STRATEGIC RESPONSE TO EXTERNAL BUSINESS ENVIRONMENT: A
STUDY OF SMALL AND MEDIUM ENTERPRISES

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SPRING, 2016
STUDENT’S DECLARATION

I declare that this work is original and it has not been submitted for academic credit to any other college, institution or university.

Signed: ___________________________  Date: ___________________________
James W Mundia (ID No 638579)

This project has been submitted for assessment with my approval as the chosen supervisor.

Signed: ___________________________  Date: ___________________________
Dr. Joseph Ngugi

Signed: ___________________________  Date: ___________________________
Dean, Chandaria School of Business
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DEDICATION

I take this opportunity to thank all the people who assisted in putting a foundation for this research report. First, much gratitude goes to my supervisor who guided me through this research process. I also extend my sincere gratitude to my family for their time and support throughout the MBA program and especially during this research project.
ABSTRACT

The general objective of the study was to establish the strategic response to external business environment; with special reference to small and medium enterprises in Nairobi County. The specific objectives of the study were; to determine the planned strategies used by small and medium enterprises in response to the changing external business environment, to establish product innovation strategies used by small and medium enterprises in responding to the changing external business environment, and to find out the market innovation strategies used by small and medium enterprises in response to the changing external business environment.

The study used a descriptive research design. Mugenda and Mugenda (2009) noted that a descriptive study focuses on discovering the what, where and how of a phenomenon. The population of this study was 2061, Small and Medium Enterprise in Nairobi County. The SMEs are in category of retail shops, hotels, wholesale/stock shops, electrical, hardware/motor bike retailers, entertainment joints and bars, hair salons and barbershops and others types of businesses. Data was collected on small and medium enterprise in Nairobi County. The study adopted stratified random sampling to get a representative sample. Questionnaires were then issued to the sample population (95) for response. The study used qualitative and quantitative methods to analyze data collected from questionnaires.

The study established that strategic planning enables an organization to identify the prevailing environmental opportunities and threats, and also to figure out or estimate the organization’s resources capabilities by taking into account the strengths and weaknesses of its resources so as to align itself accordingly to battle with the environmental challenges. The study recommends that SMEs need to successfully deal with the prevalent forces for change if they are to survive and grow and meet their expectations. The owners/managers of SMEs as leaders or their organization need to have a clear understanding of their operating environment in order to respond to the forces for change either proactively according to the business and/or strategic plan or reactively if the situation has not been considered in the planning process.

The study revealed that product innovation strategies provides SMEs with means of generating revenues, safeguarding and improving quality and saving costs. In order to improve the product and achieve a good fit between the product and the customer needs,
SMEs need to continually keep on encouraging product innovation, this can be achieved through employment of a large number of creative and competent individuals who can not only introduce a new product, but also see it through to completion. In order to improve the product and achieve a good fit between the product and the customer needs, SMEs need to continually keep on encouraging product innovation, this can be achieved through employment of a large number of creative and competent individuals who can not only introduce a new product, but also see it through to completion.

The study established that market innovation as a business culture leads to business performance improvement, market innovation is not the only route to growth, but it is key in building growth that is sustainable over a period of time. SMEs need to continually conduct market research by focusing on customer preferences and competitors so as to facilitate development of market strategy that will effectively deal with market segments and make SMEs competitive. SMEs should adopt strategies in their business models that will facilitate them to respond positively to the external business environment so as to attain competitive advantage. Planned strategies help an organisation to identify new opportunities and threats in the market and respond accordingly to sustain or achieve a competitive edge. Product innovation strategies assist a firm to generate ideas that continuously helps improve or introduce competitive products with a good fit to its customers’ needs. Market innovation strategies will lead a firm to better understand its customers and the market through research that focuses on the dynamic customer needs and preferences and the nature of competition.

This study recommends that SMEs should embrace strategic planning practices by allocating adequate resources towards this course and developing capacity of their employees and management to support it. The SMEs should allocate resources not only to achieve short-term objectives but also focus on sustainable long-term growth.
ACKNOWLEDGEMENT
This thesis has been completed with enormous support and guidance from several people. I would like to thank my supervisor Dr. Joseph Ngugi for his patient, guidance and encouragement. His overwhelming support and helpful critique enabled me to complete this thesis. I would also thank my colleagues and friends for their continuous encouragement and support. Lastly, I would like to thank my family for providing a loving environment and for supporting me. My deepest and unending thanks go to my wife, Miriam Ndegwa for her enthusiasm and support that cheered me up when my spirit lagged, eyes blurred, and typing fingers grew numb.
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<tr>
<td>BPR</td>
<td>Business Process Re-engineering</td>
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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<tr>
<td>RoK</td>
<td>Republic of Kenya</td>
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<td>SAPs</td>
<td>Structural Adjustment Programmes</td>
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<td>SMEs</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business (Iansiti & Clark, 2013). These factors depend on the complexity and dynamism of the environment. According to Johnson and Scholes (2010), strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives. It’s thus a reaction to what is happening in the organization’s environment. According to Sauve (2011), when businesses see their environment as turbulent and complex, they respond to align with the changes in the environment.

Globalization, social political, economic and technological changes have forced firms to make dramatic adjustments not only to compete and prosper, but also to survive. Such firms have enhanced their organizational performance through restructuring, reengineering, quality programs, building alliances, mergers and acquisitions, strategic redirection, downsizing and culture change. Some of these organizations have undertaken their transformation efforts quite successfully. Others have experienced disappointing results; with new strategies poorly implemented, acquisitions that have not achieved expected synergies, reengineering and downsizing that have largely failed and quality programs that have not delivered the results (Eisenhardt & Martin, 2010).

Strategic management is a systematic process that focuses on specific goals, designs policies, plans and resource allocation in order to achieve the organization objectives. It is the highest level of managerial activity; usually performed by the company's top management and executive team and aims at providing the vision to the whole enterprise. During the last decade, rapid changes have occurred in the political and economic business environment that had greater effects on the global economic outlook (Thompson, 2007). These changes include rapid technological breakthroughs characterized with faster internet connectivity through fiber optics and globalization that are changing how businesses operate. The change has brought opportunities and challenges in businesses especially for global organizations. The volatile environment has made many banks to design a strategy that is more adaptable to changes in external environment (Wilson & Rosenfeld, 2010).
Companies that are more flexible in terms of competition strategies are more likely to compete globally amidst demand and technological uncertainty. Competitive intensity is the degree of competition a company encounters, which requires firms to take a flexible approach so that they can adapt to the changing conditions (Hunger & Wheelan, 2012). Hofer and Schendel (2008) posit that strategic responses by firms in competitive environment need to be mainstreamed and valued within the firm. In most cases, changes in technology and strategic actions of competitors accelerate competition. Firms that are flexible in responding to new competitive behaviors have an advantage over others because they have enough resources to use and can design strategies to enable them compete effectively.

Similarly, demand uncertainty creates difficulty in assimilating information and devising strategic plans. Managing in uncertain environments requires concerted deployment of resources devoted to the product-market operations and response to demand idiosyncrasies (Hofer & Schendel, 2008). O’Brien (2009) says that Competitive flexibility involves understanding and responding to the unique needs of consumers, business partners and institutional constituents. He emphasized that competitive flexibility is vital especially during demand uncertainties.

Technological changes in product and processes usually results into uncertainty in technology. Strategic responses involve having ability to quickly respond to changing market conditions. Hax & Majiluf (2012) adds that capability building requires investing in diverse resources and having various strategic options.

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization has opened up the markets to environmental forces. Coping with the increasingly competitive environment requires firms to rethink their marketing strategies (Pearce & Robinson, 2013). Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2010).

Industries are responding to customer’s demand by becoming more innovative in approaching the changing environment (Johnson & Scholes, 2010). They adopt strategies such as improved customer services, credit facilities, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business
environment where innovation has become a top competitive strategy. According to Ansoff and McDonnell (2010), increased competition has created a fundamental shift in the economic environment where no organization can compete effectively if it fails to come up with proper strategic responses. Approaches such as retrenchment, mergers, rightsizing and cost reduction have become the norm for survival means.

Ansoff and McDonnell (2010) noted that strategic responses involve changes in the firm’s strategic behaviors to assure success in transforming future decisions and actions that result in the formalization and implementation of plans designed to achieve a firm’s objectives. Therefore, it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to best support its long term competitive strategy.

Thus strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates (Johnson & Scholes, 2010). According to Ansoff and McDonnell (2010), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

Ansoff and McDonnell (2010) further argue that this can be done by (1) positioning of the firm through strategy and capability planning in its rightful competitiveness (2) use of real time response through issue management, and (3) systematic management of resistance to change during strategic implementation. According to Chepkwony (2010) the firm has to learn, adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, brought about by globalization and trade liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

Strategic responses ensure the survival of organizations at large and at the same time enhance relevance in the environment in which they serve. This has seen organizations embrace and focus on the challenges that the environment has with a keen interest on adaptation and change that is seen as sustainable to any enterprise. With each environmental threat, there is a more focused approach to its adaptation and in the same
breath; with each environmental opportunity, there are organizations that respond positively in a more receptive approach. While the results are obvious, the various strategic responses that these institutions will adopt to achieve distinction and respond to environmental challenges are what this paper is focusing on.

Small enterprises in Kenya cut across all sectors of the economy and provide one of the main sources of employment and generate widespread economic benefits (Gichumbi, 2008). Small and Medium Enterprises in Kenya constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. The SME industry in Kenya is characterized by the employment of between 50 to 200 employees and capital assets of a substantial amount of about Ksh.2 million (excluding property) (Gichumbi, 2008).

There is no standard definition of SME in Kenya. Lenders ‘definitions vary, but typically they define SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. Regardless of the quantitative definition, it is agreed by virtually all stakeholders in this market that SMEs in Kenya are the “missing middle”. Their size and credit demand have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies, while the opacity of the SME risk profile combined with the lenders’ lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers for business banking (Gichumbi, 2008). Gichumbi (2008) notes that, the definition of SMEs in Kenya various among all the stakeholders and hence there is no agreed upon definition of SMEs. However, these stakeholders agree that SMEs lacks the capacity to comprehensively assess risks, which makes them incur huge losses and as a result they become less attractive for banking.

1.2 Statement of the Problem
Organizations and enterprises are operating in the environment that is rapidly changing in terms of technology and customer preferences. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Pearce and Robinson (2013) explain that businesses or firms should evaluate and change their marketing strategies in order to remain competitive in this turbulent
environment. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2010).

Industries are responding to customer’s demand by becoming more innovative in approaching the changed environment (Hax & Majiluf, 2012). They adopt strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy.

There are many studies in the area of strategic responses but none of them focused specifically on Small and Medium Enterprises. Kiptugen (2013) did a study on strategic responses by firms facing changed environmental conditions – a study of motor vehicle franchise holders in Kenya; (Kombo, 2010) conducted a study on strategic responses to changes in the external environment: the case of Kenya Re corporation while Gichumbi (2008) did a study on strategic responses by NSSF to changing environmental conditions in Kenya. This study answered the following question: what are the strategic responses of small and medium enterprises in Nairobi County to external business environment forces?

1.3 General Objective
The general objective of the study was to establish the strategic response to external business environment; with special reference to small and medium enterprises in Nairobi County.

1.4 Specific Objectives
The study specifically aimed at the following:
1.4.1 To determine the planned strategies used by small and medium enterprises in response to the changing external business environment
1.4.2 To establish product innovation strategies used by small and medium enterprises in responding to the changing external business environment
1.4.3 To find out the market innovation strategies used by small and medium enterprises in response to the changing external business environment
1.5 Significance of the Study

1.5.1 Small and medium Enterprise
The findings of this research have provided vital information to facilitate the management of small and medium enterprise in designing appropriate methods and strategies geared towards business sustainability. Thus the findings are thus expected to help them identify gaps in their strategic responses and enable them to better respond to environmental changes.

1.5.2 Distributors and Suppliers
The findings of the study are beneficial to the distributors and suppliers of small and medium enterprise since they will be enlightened on how the business responds to changes in the environment.

1.5.3 Government and policy makers
The findings of the study will be of great importance to policy maker in the government as they will be enlightened on the strategic response to external business environment; with special reference to small and medium enterprises in Nairobi County.

1.5.4 Researchers/Scholars
The study also contributes to the body of knowledge to researchers and scholars who will undertake further studies in a related field. It will provide them with a reference point and make recommendation for areas for further studies. The researcher will gain useful skill and experience that will aid them in carrying out future research.

1.6 Scope of the Study
The study was conducted on the Small and Medium enterprises in Nairobi County. The information was gathered from the top management team of the SMEs. This was because this team is the architect of all the policies that the SMEs use. The population of the study was 2061 Small and medium enterprise where the study sampled 95 Small and Medium Enterprises. The study was conducted from July 2015 to September 2015.

1.7 Definition of Terms

1.7.1 Planned Strategies
Johnson and Scholes (2012) defines planned strategy as actions that resulted from the process of strategic planning that gives an organization direction on how to utilize its
resources in a turbulent environment to meet the needs of markets and to fulfill stakeholders’ expectations.

1.7.2 Decisive Strategic Responses
Ansoff and McDonnell (1990) define decisive strategic responses as those which involve changes in the firm’s strategic behaviours to assure success in transforming future business environment.

1.7.3 Strategic Responses
Pearce and Robinson (2010) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm’s objectives.

1.7.4 Reactive Strategies
This refers to a slow response to changes in a firm's environment, undertaken only when a management is forced to take rearguard action (Pearce & Robison, 2010).

1.7.5 External Business Environment
A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business (Iansiti & Clark, 2013).

1.7.6 Small and Medium Enterprise
Small and medium enterprises (SMEs) are non-subsidiary independent firms which employ few numbers of employees (Sauve, 2012) which varies across national statistical systems.

1.8 Chapter Summary
This chapter introduces the study with special reference to small and medium enterprises in Nairobi County. The areas of discussion contained in this chapter are as follows: background of the problem, statement of the problem, purpose of the study, research objectives, importance of the study, scope of the study, and definition of terms. Chapter two is the literature review, chapter three will be research methodology, chapter four will be results and findings and chapter five will be the discussion, conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This section reviews the relevant literature to establish the strategic response to external business environment; with special reference to small and medium enterprises in Nairobi County. The section is presented in three key sub-sections in respect to the research questions. Some of the literature looks at the planned strategies, product innovation strategies used by small and medium enterprises in response to the changing external business environment.

2.2 Planned Strategies used by Small and Medium Enterprises

An organization can change production in order to take advantage of the foreign exchange rate fluctuations and to access the best factors of production (Porter, 2010). Similarly, an organization ability to coordinate its global competitive actions may demonstrate its flexibility in competitiveness. This helps the organization to have many competitive points and a bigger strategic space to build appropriate offensive and defensive plans that may often include counter-parry, cross-subsidization and sequential competitive entries. A strategy is usually a dynamic strategy-making process and involves a complex pattern of actions and reactions. It can either be partially planned or unplanned (Porter, 2010).

2.2.1 Planned Strategies Adopted

Planned strategies can be defined as the fit between an organization and its environment (Porter, 2008). It is about winning and offers coherence and direction to both individuals and organizations by specifying the required resources to achieve an objective. Johnson and Scholes (2012), points out that planned strategies are carefully thought actions that resulted from the process of strategic planning. These strategies give an organization direction on how to utilize its resources in a changing environment to meet the needs of markets and to fulfill stakeholders’ expectations.

Strategic planning is thus the process adopted in identifying a strategy that best matches organizational capability with the environment. Strategic planning will enable an organization to identify the prevailing environmental opportunities and threats, and also to figure out or estimate the organization’s resources capabilities by taking into account
the strengths and weaknesses of its resources so as to align itself accordingly to respond to the environmental challenges (Porter, 2010).

The planned strategies are implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm’s resources and motivation of the staff to achieve objectives. The way in which the strategy is implemented can have a significant impact on whether it will be successful or not. In most cases, those people who formulated the strategy are not those to implement it. For this reason, caution must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if the affected parties resist its implementation because they do not understand why the particular strategy was selected, (Hammer, 2012).

Organization structure refers to the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns (Hunger & Wheelan, 2012). Thus, structure distinguishes the parts of the organization and delineates the relationship between them; one of the major activities of restructuring is business process reengineering. Hammer (2012), notes that “companies can dramatically improve their efficiency and quality by focusing on customers and the process that create value for them. Processes have come to be more important than their products and are in fact defining the market places in which the companies compete”. Outsourcing for instance, would enable an organization to concentrate on its core businesses, while benefiting from the cost efficiencies of those companies that specialize on the strategies activity. Firms can design their strategies based on their processes, for instance, through intensification where processes are mapped and improved to enhance customer service, or through extension where effective processes enable entry to new markets.

Kombo (2010) argues that there are various catalysts for organizational changes such as restructuring. Their triggers may include the purchase of new IT equipment or system, business process reengineering through process intensification/extension, the redesign of a group of Jobs, staff right sizing and subsequent staff cutbacks, as well as staff redundancies. With regard to the number of levels in the structure of the organization, often referred to as the scalar chain, Porter (2010) suggests that they should be as few as possible. Too many levels make it difficult to understand the objectives and to
communicate in the organization. Thompson (2010), states that radical business process reengineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved.

The social factors that affect a firm involves the beliefs, values attitudes, opinions and lifestyles of persons in the firm’s external environment, which emanate from cultural, ecological, demographic, religious, educational, and ethnic conditioning (Pearce & Robinson, 2010). As social attitudes change so does the demand of various types of products. Social factors are shaped by individual efforts that aim at fulfilling their needs and desire, these individuals also control and adapt to forces in the environment. For managers, informed judgment of the impact of changes in social cultural factors is paramount.

As Johnson and Scholes (2010) argued, business firms are in a constant two-way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. The connection of the external environment and the organization is that of input to output process where inputs are received from the environment and released back into the same environment after being processed by the organization. What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 2011).

2.2.2 Planned Strategies in Relation To Business Environment

Many scholars have attempted to look at how strategies are formed in organizations. Johnson and Scholes (2010), view strategies as coming about in a number of ways such as: the result of managerial intent and planning. This brings about intended strategy, which is basically the expression of desire to move in a certain strategic direction; the imposition by external forces that are supreme and beyond the organization’s control such as changes in information technology and the outcome of cultural and political processes developed over time. Strategic response is the result of strategic thinking and planning leading to strategy formulation and its subsequent implementation.

Wilson and Rosenfeld (2010) view strategic planning as a disciplined and well defined organizational effort aimed at the complete specification of a firm’s strategy and the assignment of responsibilities for its execution. Strategic planning provides the link
between strategic management and the external environment in which the organization operates. The strategic planning process involves both industry and competitive situation analysis and the organizations situation analysis. This leads to the identification and evaluation for the organization’s strategic options.

Strategic responses involve changes to the organizations behavior. Such responses may take many forms depending on the organization capability and the environment in which it operates (Pearce & Robinson, 2013). According to Pearce and Robinson (2011), strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives. It’s thus a reaction to what is happening in the organization’s environment. On the other hand, Hunger and Wheelan (2010), note that operational responses are concerned with developing and nurturing a distinctive competence to provide an organization with a competitive advantage.

Thompson (2010) defines strategic adaptations as a change that takes place over time to the strategies and objectives of an organization. They may be slowly, evolving, dramatic or even new. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The results of strategic activity are new products, new services, new processes, new markets, abandoned markets, new competitive strategies for attacking the markets and new responses to social and political challenges. The overall responsibility for effective strategic response belongs to the general management of the firm. Strategic response is where the strategy will achieve the best fit for an organization given its situation.

2.2.3 Planned Strategies among SMEs
Organizations may apply planned strategic responses to changing environment through making dynamic moves to mitigate the consequences of the environmental changes. Porter and Miller (2010) noted that strategic responses involve changes in the firm’s strategic behaviours to assure success in transforming future environment. Pearce and Robinson (2007) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm’s objectives. Therefore, it is a reaction to what is happening in the economic environment of organizations. Porter (2008) views operational responses as part of a planning process that coordinates operational goals with those of the larger organization.
Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy. Porter (2008) states that the goals of a competitive strategy for a business in an industry is to find a position where the company can best defend itself against the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. These five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy. He identified three potentially successful generic strategy approaches to outperforming other firms in an industry. There are overall cost leadership, differentiation and focus in formulating its strategic response to changes in the environment. A firm must have first decided on a core idea of generic strategy and how it can best compete in the market place.

As the external environment changes, organizations find themselves in unfamiliar environment and they have to respond by integrating change and internalizing the ability to adapt to the new environment for survival and growth. According to Schendel and Hofer (2009), organizations respond to turbulence in the environment by formulating new strategies. These offers direction to the organization and allows it to achieve its goals while taking opportunities and responding to threats in the environment. Pearce and Robinson (2011) urge that the organization have to respond to the turbulence by crafting new strategies that they define as a large-scale future-oriented plans for interacting with the environment.

Pearce and Robinson (2007) states that knowledge of these underlying sources of competitive pressure provides the foundation for strategic agenda of action; highlights the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield the greatest payoff. Porter (2008) argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete, what are the goals and policies or tactics necessary for achieving the goals. Competitive strategy includes actions or attempts by a firm to attract customers, retain them, withstand competitive pressures and strengthen its market positions, and is aimed at gaining competitive advantage. Porter
expressed the key aspects of firm’s competitive strategies in what he referred to as the “wheel of competitive strategies.

2.3 Product Innovation Strategies used by Small and Medium Enterprises

There are enormous benefits through product innovations including safeguarding, improving quality and also reducing costs. High quality products are considered as drivers of long-term business growth (Sauve, 2001). Product innovation enhances the competitive edge of a company and therefore continuous product assessment will help the company to design better products that positions it well in the market a head of competitors.

According to Sauve (2001), various terms have been used to classify and explain product development. It is a process which involves enhancing existing products but with numerous constraints. As to Porter (2010), he categorized it into primary and secondary innovations. Primary innovations generally focused on developing new markets where consumer behaviours changes often and products/services require high degree of technical originality. While secondary innovation is used by businesses to improve existing market.

A firm that has innovation and marketing strategies usually manifests this through product portfolio decisions. Hax and Majiluf (2012) say that a common approach to manage new product development is to develop and manage a portfolio of particular projects. Hunger and Wheelan (2012) add that choosing the product portfolio is the duty of a firm’s senior management Portfolio decisions involves two strategic components: formulating strategies on new product introductions (its rate and of number of products) and market entry. Past research suggests that -firms which are effectively managed arrange their portfolios by striking a balance in the product innovation portfolio across these strategic components. However, past research has not systematically divided the components of portfolio strategy to assess how the components work together in relation to financial performance.

2.3.1 Innovation Strategies

It is imperative for businesses to continuously innovate not only to sustain their competitive advantage, but also to survive. Innovation is not the only route to growth, but it is key in creating sustainable growth over a period of time. In other words, growth
achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate. Iansiti and Clark (2013) view innovation as an organization’s means of adapting to the environment, or pre-empting a change in the environment in order to increase or sustain its effectiveness and competitiveness.

The importance of innovation in business is usually well-understood by business executives, yet formal programmes are not always put in place to manage it. Chepkwony (2010) in supporting the need for innovation to be subjected to the same controls as other business processes, has observed that a lot of companies have not put innovation strategies in place. Managers have come to accept the fact that they only have a vague understanding of how their companies are doing as far as innovation is concerned (Eisenhardt & Martin, 2010).

Unfortunately, executives cannot put plans in place to improve the level of innovation in their companies when they have no approach of determining whether their interventions will be fruitful or not. Designing an innovation strategy is the first step towards managing innovation in businesses. As Porter (2010) suggests, an innovation strategy is similar to a road map that assists an enterprise to communicate its vision and needed resources to reach there.

### 2.3.2 How Product Innovation Strategy is used

Innovation is highly significant to organization and it should not be ignored. The majority of organizations innovate to some extent, but because they do not always have innovation strategies in place, they basically accept that the outcome of innovation can take any form, shape or structure, or worst still, that it can take no form, shape or structure. Eventually, the purpose of an innovation strategy is to increase the chances of success in the organization (Hammer, 2012).

Generating and implementing ideas for the sake of innovation can be very expensive. Through an innovation strategy, enterprises can ensure that their processes, products, suppliers and corporate strategies are aligned so that their efforts are likely to bear fruit. Employees who know and understand where the company wants to go as far as innovation is concerned are most likely to suggest ideas that can be implemented. Without an innovation strategy, employees will put forward new ideas, get frustrated when they are constantly turned down and eventually lose interest in innovation
altogether. An innovation strategy reduces the organizational uncertainty that employees might face when they try to innovate, and it thus frees them to focus more on innovation itself (Hofer & Schendel, 2008).

Innovation is found in different functional areas of the enterprise, but in many organizations, innovation is perceived to be marketing or an IT function. The innovation strategy should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration. In order for companies to grow, they occasionally form alliances, joint ventures, co-operations and licensing agreements. An innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure, (Hammer, 2012).

Innovation comes with a number of trade-offs that senior managers need to consider very carefully. Pearce and Robinson (2013) have identified a number of these including first-to-market versus penalties of lateness. Other examples of trade-offs include operational excellence versus innovation leadership; buy innovation versus co-innovate versus develop in-house. Flexibility versus commitment; Exploitation versus exploration; Divergent versus convergent behaviour; Path creation versus path (Hammer & Chamy, 2013). Such decisions are complex and require major decisions in resource allocation. As Hunger and Wheelan (2012) suggests, having an innovation strategy can provide a criterion for determining how the organization will allocate its resources for innovation.

2.3.3 Product Innovation Strategies and Business Environment
An industry environment consists of a particular set of competitive forces that establish both opportunities and threats. The pattern of forces changes due to the actions of competitors. Porter (2010) uses this term to reference buyers, suppliers, substitute products (services), potential industry entrants, as well as strategic groups of directly competing firms. Strategic actions by any of these competitors can alter prevailing relationships and thereby change the pattern of forces in the firm’s environment.

Response to environmental change can be done by positioning of the firm through strategy and capability planning in its rightful competitiveness; use of real time response through issue management, and systematic management of resistance to change during strategic implementation (Kotler, 2012). Hax and Majiluf (2012) posit that the firm has
to learn, adopt and reorient itself to the changing environment. They postulate that when a discontinuity begins to affect a firm in a turbulent environment; brought about by globalization and trade liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

The product innovation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service. Firms following this innovation strategy can charge a higher price for their product based on the product characteristics, the delivery system, the quality of service, or the distribution channels. Structural changes in production capabilities are analyzed with the well-known product-process matrix if it offers ways to generate revenues. Process innovation provides the means to protect and improve quality and also reduce costs. High quality products are regarded as determinants of long term business growth (Hammer & Chamy, 2013).

Product innovation is requisite in companies because it assists to retain the market share and enhance competitiveness of the company. Products have to be assessed regularly in order to modify or come up with other specifications for the products. Iansiti & Clark (2013) poise that engaging only in product innovation by firms is not enough. It is important to determine product features to be enhanced or changed. Based on the later, analysts have distinguished between “main” product features and helped in evaluating, buying and using the core product. The support offered will depend on the specific customers needs and usually it’s paid for. Support provides a potentially profitable lever for gaining competitive advantage. It enables a supplier to sell the same core product to different customer groups as different offerings (Johnson & Scholes, 2010).

The need to compare and evaluate production capabilities arises from the proliferating opportunities to allocate a desired product mix into different facilities and locations worldwide. According to the product-process matrix, production facilities can be characterized by the pattern of material flow, layout of machine centres, and worker assignments, as well as the degree of automation and methods of production planning and scheduling (Hunger & Wheelen, 2012). The process design can range from a flexible job shop to a disconnected batch line, and a worker or machine-paced connected line, and further to a continuous automated flow. The mix of products and components can be one-of-a-kind, customized products with low volumes of many differentiated products, high
volumes of few standardized products, and commodity products with high production volumes. When positioned into the normative framework, any efficient production facility should be located close to the diagonal.

2.4 Marketing Innovation Strategies used by Small and Medium Enterprises
For innovation to occur, something more than the generation of a creative idea or insight is required. The insight must be put into action to make a genuine difference, resulting for example in new or altered business processes within the organization, or changes in the products and services provided. A further characterization of innovation is as an organizational or management process. Johnson and Scholes (2010) suggest that, innovation, like many business functions, is a management process that requires specific tools, rules, and discipline.

Innovation strategy offers a clear vision on which all the efforts within organization are put. Therefore, management of firms, companies must graft the strategy and communicate the purpose of innovation within a company, make a decision on how to use technology and improve performance through the use of suitable performance indicators. Further, a Mercer Management Consulting (2013) study revealed that the management of high performing companies was committed to new product development by formulating and communicating the firm's new product development strategy. Sauve (2001) suggested that a firm must first define what innovation means to it or the areas of focus in order to formulate a strategy.

2.4.1 Market Innovation Strategies
Market innovation focuses on improving the blend of target markets and how selected markets are effectively served. Its aim is to identify potential markets; and better means to serve target markets. Through segmenting the market business profitability can be enhanced; its resources will be fully committed to serve those segments. In the case of poor market segmentation, huge revenues that could be earned are missed; consequently, affecting profit margins of a business.

Benefits of market innovation are well documented by many studies: it improves business performance (Eisenhardt & Martin, 2010). According to Iansiti and Clark (2013), product innovation acts as a link between market orientation and successful business operation. Generally, innovations positively affect business performance: it leads to increase in
market share, lowers costs and upsurge in profit. Market oriented enterprises produce unique products of high quality to their customers while complying with ecological, health and safety standards as well as with legal norms. Therefore, market orientation is expected to produce a significant positive impact on all analyzed effects of innovative activities.

To measure business performance, sales has been proposed as a vital measure which managers should focus on (Johnson and Scholes, 2010) and is often closely associated with the marketing function. Hunger and Wheelen (2012) further noted that gross profit (sales revenue minus cost of selling) is also an indicator of the firm’s value chain, particularly measuring a firm’s ability to convert inputs into valuable outputs).

An enterprise target market would in most cases determine its innovative activities. In most cases, an enterprise assesses both its internal and external business environment before developing products. This is done mostly to successfully enter a market and overall gain competitive advantage over other related businesses. An enterprise usually develops high quality product and complies with, ecological and health aspects, legal standards and various regulations to achieve the aforementioned benefits (Hofer & Schendel, 2008).

2.4.2 Factor Affecting Marketing Innovation Strategies

2.4.2.1 Organizational factors

Sauve (2001) has found that of the three categories described above, organizational factors affect innovation to the greatest extent. Among the many organizational variables that he used in his research are degree of specialization, functional differentiation, centralization, managerial tenure and communication. However other authors such as (Eisenhardt & Martin, 2010) have used the same broad categories of individual, organizational and environmental, but differed slightly on the components within each of the categories.

Hax and Majiluf (2012) found that organizational factors include management support, work discretion, rewards/re-enforcement, time availability, tolerance for failure and a supportive organizational structure. Many authors have also emphasized organizational culture as one of the key factors that affect innovation (Hofer & Schendel, 2008). It can be argued that factors such as management support or reward/recognition collectively
form the culture of the organization. But culture is more complex and it includes other aspects such as basic assumptions, values, philosophies, norms and routine behaviour (Hammer & Chamy, 2013).

Other organizational factors have been identified by various authors and include recruitment/selection approaches, communication and effective cross-functional teams (Hammer & Chamy, 2013). Innovation time and training, corporate identity and unity (Chepkwony, 2010). Valuing diversity and the existence of the innovation process (Hax & Majiluf, 2012). Organizational factors such as organizational structure, leadership and technology will be discussed separately in the sections that follow.

2.4.2.2 Individual Factors
Employees’ ability to innovate is not a guarantee that innovation will take place at the organization level, but it is a good starting point because a lot of ideas come from employees. Kotler (2010) componential theory of individual creativity is one of the most cited works as far as individual factors of innovation are concerned. He suggests that individual creativity is made up of three components – expertise, creative thinking skill as well as task motivation. The majority of factors identified by other researchers are aligned to a large extent with these components. Kotler (2012) divided his individual factors into personality, cognitive and motivational factors and cited, among others, examples such as self-confidence, curiosity, persistence, originality and flexibility.

2.4.2.3 Environmental Factors
Compared to organizational factors, little work has been done on the environmental factors of innovation. The few that Hunger and Wheelan (2012) have identified from his literature review include market uncertainty, supply uncertainty, cause and effect uncertainty, existence of adaptable innovations, social attitudes that favour innovations and natural periodicities. It is not practical for all the factors identified above to feature or influence the organizational innovation strategy. The senior managers need to prioritize those that profoundly affect their company. Iansiti and Clark (2013) have found that some organizational factors play a significant role in certain types of innovation and not in others.
2.4.3 Marketing Innovation Strategies among SMEs

Market innovation is concerned with improving the mix of target markets and how chosen markets are best served (Eisenhard & Martin, 2010). Its purpose is to identify better (new) potential markets; and better (new) ways to serve target markets, and the first step is identification of potential markets. Identification is achieved through skillful market segmentation (Eisenhardt & Martin, 2010). Market segmentation, which involves dividing a total potential market into smaller more manageable parts, is critically important if the aim is to fully develop the profitability of a business. Incomplete market segmentation will result in a less than optimal mix of target markets, meaning that revenues which might have been earned are misread.

In recent years “benefit segmentation” has become more widely used (Hunger & Wheelan, 2012). It adopts a study on buyers’ attitudes which assumes that needs and benefits that make up markets will also alter markets. While this segmentation emphasizes how buyers seek to gain benefits in particular buying situations; it is also powerful for dividing a total potential market into meaningful market opportunities. Its power is derived from the assumption that the same buyer can have various usage needs for the same main product. Thus each usage need presents a potential market opportunity. The success of businesses would also depend on competent market champions. These individuals identify and develop markets for their business; spot business positions where firms can build and retain competitive strength; they also assist in focusing the competitive strategy of the business. A competent market champion must be knowledgeable in customer analysis, competitor analysis and supply competence analysis (Hunger & Wheelan, 2012).

Market champions know how to appreciate the specific ways in which different customers buy. They understand that some customers will prefer certain types of offers, while other customers will have a taste on other products. The market champion interprets customer usage needs against relevant segmentation criteria by considering different ways in which the same core product can be bought. However, conflict may occur, when market champions tend to favour many different market segments, each with its own special mix of core product and support (O’Brien, 2009).
2.5 Chapter Summary
The chapters review the existing literature on the research objectives. The main objective is to establish the strategic response to external business environment, with special reference to small and medium enterprises in Nairobi County. Precisely, literature review has covered the reactive strategies, decisive strategies, planned strategies, product innovation strategies and market innovation strategies used by small and medium enterprises in response to the changing external business environment.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
Research methodology outlines how research is conducted. In this chapter, the researcher presents the study approach, population on which data was collected, sampling techniques, methods of collecting and analyzing data.

3.2 Research Design
Research design is the basic plan that systematically highlights activities necessary to gather data for the study. The study used a descriptive research design. Mugenda & Mugenda (2009) noted that a descriptive study focuses on discovering the what, where and how of a phenomenon. The results of this study can be generalized to other business enterprises. The research project focused on determining strategic response to external business environment; with special reference to Small and Medium Enterprises in Nairobi County. The study selected several targeted cases where an in depth analysis was performed to identify the possible alternatives for solving the research questions on the basis of the existing solution applied in the selected case study. The study attempted to describe and define a subject, often by creating a profile of group of problems (Mugenda & Mugenda, 2009). Thus, Small and Medium Enterprises in Nairobi County provided a natural setting on which data was collected.

3.3 Population and Sampling Design
3.3.1 Population
According to Mugenda and Mugenda (2009) population is a large collection of objects and individuals which is the focus of scientific investigation. While a target population is that particularly population on which correct data is gathered. The population for study was heterogeneous. The population of this study was 2061, Small and Medium Enterprise in Nairobi County. The SMEs are in category of retail shops, hotels, wholesale/stock shops, electricals, hardware/motor bike retailers, entertainment joints and bars, hair salons and barbershops and others types of businesses.
Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Business</th>
<th>Total Population</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail shops</td>
<td>375</td>
<td>18.2</td>
</tr>
<tr>
<td>Hotels</td>
<td>447</td>
<td>21.7</td>
</tr>
<tr>
<td>Wholesale/stock shops</td>
<td>255</td>
<td>12.4</td>
</tr>
<tr>
<td>Electricals</td>
<td>333</td>
<td>16.2</td>
</tr>
<tr>
<td>Hardware/Motor Bike retailers</td>
<td>168</td>
<td>8.2</td>
</tr>
<tr>
<td>Entertainments joints and bars</td>
<td>135</td>
<td>6.6</td>
</tr>
<tr>
<td>Hair Salons and Barbershops</td>
<td>276</td>
<td>13.4</td>
</tr>
<tr>
<td>Others types of businesses</td>
<td>72</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2061</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source, NCC Licensing Department (2014)

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sampling frame is a comprehensive list of all sampling units, from which a sample can be selected (Mugenda & Mugenda, 2009). In this study the sampling frame included all the employees of SMEs in Nairobi County.

3.3.2.2 Sampling Technique

Sampling techniques provide a range of methods that facilitate to reduce the amount of data need to collect by considering only data from a sub-group rather than all possible cases or elements. At the time of conducting research, it is often impossible, impractical, or too expensive to collect data from all the potential units of analysis includes in the research problem. From the population frame the required number of subjects, respondents, elements, firms are selected in order to make a sample.

Stratified random sampling technique was used to select the sample. According to Kerry and Bland (2008) the technique produces estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. The study group the population into three strata i.e. low level, middle level and top level management. This in turn increases the precision of any estimation methods used.
Cooper and Schindler (2008) argue that if well chosen, samples of about 10% of a population can often give good reliability. Stratified random sampling technique was used since population of interest is not homogeneous and could be subdivided into groups or strata to obtain a representative sample. The strata’s used for this study were retail shops, hotels, wholesale/stock shops, electrical, hardware/motorbike retailers, entertainments joint and bars, hair salons and barbershops.

3.3.2.3 Sample Size

A sampling frame is a complete list of all the members of the population to be studied (Mugenda & Mugenda, 2009). The study adopted a mathematical formula for the purpose of determining the sample size. Mugenda and Mugenda (2009) have suggested the following mathematical formula for determining sample size.

\[
N = \frac{n}{1 + Ne^2}
\]

Where, \(N\) is the total population size, and \(e\) is the error or confidence level. The conventional confidence level of 95% was used to ensure a more accurate result from the sample. Based on this, the error term would equal to 0.10. Using the total population of 870 and error margin of 0.10 the sample size was calculated as follows.

\[
n = 2061/(1 + 2061(0.10)^2)
\]

\[
n = 2061/21.61 = 95
\]

Based on the above calculation, a sample was selected from within each group in proportions of 4.61% of the whole population. This sample is suitable since the population is heterogeneous. Mugenda and Mugenda (2009) recommend a small sample size of 30 elements in order to effectively utilize resources such as time and money. However, this study collected data on a sample of 95 respondents. Table 3.2 shows the sample size distribution. The selection is as follows.
Table 3.2: Sample Size Distribution

<table>
<thead>
<tr>
<th>Business</th>
<th>Total Population</th>
<th>Proportion</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail shops</td>
<td>375</td>
<td>4.61%</td>
<td>17</td>
</tr>
<tr>
<td>Hotels</td>
<td>447</td>
<td>4.61%</td>
<td>21</td>
</tr>
<tr>
<td>Wholesale/stock shops</td>
<td>255</td>
<td>4.61%</td>
<td>12</td>
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<td>Electricals</td>
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<td>4.61%</td>
<td>15</td>
</tr>
<tr>
<td>Hardware/Motor Bike retailers</td>
<td>168</td>
<td>4.61%</td>
<td>8</td>
</tr>
<tr>
<td>Entertainments joints and bars</td>
<td>135</td>
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<td>6</td>
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<td>4.61%</td>
<td>13</td>
</tr>
<tr>
<td>Others types of businesses</td>
<td>72</td>
<td>4.61%</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2061</strong></td>
<td><strong>4.61%</strong></td>
<td><strong>95</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

The researcher used questionnaire method with both open and close-ended questions. The researcher administered the questionnaires to all the respondents. The close-ended questions enabled more structured responses that were used to test the rating of various attributes; this assisted in minimizing the number of related responses in order to obtain more varied responses. Open-ended questions offered additional information that supplemented the close-ended questions. Primary data was gathered and generated for the project directly from respondents mainly using questionnaires. The respondents were asked to answer to the close-end questions in a scale of 1 to 5, where 1 represented strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree and 5 - strongly agree.

The questionnaire was administered to the respondents in four sections. Section A sought to gather the demographic information about the respondent. The respondent gender, age, length of service in the SME sector and education level was answered by the respondents in this section. Respondents answered to planned strategies questions in section B. Section C required respondents to respond to specific questions on product innovation strategies while section D focused on market innovation questions.

3.5 Research Procedures

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 were received by maintaining a register of questionnaires (those sent, and
received). To enhance the questionnaire, its validity and accuracy of data to be collected, the researcher tested it on some members of the population.

### 3.6 Data Analysis Methods

The study used qualitative and quantitative methods to analyze data collected from questionnaires. Qualitative approach is used to analyze data by giving description of the phenomena. The study collected qualitative data through open ended questionnaires, the researcher analyzed this data (qualitative) through qualitative and presented the information in prose form. Quantitative method involves performing analysis on numerical data. The study collected quantitative data through closed questionnaires; the researcher analyzed this data through quantitative techniques (SPSS tools) and presented the information via bar charts, pie charts, table and graphs.

### 3.7 Chapter Summary

This chapter has described the research methodology used in this study including the population, sampling design and size, data collection and analysis methods. In the data analysis and presentation, both quantitative and qualitative methods of analysis were used. The population consisted of employees of small and medium enterprise. The data was collected using a structured questionnaire designed by the researcher and analyzed by the use of SPSS (Version 20). The next chapter reviews the data analysis and presentation.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter discusses the interpretation and presentation of the findings obtained from the findings. The chapter focused on demographic information of respondents, analysis of the study and discussions. A total of 95 respondents were used in the study, where 90 of them filled and returned the questionnaires; this represented a response rate of 95%.

4.2 Demographic Information
4.2.1 Respondents Gender
The questionnaires issued asked the respondents to indicate their gender category. From the research findings, the study revealed that majority of the respondents was females at 58% whereas 42% of the respondents were males. This implies that both genders were fairly engaged in this research and therefore the findings of this research did not suffer from gender bias.

Figure 4.1: Gender Distribution

4.2.2 Respondent Age
From Figure 4.2, 34.3% of the respondents are aged between 26 and 35 years, 25.3% of them are between 36 and 45 years, 17.6% are between 46 and 50 years, while 14.6% are below 25 years and 8.2% are above 51 years. This demonstrated that the respondents were fairly distributed in terms of their age.
4.2.3 Respondents Length of Service in the SMEs Sector

The researcher’s aim was to determine the period which the respondent had served in the SME sector. From the study findings, most respondents indicated that they have served in SMEs sector for a period of 11 to 15 years; 29% of the respondents indicated that they had served in SME sector for a period of 6 to 10 years; 20% of the respondents indicated that they had served in SME sector for more than 16 years and whereas 17% of the respondents indicated that they had served in SME sector for not more than 5 years. The results shown in Figure 4.3 imply that most of the respondents had been operating the enterprise for a considerable period of time.

4.2.4 Respondents’ highest level of education

The questionnaire required respondents to indicate their highest level of education attained. From the research findings: majority of the respondents at 46% indicated that they had college diploma certificate; 36% of the respondents as KCSE; while 12% of the respondents indicated their highest level of education as bachelor’s degree and whereas 6% of the respondents indicated their level of education as master’s degree. The result shown in figure 4.4 implies that small enterprises in Kenya are operated by youthful and qualified individuals.
4.3 Planned Strategies used By Small and Medium Enterprises

4.3.1 Reliability Analysis on Planned Strategies
Reliability analysis was subsequently done using Cronbach’s Alpha which measured the internal consistency by establishing if certain items within a scale measure the same construct. The study revealed that all construct of the planned strategies was reliable.

<table>
<thead>
<tr>
<th>Table 4.1: Reliability Analysis</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Scale Mean if Item Deleted</th>
<th>Scale Variance if Item Deleted</th>
<th>Corrected Item-Total Correlation</th>
<th>Cronbach's Alpha if Item Deleted</th>
<th>Overall Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS1</td>
<td>15.0941</td>
<td>9.610</td>
<td>.599</td>
<td>.697</td>
<td>0.763</td>
</tr>
<tr>
<td>PS2</td>
<td>15.1529</td>
<td>10.179</td>
<td>.490</td>
<td>.734</td>
<td></td>
</tr>
<tr>
<td>PS3</td>
<td>15.1176</td>
<td>9.724</td>
<td>.592</td>
<td>.700</td>
<td></td>
</tr>
<tr>
<td>PS4</td>
<td>15.2000</td>
<td>9.114</td>
<td>.625</td>
<td>.685</td>
<td></td>
</tr>
<tr>
<td>PS5</td>
<td>15.1529</td>
<td>10.345</td>
<td>.377</td>
<td>.778</td>
<td></td>
</tr>
</tbody>
</table>

4.3.2 Descriptive Statistics on Planned Strategies
The aim of the study was to establish whether the SME have shifted their action plan from one base to another in responding to the changes in external business environment. From the research findings: 81.1% of the respondents agreed that the SME have shifted their action plan from one base to another in response to the changing external business environment; whereas 18.9% indicated that that SME had not considered that. This implies that significant number of SMEs had shifted their action plan from one base to another in responding to the changing external business environment.
Table 4.2 : Shifting of SMEs Action Plan from one base to another

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>73</td>
<td>81.1</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>18.9</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 4.2: 51.1% of the respondents had changed their action plan to a great extent; 43.3% said very great extent and while 5.6% of them had considered to change their action plans to a moderate extent. Since the business environment is more volatile and unpredictable, most of the SMEs as shown above are changing their strategies or action plans in order to cope with the change.

Table 4.3: Extent to which SMEs change their Action Plan from one base

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>39</td>
<td>43.3</td>
</tr>
<tr>
<td>Great extent</td>
<td>46</td>
<td>51.1</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>5</td>
<td>5.6</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

The researcher’s aim was to establish the extent to which respondents agreed with the above statements on planned strategies used by small and medium enterprises in responding to the changing external business environment. The findings revealed that, majority of the respondents agreed that planned action plans are from the arena of large-scale business operations and it can be defined as the fit between an organization and its environment as shown by a mean of 4.30. Competitive flexibility of an organization arises from its ability to coordinate its global competitive moves as shown by a mean of 4.26, organization should shift the action plan from one base to another in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production as shown by a mean of 4.20. Planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations as shown by a mean of 4.14 and that a
planned action plan helps by giving coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective as at a mean of 4.10. The researcher also established that the development of tools specifically for the SME environment should encourage engagement in strategic planning within SMEs and thus assist them to survive and grow in order to meet the expectations of their owners, and stakeholders. The change process begins with the external environment and therefore, the starting point for the assessment is to consider the external forces for change. If SME owner-managers review their external environment, they can better anticipate and plan for the impact on their business. The above findings concur with the findings of Ansoff and Mc Donnell (2010) that for a firm to effectively respond to environmental change, it should have a proper strategic plan in place.
Table 4.4: Statements relating to Planned Strategies used by SMEs

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization should shift the action plan from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production</td>
<td>2 2 5 5 33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.20</td>
<td>0.24</td>
</tr>
<tr>
<td>Competitive flexibility of an organization arises from its ability to coordinate its global competitive moves</td>
<td>3 1 3 46 37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.26</td>
<td>0.24</td>
</tr>
<tr>
<td>Planned action plans roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment</td>
<td>0 3 2 50 35</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.30</td>
<td>0.26</td>
</tr>
<tr>
<td>A planned action plan helps give coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective.</td>
<td>4 3 0 56 27</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.10</td>
<td>0.26</td>
</tr>
<tr>
<td>Planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations</td>
<td>2 2 3 57 26</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.14</td>
<td>0.27</td>
</tr>
</tbody>
</table>

4.3.3 Chi-Square Tests on Planned Strategies

The researcher also used Pearson’s chi square to test the significance of planned strategies used by small and medium enterprises in response to the changing external business environment. According to the findings in Table 4.5 above: the significance figure was 0.047, which shows that there was a statistically significance relationship between planned strategies used by small and medium enterprises in response to the changing
external business environment. This is because the significance figure was less than 0.05. This shows that there was evidence against the null hypothesis, a conclusion can therefore be drawn that planned strategies are used by small and medium enterprises in response to the changing external business environment.

Table 4.5: Chi-Square Tests on Planned Strategies and changing external Business Environment

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>33.8794 (a)</td>
<td>89</td>
<td>.047</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>32.563</td>
<td>89</td>
<td>.004</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>6.761</td>
<td>1</td>
<td>.002</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3.4 Factor analysis on Planned Strategies

Table 4.6 helps the researcher to estimate the communalities for each variance. This is the proportion of variance that each item has in common with other factors. For example, “organization should shift the action plan from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production” has 97.4% communality or shared relationship with other factors. This value has the greatest communality with others, while ‘Planned action plans roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment’ has the least communality with others of 63.9%.
Table 4.6: Communalities

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>• organization should shift the action plan from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production</td>
<td>1.000</td>
<td>.974</td>
</tr>
<tr>
<td>• competitive flexibility of an organization arises from its ability to coordinate its global competitive moves</td>
<td>1.000</td>
<td>.861</td>
</tr>
<tr>
<td>• Planned action plans roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment</td>
<td>1.000</td>
<td>.639</td>
</tr>
<tr>
<td>• A planned action plan helps give coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective.</td>
<td>1.000</td>
<td>.874</td>
</tr>
<tr>
<td>• Planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations</td>
<td>1.000</td>
<td>.802</td>
</tr>
</tbody>
</table>

4.4 Product Innovation Strategies used Small and Medium Enterprise

4.4.1 Reliability analysis on Product Innovation Strategies

Reliability analysis was subsequently done using Cronbach’s Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. The study revealed that all construct of the product innovation strategies was reliable.

Table 4.7: Reliability Analysis

<table>
<thead>
<tr>
<th></th>
<th>Scale Mean if Item Deleted</th>
<th>Scale Variance if Item Deleted</th>
<th>Corrected Item-Tot Correlation</th>
<th>Cronbach's Alpha if Item Deleted</th>
<th>Overall Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR1</td>
<td>13.3294</td>
<td>22.819</td>
<td>.802</td>
<td>.883</td>
<td>0.910</td>
</tr>
<tr>
<td>PR2</td>
<td>13.6824</td>
<td>24.648</td>
<td>.694</td>
<td>.905</td>
<td></td>
</tr>
<tr>
<td>PR3</td>
<td>13.2471</td>
<td>23.522</td>
<td>.767</td>
<td>.890</td>
<td></td>
</tr>
<tr>
<td>PR4</td>
<td>13.5647</td>
<td>22.296</td>
<td>.841</td>
<td>.875</td>
<td></td>
</tr>
<tr>
<td>PR5</td>
<td>13.6588</td>
<td>21.775</td>
<td>.764</td>
<td>.893</td>
<td></td>
</tr>
</tbody>
</table>
4.4.2 Descriptive Statistics on Product Innovation Strategies

The study sought to establish whether the SMEs have adopted product innovation strategies in responding to the changing external business environment, from the research findings majority of the respondents as shown by 92.2% agreed that the SMEs adopted product innovation strategies in responding to the changing external business environment whereas 7.8% indicated that SMEs had not considered that. This implies that significant number of SMEs had adopted product innovation strategies in responding to the changing external business environment.

Table 4.8: Adoption of Product Innovation Strategies by SMEs

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>83</td>
<td>92.2</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

On the extent to which SME have adopted product innovation strategies in responding to the changing external business environment, majority of the respondents as shown by 55.6% indicated to a great extent; 34.4% of the respondents indicated to a very great extent whereas 10% of the respondents indicated to a moderate extent. This implies that most of the SME had adopted product innovation strategies in responding to the changing external business environment to a great extent.

Table 4.9: Extent to which SMEs have adopted Product Innovation Strategies

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>31</td>
<td>34.4</td>
</tr>
<tr>
<td>Great extent</td>
<td>50</td>
<td>55.6</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>9</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

The study sought to establish the extent to which respondents agreed with the above statements relating to product innovation strategies used by small and medium enterprises in responding to the changing external business environment, from the research findings, majority of the respondents agreed that a firm has to learn, adopt and reorient itself to the changing environment as shown by a mean of 4.33; process innovation, on the other
hand, offers the way for protecting and improving quality and also for reducing costs as shown by a mean of 4.27; product innovation influences immensely on how companies retain and grow their competitive position as shown by a mean of 4.16; products have to be updated and completely renewed for retaining strong market presence as shown by a mean of 4.13, the study also revealed that adoption of open innovation strategies in the entrepreneurship offers a promising way to face the ever increasing challenges due to globalization of entrepreneurship and that one of the important sources of competitiveness for SMEs has been to serve as agents of change, for instance, engines for new idea generation and innovative activity. These findings are in line with the study findings by Hart (2012), that the power of product innovation in helping companies retain and grow competitive position is indisputable

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>42</td>
<td>40</td>
<td>4.27</td>
<td>0.23</td>
</tr>
<tr>
<td>• The power of product innovation in helping companies retain and grow competitive position is indisputable</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>51</td>
<td>30</td>
<td>4.16</td>
<td>0.24</td>
</tr>
<tr>
<td>• Products have to be updated and completely renewed for retaining strong market presence</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>58</td>
<td>26</td>
<td>4.13</td>
<td>0.27</td>
</tr>
<tr>
<td>• Firm has to learn, adopt and reorient itself to the changing environment</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>40</td>
<td>43</td>
<td>4.33</td>
<td>0.24</td>
</tr>
</tbody>
</table>

4.4.3 Chi-Square Tests on Product Innovation Strategies
The researcher also used Pearson’s chi square to test the significance of product innovation strategies used by small and medium enterprises in response to the changing
external business environment. According to the findings in the above table, the significance figure was 0.03, which shows that there was a statistically significance relationship between product innovation strategies used by small and medium enterprises in response to the changing external business environment. This is because the significance figure was less than 0.05. This shows that there was evidence against the null hypothesis, a conclusion can therefore be drawn that product innovation strategies are used by small and medium enterprises in responding to the changing external business environment.

**Table 4.4: Chi-Square Tests on Product Innovation Strategies and changing external Business Environment**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>15.686</td>
<td>89</td>
<td>.003</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>17.454</td>
<td>89</td>
<td>.025</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>5.354</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**4.4.4 Factor Analysis on Product Innovation Strategies**

Table 4.12 helps the researcher to estimate the communalities for each variance. This is the proportion of variance that each item has in common with other factors. For example, “Products have to be updated and completely renewed for retaining strong market presence” has 97.4% communality or shared relationship with other factors. This value has the greatest communality with others, while ‘Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs’ have the least communality and others with 82.8%.
Table 4.5: Communalities

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs</td>
<td>1.000</td>
<td>.828</td>
</tr>
<tr>
<td>• The power of product innovation in helping companies retain and grow competitive position is indisputable</td>
<td>1.000</td>
<td>.913</td>
</tr>
<tr>
<td>• Products have to be updated and completely renewed for retaining strong market presence</td>
<td>1.000</td>
<td>.923</td>
</tr>
<tr>
<td>• firm has to learn, adopt and reorient itself to the changing environment</td>
<td>1.000</td>
<td>.869</td>
</tr>
</tbody>
</table>

4.5 Market Innovation Strategies used by Small and Medium Enterprise

4.5.1 Reliability Analysis on Market Innovation Strategies

Reliability analysis was subsequently done using Cronbach’s Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. The study revealed that all construct of the market innovation strategies was reliable.

Table 4.6: Reliability Analysis

<table>
<thead>
<tr>
<th></th>
<th>Scale Mean if Item Deleted</th>
<th>Scale Variance if Item Deleted</th>
<th>Corrected Item-Total Correlation</th>
<th>Cronbach’s Alpha if Item Deleted</th>
<th>Overall Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIS1</td>
<td>11.4471</td>
<td>10.131</td>
<td>.635</td>
<td>.838</td>
<td>0.853</td>
</tr>
<tr>
<td>MIS2</td>
<td>11.6118</td>
<td>9.288</td>
<td>.645</td>
<td>.834</td>
<td></td>
</tr>
<tr>
<td>MIS3</td>
<td>11.3529</td>
<td>9.064</td>
<td>.748</td>
<td>.792</td>
<td></td>
</tr>
<tr>
<td>MIS4</td>
<td>11.4353</td>
<td>7.963</td>
<td>.767</td>
<td>.782</td>
<td></td>
</tr>
</tbody>
</table>

4.5.2 Descriptive Statistics Market Innovation Strategies

The researcher’s aim was to establish whether the SMEs had adopted market innovation strategies in responding to the changing external business environment. From the research findings: 93.3% of respondents agreed that SMEs adopted market innovation strategies in responding to the changing external business environment; whereas 6.7 % indicated that...
SMEs had not considered that. This implies that significant number of SMEs had adopted market innovation strategies in responding to the changing external business environment.

Table 4.7: Adoption of Market Innovation Strategies

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>84</td>
<td>93.3</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

On the extent to which SMEs have adopted market innovation strategies in responding to the changing external business environment, majority of the respondents as shown by 67.8% indicated to a great extent, 26.7% of the respondents indicated to a very great extent whereas 5.6% of the respondents indicated to a moderate extent. This implies that most of the SME have adopted market innovation strategies in responding to the changing external business environment to a great extent.

Table 4.8: Extent to which SMEs adopted Market Innovation Strategies

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>24</td>
<td>26.7</td>
</tr>
<tr>
<td>Great extent</td>
<td>61</td>
<td>67.8</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>5</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The researcher’s aim was to establish the extent to which respondents agreed with the above statements on market innovation strategies used by small and medium enterprises in responding to the changing external business environment. The findings show that majority of the respondents agreed that an innovation strategy would ensure that external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure as shown by a mean of 4.47. It should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration as shown by a mean of 4.42. Innovation is not only the route to growth, but it is also key in creating sustainable growth over a period of time as shown by a mean of 4.21. Growth achieved through acquisitions can easily become stagnant if the enterprise
still cannot innovate as indicated by a mean of 4.19. The researcher also established that SMEs pursued product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets. The development of a new tool has the potential to aid SMEs in the assessment of their external relationships and their survival and growth in the current business environment. The above finding concurs with the study findings by operation Ansoff & McDonnell (2010) that market innovations have a positive impact on business performance by increasing the market share and/or cost reduction and, in turn, profits raise.

Table 4.9: Statements relating to Market Innovation Strategies

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Innovation is not the only route to growth, but it is key in creating growth that is sustainable over a period of time.</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>49</td>
<td>32</td>
<td>4.21</td>
<td>0.24</td>
</tr>
<tr>
<td>• Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate.</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>53</td>
<td>30</td>
<td>4.19</td>
<td>0.25</td>
</tr>
<tr>
<td>• The innovation strategy should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration.</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>46</td>
<td>42</td>
<td>4.42</td>
<td>0.26</td>
</tr>
<tr>
<td>• An innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>32</td>
<td>52</td>
<td>4.47</td>
<td>0.26</td>
</tr>
</tbody>
</table>
4.5.3 Chi-Square Tests on Market Innovation Strategies

The researcher’s aim was to establish the extent to which respondents agreed with the above statements on market innovation strategies used by small and medium enterprises in responding to the changing external business environment. The findings show that majority of the respondents agreed that an innovation strategy would ensure that external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure as shown by a mean of 4.47. It should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration as shown by a mean of 4.42. Innovation is not only the route to growth, but it is also key in creating sustainable growth over a period of time as shown by a mean of 4.21.

Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate as indicated by a mean of 4.19. The researcher also established that SMEs pursued product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets. The development of a new tool has the potential to aid SMEs in the assessment of their external relationships and their survival and growth in the current business environment. The above finding concurs with the study findings by operation Ansoff and Mc Donnell (2010) that market innovations have a positive impact on business performance by increasing the market share and/or cost reduction and, in turn, a profit raise.

Table 4.10: Chi-Square Tests on Market Innovation Strategies and changing external Business Environment

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>24.345(a)</td>
<td>89</td>
<td>.004</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>23.453</td>
<td>89</td>
<td>.011</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>13.1352</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The researcher also used Pearson’s chi square to test the significance of product innovation strategies used by small and medium enterprises in response to the changing external business environment. According to the findings in Table 4.23: the significance figure was 0.04, which shows that there was a statistically significance relationship between market innovation strategies used by small and medium enterprises in response
to the changing external business environment. This is because the significance figure was less than 0.05. This shows that there was evidence against the null hypothesis, a conclusion can be drawn from the study that market innovation strategies are used by small and medium enterprises in response to the changing external business environment.

4.5.4 Factor Analysis on Market Innovation Strategies
Table 4.24 helps the researcher to estimate the communalities for each variance. This is the proportion of variance that each item has in common with other factors. For example, “Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate” has 92.2% communality or shared relationship with other factors. This value has the greatest communality with others, while ‘An innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure has the least communality, while others with 79.5%.

Table 4.11: Communalities

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation is not the only route to growth, but it is key in creating growth that is sustainable over a period of time.</td>
<td>1.000</td>
<td>.851</td>
</tr>
<tr>
<td>Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate.</td>
<td>1.000</td>
<td>.922</td>
</tr>
<tr>
<td>The innovation strategy should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration.</td>
<td>1.000</td>
<td>.884</td>
</tr>
<tr>
<td>An innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure.</td>
<td>1.000</td>
<td>.795</td>
</tr>
</tbody>
</table>

4.6 Reliability Analysis
A pilot study was carried out to determine reliability of the questionnaires. Reliability analysis was subsequently done using Cronbach’s Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct.
Table 4.19: Reliability Analysis

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach's Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned strategies</td>
<td>0.763</td>
<td>5</td>
</tr>
<tr>
<td>Product innovation strategies</td>
<td>0.910</td>
<td>5</td>
</tr>
<tr>
<td>Market innovation strategies</td>
<td>0.853</td>
<td>5</td>
</tr>
</tbody>
</table>

Johnson and Scholes (2010) established the Alpha value threshold at 0.7, thus forming the study’s benchmark. Cronbach Alpha was established for every objective which formed a scale. The table 4.21 shows that product innovation strategies had the highest reliability (α= 0.910), followed by market innovation strategies (α=0.853) and planned strategies (α=0.763). This illustrates that all the three variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

4.7 Correlation Analysis

In this section, the study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the study variables.

Table 4.12: Correlations coefficient

<table>
<thead>
<tr>
<th></th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.066</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.546</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>X2</td>
<td>Pearson Correlation</td>
<td>-.066</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.546</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>X3</td>
<td>Pearson Correlation</td>
<td>.361**</td>
<td>-.423**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.001</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
On the correlation of the study variables, the researcher conducted a Pearson Product Moment correlation. From the findings on the correlation analysis between planned strategies and product innovation strategies, the study found that there was negative correlation coefficient as shown by correlation factor of 0.066, the study also found a positive correlation between planned strategies and market innovation strategies as shown by correlation coefficient of 0.361, association between product innovation strategies and market innovation strategies was found to have negative relationship as shown by correlation coefficient of 0.423, this shows that there was strong positive relationship between planned strategies and market innovation strategies, market innovation strategies and product innovation strategies were found to have negative correlation.

4.8 Summary
The chapter presented the results of the survey. The data obtained from the survey was analyzed using descriptive statistics. The study found that formulation of strategic plans, market innovation strategies and product innovation were among the strategies currently being used by small and medium enterprises in responding to the changing external business environment. The next chapter discusses the major findings, gives conclusion from the findings and highlights recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented a discussion of key data findings, conclusion drawn from the findings and recommendation made. The conclusions and recommendations drawn were focused on addressing the strategic response to external business environment; with special reference to small and medium enterprises in Nairobi County.

5.2 Summary

The general objective of this study was to establish the strategic response to external business environment, with special reference to small and medium enterprises in Nairobi County. A descriptive research design was used for this study. The population for this study comprised of 2061 small and medium enterprise in Nairobi. The sampling frame for this study was the list of employees of Small and Medium Enterprise. Stratified random sampling technique was used to select the sample. 95 Small and Medium Enterprise were selected for the study that provided the needed information. The study used a survey questionnaire administered to each member of the sample. The questionnaire had both open and close-ended questions. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 22) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. The study also conducted a multiple regression analysis.

The study was guided by the following specific objectives:

**To determine the planned strategies used by small and medium enterprises in response to the changing external business environment.**

The study revealed that small and medium enterprise has shifted their action plan from one base to another in response to the changing external business environment, the business environment is more volatile and unpredictable, most of the SMEs are changing their strategies or action plans in order to cope with the change and planned action plans are from the arena of large-scale business operations.
To establish product innovation strategies used by small and medium enterprises in responding to the changing external business environment

The study found that most of the SME had adopted product innovation strategies in responding to the changing external business environment to a great extent. The study revealed that a firm has to learn, adopt and reorient itself to the changing environment, process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs. The study also revealed that adoption of open innovation strategies for entrepreneurship is a promising way to face the ever-increasing challenges due to globalization of entrepreneurship and that one of the important sources of competitiveness for SMEs.

To find out the market innovation strategies used by small and medium enterprises in response to the changing external business environment

The study revealed that most of the SME have adopted market innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can be drawn from the study that market innovation strategies are used by small and medium enterprises in response to the changing external business environment. The researcher also established that SMEs pursued product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets.

5.3 Discussion

5.3.1 Planned Strategies

The study revealed that small and medium enterprise has shifted their action plan from one base to another in response to the changing external business environment. The study found that the business environment is more volatile and unpredictable, most of the SMEs are changing their strategies or action plans in order to cope with the change. The study found that planned action plans are from the arena of large-scale business operations and it can be defined as the fit between an organization and its environment, competitive flexibility of an organization arises from its ability to coordinate its global competitive moves, organization should shift the action plan from one base to another in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production, planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations, a planned action plan helps by giving coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective.

The researcher also established that the development of tools specifically for the SME environment should encourage engagement in strategic planning within SMEs and thus assist them to survive and grow in order to meet the expectations of their owners, and stakeholders. The change process begins with the external environment and therefore, the starting point for the assessment is to consider the external forces for change. If SME owner-managers review their external environment, they can better anticipate and plan for the impact on their business. The above findings concur with the findings of Ansoff and Mc Donnell (2010) that for a firm to effectively respond to environmental change, it should have a proper strategic plan in place.

The study established that planned action plans roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment, competitive flexibility of an organization arises from its ability to coordinate its global competitive moves, this concurs with the findings by Porter (2010) that organization should shift the action plan from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations and that a planned action plan helps by giving coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective, the study also concurs with the findings by Hax & Majiluf (2012) that development of tools specifically for the SMEs environment should encourage engagement in strategic planning within SMEs and assist more of them to survive and grow to meet the expectations of the their owners, stakeholders and respective jurisdictions.
5.3.2 Product Innovation Strategies
The study revealed that SMEs have adopted product innovation strategies in responding to the changing external business environment. The study found that most of the SME had adopted product innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can therefore be drawn that product innovation strategies are used by small and medium enterprises in responding to the changing external business environment. High quality products are considered as drivers of long-term business growth (Hart, 2012). Product innovation enhances the competitive edge of a company and therefore continuous product assessment will help the company to design better products that positions it well in the market a head of competitors. Different terminologies have been used to categorize and describe product development. Hart (2012), for example, embraces two distinct activities: old product development, which involves updating and improving existing products, and new product development, which involves a greater degree of innovational challenge.

The study revealed that a firm has to learn, adopt and reorient itself to the changing environment, process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs, the power of product innovation in helping companies retain and grow competitive position is indisputable, products have to be updated and completely renewed for retaining strong market presence, the study also revealed that adoption of open innovation strategies in the entrepreneurships offers a promising way to face the ever increasing challenges due to globalization of entrepreneurships and that one of the important sources of competitiveness for SMEs has been to serve as agents of change, i.e. engines for new idea generation and innovative activity. These findings are in line with the study findings by Hart (2012) that the power of product innovation in helping companies retain and grow competitive position is indisputable.

5.3.3 Market Innovation Strategies
The researcher’s aim was to establish whether the SMEs had adopted market innovation strategies in responding to the changing external business environment. The study revealed that most of the SME have adopted market innovation strategies in responding to the changing external business environment to a great extent. The study found that there
was evidence against the null hypothesis, a conclusion can be drawn from the study that market innovation strategies are used by small and medium enterprises in response to the changing external business environment. Ansoff (2010) suggests that, innovation, like many business functions, is a management process that requires specific tools, rules, and discipline. Ansoff (2010) suggested that the first step in formulating an innovation strategy is to define what innovation means to the firm or the areas of focus in terms of innovation.

The study established that an innovation strategy would ensure that external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure, it should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration. Innovation is not the only route to growth, but it is key in creating growth that is sustainable over a period of time and Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate. The researcher also established that SMEs pursued product innovation strategies in emerging markets and marketing innovation strategies in mature niche markets. The development of a new tool to aid SMEs in the assessment of their external relationships has the potential to aid in the survival and growth of SMEs in the current business environment. The above finding concurs with the study findings by (Hunger & Wheelan, 2012) that market innovations have a positive impact on business performance by leading to a market share increase and/or cost reduction and, in turn, a profit rise.

The study established that an innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure, the innovation strategy should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration, innovation is not the only route to growth, but it is key in creating growth that is sustainable over a period of time, these findings concurs with the study findings by (Hunger & Wheelan, 2012). Market innovations are critically important if the aim is to develop the profitability of a business to the full. The above findings are in line with findings by Hamel and Prahalad (2013) that the development of a new tool to aid SMEs in the assessment of their external relationships has the potential to aid in the survival and growth of SMEs in the current business environment. Market orientation as a business
5.4 Conclusion

5.4.1 Planned Strategies
The study revealed that small and medium enterprise has shifted their action plan from one base to another in response to the changing external business environment. The study found that the business environment is more volatile and unpredictable, most of the SMEs are changing their strategies or action plans in order to cope with the change. The study established strategic planning enables an organization to identify the prevailing environmental opportunities and threats, and also to figure out or estimate the organization’s resources capabilities by considering the strengths and weaknesses of its resources so as to align itself accordingly to respond to the environmental challenges, thus the study concludes that formulation of strategic plans has a positive influence in responding to the changing external business environment.

5.4.2 Product Innovation Strategies
The study revealed that SMEs have adopted product innovation strategies in responding to the changing external business environment. The study found that most of the SME had adopted product innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can therefore be drawn that product innovation strategies are used by small and medium enterprises in responding to the changing external business environment. The study revealed that Product innovation strategies provides SMEs with means of generating revenues, safeguarding and improving quality and saving costs. Therefore, the researcher concludes that product innovation strategies have positive influence in responding to the changing external business environment.

5.4.3 Market Innovation
The researcher’s aim was to establish whether the SMEs had adopted market innovation strategies in responding to the changing external business environment. The study revealed that most of the SME have adopted market innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can therefore be drawn from the study that
market innovation strategies are used by small and medium enterprises in response to the changing external business environment. The study established that market innovation as a business culture leads to business performance improvement, market innovation is not the only route to growth, but it is key in building growth that is sustainable over a period of time, therefore the researcher concludes that market innovation strategies has positive influence in responding to the changing external business environment.

5.5 Recommendations

5.5.1 Recommendations for Improvement

The researcher makes the following recommendations:

5.5.1.1 Planned Strategies

The study revealed that small and medium enterprise has shifted their action plan from one base to another in response to the changing external business environment. The study found that the business environment is more volatile and unpredictable, most of the SMEs are changing their strategies or action plans in order to cope with the change. Based on the study findings the study recommends that SMEs need to successfully deal with the prevalent forces for change if they are to survive and grow and meet their expectations. The owners/managers of SMEs as leaders or their organization need to have a clear understanding of their operating environment in order to respond to the forces for change either proactively according to the business and/or strategic plan or reactively if the situation has not been considered in the planning process.

5.5.1.2 Product Innovation Strategies

They revealed that SMEs have adopted product innovation strategies in responding to the changing external business environment. The study found that most of the SME had adopted product innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can therefore be drawn that product innovation strategies are used by small and medium enterprises in responding to the changing external business environment. In order to improve the product and achieve a good fit between the product and the customer needs, SMEs need to continually keep on encouraging product innovation. This can be achieved through employment of a large number of creative and competent individuals who can not only introduce a new product, but also see it through to completion.
5.5.1.3 Market Innovation
The study revealed that most of the SME have adopted market innovation strategies in responding to the changing external business environment to a great extent. The study found that there was evidence against the null hypothesis, a conclusion can be drawn from the study that market innovation strategies are used by small and medium enterprises in response to the changing external business environment. SMEs need to continually conduct market research by focusing on customer preferences and competitors so as to facilitate development of market strategy that will effectively deal with market segments and make SMEs competitive.

5.5.2 Recommendations for Further Research
The study focused on identifying strategies SMEs use to cope with external business forces. The researcher recommends that further research to be conducted on SMEs to identify the factors affecting their sustainability in Kenya.
REFERENCES


APPENDICES

Appendix I: Questionnaire

Section A: Demographic information

1. Gender of the respondent:
   - Male [    ]
   - Female [    ]

2. Age of the respondent
   - Below 25 years [    ]
   - 25-35 years [    ]
   - 36-45 years [    ]
   - 46-50 years [    ]
   - 51 years and above [    ]

3. Length of service in the SMEs sector
   - 0-5 years [    ]
   - 6-10 years [    ]
   - 11-15 years [    ]
   - 16 years and above [    ]

4. Level of education
   - Secondary [    ]
   - College diploma [    ]
   - Degree [    ]
   - Masters [    ]

Section B: Planned strategies

5. Have the SME shifted their action plan from one base to another in responding to the changing external business environment?
   - Yes (    )
   - No (    )

6. To what extent has the SME shifted their action plan from one base to another in responding to the changing external business environment?
   - Very great extent (    )
   - Great extent (    )
   - Moderate extent (    )
   - Little extent (    )
   - No extent at all (    )
7. Indicated your level of agreement with the following Statements relating to Planned strategies used by small and medium enterprises in responding to the changing external business environment. (5-Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1-strongly disagree)

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. organization should shift the action plan from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. competitive flexibility of an organization arises from its ability to coordinate its global competitive moves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Planned action plans roots are in the arena of large-scale business operations and it can be defined as the fit between an organization and its environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. A planned action plan helps by giving coherence and direction to both individuals and organizations by specifying the resources that are required to achieve an objective.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. planned action plan is 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 to meet the needs of markets and to fulfill stakeholders’ expectations</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

13. Indicated other planned action plans adopted by SMEs in responding to the changing external business environment?

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

Section C: Product Innovation Strategies

14. Have the SME adopted product innovation strategies in responding to the changing external business environment

   Yes (   )   No (   )
15. To what extent has the SME adopted product innovation strategies in responding to the changing external business environment?

Very great extent ( )
Great extent ( )
Moderate extent ( )
Little extent ( )
No extent at all ( )

16. Indicated your level of agreement with the following Statements relating to product innovation strategies used by small and medium enterprises in responding to the changing external business environment. (5-Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- strongly disagree)

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Product innovation provides the most obvious means for generating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Process innovation, on the other hand, provides the means for safeguarding and improving quality and also for saving costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. The power of product innovation in helping companies retain and grow competitive position is indisputable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Products have to be updated and completely renewed for retaining strong market presence</td>
<td></td>
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</tr>
<tr>
<td>21. Firm has to learn, adopt and reorient itself to the changing environment</td>
<td></td>
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</tr>
</tbody>
</table>

22. Indicated other product innovation strategies adopted by SMEs in responding to the changing external business environment?

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

Section D: Market innovation

23. Have the SME adopted market innovation strategies in responding to the changing external business environment?

Yes ( )  No ( )
24. To what extent has the SME adopted market innovation strategies in responding to the changing external business environment?

Very great extent ( )
Great extent ( )
Moderate extent ( )
Little extent ( )
No extent at all ( )

25. Indicated your level of agreement with the following Statements relating to market innovation strategies used by small and medium enterprises in responding to the changing external business environment. (5-Strongly Agree, 4-Agree, 3-Neutral, 2-Disagree, 1- strongly disagree)

<table>
<thead>
<tr>
<th>Statements</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>26. Innovation is not the only route to growth, but it is key in creating growth that is sustainable over a period of time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. Growth achieved through acquisitions can easily become stagnant if the enterprise still cannot innovate</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>28. The innovation strategy should not only remove the ambiguity by defining the responsibilities, but should also facilitate cross-functional collaboration.</td>
<td></td>
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</tr>
<tr>
<td>29. An innovation strategy should ensure that these external collaborations are well thought-over and are in line with the overall corporate strategy to minimize the risk of failure.</td>
<td></td>
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</table>

30. Indicated other market innovation adopted by SMEs in responding to the changing external business environment?

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

Thank you