THE EFFECT OF GROWTH STRATEGIES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA-A CASE OF THE GOOD FOOD COMPANY

BY

YESHO SABRINA CHEROTICH

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017
STUDENT'S DECLARATION

I, the undersigned, declare that this is my own original work and has not been submitted to any other college, institution or university other than the United States International University-Africa in Nairobi for academic credit.

Signed ……………………… Date …………………

Sabrina Cherotich Yesho (625797)

This project has been presented for examination with my approval as the appointed supervisor.

Signed ……………………… Date …………………

Dr. Joseph Ngugi Kamau

Signed ……………………… Date …………………

Dean, Chandaria School of Business
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ABSTRACT

Small and Medium Enterprises (SME’s) play a major role in the growth of the Kenyan economy. Therefore, it is important to ensure that there is constant growth in the sector. The study was guided by three of the Ansoff’s Matrix growth strategies. The main purpose of this study was to determine the impact of growth strategies on the performance of SME’s in Kenya. The specific objectives of the study were to examine and find out if market penetration, product development and market development as growth strategies affect performance of SME’s in Kenya. The beneficiaries of the study are the management of The Good Food Company, other SME’s in the sector as well as other researchers.

The study used descriptive research design where a sample size of 95 employees was used from the population size of 126 employees. Questionnaires were the selected tool for data collection. The questionnaires were administered to the respondents by the researcher with the help of the human resource department. There was a response rate of 82% and the tool was valid and reliable. Data collected was analyzed using the SPSS software so as to get both inferential and descriptive statistical results. Data analyzed was presented using tables, pie charts and graphs.

The results and findings of the study indicated that market penetration, product development and market development had a positive effect on the performance of SME’s. Market penetration strategies were used by these entities so as to increase the market share and subsequently product sales. Product development strategies mostly focused on innovation and creation of better products in order to stay ahead of the competition. The findings further indicate that having regular customer and product surveys is central to the success of the product development strategy. Market development strategies mostly involved taking advantage of technological advances to as to provide better quality products to the consumers and further increase market share by entering into new markets.

In conclusion, the study stated that there was a need for SME owners to become aware of the business environment. This enables them to make informed decisions that may positively impact the growth of the SME’s. Furthermore, the information should be shared with employees. Finally, it was noted that employee participation should be encouraged and
incentives given to those who come up with innovative ways of applying the growth strategies within the SME. Further area for research was how the vision and mission of an SME affects the selection of growth strategy used.

From the study the overall results suggest that strategic marketing strategies are drivers of organizational positioning in a dynamic environment, and that it helps to enhance the development of new product/service for existing markets. The findings of the study also imply that none of the strategies is better than the other; finding the right mix of both media can create the best communication/marketing strategy for the SMEs. The study revealed that there is a positive relationship between market penetration strategies and the performance of SMEs in Kenya. On the basis of this study, the following recommendations are made Market Penetration Strategy and Performance of SMEs: From the study, it is evident enough that the employees have knowledge concerning Market Penetration, the more it is practiced and the more returns it brings to the company.
ACKNOWLEDGEMENT

First and foremost, I would like to thank God Almighty for enabling me to reach this far. I would like to acknowledge my proposal supervisor Dr. Joseph Ngugi Kamau for the guidance and support while developing this research proposal. I would also wish to acknowledge the immense wealth of knowledge and research facilities available at United States International University-Africa.
DEDICATION

I sincerely dedicate this project to my family for their encouragement and unending support during the course of my study.
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### ABBREVIATIONS AND ACRONYMS

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<tr>
<td>FMCG</td>
<td>Fast Moving Consumer Goods</td>
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<td>NPI</td>
<td>New Product Introduction</td>
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<td>PD</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Organizational performance provides the strongest linkage to the strategic goal, customer satisfaction and economic contribution of the organization. The drivers of organizational performance include strategic focus, leadership, knowledge management and others which are all key considerations in the growth of businesses. Statt (2004) defines organizational performance as an analysis of a company’s performance as compared to the goals and objectives that are set. In order to measure organizational performance, there must be set goals and objectives that act as a guideline.

According to Bateman and Zeithman (1993), strategy is a pattern of actions and resource allocations that is designed to achieve the goals of an organization. Consequently, Obonyo (2015) defines strategy as the balance of actions and choices between internal capabilities and external environment of an organization. Formulating and implementing a strategy therefore means that organization’s management is committed to pursuing a particular set of actions to grow its revenue, customer base, market share and performance (Johnson & Scholes, 2008).

Growth strategy refers to a well-articulated vision where a business seeks to go and how it expects to get there (Fink & Kraus, 2009). These strategies are usually embodied in the objectives or goals of an organization. Growth strategies are normally aimed at winning a larger market share, even at the expense of short term earnings. Storey (2016), states that growth is a multi-faceted phenomenon that is commonly associated with firm survival, achievement of business goals and success or the scaling up of activities. Strickland and Thomson (2003) on the other hand mention that growing a business can mean crafting and implementing strategies that will bring profit to the business, attract and please customers, enable the business to compete successfully with other competitors in the industry, conduct operations and improve the organization’s financial and market performance. There are four broad growth strategies in relation the Ansoff’s Matrix. These are diversification, product development, market penetration, and market development (Markides, 2009).
Mbugua et al. (2013) observe that growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to the Gross Domestic Product and economic growth. As such they are no longer viewed as stepping stones to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (Mbugua et al., 2013). SMEs have positively impacted economies within the globe. They have contributed to reduced unemployment and growth and sustainable development of the global economy.

It is widely acknowledged that SMEs have dominated the world business stage by number. In as much as updated data is difficult to obtain, estimates suggest that more than 95 percent of enterprises across the world are SMEs and they account to approximately 60 percent of the private sector employment ("SME Development Program", 2007). It is believed that Japan among the industrialized nations has the highest number of SMEs amounting to more than 99 percent of total enterprise. In Kenya, like other growing economies, SMEs play a significant role that could not be overemphasized. According to the Micro and Small Enterprises baseline survey (1999), the number of enterprises in the sector grew from 910,000 in 1993 to about 1.3 million in 1999.

Ongólo and Awino (2017) have noted that Kenya’s SMEs sector contributed an estimated 18 percent of GDP in 2011 and employs about 85 percent of the Kenyan workforce. This translates to about 7.5 million Kenyans which is approximately 18 percent of the country’s total population. This significant contribution of the SME sector to the economy has consequently brought a lot of attention to its positive growth and subsequent performance. The performance of the SME has therefore become important. In order for an SME to survive in the market, it should have reached the desired mark of performance that was initially set as an objective and even surpass it. The growth of the SME sector is also important to governments. The failure of such companies has the potential to cost the society. Some of the associated loss as a result of failure includes potential job loss, loss of business for suppliers as well as significant reduction in the average per capita spending of the community (Blackman, 2003).

Ansoff and Mc Donnell (1990) explained the concept of strategy as the common thread among the organizations' activities and product markets that defines the essential nature of
business that the organization was or planned to be in future. The definition stressed on the commonality of approach that exists in diverse organizational behavior. Organizations and businesses are built around products and services that define their value offerings. Ansoff’s product/market grid explores two key dimensions, the product and the market while combinations of these two dimensions result in four growth strategies. These include market penetration, market development, and product development and diversification strategies.

SMEs need to formulate and implement growth strategies that will help them achieve a higher market share, gain profitability and attract a larger customer base (Lamberg et al, 2009). Formulating and implementing the right strategies is therefore very crucial for the growth and performance of the SMEs. To stay competitive, companies must continually grow and evolve. They must evolve to stay relevant, innovative, and competitive. Choosing the right approach to growth is difficult. It involves thorough research of not only the business itself but also the market. In addition, the approach should be in line with the company’s mission, vision and strategy. Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long-term, which enables it to achieve advantage for the organization through configuration of resources within a changing environment and fulfill stakeholder’s expectations.

There are two types of growth strategies that can be adopted by an organization. They include organic or internal growth strategies and inorganic or external growth strategies. Agnihotri (2014) states that companies adopting organic strategies not only measure their success on financial metrics but also take note of other internal metrics like customer satisfaction, in-house competencies and product quality. Additionally, inorganic strategies deal with increasing output and business reach by acquiring new businesses by way of mergers and acquisitions. Organic growth is generated, for example, by selling more products to current customers this is referred to as market penetration or concentration, selling products to new customers as called market development or developing new product and selling it to current customer base. Firms relying on organic growth derive most of their expansion internally, by enhancing current customer relationships and building new relationships.

Both types of growth strategies are often used simultaneously and each has advantages and disadvantages. Wanjiru and George (2015) note that the advantage of external growth strategy
is its ability to create synergies and market power. External growth strategies can destroy value if the management reinvests the firm’s resources or free cash flows in inefficient projects of their own personal interest. The major advantages of organic growth include providing a more corporate control in an organization; encouraging internal entrepreneurship and protecting organizational culture for different reasons. Managers have a better knowledge of their own firm and assets, and how the internal investments are likely to be better planned. Companies that invest internally are able to create sustainable competitive advantages since their value creating processes and positions are less likely to be duplicated or imitated by other firms. Internal growth strategies are more private and less prone to any hostile action from other companies. This leads to better rewards from the capital market (Kellen, 2003).

Research has been previously carried out to identify factors affecting the growth and performance of SMEs. A study by Pasanen (2007) was carried out with the aim to identify strategic factors adopted by firms that have been categorized as SMEs and have further adopted an organic or inorganic growth strategy based on its growth characteristic. The study found out that a firm’s growth strategy was associated with its characteristics such as scale of operation, years of operation, founders, and product and customer structures. Pasanen (2007) further found out that the long-lived SMEs chose the inorganic growth strategy but the young ones choose the organic growth strategies.

Burns (2003) discusses the different growth options and organic strategies an entrepreneur may choose depending on its appropriateness to the firm’s current circumstances. These include market penetration, product development, market development and diversification. They have been derived from the Ansoff’s Matrix. Wanjiru and George (2015) assert that an SME needs to plan systematically to ensure that sales grow for future organizational structure and also know how to support diversification and expansion as a part of organic growth strategy adopted regardless of the size.

Agostini (2016) argued that consumers sought different product benefits in different locations. Therefore as a firm expands, it may use its product as one of its marketing entry strategies. The study carried out by Obonyo (2015) established that product innovation enhanced organization performance by attracting more customers through product differentiation and new product development. Different customers with different preferences were being served,
thus allowing the company to offer products that meet consumer needs. The respondents suggested that Safaricom Limited could enhance product innovation by investing more in research and development. Again the research failed to indicate the extent to which product development affected performance of SMEs.

Wanjiru and George (2015) affirmed a positive relationship between market development strategy and performance of SMEs in Thika Sub-county. Following the finding of his study he noted the market development strategy was measured using the number of new branches of SMEs opened within the 2013 financial year. The study established that the mean number of new branches opened was equal for both the small and medium enterprises, the study found out that was a positive relationship between market development strategy and performance of SMEs. On the relationship between market penetration and performance of SMEs, Wanjiru and George (2015) also found that there was a positive relationship between market penetration strategy and performance of SMEs in the Thika Sub-county.

The understanding of the business environment is vital to high performance just as competition is important at influencing how successful an organization’s business venture can be (Menguc, Auh & Shih, 2013). It is imperative to note that it is not simply a matter of producing a good product or service alone that meet the customers’ wants and needs that give customer satisfaction, but how well the product or service is introduced to them. Therefore, comprehensive research should be carried out so as to ensure that any strategies implemented originate from an informed point of view.

1.2 Statement of the Problem

There is a growing global recognition of the importance of Small and Medium Enterprises. Developing a higher number of such enterprises would be a step towards achieving economic sustainability. However, in order for a business to survive, sustainable growth has to exist. Business growth is a necessity to meet the demands of an increasingly complex and dynamic environment. According to Johnson and Scholes (2008), growth in the market is not an option but a business necessity. If an organization grows slower than the competition, it should expect the competitors to gain cost advantage in the longer term. The performances of small
businesses are directly linked to the growth strategies that have been successfully implemented.

In order for Small and Medium Enterprises to succeed, there has to be measures put in place to ensure that their growth is constant (Aosa, 1992). These measures are in the form of strategies formulated and implemented to attain set goals and objectives. Small and Medium Enterprises in Kenya have been characterized by competition for market share, lack of knowledge and skills and financial constraints ("Kenya National Bureau of Statistics", 2017). Statistics indicate that three out of five such businesses fail within the first few months of operation (Wanjiru & George, 2015). This business failure rate is alarming as economic growth in the country depends on the sustainable growth of such firms.

Little has been carried out to assess the influence of growth strategies on the performance of SMEs sector in Kenya (Dean, 2011). Formulating and implementing the best strategy that enables SMEs to survive in a competitive environment as well as perform better is very important for the economy as a whole. Therefore, there was a need for a study that provides Small and Medium Enterprises owners with information on the best strategy to adopt so to grow their businesses effectively which would in turn lead to an increase their market share and revenue. The purpose of this research study was to examine the effect of growth strategies on the performance of small and medium enterprises in Kenya.

1.3 General Objective

The general objective of the study was to determine the effect of organic growth strategies on performance of SMEs in Kenya.

1.4 Specific Objectives

1.4.1 To determine the effect of market penetration on performance of SMEs in Kenya.
1.4.2 To establish the effect of product development on performance of SMEs in Kenya.
1.4.3 To find out the effect of market development on performance of SMEs in Kenya.
1.5 Significance of the Study

1.5.1 Management of the Good Food Company

The study findings would be of great importance to the management of The Good Food Company as this research would enable them to better understand the importance of adopting the right growth strategy as well as empower them with the best practices in regard to the business growth and revenue sustainability.

1.5.2 Retail Food Industry

The Good Food Company is an SME in the retail food industry. Therefore, the study may be of importance to the retail food industry since it may provide other SMEs within the same sector with information on the growth strategies. Such SMEs may be able to formulate growth strategies using the findings of this study as a benchmark.

1.5.3 Researchers and scholars

The study may provide background information to other researchers and scholars who may want to carry out further research on the same topic. The study may form the basis of references and guidance to the researchers while carrying out their study on growth strategies and performance of SMEs.

1.6 Scope of the Study

The study focused on the effect of growth strategies on the performance of SMEs in Kenya. It was carried out at The Good Food Company’s head office located in ABC Place building along Waiyaki way, Nairobi Kenya. Three growth strategies were studied; Product development, market penetration and market development. The data was collected between June and July 2017.

1.7 Definition of Terms

1.7.1 Strategy

Strategy is a pattern of actions and resource allocations that is designed to achieve the goals of an organization (Bateman & Zethaml, 1993).
1.7.2 Growth Strategy

Growth strategy refers to a well-articulated vision of where a business seeks to go and how it expects to get there (Berman & Hagan, 2016).

1.7.3 Organic Growth Strategy

Organic growth strategy is also called internal growth strategy, since it is business expansion through internal processes such as increased sales through increased output, customer base expansion or new product development (Dalton & Dalton, 2006).

1.7.4 Performance

Performance is defined as an analysis of a company’s results or output as compared to the goals and objectives that are set (Redmon, Mawhinney, & Johnson, 2013).

1.7.5 Market Penetration Strategy

Market penetration strategy is where a business aims to focus its activities on increasing its market share by exploiting its present product range in its present market. It involves adopting activities that increase the amount of sales and thus market share of a particular product, these activities can include advertisement and price reduction (Dolan, 2002).

1.7.6 Market Development Strategy

This strategy involves taking present products into fresh or new market, and thus focusing activities on expanding or identifying potential market through new customer segment or new product uses (Dolan, 2002).

1.7.7 Product Development Strategy

This strategy involves introduction of new products into existing market, and thus focusing on developing, launching and supporting additions to the product range (Sagatovych, 2013).
1.8 Chapter Summary

This chapter presents an introduction to the study. It provides information on the background of the study, statement of the problem, objectives of the study, research questions, and significance of the study, the scope of the study and definition of terms. Chapter two covers the review of existing theories and literature on the growth strategies and their effect on performance of firms. Chapter three discussed the research methodology; chapter four presented the results and findings of the analysis. Finally, chapter five presented the findings, discussions, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review of the study. Literature review helps in identifying the relevant researches addressing the research problem. The first part introduces the concept of performance of SMEs. The second, third and fourth parts presents literature as per the research objectives. This includes literature on market penetration, product development and market development and their effect on performance.

2.2 Market Penetration Strategy and Performance of SMEs

Performance is a central theme in any strategy. Most strategies are formulated with an aim of ensuring that an organization’s performance increases. Performance is a widely used concept in many areas. Usually, performance is a measure of how well a mechanism/process achieves its purpose. In enterprise management, Moullin (2003) defines an organization’s performance as “how well the organization is managed” and “the value the organization delivers for customers and other stakeholders.

It is natural that organizations measure their performance in order to direct organization's resources towards important organizational goals and in designing strategy. The rapidity of change fostered by increasing competition within the market and advancing technology has made proper strategy selection and implementation an aspect of successful organizations. SMEs must have the response capability to apply growth strategies so as to ensure growth occurs. They must have the capability to respond to changes in the marketplace and to respond to the failure of an executed strategy. SMEs today requires better information across a wider scope than the traditional and often linear, financial measures, to achieve understanding of the factors that create the foundation of future success (Timmons & Spineli, 2014). Therefore information in the form of market research and customer surveys is important in as it influences the decision making and strategy formulation processes within the organization. This ultimately has an effect on the performance of the SME.

Identifying and analyzing performance indicators is done so as to provide information on the
quality of processes performed within an organization offering support to achieve the objectives on time and within the set budget (Peters, 2010). In order to do this, it is necessary to understand the importance of the performance indicators. These, if properly identified, can be used to measure the performance of an SME. In doing so, management can be able to implement the growth strategies from an informed point of view.

Fink and Kraus (2009) identify market penetration strategy as a growth strategy where by a business entity engages in activities with an aim of increasing its market share by exploiting its present product range in its present market. A business entity aims to penetrate deeper into the market so as to capture a larger share of the market. Mascarenas et al. (2006) claim that growth requires expanding what a firm is doing currently to a potential customer. This growth strategy is the least risky among other growth strategies since it leverages many of the firm’s existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limit (Wanjiru & George, 2015). Market penetration has also been referred to as market share. It is the measure of percentage of sales volume an existing product or business achieves in relation to its competitors. Therefore, to increase market penetration businesses can employ a number of strategies in an effort to take sales from its competitors.

In his study, Kyalo (2016) states that market penetration happens when an organization enters or infiltrates its current market with current items. The most ideal approach to accomplish this is by picking up a competitor’s customers. This is an internal growth strategy where an organization uses its resources to grow. The business entity within a certain market is interested in growing its business within the same market by increasing its customer base or market share. Therefore an organization needs to come up with different ways to draw in new customers or persuade its current customers to consume more of the current product, to use it more often or to use it in new ways. This in turn helps the company grow its market share within the existing market. However, market penetration has limits, and once the market approaches saturation point, another strategy must be pursued if the firm is to continue to grow (Wanjiru & George, 2015).

Increasing its market share or customer base makes an SME is able to increase its sales volume and thus increase its revenue. This consequently means that an SME can be able to
expand its operation in terms of increase in production and outlets. Past literature indicates that there is a positive relationship between market penetration strategy and performance of SMEs (Wanjiru & George, 2015). Kyalo (2016) found that large oil companies adopted market penetration strategies and that majority of those oil companies in Kenya had established a new outlet or branches within the last 3 years. Sije and Oloko (2013) also examined the relationship between market penetration and the performance of SMEs in Kenya and their study showed that there was a strong positive correlation between market penetration strategy and performance of SMEs. This means that adoption of market penetration strategy as a growth strategy by SMEs can therefore be used to achieve a competitive advantage on the other SMEs while increasing its share of the market through rigorous market penetration strategies.

Pearce and Robinson (2012) enumerates specific options under the market penetration strategies used to increase the use of present product in present market. Some of the techniques employed under market penetration strategy include promotion or advertisement activities and price or cost reduction strategies. Kyalo (2016) asserts that a firm can utilize advertisement to infiltrate its current market and build up the piece of the overall industry within the same market using the current product. Here a firm engages in promotional activities so as to inform, persuade, and influence the customer’s consumption decision. The business entity may encourage its customers to continue using, or draw in more consumers to the current product because of the benefits associated with the current product, or lower its prices to capitalize on more sales volume or alternatively increase price to maximize on profit on per unit sold.

Pilling (2012) defines promotion as encompassing all the various ways an organization undertakes to communicate its products’ merits and to persuade target customers to buy from them. Promotion therefore, is the communication link between sellers and buyers and organizations use different means of sending messages about goods, services and ideas. The message may be communicated directly by sales people or indirectly through advertisement and sales promotion. Promotion is basically seen as the function of informing, persuading, and influencing the customer’s consumption decision and includes such areas as advertising, personal selling, public relations, and discounts. And of these, advertising is considered as the
most powerful promotion strategy. Worth noting is that promotion strategies are used to serve different purposes and may vary in size and scope (Kotler, 2003). In developing various elements of promotion marketers blend together the various elements of promotion that will communicate most effectively with target markets.

Engel (2000) states that promotional strategies are closely related to the process of communication within an organization. He gives a standard definition of communication as, ‘the transmission of a message from a sender to a receiver’. Marketing communications, then, are those messages that deal with buyer-seller relationships. A planned promotional strategy, however, is certainly the most important part of any marketing communications. The communication process includes various components such as internal communication, marketing, recruiting, financial, political and legal issues, the activity of promoting the company’s products and its image is affected mainly by marketing communication. Furthermore, the goal of any promotion policy regardless of the nature of the industry in which the company operates, is to influence directly or indirectly the purchasing attitude of the target market. Promotion may stimulate, develop and guide the potential customer’s needs. This communication therefore must inform, persuade or remind the public about the products or services of a company.

Kotler (2003) notes that, the goals and objectives of the firm’s promotion strategy are set by the marketing manager or director who does this in accordance with overall marketing objectives and the goals of the organization. Later, various elements of the promotion strategy such as personal selling, advertising, sales promotion, publicity, and public relations are formulated into a coordinated promotional plan based on the set objectives. Obonyo (2016) affirms this by pointing out that these coordinated promotional plans become an integral part of the total marketing strategy for reaching selected market segments. Feedback mechanism, including marketing research and field reports, completes the systems by identifying any deviations from the plan and suggesting modifications for improvement. Furthermore, it is important to ensure that staff dealing with promotions equipped with the necessary skills to carry out the promotional plans effectively.

Social media marketing is recently being used by companies to achieve competitive advantage over other companies. Porter (2008) points out that the internet has created communication
channels which have consequently reduced the distance between two people, but only to a certain point. Additionally, the most recent developments that the internet has experienced are related to social networks or social media. Producers are now forced to listen to the voices and opinions of consumers expressed through various social networks. If a business wants to thrive in the market or at least to survive, such feedback should be taken seriously. When properly implemented, Information Technology has enabled businesses gain competitive advantage, cut costs, improve efficiency and ease communication by eliminating major barriers that were earlier caused by distance, different time-zone, cultural differences and also prohibitive costs (Josee, Kaemu & Kanhori, 2014).

According to Scott (2015), the most relevant social media applications that companies have at their disposal, as part of web marketing promotional strategies are social networks like Facebook, Twitter and Trip Advisor. Blogs and web pages with news in the industry, web pages for image management such as Flickr, Pinterest and Instagram, web pages for videos management, such as YouTube and Vimeo are also tools that can be used by a company to promote its product. These channels offer the business an efficient and effective means of marketing products. The cost of using social media is low but the returns that may be realized from its use are significantly high. An SME should ensure that they invest on a proper social media specialist to ensure that their products are made visible and reachable to the relevant target market. Therefore, the advice is for small businesses to continue with social media, but to update their strategies in line focusing on posting regular useful content, engaging with other profiles and developing relationships (Kotler & Armstrong, 2016).

Olive (2008) describes price as a very important decision criterion that customers use to compare alternatives. He adds that price also contributes to the company's position. In general, a business can price itself to match its competition, price higher, or price lower. Price is important to marketers, because it represents marketers' assessment of the value a customer sees in the product or service and is willing to pay for that product or service. A pricing decision that must be made by all organizations concerns their competitive position within their industry. A smart pricing strategy is essential for increasing profit margins and reducing supply. A fundamental point in smart pricing, according to (Sije, & Oloko, 2013) is to base prices on the value to the customer, they add that as much as companies talk about customer
focus, they often price according to their own costs. Cadogan (2009) supports the setting of price below competitors as a good market penetration strategy since it makes products and services affordable and also makes payment feasible to these consumers, who usually receive their salary on a daily basis. This eventually increases the sales volumes and consequently raises its profit margin and market share.

O’Brien (2010) argues that in penetration pricing, using a very low price to capture a very high market shares will result in a rise in performance. O’Brien (2010) further notes that when very high market share is achieved it could consequently give economies of scale that will allow low costs and thus low prices to be maintained in the long term. By lowering prices a business hopes to generate more sales volume by increasing the number of units purchased and to make prices more appealing to consumers a when compared to competitor. Other companies may increase their prices in the hope of higher sales revenue per unit sold translate. A larger market share provides competitive advantage a company since it can create a barrier to entry for other smaller and new companies, these new and small companies will have to match, what are to them, uneconomic low prices.

It is widely acknowledged that while some companies endeavor to position themselves by fixing price above competition, others endeavor to carve out a market niche by pricing below competitors (Cadogan, 2009). Marketers that promote lower prices need decide how much to reduce the price as well as how to communicate the price reduction. The ultimate goal of such a lower price strategy is to realize large sales volume through a lower price which ultimately will lead to high profit margins.

Lower prices has its drawbacks though, historically, as pointed out by Capon (2008), one of the worst outcomes that can result from pricing lower than a competitor is a "price war." According to Him, price wars usually occur when a business believes that price-cutting produces increased market share, but does not have a true cost advantage. Price wars are often caused by companies misreading or misunderstanding competitors. Typically, price wars are overreactions to threats that either are not there at all or are not as big as they seem. Another possible drawback when pricing below competition is the company's inability to raise price or image. A retailer such as K-mart, known as a discount chain, found it impossible to reposition itself as a provider of designer women's clothes.
In his study of the growth strategies adopted by oil companies Kyalo (2016), found out that large oil companies used penetration pricing as a growth strategy. That is, large oil companies charge different rates based on the season or product to increase revenue and profit. "Strategic and Organizational Evolutions of High-Tech SME on Global Market" (2011) explained that a firm can use market penetration pricing to develop the market share with current products. Advertisements featuring percentage price reduction are frequently used by retailers to promote a line or announce a store-wide sale. Kotler (2005) pointed that all other elements of a business operation represent costs. One of the most difficult areas of making decisions is pricing strategy, which deals with methods of setting profitable and adjustable prices. It is closely regulated subject to considerable public scrutiny.

2.3 Product Development Strategy and Performance of SMEs

A product is anything that can be offered to a market for attention, acquisition, or consumption that may satisfy a want or need (Kotler & Armstrong, 2016). A product is about quality, design, features, brand name and sizes (Suikki, Tromstedt & Haapasalo, 2009). In addition, a product is about the physical appearance of the product, packaging and label information which can also influence whether consumer notice a product in store, examine it and purchase it (Sun, 2004).

Koks and Kilika (2016), states that the concept of product development strategy has grown and has often been viewed as the main tool for increasing a firm’s performance. They add that product development strategy may involve modification of an existing product or how the product is presented, or formulation of an entirely new product that satisfies a newly defined customer want or market niche. Product development strategy has been considered the bloodline for growth for international companies.

According to Cadogan (2009) product development strategy involves introduction of new products into existing market, and hence focus is on developing, launching and supporting additions to the product range. However as Pierce and Robinson (2011), assert this strategy is appropriate if the firm’s strength is related to developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share Past studies have clearly suggested
that product influences have a significant effect on business performance (Suikki, Tromstedt & Haapasalo, 2009). Product development involves the substantial modification of existing product or creation of new but related product that can be marketed to current customer through established channel. The product development strategy is adopted either to prolong the lifecycle of current products or to take advantage of a favorite reputation or brand name. The idea is to attract satisfied customers to new product as a result of their positive experience with the firm’s initial offering.

With the need to respond quickly to customer requirements, increased complexity of product design and rapidly changing technology, selecting the right set of PD strategy is critical to the long term success of a firm, hence the need to link product development strategy with market adoption process in the path to a firms performance. In adopting the product development strategy, an SME tries to grow by developing improved products for the present market. According to Storey (2016) the most suitable growth strategies for a small firm are those concerning product development and market development. Sondereger (2011), shares the same view suggesting that high growth can best be achieved by identifying new markets for existing products or by developing new products or services for existing customers. In this way SMEs can evolve from having an established core activity into more complex businesses.

Kotler and Keller (2006), asserts that product development strategy allows companies to gain competitive advantage, attract new customers, retain existing customers and strengthen their ties with their distribution networks. Developing new products or modifying existing products so they appear new and offering those products to current or new markets is the key feature of product development strategy. Product development strategy is seen as a competitive tool and can give a firm better performance. Therefore PD strategy as a tool of competition and may give an SME a better outcome (Suikki, Tromstedt & Haapasalo, 2009).

According to Winer (2010), product development strategy requires changes in the business operations this includes the research and development function which is needed to introduce new products to the existing market, also assessment of the customer needs is necessary to ensure customer satisfaction and understanding of their needs, a clear path to brand extension is also required since it enables a company to leverage on its existing market and brand loyalty. However, for this to be successful there needs to be a logical association between the
original product and the new product, there should not be any confusion because this may have a detrimental effect on the current market share.

Sagatovych (2013) affirms New Product Introduction (NPI) as one of the instruments that companies use to secure growth, to raise profitability and to increase or maintain current market share. He adds that NPI benefits companies that introduce something completely new since they earn significant returns and gain a long-term competitive advantage. New product provides a new experience and satisfaction of customer needs that had previously not been met. This fulfillment of need attracts more customer of the current market or new market to the company. This later translates to increases in sales volumes and consequently profit and growth.

Developing and ultimately launching a product can often make or break a business, especially a startup business. Some businesses develop only one product, while others develop many (Charles, 2017). There are three approaches to new product development, these include: ensuring that the new product is closely associated with the current product; ensuring that the product matches current customer’s purchasing habits; and finally ensuring that the new product reinvents or refreshes the existing product. According to Perrot (2011) majority of product development within the FMCG’s follow the first approach of creating new products that are easily and closely associated with the existing product. He adds that these new product usually have a strong brand awareness within the market and use this as their main vehicle to gain visibility in the competitive market.

The need for new products is driven by the fact that customer’s habits are continually evolving, especially as new technology continues to develop and competing suppliers continue to offer innovative solutions to satisfy customers’ needs. According to Lamberg et al., (2009), radical innovations are not frequently done and more often companies conduct just some moderate changes in the product. They add that such product introductions have positive effects on the firm’s top-line and bottom-line financial performance and on the firm value both in the short-run and long-run. Moreover, the firm value effect of product introduction increases over time, while promotional incentives tend to decrease company’s value in the long-run.
New product development is not just extending the status quo, it is usually time consuming, risky, and frequently costly. A clear strategic vision with regard to innovation needs to be articulated by an enterprise. Therefore, the drive for innovation and diversification generally comes from the top of the organization, if new product development is to be successful. Prior to instituting a process for product development, a new organizational structure may need to be implemented, because new product development, especially as the level of diversification and innovation increases, rarely resides easily in a non-dedicated group or unit. A new organizational structure may include innovation teams or may integrate research and development into a business unit (Olive, 2008).

NPI helps to maintain growth and thus protects the interest of company’s stakeholders. In addition, the theory of the product life-cycle argues that a company has to constantly innovate to keep its product line up-to-date, in order to stay competitive. According to the studies, NPIs ensure growth by influencing the competitiveness of the company. Sagatovych (2013) asserts that this is especially important for technological industries, where the increased pace of technological changes and increasing consumer demand stimulates competition and hence makes it harder to benefit. In such industries the only way to differentiate the company’s products from the rivals’ ones is to innovate. He also believed confirms that NPI increases profitability of the company from his literature review he determined that the returns on research and development were much higher than returns on other investments and that research and development expenses were positively related to the profits.

As companies compete amongst each other, integration of technologies in their operation because crucial. This will enable them be more efficient in terms of the number of output to meet the demand and the quality product, this technology can also be adopted by the R&D in the production process to create a new product. Sagatovych (2013) emphasizes that, in the highly competitive environment only the development of innovative products will give enough competitive advantages to the company.

O’Brien (2010) defines product modification as the changes in one or more characteristics of a product. A modification may include a change to a product's shape, adding a feature or improving its performance. Often a product modification is accompanied by a change in packaging. Product modification means changing one or more of the product's features and
may involve reformulation and repackaging to enhance its customer appeal (Lamberg et al., 2009).

According to Lamberg et al. (2009), product modifications can give a competitive advantage where for instance a company may be able to charge a higher price and enhance customer loyalty. Product modification is often used as a way of extending the product life cycle of a product. McDonald & Dunbar (2013) classify modifications into three distinct types. These include quality, design, and performance. Quality modifications relate to the product's dependability and durability; performance modifications relate to the effectiveness, convenience, and safety of products for example, washing machines that use less heat and water; and design modifications alter the aesthetic and sensory appeal of the product such as its taste, texture, sound, and appearance. Such modifications can act to differentiate products in the marketplace, for instance. For example, BMW cars have an immediately recognizable style. A number of issues have to be considered before deciding whether or not to keep the product, change it, or eliminate it; for example, what is the customer appeal? The product may have lost its distinctiveness because of the introduction of new products or improvements of its main rivals. By reformulating the product, it may be possible to regain its competitive edge (Margaretand & Barnes, 2005)

Obonyo (2015) describes the conditions that need to be met for a product to be modifiable, is that customers need to be able to perceive that modification has occurred. The modification must make the product to be more consistent with the customers’ desires. Company need to ensure that there is a logical association between the original product and the new modified product, however there are exceptions but as long as this does not bring confusion among the company’s customers and later affect negatively the company’s current market share.

Product modifications can make firms to behave as if the level of differentiation between them has increased, and thus result to increasing prices without the fear of losing existing customers (Iyer & Soberman, 2000). In fact, even if only one firm implements a retention modification, its strategic effect is to raise equilibrium prices in the market. However, production modification has costs as well as associated benefits. For instance it has an advantage of helping a firm attract loyal customers of the competitor and the disadvantage of evoking an aggressive pricing response from the competitor. Therefore, one can gain a customer base and
make supernormal profits in short term but in long-run due to aggressive pricing response from the competitor, the profits can go back to normal.

Different methods of product modification can be employed. Barney (2003) identifies three methods of product modification. The first is functional changes which affects a product’s versatility, effectiveness, convenience, or safety. This method provides a stronger competitive position, enables a firm to achieve or to maintain progressive image and also reduce possibility of product liability lawsuits. Another method of modification is aesthetic modification. This method deals with product changes relating to the sensory appeal of a product such as taste, texture, sound, smell, and appearance. The third method is quality modifications where changes relating to a product’s dependability and durability are affected. In this method reducing quality means lower prices while increasing quality meant a competitive edge.

2.4 Market Development Strategy and Performance of SMEs

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

According to O’Brien (2010), market development strategy creates growth through the introduction of current products to new markets. He adds that this strategy is used when a company has identified markets that were previously unidentified or when it wants to expand its market reach. A number of tactics used to enter and develop a new market for existing products include turning to new and untapped geographical areas, introducing new pricing procedures to attract new target audiences and creating new distribution channels can to offer products in new ways and to new customers.

Among the ways to achieve market development strategy as indicated by James (2017), is identifying new geographical market, this may involve an expansion of a firm’s to outside its
area of operation or selling to anew country or continent. However, Perrot (2011) argues that the element of risk in adopting this strategy will depend on whether or not the SME has established sales channel in the new market. New product dimensions or packaging can also be used to open up a whole new market. The Ansof Matrix depicts that, this may give the product a new feel and look and thus appealing to the new market.

An empirical study by Mbithi et al. (2015), on the effect of market development strategy on performance in Sugar Industry in Kenya, indicated that there was a relationship between marketing development strategy and firm performance. They adopted two approaches to analyzing market development strategy. The approaches included developing new market segment and extending to new geographical region. Their study indicated that developing new market segments influenced sales volume and the total turnover this however was not statistically significant while extensions into new geographical areas influenced in sales volume with statistically significant results. In their conclusion based on their findings, they’d that extending to new regions and developing new market segments did not result to increased profitability but increased market share which eventually would positively affect profitability.

This approach is followed by relocating services or products to regions where it has not previously been offered. According to Jones and Bartlett (2010), the lure of new markets either in large developed economies or in emerging economies with growth potential is often irresistible to businesses with international ambitions. Companies like Microsoft, Coca Cola, or Toyota could not have achieved global leadership positions in their respective industries without selling their products in most of the world’s markets (Andrew, 2011).

Companies see the opportunity to extend their operations to other area because through extension to new regions firms can expand their services to new locations, develop a new revenue stream and leverage their expertise as service of product provider (Matt, 2015). Accessing new markets allows a company to broaden its reach and increases its potential to sell products and services to more customers. This increase in sales can also boost the bottom line of the business. In order to help to ensure a successful transition, company executives need to develop the strategies to use in order to penetrate the new market. Business development strategies can include marketing promotions, advertising, public relations and
any other activities the company uses to promote its products or services and reach its new intended customer (Lorette, 2017).

Studies show that in most cases, being first to the market provides a significant and sustained market-share advantage over later entrants. Still, later entrants can succeed by adopting distinctive positioning and marketing strategies. Pioneers in most industries, once they have reached the status of incumbent, are powerful. Sometimes, however, they get complacent or are not in a position to cater to the growing or shifting demands of the marketplace new entrants can take advantage of gaps in the offerings of these aging pioneers, or find innovative ways to market their product or service (Kalyanaram, 2011).

The first movers achieve greater market shares and earn abnormal positive. But on the other hand, Cooper reports that being first to the market does not ensure product success, because all the first-mover advantages are “almost equally balanced by the many pitfalls and disadvantages”. In addition, a high market share may be reached at the expense of profit margins or high expected payoff may bear significant risks. Finally, the first-mover advantages are lower for industrial goods compared to consumer goods, which also should be taken into account (Sagatovych, 2013)

Before a company enters a new market it needs to do market research, when a company does its due diligence in research and customizes its strategies to develop a new market, it helps to ensure that the new market penetration is successful. The better a company knows the market it is targeting, the better position it has to create marketing strategies that reach the new target customers. Planning ahead of time helps the company approach the new market in a proactive manner through the creation of adaptive advertising and marketing based on different responses the company may receive from new customers (Ong’olo & Awino, 2017).

Ong’olo and Awino (2017) provide a warning that is if a company tries to develop business in a new market without first conducting research and creating a strategic plan, it almost ensures failure. Most companies enter a new market because an opportunity has been identified meaning there is a need in the market that is not currently being fulfilled. If a company tries to push a product or service in a new market where there isn’t a need or want for the product or service, then sales are going to suffer. If a company tries to sell a product or service to a new
market without understanding the needs and wants of the customers in that market, then the marketing strategies may not hit the important points of the market. When the marketing doesn’t appeal to the target market, then the marketing efforts fail and sales also suffer.

Marketers have recognized that the target audiences of a certain product are not all alike. They differ in terms of demographics, attitudes, needs, location and social affiliations. Most markets are made up of different individual customers, sub-markets or segments. Segmentation and targeting of customers allows the marketer to deliver a product within the target audience needs and wants (Pickton & Broderick, 2013). It is a necessity to establish the needs and values of the target customers within each segment, in order for companies to promote their products, brands or services appropriately. In most markets buyers vary in how they use products, the needs and preferences that the products satisfy, and their consumption patterns. These differences create market segments. Market segmentation is the process of identifying and analyzing subgroups of buyers in a product-market with similar response characteristics for example frequency of purchase. Recognizing differences between market segments, and how they change, better and faster than competitors is an increasingly important source of competitive advantage.

Market segmentation is the process of placing the buyers in a product-market into subgroups so that the members of each segment display similar responsiveness to a particular positioning strategy. Buyer similarities are indicated by the amount and frequency of purchase, loyalty to a particular brand, how the product is used, and other measures of responsiveness. So, segmentation is an identification process aimed at finding subgroups of buyers within a total market. The opportunity for segmentation occurs when differences in buyers’ demand functions allow market demand to be divided into segments, each with a distinct demand function.

According to (Sondereger, 2011), segmentation identifies customer groups within a product-market, each containing buyers with similar value requirements concerning specific product/brand attributes. A segment is a possible market target for an organization competing in the market. They add that, Segmentation offers a company an opportunity to better match its products and capabilities to buyers’ value requirements. Customer satisfaction can be improved by providing a value offering that matches the value proposition considered most
important by the buyer in a segment. Importantly, market analysis may identify segments not recognized or served effectively by competitors. There may be opportunities to tap into new areas of value and create a unique space in the market. For example, while the luxury hotel business is highly competitive and has been hard-hit by economic recession, several companies have been able to develop profitable opportunities. Interestingly, the newest hotel formats are boutique or lifestyle hotels, where sales growth is considerably higher than in the mainstream hotel business. This development is described in the innovation application (Sondereger, 2011).

In the section of the market segmentation process the different types of market segmentation and the variables of each type will first be explained. These types are significant when identifying the right target customers to a product. They include the demographic segmentation, which is considered the most common one that deals with basic demographic factors such as age, income, gender etc. and divides the target customers into segments based on these variables. The geographic segmentation divides the target customers into segments based on geographical areas such as nations, regions, cities etc. The psychographic segmentation divides the customers into segments according to their values and lifestyle. Finally the behavioral segmentation divides the target customers into segments based on their attitude toward a product. On the basis of the description of the types it will be concluded which of the types are best suited when identifying the target customers of respectively the landline telephone and the mobile telephone in this case being the demographic and the behavioral segmentation (McDonald & Dunbar, 2013).

The second step in the segmentation process is the matter of market targeting. After identifying the target customers, the company must decide which segment to target and how many. Subsequently the company then must decide which market strategy to choose i.e. undifferentiated marketing, where the company does not consider differences between the segments and targets the market with one offer, differentiated marketing, where the company target many market segments with offers specially designed for each segment or concentrated marketing, where the company chooses one or few markets. The third and final step in the segmentation process is the matter of positioning. Once the company has identified and evaluated the target customers it is then necessary to decide on what position the company
wants to occupy in the chosen segments. In order for the company to achieve a successful positioning i.e. when the target customers find that the product satisfies their expectations and desires, there are steps the company must follow. These include amongst others; the company must understand what the target customers expect and believe to be most important when deciding on a purchase, the company must develop a product which caters specifically for the customers’ needs and expectations (McDonald & Dunbar, 2013).

2.5 Chapter Summary

Market penetration strategy is commonly used by companies within the current market to increase their market share by adopting strategies that can help the organization increase its sales volumes or customer base. It is necessary also to emphasize the essential value of product development strategy, this is because today many organizations through the research and development function can be able to add new features in the products to make it more appealing and capture customers of its competitors or introduce a new product in the market. Market development strategy as a growth strategy is widely adopted by companies, firms implement this strategy through a number of ways such as the introduction of current products to new markets, that is extending their geographical location and also through segmentation of the current market so as to cater for the needs and preferences of the different segment of customers within the same market.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research technique that was used to collect data. It covers the research design, target population, sample selection and size data collection and data analysis.

3.2 Research Design

Descriptive research design was used in the study. Descriptive research seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. Descriptive research is a scientific method of investigation in which data is collected and analyzed in order to describe the current conditions, terms or relationships concerning a problem. A descriptive study is a carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors in interpreting the data collected (Kothari, 2004).

3.3 Population and Sampling Design

3.3.1 Target Population

Target population is defined by Kothari (2004) as a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The target population of the study was 126 employees from the two groups below:

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>31</td>
<td>25</td>
</tr>
<tr>
<td>Support Staff</td>
<td>95</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>126</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Human Resource the Good Food Company
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

This is the part of the population that is accessed during a study, that is, the realistic version of the population, the ones that are identified and accessed (Gallardo, Lachlan and Davis, 2012). The sampling frame consisted of the 126 employees and was obtained from The Good Food Company Human resource department.

3.3.2.2 Sampling Technique

Stratified random sampling was used to generate the sample size. In stratified random sampling, the population is divided into two or more strata or groups consisting of individuals with a variety of opinions, backgrounds and actions relative to a topic. The purpose of stratified sampling is to reduce sampling errors which occur when the sample generated is not representative of the population being studied. Simple random sampling was used to select the desired number of respondents from each stratum. The main advantages of stratified random sampling are that the technique overrules the possibility of underrepresentation, over-representation or exclusion of any essential group from the sample. Stratified sampling also provides estimates with high precision.

3.3.2.3 Sample Size

To derive the sample size for the study, Yamane’s (1967) formula was used:

\[
n = \frac{N}{1 + N (e)^2}
\]

Where;

- \( n \) is the sample size,
- \( N \) is the population sample
- \( e \) is the sampling error tolerance.

Applying an error tolerance of 5% and a target sample of 126 employees, the sample size is 95 respondents. The distribution of the sample size as per the two groups is as shown below:
Table 3.2 Sample Size

<table>
<thead>
<tr>
<th>Category</th>
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<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
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<tr>
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<td>95</td>
<td>71</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126</strong></td>
<td><strong>95</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

Primary data was the main source of data for the study, Kothari (2004) describes primary data as first-hand information collected, compiled and published for some purpose. This data was collected from the respondents by the researcher in form of questionnaires that they were required to fill. Since it was collected from original sources for specified purposes, it involved collection of data from the respondents from their own observations and experiences. A combination of closed ended questionnaires and open ended questionnaires was used to collect data. Section one was dealing with personal data of the respondents, section two dealt with the objectives of the research and the dependent variable of the study.

3.5 Research Procedure

Reliability is a measure of the degree to which a measuring instrument yields consistent result or data after repeated trials (Mugenda & Mugenda, 2003). Validity is the degree by which logistical and empirical measures are accurate (Mugenda & Mugenda, 2003). It is a measure of the degree to which a measuring instrument depicts true differences among items being measured (Kothari, 2005). Reliability and Validity of the research instrument was ascertained using a pretest.

A pre-test or pilot study was done on respondents who were not included in the final study. The questionnaires were corrected before the final circulation. (Saunders, Lewis, & Thornhill, 2016) notes that pilot studies help the researcher in identifying questions that can make the respondents feel uncomfortable and uneasy. Such questions can then be removed, paraphrased or replaced in the final survey instrument design. According to Mugenda and Mugenda (2003)
a pre-test sample should be between 1% and 10% depending on the sample size. The findings from the pilot study was used to refine the questionnaire for final administration. A sample of 10 respondents, which is 10% of the sample size, was used in the pilot study.

Questionnaires were hand-delivered and collected between June 2017 and July 2017. The types of questions used included both open and closed ended. Closed ended questions were used to ensure that the given answers were relevant. The questions were phrased clearly in order to make clear dimensions along which respondents will be analyzed. This method was considered effective to the study in that it created confidentiality. The presence of the researcher was not required as the questionnaires were self-administered.

3.6 Data Analysis Methods

According to Kothari (2016), data analysis procedure includes the process of packaging the collected information putting in order and structuring its main components in a way that the findings can be easily and effectively be communicated. After the fieldwork, before analysis, all questionnaires were adequately checked for reliability and verification. Editing, coding and tabulation will be carried out. The data was analyzed using quantitative and qualitative techniques in SPSS, where quantitative analysis was done using frequency distribution and use of measure of central tendency. It was presented by use of diagrams such as frequency tables and charts while qualitative analysis was presented through content analysis and evaluation of text material.

3.7 Chapter Summary

This research was grounded on a descriptive research design where quantitative and qualitative analysis of data was done. The target population comprised of all employees of the Good Food Company Limited. Primary data collection technique that is, questionnaires was be used to collect data on the research question. Stratified random sampling technique was used to generate a sample size of 95 respondents from the 126 employees at The Good Food Company Limited. All the data collected was analyzed using descriptive statistics and inferential statistics. The next chapter presents the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The purpose of this study was to determine the effect of growth strategies on performance of SMEs in Kenya. This chapter presents the data analysis results, interpretation and presentation.

4.2 Response Rate

Table 4.1 indicates out of 95 questionnaires administered only 86 were returned. The overall response rate was thus found to be 82% and was sufficient to proceed with the data analysis.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>86</td>
<td>82</td>
</tr>
<tr>
<td>Did not Respond</td>
<td>9</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>126</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Demographic Characteristics

4.3.1 Gender

Figure 4.1 represents the gender of the respondents, 54% were male and 46% were female.
4.3.2 Age Bracket

Figure 4.2 shows the age bracket of the respondents, who were spread out to various age brackets, majority of the respondents 47% were between the age brackets of 25 – 34 years, 19% were between the age bracket of 35 – 44 years, 13% were between 18-24 years, 14% were in the age bracket of 45-54% and 8% were above 55 years.

Figure 4.2 Age Bracket of the Respondents
4.3.3 Level of Education

The study sought to find out the level of education of the respondents and the findings were as indicated in figure 4.3. Majority of the respondents (46%) had bachelor’s degree, 35% had secondary education and 19% had masters.

![Figure 4.3 Education Level](image)

4.3.4 Existence of the Company

The respondents were asked to indicate the number of years the company has been operational and the findings indicated in figure 4.4. 59% indicated that the company has been operational for over four years, 17% indicated the company has been operational for 1-2 years, 17% indicated the company has been operational for 3-4 years and 6% indicated that the company has been operational for less than one year.
Figure 4.4 Existence of the Company

4.3.5 Length of Service

The respondents were asked to indicate the length of continuous service with the company and the findings presented in figure 4.5. Majority of the respondents (35%) had worked for the company for 3-4 years, 27% had worked for 1-2 years, 25% had worked for over 4 years and 13% had worked for less than 1 year.

Figure 4.5 Length of Service
4.3.6 Marital Status

Figure 4.6 presents the marital status of the respondents, 47% of the respondents were single, 48% were married and 5% were divorced.

![Marital Status Pie Chart]

Figure 4.6 Marital Status

4.3.7 Salary Bracket

The respondents were asked to indicate their salary bracket. Figure 4.7 presents the findings from the respondents. 33% indicated their salary bracket was between 25001-40,000, 31% indicated their salary was between 10,000-25,000, 20% indicated their salary bracket was between 40,001-55,000, 14% indicated their salary bracket was above 70,001 and 2% indicated their salary bracket was between 55,001-70,000.
4.3.8 Position in the Organization

The study sought to find out the respondents position in the organization. Figure 4.8 presents the findings from the respondents, 44% were in the managerial position and 56% who were the majority were in the non-managerial position.
4.3.9 Involvement in Strategic Decision Making

Figure 4.9 shows the findings from the respondents as to whether they are involved in strategic decision making in the organization. 52% who constituted the majority indicated they are involved in strategic decision making and 48% indicated they are not involved.

Figure 4.9 Involvement in Strategic Decision Making

4.4 Descriptive Statistics

4.4.1 Product Development

Product development was measured in this study with reference to performance. The respondents were asked to indicate the extent to which the company has applied product development strategies. Table 4.2 presents the findings from the respondents. 90% agreed that the company emphasis on constant improvement of current product features, 83% agreed that the company takes pride in launching new product brands, 83% agreed that the company have a broad product range, 79% agreed that the company develops products targeting emerging needs and 82% agreed that the company customizes its products.
Table 4.2 Product Development

<table>
<thead>
<tr>
<th>Product Development</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>None (%)</th>
<th>Agree (%)</th>
<th>Strongly Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on constant improvement of current product features</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>55</td>
<td>35</td>
</tr>
<tr>
<td>Taking pride in launching new product brands</td>
<td>2</td>
<td>5</td>
<td>10</td>
<td>35</td>
<td>48</td>
</tr>
<tr>
<td>Having a broad product range</td>
<td>0</td>
<td>9</td>
<td>8</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>Developing products targeting emerging needs</td>
<td>0</td>
<td>9</td>
<td>12</td>
<td>45</td>
<td>34</td>
</tr>
<tr>
<td>Customizing products</td>
<td>0</td>
<td>6</td>
<td>12</td>
<td>45</td>
<td>37</td>
</tr>
</tbody>
</table>

4.4.2 Market Development

The respondents were asked to indicate the extent to which the company has applied market development strategies in reference to performance and the findings presented in table 4.3. 72% agreed that the company opens new branches to attract more customers, 81% agreed that the company engages in finding new markets to increase market share, 82% agreed that the company adopts alternative technology to better product quality, 66% agreed that the company builds alliances with market agents to increase product distribution and 74% agreed that the company identifies the needs for the product range in foreign markets.
Table 4.3 Market Development

<table>
<thead>
<tr>
<th>Market Development</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>None (%)</th>
<th>Agree (%)</th>
<th>Strongly Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening new branches to attract more customers</td>
<td>0</td>
<td>5</td>
<td>23</td>
<td>43</td>
<td>29</td>
</tr>
<tr>
<td>Finding new markets to increase market share</td>
<td>0</td>
<td>10</td>
<td>9</td>
<td>49</td>
<td>32</td>
</tr>
<tr>
<td>Adopting alternative technology to better product quality</td>
<td>0</td>
<td>12</td>
<td>6</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>Building alliances with market agents to increase product distribution</td>
<td>2</td>
<td>20</td>
<td>12</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>Identifying the needs for the product range in foreign markets</td>
<td>0</td>
<td>9</td>
<td>17</td>
<td>31</td>
<td>43</td>
</tr>
</tbody>
</table>

4.4.3 Market Penetration

Market penetration strategy was measured in this study in reference to performance. The findings were presented in table 4.4. 73% agreed that advertising through social media to create brand awareness, 73% agreed that adopting new distribution channels to improve product accessibility, 87% agreed that improving product quality increase sales, 77% agreed that entering into convenient strategic alliances and 83% agreed that the company engages penetration pricing to have fair pricing.
### Table 4.4 Market Penetration

<table>
<thead>
<tr>
<th>Market Penetration</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>None (%)</th>
<th>Agree (%)</th>
<th>Strongly Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising through social media to create brand awareness</td>
<td>2</td>
<td>14</td>
<td>11</td>
<td>42</td>
<td>31</td>
</tr>
<tr>
<td>Adopting new distribution channels to improve product accessibility</td>
<td>2</td>
<td>8</td>
<td>17</td>
<td>39</td>
<td>34</td>
</tr>
<tr>
<td>Improving product quality to increase sales</td>
<td>0</td>
<td>3</td>
<td>10</td>
<td>59</td>
<td>28</td>
</tr>
<tr>
<td>Entering into convenient strategic alliances</td>
<td>2</td>
<td>6</td>
<td>15</td>
<td>45</td>
<td>32</td>
</tr>
<tr>
<td>Penetration pricing to have fair pricing</td>
<td>2</td>
<td>6</td>
<td>9</td>
<td>34</td>
<td>49</td>
</tr>
</tbody>
</table>

### 4.4.4 Performance

The respondents were asked to indicate the extent to which growth strategies applied by the company have impacted on the performance and the results presented in table 4.5. 87% agreed that the growth strategies applied has resulted to increased customer satisfaction, 78% agreed that the strategies has resulted to increased market share, 78% agreed that the strategies has resulted to long-term customer retention, 72% agreed that the strategies has resulted strong brand position, 76% agreed that that the strategies has resulted to increased sales revenue and 87% agreed that the strategies has resulted increased profit.
Table 4.5 Performance

<table>
<thead>
<tr>
<th>Performance</th>
<th>Strongly disagree (%)</th>
<th>Disagree (%)</th>
<th>None (%)</th>
<th>Agree (%)</th>
<th>Strongly Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased customer satisfaction</td>
<td>0</td>
<td>2</td>
<td>11</td>
<td>50</td>
<td>37</td>
</tr>
<tr>
<td>Increased market share</td>
<td>0</td>
<td>10</td>
<td>12</td>
<td>46</td>
<td>32</td>
</tr>
<tr>
<td>Long-term customer retention</td>
<td>0</td>
<td>5</td>
<td>17</td>
<td>43</td>
<td>35</td>
</tr>
<tr>
<td>Strong brand position</td>
<td>0</td>
<td>13</td>
<td>15</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>Increased sales revenue</td>
<td>0</td>
<td>15</td>
<td>9</td>
<td>39</td>
<td>37</td>
</tr>
<tr>
<td>Increased profit</td>
<td>2</td>
<td>3</td>
<td>8</td>
<td>39</td>
<td>48</td>
</tr>
</tbody>
</table>

4.5 Inferential Statistics

Structural equation modelling with LISREL 8.80 software was used to assess the effect of organic growth strategies on the performance of SMEs in Kenya.

4.5.1 Reliability Analysis

Cronbach’s alpha was used to test whether the items were sufficiently related to their constructs. Product development had a Cronbach’s alpha of 0.710, market development had a value of 0.722, Market penetration had a value of 0.740 and performance had a Cronbach’s alpha of 0.717. These Cronbach’s alpha values indicate that the items were sufficiently related to justify their combination in their constructs (Nunnally & Bernstein, 1994).
Table 4.6 Reliability Analysis

<table>
<thead>
<tr>
<th>Construct</th>
<th>Number of items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>5</td>
<td>0.710</td>
</tr>
<tr>
<td>Market development</td>
<td>5</td>
<td>0.722</td>
</tr>
<tr>
<td>Market penetration</td>
<td>5</td>
<td>0.740</td>
</tr>
<tr>
<td>Performance</td>
<td>6</td>
<td>0.717</td>
</tr>
</tbody>
</table>

4.5.2 Exploratory Factor Analysis

Two statistical tests were performed to assess the suitability of the data for structural detection before performing exploratory factor analysis. Bartlett’s Test of Sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. KMO detection value ranges from 0 to 1, the more KMO value indicates that there are more communities among variables and it is more appropriate for factor analysis. Generally, when the detection value is more than 0.5, factor analysis is appropriate, whole not appropriate when less than 0.5. The result in table 4.7 shows that the KMO value is 0.756, Bartlett significant value is 0.00, less than 5%, indicating that the data was appropriate for the factor analysis. The variability of each observed variable that could be explained by the extracted factors were checked by extracting the communality values. The extracted communalities were found to be greater than 0.5 which indicated that the variables fitted well other variables in their factor (Pallant, 2010). Factor analysis was assessed using Principal component analysis. The four factors had an Eigen value of greater than 1.5 and the factors were able to explain 50.575% of the total variance in the data.
Table 4.7 Principal Component Analysis

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Product Development</th>
<th>Market Development</th>
<th>Market penetration</th>
<th>Performance</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>PD1</td>
<td>.607</td>
<td></td>
<td></td>
<td></td>
<td>0.754</td>
</tr>
<tr>
<td>PD2</td>
<td>.627</td>
<td></td>
<td></td>
<td></td>
<td>0.643</td>
</tr>
<tr>
<td>PD3</td>
<td>.364</td>
<td></td>
<td></td>
<td></td>
<td>0.646</td>
</tr>
<tr>
<td>PD4</td>
<td>.468</td>
<td></td>
<td></td>
<td></td>
<td>0.537</td>
</tr>
<tr>
<td>PD5</td>
<td>.706</td>
<td></td>
<td></td>
<td></td>
<td>0.603</td>
</tr>
<tr>
<td>MD1</td>
<td>.712</td>
<td></td>
<td></td>
<td></td>
<td>0.646</td>
</tr>
<tr>
<td>MD2</td>
<td>.511</td>
<td></td>
<td></td>
<td></td>
<td>0.712</td>
</tr>
<tr>
<td>MD3</td>
<td>.578</td>
<td></td>
<td></td>
<td></td>
<td>0.606</td>
</tr>
<tr>
<td>MD4</td>
<td>.527</td>
<td></td>
<td></td>
<td></td>
<td>0.594</td>
</tr>
<tr>
<td>MD5</td>
<td>.931</td>
<td></td>
<td></td>
<td></td>
<td>0.755</td>
</tr>
<tr>
<td>MP1</td>
<td>.711</td>
<td>.711</td>
<td></td>
<td></td>
<td>0.817</td>
</tr>
<tr>
<td>MP2</td>
<td>.541</td>
<td></td>
<td></td>
<td></td>
<td>0.687</td>
</tr>
<tr>
<td>MP3</td>
<td>.535</td>
<td></td>
<td></td>
<td></td>
<td>0.583</td>
</tr>
<tr>
<td>MP4</td>
<td>.499</td>
<td></td>
<td></td>
<td></td>
<td>0.564</td>
</tr>
<tr>
<td>MP5</td>
<td>.675</td>
<td></td>
<td></td>
<td></td>
<td>0.601</td>
</tr>
<tr>
<td>P1</td>
<td>.795</td>
<td></td>
<td></td>
<td></td>
<td>0.584</td>
</tr>
<tr>
<td>P2</td>
<td>.546</td>
<td></td>
<td></td>
<td></td>
<td>0.580</td>
</tr>
<tr>
<td>P3</td>
<td>.661</td>
<td></td>
<td></td>
<td></td>
<td>0.501</td>
</tr>
<tr>
<td>P4</td>
<td>.639</td>
<td></td>
<td></td>
<td></td>
<td>0.628</td>
</tr>
<tr>
<td>P5</td>
<td>.516</td>
<td></td>
<td></td>
<td></td>
<td>0.571</td>
</tr>
<tr>
<td>P6</td>
<td>.616</td>
<td></td>
<td></td>
<td></td>
<td>0.605</td>
</tr>
</tbody>
</table>

Eigen value: 5.455  1.795  1.762  1.608
% of Variance: 25.977  8.550  8.390  7.658
Cumulative %: 25.977  34.527  42.917  50.575

KMO= 0.756  Bartlett's Test=481.406 , df= 210 , sig =0.000
4.5.3 Confirmatory Factor Analysis

CFA (Confirmatory-Factor-Analysis) was conducted to verify the fitness of the model and also to measure the validity (convergent and discriminant validity) of the constructs.

![Figure 4.10 Measurement Model (CFA)](image)

**Table 4.8 Model Fits**

<table>
<thead>
<tr>
<th>Model fit</th>
<th>$\chi^2/df$</th>
<th>GFI</th>
<th>RMSEA</th>
<th>NFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement model</td>
<td>1.99</td>
<td>0.902</td>
<td>0.077</td>
<td>0.924</td>
</tr>
<tr>
<td>(figure 4.10)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structural model</td>
<td>2.48</td>
<td>0.918</td>
<td>0.064</td>
<td>0.911</td>
</tr>
<tr>
<td>(figure 4.11)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The model fits were measured using Chi-square ratio ($\chi^2/df$), goodness-of-fit index (GFI), Normed Fit Index (NFI) and root mean square error of approximation (RMSEA). The two models fit the data adequately since the model fits were within the threshold as indicated in figure 4.8.

4.5.4 Construct Validity (Convergent and Discriminant Validity)

Convergent validity was assessed using Average Variance extracted (AVE) which if the value of AVE for the factors exceed the cutoff value of 0.5, confirms convergent validity (Bryman, 2012). To satisfy the requirement of discriminant validity of the measurement model, this study followed the criterion suggested by Fornell and Larcker (1981). The discriminant validity was confirmed as the square root of a construct’s AVE (in bold and on diagonal) was greater than the correlation between the construct and other constructs in the model as indicated in table 4.9.

Table 4.9 Convergent and Discriminant Validity

<table>
<thead>
<tr>
<th>Construct</th>
<th>Composite reliability</th>
<th>AVE</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>.814</td>
<td>0.510</td>
<td>.714</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market development</td>
<td>.706</td>
<td>0.821</td>
<td>0.510</td>
<td>.906</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market penetration</td>
<td>.754</td>
<td>0.737</td>
<td>0.416</td>
<td>0.412</td>
<td>.733</td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>.717</td>
<td>0.752</td>
<td>0.705</td>
<td>0.790</td>
<td>0.590</td>
<td>.867</td>
</tr>
</tbody>
</table>

AVE – Average variance Extracted
4.6 Structural Equation Model (SEM)

The structural model was estimated to extract the estimates for standard coefficients. The significance of the estimates was evaluated by the T statistic values provided.

![Path Coefficients for the Structural Model](image1)

**Figure 4.11 Path Coefficients for the Structural Model**

![T Values for the Structural Model](image2)

**Figure 4.12 T Values for the Structural Model**
Table 4.10 Regression Coefficients

<table>
<thead>
<tr>
<th>Direction</th>
<th>Path coefficient</th>
<th>T Value</th>
<th>P value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development =&gt; Performance</td>
<td>0.61</td>
<td>4.83</td>
<td>0.000</td>
<td>Positive and significant at 0.05</td>
</tr>
<tr>
<td>Market development =&gt; Performance</td>
<td>0.74</td>
<td>5.49</td>
<td>0.000</td>
<td>Positive and significant at 0.05</td>
</tr>
<tr>
<td>Market penetration =&gt; Performance</td>
<td>0.92</td>
<td>5.21</td>
<td>0.000</td>
<td>Positive and significant at 0.05</td>
</tr>
</tbody>
</table>

Product development had a positive and significant relationship with performance (regression weight =0.61, T- value =4.83, p-value <0.05). This implies that if the product development increases by one percent, performance of SMEs will increase by 0.61. Market development had a positive and significant relationship with performance (regression weight =0.74, T-value =5.49, p-value <0.05). This implies that if the market development increases by one percent, performance of SMEs will increase by 0.74. Market penetration had a positive and significant relationship with performance (regression weight =0.92, T- value =5.21, p-value <0.05). This implies that if the market penetration increases by one percent, performance of SMEs will increase by 0.92 as indicated in table 4.10 and figure 4.11 and 4.12.

4.7 Chapter Summary

This chapter has presented the results and findings as per the data collected from the respondents from The Good Food Company. The analysis on the response rate, background information and the three objectives presented in this chapter. The next chapter presents the summary, discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions and recommendations of the study. In part 5.2, the summary of the study is presented. The discussion and conclusion of the study is in part 5.3 and 5.4 respectively. Part 5.5 demonstrates the recommendations.

5.2 Summary

The purpose of this study was to assess the effect of growth strategies on the performance of SMEs in Kenya. Three concepts from the Ansoff’s Matrix formed the objectives of the study. The study addressed effects of market penetration, product development and market development as growth strategies on the performance of SMEs in Kenya. The target population consisted of the employees of The Good Food Company. This study used descriptive research design where data analyzed was obtained from questionnaires issued to the sample population of 95 respondents.

The first objective was to determine the effect of market penetration on the performance of SMEs in Kenya. The findings indicate 73% agreed that advertising through social media to create brand awareness, 73% agreed that adopting new distribution channels to improve product accessibility, 87% agreed that improving product quality increase sales, 77% agreed that entering into convenient strategic alliances and 83% agreed that the company engages penetration pricing to have fair pricing.

The second objective was to establish the effect of product development on the performance of SMEs in Kenya. The findings indicate that 90% agreed that the company emphasis on constant improvement of current product features, 83% agreed that the company takes pride in launching new product brands, 83% agreed that the company have a broad product range, 79% agreed that the company develops products targeting emerging needs and 82% agreed that the company customizes its products.
The first objective was to find out the effect of market development on the performance of SMEs in Kenya. 81% agreed that the company opens new branches to attract more customers, 82% agreed that the company engages in finding new markets to increase market share, 66% agreed that the company adopts alternative technology to better product quality, 74% agreed that the company builds alliances with market agents to increase product distribution and 81% agreed that the company identifies the needs for the product range in foreign markets.

The study found that SMEs adopted market development to a moderate extent through identification of new markets for their new existing products. The study also found that SMEs adopted market penetration strategies that targeted specific market segments. Further, the study found SMEs entrepreneurs practiced innovation to a great extent as a way of responding to changes. Based on the findings in relation to the objectives, the study concluded that enterprises have adopted market penetration strategy in order to sustain growth. The study concluded that most enterprises are focused on product development strategy targeting specific group of people resulting to entrepreneurs’ evolving from main co-activities into more complex businesses since they embarked on product development strategy. In relation to market penetration strategy, the study concluded that enterprises have increased sales by selling new products in the new market so as to attract more customers and increase their sales.

From the findings of the study, there is a clear demonstration that SMEs in Kenya market has realized relative growth at each stage coupled with management problems related with growth. The implication of the study to the theory is that the studied affirmed theory by showing through its findings that enterprises move through distinguishable stages of growth, and that each stage contains a relatively calm period of growth that ends with management crisis (Si je & Oloko, 2013). The study further conforms to theory that enterprises born, grow and decline. Sometimes they reawaken, sometimes they disappear (Kotler, 2003).
5.3 Discussion

5.3.1 Market Penetration Strategy and Performance of SMEs

A business entity aims to penetrate deeper into the market so as to capture a larger share of the market. Mascarenas et al. (2006) claim that growth requires expanding what a firm is doing currently to a potential customer. This growth strategy is the least risky among other growth strategies since it leverages many of the firm’s existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limit.

The results further showed that Market Penetration within the businesses and companies had a positive overall effect on performance of the SMEs. New business methods and new systems led to better flow of cash even if they were risky and costly. Kyalo (2016) states that market penetration happens when an organization enters or infiltrates its current market with its current products so as to increase market share. The most ideal approach to accomplish this is by picking up a competitor’s customers. This is an internal growth strategy where an organization uses its resources to grow. The business entity within a certain market is interested in growing its business within the same market by increasing its customer base or market share.

Market penetration has limits, and once the market approaches saturation point, another strategy must be pursued if the firm is to continue to grow. Other advantages accrued from new processes include increased savings through introduction of proper inventory management system such as the just in time systems among others. In his study of growth strategies adopted by large oil companies in Kenya, Kyalo (2016), found that large SMEs companies adopted market penetration strategies and that majority of those SMEs in Kenya had established a new outlet or branches. The study found that some business had begun training employees on new computer based programs. Also there were other programs to stimulate the creation of new ideas for the employees which shows that some business invested in training as a way of stimulating new ideas from the employees.

Some of the techniques employed under market penetration strategy include: Advertising through social media to create brand awareness, Adopting new distribution channels to
improve product accessibility, Improving product quality to increase sales, Entering into convenient strategic alliances and fair pricing. This is sounded by Kyalo (2016) asserts that a firm can utilize advertisement to infiltrate its current market and build up the piece of the overall industry within the same market using the current product. Here a firm engages in promotional activities so as to inform, persuade, and influence the customer’s consumption decision. The business entity may encourage its customers to continue using, or draw in more consumers to the current product because of the benefits associated with the current product, or lower its prices to capitalize on more sales volume or alternatively increase price to maximize on profit on per unit sold.

5.3.2 Product Development Strategy and Performance of SMEs

Koks and Kilika (2016) argue that an enterprise's growth is related to size as well as other specific characteristics like financial structure and productivity. They further observe that the total assets have a direct impact on the sales revenue, but the number of employees, investment in research and development, and other intangible assets have not much influence on the enterprise's growth prospects. Watts et al. (2008), also attest that the gender of the founder, the amount of capital required at the time of starting the business, and growth strategy of the enterprise are very important factors in predicting growth in a small enterprise. They have further highlight that apart from human capital resources, the growth of an enterprise can be predicted on the basis of commitment of the person starting a new enterprise (Watts et al, 2008).

The results showed that Product Development was part of the vision and mission of the businesses and had set quality production as an objective of their businesses. This shows that innovation of products had a strong bearing in these SMEs. Sun, (2004) viewed product innovation as the process of introducing new goods and services with the aim of attracting new customers and therefore creating new markets. Businesses have specialized on goods that are most preferred by the customers. This is done to ensure that customers’ needs are met by the businesses. The study found that businesses considered product innovation as a means of achieving a firm’s competitive advantage and managers allowed communication of new ideas within their businesses because any new product developed made such businesses better than their competitors.
The results on product development show that SMEs and businesses product development strategy included constant improvement, new product, product range, products targeting, emerging needs and Customizing products. This agrees with Cole (1997) who argued that to achieve the targeted benefits of innovation resources available within the organization have to be directed to the innovation process. However, the results had no consensus which indicates that some businesses had not adopted such in their product development strategy.

The correlation test showed that product development and performance of the SMEs had strong positive and significant relationship. This shows the association established was not due to any chance but was consistent across all the businesses. This concurs with the views of Smallbone et al. (2005), share the same view suggesting that high growth can best be achieved by identifying new markets for existing products or by developing new products or services for existing customers. In this way SMEs can evolve from having an established core activity into more complex businesses.

Similar results were obtained by Dolan (2002) who found that product innovation had a positive effect on the organization’s performance in its industry. This performance was measured based on the market share, profitability, sales volume and productivity among other aspects. The results show how innovation on products is key to the businesses and the contribution it has on performance of such businesses.

5.3.3 Market Development Strategy and Performance of SMEs

This study contributes to our understanding of the effect of market development strategy on performance of SMEs in sustainable business strategy formulation. Opening new branches, new markets, technology, building alliances and product range in foreign markets indicate performance of SMEs.

The concept of Market Development is a very important aspect in any business. A business without a market cannot thrive because it depends on the market for sustainability. Porter (2004) noted that marketing is most effective when it is an integral component of a business strategy, defining how the organization aspires to engage customers, prospects and the competition in the market place for success. The study found that sound marketing strategies were key to the SMEs business operations. The business operators acknowledged that the
needs and preferences of the customers kept on changing and they kept identifying new businesses opportunities to exploit. According to James (2017), Market Development Strategy creates growth through the introduction of current products to new markets. He adds that this strategy is used when a company has identified markets that were previously unidentified or when it wants to expand its market reach.

The results show that SMEs constantly changed their market development strategies. This use of new marketing platforms such as online tools and social media helped the companies and business to grow and attract new customers. According to Simmers (2011), entrepreneurial innovation is an important factor in market innovation that leads to growth of the economy. Businesses ventured and capitalized on offering goods and services which were unique as a way of attracting new customers. Mbithi et al. (2015), on the effect of market development strategy on performance in Sugar Industry in Kenya, indicated that there was a relationship between marketing development strategy and firm performance. They adopted two approaches to analyzing market development strategy. The approaches included developing new market segment and extending to new geographical region.

On marketing researches, some businesses and companies were found to have conducted market researches and established needs of the customers before the customers asked for them although had not done such researches. This could be attributed to the perception of the customers that they had sufficient access to information on competition in the market. The results further indicated that some business competed on pricing strategies by offering lower prices than their competitors while others competed using other strategies. Moulin (2003) held that entrepreneurial marketing was a value creation process that brought together factors of production that produce superior product with aim of exploiting opportunities.

The relationship between market modernisation and performance was found to be strong, positive and significant. Similarly, regression test showed that market innovation affects the performance of the SMEs. All the results agrees with the views of Agostini (2016) who observed that through entrepreneurial marketing the SMEs could achieve the desired market share growth. A new innovation by a business or a company had a potentially good effect on the performance of such business in the market.
5.4 Conclusion

5.4.1 Market Penetration Strategy and Performance of SMEs

The overall results suggest that strategic marketing strategies are drivers of organizational positioning in a dynamic environment, and that it helps to enhance the development of new product/service for existing markets. The findings of the study also imply that none of the strategies is better than the other; finding the right mix of both media can create the best communication/marketing strategy for the SMEs. The study revealed that there is a positive relationship between market penetration strategies and the performance of SMEs in Kenya. This observation is consistent with existing studies (Fink & Kraus, 2009) which maintain that strategic market penetration practices have a significant effect on performance. Dolan (2002) particularly found a strong correlation between strategic market penetration strategies of SMEs and performance in terms of growth in revenue, improved efficiency, wider connection with customers and ability to compete fairly with larger firms.

Traditional marketing strategies are however more related to the performance of SMEs than nontraditional marketing strategies. This shows that the SMEs mostly use traditional form of marketing mainly television and radio, newspaper and magazine, banners and billboards and branded paraphernalia- to attract the attention of prospective customers. The SMEs also participate in trade fairs and exhibitions and use door-to-door and word-of-mouth to foster a long term relationship with their customers. The owners of the enterprises capitalize on this collaboration to receive feedback on their operations so as to improve on customer satisfaction.

The SMEs also use discount sales and promotions to gain access to new customers and to entrench their brand in existing and new markets. These strategies generally help the SMEs to increase their profitability and brand awareness. These factors enable the SMEs to generate enough revenue to expand their businesses now or in the future. Non - traditional marketing strategies were found to be less related to the performance of the SMEs. It was observed that only a few of the SMEs deploy technology based marketing strategies in reaching their customers.
The study concludes that market penetration have a strong positive association with the performance of the SMEs. This is due to the fact that customer needs and preferences keep on changing in order to adapt to the changes. The study notes that businesses innovate markets differently: such as using differently online tools and social media, changing marketing strategies after some time, identifying new market opportunities, offering unique goods and services, doing researches on the needs of the customers among other marketing activities. Some have used pricing strategies in their marketing to compete with their rivals in the market.

5.4.1 Product Development Strategy and Performance of SMEs

SMEs are known to account for a substantial share of every country's economy. The relative importance of this segment of the economy needs an examination of their enterprises' performance. Therefore the fact that the SMEs performance strongly relies on their Product Development Strategy attracts active importance to the analysis of Product Development Strategy activities and their effects. In the study, the link between Product Development Strategy and firm performance was examined and data was collected from small and medium enterprises operating in Kenya. The study provided support to the objective proposed thus laying importance on the role of organisational innovation capability on firm performance.

The ultimate goal of Product Development Strategy is to improve business performance. Given that presently, the business environment is continually changing, Product Development becomes a competitive advantage when it is based on the understanding of customers’ needs to guarantee high quality of life of the people and harness a dynamic sector to make certain that expansions are solid based and beneficial than ever. Therefore SMEs policies should be designed in ways that addresses horizontal concerns and which generates better and viable inducement for innovation activities

The study concludes that Product Development on goods and services offered by a business or a company influences the performance of the SMEs. Innovation enables companies to offer what the customers’ needs by improving the quality of the products and at the same time achieving a competitive edge for the SMEs. Some managers have allowed free communication of new ideas within their SMEs so as to stimulate product improvements.
Others have incorporated strategies which spur employee morale and commitment towards innovations as a way of broadening the scope of innovation in their businesses which in turn creates competitive advantage for such businesses.

5.4.2 Market Development Strategy and Performance of SMEs

The study concludes that Market Development Strategy have a strong positive overtone with the performance of the SMEs. This is due to the fact that customer needs and preferences keep on changing in order to adapt to the changes. The study notes that SMEs innovate markets differently: such as using different online tools and social media, changing marketing strategies after some time, identifying new market opportunities, offering unique goods and services, doing researches on the needs of the customers among other marketing activities. Some have used pricing strategies in their marketing to compete with their rivals in the market.

5.5 Recommendation

5.5.1 Recommendation for Improvement

5.5.1.1 Market Penetration Strategy and Performance of SMEs

On the basis of this study, the following recommendations are made Market Penetration Strategy and Performance of SMEs: From the study, it is evident enough that the employees have knowledge concerning Market Penetration, the more it is practiced and the more returns it brings to the company. Penetration strategy has strong positive correlation with the performance and as such, the researcher recommends that every business should seek to employ this particular strategy. This is due to the fact that most customers like lower priced commodities and even discounts as they make the purchase. This encourages them to purchase and they further tend to be regular customers to the enterprise. However, it is important to ensure that the quality of goods and services are not compromised. With this, most of the customers will be retained and more will be attracted. The business will also extend its parameters as far as the market share in the region is concerned.

Both traditional and non-traditional market development strategies must be practiced together to achieve the desired results. Door-to-door/word of mouth, discount sales, banners, branded
paraphernalia and radio / television advertisement are powerful marketing tools for SMEs in Kenya. They must be emphasized in the marketing strategies of SMEs because they are not only cheaper but they help the SMEs to have a greater access to a niche market which is sometimes ignored by larger firms.

There is the need for the SMEs to adopt a more modern technological marketing tool in their businesses. The SMEs can use social media to create a viral market for their products and services. The SMEs must also create links on social media to drive traffic to their corporate websites. There is the need for the SMEs to create a website for their businesses. A live chatroom can be created on these websites to ensure interactivity with their customers. Studies have shown that 87% of the world population uses mobile phone. In Kenya, the mobile penetration rate is 80%. The SMEs can utilize the usage of mobile and adopt mobile marketing where text, photo and video based advertising contents can be sent directly to the users of mobile phones to influence their purchase decisions.

5.5.1.2 Product Development Strategy and Performance of SMEs

The study found that innovations of new products improved the performance of the SMEs. As part of product innovation strategy, some SMEs and businesses have incorporated employee motivation and reward for any product innovation idea they develop. However, other businesses have not adopted employee participation in their product development. It is recommended that management of SMEs and businesses align employee participation in their product development strategies to ensure all staff members take part in product development.

5.5.1.3 Market Development Strategy and Performance of SMEs

Market development strategies, marketing element and firm resources are important for SMEs to survive. Although this research confirmed the role of market development strategies, marketing element and firm resources as the important aspect of organizational strategy, additional research is needed to refine the understanding of this critical dimension. Future research is also needed to determine other measures of SMEs performance and integrate them in a research from other aspects of entrepreneurial skills such as financial management, communication, motivation of others, vision, and self-motivation. With these, firms can make more appropriate strategy in winning the competition with other firms.
5.5.2 Recommendation for Further Research

The study recommends that for SMEs to experience rapid growth, they should adopt strategies that focus on organizational vision and mission. Likewise for the enterprises to grow, they should develop strategies that attract customers, such as service positioning and innovation. The owners must undergo skill upgrading courses to boost their skills in understanding their business environment. For further research, researchers can extend this study on other industries such as manufacturing, constructions, agricultures and telecommunications.
REFERENCES


APPENDICES

APPENDIX I: INTRODUCTION LETTER

Dear Sir/Madam,

RE: RESEARCH INFORMATION

I am a postgraduate research student at the United States International University, School of Business. As part of my Masters of Business Administration (MBA) course requirements, I am undertaking a research project that seeks to FIND OUT THE EFFECT OF GROWTH STRATEGIES ON THE PERFORMANCE OF SMEs IN KENYA.

For this reason, I intend to collect primary data from you, by way of a questionnaire. The information requested is needed for purely academic purposes and will be treated in strict confidence, and will not be used for any other purpose than for this research.

Kindly, fill the attached questionnaire as accurately as possible.

Thank you in advance for your assistance.

Yours sincerely,

Sabrina Yesho
APPENDIX II: QUESTIONNAIRE

Please answer each question to the best of your ability. All responses are completely confidential and only group data will be reported.

SECTION ONE: PERSONAL DATA

1. What is your Gender? Male [ ] Female [ ]
2. What is your age bracket? 18-24 [ ] 25-34 [ ] 35-44 [ ] 45-54 [ ] Above 54 [ ]
3. What is your level of education? Secondary Education [ ] Bachelors Degree [ ] Masters Degree [ ]
4. How long has the company been operational?
   Less than 1 year [ ] 3-4 years [ ]
   1-2 years [ ] Over 4 years [ ]
5. Length of continuous service with the company?
   Less than 1 year [ ] 3-4 years [ ]
   1-2 years [ ] Over 4 years [ ]
6. What is your marital status? Single [ ] Married [ ] Divorced [ ] Other [ ]
7. Select your salary bracket in Ksh
   10,000-25,000 [ ] 40,001-55,000 [ ] 70,001 and over [ ]
   25,001-40,000 [ ] 55,001-70,000 [ ]
8. Which option best describes your position in the organization?
   Managerial position [ ] Non-managerial position [ ]
9. Are you involved in any strategic decision making in the company? Yes [ ] No [ ]
SECTION TWO

1. Using a scale of 1-5, indicate the extent to which this company has applied the following growth strategies, where: 1-Strongly disagree, 2-Disagree, 3-None, 4-Agree, 5-Strongly Agree

PRODUCT DEVELOPMENT

| PD1 | Emphasis on constant improvement of current product features | 1 | 2 | 3 | 4 | 5 |
| PD2 | Taking pride in launching new product brands | 1 | 2 | 3 | 4 | 5 |
| PD3 | Having a broad product range | 1 | 2 | 3 | 4 | 5 |
| PD4 | Developing products targeting emerging needs | 1 | 2 | 3 | 4 | 5 |
| PD5 | Customizing products | 1 | 2 | 3 | 4 | 5 |

2. Using a scale of 1-5, indicate the extent to which this company has applied the following growth strategies, where: 1-Strongly disagree, 2-Disagree, 3-None, 4-Agree, 5-Strongly Agree

MARKET DEVELOPMENT

| MD1 | Opening new branches to attract more customers | 1 | 2 | 3 | 4 | 5 |
| MD2 | Finding new markets to increase market share | 1 | 2 | 3 | 4 | 5 |
| MD3 | Adopting alternative technology to better product quality | 1 | 2 | 3 | 4 | 5 |
| MD4 | Building alliances with market agents to increase product distribution | 1 | 2 | 3 | 4 | 5 |
| MD5 | Identifying the needs for the product range in foreign markets | 1 | 2 | 3 | 4 | 5 |
3 Using a scale of 1-5, indicate the extent to which this company has applied the following growth strategies, where: 1-Strongly disagree, 2-Disagree, 3-None, 4-Agree, 5-Stongly Agree

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<td>Advertising through social media to create brand awareness</td>
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<td>MP2</td>
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<td>Adopting new distribution channels to improve product accessibility</td>
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4 Using a scale of 1-5, indicate the extent to which growth strategies applied have had an effect on the performance of your company, where: 1-Strongly disagree, 2-Disagree, 3-None, 4-Agree, 5-Stongly Agree

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<td>Increased customer satisfaction</td>
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<td>P2</td>
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<td>Increased market share</td>
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<td>Long-term customer retention</td>
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THANK YOU