

**GROWTH STRATEGIES ADOPTED BY SMALL AND MEDIUM  
BUSINESS ENTERPRISES IN OYUGIS TOWN, HOMA BAY  
COUNTY, KENYA**

**BY**

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## **DECLARATION**

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

Signed.....

Date.....

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

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## **DEDICATION**

This study is dedicated to my lovely daughters, Malia and Merlene, mother Margaret Mbewa, and to my loving late father Philip Mbewa Yogoh, who was my mentor in every step of life. Thank You for being a wonderful Dad.

## **ABSTRACT**

This research project was a study on the various growth strategies adopted by Small and Medium enterprises with specific focus to Oyugis town. Small and Medium enterprises (SMEs) make important contributions to economic and social development of any country. Consequently, the growth of the SME sector directly affects the performance of the nation. In all economies they constitute the vast majority of business establishments and they are usually responsible for the majority of employment opportunities created which account for one third to two thirds of the turnover of the private sector. The ability of SMEs to create, access and commercialize new knowledge on global markets is fundamental to their sustained competitiveness. The study used a descriptive research design. The study targeted SMEs operating in Oyugis Town, Homa bay County. The study selected a sample of 40 through simple random sampling technique. The study collected both primary data and secondary data where a questionnaire was used as source of data. The researcher administered the questionnaires individually to all respondents. Descriptive statistics was used to summarize the data. This included percentages, frequencies, bar graphs, pie charts and tabulations while qualitative analysis was done in prose. The study concluded that most of the business had embraced growth strategies such as marketing, pricing, market penetration among other strategies and such businesses have additional advantages such as increase in the total sales volume annum, increase in assets and remain competitive in the market. Likewise, the study concluded that that market penetration strategy is one of the growth strategies mostly adopted with most of organizations focusing on various aspects of market penetration. However, SMEs in the area under study are faced with various challenges such as stiff competition from large companies, changes in information technology and lack appropriate structures for dealing with SMEs in financial support, poor infrastructure, insecurity and the general perception that they offer lower quality than bigger companies' hence dwindling SMEs potential even after the adoption of the growth strategies.

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## **ACRONYMS AND ABBREVIATIONS**

|             |                                       |
|-------------|---------------------------------------|
| <b>CDF</b>  | Constituency Development Fund         |
| <b>CSR</b>  | Corporate Social Responsibility       |
| <b>GDP</b>  | Gross Domestic Product                |
| <b>ICT</b>  | Information Communications Technology |
| <b>IMF</b>  | International Monetary Fund           |
| <b>KNBS</b> | Kenya National Bureau of Statistic    |
| <b>SMEs</b> | Small and Medium Enterprises          |

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Small and Medium enterprises (SMEs) make important contributions to economic and social development of any country. Consequently, the growth of the SME sector directly affects the performance of the nation. In all economies they constitute the vast majority of business establishments and they are usually responsible for the majority of employment opportunities created which account for one third to two thirds of the turnover of the private sector (Ntsika, 2002). It is estimated that SMEs contribute 56% of private sector employment and 36% of the Gross Domestic Product (GDP) worldwide (Arianoff, 2010). In many countries, SMEs have been a major engine of growth in employment and output over decades. In developing countries they are seen as a major 'self-help' instrument for poverty eradication.

Different countries identify small businesses by different rules, principles and standards. However, the expression small business enterprise is widely applicable to private trading commercial or industrial enterprises characterized by small investments, assets, operations, output, sales, number of employees and scope (Dave, 2008). According to Hatten (2008) the term SME (Small and Medium Enterprises) is used in the European Union and other international organizations to designate companies that have a limited, specified number of employees. In Kenya, a micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium

enterprise with more than 50-100 employees, as indicated by National Micro and Small Enterprise Baseline Survey (1999).

According to the IMF (2001) report on Poverty Reduction Strategy in Kenya, the potential of small medium enterprises in both employment creation and generation of incomes for many Kenyan families makes them a key element in the poverty reduction strategy. The small business enterprises play an important role in the Kenyan economy. According to the Economic survey report, (2006) the sector contributed over 50 per cent of new jobs created in the year 2005. According to KNBS (2007), the SME sector generated 469,000 new jobs in 2006-2007 financial years, which was an increase of 5.7 % from the previous year. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation, Kenya National Bureau of Statistics, (2007).

### **1.1.1 Concept of Strategy**

Strategy which is a fundamental management tool in any organization is a multi dimensional concept that various authors have defined in different ways. It is the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish (David, 2003). Mintzberg and Quinn (2002) also had a hand in strategy definition whereby he perceives strategy as a pattern or a plan that integrates organization's major goals, policies and actions into a cohesive whole. Porter (2006) has defined strategy as a creation of a unique and vulnerable position of tradeoffs in competing, involving a set of activities that neatly fit together, that are simply consistent, reinforce each other and ensure optimization of effort. Pearce and Robinson (2007) defines strategy as the company's "game plan" which

results in future oriented plans interacting with the competitive environment to achieve the company's objectives.

Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment, and fulfill stakeholder's expectations. Ansoff (2008) views strategy in terms of market and product choices. According to his view, strategy is the "common thread" among an organization's activities and the market. According to Jauch and Glueck (1988), strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

The purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce & Robinson, 2007).

### **1.1.2 Nature of Growth Strategies**

In business the term '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 (Foster & Browne, 2006). These factors indicate growth but do not provide the 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. Business growth is a natural process of adaptation and development that occurs

under favorable conditions. The growth of a business firm is similar to that of a human being who passes through the stages of infancy, childhood, adulthood and maturity (Hamel, 2006).

According to Mankins and Steele (2005) strategic growth is an ongoing process that evaluates and controls the business and the industry in which the company is involved, assesses its competitors and set goals and strategies to meet all existing and potential competitors, and then re-assess each strategy annually or quarterly (regularly) to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changing circumstances. Achieving a competitive advantage position and enhancing firm performance relative to its competitors are the main objectives that business organizations in particular should strive to attain (Raduan, Jegak, Haslinda & Alimin, 2009). Warugu (2001) noted that these strategies provide opportunities for the business enterprise to respond to the various challenges within its operating environment. According to Kiptugen, (2003), some of the growth strategies that a business enterprise may adopt are: understanding customer expectation, service, positioning market segmentation, setting measuring market standards, relationship marketing, human resource strategy and successful communication strategy.

### **1.1.3 Small and Medium Business Enterprises**

Information availed by National Chamber of Commerce Nyanza branch indicate that small and Medium business enterprises within Homa Bay County are diverse. They include workshops mainly owned by Jua Kali artisans; here we have carpentry workshops, metal workshops, garages among others. Another set of small business enterprises comprise wholesale and retail stores, cyber cafes, advertising agencies,

professional and personal service firms, tailoring shops, hotels, restaurants, bars, boutiques, saloons, day care centers, employment and land buying agencies, fishing, dairy and poultry farming, small scale farming and selling of food crops and cash crops sand harvesting, transport industry among others. A tour of the county confirmed that, indeed these are the major small business enterprises found in the town.

## **1.2 Research Problem**

In today's challenging business environment, business must create strategies in order to grow beyond its known scope. Most of the SMEs use various growth strategies as a tool that enhances their viability in the market to win a competitive advantage as there is often little to differentiate one product from another for different organizations (Faulkner & Bowman, 1995). Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes.

Lack of planning, improper financing and poor management have been sited as the main causes of failure of small enterprises (Longenecker, 2006). According to a survey carried out by the Kasipul Constituency development fund and contained in a document titled Kabondo constituency Development Fund (CDF) strategic plan 2013 -2015, (2013) indicated that three out of five small businesses fail within the first few months of operation in Oyugis town. The report stated failure of the stakeholders in coming up with growth strategies that will enhance the business performance as the major reason.



In Kenya, Mutuma (2010) did a survey on expansion strategies on the business model at Equity Bank Limited. Kipyegon (2009) did a survey on positioning Strategies Adopted by Firms that offer Courier services in Kenya, Khalid (2004) studied competitive strategies adopted by supermarket retail chains and found that most of supermarkets compete in pricing strategies, efficiency in customer service and diversification of service to the doorsteps, while Dubai (2003) studied competitive strategies applied by retail sector of the pharmaceutical companies in Nairobi. In his findings, he indicated that pharmacies have adopted innovation as a way of increasing their customer base as well as reaching more customers through adoption of ICT. Despite the immense literature on strategies, limited study has been carried out to investigate growth strategies adopted by SMEs. The study aims to bridge this knowledge gap by investigating the growth strategies adopted by SMEs with specific focus on Oyugis town, Homa Bay County. The study therefore sought to answer the following research questions, what are the growth strategies adopted by small business enterprises (SME) in Oyugis town, Homa Bay County? What are the challenges faced in adopting such strategies?

### **1.3 Objectives of the Study**

The study was guided by the following objectives:

- i. To determine the nature of growth strategies adopted by small and medium business enterprises in Oyugis town, Homa Bay county.
- ii. To establish the challenges involved in adopting the growth strategies by small and medium business enterprises in Oyugis town, Homa Bay County.

## **1.4 Value of the Study**

First and foremost, the findings of this study will be most useful to the upcoming entrepreneurs as they will be in a better position to understand the importance of adopting the right growth strategies and be conversant with best ways in regards to business growth, competitiveness and profit sustainability. It is hoped that the study findings will help unsuccessful small business enterprises to take off and also new SMEs to succeed while existing ones to even grow bigger.

Secondly, the findings of this study are expected to be of great importance to various researchers and scholars. The documented report of this study will be easily acquired in the library and it will equip the learners with more knowledge and skills on growth strategies adopted by SMEs with particular focus to Oyugis town, Homabay County. The study will further make a myriad contribution to the literature on SMEs which will be part of articles that will be useful to researchers who want to further in this study and to other wider stakeholders in academic circles.

Thirdly, the government can use the study information to develop support programmes and growth strategies for small business enterprises and also for the county of Homa Bay in the face of devolution. Such finding is crucial in the evolution of appropriate policies for promoting SME business enterprises, development and increasing the County's resources for poverty eradication and empowerment. The Government may use the finding as a policy framework within which this sector can be enhanced to create more employment opportunities.

Lastly, Financial Institutions Management, especially top-level management will use the study to understand why some SMEs fail to grow their businesses while others succeed. This information will be useful in setting up lending policies in order for the banks to reduce risks of defaults and hence improve the financial performance of these organizations. Also in line with Corporate Social Responsibility (CSR) the banks may be guided by the study findings to organize relevant training workshops and seminars to equip entrepreneurs with the necessary knowledge for business growth.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter looks at the past studies on growth strategies adopted by organizations and particularly within SMEs. The chapter also presents literature and previous studies that have been conducted on the link between growth strategies and small medium enterprises.

### **2.2 Concept of Strategy**

The term strategy means a well-planned, deliberate and overall course of action to achieve specific objectives. According to Chandler, “strategy is the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary to carry out these objectives” A strategy is a long term plan of action designed to achieve a particular goal, most often winning (Thompson et al, 2007). According to Porter (2006) strategy is the process of creating unique and valuable position which means of a set of activities in a way that creates synergistic pursuits of the objectives of a firm. Warugu (2001) noted that these strategies provide opportunities for the business enterprise to respond to the various challenges within its operating environment. Business enterprises also develop strategies to enable them seize strategic initiative edge in the market (Porter, 2006). The success of every business is determined by its responsiveness to the customer needs. The competitive aim is to do a significantly better job of providing what customers are looking for, thereby

enabling the company to earn a competitive advantage and outsmart rivals in the market place.

Different firms make strategies in different ways, and do not only employ the rational process that is taught in most business schools. A competitive business strategy outlines how a business unit competes within its industry (Parnell, 2008). Although each business employs its own unique competitive strategy, strategic group assessments identify clusters of businesses that seek to execute similar competitive strategies. The strategic group level of analysis has contributed much to what is currently known about business strategies and performance (Phelan et al., 2002). Comparing outcomes between and among groups can help elucidate the strategic characteristics associated with high performance in a given industry without overemphasizing the behavior of a single business unit. Strategy plays an important role in a business' management process, as it helps a business to set a direction and to formulate the way they want to achieve their goals (Gibcus & Kemp, 2003). However, earlier research indicates that small and medium sized enterprises (SMEs) pay little attention to strategy formulation and strategy in general (Ireland, et al, 2003). Furthermore, much of the existing strategy literature puts great emphasis on larger businesses, and there is no clear theoretical framework capable of explaining and guiding the strategic management for small businesses (Gilinsky et al., 2001).

### **2.3 Growth Strategies**

'Growth Strategy' refers to a strategic plan formulated and implemented for expanding firm's performance (Andrews, 2001). The pure competition model does not present a

viable tool to assess a business performance. One of the most respected models to assist with this analysis is Porter's Five Forces Model. Porter's Five Forces attempts to realistically assess potential levels of profitability, opportunity and risk based on five key factors within an industry. This model may be used as a tool to better develop a strategic advantage over competing firms within an industry in a competitive and healthy environment (Porter, 1998). The five variables responsible for the forces analyzed using this model are the industry suppliers, buyers, potential new entrants, substitute products and the competition among existing firms.

The first model is industry suppliers; at the center of the five forces model is industry competition arising from the rivalries among existing firms. Defining an industry can be described as drawing a line between the established competitors and the substitute products offered by competitors outside the industry (Porter, 1998). An industry that produces goods requires raw materials. This leads to buyer-supplier relationships between the industry and the firms that provide the raw materials. Depending on where the power lies, suppliers may be able to exert an influence on the producing industry. They may be able to dictate price and influence availability.

The second force in Porter's model is the potential for new entrants. The primary deterrents to new entrants into any industry are the barriers to entry. The higher the barriers to entry are within any given industry the smaller the threat of new entrants to that industry (Porter, 1998). The possibility of new firms entering the industry impacts competition. It is important to assess how easy it is for a new player to enter an industry. The most attractive segment has high entry barriers and low exit barriers. Although any firm should be able to enter and exit a market, each industry often presents varying levels

of difficulty, commonly driven by economics. Informal sectors such as SMEs are more difficult to enter than in any other industries. The definable characteristics of each industry protect profitable areas for firms and inhibit additional rivals from entering the market.

Another force which acts upon an organization and is included in Porter's five forces model is the threat of substitute products. Porter's Five Forces model refers to "substitute products" as those products that are available in other industries that meet an identical or similar need for the end user. As more substitutes become available and affordable, the demand becomes more elastic since customers have more alternatives. Substitute products may limit the ability of firms within an industry to raise prices and improve margins.

The bargaining power of buyers also plays an important role in determining the desirability from an investor's standpoint of the environment in which the specialty SMEs sectors exist at inception. The power of buyers describes the impact customers have on an industry. When buyer power is strong, the relationship to the producing industry becomes closer to what economists term a monopony. A Monophony is a market where there are many suppliers and one buyer. Under these market conditions, the buyer has the most influence in determining the price. Few pure monophonies actually exist, but there is often a connection between an industry and buyers that determines where power lies (Porter, 1998).

The last porter model is rivalry. Firms strive to secure a competitive advantage over their rivals. The intensity of rivalry varies within each industry and these differences can be

important in the development of strategy. Industries that are “concentrated,” versus “fragmented,” often display the highest level of rivalry. High concentration ratio indicates that a majority of market share is controlled by the largest firms. If a few firms hold a large market share, the competitive landscape is less competitive as it nears that of a monopoly. A low concentration ratio indicates that the industry has many rivals, none with significant market share. These fragmented markets are said to be competitive.

## **2.4 Growth Strategies Adopted by SMEs**

SMEs have received considerable attention in the literature as a result of their importance in the generation and creation of economic wealth. The ability of SMEs to create, access and commercialize new knowledge on global markets is fundamental to their sustained competitiveness. Ansoff’s (1965) model proposes different corporate-level strategies that aim towards the growth of the firm. This typology is concerned with the strategic decisions that a firm faces, when considering widening of the range of products or entering new markets. Based on two dimensions, product and market, growth strategies can be categorised into four major forms that is, intense growth strategies, diversification, modernization and external growth strategies. The following are among the growth strategies that can be adopted by SMEs:-

### **2.4.1 Product Development Strategy**

Product development strategy, in this, the firm tries to grow by developing improved products for the present market. According to Watts et al. (2008) the most suitable growth strategies for a small firm are those concerning product development and market development. Smallbone *et al.* (2005) share the same view suggesting that high growth



can best be achieved by identifying new markets for existing products or by developing new products or services for existing customers. In this way SMEs can evolve from having an established core activity into more complex businesses. Nooteboom (2004) suggests that SMEs pursue product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets. Moore (2004) also suggests that business model innovation is a very effective strategy in mature markets with products in late life cycle stages.

#### **2.4.2 Market Penetration Strategy**

Market penetration is a growth strategy based on increasing the firm's existing share of products and markets. This strategy aims at increasing the sale of present product in the present market through aggressive promotion. The firm penetrates deeper into the market to capture a larger share of the market. Mascarenas et al., (2006) claim that growth requires expanding what a firm is doing currently to a more potential customer. A business enterprise cannot serve the entire market with a particular produce or service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segment consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes (Kotler, 1999). Service Positioning is also employed as a growth strategy. Once a business enterprise has identified a specific market segment to serve, the next phase is to position the service in the market place. How the service is designed (service blueprinting and physical evidence) will impact the image of the service in the consumers mind explains Ziethmal, (1996). A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings.

### **2.4.3 Market Development Strategy**

Market development strategy is when a firm responds to new market opportunities, by introducing existing products to new markets or customer groups. It implies increasing sales by selling present products in the new markets. Market development leads to increase in sale of existing products in unexplained markets. Diversification directs the organization towards introducing new products to new markets.

### **2.4.4 Marketing Strategy**

Marketing strategy, Porter (2004) noted that marketing is most effective when it is an integral component of business strategy, defining how the organization aspires to engage customers, prospects and the competition in the market place for success. According to Salazar, marketing is as important as production, financing, cash flow and other profit determining factors in small and medium enterprises. This is because the producer, who develops a sound marketing strategy, definitely has economic advantage over those producers who don't.

### **2.4.5 Pricing Strategy**

Pricing strategy is where large and small businesses compete in rating pricing in the market in order to win customers. This is an essential component of marketing. However, SMEs compete in placing favorable price to their customer as a way of retaining their customers as well as attracting other potential customer through networking basing on pricing. According to Bauer and Colgan (2001), lower prices lead to higher demand and, therefore, to a large market. Though most of the managers

perceive this is not good strategy for growth since customers may have perception that the product or service of low price is standard one.

#### **2.4.6 Quality Customer Service**

Quality customer service is the comparison made between the customers' expectation about a service and their perception of the way the service has been performed (Parasuraman et al., 1994). Customer satisfaction and loyalty is secured through high quality products and services. Providing value for money for consumer is essential for long term success (Zeithaml et al., 1990). Relationship marketing is the philosophy of doing business that focuses on keeping and improving current customers rather than on acquiring new ones. Businesses must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality service and innovation, this is a good growth strategy notes Lovelock, (1996). Another growth strategy is Setting and Measuring Service Standards. Once managers of service businesses accurately understand what customers expect, the second critical challenge is to set service quality standards and goals for the organizations. Excellent service businesses realize the crucial role that the setting and review of service standards can play in driving quality performance which includes the pay-off in terms of customer loyalty as well as reduction in the cost of correcting errors and handling complaints. The setting of quality service standards is the beginning of a cycle of continuous improvements (Lovelock, 1996).

### **2.4.7 Human Resource Strategy**

Finally, Human Resource Strategy, people are vital for organizational performance, no service business can afford to divorce its customer contact, employees, from the firm's marketing strategy (Lovelock, 1996). The ability of an organization to succeed often rests with relatively junior staff in such customer contact positions such as clerks, security guard etc. Ziethaml (1996) notes that contact employees represent the organization and can directly influence customer satisfaction; they perform the role of marketers. Therefore careful recruitment, training and ongoing mentoring of employees can contribute to improvements in both productivity and service quality.

## **2.5 Challenges in Adopting Growth Strategies**

The development of privately owned enterprises has been rapid in the recent years; SME's form the majority of such businesses. SME's are flourishing in South Africa, Mauritius and North Africa. However, it is noteworthy that the chain of misfortune that trail Africa such as endless wars have had negative impact in the growth and development of businesses. In the Democratic Republic of Congo, for example, most SME's went bankrupt in the 1990s as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses (Graham, 2001). Between these two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system. In Nigeria, SME's (about 95 per cent of formal manufacturing activity) are key to the economy but insecurity, corruption and poor infrastructure prevent them being motors of growth. Africa's private sector consists of mostly informal micro-enterprises, operating alongside large firms (Carrier, 1999).

Between these large and small firms, SME's are very scarce and constitute a "missing middle." Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP (Chong, 1988).

Czinkota, Michael and Ursic (1983) argue that SME's are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Large firms have the means to overcome legal and financial obstacles, since they have more negotiating power and often good contacts to help them get preferential treatment. They depend less on the local economy because they have access to foreign finance, technology and markets, especially if they are subsidiaries of bigger companies. They can also more easily make up for inadequate public services. Africa's SME's have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings or informal savings and loan associations, which are unpredictable. Access to formal finance is poor because of the high risk of default among SME's and due to inadequate financial facilities (Czinkota, Michael and Michael, 1983).

Czinkota, Michael and Michael (1983) summarized the following challenges to small and medium business enterprises: scarcity of funds, more risk during expansion, expansion often requires upgrading of technology and replacement of plant and machinery, upgrading of technology is a time-consuming and expensive a process, coordination problems which may lead to inefficient operations, state bureaucracy, environmental

concerns, poor infrastructure and rapid change in customer needs. According to the Government of Kenya economic survey (2000) implementation of structural adjustment program and subsequent Market Liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses face increased competition and registers low profits and even losses. As trade barriers, transport and communication costs fall, SMEs are required to add more value to their products to stay ahead and compete with lower cost rivals

According to Amyx (2005) one of the most significant challenges is the negative perception towards small business enterprises. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry on name recognition alone. Education is one of the factors that impact positively on growth of firms. These entrepreneurs with large stocks of human capital, in terms of education and (or) vocational training are better placed to adapt their enterprises to constantly changing business environments (King, 1998). According to Ronge, Ndirangu and Nyangito (2002) infrastructure as it relates to provision of access roads, adequate power, water, sewage and telecommunication has been a major constraint in the development of small business enterprises.

Diversification may involve new marketing skills and training of employees. Siwadi (2011) notes that under normal circumstances small enterprises have low growth and limited potential partially due to the type of business activities they run. Kimathi (2009) emphasizes that small business enterprises are held back by tough local conditions some of them are unable to even raise huge collateral demanded by banks as a condition to

access loans. Technological advances create new products and transform almost every stage of business from production to marketing, sourcing and logistics. New rules introduced through the multilateral trade system and foreign buyers require SMEs to comply with higher technical (*e.g.* technical barriers to trade), environmental (*e.g.* ISO14000) and labor standards in domestic and export markets. SMEs have to adjust and adopt new approaches to foster their competitiveness and overcome challenges.

## **2.6 Small and Medium Business Enterprises**

The area has experienced rapid business investments in the recent years due to lack of employment opportunities and the growth of the town. Majority of the residents in the area are young people who are either unemployed or struggling to operate various forms of business enterprises. Oyugis town is well known for its wide range of shops and amenities ranging from food stuffs to construction companies. It is generally recognized that SMEs (Small and Medium Enterprises) face unique issues, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Many enterprises continue facing many growth and development challenges due to lack of effective promotion mechanism that addresses SMEs growth challenges.

Ronge, Ndirangu and Nyangito (2002) state that SMEs collapse while in early stages of development leaving most of the people unemployed as well as impacting negatively on the country's economic development. According to Kabondo constituency Development Fund (CDF) strategic plan 2013 -2015, (2013) three out of five small, medium businesses

fail within the first few months of operation for various unknown reasons in Oyugis town.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a general approach to studying a research topic. This chapter, therefore, explores how the research was carried out. It involves a blueprint for the collection, measurement and analysis of data. Specifically the following subsections are included; research design, population, sample, data collection and data analysis.

#### **3.2 Research Design**

This study employed a descriptive research design. A descriptive research design attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). It is concerned with describing the characteristics of a particular individual, or of a group. In this case, the research problem was to investigate growth strategies adopted by SMEs in Kenya with specific focus on SMEs in Oyugis town, Homa Bay County. A descriptive research defines questions, people surveyed, and the method of analysis prior to beginning of data collection. Thus, this approach is appropriate for this study, since the researcher intended to collect detailed information through descriptions and the method has also been useful for identification of variables and hypothetical constructs.

### **3.3 Population**

According to National Chamber of Commerce Nyanza (2012), there were 3,217 active SMEs in South Nyanza. Out of this figure, 133 were in Oyugis Town. The study targeted SMEs operating in Oyugis Town. Mugenda and Mugenda, (2003) stated that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

### **3.4 Sample Population**

The study used simple random sampling technique in coming up with the sample of the study. Simple random sampling technique is used as it minimizes sampling error as each element in the target population is accorded equal (unbiased) probability of being selected. Using probabilistic sampling each population member has a known chance of being included in the sample. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper and Schindler, 2003). Moreover, larger sample minimize errors. Kotler (2001) argues that if well chosen, samples of about 10% of a population can often give good reliability. Other literatures have shown that sample size selection to a great extent is judgmentally decided. A sample of 40 SMEs will be randomly selected out of the total population of 133.

### **3.5 Data Collection**

The study collected both primary and secondary data for the purpose of investigating growth strategies adopted by SMEs in Oyugis Town. Primary data was collected using a questionnaire. The questionnaire has both open and close-ended questions. The close-ended questions provide more structured responses to facilitate tangible

recommendations. The closed ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions were used to provide additional information that might not have been captured in the close-ended questions. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This will be done in order to enhance its validity and accuracy of data to be collected for the study.

The researcher administered the questionnaire individually to all respondents of the study. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received. To achieve this, the researcher maintained a register of questionnaires, which were sent, and which will be received. The questionnaire were administered using a drop and pick later method. Secondary data was obtained from annual reports of the County and from the ministries concerned as well as secondary sources like the websites, journals and other published reports.

### **3.6 Data Analysis**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data will then be coded to enable the responses to be grouped into various categories. The data collected was mainly quantitative; however some qualitative data were collected from the open ended questions to enhance and uncover any convergent and divergent views. As such, descriptive statistics was employed and used to summarize the data. This included percentages and frequencies. All quantitative data on growth strategies adopted by SMEs in Oyugis Town were

measured in real values by normalizing. Descriptive statistics was used to measure the quantitative data which will be analyzed using the statistical analysis. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. The researcher used the data with an aim of presenting the research findings in respect to growth strategies adopted by SMEs in Oyugis Town. The generated quantitative reports were presented through tabulations, percentages and measures of central tendency while qualitative data was presented in prose.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents a summary of findings, conclusions and recommendations. Results have been discussed in line with research objective stated earlier in chapter one. The chapter concludes by suggesting measures. Data collected was collated and reports were produced in form of tables and figures and qualitative analysis done in prose.

#### **4.2 Response Rate**

Table 4.1 illustrates the response rate of the respondents that participated in the survey. The study targeted 40 respondents at Oyugis town in collecting data on growth strategies adopted by small and medium business enterprises. However, out of 40 questionnaires distributed 32 respondents completely filled in and returned the questionnaires contributing to 80%. This response rate was reached due to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone call and picked the questionnaires once fully filled. The 20% questionnaires that were not returned were due to the fact, the respondent were not available to fill them in at that time and with persistence follow-ups there were no positive responses from them. The response rate demonstrates a willingness of the respondents' to participate in the survey that the study sought.

**Table 4.1: Response Rate**

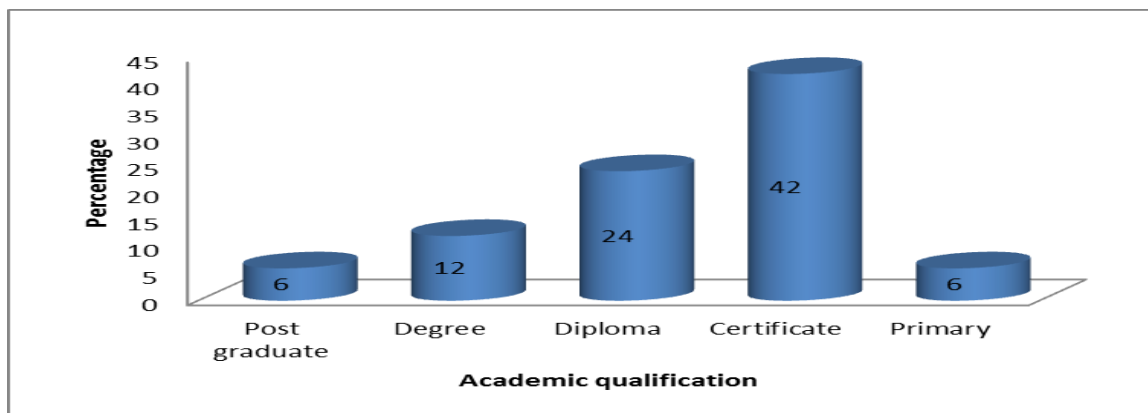
| <b>Response</b>            | <b>Frequency</b> | <b>Percentage (%)</b> |
|----------------------------|------------------|-----------------------|
| Filled in questionnaires   | 32               | 80                    |
| Un returned questionnaires | 8                | 20                    |
| <b>Total</b>               | <b>40</b>        | <b>100</b>            |

### **4.3 Demographic Characterization of the Respondents**

The analysis relied on the information from the respondents so as to classify the different results according to their knowledge and responses.

#### **4.3.1 Highest Education Level of the Respondents**

The researcher was inquisitive to determine academic qualification that the respondents had attained. Table 4.3 summarizes the findings of the result, most (42%) of the respondents had acquired certificate in various courses as their highest academic qualification, 24% had acquired diploma, 21% had acquired degree, 7% had post graduate as their highest academic qualification while 6% had lower than certificate such as primary school certificate. This depicts that most of the entrepreneurs' had acquired some knowledge that could be important in management and running of the business.



**Figure 4.1 Highest Education Level of the Respondents**

### 4.3.2 Duration of Running the Business Enterprises

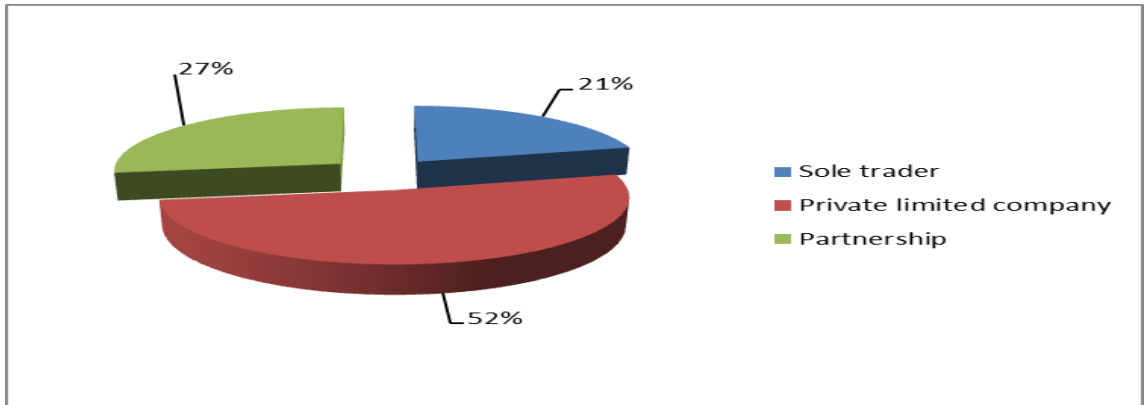
The researcher requested the respondents' to indicate the length of time that their business enterprises had been in existence. The results are shown in table 4.2 below. From the study, 33.3% of the respondents indicated that their enterprises had been in existence for a period of 1 to 5 years, 30.3% of the business enterprises that were surveyed had been in existence for 6- 10 years, 18.2% of them had been in existence for 11- 15 years, 15.2% of them indicated that they had been operating in the country for 16 – 20 years, while only 3.0% of the respondents indicated that their enterprises had been in existence for a period of more than 20 years.

**Table 4.2 Duration of Running Business Enterprises**

| <b>Duration of Existence</b> | <b>Frequency</b> | <b>Percentage</b> |
|------------------------------|------------------|-------------------|
| 1 – 5 years                  | 11               | 33.3              |
| 6- 10 years                  | 10               | 30.3              |
| 11- 15 years                 | 6                | 18.2              |
| 16 – 20 years                | 4                | 15.2              |
| More than 20 years           | 1                | 3.0               |
| Total                        | 32               | 100.0             |

### 4.3.3 Business Ownership

The study required the respondents to indicate the type of ownership of the business enterprises they work with. The results are as depicted in figure 4.2. According to the results, majority (51.5%) of the respondents indicated that their enterprises were private limited companies, 27.3% of the enterprises were partnerships while 21.2% of the respondents worked in sole trader owned enterprises.



**Figure 4.2 Legal Business Ownership of Business Enterprises**

#### **4.3.4 Number of Employees**

Further the study also sought to establish the size of the companies in terms of number of employees. The results of the findings are as shown in table 4.3, 45.5% of the business enterprises had between 11 and 20 employees, 24.2% of them had less than 10 working employees, 15.2% of the enterprises had between 20- 30 employees, 9.1% of the respondents worked in enterprises which had between 30-40 employees while 6.0% of the respondents indicated that their enterprises had between 40–50 employees.

**Table 4.3 Enterprise Sizes by Number of Employees**

| <b>Number of Employees</b> | <b>Frequency</b> | <b>Percent</b> |
|----------------------------|------------------|----------------|
| Less than 10               | 8                | 24.2           |
| 11-20                      | 15               | 45.5           |
| 20- 30                     | 5                | 15.2           |
| 30- 40                     | 2                | 9.1            |
| 40 – 50                    | 2                | 6.0            |
| Total                      | 32               | 100.0          |



#### **4.3.5 Business Activities of the Enterprises**

The study further sought to establish the various business activities that the participating enterprises are involved in. The respondents indicated that their enterprises are involved in various activities such as fish mongering, animal feeds manufacturing, petrol stations, supermarket, hospitals, private schools, advocates, large scale farming, cake baking and event catering, car parts sale, steel items, food mincing and packing, fresh fruit juice manufacturing, furniture making and interior decoration. Other enterprises are involved in garment manufacturing such as shoes, jacket, bags etc, machines and hardware, making of doors, chairs and tables plastic manufacturers, printing services such as printing of posters, brochures, magazines, spare parts, tiles manufacturing, posho mills, laundry and welding of chairs and tables.

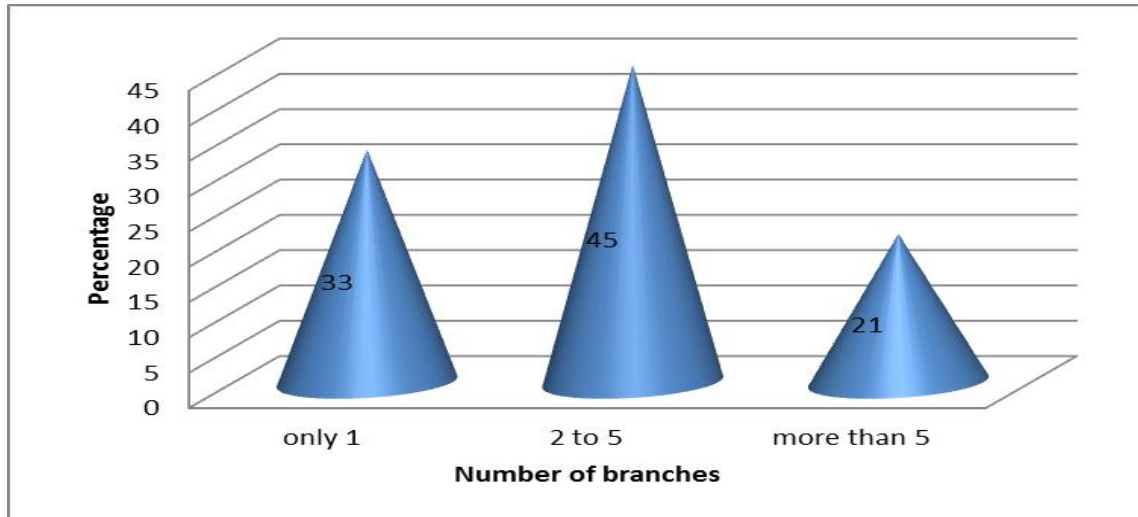
#### **4.3.6 Value of the Total Assets**

The study was concerned with establishing growth strategies adopted by small and medium enterprises in Oyugis town. As such the study was interested in finding out the estimated value of the total assets in the business enterprises. The surveyed business enterprises had total assets ranging between KShs. 150,000 and KShs. 32 million. It was however noted that majority of them had total assets worth between KShs. 2 million and KShs. 10 million.

#### **4.3.7 Number of Branches**

Figure 4.3 summarizes the study findings on number of branches that enterprise have. According to the study findings most (45%) of the entrepreneurs' had 2 to 5 business enterprises, 33% had only one enterprises while the rest (22%) had more than 5 enterprises. This implies that most of entrepreneurs' have been expanding their business

to the door steps of the targeted customers for them to grow both in customer base and market share.



**Figure 4.3 Number of Branches**

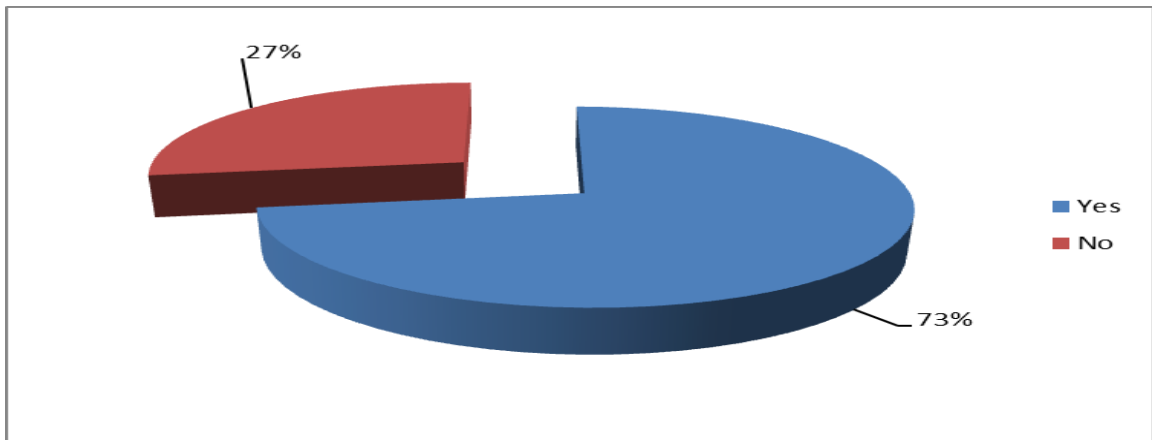
#### **4.4 Growth Strategies Adopted by SMEs**

The study was motivated to investigate growth strategies adopted by SMEs due to realization that the ability of SMEs to create, access and commercialize new knowledge on global markets is fundamental to their sustained competitiveness. Ansoff's (1965) model proposes different corporate-level strategies that aim towards the growth of the firm. This typology is concerned with the strategic decisions that a firm faces, when considering widening of the range of products or entering new markets.

##### **4.4.1 Growth Strategies Adopted**

In business growth, strategies such as expansion is assumed to have additional advantages such as increase in the total sales volume annum, an increase in the production capacity, increase in employment, an increase in assets, an increase in the use

of raw material and power (Foster & Browne, 2006). Thus, the study asked the respondents whether their businesses had developed any strategies on growth. From the findings, majority (73%) of the respondents' indicated that their enterprises have developed growth strategies while 27% indicated that they had not developed any growth strategy.



**Figure 4.4 Growth Strategy Adopted**

## **4.5 Market Penetration**

Market penetration as a growth strategy is adopted with aim of increasing the firm's existing share of products and markets. It's also aimed at increasing the sale of present product in the present market through aggressive promotion. The firm penetrates deeper into the market to capture a larger share of the market to remain competitive.

### **4.5.1 Market Penetration Strategy Adoption**

According to Mascarenas et al., (2006) market growth strategies requires expanding what a firm is doing currently to a more potential customer. A business enterprise cannot serve the entire market with a particular product or service as customer needs and wants are

diverse. Table 4.4 shows the summary of the study findings on whether market penetration is among the strategies adopted. From the findings, (67%) were of the opinion that market penetration strategy is one of the growth strategies adopted while 33% differed with the majority opinion.

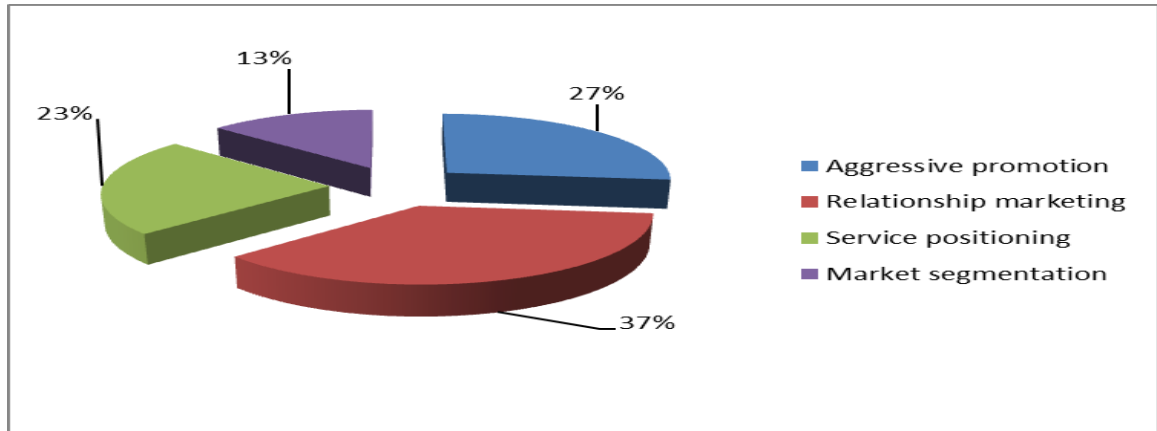
**Table 4.4 Market Penetration Strategy Adoption by Business Enterprises**

|              | <b>Frequency</b> | <b>Percentage</b> |
|--------------|------------------|-------------------|
| Yes          | 22               | 67                |
| No           | 10               | 33                |
| <b>Total</b> | <b>32</b>        | <b>100</b>        |

#### **4.5.2 Methods used in Marketing Penetration**

Kotler (1999) pointed that a business enterprise cannot serve the entire market with a particular product or service as customer needs and wants are diverse. It must identify segments of a market that it can serve most effectively. A market segment consists of a large identifiable group within a market with similar wants, purchasing power, among other attributes Kotler, (1999). Service Positioning is also employed as a growth strategy. Once a business enterprise has identified a specific market segment to serve, the next phase is to position the service in the market place. A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings. Figure 4.5 shows the findings of the study on the methods used to achieve marketing penetration. Most (37%) of the respondents indicated that they have adopted relationship marketing, 27% had adopted aggressive promotion, 23% had applied service positioning while 13% pointed out that they were applying market segmentation. However, the study

established that some enterprises were offering transport services after buying bulky goods, free samples, low pricing and discounts as a way to attract customers.



**Figure 4.5 Methods used to Achieve Marketing Penetration**

### **4.5.3 Aspects of Market Penetration**

In his study, Ziethmal (1996) pointed that how the service is designed (service blueprinting and physical evidence) impact the image of the service in the consumers mind as well as attracting more suppliers in the organization hence mass flow of the products and services by the distributors. A service offering's position is the way it is perceived by consumers, particularly in relation to competing offerings. Further the study requested respondents to indicate the extent to which their organizations focused on some aspects of market penetration. From the finding, respondents indicated that customer service was emphasized to a great extent as illustrated by mean score of 3.76, distributors are emphasized more to a very great extent as shown by mean score of 4.54, suppliers were focused on, under marketing penetration to a great extent as illustrated by mean score of 3.88 while employees focus was done to a great extent as depicted by mean score of 3.83.

**Table 4.5 Aspects of Market Penetration**

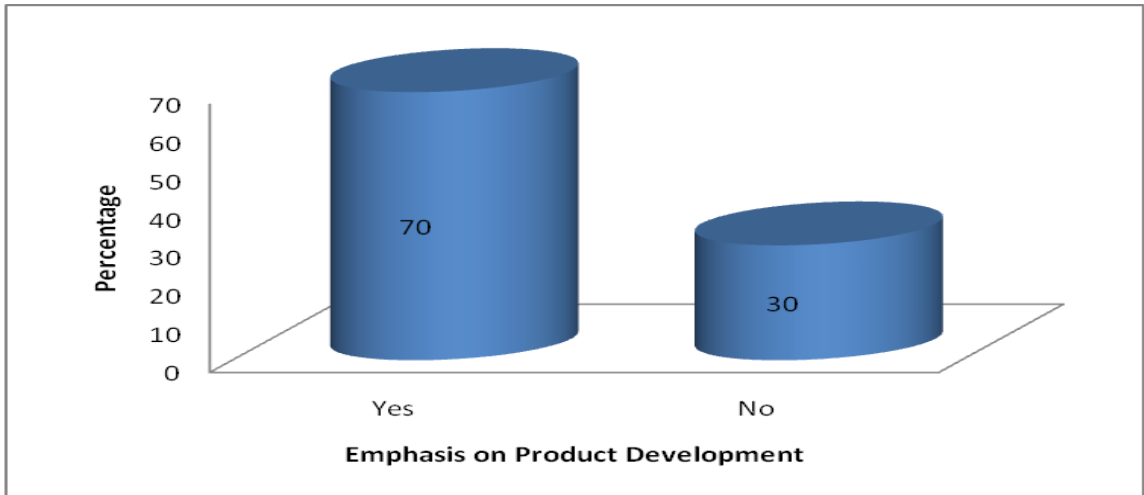
|              | <b>Mean</b> | <b>STDev</b> |
|--------------|-------------|--------------|
| Suppliers    | 3.88        | 0.338        |
| Customers    | 3.76        | 1.062        |
| Distributors | 4.54        | 0.509        |
| Employees    | 3.83        | 0.482        |

## **4.6 Product Development Strategy**

According to Watts et al. (2008) the most suitable growth strategies for a small firm are those concerning product development and market development. Smallbone *et al.* (2005) shares the same view suggesting that high growth can best be achieved by identifying new markets for existing products or by developing new products or services for existing customers.

### **4.6.1 Adoption of Product Development Strategy**

Moore (2004) suggested that business model innovation is a very effective strategy in mature markets with products in late life cycle stages. As such, the researcher requested respondents to indicate whether their enterprises focus on product development strategy. From the findings, 70% of the respondents indicated that their enterprises focus on product development strategy, as compared to 30% of those who indicated that their enterprises do not emphasize on product development strategy.



**Figure 4.6 Adoption of Product Development Strategy**

#### **4.6.2 Aspects of Product Development Strategy**

Nooteboom (2004) suggested that SMEs pursue product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets. The researcher requested the respondents to indicate their level of agreement on the statements relating to growth strategies adopted by their business. From the findings, most of the respondents' agreed that their product development strategy target a specific group of people as indicated by mean score of 4.04, secondly, respondents' agreed that they have evolved from main core activity into more complex businesses since they embarked on product development strategy as shown by mean of 3.92, respondents also agreed that they have achieved high growth by identifying new markets for their new but related products as illustrated by mean score of 3.72

**Table 4.6 Aspects of Product Development Strategy**

| <b>Product Development strategy</b>  | <b>Mean</b> | <b>STDev</b> |
|--|-------------|--------------|
| We have achieved high growth by identifying new markets for our new but related products                                   | 3.72        | 0.11         |
| We have evolved from our main core activity into more complex businesses since we embarked on product development strategy | 3.92        | 0.675        |
| Our Product development strategy targets a specific group of people  | 4.04        | 0.808        |

## **4.7 Market Penetration Strategy**

Market penetration is a growth strategy based on increasing the firm's existing share of products and markets. This strategy aims at increasing the sale of present product in the present market through aggressive promotion. The firm penetrates deeper into the market to capture a larger share of the market.

### **4.7.1 Aspects of Market Penetration**

Mascarenas et al., (2006) claim that growth requires expanding what a firm is doing currently to a more potential customer. A business enterprise cannot serve the entire market with a particular product or service as customer needs and wants are diverse.. Table 4.7 shows result of the findings on respondent level of agreement on the aspects relating to market penetration strategy and their influence on the growth of enterprises. From the findings, most of the respondents strongly agreed that they have increased sales by selling present products in the new markets as depicted by mean score of 4.47, respondents also agreed that they have improved their products by branding, labelling and packaging so as to attract more customers and increase their sales as illustrated by



mean score of 4.25, additionally respondents agreed that they had increased the firm's existing share of products and markets as a way of penetrating the market as shown by mean score of 4.21. On the other hand, respondents' were neutral that they consider some general marketing principles and develop a marketing strategy, entrepreneurs' aspires to engage customers, prospects and the competition in the market place for success and that they have expanded their products and services to various market segments as illustrated by mean score of 3.18, 3.06 and 3.04 respectively.

**Table 4.7 Aspects of Market Penetration Strategy**

| <b>Market penetration strategy</b>  | <b>Mean</b> | <b>STDev</b> |
|---|-------------|--------------|
| Our firm has penetrated deeper into the markets to capture a larger share of the market   | 4.02        | 0.843        |
| We have increased the firm's existing share of products and markets as a result of Market penetration strategy                        | 4.21        | 0.631        |
| We have expanded our products and services to various market segments   | 3.04        | 1.066        |
| We have increased sales by selling present products in the new markets  | 4.47        | 0.868        |
| Through market development we remain competitive and grow in the market   | 4.11        | 0.32         |
| We have improved our products by branding, labelling and packaging so as to attract more customers and increase our sales             | 4.25        | 0.897        |
| Marketing is as important as production, financing, distribution and other profit determining factors in small and medium enterprises | 4.19        | 0.483        |
| We aspires to engage customers, prospects and the competition in the market place for success   | 3.06        | 1.144        |
| We consider some general marketing principles and develop a marketing strategy  | 3.18        | 0.846        |

## **4.8 Pricing strategy**

Pricing strategy is where large and small businesses compete in rating pricing in the market in order to win customers. This is an essential component of marketing. SMEs compete in placing favorable price to their customer as a way of retaining their customers as well as attracting other potential customer through networking basing on pricing.

### **4.8.1 Respondent Level of Agreement with Pricing Strategy Aspects**

Further the study requested respondents to indicate their level of agreement to the pricing strategies aspects adopted by their organization. From the findings, most of the respondents indicated that they closely monitor competitor behaviors and consumer activity to ensure that the profit margin used in markup pricing is one that maximizes net gains and avoids arbitrary decision-making as shown by mean score of 3.88, also respondent strongly agreed that they place favorable price to their customers as a way of retaining them as well as attracting other potential customers through networking basing on pricing as depicted by mean score of 3.83 while respondents were neutral that they perceived that this is not a good strategy for growth since customers may have the perception that their products or service is of low standard as illustrated by mean score of 3.15.

**Table 4.8 Pricing strategy**

| <b>Pricing Strategy</b>   | <b>Mean</b> | <b>STDev</b> |
|---|-------------|--------------|
| We place favorable price to our customers as a way of retaining them as well as attracting other potential customers through networking basing on pricing                                   | 3.83        | 0.781        |
| We perceive that this is not a good strategy for growth since customers may have the perception that our product or service is of low standard  | 3.15        | 1.503        |
| We closely monitor competitors behaviors and consumer activity to ensure that the profit margin used in markup pricing is one that maximizes net gains and avoids arbitrary decision-making | 3.88        | 1.746        |

## **4.9 Quality Customer Service**

Quality customer service is the comparison made between the customers' expectation about a service and their perception of the way the service has been performed (Parasuraman et al., 1994). Customer satisfaction and loyalty is secured through high quality products and services. Providing value for money for consumer is essential for long term success (Zeithaml et al.,1990).

### **4.9.1 Respondents' Level of Agreement on Quality Customer Service**

Relationship marketing is the philosophy of doing business that focuses on keeping and improving current customers rather than on acquiring new ones. Businesses must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality service and innovation; this is a good growth strategy (Lovelock, 1996). Table 4.8 indicates respondents' level of agreement on the statements regarding to quality customer service as growth strategies. According to the findings, respondents agreed that to attract new customers and strengthen existing relationships

they have introduced relationship management, setting and measuring of service Standards and customer retention programs across the board as shown by mean score of 4.13, almost the same number of respondents agreed that they have become increasingly conscious of the need to improve the quality of their service provision as result of increasing customer expectations, growing competition and government legislation as depicted by mean score of 4.03. Likewise respondents agreed that they have secured customer satisfaction and loyalty through high quality products and service thereby providing value for their money as illustrated by mean score of 3.69.

**Table 4.9 Aspects of Quality Customer Service**

| <b>Quality Customer Service</b>  | <b>Mean</b> | <b>STDev</b> |
|--|-------------|--------------|
| We have become increasingly conscious of the need to improve the quality of our service provision as result of increasing customer expectations, growing competition and government legislation        | 4.03        | 0.287        |
| We secure customer satisfaction and loyalty through high quality products and service thereby providing value for their money.   | 3.69        | 1.046        |
| To attract new customers and strengthen existing relationships we have introduced Relationship Management, Setting and Measuring of service Standards and customer retention programs across the board | 4.13        | 0.336        |

#### **4.10 Human Resource Strategy**

Human resource strategy is vital for organizational performance; no service business can afford to divorce its customer contact, employees, from the firm's marketing strategy (Lovelock, 1996).

#### 4.10.1 Aspects of Human Resource Strategy

The ability of an organization to succeed often rests with relatively junior staff in such customer contact positions such as clerks, security guard etc. Ziethaml (1996) notes that contact employees represent the organization and can directly influence customer satisfaction; they perform the role of marketers. Table 4.10 shows the finding of the study on the extent to which respondent agreed with aspects of human resources strategy adopted by SMEs. From the findings, most of the respondents agreed that they ensure customer satisfaction through engaging customer through their staff as depicted by mean score of 4.01, also respondent agreed that have recruited qualified and potential staffs in relevant units of our operation as shown by mean score 3.77. Further respondent agreed that their organization performance is effective due to commitment of the staffs to their duties as reflected by mean score of 3.70. Furthermore respondent agreed that they train their staff to ensure they are equipped with the current operation process contributing to improvements in both productivity and service quality as illustrated by mean score of 3.64 and 3.52 respectively.

**Table 4.10 Aspects of Human Resource Strategy**

|  | <b>Mean</b> | <b>STDev</b> |
|--|-------------|--------------|
| There are qualified and potential staff in relevant units  | 3.77        | 1.297        |
| Staff commitment ensure effective organization performance   | 3.7         | 1.198        |
| Customer satisfaction through continuously engaging customers by the staff                               | 4.01        | 1.196        |
| Staffs are well trained and equipped with the current operations, standards and processes and procedures | 3.64        | 1.284        |
| Careful recruitment, training and mentoring improve productivity and service quality                     | 3.52        | 1.168        |

## **4.11 Challenges Faced in Adoption of Growth Strategies**

According to KNBS (2007), the SME sector generated 469,000 new jobs in 2006-2007 financial years, which was an increase of 5.7 % from the previous year. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). This regrettable result is experienced as a result of challenges that SMES are prone to, such as stiff competition from the large organizations, political instability among others.

### **4.11.1 Extent to which Specific Challenges Affects the Adoption of Growth Strategies by SMEs**

The study requested respondents to indicate the challenges faced in adopting the growth strategies by their enterprises. According to the findings most of the respondent indicated that large companies offered stiff competition hence hindering the growth strategies that the entrepreneurs' have adopted to a very great extent as shown by mean score of 4.56, Changes in information technology affects their businesses to a great extent hence slow growth of their business to a great extent as shown by mean score of 3.92, Big banks and financial institutions lack appropriate structures for dealing with SMEs in financial support while the customers still perceive that they offer low quality than big companies hence dwindling SMEs growth to a great extent as illustrated by mean score of 3.88 and 3.83 respectively. Financial institutions charge prohibitive interest rates on credit facilities hence hindering our commitment on strategy set on growth while the credit processing costs and other charges are unrealistic to a great extent as illustrated by mean score of 3.68 and 3.54 respectively. On the other hand, respondent pointed that they lack competent personnel in coming up with realistic strategies that are in line with the

objective of our business and that their firm has experienced problems in accessing credit which can boost their performance as well as aid in implementation of strategies as depicted by mean score of 3.54 and 3.38 respectively.

Table 4.11 Challenges Faced in Adoption of Growth Strategies

|  | Mean | STDev |
|--|------|-------|
| Our firm has experienced problems in accessing credit which can boost our performance as well as aid in implementation of strategies   | 3.38 | 1.345 |
| Financial institutions charge prohibitive interest rates on credit facilities hence hindering our commitment on strategy set on growth | 3.68 | 0.338 |
| The credit processing costs and other charges are unrealistic  | 3.54 | 1.141 |
| We lack competent personnel in coming up with realistic strategies that are in line with the objective of our business                 | 3.44 | 1.062 |
| Large companies offer stiff competition hence hindering the growth strategies that we have adopted                                     | 4.54 | 0.109 |
| Customers still have the perception that we offer low quality than big companies hence our dwindling in growth                         | 3.83 | 0.382 |
| Big Banks and financial institutions lack appropriate structures for dealing with SMEs in financial support                            | 3.88 | 0.241 |
| Changes in information technology affects our business to a great extent hence slow growth of our business                             | 3.92 | 0.217 |

#### 4.11.2 Infrastructure Access in Oyugis Town

Table 4.12 below shows the summary of the study finding on the situation of infrastructure in Oyugis town. From the findings, majority (66%) of the respondent indicated that there is adequate water, 56% indicate that there is good security. Further, 53% indicated that there is adequate power, 41% pointed that there is passable roads, 34% indicated that telecommunication is available while the rest 25% opined that

functioning sewage system is in operation. On the other hand, 75% indicated that functioning sewage system particularly in town center is poor, 66% indicated that Telecommunication network is poor, 59% indicated that there are no passable roads, 47% indicated inadequate power, 44% pointed that there is insecurity while the rest (34%) indicated that there is inadequate water.

**Table 4.12 Infrastructure access in Oyugis Town**

|                           | Frequency |    | Percentage |    |
|---------------------------|-----------|----|------------|----|
|                           | Yes       | No | Yes        | No |
| Passable roads            | 13        | 19 | 41         | 59 |
| Adequate power            | 17        | 15 | 53         | 47 |
| Adequate water            | 21        | 11 | 66         | 34 |
| Functioning sewage system | 8         | 24 | 25         | 75 |
| Telecommunication         | 11        | 21 | 34         | 66 |
| Good security             | 18        | 14 | 56         | 44 |

#### **4.12 Discussion of Findings**

The study found that majority of the businesses had developed a certain strategy for growth of their enterprises. This conferred with Foster and Browne (2006) that business growth strategies such as expansion have additional advantages such as increase in the total sales volume annum, an increase in the production capacity, increase in employment, an increase in assets, an increase in the use of raw material and power.

Likewise, the study found that market penetration strategy is one of the growth strategies mostly pursued where most of organizations focused on specific aspects of market penetration such as market segmentation. This finding agree with Mascarenas et al., (2006) argument that business growth requires expanding what a firm is doing currently



to a more potential customer. A business enterprise cannot serve the entire market with a particular product or service as customer needs and wants are diverse.

Further, the study established that most organizations closely monitor competitor behaviors and consumer activity to ensure that the profit margin used in markup pricing is one that maximizes net gains and avoids arbitrary decision-making. According to Bauer and Colgan (2001), lower prices lead to higher demand and, therefore, to a large market. This strategy focuses on gaining competitive advantage by lowering cost in the industry (Porter, 1996; Bauer and Colgan, 2001). According to Dess and Davis (1984), the primary thing for a firm seeking a way of reducing cost is to concentrate on maintaining efficiency throughout all activities in order to effectively control every expense and find new potential cost reduction. Cost leadership is the only way to offer low prices and is valuable if buyers do not value differentiation very much, buyers are price sensitive and it is sustainable if there are no changes in consumer tastes, technology and exogenous prices

Businesses must see customers as their long term partners and need to make a commitment in maintaining the relationship through quality service and innovation, this is a good growth strategy notes Lovelock, (1996). The finding of the study validates this literature as majority of the enterprises under survey were emphasizing on quality customer service through relationship management as a way of improving the turnover as well as business performance.

To the challenges facing SME growth, the study found that larger companies offered stiff competition hence hindering the growth strategies that the entrepreneurs' have adopted.

The findings conferred with KNBS (2007) argument that despite SMEs significant contribution to the growth of the economy, past statistics indicate that three out of five businesses fail within the first few months of operation for such reasons. Changes in information technology also affect SMEs to a great extent. These findings are in line with Kimathi (2009) statement that technological advances create new products and transform almost every stage of business from production to marketing, sourcing and logistics complicating all the operation process. The study also revealed that there is lack of appropriate structures for dealing with SMEs in financial support. Their main sources of capital are their retained earnings or informal savings and loan associations, which are unpredictable. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Czinkota, Michael and Michael, 1983). Czinkota, Michael and Ursic (1983) again argue that SME's are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. This is consistent with that study findings that infrastructure access, roads, power and water is quite limited. According to Amyx (2005) one of the most significant challenges is the negative perception towards small business enterprises. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical need simultaneously. This corroborates with the study findings that some customers prefer products and services from bigger organizations.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter presents the summary of the data findings on growth strategies adopted by SMEs with specific focus on Oyugis town, Homa Bay County, the conclusions and recommendations are drawn there of. The chapter is therefore structured into summary of findings, conclusions, recommendations, limitation of the study and area for further research.

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

The objectives of this study were to determine the nature of growth strategies adopted by small and medium business enterprises in Oyugis town, Homa Bay County and to establish the challenges involved in adopting these growth strategies by small and medium business enterprises in Oyugis town, Homa Bay County.

From the study findings it was clear that most enterprises have developed growth strategies. Also the study found that marketing strategy is one of the growth strategies adopted where relationship marketing and aggressive promotion are mostly adopted. Marketing penetration strategy has been emphasized to a very great extent through market segmentation and wider distribution channels.

On product development strategy, the study found that a number of the enterprises have focused on this strategy. Likewise the study found that entrepreneurs' adopt product

development strategy targeting specific group of people resulting to entrepreneurs' evolving from main core activity into more complex businesses.

On market penetration strategy, the study found that enterprises have increased sales by selling present products in the new markets and that they have improved their products by branding, labelling and packaging so as to attract more customers and increase their sales. Likewise, the study found that enterprises have increased the firm's existing share of products and markets as a way of market penetration strategy.

On pricing, the study found that SMEs closely monitor competitors' behaviors and consumer activity to ensure that the profit margin used in markup pricing is one that maximizes net gains and avoids arbitrary decision-making. In addition, the study found that enterprises have placed favorable price to their customers as a way of retaining them as well as attracting other potential customers through networking basing on pricing.

On quality customer service as a growth strategy, the study found that enterprises have attracted new customers and strengthened existing relationships by introducing relationship management, setting and measuring of service Standards and customer retention programs across the board. Furthermore, the study found that enterprises have become increasingly conscious of the need to improve the quality of their service provision as result of increasing customer expectations, growing competition and changing technology.

To human resource strategies, the study found that SMEs ensure customer satisfaction through engaging customer with the staffs and that they have recruited qualified and

potential staffs in relevant units of our operation. Likewise, the study found that organization performance is effective due to commitment of the staffs in their duties.

To the challenges faced in adoption of growth strategies, the study found that large companies offer stiff competition hence hindering the growth strategies that the entrepreneurs' have adopted to a very great extent. Changes in information technology affects enterprises to a great extent hence slow growth of their business and that Big Banks and financial institutions lack appropriate structures for dealing with SMEs in financial support while the customers still perceive that they offer low quality than big companies hence dwindling SMEs growth to a great extent. Further, the study found that functioning sewage system, Telecommunication network, impassable roads and inadequate power were also some of the challenges that affects growth of the SMEs in the town.

### **5.3 Conclusions of the Study**

The study sought to find out growth strategies adopted by small and medium business enterprises in Oyugis town, Homa Bay County. Based on the findings, the study concluded that most of the enterprises had already developed growth strategies to respond to the changing customer needs and competitive market nature where marketing strategy was the key growth strategy adopted with practices such as relationship marketing and aggressive promotion being employed mostly.

To product development strategy, focus on product development strategy was mainly observed by entrepreneurs, targeting specific group of people resulting to remarkable growth of the enterprises from a simple business activities into more complex businesses

Inclusively, increased sales by selling present products in the new markets through adoption of market penetration strategy have resulted to most enterprises improving their products by re branding, labelling and packaging as a way of attracting more customers and increasing brand loyalty.

To the pricing, the study concluded that placing of favorable prices to customers as a way of retaining them as well as attracting other potential customers through networking basing on pricing was key practice in most of the enterprises. Moreover, businesses have attracted new customers and strengthened existing relationships by introducing relationship management, setting and measuring of service Standards and customer retention programs across the board.

Further, the study concluded that there is stiff competition from large companies on the small and medium enterprises hence hindering the growth strategies that the entrepreneurs' have adopted. Changes in information technology, inadequate infrastructure, insecurity, negative perception, lack of appropriate structures in the financial institutions for dealing with SMEs in financial support, high interest rates on loans and perception of customer towards the quality offered by the SMEs results to minimal growth and performance of SMEs.

#### **5.4 Recommendations of the Study**

The study recommends that for the business to experience rapid growth, entrepreneurs' and the entire management should emphasize on strategies set to ensure they are focused to the organizational objectives and are aligned to the market needs while they are rigid to be applied by the competitors. Likewise the study recommends that enterprises should

come-up with a way of rebranding or repacking products according to the taste of the consumers and by so doing they increase the customer base.

Furthermore the study recommends that entrepreneurs' should relook on their growth strategies in terms of business branches and assets in order to reach the consumers to their door steps while they increase customer base as well as creating awareness of the service or product they deal with. Finally, the survey recommends that for the business to realize the growth effectively, entrepreneurs' must identify potential suppliers with quality products to ensure that large companies do not outshine small enterprises in the market. This will ensure survival of small enterprises as they contribute to job creation, economic development as well as encouraging creativity.

## **5.5 Limitations of the Study**

The study was mainly to identify growth strategies adopted by SMEs in Oyugis town and the challenges they face in adopting such strategies but did not critically examine why growth strategies fail in their implementation within organizations. The study mainly focused on SMEs in Oyugis town and not SMEs in general. The growth strategies pursued by SMEs in other parts could be different as well as the challenges they face.

The study focused only on SME sector and not other sectors such as micro finance and big corporations which are also key engines to economic growth. This main limitation of study was its inability to include more organizations. This is a case focusing on the selected institution. The study could cover more institutions across all sectors so as to provide a more broad based analysis. However, time and resource could not allow.

The researcher encountered other challenges or limitations such as none-cooperation by some of the respondents targeted for fear that they will be victimized and that the information might be used for other purposes other than the project, hence not reaching the targeted sample size. However, the researcher assured the respondents of proprietary measures that the findings would be accorded and used only for academic purposes.

## **5.6 Suggestions for Further Research**

The study suggests that further research should be done on the factors affecting the effectiveness of growth strategies that have been adopted by organizations in order to give both negative and positive sides from within the organization that can help management in mitigation of the risks of unsuccessful implementation of strategies.

The study also suggests further research to be done on growth strategies adopted by organizations focusing on other sectors other than SMEs in order to collect reliable information that illustrates real situation in all sectors. The same study should be duplicated for SMEs in other towns in Kenya other than Oyugis in order to come up with a benchmark on growth strategies and the challenges involved in their adoption that cuts across all SMEs in Kenya from which general conclusions can be derived.



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## APPENDICES

### Appendix I: Introduction Letter

Dear Sir/Madam,

**REF: REQUEST TO CARRY OUT DATA COLLECTION.**

I am a student at UON pursuing a Masters degree in Business Administration. As a requirement in fulfillment of this degree, am carrying out a study on the '**GROWTH STRATEGIES ADOPTED BY SMALL AND MEDIUM BUSINESS ENTERPRISES IN OYUGIS TOWN, HOMA BAY COUNTY**'.

You have been chosen as you are well positioned to provide reliable information that will enable the study achieve its objectives. I intend to research on the above through the use of a questionnaire.

Any assistance accorded to me in my noble cause as well as the information given shall be treated as confidential and will be used purely for the purposes of this research. A final copy of the document shall be availed to you upon request. Your cooperation will be highly appreciated, thank you in anticipation.

Yours Faithfully,

**NANCY ADHIAMBO YOGOHI**

## Appendix II: Questionnaire

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

### Section 1: Background Information

1. Indicate the name of your business (optional).....
2. What is your highest level of academic qualification?  
Post graduate                           degree               
Diploma                                   certificate           
Any other (specify).....
3. How long has your business been in existence?  
1 – 5 years                  11- 15 years                  More than 20 years       
6- 10 years                  16 – 20 years
4. What is the legal business ownership of this firm?  
a) Sole trader                                                  c) Private limited company               
b) Partnership                                       
Any other (specify).....
5. How many employees work in this firm?  
Less than 10                  11-20                                   20- 30       
30- 40                          40 – 50
6. What does your business deal with?  
.....
7. What are the estimated value/total assets in your business?  
.....
8. How many branches does your business have?  
Only 1                                           2-5                                      More than 5

**Section 11: Growth Strategies Adopted by SMEs**

9. Has your business developed any strategy on growth?

Yes [ ] No [ ]

10. Is market penetration strategy among the growth strategies you have adopted?

Yes [ ] No [ ]

b) If yes, identify any the methods you used to achieve this in the following table.

(Put a tick)

|                            | Tick | Explain |
|----------------------------|------|---------|
| i) Aggressive promotion    |      |         |
| ii) Relationship marketing |      |         |
| iii) Service positioning   |      |         |
| iv) Market segmentation    |      |         |

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

.....  
 .....

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

|              | 1 | 2 | 3 | 4 | 5 |
|--------------|---|---|---|---|---|
| Suppliers    |   |   |   |   |   |
| Customers    |   |   |   |   |   |
| Distributors |   |   |   |   |   |
| Employees    |   |   |   |   |   |

12. Do you emphasize on product development strategy in your business

Yes [ ] No [ ]

13. To what extent do you agree with the following statements relating to growth strategies adopted by your business? Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

|  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| <b>Product Development strategy</b>  |   |   |   |   |   |
| We have achieved high growth by identifying new markets for our new but related products                                   |   |   |   |   |   |
| We have evolved from our main core activity into more complex businesses since we embarked on product development strategy |   |   |   |   |   |
| Our Product development strategy targets a specific group of people  |   |   |   |   |   |
| <b>Market penetration strategy</b>   |   |   |   |   |   |
| Our firm has penetrated deeper into the markets to capture a larger share of the market                                    |   |   |   |   |   |
| We have increased the firm's existing share of products and markets as a way of Market penetration strategy                |   |   |   |   |   |
| We have expanded our products and services to various market segments  |   |   |   |   |   |
| <b>Market development strategy</b>   |   |   |   |   |   |
| We have increased sales by selling present products in the new markets   |   |   |   |   |   |
| Through market development we remain competitive and grow in the market  |   |   |   |   |   |
| We have improved our products by branding, labelling and packaging so as to attract more customers and increase our sales  |   |   |   |   |   |
| <b>Marketing strategy</b>  |   |   |   |   |   |
| Marketing is as important as production,   |   |   |   |   |   |



|   |  |  |  |  |  |
|---|--|--|--|--|--|
| financing, distribution and other profit determining factors in small and medium enterprises  |  |  |  |  |  |
| We aspire to engage customers, prospects and the competition in the market place for success  |  |  |  |  |  |
| We consider some general marketing principles and develop a marketing strategy  |  |  |  |  |  |
| <b>Pricing strategies</b>   |  |  |  |  |  |
| We place favorable price to our customers as a way of retaining them as well as attracting other potential customers through networking basing on pricing                                       |  |  |  |  |  |
| We perceive that this is not a good strategy for growth since customers may have the perception that our product or service is of low standard  |  |  |  |  |  |
| We closely monitor competitors behaviors and consumer activity to ensure that the profit margin used in mark up pricing is one that maximizes net gains and avoids arbitrary decision-making    |  |  |  |  |  |
| <b>Quality customer service</b>   |  |  |  |  |  |
| We have become increasingly conscious of the need to improve the quality of our service provision as result of increasing customer expectations, growing competition and government legislation |  |  |  |  |  |
| We secure customer satisfaction and loyalty through high quality products and service thereby providing value for their money.  |  |  |  |  |  |
| To attract new customers and strengthen existing relationships we have introduced Relationship Management, Setting and Measuring of service   |  |  |  |  |  |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| Standards and customer retention programs across the board  |  |  |  |  |  |
| <b>Human Resource Strategy</b>  |  |  |  |  |  |
| We have recruited qualified and potential staffs in relevant units of our operation   |  |  |  |  |  |
| Our performance is effective due to commitment of the staffs in their duties  |  |  |  |  |  |
| We ensure customer satisfaction through engaging customer with the staffs   |  |  |  |  |  |
| We train our staffs to ensure they are equipped with the current operation process  |  |  |  |  |  |
| Careful recruitment, training and ongoing mentoring programme of employees contribute improvements in both productivity and service quality |  |  |  |  |  |

### Section III: Challenges in Adopting Growth Strategies

|  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Our firm has experienced problems in accessing credit which can boost our performance as well as aid in implementation of strategies   |   |   |   |   |   |
| Financial institutions charge prohibitive interest rates on credit facilities hence hindering our commitment on strategy set on growth |   |   |   |   |   |
| The credit processing costs and other charges are unrealistic  |   |   |   |   |   |
| We lack competent personnel in coming up with realistic strategies that are in line with the objective of our business                 |   |   |   |   |   |
| Large companies offer stiff competition hence hindering the growth strategies that we have adopted                                     |   |   |   |   |   |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| Customers still have the perception that we offer low quality than big companies hence our dwindling in growth |  |  |  |  |  |
| Big Banks and financial institutions lack appropriate structures for dealing with SMEs in financial support    |  |  |  |  |  |
| Changes in information technology affects our business to a great extent hence slow growth of our business     |  |  |  |  |  |

14. Do you have access to the following infrastructural facilities (Put a Tick?)

|     |                           | Yes | No |
|-----|---------------------------|-----|----|
| i   | Passable roads            |     |    |
| ii  | Adequate power            |     |    |
| iii | Adequate water            |     |    |
| iv  | Functioning sewage system |     |    |
| v   | Telecommunication         |     |    |
| vi  | Good security             |     |    |

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

Poor [ ] average [ ] good [ ]

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

.....  
 .....

**THANK YOU FOR YOUR PARTICIPATION**