venture – have partnership or co-ownership					
Merger – have merged with other companies					
Acquisition – have acquired or have been acquired					

PART C: Factors influencing strategic growth strategies Choice

8. Listed below are the factors that could have influenced the strategic growth choices that your firm made. Please rank them as per the extent to which they influenced your choices following the key guideline below

[1] – Not at all

[2] – To a less extent

`[3] – To a fairly large extent

[4] – To a large extent

[5] – To a very large extent

Factors influencing strategic growth strategic choice

Influencing Factors	**Not at all** **1**	**To a less extent** **2**	**To a fairly large extent** **3**	**To a large extent** **4**	**To a very large extent** **5**
Competitive forces					
Technological developments					
Shareholders interest					
Government policy and decisions					
Power of Management					
Surplus financial resources					

Customer powers/demands					
Supplier powers					
Utilization of excess assets					
Market factors e.g. size, availability					
Risk levels					
Corporate image					

APPENDIX II

TOP 100 SME ICT COMPANIES

Position	Year 2008	Position	Year 2009
1	CELLULANT (K) LTD	3	LINKSOFT TELECOMS NETWORKS LTD
2	TECHBIZ LTD	15	I SOLUTIONS
3	DIMENSION DATA	24	DISTRIBUTED COMMUNICATION SYSTEMS LTD
8	ELRIS COMMUNICATIONS SERVICES LTD	27	KENWEST CABLES LTD
28	TELESOFT COMMUNICATION	38	INTERSAT AFRICA LTD
39	COMPULYNX LTD	52	SIMBA TECHNOLOGY LTD
46	AV SYSTEMS LTD	63	SPECICOM TECHNOLOGIES LTD
54	KENCALL EPZ LTD	68	CIRCUIT BUSINESS SYSTEMS
64	SAHANNET LTD	75	MICROSKILLS I.T(K) LTD
78	CRAFT SILICON LTD	84	TRANS BUSINESS MACHINES
85	LANTECH AFRICA LTD	97	SOFTWARE TECHNOLOGIES LTD
95	COM 21 LTD	99	COMPUTECH LTD
96	POWERPOINT SYSTEMS (E.A) LTD		

APPENDIX III

LETTER OF INTRODUCTION

Nicholas Murigi

University of Nairobi

Nairobi

RE: TO WHOM IT MAY CONCERN

I am a student at the University of Nairobi. I am currently carrying out a research that will be submitted to the School of Business in partial fulfillment of the requirement for the degree of Masters in Business Administration (MBA). The title of the project is: **"Growth Strategies adopted by top 100 SMEs in ICT in Kenya".**

The study focusses on SME ICT firms that were listed in the "Top 100 Mid-sized Companies" survey that was conducted by KPMG and nation media in 2008 and 2009. Your company being among the listed top 100 and being in the ICT industry is therefore targeted in the study

Attached please find a copy of a self administered questionnaire. Please answer the questions as comprehensively and honestly as possible. The information from the questionnaire is needed purely for academic purposes and will be treated with strict confidence. In no way will your name or the name of your company appear in the final report.

Your participation in this exercise will be highly appreciated.

Yours sincerely,

Nicholas Murigi

MBA STUDENT

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Nairobi, Kenya

DATE 15/9/2010

TO WHOM IT MAY CONCERN

The bearer of this letter NICHOLAS N. MURIGI

Registration No: D61/71642/2007

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM